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### Public and private audit: an overview of Nigerian context

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**Abstract:** An audit is an independent examination of account of an entity done by an independent auditor in other to ascertain the truth and fairness of the financial statement. This paper tries to explore the content of public and private audit in Nigeria. Various laws and enactment were view as what are the requirements of public as well as private audit. It was found out that both of them are two bird of the same feather. They are all governed by the professional pronouncement as well as the financial reporting standard of Nigeria. Although, but the parties maintain the code of ethics of the profession which include: Independence, Integrity, Confidentiality and professional duty and care. It was recommended that strengthening the independence of the supreme audit institution, and reinforcing the PAC to be alive to its responsibilities and improving the accounting environment. Also external audit should maintain the ethics of the institution toward rendering of their duties.

**Keywords:** Public audit, Private audit, PAC, Auditor general

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#### INTRODUCTION

Ordinarily audit is perceived as an independent examination of the financial statements of an organization with a view to forming an opinion as to the truth and fairness of the statements. However, auditing according to Kiger and Scheiner [1] is the systematic process by which a competent, independent person objectively obtains and evaluates evidence regarding assertions about an entity or event, for the purpose of forming an opinion about and reporting the degree to which assertion conforms to an identified set of standards.

Fundamentally, to attest means to bear witness to the validity of truth of a statement. That is the reason why, when auditors attest, they issue a formal written conclusion about the reliability of an assertion that is the responsibility of another party.

Generally, audit are undertaken to lend credibility to financial statements for use of people other than those who prepared them. Auditing of financial statement is done in both private and public sector to ascertain the compliance as well as the true and fair view of the financial statement prepare by the management. In public sector audit is carried out by the Auditor-General of the Federation or state, while in private sector Audit is carried out by the External Auditor engaged by the company.

The study therefore, aimed at over-viewing the private and public audit in Nigeria.

#### METHODOLOGY

This paper is a conceptual paper, it explore the concept of public and private audit as well as the difference between the public and private audit in Nigerian context.

#### LITERATURE REVIEW

##### Audit in public sector

Ali et al. [2] viewed Public Sector as an arrangement which consist of Ministries, Departments, Agencies and Corporations under the direct control of the government and are used as vehicles in delivering public goods and services to citizens of a State. It is that part of the economy concerned with providing basic government services. The composition of the public sector varies by country, but in most countries, the public sector includes such services as the police, military, public roads, public transit, primary education and healthcare for the poor. The public sector might provide services that non-payer (of tax) cannot be excluded from (such as street lighting), services which benefit all of society rather than just the individual who uses the service (such as public education), and services that encourage equal opportunity.

The Public Sector oversees policies formulation, implementation and monitoring as they relate to the economic, social and political direction of a State. Hence, there is every need to check the activities of those saddles with the responsibility of managing the public fund for stewardship and accountability.

Auditing in the public Sector then, is an independent examination of, and an expression of an

opinion on the financial statements of governments by a duly appointed person(s) in accordance with all relevant statutory obligations. Auditing is as essential in the public sector as it is in the private sector. That is why the constitution provided for the establishment of the office of the Auditor General. The role of the Auditor-General is to ensure that there is accountability by the Executive arm of the Government to the Legislative arm, for the proper administration of the activities, functions, operations and programmed of the government and its various agencies.

The essence of audit in Public Sector therefore, is to have checks on Public officers involves in financial activities of government. Auditor in public sector critically examines the financial activities of governments to ensure that, relevant legal and professional pronouncements are not compromised, and to ensure stewardship in the utilization of public funds.

Apart from the provisions of the 1999 Constitution, the Audit Ordinance of 1958 also provides that the, Accountant-General of the Federation should furnish the Auditor-General for the Federation with the country's financial statements within seven months after the close of each financial year. Also, according to the Financial Regulations No 103 (December 2006), the Officer is responsible under the Constitution of the Federation for the audit and report on the public accounts of the Federation, including all persons and bodies established by law entrusted with the collection, receipt, custody, issue, or payment of Federal Public monies or with the receipt, custody, issue, sale, transfer or delivery of any stamps, securities, stores or other property of the Government of the Federation and for the certification of the Annual Accounts of that Government is the Auditor-General for the Federation or state. Government Auditing can be divided into three major categories namely:

- Audit of the treasury account as prepared by the Accountant general of the Federation.
- Audit of ministries department and agency account.
- Audit of account of parastatals.

#### **Audit of treasury accounts**

The treasury department is headed by the Accountant general of the Federation or state, who is regarded as the chief Accounting officer of the Federation or state. He is also the financial Adviser of the Federal government (Finance Control and management) or the state as the case may be.

The function of the Treasury Department include the following

It is the custodian of the Consolidated Revenue Fund, Development Fund, Contingency Fund and other public fund of the Federation or state;

It is responsible for the recording the financial transaction of the government and reporting thereon through the production and the publication of the annual financial statement of the federal Government in a manner that will show a true and fair view of the financial position of the federal Government

It manages the Federal account and their disbursement to the three tiers of government;

It supervises the account of all the ministries and extra-ministerial department and issue circulars to them on government accounting and financial control matters;

It is responsible for staff training and development of accountants, accounting and auditing personal from the three tiers of government;

It is responsible for revenue monitoring and accounting in Ministries and extra-ministerial department to ensure that the necessary internal control are in place;

It initiates and formulates financial and accounting policies for the federal government.

The objective of auditing this account is to ascertain whether the statements are being prepared according to the laid down rules and regulation. And also information contained in the financial statements is properly classified, reliable, accurate and complete.

The Audit of the account and financial statement prepared by the Accountant-General is carried out through the federal Sub-treasury as a function under the treasury Account Division of the ministerial Department in the office of the Auditor-General for the Federation or state.

#### **Audit of ministries/department and agency accounts**

The minister or commissioner (at the state level) is the chief executive of each ministry while the permanent Secretary is the Accounting officer who is the deputy to the chief executive officer. In the extra ministerial department and agency head of department is the accounting officer. Each ministry has a finance and account department, which is divided into two division, Account and supply division. One of the functions of account division is the summation of financial statement to the treasury department.

#### **Objectives of auditing ministries and extra-ministerial department and agency**

The main objective of auditing this department is to ascertain whether all receipt of money emanating from the operations of the period under review is collecting and properly accounted for.

The Accounting system in operation provide reliable and free from material errors to facilitate the preparation of the accounting and financial statement required by law.

### **Audit of federal Government parastatals**

Federal parastatals or public sector enterprises originated from public authorities, which are governmental units. They are organisation set up by the government for different reasons, most importantly to perform social task. Some of them are set up to accomplish some purposes which ministries/extra-ministerial department and agencies are not adequately equipped to accomplish. eg Railway Corporation.

### **Objectives of Auditing Government parastatals**

The objectives of auditing the accounts of Government parastatals ate to ascertain whether:

- Proper account records have being kept
- All revenue items are duly collected and properly accounted for.
- Adequate controls exist to ensure the safety and proper use of the organization's funds and assets.

There some institution put in place to ensure accountability planning, budgeting, funding, reporting, auditing and reviewing of the revenue and Expenditure of the Federal Government consists of the following:

- Minister of Finance who issues financial warrants with which the Accountant-General releases funds to the Ministries and Extra-Ministerial Departments, after approval by the legislature. The Minister can withhold any item of expenditure on which he/she so desires to exercise control.
- Accountant-General of the Federation who is the only officer authorized to deal directly with the Central Bank of Nigeria. He/she releases funds to the Ministries and Extra-Ministerial Departments, based on the amount stated on the financial warrant signed by the Minister of Finance. He is also responsible for supervising all the treasury accounts and preparing all the necessary financial statements.
- Auditor-General for the Federation is responsible for auditing the Accounts of the Federal Government and reporting to the National Assembly.(See section 85(2) of the constitution)
- Public Accounts Committee (PAC) which is a committee of the National Assembly is responsible for public accounts in accordance with Section 85 (5) of the 1999 Constitution. The PAC is required to deliberate on the

Auditor-General's report, consider all the queries raised by him in his report, and compile a comprehensive report and recommendations for submission to the whole House.

At the State level, a similar arrangement is also in place with the Commissioner for Finance, Accountant-General of the State, Auditor-General for the State and the Public Accounts Committee of the State House of Assembly performing similar roles as their counterparts at the Federal level. The State Governor is empowered to appoint the Auditor-General for the State on the recommendation of the State Civil Service Commission, subject to confirmation by the State House of Assembly (Section 126 of the 1999 Constitution).

### **Auditor General for the Federation**

Auditor-General's office as per Supreme Audit Institution (SAI) provides the highest level of external audit of government bodies in a country. The Auditor-General's audit function is expected to provide unbiased objective assessments of whether public resources are responsibly and effectively managed to achieve intended results. The public sector remains the engine of any government's development initiative and without an accountable, efficient and incorruptible Auditor General; there cannot be good governance in the public service [3].

The Auditor-Generation for the Federation however, shall be appointed by the president on the recommendation of the Federal civil Service commission subject to the confirmation by the senate (Section 86 of the 1999 Constitution). The Audit Act, 1958 provide that the Auditor- General for the Federation shall audit the account of all accounting officers and of all persons entrusted with the collection, receipt, custody, issue, sale, transfer or delivery of any stamps, securities, stores or other property of the Government of the Federation.

The Financial Regulations of the Federal Republic of Nigeria (1976) states that the Auditor-General has the following powers:

- Unhindered access to books and records of all Ministries and Extra Ministerial-departments at reasonable times.
- Power to request for information and explanation necessary for duties.
- Power to carry out special investigation in any Ministry and Extra Ministerial-departments.
- Power to carry out Ad-hoc investigation in any Ministry or Extra Ministerial-departments.

Perhaps, Government's most distinct control Institution over the public funds is the office of the Auditor-General for the Federation. The office is a

functionary created by law as a check on the general performance of government and is given free hand to examine in such a manner he may deem fit, all accounts relating to public funds and properties and shall ascertain and report as to whether:  
Accounts have been properly kept?

All public monies collected have been fully accounted for?

Government monies have been expended for the purpose for which they were appropriated?

The necessary rules and regulations are being complied with in the disbursement of public funds?

Essential record is maintained and procedures applied are sufficient enough to safeguard and control public property and funds?

The Financial Statements prepared by the Accountant-General of the Federation or state show a true and fair view of the state of affairs of the Nation?

The Auditor-General shall, within ninety days of receipt of the Accountant-General's financial statements, submit his reports to each House of the National Assembly, and each House shall cause the reports to be considered by a committee of the House of the National Assembly responsible for public accounts. Other regulatory instruments aimed at ensuring that the Auditor-General office as a Supreme Audit Institution (SAI) functions effectively are:

The Audit Act (1956) as variously amended the Finance (Control & Management) Act, 1958 (as amended) As the Chairman of the Audit Alarm Committee, the Auditor General is empowered by Section 85 (4-6) to "conduct checks of all government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of the National Assembly".

### **Procedure of conducting audit in public sector**

Auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, auditors help public sector organizations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders. The public sector auditor's role supports the governance responsibilities of oversight, insight, and foresight.

Oversight addresses whether public sector entities are doing what they are supposed to do and serves to detect and deter public corruption. Insight assists decision-makers by providing an independent assessment of public sector programs, policies, operations, and results. Foresight identifies trends and

emerging challenges. Auditors use tools such as financial audits, performance audits, investigations, and advisory services to fulfill each of these roles.

Public sector Audit can be classified into three (3), namely:

- Regulatory Audit
- Financial Audit
- Value for money Audit

### **A financial audit**

These kinds of Audit try to ensure that:

Systems of accounting and financial control are efficient and operating properly; and financial transactions have been correctly authorized and accounted for.

A Regularity Audit is that which verifies that expenditure has been incurred on approved services and in accordance with statutory and other regulations and authorities governing them (sometimes called Compliance Audit).

The following are the documents that the auditor of a public sector organization may require in conducting a regulatory audit:

- The Nigerian Constitution (latest edition).
- Civil Service Rules.
- Treasury Circulars.
- Establishment Circulars.
- Official Gazettes of Government.
- Financial Instructions.
- Budgets.
- Financial Regulation (Control & Mgt.) Acts.

### **Value-for-money Audit**

It is sometimes called Performance Audit; or Economy and Efficiency Audit. The essence is to determine whether an entity is acquiring, managing or utilizing its resources in the most economical and efficient manner. It traces the causes of any inefficiencies or uneconomical practices. Value-for-money Audit is defined as an objective professional and systematic assessment of:

- The nature and function of an authority's managerial systems and procedures;
- The economy and efficiency with which its services are processed; and
- The effectiveness of its performance in achieving objectives.

### **Economy and Efficiency Audit**

This is a measurement of how economic resources are efficiently employed and deployed. It is also to highlight areas of wastes; extravagant or unrewarding expenditure. It looks into failure to maximize receipts, financial arrangements that are

detrimental to the treasury and weaknesses leading to them.

### **Effectiveness Audit**

This is an examination to assess whether programmed or projects undertaken to meet established policy goals or objectives have met their respective aims. It is also called Programmed Results Audit. It aims at focused or comprehensive audit in government.

### **Audit in Private Sector**

Auditing is broadly defined as a systematic process of objectively obtaining and evaluating evidence in respect of certain assertions about economic actions and events, to ascertain the degree of correspondence between those assertions and established criteria and reporting the results to interested parties. Auditor unlike public auditors are also saddled with the responsibility of ascertaining the True and Fair view of the company financial statement. The auditor may be engaged to perform statutory and non-statutory roles of auditing. In this regard, the professional body to which an accountant belongs sets out the fundamental principles expected to guide his conduct in rendering services to his varied clients.

Every company shall at each annual general meeting appoint an auditor or auditors to audit the financial statements of the company, and to hold office from the conclusion of that, until the conclusion of the next, annual general meeting.

At any annual general meeting a retiring auditor, however appointed, shall be re-appointed without any resolution being passed unless-

- He is not qualified for re-appointment; or
- a resolution has been passed at that meeting appointing some other person instead of him or providing expressly that he shall not be re-appointed; or
- He has given the company notice in writing of his unwillingness to be re-appointed: The guidance is contained in a set of rules usually referred to as .Code of Ethics for Members. The Code when taken with the ethical guidance issued by the professional bodies, for example, the Rules of Professional Conduct for Members issued by The Institute of Chartered Accountants of Nigeria, ensure that the professional accountant maintains the highest quality of performance and public confidence in the profession. The auditor also needs to ensure compliance with the accounting and auditing standards in the discharge of his professional duties.

### **External auditor**

The provisions of Companies and Allied Matters Act of 2007 which covers specific issues of audit were all in connection to audit in private sector. Section 357 of the Act denied the following any chance to be appointed as auditors of any corporate entity:

- An officer or servant of the company;
- A person who is a partner of or in the employment of an officer or servant of the company; or
- A body corporate,

Auditors should plan the audit work so as to perform the audit in an effective manner. Planning entails developing a focus and direction for the audit. This is done by the auditor in a document which contains a general strategy and a detailed approach for the expected nature, timing and extent of the audit

### **Auditors' duties and powers**

It shall be the duty of the company's auditors, in preparing their report to carry out such investigations as may enable them to form an opinion as to the following matters whether-

- Proper accounting records have been kept by the company and proper returns adequate for their audit have been received from branches not visited by them;
- The company's balance sheet and (if not consolidated) its profit and loss account are in agreement with the accounting records and returns.

If the auditors are of opinion that proper accounting records have not been received from branches not visited by them, or if the balance sheet and (if not consolidated) the profit and loss account are not in agreement with the accounting records and returns, the auditors shall state that fact in their report.

Every auditor of a company shall have a right of access at all times to the company's books, accounts and vouchers, and be entitled to require from the company's office such information and explanations as he thinks necessary for the performance of the auditor's duties.

### **Difference between public and private audit**

Public audit and Private audit have some distinct characteristic which make them different. Audit of this two sector can be differentiated based on Section 357-365 CAMA [6].

### **Sec.357 of CAMA, talked about the Appointment of an Auditor**

Auditor in private sector is appointed at the Annual General Meeting of the company, and to hold office from the conclusion of that, until the conclusion

of the next, annual general meeting. But in Public company Auditors are appointed by the MBA's based on the selection made by the Auditor-General of the Federation or state. Usually the Auditor general of the Federation or state select 3 out of the registered audit firm by his office and send them to the MBA's, where they choose one among them.

#### **Sec.358 of CAMA. Qualification of an Auditor**

Here both the sector has the same criteria of qualification. The provisions of the Institute of Chartered Accountants of Nigeria Act shall have effect in relation to any investigation or audit for the purpose of this Act so however that none of the following persons shall be qualified for appointment as auditor of a company, that is-

- An officer or servant of the company;
- A person who is a partner of or in the employment of an officer or servant of the company; or
- A body corporate,

But one benchmark of Public sector Audit is, before you will be selected to be an Auditor of any ministry or extra-ministerial office you have to be register with the office of the Accountant-General of the Federation or its state counter-parts.

#### **Sec.359 of CAMA. Auditors Report**

In the private sector the auditors of a company shall make a report to its members on the accounts examined by them, and on every financial position and Comprehensive income, and on all group financial statements, copies of which are to be laid before the company in a general meeting during the auditors' tenure of office. In public sector, being a non-profit organisation report are tailored to the MBA's first and then send to the Auditor-General of the Federation or state, before taking to the public account committee.

#### **Sec.360 of CAMA. Duties and Powers**

It shall be the duty of the company's auditors, in preparing their report to carry out such investigations as may enable them to form an opinion on the financial statement he audits. Every auditor of a company shall have a right of access at all times to the company's books, accounts and vouchers, and be entitled to require from the company's office such information and explanations as he thinks necessary for the performance of the auditor's duties. Public sector in respect of Audit, it has a dual control i.e. management control and overriding control from the Office of the Auditor general. But in private, auditors only answer to the Board of Director.

#### **Sec.361 of CAMA. Remuneration of Auditors**

The remuneration of the auditors of a company- in the case of an auditor appointed by the directors may be fixed by the directors; or shall, subject

to the foregoing paragraph, be fixed by the company in general meeting or in such manner as the company in general meeting may determine. But in private sector Auditor general of the Federation or state determine the Remuneration of an Auditor.

#### **Sec. 392.of CAMA. Removal of Auditors**

A Private company may by ordinary resolution remove an auditor before the expiration of his term of office, notwithstanding anything in any agreement between it and him. It can also be as a result of Incapability to discharge his duty effectively. But in public sector, Auditor-General of the Federation or state can remove an auditor if need be.

From the aforementioned Section of CAMA, we can understand that a different between public and private sector audit is not much.

In another scenario the audits can be differentiated according to Millichamp A and Taylor R [4] through the following ways:

#### **Objectives**

Public sector audit are basically value for money. They tried to ascertain the Economy, efficiency and effectiveness use of the Tax Payer's money. On the other hand, private sector objective lies to ascertain the true and fair view of the financial statement. i.e. to provide an opinion on whether the financial statement show a true and fair view, and whether proper accounting records have been maintained.

#### **Responsibility**

Private sector audit are responsible to report primarily to their Shareholders through the board of directors, but Public sector report to the entire public (Tax payers) through the Public account committee of the National Assembly.

Legal status:

The regulatory bodies responsible for the regulating private sector Audit is CAMA 1990 as amended, Professional pronouncement of ICAN and also now the Financial Reporting Council. While for the public Audit, the regulatory bodies consist of:

- The Nigerian Constitution.
- Civil Service Rules.
- Treasury Circulars.
- Establishment Circulars.
- Official Gazettes of Government.
- Financial Instructions.
- Budgets.
- Financial Regulation (Control &Mgt) Acts.

#### **Scope**

Basically the scope of the private sector audit is the organization or company you are auditing based on what is stated in the engagement letter (financial

record and processes), but for public sector audit the scope is the entire ministries and extra-ministerial department of Government i.e. all aspect of the government activities including operational consideration and compliance issues.

Although there is a general agreement that the SAI should play an effective role in promoting transparency, governance and accountability, yet most of the SAIs in the developing world still lack adequate independence and resources to play this role (Khan 2009).The Nigerian situation is a case in point.

The Auditor-General of Nigeria substantially obtains his power of independence from Sec.85 (6) of the 1999 Constitution of Nigeria which states that: "In the exercise of his functions, under this Constitution, the Auditor-General shall not be subject to the direction or control of any other authority or person.

While the Auditor-General report serves as an effective instrument for legislative oversight over the executive's dealings with public finance, there is nothing to show of the parliament's/ legislative political will to enact laws to protect the office of the Auditor-General in the performance of his constitutional role. In the view of Kasum [5] "although there is a general agreement that the SAI should play an effective role in promoting transparency, governance and accountability, yet most of the SAIs in the developing world still lack adequate independence and resources to play this role." powers of investigation to expose corruption, fish out inefficiency in the running of government, thereby strengthening accountability and transparency in the use of public funds.

#### **SUMMARY AND CONCLUSION**

Having critically examined the difference between public sector and private sector audits, it can be concluded at this juncture that, both the two, are "two bird of the same feather". They are all governed by the professional pronouncement as well as the financial reporting standard of Nigeria.

Also, both the parties maintain the code of ethics of the profession which include: Independence, Integrity, Confidentiality and professional duty and care. Section 85(6) of the 1999 constitution of the federal Republic of Nigeria, state that "in the exercise of his function under the constitution, the Auditor general shall not be subject to the director or control of any other authority or person".

Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable

accept responsibility. It is pertinent to ensure credible and efficient work carried out by an Auditor in other to sustain and defend the integrity of the profession in both private and public sector.

#### **RECOMENDATIONS**

Based on the studies, it is recommended that measures should be taking to strengthening the independence of the supreme audit institution, and re-enforcing the PAC to be alive to its responsibilities and improving the accounting environment. There is a manifest need for the executive management of private sector organizations to put their individual and collective skills at the disposal of their various organizations. Also, external audit should strive toward maintaining their integrity in performing their duties.

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