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A History of the Auditing System and the Challenges of Corruption in Nigeria Since 1976

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Abstract

Auditing as a system of check and balance of financial management had over the years faces numerous challenges that proved to it incapable of curving menace of financial mismanagement in Nigerian public and private sectors. The work of an auditor is to ensure records of expenses tally with the records of fund allocated and to investigate the details of expenditures and the due-process there-in. it is also to ensure all payment receive are available as evidence of expenditure. Whether or not if an auditor achieved balance of records, to him funds are well managed and hence the organisation is mismanagement free. Where such records are not readily available, verbal explanations are often given on why, and how to the auditor by the officer in question and his ability to convince or otherwise the auditor, arises more questions. The objective of this paper is to express the history of audit system in Nigeria and the difficulties of an auditor to achieve the task before him, using historical methodology of data collection and interpretation. The paper concludes that auditing system in Nigeria cannot help in internal financial control, until and unless the system became independent. It was on this basis public and private institutions in Nigeria often records series of misplacements, misappropriation, mismanagement of funds as well as corruption which is common in Nigeria. Against this backdrop this paper is sets to study Nigerian Auditing System and the challenges of corruption in the country.

Keywords: Audit, Challenges of Corruption, Nigeria
JEL Classification:

Contribution to/Originality Knowledge

1.0 Introduction

Audit is a machinery of internal financial control in an organisation to protect public and private finances from mismanagement. Certain administrative policies and activities in an organisation are simple, but complex as regards to financial control, this led to the mismanagement of public funds. This act necessitated the government to prosper a means of overcoming the challenge, hence the establishment of Audit. The Audit is to protect and ensure internal financial control in organisations (Power, 1999). The rules and acts that established Audit and the system of auditing restricted the audit from achieving its functions, in terms of processes and other factors (Flint,1988). Therefore, this paper is divided into sub-sections, such as geographical description of Nigeria, Conceptual Analysis and History of Nigerian Auditing System, Post-Colonial Auditing System, Challenges of Nigerian Auditing System and Conclusion

1.1 Geography of Nigeria

Nigeria is one of the largest West African Countries often described as the most corrupt despite well designed administrative structures and elaborate civil service in the country (Irukubu,2005). The country is the most populous and the second largest in term of landmass, stretching across 923,768.64 Square Kilometres. It lies within the tropics on the western coast of Africa bordering Benin, Niger and Chad and Cameroon, Gulf of Guinea to the west, north, east and south respectively (Akin,1972). The country has an estimated population of about 148,000,000 people (2006 Population Census), making it the most populous nation in Africa. The population of Nigeria is split into over 250 ethnic groups, the largest being the Hausa, Fulani, Yoruba and Igbo. English is the official language (Irukubu,2005). The country got her independence in 1960 from British Colonial Power and began to experience post-colonial political instabilities from 1966 (Ajayi, 1997). There were military coups and counter-coups in the country up till 1999 when the nation returned to civilian administration.

Nigeria was economically rich with abundant human and natural resources including, minerals such as petroleum resources, Coal and Tin. The country is regarded as one of the world oil producing country. These resources foster the growth of the economy without corresponding developments, as a result of high level of corruption among the leadership in the country (Mahadi and Goerge, 1999). Many researches from professional and experts in financial management indicated that corruption in Nigeria is tied to bad governance by incompetence leaders. It is so rampant in government circle; hence the richest people in the country are those within governance or close to government (Irukubu,2005). Historically speaking corruption in Nigeria became an institution since when the country began the exploration and exportation of petroleum resources in commercial quantity in the 1970s. Since then government administration and expenditure were solely financed by the oil revenue, to the extent that the three tires of Governments depended on grant from the Federal Government (Mahadi, and George, 1999).

The bane of Nigerian’s economic development since the oil boom of the 1970s has been the issue of corruption, mismanagement of public funds and partly of bad governance through lack of internal financial control, which affected the growth and better public service delivery (Mahadi and George:1999). Corruption distorts the climate for doing business as well as any meaningful development. In a corruption engulfed country resources for human capital developments, such as infrastructures, health and education are often diverted into public pockets. These occurred through various processes including procurement fraud, patronage for access to service and misuse of facilities, gratification, gift, send forth and unnecessary travelling’s fees. The government at various levels came up with different measures of curving corruption and financial mismanagement in the country, these included; establishment of bodies and agencies such as, Economic and Financial Crimes Commission (EFCC), Independent Corruption Practices Commission (ICPC) Accounting processes and Auditing System in the public and private sectors in the country (Power,1999). It is against this backdrop this article is set to look at the history of auditing system on the challenges of internal financial control in Nigeria, since 1976.

2.0 Conceptual Clarification

There are few concepts that needed to be clarify and these included the Auditing, Accounting, Corruption and the concept of Internal control

The word Audit came from a Latin word "Audire" "meaning "to hear" or "to listen". However, according to Ajayi (1997), Audit is define as to examine and check information, check register, processes, circuits, having as an object to express opinion over the beneficiations and its viability. To Wang (2004), Audit or financial audit mean the process of re-affirming of self-identity, self-measument and self-edit on financial accountability of management. While to Flint (1988), Audit is a social phenomenon which serves no purpose or value, except its practical usefulness and its existence is wholly utilitarian. Therefore, Auditing is an examination of books of records and vouchers of financial activities of an organisation to ensure that the balance sheet is properly drawn up so as to give true and fair view of the state of the financial position of the organisation. It is a systematic and scientific examination of the books of financial records or accounts of a business or organisation, it is usually undertaking by an independent person or body of persons duly qualified to undertake the exercise. Auditing is a verification of records in order to check incomplete financial documentation in an organisation and the subsequent demand for explanation on the detected fraud or error. The material concern of an Auditor is cash and goods owned by an organisation. In this work, the auditor may become aware of a weakness and inefficiency in the working of the system and he may bring such matter to the notice of the client.

Accounting: Quiet often some individuals view auditing as same as accounting, it is not so; accounting it is the records of all day to day financial transactions in the book of accounts leading to preparation of financial statements. It is to ascertain the trading results after the ends of every book keeping (Ajayi, 1997). Accounting does not go beyond books of accounts and is more concern with the finalization of accounts (Wang, 2004).

Corruption: This is another concept that needs to be clarified. Corruption to a certain level was seen as part of the principles of administration, because corrupt practices in some aspects of financial transaction in Nigerian institutions and organisations were legalised by the operators (Modugu, 2012). Corruption as a relative concept varies from place to place, for instance what might be considered corruption in one society, may not be so in another. The United Nations Convention Against Corruption (UNCAC) described corruption to includes misconduct, bribery, embezzlement, theft, fraud, exhortation, abuse of discretion, favouritism and nepotism (UNESC, 2013). For the purpose of this article, corruption is simply seen as misconduct of an individual in public and private sectors of administration.

Internal Control: It is a set of procedures imposed on the accounting system or otherwise for the purpose of preventing, detecting and correcting errors and irregularities that might enter or flow through the financial statement (Aloko, 1961). It meant not only for internal check and internal audit but the whole system of controls, financial or otherwise established by the management of an organisation in an orderly manner to safeguard its assets and finances (Aloko, 1961). This means ability of an organisation administration to maintain the spending and management of its resources or fund meant for day to day activities in the organisation. Compliance to due-process in the financial administration of an organisation and the strict utilisation of funds is internal control in an organisation.

2.1 History of Nigerian Auditing System

Auditing is a component of economic production and it is old as economic activities particularly accounting (Power, 2005). When man ceased to be a hunter and gatherer and became settled in one place. Man began to interact with another man as well as with his environment. Since then man became an economic being, engaging in production for livelihood and for exchanged (Flint,1988). However, auditing as a system grew rapidly after the emergence of Industrial Revolution in England around 1750s, particularly in Textile industry (Olojede and Olayinka, 20223). The involvement of machines in economic production facilitated mass production of textile goods and the subsequent global needs of raw-materials such as cotton, groundnuts, cocoa, rubber, hide and skins and other raw material such as minerals like Coal, Tin, Silver and goal led to movements of funds across the world (Ahmad,2016).

The spread of the revolution into other European countries, led to the duplicated of the process in almost all companies as copy card programmes of their financial years reporting. Over the years the revolution led to the rapid expansion of European Countries out of Europe into other parts of World, in search for Industrial Raw-Materials, Cheap agricultural labour and markets to sell their manufactured goods (Ajayi, 1997). The monetization of colonial economy in the colonies further consolidated the principles of financial management at the international level. This era saw the expansion of European Trading Companies outside Europe who by their nature engaged in raw-materials purchase and sales of manufactured goods. The idea necessitated the involvements of experts and professionals to ascertained financial accounts and records to ascertain their truthfulness or falseness by checking and balancing (Ahmad, 2016). to detect errors and frauds in financial investments in the colonies. This necessitated the British East-Indian Company to make it as an Act in 1913, as part of annual exercise to audit all the company accounts since 1913 and it became a ritual (Power, 2005)

As indicated above the colonial trading companies that operated in Nigerian area from 1861 to 1914, dominated by the British Companies such as Royal Niger Company, John Holt, GBO, BCGO, Liver Brothers were principally organised and control by the industries from the metro poles and were fully managed through audit system (Flint,1988).

Therefore, historically, auditing system began in 1866, when the Exchequer and Audit Department was established and tasked with responsibility of auditing all colonial finances in the colonies. The audit was undertaken by the Colonial Branch of the Exchequer and Audit Department which was responsible to the Secretary of State of the Colonies in London (Olujede and Olayinka, 2022).

With the conquest and the establishment of Colonial Rule and Administration in Nigeria, the audit as we know it today in Nigeria began to evolve in civil-service from the era of the introduction of colonial taxation in Native Authorities in 1910, and the subsequent establishment of Native Authority Treasury in 1911. At the time, two heads of Audit for Southern and Northern protectorates were appointed and these were Me. E.H Norris and C.A. Packwood respectively (Olujede and Olayinka, 2022).

Following the amalgamation of the two protectorates in 1914, to form single political entity Nigeria, the two heads of audits in the South and North became responsible to the Governor at the Central Administration Headquarters in Lagos . The two heads of Audit were also under the general supervision of the Director-General of the Overseas Audit Services since they were British expatriates. In 1928, Sir John Harding was appointed as the first Director Audit for Nigeria and served for about 27 years. In 1954, Directors of Audit were appointed for each of the three regions in the country (North, East and the Western region) and by 1960 about 12 Directors and heads of Colonial Audit Services were appointed (UNESC, 2013).

This development was to allow for the administration to audit the annual public financial accounts at the centre as well as accounts of all Native Authority Treasuries and often punished defaulters (UNESC, 2013). In some cases, Native Administration staff and Native Authority Staff consciously and some un-consciously were imprisoned for misappropriating public funds, while some exiled to Lokoja in the case of Chiefs and Emirs (Mahadi George, 1999). It is worth noting here, during the colonial period, auditing was used by the colonial authority to dethrone any unpopular traditional ruler as well as those not supportive to the colonial administration in Nigeria, as it is in the current situation. This system of financial audit formed the basis of the post- colonial auditing system in Nigeria.

2.2 The Post-Colonial Auditing System

The modern Nigerian auditing system became so trenched after the discovery of Oil in commercial quantity in Nigeria and the 1976 Local Governments Administration Reform (Irukubu, 2005). The period was also marked with the changing economic position or realities, in terms of revenue generation base of the country. Before the period, the revenue based of the nation was from bottom to top, meaning from Native Authorities NAs to the Central Administration (Mahadi and George, 1999). However, from 1976, the bottom solely relies on the grand from the Federal Government to States and to the Local Governments ((Mahadi and George, 1999). The flow of funds down the ladder involved so many processes, for capital and recurrent expenditures, hence the needs for auditing to justify the usage. These changing economic realities formed the basis of corrupt practices in Nigeria public sectors and inadequate internal financial control.

3.0 Challenges of Nigerian Auditing System

Auditing as a system aimed at maintaining, management and control of misappropriation of funds in public or private organisations. It is to protect public funds from corruption and inadequate internal financial control, but faces a number of challenges in its operations. These challenges formed the basis of corrupt practices and lack of internal financial control in most organisation and public places. These challenges could be categorised into institutional and individual challenges (Ajayi: 1997). The institutional challenges were mainly because of many problems, first is the issue of incompetence Auditing personnel, auditors need to be trained by experts and professional and most obtained relevant qualifications from bodies such as ICAN, ANAN etc. However, most auditors lacked this basic requirement and were often of low qualifications. The other issue was the incessant military interventions in Nigerian political arena. Military regimes often suspend constitutions and operate based on decrees. From 1983 when the military, took over power from civilian administration in Nigeria and the subsequent suspension of Constitution in favour of decree, the office of the Auditor-General was clearly suspended. Decree 17 of 1985 withdrew the power of the Federal auditors to audit statutory agencies established by law (Suchman: 1985).

The provision was systematically injected into the 1999 constitution through section 85 sub-sections 3 and 4. The constitution prohibits federal audit from auditing the Accounts of Government Statutory Corporations, Commission, Authorities, Agencies including all persons and bodies established by an act of the National Assembly. As a result the federal auditors cannot audit the financial statements of Parastatals Organisation, though can periodically check such state owned entities, in this regard therefore, what is check in the context of governance.

At the level of the individual challenges faced by an auditor are irregularities and lack of careful management of organisational funds by leaders, it is nor corruption per see, but wasteful utilisation of public funds. For instance, to train a staff is legal, but the frequency and size and number of staff to be train at a time matters and can lead to inadequacy in internal financial control, training of few at a time would be better in control than training ten of the same rank and specialization at the same time. This inadequate financial control is often legalised by individual institution in its mode of operation.

The other individual challenges are the problems of; “order from the above syndrome”, “chop and let us chop”, over-invoicing, Store-Recycling, Leasing, 10% contract award fees and misplacement of priority. The above phenomenon are difficult for an auditor to ascertain and common in the administration of funds in organisations as would be discuss below;-

Order from the above syndrome: this is one aspect of the challenges of internal control of public funds in Nigeria public and private sectors. It usually comes from officers of public trust and those protected by the immunity clause. These classes of public officers often abuse the powers and trust embedded in their offices for non-compliance with the rules of law, accountability, integrity and transparency. They usually give verbal order of financial expenditure and utility to subordinate officers with improper accounting module posing difficulty to account for the public funds by the accountant, hence the used of false empty receipt in order to balance the account for audit satisfaction. Though an auditor is trained on how to identify, such false receipt, but often and occasionally faced difficulties in ascertaining the reliability and authenticity of the receipts and hence allowed the false to be the truth

This scenario is also accompanied by directives from superior officers in the auditing sector or from the top government functionaries on not punish or to indicate any faults from the officers in questions, partly because they related to senior men in government. This made them above the rule of law and protected men in the society, thereby making audit work in their offices very difficult

The other challenge is the problem of "chop and let us chop syndrome", usually emanated from the accounting officers who master how to balance the books of accounts. They introduced the officer to certain funds and motivate him to take, while in return they would be also allowed to take some aspects of the funds in ratio of positions they occupied in the organisation. No matter how hard an auditor work it would be difficult for him to discover the misappropriated funds as all accounts would be made to balance. This is very dangerous to the development of any organisation in Nigeria, as huge amount of funds would be taken away without tangible corresponding development in the organisation.

Over-Invoicing: This is the common formed of corruption in Nigerian public sector, both direct and contract purchasing are characterised with this phenomenon of over-invoicing. If an auditor is restricted to the evaluation of books of accounts then he can't convert and avert corruption. Therefore internal control and financial management in organisations are very much tied to honesty and God-fearing in the administration of public funds in Nigeria.

Contracts awarded involves many things, the amount of one kilometre road in one place is 10 kilometre road in another, so the idea of over-invoicing is all over. Tender is about the interest of the awardee no more no less. Corruption is not all about taking bribes or public funds but about due-process. Most contracts today are conducted by its awardees, on the amounts they want, timeframe and location and whether they know how to do it or not. In this case an auditor is hock-up and can do otherwise.

The above challenge is very serious to the work of an auditor in ensuring internal control and management of public funds in the public and private sectors in Nigeria. This led to the domestication of many corrupt practices as legal administrative rudiments.

Store-Recycling: This means re purchasing of what was already purchased and stored in an organisation. It is a situation where administrators and store officers raise a memo or request for a purchase of items already available in large quantity in their store and upon approval, the funds released are share among the actors. All required documents would be available for an auditor to ascertain. In this situation the work of the auditor is undermined and cripple in an effort to avert corrupt practices in the organisations.

Challenge of Inflation:- Financial statement cannot reflect on exact, due to the problem of inflation or trends. Prices of commodities are constantly changing in every minute and purchasing accounts cannot reflect on exact prices and uniformity and hence posed challenge to an auditor looking for balance and accurate financial expenditures in an organisation. Details checking of financial statement by an auditor often not possible, since he cannot check and each transaction of an organisation, but rather the documents provided by the accounting officer.

4.0 Conclusion

Auditors as the key role players in public financial management and in ensuring public accountability through, compliance with financial rules and regulation, due-process in public expenditures, in order to reduce the incidence of corruption and mismanagement of public funds. The objective of audit work on financial statements is to enable an auditor to express an opinion on such financial statements to ascertain its reliability. In fact it is the opinion of an auditor which helps in the determination of the truth or otherwise of the financial position of the organisation. An auditor is a judge who administered judgement of financial allocations to organisations by government or financial institution, on the judicious used of the funds or otherwise. His work is generally depended upon the existence of effective system of internal control of finances of the organisation and he rely on explanations by others and opinion of others. However, despite the total number of about 811, heads of Audits in Nigeria, Auditor-Generals in all the 774 Local Government, 36 States of the Federation and Federal Government Auditor-General and numerous Auditors in all ministries, making their numbers the highest in African Continent, but the problem of corruption and the public financial mismanagement, misappropriation of public funds in the Nigeria. However, if allow to practice the profession according to its rules, Nigeria Audit system will be best and better one in the fight against corruption and mismanagement of public fund in the Country

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