

**AN EVALUATION OF AUDIT QUALITY CONTROL IN  
GOVERNMENT-OWNED ENTITIES IN NIGERIA**

**BY**

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**DECLARATION**

It is hereby declared that this study titled “Relationship between Accounting Information and Share Prices of listed Companies in Nigeria” was undertaken by Aderobaki Ayeole Vincent and it is based on my original work in the Department of Accounting, School of post graduate studies, Nasarawa state University, Keffi. The ideas and views of this research work are products of original research undertaken by me and the views of other researchers have been duly expressed and acknowledged.

**Aderobaki Ayeole Vincent**

**Signature and Date.....**



## **DEDICATION**

This Dissertation is dedicated to the Holy Spirit, the God of Zero Hour. He is my Teacher, Comforter, Helper and my All in All.

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## ABSTRACT

*Studies on relationship between accounting information and share prices (both in Nigeria and other foreign countries) produce mixed result regarding which of the variables most affect stock prices of different sectors of the economy. Therefore, this study examines the extent to which share price of the Nigerian listed firms are associated with fundamental accounting variables (that is, earnings per share, dividend per share and Book value per share) and Share Prices of listed Companies in Nigeria between 2008-2013, with a view to determining whether accounting information has the ability to capture data that affect share prices of firms listed on the NSE. This study used secondary data to investigate the aggregate Nigerian stock market reaction to accounting numbers. Secondary data were obtained from the Nigerian Stock Exchange Factbook and Annual Financial reports of sampled companies listed on the Nigerian Stock Exchange. The methods used for gauging information content of various accounting numbers were Ordinary Least Square and Multiple Regression analysis. The findings show that there is a significant relationship between Earnings, Dividends and share prices of companies listed on the NSE. Dividends are the most widely used accounting information for investment decisions in Nigeria, followed by earnings; net book value is not significant in explaining variation of stock prices. The study therefore suggests that the firms should improve the quality of earnings as manipulated earnings (of which dividends are sub-sets) have large effects on share prices and that the management of Nigerian listed firms to maintain stability and consistency in their earning by providing useful and cost-effective information which will go a long way in increasing market value of the firms by drawing investors' confidence to the shares of the firms. Moreover, there should be firm and stiff penalty by the Financial Reporting Council of Nigeria (FRCN) for manipulating earnings in the Nigerian stock market. It is also recommended that all companies listed on Nigerian Stock Exchange should prepare Simplified Investor's Summary Accounts (SISA) with emphases on the most widely used accounting information along the required mandatory detailed financial statements to suit Nigerian peculiarities. This is expected to remove information over-load particularly for non-accountants and non-financial analysts. The afore-mentioned measures are anticipated to increase investors' confidence in accounting numbers and by extension the economic growth in Nigeria.*

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## **ABBREVIATIONS**

AAA:	American Accounting Association
BVPS:	Book Value per Share
CAMA:	Companies and Allied Matters Act
DPS:	Divided per Share
EMH:	Efficient-market hypothesis
EPS:	Earnings Per Share
FASB:	Financial Accounting Standards Board
FRCN:	Financial Reporting Council of Nigeria
GAAP:	Generally Accepted Accounting Principles
<b>IASB:</b>	<b>International Accounting Standards Board</b>
NASB:	Nigerian Accounting Standards Board
NSE:	Nigerian Stock Exchange
RIVM:	Residual Income Valuation Model
SEC:	Securities and Exchange Commission
SISA:	Simplified Investor's Summary Accounts
SP:	Share Prices

SPSS

Statistical Package for Social Sciences

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the Study**

There is a popular conception that everybody's business is nobody's business. This means that no business to which no specific individual is held accountable can be conscientiously, painstakingly and scrupulously run the same way the business run by a personal owner whether it is the fulfillment of obligation, security of property or expenditure of funds (Agalamanyi, 2003). Public sector and its parastatals, agencies, commissions, corporations, bodies etc show a high level of laxity in government business. In order to avert this problem of carelessness in handling government businesses, statutory and regulatory frameworks are put in place by the Government of Nigeria. Among the statutory measures is auditing duty conferred on the Supreme Audit Institution (SAI) headed by the Auditor General for the Federation (AGF).

The functions and scope of independence of the Supreme Audit Institution are spelt out in the relevant provisions of the Audit Act of 1958, which established the office, and in subsequent constitutional provisions, particularly the 1999 constitution. These provisions-together with section 24 of the Finance (Control and Management) Act of 1958, the Financial Regulations of 1976, the Audit Guide, the Audit Standards and the Civil Service Rules-have emphasized, guided, and increased the scope and the independence of the auditing process (Anyanwu, 2001). These statutory documents, especially the current provisions in the 1999 constitution, impose certain duties and responsibilities on the Supreme Audit Institution. For example, according to Section 85(2) of the 1999 constitution, the Auditor General shall audit the public accounts of the federation and all offices and court of the federation. For the purpose of this audit, the Auditor



General or any person authorized by him shall have access to all the books, records, returns and other documents that relates these public accounts. Thereafter, the audit report shall be submitted to the National Assembly.

Under section 85(3) of the constitution, the Auditor-General (AG) is not expected to audit the accounts of or appoint auditors for government statutory corporations, commissions, authorities, agencies and other bodies established by an Act of the National Assembly. This specific provision put to rest the controversy generated by section 79(2) of 1979 constitution which the Auditor-General invoked to appoint auditors for some government parastatals on the ground that his audit duties covered “*all persons and bodies established by law*” (Omolehinwa, 2005).

Going by the content of section 85(4), “the Auditor General shall have power to conduct periodic checks of all government statutory corporations, commissions, authorities and agencies.” In recognition of the Supreme Audit Institution's need for independence in performing the aforementioned functions, Section 85(6) states, "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”.

It is clear from the above that the Nigeria Constitution did not authorize the Auditor-General to audit the accounts of Government Owned Companies (GOC), commission, and agencies (hereafter, ‘Government Entities’). Similarly, the Constitution did not empower the Auditor General to appoint auditors for the government entities. However, the Constitution empowers him to provide a list of chartered accountants who are auditors qualified to be appointed by such

entities as external auditors, and from which the entities shall appoint their external auditors. Furthermore, the Constitution also empowers the Auditor General to provide a guideline on the level of fees to be paid to external auditors. Finally, the Constitution empowers the Auditor General to comment on annual accounts of government entities and the external auditor's reports thereon. Thereafter, he certifies the accounts which are subsequently submitted to the National Assembly, with his certificate and report known as "Auditor-General's Certificate" and "Auditor-General's Report" respectively (Section 85(2)).

The duty to comment on the annual accounts of government entities and the audit reports on them may prove difficult to perform in practice. This study therefore seeks to determine how effective is audit quality control by office of the auditor general and its identified challenges.

## **1.2 Statement of the Problem**

The constitution provides that Auditor General should comment on the Annual accounts of Government owned entities S.85 (3b) which the auditors of the Government entities have carried out by firms of professional accountant. Concerns are raised by public Accounts Committee and Chartered Accounting Firms as to whether the staff of the office of Auditor General of the Federation can effectively review the audit done by the independent Accountants.

The Auditor General does not audit the accounts of the Government Owned Companies, but the Government Owned Companies are required to forward a list of qualified auditors to the Auditor General for approval. This, however, does not imply that the Auditor General appoints auditors for Government Owned Companies but that from the approved auditors in the list, the

Government Owned Companies can appoint any. The audited accounts, signed by the Board of the parastatals, along with the auditor's domestic reports on them are forwarded to the Auditor-General for the Federation for vetting. The involvement of the Auditor General in the selection process, one would have thought, should enhance a cordial relationship between the Auditor General and the independent auditors of the Government Owned Companies. Unfortunately, the relationship is that of cats and dogs, as auditors decline to make available their working papers to the Auditor General for the development of comments required by the Constitution (Asechemie, 1995). The root cause of this uncooperative attitude was that auditors of Government Owned Companies are of the view that the Auditor General lacks the technical staff to review professional work that has been completed (Asechemie, 1995). This study seeks to find out the authenticity of this assertion.

In spite of the relevance of statutory control of audit work in government-owned entities for improved quality of audit, there appears to be inadequate empirical evidence in Nigeria that assesses its effectiveness. Most of the available studies are of foreign origin; such as Institute of Chartered Accounts of India (2002), Ferguson and Rafuse (2004); and therefore lacks local contents as country setting differences may influence the generality of such findings. In a bid to close this gap and expand the frontier of knowledge in this area of study, this research work becomes necessary.

### **1.3 Research Questions**

The following research questions were raised for this study.

- (i) Do audit firms comply with the submission of working papers to the office of the Auditor-General?
- (ii) Are staff in the office of Auditor-General professionally competent to review audit work done by audit firms?
- (iii) Does lack of training of staff of Auditor-General serves as a challenge to quality audit?
- (iv) To what extent does audit work done by staffs of the Auditor-General differ from that done by audit firms in Nigeria?

### **1.4 Objectives of the Study**

The purpose of this study is to evaluate audit quality control in the Government Entities by the office of Auditor General of the Federation so as to ascertain the extent to which audit quality is important otherwise identify factors responsible.

Specifically, the study seeks to achieve the following:

- (i) To investigate whether audit firms comply with the submission of working papers to the office of the Auditor-General.
- (ii) To determine whether staff in the office of the Auditor-General possessed the required professional qualification for reviewing audit work done by the audit firms.
- (iii) To examine whether lack of training of staff of Auditor-General serves as a challenge to quality audit.

- (iv) To determine the extent to which audit work done by staff of the Auditor-General differ from that done by audit firms in Nigeria?

### **1.5 Statement of Hypotheses**

With due considerations to the purpose of this study, the following null hypotheses were formulated:

Ho1: Audit firms do not significantly comply with submission of working papers to the office of the Auditor-General.

Ho2: Staff of the office of Auditor-General are not technically (academically, professionally and work experience) competent to review the audit work done by audit firms.

Ho3: Lack of training of staff of the Auditor-General is not a challenge to audit quality.

Ho4: There is no significant difference between audit work done by staff of the Auditor-General and that done by audit firms in Nigeria

### **1.6 Significance of the Study**

The rate at which the office of the Auditor General for the Federation is being alleged of gross incompetence in commenting and reviewing the audited accounts of parastatals in one hand, and the consistent refusal of external auditors of the parastatals to submit their working papers on the other hand has become a serious concern to all and sundry.

This study is therefore significant, as it will shed much light on whether the assertion is true or not. Also, since the subject matter of this study is a constitutional issue, it is significant in that it will show the effectiveness, efficiency, efficacy and level of implementation of the constitution.

Furthermore, research work in the area of public sector is few, and little or no attention is focused on the challenges faced by the office of the Auditor General for the Federation. Though several studies have been carried out in public sector auditing in Nigeria, none has dealt with the evaluation of audit quality control by the Auditor-General. The significance of this study can therefore not be underestimated as it exposes researchers and potential researchers, students and academics to the challenges of audit quality control in Nigerian public sector, and also the possible ways of overcoming such challenges. Other stakeholders such as lawmakers, executives, accounting and auditing professionals, legal practitioners among others should also find the research significant.

### **1.7 Scope of the Study**

This study centers on the evaluation of audit quality control in Nigerian government-owned entities. The geographical scope of this study is Nigeria and therefore the study covers the 36 states of the federation including the Federal Capital Territory, Abuja where offices of the auditor-general are located. Also, ten audit firms with not less than ten years audit experience in public practice are selected.

### **1.8 Definition of Terms**

**Auditor General for the federation (AGF):** This is the head of Supreme Audit Institution appointed constitutionally by the president of the Federal Republic of Nigeria and responsible to the legislature but also takes directives from and cooperates with the presidency in matters relating to the audit of government accounts and agencies.

**Government Entities:** These are government owned companies, commission, parastatals and agencies.

**Parastatals:** These are agencies and corporations established by the Nigerian government for specific purposes beneficial to the nation.

**External Auditors:** These are independent individuals or firms of professional accountants who perform audit on the financial statements of a company, government, individual, or any other legal entity or organization.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

It is a general attitude of the external auditor (i.e. auditors in public practice) to claim to be superior to the auditors in the public sector (Aschemie, 1995). This superiority is premised on the ground of having better academic and professional qualifications, training and experience over and above the auditors in the public sector. This proposition, which is the subject matter of this study, is reviewed in this chapter. The chapter considers the historical background of the proposition. This chapter examines the quality control procedures and peer review in both private and public sector. The essence of this is to check whether the procedures are substantially different. If the procedures are similar, the claim of superiority by one group is baseless. Also, the qualifications (both academic and professional) and training required of auditors in the public sector are examined and this is compared with what is obtainable in reality. The rationale behind this is to see whether there is any similarity between both.

#### **2.2 Concept of Public Sector**

In every country, it is difficult for private sector to provide all goods, services and the entire needs of the citizenry. This therefore makes it necessary for government to take part in the discharge of this duty. Omolehinwa (2005), citing Adams Smith in his popular book – the wealth of nations – declares that there are three important duties expected of a state:

1. Protection of citizens from external aggression;
2. Protection of citizens from other members of the country and administration of justice;



3. Engagement of activities that are of benefit to the society as a whole because they are not profitable for individual efforts.

Omolehinwa (2005) therefore notes that because government gets the problems that the private sector “can’t and won’t handle”, it is expected to provide goods and services in some areas while at the same time providing enabling environment that facilitates the functioning of private sector. Some of the areas which the private sector “can’t and won’t handle” and need government involvement include security, subsidised or free education, health and subsidized houses for low income earners. Going by the above duties, one can infer the rationale behind the establishment of parastatals, commission, agencies, corporations and other public sector entities by the government. Public sector in this context refers to all organizations which are not privately owned and operated, but which are established, run and financed by the government on behalf of the public (ICAN, 2006).

The mere fact that government parastatals, agencies, commission and other bodies are established with the aim of providing services at affordable prices and where necessary make little profit does not mean that they are outside the jurisdiction of control of government. In order not to let them loose, they are statutorily required to be audited by the external auditors and the report therein commented on by the Auditor General of the Federation. The Office of the Auditor-General for the Federation is a separate and independent entity whose existence, powers, duties and responsibilities are provided for under Section 85 of the Constitution of the Federal Republic of Nigeria 1999 (Office of the Auditor-General, 2010). He is the only Accounting Officer who is recognized by the Supreme law of Nigeria. Apart from this, other statutory

regulations such as Audit Act of 1958 evolving from Audit Ordinance of 1956, Finance (Management and Control) Act of 1958 and regulatory authority such as Federal Government Financial Regulations also have provisions in relation to the existence of Auditor General

The 1999 constitution, the Audit Act of 1958, and the Federal Government Financial Regulations among others discuss the appointment, duties, power, responsibilities, and scope of work of the Auditor General of the Federation. The Auditor General of the Federation shall be appointed by the President on the recommendation of the Federal Civil Service Commission, subject to confirmation by the Senate (Section 86 of the 1999 constitution). The Auditor General of the Federation is expected to audit the public accounts of the federation, all office and courts of the federation. In the same way, the Federal Government Regulations gives detailed responsibilities of the Auditor General thus:

*“the officer 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, of payment of Federal Public moneys 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” (Section 103).*

Ironically, the Auditor General is not authorized to audit the accounts or appoint auditors for government statutory companies and corporations. The Auditor General, however is to provide such bodies with a list of qualified auditors from which they shall appoint their external auditors, guidelines on the levels of fees to be paid, and comments on their annual account and auditors' report (Anyanwu, 2001). Section 85 (3a & b) of 1999 constitution specifically states that nothing in subsection (2) of this section shall be construed as authorizing the Auditor-General to audit the accounts of or appoint auditors for government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by Law but the Auditor-General shall:

- (a) Provide such bodies with (i) a list of auditors qualified to be appointed by them as external auditors and from which the bodies shall appoint their external auditors, and (ii) a guideline on the level of fees to be paid to external auditors; and
- (b) Comment on their annual accounts and auditor's report thereon.

From the above, it is clear that the auditing of Government Owned Companies (GOC) is conducted by the external auditors. The accounts of the companies are prepared in accordance with the Generally Accepted Accounting Principles (GAAP) related to their forms. Where the companies are limited liability companies, their accounts are prepared in accordance with Companies and Allied Matters Act (CAMA) and other statutory and regulatory frameworks, hence the auditing is tailored towards same. However, where the companies are funded by government through subvention, the auditing is conducted using related statutory and regulatory framework. After the audit exercise, the auditors are expected to forward the audited accounts together with domestic report to the Board of Director. With this, the Directors are to forward the accounts with their reports contained therein to the Auditor General for comment as required

by the constitution. This constitutional arrangement, which serves as check and balance for the Auditor General and the external auditors, is expected to bring some level of cordiality to both audit Institutions. However, the reverse is the case as it has been observed that the relationship between them is like two parallel lines that cannot meet (Asechemie, 1995).

In line with Section 85(3) stated earlier, the Auditor General is required to perform two functions. Firstly, he is required to comment on the accounts of the companies and secondly required to comment on the external auditors' report contained therein. Achievement of the first task is far beyond peer review exercise, rather the Auditor General will have to apply a lot of quality control exercise in ascertaining that the accounts are prepared in accordance and compliance with relevant statutory and regulatory provisions and still carry out many analytical reviews. Commenting on the external auditors' report requires a peer review of their completed work. In order to discharge this responsibility in line with Section 85(3)(a) of the constitution, the Auditor General of the Federation sets out the guidelines for the appointment of external auditors for federal government entities. As contained in the official website of his office, the audit firm to be appointed must have registered or renewed its registration with the office of the Auditor-General. Any unaccredited firm is not eligible for recommendation by the Auditor General of the Federation. Secondly, the tenure of office of any appointed firm is one year in the first instance, subject to renewal of not more than a maximum of five years in office. This is to ensure that independence is not compromised. The fees to be paid is based on an agreed upon or negotiated amount after quotations have been made by three audit firms in line with the Institute of Chartered Accountants of Nigeria (ICAN) scale of fees. The personnel not qualified to be appointed are also mentioned therein.

Without any recourse to section 85(6) which empowers Auditor General to work without any direction and control of anybody or authority and Section 103 of Federal Government Financial Regulations that authorizes him to request for information and explanation necessary for his duties, it is observed that the external auditors are not cooperating with the Auditor General in discharging his constitutional duty by not making available the working papers needed to be reviewed to make him feel comfortable in appending his audit certificate (Asechemie, 1995). The consistent uncooperative attitude of the external auditors is premised on the ground of superiority to the Staff of Auditor General in the aspect of qualification, training and experience (Asechemie, 1995). This study therefore subjects this proposition to an empirical test/examination.

### **2.3 Concept of Audit Quality Control**

“Quality” is an essential or distinctive characteristic, property, or attribute. It is the degree to which a set of inherent characteristics of a product fulfils its requirements. DeAngelo (1981) defined audit quality as the market-assessed joint probability that the auditor discovers an anomaly in the financial statements, and reveals it. In essence, auditing is used to provide the needed assurance for investors when relying on audited financial statements. Audit quality is a complex subject and there is no definition or analysis of it that has achieved universal recognition. In the IAASB’s view, a quality audit is likely to be achieved when the auditor’s opinion on the financial statements can be relied upon as it was based on sufficient appropriate audit evidence obtained by an engagement team that:

- (i) Exhibited appropriate values, ethics and attitudes;

- (ii) Was sufficiently knowledgeable and experienced and had sufficient time allocated to perform the audit work;
- (iii) Applied a rigorous audit process and quality control procedures;
- (iv) Provided valuable and timely reports; and
- (v) Interacted appropriately with a variety of different stakeholders.

The primary objective of the financial audit is to verify the integrity and accuracy of the accounting methods used within the organization, while the objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:

- (i) The audit complies with professional standards and applicable legal and regulatory requirements; and
- (ii) The auditor's report issued is appropriate in the circumstances.

A key element of quality control on an audit is a second pair of eyes to review engagement performance before the auditor's report is issued.

Auditing standards recognize the importance of requiring an engagement quality control review (EQCR) – an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report – for all audits of financial statements of listed entities and for certain other engagements.

The Canadian Public Accountability Board (CPAB) 2010 report, *Inspections of the Quality of Audits Conducted by Public Accounting Firms*, stated that “The EQCR is a critical element of quality control and a major contributor to achieving audit quality.”

### **2.3.1 Audit Quality Control in Public Sector**

The Public Sector Auditors are not left out from the maintenance of quality control every time. Government audit quality has been a significant issue since the 1980s, when a Government Accountability Office (GAO, 1986) revealed that a third of audits examined were substandard (Lowenson *et al.*, 2007). In specific relation to Supreme Audit Institutions, Ogunyemi (2008) considers quality assurance as referring to the mechanisms or processes by which each Institution ensures it is either gaining improvements, or maintaining a high level of performance within all aspects of its endeavour. These aspects range widely from core audit processes and outputs, to each and every one of the various facets that make up the internal environment of the Institution. The office of the Auditor General for the Federation, which is the Supreme Audit Institution (SAI) of a country and a member of International Organization of Supreme Audit Institutions (INTOSAI), is guided by International Organization of Supreme Audit Institutions Lima Declaration and International Organization of Supreme Audit Institutions Auditing Standards (Subramanian, 2008).

Section 14 of International Organization of Supreme Audit Institutions Lima Declaration and Section 2.1.4 of International Organization of Supreme Audit Institutions Auditing Standard require Supreme Audit Institution to have adequate professional criteria for recruitment and promotion of auditors. The Supreme Audit Institution, by virtue of same Section 14 of International Organization of Supreme Audit Institutions Lima Declaration and Section 2.1.5 – 2.1.12 of International Organization of Supreme Audit Institutions Auditing Standard, should operate a continuing professional development program for its professional personnel. In the

area of audit competence, the Supreme Audit Institution is expected to equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, analytical review methods, statistical sampling and audit of automated information systems (INTOSAI Auditing Standards 2.2.37). In relation to quality assurance, Subramanian (2008), reporting International Standards on Auditing (ISA), states:

*The supreme Audit Institution should have the quality assurance programs in place to ensure audit performance and results. Written quality control policies and procedures should be communicated to the audit personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented (ISA 270.7). (p. 10).*

Also, the standard requires that the work performed by each assistant needs to be reviewed by personnel of at least equal competence (ISA 220.8 – 220,17). There is no gainsaying that the AGF of Nigeria maintains a relationship with other SAI as contained in the official website of his office (<http://www.oaugf.gov.ng>) which states in item 5 that “maintaining good relation with other SAI” is one of the goals. The American Institute of Certified Public Accountants (AICPA) task force on the quality of audits of government units issued a report in 1987. The task force’s report contains twenty five (25) recommendations in five broad categories called five ‘E’s comprising Education, Engagement, Evaluation, Enforcement, and Exchange Information. The report lays much emphasis on the issue of continuous training (education), free and fair appointment based on competence (engagement), peer review (evaluation), punishment/sanction (enforcement) and exchange of information as major factors that can lead to



highest quality of auditing of government. This recommendation may not be holistically attainable in Nigeria public sector where continuous on-the-job training is not attached much importance to, and where nepotism, favoritism, religious, ethnic, regional and political sentiments are all seen as the order of the day in the appointment of personnel into offices of government. However, Fajana (2004), in his study on emerging perceptions of productivity and motivation in the Nigeria Civil Service, reveals that payment of good wages and salaries is fundamental to higher productivity among staff members of any organization.

Ogunyemi (2008) reveals that three out of the four supreme audit Institutions visited did not have functional quality assurance units in place. In some instances, senior members of staff were tasked with quality assurance, however, it was difficult to find evidence that any assurance processes other than reviews of audit papers were carried out. The study further reveals that the current approach to ‘quality control’ was found to depend on the skills of certain experienced individuals rather than on any systemic or institutionalized methods of ensuring consistently high quality outputs and outcomes. This meant that there was no sustainable system for ensuring consistency in the quality of outputs across all audits.

It is worthy of note that the practice of the civil service commission appointing and promoting senior staff of the office of the Auditor General of the Federation has been recognized by Anyanwu (2001), Wynne (2004) and Ogunyemi (2008) as an impediment to independence and development of the office of AGF in accomplishing its constitutional responsibility. Ogunyemi therefore posits that there is need for this “civil service mentality” to be removed. Anyanwu

recommends the creation of Audit Service Commission which will solely see to the recruitment, promotion and discipline of audit personnel.

Anyone who wants to increase accuracy, document the reasons behind a decision, or recall years later why a step was or wasn't taken is likely to find written support useful. Doctors have medical records; lawyers have case files; construction companies have project files; and auditors have audit working papers. They aren't just a necessary evil; working papers keep auditors on track and document the audit purpose, process, and outcome for others (Hubbard, 2000).

Working papers provide the principal support for an auditor's report, just as section 420.01.5a of the Institute of Internal Auditor (IIA) Standards mandates. However, we really don't need standards to tell us that working papers help us to stay organized, increase accuracy, and convey to others what we did during the audit. One of the most important functions of organized audit working paper is that they give auditors a place to put information during the audit. Working papers heighten the accuracy of work. Also, supervisors and other auditors can help to interpret data more cogently if they can see the same information the auditor used.

The Nigerian Standards on Auditing (NSA) 4, and the International Standards on Auditing (ISA 230) require auditors to have proper documentation of all important matter which are germane as audit evidence, audit planning and processes that necessary for the audit exercise. It is not compulsory for all matters or processes to be produced in the working papers; the extent to which working papers will be produced depends on the professional judgment of the auditor.

The major objective of the auditor's working papers is to record and demonstrate the steps which have been taken by the auditor to enable him form an independent opinion on the financial statements upon which they are required to report (ICAN, 2009). One of the beauties of working papers is that it clearly states all questions asked, answers received, observations made, queries raised, replies received and conclusions reached.

It has to be noted that working papers belong to the auditor hence their ownership are retained by them. As a matter of principle, the retention period of working papers in relation to a particular audit exercise is six years. Both internal and external auditors should have knowledge of working paper and how it is kept.

### **2.3.2 Audit Quality Control in Private Sector**

While quoting Atwood and Steinberg, the task force on quality of audits of government units constituted by the American Institute of Certified Public Accountants (1987), states: "maintaining the highest quality of auditing is an important obligation of the accounting profession". In order to ensure that no stone is left unturned in the discharge of accounting and auditing responsibilities effectively & efficiently, auditors, be they internal or external should ensure that their quality control policy is sufficient and adequate. Auditors should be dedicated to the pursuit of highest quality in all their operations. Quality control should not be in respect of each particular engagement only, but must also be a culture in the entire firm.

Quality Control Policies and procedures should be documented and communicated to the firm's personnel. The International Audit and Assurance Standards Board (IAAB), a standing

committee of IFAC, issued, in February 2004, its first International Standard on Quality Control (ISQC) which provides guidelines specifically on quality control for audit firms (ICAN, 2009).

The thrust of the standard as set out in paragraph 1.3 of the ISQC states:

*The firms should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements and that reports issued by the firm or engagement partners are appropriate in the circumstances (ISQC 1.3).*

The concept of quality control goes beyond ordinary compliance with professional and regulatory standards but also covers recruitment, performance evaluation, promotion, career development, compensation, training, peer review, working paper management and overall welfare of the firm's personnel (ICAN, 2009, p. 33).

Public Sector Accounting is quite distinct from commercial accounting in terms of objectives, sources of revenue and bases of recording accounts, responsibility and accountability among others (Salawu and Agbeja, 2007). Unlike business entity nature of private sector, government activities are not geared towards making profit, hence accounting preparation of government is peculiar. Until recent time that the application of International Public Sector Accounting Standards (IPSAS) is becoming issue of general discussion, the basis of government accounting is mostly on cash basis. With this, transactions are recorded on the basis of cash received and cash paid without any regard for the time the service is enjoyed or to be enjoyed. Cash basis recognizes income only when it is received and expenditure when it is paid.

Government accounting is governed and guided by the constitution of the Federal Republic of Nigeria; 1979 as amended 1989, and 1999, the finance (Control and Management) Act of 1958, the Audit Ordinance of 1956, the Financial Regulation, and Revenue Allocation Laws. Specifically, Section 80-89 and Sections 149-169 of the 1999 constitution as well as Sections 24-26 of the finance (Control and Management) Act of 1958 and Section 13-15 of the Audit Ordinance of 1956, established the consolidated Revenue Fund, the Development fund, and the contingency fund, specifying the methods of operation (Adams, 2009). Apart from these, other recent laws include the Fiscal Responsibility Act, 2007, Public Procurement Act, 2007, Economic and Financial Crime Commission (EFCC) Act 2002 as amended 2004, Corrupt Practices and Other Related Offences Act 2000 as amended 2002.

In accordance with the provisions of the Finance Control and Management Act Cap F26 LFN 2004, the Accountant General of the Federation is responsible for the preparation of the financial statements of the Federal Government of Nigeria. He is the head of the Federal Government Accounting Services and the treasury. He is also the Chief Accounting Officer of the receipts and payments of the Federal Government. He is charged with the responsibility of preparing the nations annual financial statements and as may be required by the Minister of Finance. The major statement(s) that are prepared in Government Accounting are:-

Statement No. 1-	Statements of National Debts
Statement No. 2-	Assets and Liabilities
Statement No. 3-	Consolidate Revenue Fund

Statement No. 4-	Development fund
Statement No. 5-	Treasury fund
Statement No. 6-	Special and trust funds
Statement No. 7-	Other loans and investments
Statement No. 8-	Losses of Government funds and stores
Statement No. 9-	Revenue abandon during the year
Statement No. 10	Guarantees of the Federal Government of Loans of the year
Statement No. 11	Arrears of Revenue as at the end of the year

(ICAN, 2009, p.67).

The power to audit the accounts of Government as presented by the Accountant General of the Federation is conferred on the Auditor General for the Federation (Section 85(2) of the constitution). The powers and duties of the Auditors General are specified in the Constitution, Financial Regulation, and Audit Act.

As prescribed by law, the Auditor General of the Federation is appointed by the President on the recommendation of the Federal Civil Service Commission and subject to confirmation by the Senate (Section 86(1) of 1999 constitution). With the exception of the Accounts of parastatals, commission and agencies, the constitution in Section 85(2 & 3) empowers him to audit the public accounts of the Federation and all offices and court of the Federation and submit his report to the national assembly. The major role of Auditor General (AG) 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 programmes of the government and its various agencies (ICAN, 2009).

For the purpose of achieving the above, the constitution and the Audit of 1958 require the Accountant General of the Federation to furnish the Auditor General for the Federation with the country's financial statements within seven months after the close of each financial year. The peculiarities of public sector account makes the procedures required for the auditing to be peculiar to some extent. There are certain procedures of auditing in the public sector which are similar to those in the private sector, such as the verification of assets and store audit. However, procedures required for auditing of revenue, vote book, contract, cash book, and controls security documents etc are peculiar to the public sector (ICAN, 2009). The audited accounts with the report therein are forwarded to the National Assembly. The committee of the National Assembly charged with the responsibility of public accounts in accordance with Section 85(5) of the constitution is called Public Accounts Committee (PAC). The committee is required to deliberate on the report of the Auditor-General, consider all the queries raised by him in his report, compile a comprehensive report and recommendations for submission to the whole house. Though, the Auditor General of the Federation is not authorized to audit the accounts of Government Owned Companies, he is permitted by the constitution to undertake the examination of the accounts of any organization that receives funds from the government, such as statutory corporations, parastatals and voluntary agencies. For the purpose of performing such functions, the AGF or any person authorized by him shall have access to all the books, records, returns and other documents relating to these accounts. In addition, he is empowered to comment on the annual accounts of the parastatals and the external auditor's reports therein. Some of these parastatals are outright limited liability companies and their accounts are prepared in accordance with the provisions of Company and Allied Matter Act. For others that receive subvention or

grant from government, fund accounting system is reflected in their accounts. Going by the content of different provisions of the constitution, inferences can be drawn that the Auditor General of the Federation should have an adequate knowledge of auditing of financial statements presented by the Accountant General and at the same time have the operational knowledge of the accounting system of parastatals.

## **2.4 Audit Quality Control in Public Parastatals By The Office Of The Auditor General Of The Federation**

### **2.4.1 Audit Quality Control and Auditor's Academic Qualification**

A good grasp of the basic accounting knowledge is essential for auditing of financial statements. For audit quality control, auditors of public parastatals are expected to have higher academic qualification which will make them to be versed in their line of duty. Education is one of the objects of the highest importance to the welfare of any society. It is an issue of great interest in both developing and developed countries of the World (Idialu, 2007). Adeyemi and Ogundele (2004) citing Ajayi (1983), describes accounting education as the acquisition of skills in preparation for a career in accounting, especially by the formal schooling. The readiness to choose accounting as a career really starts from secondary school where students are required to take a choice of either belonging to science class, art class, or commercial class. A person aspiring to become an accountant/auditor may have to take a choice of being in commercial class, however, students in art and science classes are not restricted or prevented from taking further study in accounting and becoming an accountant/auditor. Proceeding to University to study accounting is a further step to become an accountant.



It has become the vogue that for membership of any recognized accounting bodies you must have trained in the accounting faculties of recognized and accredited Universities and Polytechnics. It is at these Institutions that tomorrow's accountants are incubated (Idialu, 2007). Having University Accounting Degree (B.Sc.) or Higher National Diploma (HND) in accounting is one of the basis/pre-requisites of being an Accountant/Auditor.

#### **2.4.2 Audit Quality Control and Quality of Audit Staff**

There is a correlation between the quality of audit staff and audit quality control. The term 'quality of audit staff' in this context encompasses the skill, experience and competence of the auditors. In a business context, a society can be likened to a system that contains many sub-sectors/industries of the economy that make up the system. These sectors are separate and distinct in terms of operations; however, they inter-operate for effective economic system. Sectors such as manufacturing, banking, insurance, petroleum, agricultural sectors among others are all operating with different accounting peculiarities. They are at times guided by different statutory and regulatory frameworks. In view of this therefore, auditors (Internal & external) are expected to have diverse accounting knowledge with special preference for the knowledge of the environmental peculiarities of the business to be audited. Every incorporated company, irrespective of its sector, is required to prepare financial statements of its operation. Financial statements are the accounting reports in respect of the economic activities of an enterprise, prepared periodically and usually at the end of every financial year (Ajayi, 2007). Accounts of this nature are prepared on accrual basis. By this, income is recognized when it is earned while expenditure is recognized when it is incurred.

In Nigeria, Companies and Allied Matters Act CAP C20 LFN, 2004 and Statement of Accounting Standard provide how financial statements should look like, its components, and disclosure requirements. Specifically, Section 331-356 and schedule 2 and 3 of Companies and Allied Matter Act state the required disclosures in the financial statements. The Statement of Accounting Standard No. 2 issued by the Nigerian Accounting Standard Board (NASB) now the financial reporting council of Nigeria in November 1984 had required that financial statements covering period beginning on or after 1<sup>st</sup> January, 1985 should include the following components. Statement of accounting policies; the balance sheet as at the last day of the year; the profit and loss account or in the case of a company not trading for profit an income and expenditure account for the year; notes to the accounts; a statement of source and application of fund; a value added statements for the year; and a five-year financial summary.

A statement of source and application of fund listed above has been replaced by cash flow statement. Section 334 of Companies and Allied Matter Act provides that the Balance Sheet and the Account should give a true and fair view of the State of Affairs and of the Profit and Loss Account of the company for the years. In order to achieve this, Section c of schedule 2 prescribes two formats for preparation of Balance Sheet and four formats for the preparation of Profit and Loss Account.

Every registered company is expected to be audited. Auditing of companies is provided for in Sections 337-369 of Companies and Allied Matter Act. Auditing of accounts of registered companies is expected to be conducted by members of the Institute of Chartered Accountants of Nigeria (ICAN) who have been duly appointed in accordance with the provisions of Section 357

of Companies and Allied Matter Act. The auditors are guided by schedule of Companies and Allied Matter Act which provides for matters that should be expressly stated in the Auditors report. After the completion of the exercise, the auditors are required to submit their report to the members of the company. Copies of the report are to be laid before the members at the Annual General Meeting (AGM). In addition to this report, Section 359(3) of Companies and Allied Matter Act requires that the auditor shall, in the case of a public company, also make a report to an audit committee which shall be established by the public company as provided for in Section 359(4) of Companies and Allied Matter Act. Considering sensitivity of the auditing work, the audit firm is to be staffed by personnel who have attained and maintain the technical standards and professional competence required to enable them to fulfill their responsibilities with due care. Similarly, for effective audit quality control and reviewer of audit work done by external auditors the auditors of the office of Auditor General of the Federation are expected to be academically and professionally competent to carry out their responsibilities.

### **2.4.3 Audit Quality Control and Professional Qualifications**

Accounting profession is known all over the world as an integrity profession (Idialu, 2007). In auditing of financial statements, the need for professional qualification cannot be underscored in the quality control process. On the assumptions that University/Polytechnic trainings in accounting are mostly theoretical, and more of principles, professional bodies take up the challenges of training accountants on how to do the job of accounting and auditing activities better.

Having University Degree or HND does not automatically qualify one to be qualified accountant that can practice accounting and auditing. To practise accounting and auditing in Nigeria, one is required to be a member of one of the recognized accounting professional bodies operating in Nigeria or abroad. The Institute of Chartered Accountant of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN) are two major professional accounting bodies in Nigeria that can engage in accounting and auditing practice.

It has to be noted that the Institute of Chartered Accountant of Nigeria admits graduates of other courses other than accounting. This implies that any graduate from other field can become a chartered accountant once he can pass Institute of Chartered Accountant of Nigeria exam. This strategy of Institute of Chartered Accountant of Nigeria is laudable and is in the recognition of the fact that modern audit is wide and covers different sectors of the economy. Having people with different background and trained in the field of accounting will assist in audit quality. This is in line with the opinion of Ogunyemi (2008) which condemns the practice of civil service commission appointing only people with accountancy qualifications to the office of the Auditor General. He states:

*Several examples came up on areas where the civil service structure under-serves the needs of a modern audit office. In one particular example seen at two supreme audit institutions, it was found that the civil service scheme of service 'restricted' the pool of candidates for recruitment as auditors to people with accountancy qualifications. These schemes are severely outdated, as modern audit institutions require a mix of skills to be able to deliver high quality outputs. For*

*example, audit offices routinely require the services of statisticians, analysts and economists to be able to deliver high quality performance audits (p. 28).*

Also, in training Accountants, Institute of Chartered Accountant of Nigeria runs a program called Accounting Technician Scheme (ATS) for people with Ordinary School Certificate and Ordinary National Diploma (OND). After completing the three stages of the exam, successful candidates can register for professional exams of the Institute. From this plan, it can be inferred therefore that it is not compulsory for one to even be a graduate before becoming a chartered accountant.

Similar remarks relating to the skill of the staff of the AG have been made by Salawu and Agbeja (2007), Wynee (2001), and Ahmad, Othman, Othman, and Jusoff (2009). Salawu and Agbeja (2007) argue that the staffs of the Auditor-General are not skillful enough to discharge their responsibility effectively. They posit that “the failure of audit system could also partly be results of large proportion of staff in the Auditor General’s department who do not have adequate skills needed to do the job of auditing properly”. This is consistent with the earlier conclusion of Wynee (2001), and the subsequent conclusion of Ahmad, Othman, Othman, and Jusoff (2009) which specifically states “the auditors themselves lack appropriate knowledge and training on effective auditing approach”. It has also been asserted that audit work by audit firms is more qualitative than that carried out by staff of Auditor-General. We cannot conclude this by a mere rule of the thumb, there is need for empirical investigation.

#### **2.4.4 Audit Quality Control and Training of Auditors**

The impact of training and re-training continuously cannot be underestimated in quality control process. The professional reputation of an audit firm revolves heavily around the quality of the work performed, which in turn is a function of the type of personnel employed. Institute of Chartered Accountant of Nigeria (2009, p. 35), quoting Wright and Noe (1996) defines training as “the organization’s efforts to help employees learn job-related knowledge, skills and behaviour”; while development is defined as “the organization’s efforts to help employees acquire knowledge, skills and behaviours that improve their ability to meet changes in job requirements and customer needs”. The human resources, therefore, constitute the most valuable and vital resources of the firm. For the enforcement of quality control among audit firms in Nigeria, the Institute of Chartered Accountants of Nigeria has a special body called the Public Practice Monitoring Committee (PPMC) responsible for monitoring the quality of audit work of member firms.

Being an associate member of Institute of Chartered Accountant of Nigeria, Association of National Accountant of Nigeria or other professional accountancy bodies does not automatically give one an authority to embark on public practice. Section 7 of Institute of Chartered Accountant of Nigeria regulation (2009) states:

*A member of the institute is not allowed to set up a public practice as an accountant until he/she applied for, and has been granted licence to practice by the Council, and a member is not eligible for this licence until he or she has, for a continuous period of thirty months before or after or partly before and partly after becoming a member of the Institute, been*

*employed in a responsible accountancy position in the office of a qualified accountant in public practice in Nigeria or elsewhere in accordance with membership rules 12 and 13 made in pursuance of Section 15(2)(d) and (e) of the Act. (p.5).*

In other words, the license to practice is issued only to those candidates who have been trained in professional offices and have acquired the minimum practical training as stated above. However, for those who qualify outside professional offices/firms, such practicing experience could be acquired after qualifying as an accountant and the period of post-qualification will not be less than 36 months for those with accounting qualifications, while those with non-accounting qualifications require not less than 42 months. Apart from this, the institute organizes Mandatory Continuing Professional Education (MCPE) programs for the members and different workshops are organized to train members on contemporary issues.

In the context of public sector audit, Supreme Audit Institution needs qualified accountants to sign audit opinions and auditors must have adequate professional expertise and technical knowledge to carry out audits (Subramanian, 2008). In line with this, the Auditor General of the Federation of Singapore (2010), as contained in the official website states:

*As at September 2010, 92% of AGO's auditors are graduates, 62% of whom have accountancy degrees; the rest have degrees in business administration, engineering, quantity surveying, science and the arts. 54% of our auditors have professional qualifications as well, for example,*

*Certified Public Accountant (CPA), Association of Chartered Certified Accountants (ACCA), Certified Information System Auditor (CISA), Certified Internal Auditor (CIA) and Chartered Financial Analyst (CFA)*  
(<http://www.ago.gov.sg/faq.html>)

Furtherance to this, the Auditor-General, in respect of training and retraining of staff, declares that:

*We provide structured and on-the-job training and development opportunities to help maximize each AGO auditor's potential and performance. These include courses on auditing techniques, financial reporting standards, auditing standards, audit report writing, public accountability, corporate governance, procurement and contracts management, and use of computer aided audit tools. Selected auditors in management positions are also trained by AGO's counterpart in the United States, the Government Accountability Office (GAO). (<http://www.ago.gov.sg/faq.html>)*

Wynee (2001) reveals in his study that out of one hundred and thirty six (136) staff in the office of the Auditor-General of a State (Auditor-General inclusive) in Nigeria, Auditor-General is the only qualified accountant. Salawu and Agbeja (2007), conclude that a larger proportion of the Staff of the Auditor-General of a State lacks adequate skills needed to do the auditing job properly. The study therefore recommends continuous training for staff so as to cope with their constitutional responsibility. This is also in line with the conclusion of Ahmad *et al.*, (2009).



While considering the coordination of training in the SAI, Ogunyemi (2008) opines that training will not be relevant until and unless the knowledge gained is communicated to others and such knowledge is reflected in practice. Within three of the four Supreme Audit Institutions visited, there was no comprehensive annual (or cyclical) training plan backed up by a thorough assessment of needs. There was also no process to ensure that the training received is reflected within practice. Auditors were attending training courses and coming back to continue with their previous methods.

Auditors must be well trained to be able to perform audit function effectively. They should attend conferences, workshops and seminars so as to be abreast with modern development in auditing (Onyeanu, Akanwa, Awujo and Esomonu, 2003).

#### **2.4.5 Audit Quality Control and Peer Review Mechanism**

A key element of quality control on an audit is a second pair of eyes to review engagement performance before the auditor's report is issued. Gupta (2010) suggests that the term "peer" means a person of similar standing; the term "review" means a general survey or assessment of a subject or thing; and the term "peer review" would mean review of work done by a professional, by another professional of similar standing. Peer review deals with examination and review of systems and procedures to determine whether they are in existence, effective, operating continuously during the period under review and put in place by the practice unit. The Institute of Chartered Accountants of India (2002) defines peer review as an examination and review of the systems and procedures to determine whether they have been put in place by the practice unit

(means members in practice, whether practicing individually or a firm of Chartered Accountants) for ensuring the quality of attestation services as mandated by the Technical Standards.

Peer review is a quality control strategy normally adopted by auditors to ensure high level and reasonable assurance that the work done does not contain mistakes which can lead the firm to be vicariously liable for negligence of duty. Review can be internal or external, and can be done at different internal levels of audit. Supervisor's review, manager's review and partner's review are most commonly used internal review methods in audit firms (ICAN, 2009). Peer review, which can be linked to partner's review in this context, is the one carried out by another partner of equal or higher status with the engagement partner that carries out the audit work to be reviewed. Both partners must be from the same firm. The essence of peer review is to confirm that all matters of accounting principles, related to the audit, statutory and regulatory requirements have all been properly dealt with. Among others, another important reason for peer review is to confirm whether the financial statements, as they are to be laid before the members, show a true and fair view.

Review can also be done externally. External review does not take place in respect of only one audit engagement, but it is designed to ascertain whether the firm's auditing standards conform with those generally acceptable for good audit practice. External reviews are less frequent and are often associated with firms' international affiliation (ICAN, 2009). This type of review is very important if auditing standards are to be maintained and improved. Parties outside the firm

are invited to confirm that the firm maintains established standards which are consistent with the current international standards and those of its affiliations.

McCabe, Luci, and Brennan (1993), in their study of managing partners' perceptions of peer review conclude that peer review provides an impetus for maintaining highest degree of compliance with professional pronouncement. It builds more confidence in firms' practices and procedures, and improves quality control, morale, position among peers, and prestige.

Whether internal or external peer-review, it is expected that the reviewer possesses certain academic/professional qualification, training and experience. Every Institute of accounting in every country has specified requirements for a review. Common requirements are:

- (1) A reviewer should be a member of a recognized accounting Institute and licensed to practice accounting and auditing activities.
- (2) He should have at least five years of recent experience in the practice of public accounting and auditing functions.
- (3) He should possess knowledge of applicable standard. This includes knowledge about current rules and regulations applicable to the industries for which engagements are reviewed. Such knowledge may be obtained from on-the-job training, training courses, or a combination of both.
- (4) He should also be currently active in the practice of public accounting at a supervisory level in the accounting or auditing functions of a firm.

The concept of peer review is not only applicable to external auditors; such practice is also done by the auditors in Public Sector. The International Organization of Supreme Audit Institutions (INTOSAI) issued the International Standards of Supreme audit Institutions (ISSAI) in which the peer-review guideline is contained. The guideline specifies the definition and purpose of peer review, selection of partner, peer review agreement, preparation and conduct, and follow-up and evaluation. Annex I of the guideline considers peers as trusted individuals who are senior and experienced in their own organizations and whose recommendations carry authority. Peers come from a range of Supreme Audit Institutions to provide a range of viewpoints. Peer reviews are systematic reviews to assess the extent to which Supreme Audit Institution is achieving its goals and the standards it has adopted to meet these. The guideline therefore defines peer review as referring to a review of Supreme Audit Institution by one or several partner Supreme Audit Institutions. These Supreme Audit Institutions volunteer to conduct or undergo such a review exercise. This means that neither the two Supreme Audit Institutions nor other external parties have obliged the Supreme Audit Institutions to do so. Supreme Audit Institutions do not have power of enforcing the results of the peer review. The participating Supreme Audit Institutions are free to decide on the contents and exercise of the peer review as well as on the use of the findings generated. The key purpose of a peer review is to help Supreme Audit Institutions ensure that they comply with applicable professional standards and national regulations and rules governing audit work. The review also aimed at making or keeping them fit for their purpose of ensuring public sector accountability by providing high quality relevant audit reports and other outputs, in order to help ensure better and more cost effective public service delivery.

Unlike external auditing, peer review of a particular Supreme Audit Institution can be conducted by another Supreme Audit Institution or external auditors. As a rule, the Supreme Audit Institution wishing to have their organizational structure or procedures reviewed contact other Supreme Audit Institutions and invited them to be the reviewing Supreme Audit Institution in any peer review proposed. It is possible and allowed that two or more Supreme Audit Institutions can review a single Supreme Audit Institution. Where this occurs, the reviewed Supreme Audit Institution is permitted to choose the team leader, but the decision can also be left for the team to choose. It has to be noted that reciprocal peer reviews are allowed. This happens when two Supreme Audit Institutions are reviewing each other's practices on an alternative basis. However, this is not normally encouraged as it influences the objectivity and independence of the peer review team.

Canada is one of the leading countries where the Office of the Auditor General (OAG) has allowed its work to be subjected to external peer review. Ferguson and Rafuse (2004) acknowledge that the Office of the Auditor General of Canada underwent external review in 1999, 2002 and 2003. The Office of the Auditor General's peer review was the first time the legislative audit practice of Supreme Audit Institution was assessed by a team of its international peers. The review was conducted in accordance with commonly accepted auditing principles over the course of a year by a team led by the United Kingdom's National Audit Office with representatives from the Supreme Audit Institutions of Norway, the Netherlands, and France. The U. S. General Accounting Office (now the Government Accountability Office) participated as an observer and prepared a lessons learned report on the process.

In 2002, the Professional Practice Group undertook an internal practice review to assess adherence to policy, identify opportunities for improvement, and provide the Auditor General with assurance that the performance audit practice was robust (Ferguson and Rafuse, 2004). In this initiative, the office of the Auditors General of British Columbia and Quebec each completed a review of Office of Accountant General performance audit. The Office of Accountant General also contracted with the outside consultant to carry out a gap analysis of QMF relative to the Quality Management Standard promulgated by the International Organization for Standardization (ISO).

In 2003, the Office of Accountant General of Canada engaged International Organization of Supreme Audit Institution members to undertake its review. Each participating Supreme Audit Institution agreed to assign two senior-level performance auditors to the review team. The costs of the team's travel and accommodation were covered by the reviewed Supreme Audit Institution in accordance with its own policies and regulations.

As contained in the report on lesson learned, the peer review of the Office of Accountant General's performance audit practice demonstrated that an International team can perform an external review that will satisfy appropriate standards, provide value to the reviewed organization, and afford a learning experience for review team and the reviewed Supreme Audit Institution alike. In addition to this, Ferguson and Rafuse (2004) citing the Public Accounts Committee (PAC) of Canada, in its report to the House of Common states:

*Having Independent and external confirmation of the soundness*

*of the Office's value-for-money practices provides additional assurances about the integrity of the accountability process of the office of the Auditor-General of Canada and adds credibility to its efforts to provide objective, supportable and reliable information on the administration of government programs and activities. The committee wishes to emphasize the excellent work that the Auditor General and her office consistently provide in supporting all parliamentarians in their efforts to hold government to account. Canadian can take a great pride in knowing that the office of the Auditor General has set and maintained high standards of professionalism and dedication to its responsibilities.*

*(<http://www.intosaijournal.org/technicalarticles/technicaloct04c.htm>)*

In 2004, the office of Comptroller General of the United States started peer review exercise of its activities. The combination of Auditor Generals from different countries and KPMG audit firm carried out the review. A team of 16 experienced performance auditors from seven countries reviewed the performance audit practice. The Office of the Auditor General of Canada led the multinational team. Other participants included national audit offices in Australia, Mexico, the Netherlands, Norway, South Africa and Sweden. The KPMG team consisted of experienced financial audit partners and managers with extensive government financial auditing experience (Walker, 2006).

## **2.5 Theoretical Framework**

Agency theory recognizes auditing as one of the main monitoring mechanisms to regulate conflicts of interest and cut agency costs. Therefore, assuming a contracting equilibrium in the monitoring policy, a change in the intensity of agency conflicts should similarly involve a change in the acceptable quality of auditing. The primary objective of the financial audit is to verify the integrity and accuracy of the accounting methods used within the organization. The term “audit quality” is frequently used in debates among stakeholders, in communications of regulators, standard setters, audit firms and others, and in research and policy setting.

Audit quality is a complex subject and there is no definition or analysis of it that has achieved universal recognition. In the IAASB’s view, a quality audit is likely to be achieved when the auditor’s opinion on the financial statements can be relied upon as it was based on sufficient appropriate audit evidence obtained by an engagement team that:

- (i) Exhibited appropriate values, ethics and attitudes;
- (ii) Was sufficiently knowledgeable and experienced and had sufficient time allocated to perform the audit work;
- (iii) Applied a rigorous audit process and quality control procedures;
- (iv) Provided valuable and timely reports; and
- (v) Interacted appropriately with a variety of different stakeholders.

One of the fundamental aspects of public sector financial management in Nigeria is the issue of audit of government financial reports. Audit is the process carried out by suitably qualified Auditors during the accounting records and the financial statements of enterprises are subjected to examination by the independent Auditors with the main purpose of expressing an opinion in



accordance with the terms of appointment (Onuorah, 2012). The high level of corruption in the public sector of Nigeria is basically as a result of the failure of auditing. As Prenchard (1999) puts it “many audit agencies are legally prevented from reviewing policies. Most of them cannot follow the trail of money, as they do not have the right to look into books of contractors, and autonomous agencies”.

One fundamental failure of audit is the absence of value for money in the Nigerian public sector. Auditors are required to comply with relevant auditing standards and standards of quality control within audit firms, as well as ethics and other regulatory requirements.

Effectual scrutiny by the legislature to ensure effective implementation of fiscal and expenditure policies needs comprehensive and competent external audits that are underpinned by international standards on auditing. The environment for an effective Supreme Audit Institution (SAI) requires a comprehensive approach to public financial management. The Auditor General has full authority for auditing all budget sector receipts and expenditures from all government accounts, including defence expenditures. While the primary responsibility for performing quality audits rests with auditors, audit quality is best achieved in an environment where there is support from other participants in the financial reporting supply chain

## **2.6 Summary**

The claim of superiority of external auditors of government owned entities over the auditors in the office of Accountant General of the Federation is the subject of this reviewed. In this chapter, the mechanism of audit quality control in government-owned entities was reviewed under the following headings: Concept of public sector, Concept of audit quality, Audit quality control in

public sector, Audit quality control and auditors' academic qualification, Audit quality control and quality of audit staff, Audit quality control and professional qualification, Audit quality control and training of auditors, Audit quality control and peer review and theoretical framework.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the different methods that were adopted in collecting and interpreting data related to the study. The chapter would also state the research design, study population, sampling technique, methods of data collection, procedure for data analysis and model specification and justification of methods intended to use by the researcher.

#### **3.2 Research Design**

Research design is made up of carefully articulated set of suggested instruction for the effective execution of the research project (Hassan, 1995). In other words, a research design is the scheme or architectural design of the protocols to be observed, procedures to be followed and approaches to be adopted in a study. The research design chosen in a study at any time greatly depends on the purpose of the study. Considering the nature and purpose of this study therefore, the study used a quasi experimental design specifically a survey.

The choice of this design is appropriate for the following reasons;

- (i) It offers the researcher the opportunity to generate a large volume of data from different organization of research findings.
- (ii) It investigates beliefs, opinions, attitude, preferences or disposition of the population elements without subjecting them to any form of manipulation and control.

### **3.3 Population and Sample**

In this study, the population consists of staff of Directorate level (Assistant Directors, Deputy Directors and Directors) of Auditor-General's office in all the thirty-six (36) states of the Federation, and audit firms in Nigeria. Senior technical officers charged with auditing responsibility in both the Auditor-General's office and Audit firms were chosen as the population elements.

In choosing audit firms for the study, we considered the large size audit firms knowing full well that size of the audit firm contributes to the quality of audit work. Given this condition, ten (10) audit firms with not less than ten years audit experience in public practice were selected from the directory of audit firms.

On the whole, forty-seven (47) senior technical officers (thirty seven (37) from the Office of the Accountant General of the Federation in all the thirty-six including Federal Capital Territory Abuja and ten (10) from the Audit firms) formed the population of this study. Since the population is within manageable limit, the study decided to treat the entire population rather than resorting to a sample study.

### **3.4 Methods of Data Collection**

For the objectives of this study, the primary method of data collection was adopted. The main instrument used for the collection of primary data was the questionnaire, which was designed with structured questions. A total number of forty seven (47) copies of questionnaire were administered to the respondents comprising of thirty-seven (37) staff from the office of AG and ten (10) from the audit firms.

The questionnaire was divided into two parts. Part ‘A’ focused attention on the background data of the respondents and the selected organizations under study while part B concerns issues of the variables under study. In this case, the researcher asked questions concerning statutory control of audit work in government-owned companies in Nigeria. The questionnaire was designed in 5 point Likert scale and administered together with an introductory letter indicating the purpose of the study and encouraging the respondents to help in filling them. It was written in such a way to ensure maximum co-operation from the respondents. To protect the respondent’s identity and increase response rate, the questionnaire did not require the respondent to give his or her name. The questionnaire was administered on the senior technical officers of the organization.

### 3.5 Model Specification

The data collected in this study will be analyzed statistically by using frequencies and percentages, while the stated hypotheses will be tested using t-test statistical technique. T-test is normally use for testing the significant difference between means of two independent samples. Hence, t-test was therefore used in this study to establish whether ‘there is significant difference between the audit work carried out by staff of the Auditor-General and that carried out by the firms of auditors of government owned companies’ and also to find whether ‘there is significant difference between the qualifications and nature of training of audit staff of the Auditor-General office and those of the firm of external auditors of government owned companies’. The formula for t-test is given as follow:

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\left[ \frac{(n_1 - 1)S_1^2 + (n_2 - 1)S_2^2}{n_1 + n_2 - 2} \right] \left[ \frac{n_1 + n_2}{n_1 n_2} \right]}} \quad (1)$$

Where:

Group 1 = respondents from staff of AG

Group 2 = respondents from Audit firms

$\bar{X}_1 - \bar{X}_2$  = the difference between the two means

$S_1^2$  = the variance for group 1

$S_2^2$  = the variance for group 2

$n_1$  = number of cases in group 1

$n_2$  = number of cases in group 2

### **3.6 Validity and Reliability of the Research Instrument**

The instrument used to collect primary data in this study is questionnaire. It was subjected to a face and content validity before the supervisor of this research work and other professionals with expert knowledge in this area of study and its reliability was determined through a pilot survey of six (6) respondents. A total of fifteen (15) test items were used for this purpose. A test-retest method was adopted to test the reliability. In doing this, the researcher administered the questionnaire on a group of people within the population and the result gathered. After two weeks of administration, the same questionnaires were administered on the same group in the population and the result was computed using Kendall Coefficient of Concordance, which revealed reliability co-efficient of 0.71 (Appendix 3) indicating a very strong reliability of the questionnaire.

### **3.7 Methods of Data Analysis**

There are two types of data analysis; descriptive data analysis and inferential data analysis. Descriptively, the data generated from this study were presented in a table whereas the analysis was made using frequencies and percentages. In testing the four hypotheses in this study, the t-test statistical technique was used. This was computed using the t-test formula given in equation 1.

### **3.8 Justification of Method of Data Analysis**

The justification of the chosen method of data analysis stems from the fact that:

- (i) It measures difference between two or more variables, which makes it appropriate for the stated hypothesis in this study;
- (ii) It measures whether the means or variances between two groups significantly differ from each other. Since there are two respondent groups- senior technical officers from the office of the Audit-General and the Audit firms, in this study, the tool is an appropriate measure.
- (iii) It is used for parametric data, which are the type of data generated for this study.

### **3.9 Summary**

The chapter discusses the research methodology framework to be developed for the research work. It basically reviews the research design, the population and sample selection, data collection instrument and method of data analysis adopted for the study. The justification of the tool of analysis adopted was also made. Checking the validity of measures goes hand in hand with determining the reliability of the research instruments or the test results. A test is said to be

reliable to the degree that it measures accurately and consistently, yielding comparable results when administered a number of times. In other words, it is the stability, dependability, and predictability of a measuring instrument. It is the accuracy or precision of a measuring instrument. To achieve this, the study employed a test-retest method of reliability in testing consistency, accuracy and reliability of the instrument. By this method, the researcher administered the instrument on a group of people within the population and the result gathered. Within two weeks of administration, the same questionnaire were administered (i.e re-tested) on the same group in the population and the results compared



## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

#### 4.1 Introduction

This chapter analysis and interprets the data collected from the respondents. A total number of forty-seven (47) copies of questionnaire were administered to the respondents. Thirty-seven (37) from the office of the Auditor-General and ten (10) from the audit firms of Government-Owned Companies (GOCs).

#### 4.2 Descriptive Analysis of Data

**Table 4.1      Questionnaire Administration**

<b>Respondents Office</b>	<b>Questionnaire Administered</b>	<b>Questionnaire Returned</b>	<b>Response Rate (%)</b>
Auditor General's Office	37	35	94.59
Audit firm	10	10	100
<b>Total</b>	<b>47</b>	<b>45</b>	<b>95.57</b>

**Source:** Researcher's Survey (2015)

As shown in Table 4.1 above, a total of forty-seven (47) copies of questionnaire consisting of 37 to the office of the Auditor General and 10 to Audit firms were administered. 35 copies of questionnaire representing 94.59% response rate and 10 copies of questionnaire representing 100% response rate from the office of the AG and Audit firms respectively were returned. On the average, a response rate of 95.57% was recorded.

**Table 4.2 Gender Classification**

Category	Auditor General's Office	Percentage (%)	Audit firms	Percentage (%)	Total	Percentage (%)
Male	23	65.71	8	80	31	68.89
Female	12	34.29	2	20	14	31.11
Total	<b>35</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>45</b>	<b>100</b>

**Source:** Researcher's Survey (2015)

Table 4.2 above shows the gender category of the respondents. A total number of 31 respondents representing 68.89% of the total respondents were male, while 14 respondents, equating to 31.11% of the total respondents were female. This implies that for every three respondents, a female was represented. The table therein demonstrates that both genders were fairly represented.

**Table 4.3 Age Classification**

Age (Years)	Auditor General's Office	Percentage (%)	Audit firm	Percentage (%)	Total	Percentage (%)
21-30	5	14.29	3	30.0	8	17.78
31-40	15	42.86	5	50.0	20	44.44
41-50	9	25.71	2	20.0	11	24.44
51 & above	6	17.14	0	0.0	6	13.33
Total	<b>35</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>45</b>	<b>100</b>

**Source:** Researcher's Survey (2015)

With regards to the age of respondents, Table 4.3 shows that the highest percentage of the respondents falls within the age range 31-40 years which constitutes 44.44% of the total population. This is followed by the age range of 41-50 covers 24.44% of the total respondents while the age range 21-30 and 51 and above record 17.78% and 13.33% respectively. This therefore indicates that the respondents were matured in age and their inputs can be relied on.

**Table 4.4 Academic Qualifications**

<b>Category</b>	<b>Auditor General's Office</b>	<b>Percentage (%)</b>	<b>Audit firms</b>	<b>Percentage (%)</b>	<b>Total</b>	<b>Percentage (%)</b>
OND/NCE	3	8.57	1	10.0	4	8.89
HND	9	25.71	4	40.0	13	28.89
B.Sc	12	34.29	3	30.00	15	33.33
M.Sc	7	20.0	2	20.0	9	20.0
Others	4	11.43	0	0.0	4	8.89
<b>Total</b>	<b>35</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>45</b>	<b>100</b>

**Source:** Researcher's Survey (2015)

The academic qualification of the respondents from the office of the Auditor-General and that of the Audit firm is analyzed and compared in Table 4.4 above. The table shows that 3 (8.57%) of the respondents in Auditor General's office had OND/NCE while only 1 (10%) of the respondents in audit firms had OND/NCE. The table reveals that 21 representing 60% of the

respondents from the office of the Auditor-General had a Bachelor of Science (B.Sc) or (HND), 20% had Masters Degree while 11.43% had other degree other than Bachelor of Science (i.e. B.Edu, B.Tech, B.A etc). On the other hand, a total of 7 respondents from the Audit firms representing 70% had B.Sc/HND, 20% has Maters Degree while none had other qualifications other than B.Sc. Put together, 28 respondents, and representing 62.22% of the total respondents had B.Sc/HND while 17 respondents representing 37.78% had other degrees. On the average therefore, the data revealed that the auditors in the audit firm had better academic qualifications than the auditors in the office of the Auditor-General.

**Table 4.5      Academic Discipline**

<b>Category</b>	<b>Auditor General's Office</b>	<b>Percentage (%)</b>	<b>Audit firms</b>	<b>Percentage (%)</b>	<b>Total</b>	<b>Percentage (%)</b>
Accounting	18	51.43	6	60.0	24	53.33
Economics	4	11.43	1	10.0	5	11.11
Bus. Admin.	10	28.57	3	30.0	13	28.89
Others	3	8.57	0	0.0	3	6.67
<b>Total</b>	<b>35</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>45</b>	<b>100</b>

**Source:** Researcher's Survey (2015)

Table 4.5 above shows the area of specialization of respondents. 51.43% of the respondents from the office of the Auditor General had accounting certificate while 60% of the respondents from the Audit firm had accounting certificate. 48.57% of the respondents from the office of the

Auditor General had other certificates other than Accounting Certificate while their counterparts from the Audit firms recorded 40%. The conclusion that can be drawn from this is that greater percentage of staff recruited to the Auditor General had accounting certificate.

**Table 4.6 Professional Membership of Respondents in Auditor General's office and External Audit Firms**

<b>Category</b>	<b>Auditor General's Office</b>	<b>Percentage (%)</b>	<b>Audit firms</b>	<b>Percentage (%)</b>	<b>Total</b>	<b>Percentage (%)</b>
Yes	23	65.71	8	80.0	31	68.89
No	12	34.29	2	20.0	14	31.11
<b>Total</b>	<b>35</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>45</b>	<b>100</b>

**Source:** Researcher's Survey (2015)

From Table 4.6 above, 23 respondents representing 65.71% of the total respondents from the office of the Auditor General belonged to one professional body or the other while 34.29% did not. On the other hand, 8 respondents representing 80% of the total respondents from the audit firms had a professional qualification, while 20% did not belong to any professional body. By way of comparison, table 6 reveals that Audit firms had higher proportion of their staff having professional qualifications than their colleagues in the office of the Auditor-General.

**Table 4.7 Breakdown of Professional Membership**

<b>Category</b>	<b>Auditor General's Office</b>	<b>Percentage (%)</b>	<b>Audit firms</b>	<b>Percentage (%)</b>	<b>Total</b>	<b>Percentage (%)</b>
ICAN	7	30.43	4	50.0	11	35.48
ANAN	11	47.8	2	25.0	13	41.94
ACCA	2	8.70	1	12.5	3	9.68
Others	3	13.04	1	12.5	4	12.90
<b>Total</b>	<b>35</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>45</b>	<b>100</b>

**Source:** Researcher's Survey (2015)

To further clarify the finding as contained in Table 4.6, Table 4.7 provides an analysis of the respondents based on the professional bodies they belong. 50% of the respondents from the Audit firms are members of Institute of Chartered Accountants of Nigeria, 25% belong to Association of National Accountants of Nigeria 12.5% belong to Associate Certified Chartered Accountants and 12.5% belong to others such as Certified Public Accountants. Meanwhile 30.43% of the respondents from the office of the Auditor General were members of Institute of Chartered Accountants of Nigeria; 47.8% belong to; 8.70% belong to Associate Certified Chartered Accountants and 13.04% are members of other professional bodies. The conclusion that may be drawn from the analysis above is that Audit firms have more of its staff being Institute of Chartered Accountants of Nigeria members while the office of Auditor General has more of its staff being members of Association of National Accountants of Nigeria.

**Table 4.8      Work Experience**

<b>Working Experience (Years)</b>	<b>Auditor General's Office</b>	<b>Percentage (%)</b>	<b>Audit firm</b>	<b>Percentage (%)</b>	<b>Total</b>	<b>Percentage (%)</b>
1-5	14	40.0	5	50.0	19	42.22
6-10	7	20.0	3	30.0	10	22.22
11-15	6	17.14	1	10.0	7	15.56
16 above	8	22.86	1	10.0	9	20.00
<b>Total</b>	<b>35</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>45</b>	<b>100</b>

**Source:** Researcher's Survey (2015)

Table 4.8 above shows the years of experience of the respondents. A total number of 21 respondents representing 60% from the office of the Auditor General had experience ranging from 1-10 years while 8 respondents from the Audit firms representing 80% had experience ranges of 1-10 years. 40% of the respondents from the office of the Auditor General had more than ten years of work experience while that of the Audit firm records 20%. This implies that the experience level of the respondents is relevant and reliable for the study.

**Table 4.9      Whether the Office of the Auditor-General has organized a training programme**

<b>Category</b>	<b>Auditor General's Office</b>	<b>Percentage (%)</b>	<b>Audit firm</b>	<b>Percentage (%)</b>	<b>Total</b>	<b>Percentage (%)</b>
Strongly agree	9	25.71	1	10.00	10	22.22
Agree	12	34.29	1	10.00	13	28.89
Indifferent	4	11.43	0	0.00	4	8.89
Disagree	6	17.14	5	50.00	11	24.44
Strongly disagree	4	11.43	3	30.00	7	15.56
<b>Total</b>	<b>35</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>45</b>	<b>100</b>

**Source:** Researcher's Survey (2015)

Table 4.9 shows whether the office of auditor-general ever organized a training programme. Among the auditors general, 9(25.71%) strongly agreed, 12(34.29%) agreed, 4(11.43%) were indifferent, 6(17.14%) disagreed, and 4(11.43%) strongly disagree. Among the audit firms, 1(10%) strongly agreed, 1(10%) agreed, none was indifferent, 5(50%) disagreed, and 3(30%) strongly disagreed. On the whole, 23(51.11%) agreed that the office of the auditor-general has organized a training programme.



**Table 4.10 Frequency at which Staff of Auditor-General's Office Attend training programme**

Category	Auditor General's Office	Percentage (%)	Audit firm	Percentage (%)	Total	Percentage (%)
Very often	5	14.29	1	10.00	6	13.33
Often	9	25.71	2	20.00	11	24.44
Indifferent	2	5.71	1	10.00	3	6.67
Not often	11	31.43	3	30.00	14	31.11
Not very often	8	22.86	3	30.00	11	24.44
Total	<b>35</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>45</b>	<b>100</b>

**Source:** Researcher's Survey (2015)

Table 4.10 shows the frequency at which staff of auditor-general's office attend training programme. Among the auditors-general, 5(14.29%) stated very often, 9(25.71%) indicated often, 2(5.17%) were indifferent, 11(31.43%) claimed not often, and 8(22.86%) affirmed not very often. Among the audit firms, 1(10%) asserted very often, 2(20%) stated often, 1(10%) were indifferent, 3(30%) indicated not often, while 3(30%) revealed not very often. On the whole, 25(55.55%) confirmed that staff of auditors-general office attend training programme not very often.

**Table 4.11    Extent to which office of the Auditor-General engage in peer review of audit work**

<b>Category</b>	<b>Auditor General's Office</b>	<b>Percentage (%)</b>	<b>Audit firm</b>	<b>Percentage (%)</b>	<b>Total</b>	<b>Percentage (%)</b>
Very High Extent	6	17.14	2	20.00	8	17.78
High Extent	7	20.00	1	10.00	8	17.78
Indifferent	2	5.71	0	0.00	2	4.44
Low Extent	11	31.43	3	30.00	14	31.11
Very Low Extent	9	25.71	4	40.00	13	28.89
<b>Total</b>	<b>35</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>45</b>	<b>100</b>

**Source:** Researcher's Survey (2015)

Table 4.11 shows the extent to which office of the auditor general engages in peer review of audit work. Among the auditors general, 6(17.14%) stated a very high extent, 7(20%) indicated a high extent, 2(5.71%) were indifferent, 11(31.43%) claimed a low extent, and 9(25.71%) asserted a very low extent. Among the audit firms, 2(20%) indicated a very high extent, 1(10%) stated a high extent, none was indifferent 3(30%) asserted a low extent, and 4(40%) claimed a very low extent. On the whole 27(60%) confirmed that office of the auditor general engage in peer review of audit work at a low extent.

**Table 4.12    Extent of Audit Firms Compliance with Submission of Working Paper**

<b>Category</b>	<b>Auditor General's Office</b>	<b>Percentage (%)</b>	<b>Audit firm</b>	<b>Percentage (%)</b>	<b>Total</b>	<b>Percentage (%)</b>
Very High Extent	2	5.71	1	10.00	3	6.67
High Extent	5	14.29	1	10.00	6	13.33
Indifferent	0	0.0	1	10.00	1	2.22
Low Extent	18	51.43	2	20.00	20	44.44
Very Low Extent	10	28.57	5	50.00	15	33.33
<b>Total</b>	<b>35</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>45</b>	<b>100</b>

**Source:** Researcher's Survey (2015)

Table 4.12 shows the extent to which audit firms comply with submission of working papers. From the office of auditor-general 2(5.71%) indicated a very high extent; 5(14.29) stated a high extent, no one was indifferent; 18(51.43%) revealed a low extent, and 10(28.57) stated a very low extent. Among the audit firms 1(10%) revealed a very high extent, 1(10%) showed a high extent; 1(10%) was indifferent; 2(20%) indicated a low extent; and 5(50%) stated a very low extent. On the whole, 35(77.77%) indicated a low extent of audit firms compliance with submission of working papers to the auditor-general.

**Table 4.13 Whether staff of the Auditor-General are technically competent to review audit work done by audit firms**

Category	Auditor General's Office	Percentage (%)	Audit firm	Percentage (%)	Total	Percentage (%)
Strongly agree	0	0.00	0	0.00	0	0.00
Agree	0	0.00	1	10.00	1	2.22
Indifferent	0	0.00	0	0.00	0	0.00
Disagree	12	34.29	4	40.00	16	35.56
Strongly disagree	23	65.71	5	50.00	28	62.22
Total	<b>35</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>45</b>	<b>100</b>

**Source:** Researcher's Survey (2015)

Table 4.13 shows whether staffs of the auditor-general are technically competent to review audit work done by audit firms. Among the auditors-general, none (0%) strongly agreed, agreed, and indifferent; 12(34.29%) disagreed; and 23(65.71%) strongly disagreed. Among the audit firms, no one strongly agreed; 1(10%) agreed, none (0%) was indifferent, 4(40%) disagreed, and 5(50%) strongly disagreed. On the whole 34(98.88%) indicated that staff of the audit-general are not technically competent to review audit work done by audit firms.

**Table 4.14 Whether lack of training of staff of the Auditor-General is not a challenge to quality audit**

Category	Auditor General's Office	Percentage (%)	Audit firm	Percentage (%)	Total	Percentage (%)
Very High Extent	1	2.86	0	0.00	1	2.22
High Extent	0	0.00	1	10.00	1	2.22
Indifferent	0	0.00	0	0.00	0	0.00
Low Extent	20	57.14	2	20.00	22	48.89
Very Low Extent	14	40.00	7	70.00	21	46.67
Total	35	100	10	100	45	100

**Source:** Researcher's Survey (2015)

Table 4.14 shows whether lack of training of staff of the auditor-general serves as a challenge to quality audit. Among the auditors-general, 1(2.86%) strongly agreed, none agreed, and no one was indifferent. But 20(57.14%) disagreed while 14(40%) strongly disagreed. Among the audit firms, no one strongly agreed, 1(10%) agreed, none was indifferent, 2(20%) disagreed, and 7(70%) strongly disagreed. On the whole 43(95.56%) indicated that lack of training of staff of the auditor-general is a challenge to quality audit.

**Table 4.15    Extent of the Difference between audit work done by Audit Firms and that by Staff of the Auditor-General.**

<b>Category</b>	<b>Auditor General's Office</b>	<b>Percentage (%)</b>	<b>Audit firm</b>	<b>Percentage (%)</b>	<b>Total</b>	<b>Percentage (%)</b>
Very High Extent	10	28.57	0	0.00	10	22.22
High Extent	15	42.86	2	20.00	17	37.78
Indifferent	1	2.86	0	0.00	1	2.22
Low Extent	7	20.00	3	30.00	10	22.22
Very Low Extent	2	5.71	5	50.00	7	15.56
<b>Total</b>	<b>35</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>45</b>	<b>100</b>

**Source:** Researcher's Survey (2015)

Table 4.15 shows the extent of the difference between audit work done by audit firms and that by staff of the auditor-general. Among auditor-general 10(28.57%) stated a very high extent of the difference, 15(42.86%) indicated a high extent, 1(2.86%) was indifferent, 7(20.00%) stated a low extent, and 2(5.71%) indicated a very low extent. Among the audit firms, none indicated a very high extent, 2(20%) stated a high extent, none was indifferent, 3(30%) claimed a low extent and 5(50%) revealed a very low extent. On the whole, 27(60%) confirmed that there is a difference between audit work done by audit firms and that done by staff of auditor-general.

### **4.3 Test of Hypotheses**

### **4.4 Discussion of Findings**

The result of our analysis shows that audit firms do not comply with the submission of working papers to the office of Auditor General. This finding is consistent with the assertion of Ascehemie (1995). I also observed that staffs of the auditor-general are not technically competent to review audit work done by audit firms. This finding is consistent with studies such as Ascehemie (1995), Wyne (2002), Salawu and Agbeja (2007), and Ahmad *et al.*, (2009).

Furthermore, it was gathered in this study that lack of training of staff of auditor-general is a challenge to quality audit. Previous studies that lend credence to this finding include Ahmad *et al.*, (2009) and Jusoff (2009). Finally, I observed that a significant difference exist between audit work done by audit firms and that done by staff of the office of the Auditor-General. This finding is however inconsistent with the work of Ogunyemi (2008).

### **4.5 Summary of Findings**

Arising from the study are the following findings:

- (i) The auditors in the firms of auditors of Government owned companies have academic and professional qualifications similar to that of their counterparts in the office of the Auditor-General, as no significant difference was found to warrant a claim of superiority over their counterparts in the office of the Auditor-General. However, greater percentages of auditors in the office of the Auditor General hold First Degree/HND in Accounting with fewer members from other disciplines.

- (ii) Offices of the Auditor-General do organize a training programme for improved performance of audit work but such programmes are not organized regularly.
- (iii) Office of the auditor general engages in peer review of audit work though at a low extent.
- (iv) Audit firms do not comply with submission of working papers to the office of auditor-general.
- (v) There is a significant difference between audit work done by audit firms and that done by staff of auditor-general.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

This study involves an evaluation of audit quality control in the Nigerian Public sector. The study adopted a quasi-experimental survey and the population consisted of senior technical officers from the thirty-six (36) state of the federation including FCT, and ten (10) audit firms. On the whole, forty-seven (47) senior technical officers formed the population of this study. Considering the objectives of this study, the primary method of data collection was adopted. The main instrument used for the collection of primary data was the questionnaire, which was designed with structured questions. The questionnaire was tested for validity and reliability. The test of reliability indicated a co-efficient of 0.71 as shown in Appendix 3.

Descriptively, the data generated from this study were presented in a table whereas the analysis was made using frequencies and percentages. In testing the hypotheses in this study the t-test statistical technique was used. Our findings showed that the auditors in the firms of auditors of government owned companies have academic and professional qualifications similar to that of their counterparts in the office of the Auditor-General, as no significant difference was found to warrant a claim of superiority over their counterparts in the office of the Auditor-General; greater percentage of auditors in the office of the Auditor General hold first degree/HND in Accounting with fewer members from other disciplines; there appears to be a preference for ICAN members in the external audit firms, while majority of the auditors in the office of the Auditor General are professional members of Association of National Accountants of Nigeria (ANAN); office of the auditor-general do organize a training programme for improved performance of audit work; staff

of auditors-general office attend training programme not very often because the government is not adequately providing for them financially to attend such programmes; office of the auditor general engage in peer review of audit work though at a low extent; audit firms do not comply with submission of working papers to the office of auditor-general; staff of the auditor-general are not technically competent to review audit work done by audit firms because they lack the requisite skills to do so; lack of training of staff of the auditor-general is a challenge to quality audit; and a significant difference exists between audit work done by audit firms and that done by staff of office of auditor-general.

## **5.2 Conclusion**

The outcome of the data analysis show that office of the auditor general engage in peer review of audit work though at a low extent; audit firms do not comply with submission of working papers to the office of auditor-general; staff of the auditor-general are not technically competent to review audit work done by audit firms because they lack the requisite skills to do so; lack of training of staff of the auditor-general is a challenge to quality audit; and a significant difference exists between audit work done by audit firms and that done by staff of office of auditor-general.

## **5.3 Recommendations**

Based on the findings of the study and the conclusion drawn therein, the following recommendations were made.

- (1) In order to be acquitted with current and best practice, retraining of auditors in the office of the Auditor General should be an on-going process. Government should devote

enough resources for this purpose to enable the staff attend training programmes regularly.

- (2) To aid the performance of staff from Auditor General's office, there is need to increase their engagement in peer review of audit work.
- (3) Registration and renewal of registration of audit firms of external auditors of Government Owned Companies by the Auditor General should be attached much importance as a control mechanism. Any audit firm with uncooperative attitude or suspected uncooperative attitude should be delisted from the list of registered firms and be subsequently disallowed from auditing of parastatals.
- (4) In order to foster continuous operational relationship, joint institutional workshops/seminar that will involve auditors in the office of the Auditor-General and the auditors in the firm of external auditors of government owned companies should be occasionally organized.

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**APPENDIX 1**  
**(REPLACED WITH SPSS RESULTS)**



## **APPENDIX 2**

Department of Accounting,  
School of Postgraduate Studies,  
Nassarawa state University,  
Keffi.

15th January, 2015.

Dear Respondent,

### **LETTER OF INTRODUCTION**

I am a postgraduate student of Nasarawa State University Keffi. As part of requirements for the award of Master of Science (M.Sc) in Accounting, I am conducting a research work on ‘An evaluation of the Audit Quality Control in the Nigerian Public Sector’.

Your cooperation is therefore solicited in answering the questions contained in this questionnaire. The questions and your response therein are meant for academic purpose and will be holistically and confidentially treated as such.

Thank you.

Yours Sincerely,

Durodola Solomon E.

### APPENDIX 3

	RESPONDENTS								
ITEMS	1	2	3	4	5	6	R	D(R-A)	S = D <sup>2</sup>
A	12	14	10	13	9	12	70	30.600	936.36
B	1	2	5	1	3	2	14	-25.400	645.16
C	12	8	10	12	9	13	64	24.600	605.16
D	2	1	5	2	1	2	13	-26.400	696.96
E	1	2	4	2	4	3	16	-23.400	547.56
F	10	13	11	13	10	11	68	28.600	817.96
G	8	9	10	5	8	9	49	9.600	92.16
H	4	12	9	10	11	8	54	14.600	213.16
I	1	2	1	1	2	1	8	-31.400	985.96
J	3	1	5	1	5	2	17	-22.400	501.76
K	8	9	7	7	12	7	50	10.600	112.36
L	4	1	3	2	3	2	15	-24.400	595.36
M	2	10	3	12	14	8	49	9.600	92.16
N	7	11	9	7	8	9	51	11.600	134.56
O	12	8	10	8	6	9	53	13.600	184.96
							ΣR= 591		ΣS =7161.60
							A=39.4		

Kendall's coefficient of concordance, W

$$W = \frac{12S}{m^2(N)(N^2-1)}$$

S = Sum of squares of the R minus A

m = Number of respondents ranking the items

N = Number of items that is evaluated by the respondents

m = 6

N = 15

$$W = \frac{12 \times 7161.60}{6^2 \times 15 \times (15^2 - 1)}$$

W = 0.71

## QUESTIONNAIRE

**Section A:** Please tick [✓] in the appropriate box

1. Where do you work?  
(a) Office of the auditor general ☐ (b) Audit firm ☐
2. What is your sex? (a) Male ☐ (b) Female ☐
3. Where does your age bracket falls?  
(a) 21-30 ☐ (b) 31-40 ☐ (c) 41-50 ☐ (d) 51 above ☐
4. What is you highest academic qualification  
(a) OND/NCE ☐ (b) HND ☐ (c) B.Sc ☐  
(d) M.Sc/MBA ☐ (e) Others ☐
5. What is your academic discipline?  
(a) Accounting ☐ (b) Economics ☐  
(c) Business Administration ☐ (d) Others ☐
6. Are you a member of any professional body?  
(a) Yes ☐ (b) No ☐
7. If yes, which professional body do you belong?  
(a) ICAN ☐ (b) ANAN ☐ (c) ACCA ☐ (d) Others ☐
8. How long have you been in the service of your organization?  
(a) 1-5years ☐ (b) 6-10years ☐ (c) 11-15years ☐  
(d) 16years above ☐
9. Do you agree that lack of training of staff of the auditor-general serves as a challenge to audit work?

- (a) Strongly Agree ☐ (b) Agree ☐ (c) Indifferent ☐  
 (d) Disagree ☐ (e) Strongly Disagree ☐
10. Has your organization ever organized any form of training programme?  
 (a) Strongly Agree ☐ (b) Agree ☐ (c) Indifferent ☐ (d) Disagree ☐  
 (e) Strongly Disagree ☐
11. If yes, how often do you attend?  
 (a) Very often ☐ (b) Often ☐ (c) Indifferent ☐  
 (d) Not often ☐ (e) Not very often ☐
12. To what extent has your organization engage in peer review of audit work? (a) Very high extent ☐ (b) High extent ☐ (c) Indifferent ☐ (d) Low extent ☐  
 (e) Very low extent ☐
13. In your own opinion, to what extent do you think audit firms comply with submissions of working papers to the officer of auditor-general? (a) Very high extent ☐ (b) High extent ☐ (c) Indifferent ☐ (d) Low extent ☐  
 (e) Very low extent ☐
14. Do you agree that staffs of auditor-general are technically competent to review audit work done by audit firms?  
 (a) Strongly agree ☐ (b) Agree ☐ (c) Indifferent ☐ (d) Disagree ☐  
 (e) Strongly disagree ☐
15. To what extent does audit work by audit firms differs from that done out by staff of the office of auditor-general.  
 (a) Very high extent ☐ (b) High extent ☐ (c) Indifferent ☐ (d) Low extent ☐  
 (e) Very low extent ☐