A paper on Reform of Government Auditing – Encompassing Performance Based Budgeting and Value For Money presented by Mr. Sam S. O. Afemikhe at the Auditing and Evaluation Workshop of the Budget Law Reform Program organized by the Social Economic Rights Initiative (SERI) at Women Development Centre Pen Cinema Ogba on 16 February 2005.

1.0 Introduction

1.1 The subject matter of this lecture "Reform of Government Auditing – Encompassing Performance Based Budgeting and Value for Money" is most appropriate at this point in time.

Firstly, we as a nation have finally accepted 'TINA' of reform. As John Debold, a famous computer consultants said, "we face two options either renewal and reform or revolution and ruin" This is crucial to our dear Country Nigeria where today, in spite of the great promise Nigeria held at independence, it painfully exhibits all the characteristics of a Less Development Country (LDC) namely-

- Low level of living standards characterized by low income inequality, poor life, poor health, low life expectancy and inadequate education;
- Low levels of productivity;
- High rates of population growth and dependency;
- Prevalence of imperfect markets and limited information etc.

Development is both a physical reality and a state of mind in which society must secure the means for obtaining a better life through some combination of social, economic and institutional process. However, the specific components of the better life, development in all societies must have at least the following three objectives;

i) To increase the availability and widen the distribution of basic life sustaining goods such as food, shelter, health and security.

ii) To raise the level of living including, in addition to higher incomes, the provision of more jobs better education and a greater attention to cultural and human values, all of which will serve not only to enhance material well-being but also to generate greater individual and national self esteem.

iii) To expand the range of economic and social choices available to individuals and the nation by freeing them from servitude and dependence not only in relation to their neighbours and other nation-states but also to the forces of ignorance and human misery.

Prior to the oil boom of the 1970s, Nigeria was one of the world's poorest and least economically developed countries with a capital GNP of only $90 in 1968. With the oil boom of the 1970s and the discovery of more deposits, Nigeria embarked on a decade of rapid economic expansion and major structural transformation.

The once productions agriculturally based economy and a major exporter of cocoa, cotton, peanuts and palm products was transformed into an oil producing and exporting country. Between 1968 and 1980, per capital GNP grew by more than 1000% to $1,020 with Nigeria relying on oil for more than 90% of its export earning, 30% of GDP and 70% of it federal budget resources. Regrettably, a combination of declining oil prices, unrealized industrialization programmes, neglect of the agricultural sector excessive external loans and widespread economic corruption and mismanagement in the 1980s caused the economy to experience a prolong period of economic decline and stagnation. In 1994, GNP per capital had fallen by more than 70% to the level and to $290 by 2002. The GNP per capital in 2002 in Nigeria compared to $450 average for sub-Sahara Africa and $430 for the average low income country in the world. If Nigeria must develop therefore, there is no alternative (TINA) to reform.

Secondly, the National Economic Empowerment and Development Strategy (NEEDS) and its states counterpart SEEDS which is a documented amalgam of the Federal Government reform programme focused on empowerment, wealth creation, employment generation, poverty reduction; as well as value re-orientation sets its strategy for reforming government and its institutions fundamentally in the areas of eliminating waste, effective budgetary system, fighting corruption, the promotion of accountability and transparency.

It can be seen from the above therefore that not only are reforms imperative if we must reverse the declining trend of our standard of living, reformed budgetary and auditing systems will be the cornerstone of the strategy that will liberate our mental and physical capabilities to attain the necessary developmental height we so much desire and deserve.

There is an absolute need to refocus on and pursue accountability, transparency and result oriented management of public resources that will continuously deliver value for money to the people. All the three tier of government in the country should begin to develop the objectives tailored towards zero tolerance level for waste, fraud and abuse, and at the same time, install a system better equipped to deliver efficient, cost effective government and above all ensure that the promises made to the people are fulfilled through the efficient preparation and implementation of budgets.

1.2 In this lecture, an attempt will be made to examine Performance Based Budgets Value for Money and the import of their relationship on economic development. We will also examine the impact of performance based Budgets, the role of both the Accountant General and the Auditor General’s offices, the need of the Auditors General to be independent and the reforms necessary to strengthen the office of both the Auditor General and the Accountant General for better performance of their statutory roles in the budgetary process.

2.0 Performance Based Budgets – An Overview

2.1 The government financial management

The government of a country consists of the public authorities and their instrumentalities, established through political processes, exercising a monopoly of compulsory powers within a territorial area or its part. These powers are motivated by public purpose in the economic, social and political spheres in the engagement of primarily providing public services of different types and costs and sourcing finance from different sectoral activities for the purpose.

The principal function of government therefore, is to carry out public policy through the production of non-market services primarily for collective consumption and managed transfer income financed mainly by compulsory levies on entities in other sectors. Government performs the function of supplying certain public goods and services and fulfilling certain public purposes not entirely for commercial or financial purposes. In this context therefore, government financial management is the management of revenue, expenditure, cash lending, borrowing and debt operations associated with government activities. Within the government financial management, the task of Public Expenditure Management if the management of all operations except revenue operations.

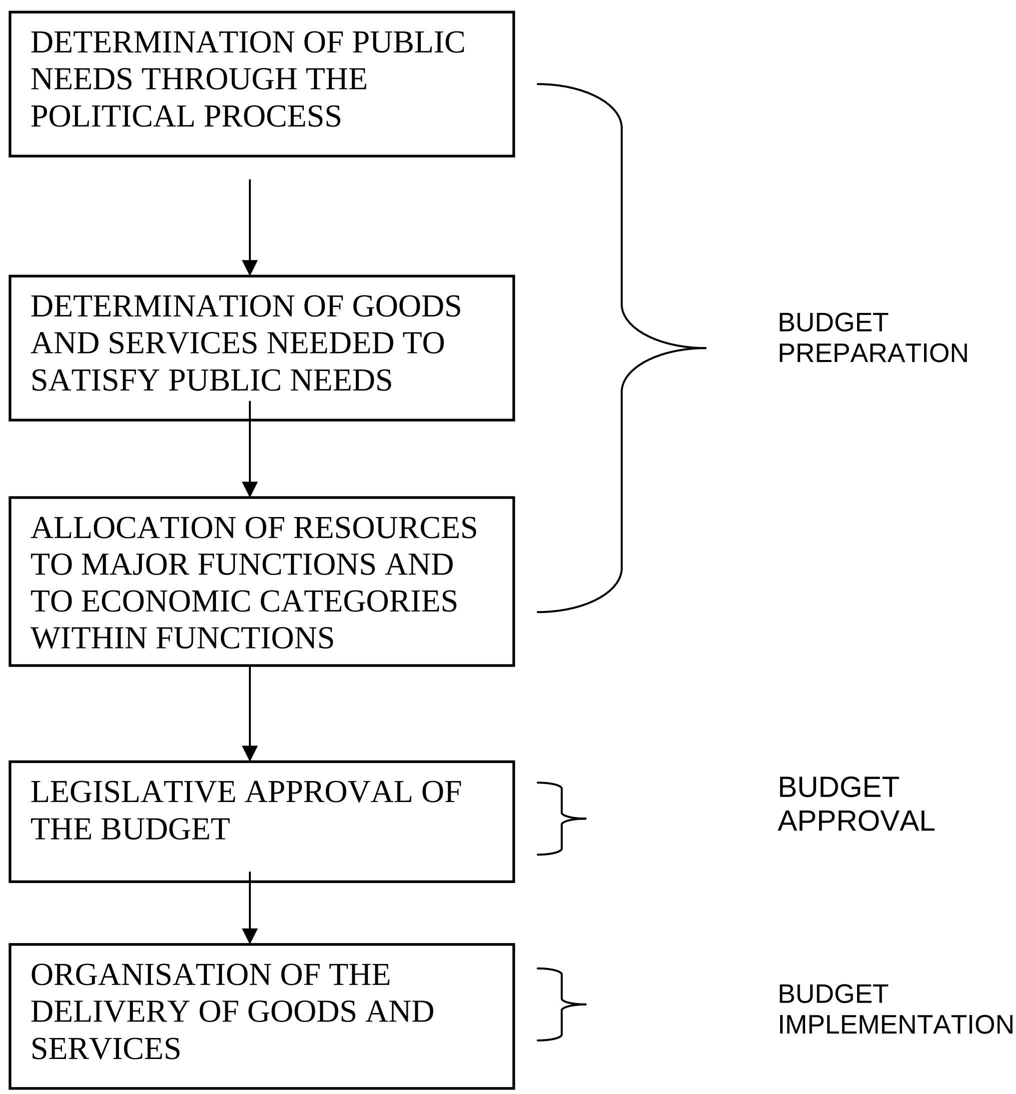
Government financial management system commences with the planning process, which involves setting of goals and target in a national development plan. This is pursued through formulation of policies, articulation of appropriate projects and programmes and the mobilization of available financial, human and material resources for their effective realization.

The actual implementation of a development plan begins with the budget. The budget for a development plan includes budgeting for the resources to execute the plan-finance, manpower and material.

Budget making and budget implementation is the process of identification of public needs and the determination of the quantity of goods and services to satisfy these needs through the political process, assisted by economic analysis within the overall development plan objectives. Resource allocations are then made to major functions and economic categories within functions.

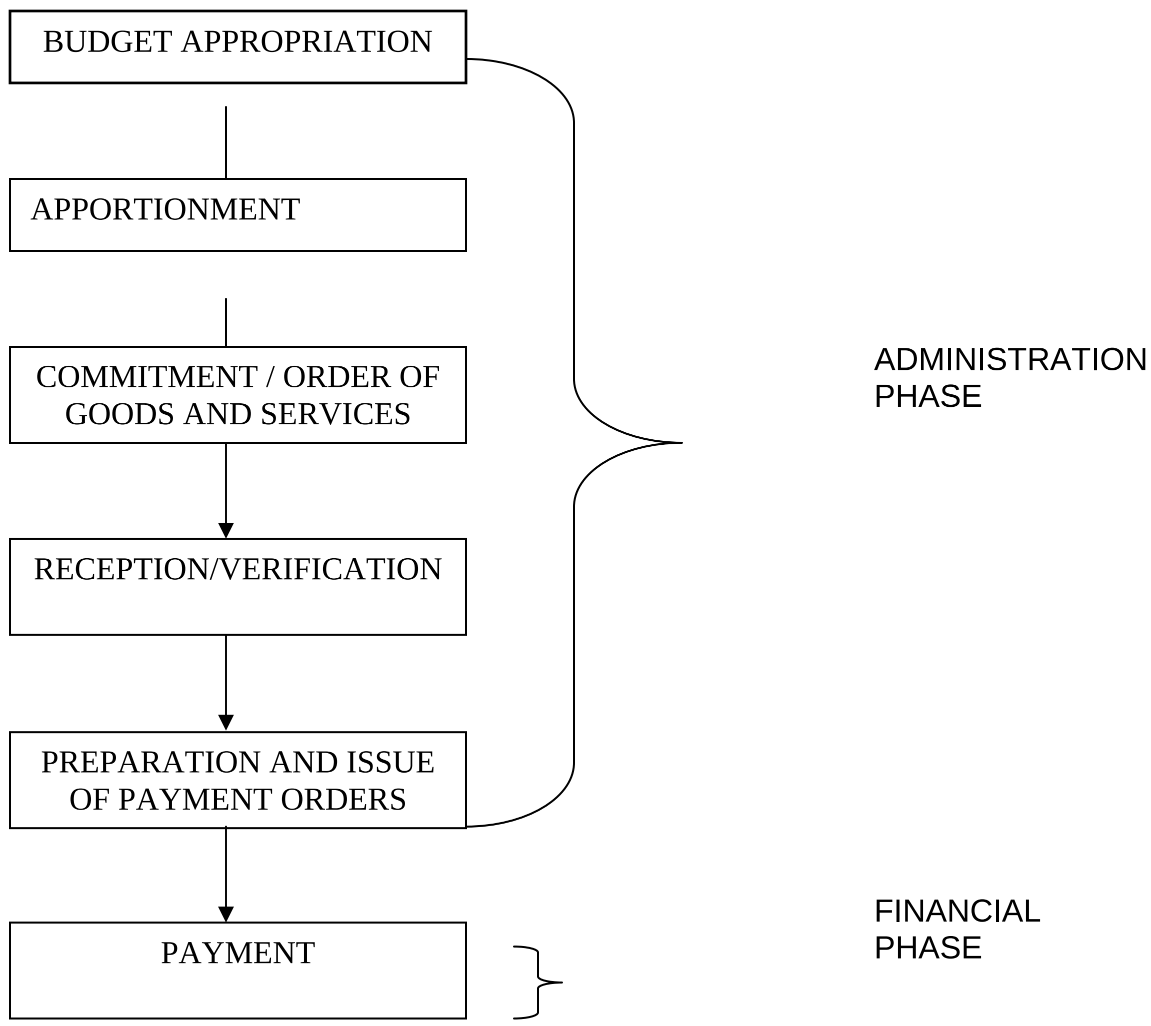
Figure 1.1

Budget preparation and implementation



After the budget has been approved by the legislative decision making body, budget preparation comes to an end and budget implementation begins as shown in figure 1/1. It is the task of the executive arm of government to implement the approved budget exactly as prescribed.

Figure 1.2
Phase in the Budget Implementation Process



A national development plan and budget however brilliantly formulated cannot achieve its stated objectives unless the projects, programmes and policies therein are effectively implemented.
Herein lies the need for a performance Based BUDGETARY system.

2.2 Performance Budgeting

Performance budgeting could be defined as one "which presents the purposes and objectives for which funds are requested, the cost of the programmes propose for achieving this objectives and quantitative data measuring the accomplishments and work performed under each program''. It therefore emphasizes the thing which government does rather than the things which government buys.
The followings are the essential features of a full-fledged Performance Budgetary system.

1. Classification of budgets in term of function and activity
2. Measurement of work done or output provided by each activity
3. Expression of the budget in a way, which allows a direct comparison between cost of executing the work (inputs) and the output or achievement on the programme (outcome).

The adoption of Performance Budgeting is imperative if scarce resources are to be efficiently and effectively allocation and utilized. Performance Budgeting is the setting of explicit goals for outcomes.

The drive for performance measurement in government started with Mrs. Thatcher in 1982 with the Financial Management Initiative (FMI). The British Chancellor of Exchequer remarked in 1998 in reference to Performance budgeting codification in the form of Public Service Agreement (PSA) that the PSA…… "is the most ambitious attempt internationally to set explicit goals for outcomes across the whole of government."

PSA itself was first introduced in Britain in 1998 to address some specific issues. In introducing the PSA, the chancellor of the Exchequer lamented that "Spending rounds were not informed in any systematic way by data on output spending. The absence of the systematic framework of this kind makes it harder to take decisions about the relative value for money of marginal increase in resources for different areas. Discussions in the annual review process focused on increments or cut to an existing base. Agreed measures of performance by which success to date could be judged did not exist for many programmes. Without output data, it was harder for parliament and the public to judge what the new spending plans would deliver or to hold government to account. Most importantly public servant themselves were often not clear what specific improvement in services was expected of them. In the absence of a performance information system, government did not have the levers to lead changes of manage delivery".

Mr. Chairman, distinguished ladies and gentlemen, what obtained in Britain in 1998 sadly obtains today in Nigeria, hence the need for Performance Based budgets.

2.3 In Nigeria, whilst budget making had thitherto been shrouded in mystery like the papal conclave budget implementation had been even more bizarre with no reference what so ever to performance.

Budget implementation has long been equated to the disbursement of the financial outlay set out in the budget to the various ministries and parastatals. This is effected by award of contracts, mobilization payments and generally ensuring that the budgeted sum are not only fully drawn down but that extra budgetary approvals are obtained and utilized. Little or no attention was paid to budget performance in terms of value for sums expended. Economy in terms of procurement of the right quality and quantity at minimum cost was not considered an issue. Ensuring that maximum output was derived from the sum expended was not considered relevant. It also did not matter at all whether or not the objectives set out in the budget were attained. The consequence of this was considerable amount of money was budgeted and expended on capital projects that proved elusive with the infrastructure in continuous decay. Money was spent to construct and repair roads which did not exist, education received its share of the budgetary vote, whilst the dilapidation in school facilities did not abate and half-baked graduates continued to be turned out of schools at all levels. Health allocations were drawn down whilst hospitals including teaching and specialist remained consulting clinics. The main focus was to simply draw down the sum budgeted whilst the purpose of budget was ignored thus laying the foundation for budget indiscipline and budget non-performance ab initio.

There too, was the December rush when ministries and parastatals usually compete to exhaust whatever is left in the vote book. It was as if it was considered a sacrilege to have a balance on the votebook at year-end. This underscored the underlying problem that budget were, hitherto, considered mere conduit pipes through which the funds of the treasury were siphoned into private bank accounts. In the course of this year end rush, fraudulent goods received notes are issued to back up hurriedly issued Local Purchase Order (LPOs) with the primary purpose being to clean up votebook balances with complete audit trail established to cover the 'tracks'. Corrupt behaviour resultants from collusion between officials in charge of commitments and those responsible for receiving/verification came to the fore at this period as no goods were supplied and were never intended to be supplied. Yet completely authenticated goods received notes are issued. Only the so called “disgruntled elements and miscreants of society” were left to ask questions regarding the corresponding value accruable for the sums expended. These ‘disgruntled elements’ were considered perpetual complaints who only made ‘noise’ because they were excluded from the largesse or had no access to a share of the national booty.

The disconnect between inputs and outcomes hitherto experienced in budget implementation was further epitomized by uncompleted and abandoned projects that dot the corners of the country and the poor quality of executed public works in all sectors from schools buildings, to road projects, housing etc.

While all these happened, the Auditor General continued to issue audit reports that were irrelevant in explaining why the country and its people suffered the fate that befell them. As it were “Nero fiddled while Rome burned”!

Budget performance by a government agency be it a ministry, parastatal or a programme is the attainment of its stated mission. The mission of a government department or programme is the reason that an organization or a programme exists. Such an entity should set out a broad statement of its purpose. A programme or project is an organized endeavour of an agency that has measurable objectives which have a direct relationship to the agency’s mission together with a defined budget, and staffing and serving identifiable target population.

2.4 Performance Budgeting – The missing Link

It is clear that the missing link and the stumbling block to the achievement of set objectives in budget implementation at all levels is the absence of a deliberate performance evaluation mechanism which is the only way to determine success or otherwise of a project or programme in particular and the mission in general. Performance covers the work an organization performs in converting inputs through processes to outputs or outcomes. Inputs, processes, output and outcomes fall long a performance continuum.

Performance can be regarded as simply the record of outcomes achieved. Bernadine et al argue that performance should be defined as the outcome of work because they provide the strongest linkage to the strategic goals of the organization, customer satisfaction and economic contributions.

With specific reference to budget implementation and performance, the following need to be borne in mind as a framework of the discussions:

- **Performance Measurement**
  This refers to measuring the performance of a programme, a service, or function. The various categories of what can be measured are listed below under “Performance Indicators”

- **Performance Indicators**
  These are signs to help a manager answer the question. “How will we know when we have been successful?” They refer to what specifically is to be measured for each aspect of performance, that is, the specific numerical measurement that is to be made such as the “number of customer complaints” or “percentage of customers that report being satisfied with the service they received.”

  - **Inputs.**
    The resources used to produce outputs or outcomes. Inputs are usually expressed as amount of expenditures, amount of staff time (such as number of employee hours or days), quantum of materials used etc.

  - **Outputs.**
    The products and services produced by a programme, or activity. Outputs result from internal activity or effort. Outputs are important for measuring internal work performance, but do not in themselves indicate the extent to which progress has occurred toward achieving the programme’s purpose or mission.

  - **Outcomes.**
    Events, occurrence, or conditions that indicate progress toward achievement of the purpose of the programme. Outcomes can be measured in terms of the extent to which they occur. Outcome indicators can also reflect the quality of the service delivered or customer satisfaction with different aspects of service delivery.

  - Efficiency and productivity
    These terms describe ratios of inputs to outputs or to outcomes. Efficiency and productivity are essentially equivalent, differing only in the way in which the ratio is expressed in terms of inputs to outputs (or outcomes). It is usually expressed for example, as the number of employee or amount of employee time per unit of output (or outcome). It is sometimes referred to as “unit cost”.

Productivity is the ratio of the amount of output or outcome to inputs, traditionally expressed as the amount of output (or outcome) per unit of input.

Output Efficiency / Productivity Examples:

- Numbers of man-days expended per repair made. (Efficiency)
- Number of student transported divided by the cost of transportation
- (Productivity)

Outcome Efficiency / Productivity Examples:

- Repair cost per kilometer of roads that were repaired to satisfactory conditions (Efficiency)
- Number of patient seen per doctor per day (Productivity)

- **Target Population.**
  This is specific categories of the population that benefit from a programme or that a programme affects. (Such population groups might be categorized by geographical location of residence, by age, group, gender, by income group etc.

- Performance Targets.
  These are numerical target levels of performance against which actual achievements can be compared. It is important that target are set by each programme, for each indicator and for each future reporting period. For example, the statement to achieve a 95 percent vaccination take for all children below age of two includes a target of 95 percent achievement.

2.5 Programme Evaluation as a Potent Performance Audit Tool

Programme Evaluation is an in-depth examination of a particular programme to highlight the effects of the programme on outcomes. Evaluation usually involves various technical procedures such as surveys, statistical analyses etc.

The long string of abandoned projects and numerous government programmes on which considerable resources have been expended but did not have position impact on the people are a testimony to the fact that regular evaluations were not being carried out on government projects and programmes before the advent of the Due Process Mechanism. The government audit process simply failed the nation.

A well-functioning evaluation system permits managers to determine how the use of resources at their disposal is contributing to the achievement of objectives. A rule of thumb is that no major new programme should be embarked upon without either an extensive evaluation of similar earlier programmes or if it is the commencement of the particular programme a pilot programme should be carried out. Close monitoring followed by an interim evaluation could provide valuable information for decision making, on expansion, modification or termination of a programme.

Evaluation can be extant, during implementation and ex post.
Well-focused and properly timed evaluation can;

- Provide the information needed to bring about mid-course corrections in programme and projects
- Allow for the analysis and resolution of systematic or policy issues;
- Improve the design of future operations; and
- Contribute to strategic policy and programme decisions.

Regular evaluation is most effective and should include staff involved in implementing the programme whilst regular independent evaluations should also be carried out.

It is very easy to be entirely focused on inputs particularly in the public sector and ignore result (outcomes). Government funds schools based on how many children enroll, the police is funded based on police estimate to fight crime, refuse disposal in financed based on the level of waste to be disposed of etc. It is improper for departments responsible for these services to get more money when they fail: when student result continue to be poor, when the crime rate continues to rise and the streets litter with more waste, when the rate of patient mortality rises etc.

Indeed funding of institutions according to inputs means that they have little reason to strive for better performance.

When the mode of funding is linked to results, institutions become obsessed about performance. It is therefore imperative that results be carefully measured. This will ensure that individual units of the entity are galvanized behind the leader in support of set goals, prescribed actions and the attainment of results towards effectiveness.

2.6 The imperative of Performance Measurement as a veritable Audit Tool in government

Organizations that measure the results their work, even when they do not link funding to these results, find that the information provided by the measurement transforms them. The following are true effects of measurement of results:

Measurement is a call to action.
If you measure something, people will respond to the results obtained. Measurement is, therefore, a call to action, particularly if best achievements are rewarded. Furthermore, the simple act of defining measures help to enlighten the organization and clarify the goals. A definition of the expected outcome and the expected benchmark to measure those outcomes make people begin to ask the right questions, to redefine the problem they are trying to solve and to diagnose that problem positively. When the measurement process starts, people immediately begin to focus on the goals or mission of the organization.

If you do not measure results, you cannot tell success from failure
In the public sector in particular, it is difficult to tell which programme is succeeding and which is failing, as there is no clear definition of objective about outcomes. The majority of the decisions are based on political or other considerations.
Conversely when efforts are to be redoubled it is unclear where to increase the budget for effectiveness and if care is not taken, the additional expenditure ends up in the historical drainpipe!

Measuring performance drives continuous process improvement as it encourages organization to continuously look at their process, policies, procedures and structures, analyze their performance and implement innovations and improvement opportunities.

In the United States of America (USA) for instance, Public Sector Performance Measurement is guided by the **Government Performance and Results Act 1993 (GPRA)** Section 2(b) of this act requires spending agencies to develop performance plans and targets which clearly:

- Establish performance goals to define the level of performance to be achieved by a project/programme activity;
- Express such goals in an objective, quantifiable and measurable form unless authorized to be in an alternative form;
- Brief describe the operational process, skills and technology and the human, capital, information or other resource required to meet the performance goals;
- Establish performance indicators to be used in measuring or assessing the relevant output, service levels and outcomes of each programme activity;
- Provide a basis for comparing actual programme results with the established performance goals; and
- Describe the means to be used to verify and validate these values;

It is important that the Budgetary and Audit reforms in Nigeria borrow a leaf from the GPRA as it will enhance planning, performance measurement and budget implementation that solve people's real problems and meet their genuine needs for an improved standard of living in pursuit of their right to happiness.

If you cannot see success, you cannot reward it
In the past people made away with mobilization payments on contracts not executed. Contractors that benefited from such misdemeanors were awarded more contracts and collected yet more mobilization payments directly highlighting the mismatch that hitherto existed between success reward in the budget implementation process. Those competent to execute these contracts never got anywhere near being considered for these contracts thus raising the spectre of punishing those who had the skill set to attain success in the course of implementing the budget.

The best way to increase productivity is to reward success. There are large economic savings to be made in the public sector if management, staff and the auditors are properly motivated to find them out.

If you cannot reward success, you are probably rewarding failure
Rewarding success is common sense. It also needs to be common practice otherwise all that will be rewarded is failure. For example, automatic payment to contractors without evaluating their performance in terms of quality, quality and initial objectives and goals amounts to rewarding failure. Rewarding failure creates a bizarre incentive. It encourages people to accept the status quo instead of challenging it. It encourages entities to ignore the root causes of the problem. It creates a culture of sloth, avariciousness, greed and turns the reward mechanism in inverse proportion.

I**f you cannot see success, you cannot learn from it**
Value for money implies continuous learning by organizations. They constantly try new things to find out what works and what does not thereby learning from experience. But if an organization does not measure results and cannot identify success when it happens, it certainly cannot learn from success. Without feedback on outcomes, innovation is often stillborn. The greatest opportunity for innovation in business, Peter Drucker counsels are "Unexpected Success" Innovation is finding new ways to perform better.

If you cannot demonstrate results, you cannot win public support
There is usually a great apathy about a government or a leader that cannot demonstrate results. Such a government or leader is considered

ineffective and is thought to be devoid of the ingredients of leadership – purpose, direction and meaning.

Under the GPRA, leadership in the public sector is legally obliged to address issues such as performance planning and management as well as report on the results of those efforts.
Many thoughts that because government does not establish profit margin or bottom line, the rules of performance measurement do not apply.

2.7 **Fiscal Responsibility bill and Performance Budgeting**
Since the introduction of the Due Process mechanism, effects are being made by government to ensure that Budgets prepared and executed are Performance Based. In other words the traditional budgets have failed the nation and there is the need to shift.

In a paper titled "Why we need fiscal responsible bill" in November 2004 the Minister of Finance Dr. Ngozi Okonjo Aweala stated among others that past governments have incurred a huge contractor debt of close to six hundred billion Naira. She observed that the accounting systems that could permit these outrageously imprudent management of public finances is an inefficient system devoid of the necessary controls and therefore requires overhauling.

It is gladdening to note that A Fiscal Accountability Bill is in the process of being put before the National Assembly for consideration. Essentially the Bill has the following major elements

- Openness on the setting of goals for the revenue and expenditure of government
- Public access to comprehensive, information on government financial activities
- Clear rules on the management of public finances
- Transparency in the budget preparation, execution and reporting and above all
- Performance indicators to help focus on results

When the law is passed it is expected that it will

- Shift emphasis from revenue sharing to revenue generation;
- Minimize risk and fluctuation in government fiscal operation; and
- Strengthen accountability and sound financial management by all tiers of government.

However, Performance budgetary systems dictate that the Fiscal Responsibility Bill should go further given the corruption in the Public Expenditure Management and the difficulties we experience as a nation to identify and audit government liabilities.

Along with all that Fiscal Responsibility Bill contains the Budgetary system should be reformed so as to shift focus from emphasis on inputs and compliance towards a greater degree of performance control with the following changes:-

- The introduction of programme and project budgeting, requiring the specification of programme and project target, and the certification of all appropriations related to that programme objective. This will be the basis for the preparation of all portfolio budgets by the government and annual reporting by all ministries and agencies;

- The introduction of the 'running cost' system applicable to non-programme expenditure, where detailed line items for agency administration costs will be replaced by aggregate appropriation allowing agencies the flexibility to move funds between the related items for example, salaries and administrative purchase;

- The introduction of annual efficiency dividends based on annual potential for productivity gains from running costs appropriations;.

- 'Carry-over' arrangements for running costs items, allowing ministries and agencies to carry forward unspent moneys, or to borrow from future appropriation, within agreed limits;

- common services reforms, involving a sequence of changes in arrangements for common services such as property, cars and publishing, starting with

  - user pays and then
  - choice of provider, then
  - commercialization of the government provider and
  - finally privatization in almost all cases

Apart from aggregate controls, planning and reporting reforms should also be introduced include identifying and reporting against efficiency and effectiveness indicators with a formal process of evaluation being put in place to cover all programme and projects.

Outcomes and Outputs reporting framework

The essential purpose of the outcome and output framework is to answer three questions

- what does government want to achieve (these are the outcomes)
- how does it want to reach these achievements (these are the outputs)
- how does it know if it is succeeding (these are the indicators)

Outcomes are the key results the government of – the – day seeks to achieve, and define for each agency the purpose of their business. Outputs are discrete activities or set of activities – a product or service, performed by an agency as part of achieving its outcomes. Ministries and agencies would be required to specify and cost their output against planned outcomes, and identify performance indicators and targets. Consequently appropriations will be made at the outcome levels. Outcomes, and the supporting administered and departmental outputs will form the basis of a ministry or agency's operating budget and framework.

The framework focuses on the output the public sector is producing and their contribution to the outcomes set by government and is aimed at assisting the tracking of results and progress towards targets. The output component of the framework also facilities tracking and benchmarking of process and hence is an important ingredient in improved efficiency.

Accrual accounting

Accrual accounting involves bringing items into the accounts and included in the financial statements as they are earned or incurred rather than as they are received or paid. Accrual management involves a fundamental change in the way the public service measures business performance financially. The problems currently being encountered with the identification and accounting for government liabilities coupled with the need for transparency and enhanced accountability in government revenue now make this reform area imperative.

Commercial organizations ordinarily report on accrual basis whilst the public sector has always used the Vote book (memorandum entries) to track expenditure generally and liabilities and commitments in particular. The combined need for commercial discipline and the need to institute a transparency and auditable accounting system which should allow for management flexibility, point to the need for a more comprehensive and timely information that enables managers to

- identify the assets controlled by the agency and evaluate decisions concerning resource allocation and management;
- reveal the extent of liabilities of the agency;
- reveal a more comprehensive picture of the agency's performance
- make informed judgment about agency programme and performance; and
- account more comprehensively for use of money appropriated.

The accrual budgeting framework will change both how and what governments measure for budgeting, accounting and reporting purpose. The current form of reporting – cash measurement – focuses on cash flow over time. It ignores assets and liabilities and can not account for all the income earned or expenses incurred during the financial year. As a result, governments could not fully assess the financial health of ministries and agencies or compare one financial year's performance with another.

A major benefit of the outcome – output based accrual budgeting framework will be the improvement in the information base underpinning all public sector activity. It will provide governments with:

- a clearer picture of the full cost of the goods and services ministries and agencies provide, including indirect costs, depreciation and maintenance;
- the information necessary to manage the financial health of agencies; and
- improve communication with stakeholders on priorities and achievements through consistent and streamlined reporting arrangements.

The use of accrual information by publish sector managers can also result in more effective asset and liability management, better assessments about the true and full cost of output, and further opportunities for performance improvement.

The changes associated with the introduction of accrual budgeting require a major investment in retraining financial managers of PSOs and the infusion of new staff familiar with accruals. The move to accrual will not diminish the continuing need for ministries and for agencies to be aware of cash management issues. Partly this arises from the importance of cash in fiscal policy, but also to ensure that departments manage their cash reserves prudently.

3.0 Performance Based budget and value for money

3.1 Value for Money (VFM) is the pursuit of Economy, Efficiency and Effectiveness the use of resources.

- **Economy**
  This is the practice of the virtues of thrift and good house keeping

- **Efficiency**
  Is making sure that the maximum careful output is gained from the resources devoted to each activity or alternatively, that only a minimum level of resources a re devoted to achieving a given level of output.

- **Effectiveness**

Is ensuring that the output from any given activity meets expectations or activities that desired operating objective or goal. Economy and efficiency in the execution of programmes is of small consequences if the programmes are not meeting government's objectives. No assessment or audit of value for money is complete without regard to effectiveness. In order to assess effectiveness, it is necessary first to determine and specify objectives so that appropriate adjustment to remedial action can be taken.

Perhaps a practical description of value for money with respect to the public sector is given by P.C Jones and J. G. Bates in their book, public sector Auditing sector Auditing as follows.

'Value for Money' is achieved when a public body carries out its duties to high standard at low cost. This can be summarized collegially by saying that a good job is being done slightly more technically, value for money is achieved when administration and service provision is economic, efficient and effective.

3.2 Relevance of Performance Measurement in value for money

In the private sector, profitability is the main yardstick for the measurement of performance. In the public sector, however, the profit measurement is not applicable.

Nevertheless, it is imperative to ensure that resources are being allocated and utilized efficiently and effectively within the public sector. This evaluation is carried out through performance measurement known as Key Performance Indicators (KPIs). Performance Measurement is therefore an important tool for evaluating value for money in the public sector is therefore a veritable audit tool.

A survey of public sector managers in some local authority and health sector department in the UK (Jackson 1984) regarded the best features of performance measures to be

1) The ability to make comparisons of actual performance against targets, previous periods, or similar departments or programmes.
2) The ability to highlight areas of interest and the relevant question to ask.
3) The ability to provide a broad ranging/comprehensive picture of a service
4) The identification of trends overtime
5) The development of local benchmarks norms or targets.

3.30 Benchmarking as an audit tool in Performance Budgetary Environment

Benchmarking has several similar definitions but let us at a few.

Sylvia Codling, Best Practice Benchmarking, 1992

"Benchmarking is a rational, disciplined approach to continuous improvement which helps identify, compare and emulate best practice wherever it occurs".

Royal Mail, UK, 1992

"a structural process for learning from the practice of others internally or externally, who are leaders in a field or with whom legitimate comparisons can be made"

UK Department of Trade and Industry definition, 1995

"A systematic approach to business improvement where best practice is sought and implemented to improve a process beyond the benchmark performance."

The following common thread run through most of these benchmarking definitions

- A point of reference for measurement;
- A study of key internal processes;

Benchmarking is very important because:

- It facilitates continuous improvement;
- It stimulates process efficiency and effectiveness;
- It adds much needed external perspective to an organization's internal processes; and
- It focuses an organization on what really matters.

Public sector organizations in Nigeria must get on the benchmarking bandwagon if they are ever to improve their process, enhance productivity and obtain value for money in the utilization of their scare resources. Benchmarking is therefore a useful development audit tool.

3.32 **Value Analysis**

Value analysis is the review of the effectiveness of the management of capital projects from approval through installation together with any methodologies used to improve the management of future capital projects. In particular, value analysis is carried out in order to test value for money control at management efficiency of overall arrangements to attain value for money at all levels in a practical projects execution situation.

Value analysis reviews a project's effectiveness in the following ways;

- The reconfirmation of the objectives that underlined the project in its conception stage and in ensuring that on completion of the project, the objectives are still relevant.

- The confirmation that the activities and output of the project are consistent with its mandate and are relatively linked to the attainment of the objectives.
- Assessing the impact and effects both intended and unintended resulting from the execution of the project and in considering whether.
  - The unintended effect out weighs the benefit of the projects;
  - The project in anyway or manner complement, duplicate, overlap or work at cross purpose with other projects and to what extent.

- Revenue or cost savings reported since the completion of the project with particular reference to
  - The necessary performance indicators relating to the project outcomes;
  - Confirmation that the project has achieved that was expected; and
  - Assessment of reason for failure to meet objective

  Above all, value analysis would evaluate whether there are better ways of achieving the expected results by asking whether there is better cost – effective alternative projects which could have achieved the objectives better or delivering the existing objectives.

4 Performance Budgeting, Value for Money and Auditing

4.11 The achievement of economy, efficiency and effective depends upon the existence of a sound arrangement for the planning, appraisal, authorization and control of the use of resources. It is the management responsibility to establish these arrangements and to ensure they are working properly. The auditor's responsibility is to verify independently that these arrangements are in place and are effective.

4.21 The Auditor General of the Federation is the officer responsible under the constitution of the Federation of Nigeria to audit the accounts of all Accounting officers and all persons entrusted with the collection, custody, receipt and payment of public funds. He is to examine the accounts in such a manner as he may deem appropriate and confirm whether in his Views;

- The accounts have been properly kept
- All public monies have been fully accounted for and procedures applied are robust to ensure effective checks on the assessment, collection and proper allocation of revenue.
- Public funds have been expended for the purpose for which they are meant.
- Proper records are maintained and rules and procedures are sufficient to safeguard and control public property and fund.

4.30 Section 8.5 (2) makes it mandatory for the public General of the Federation to audit all the public account of the Federation. While section 85 (3) does not specifically mandate the AGF to audit the accounts of government parastatals and agencies nor appoint auditors for them, it nevertheless makes it mandatory for the AGF to send a list of qualified auditors to them for appointment us external auditors. He could also comment on their annual accounts and auditors report. He is empowered by section 85(4) conduct checks of all government statutory corporation, commissions, authorities so on.

4.40 It can be seen from above therefore that the 1999 constitution did not expressly empower the Auditor General to carry out Value for Money reviews. Nevertheless the Auditor General has defined the scope of his responsibilities to include carrying out the following audits.

- Financial Audit
- Regulatory audit
- Value for money audit which include
  - Economy audit
  - Efficiency audit
  - Effectiveness audit

The above represent the Auditor Generals understanding of the department's responsibilities although not specifically spelt out in the constitution. It would have had more impact if the above responsibilities were spelt out statutorily as in the case of United State of America General accounts office where the responsibility to audit Economy, Efficiency and Effectiveness are statutory roles.

4.50 The Public Accounts Committee (PAC) is a committee of each State House of Assembly and National Assembly charge with the responsibilities to consider Auditor General's report submitted to the Assembly. The committee provides a forum for through which the Accounting officers are called upon to explain the queries raised by the Auditors General as they affect the department or ministry and to inform the National Assembly and the general public of the defects in financial administration.

Inspite of the above provisions in the constitution, it would be correct to say that the Federal Audit Department has not actually been able to address the fundamental issue of Performance audit which is imperative in a corruption ridden environment like ours. At best the audit reports merely show how the money received by various departments were disbursed without necessarily linking such disbursement to performance, value for money obtained by government or even the most important issue of continuous process improvement through the application of 'lessons learnt'.

The historical or postmortem review of government expenditure purely for the AG's seal of approval will no longer be enough, in a Performance Budget environment. Government audit should go beyond that to look at review of outcomes against input and to ensure that value for money has been obtained for sums expended. Specifically the key tools enumerated so far to review value for money should be targeted as a major aspect to be injected into government auditing. They are;

i) Performance measurement and review;
ii) Benchmarking; and
iii) Value Analysis.

It is imperative that there should be the legal framework to compel the above tools to be applied since over the years evidence has accumulated on the scope and magnitude of corruption and mismanagement in Nigeria, much of which could have been prevented, detected or sanctioned through an effective audit and control system. One of the major constraints is the weakness of the Office of the Auditor-General of the Federation. In a recent paper, the Auditor General stated that he conducts as a matter of routine, the following audits: financial audit, regulatory or compliance audit, certification audit and monitoring and evaluation (value for money audit) but noted the main constraints in carrying out Value for Money Audit in Nigeria include;

- Shortage of appropriate skill;
- Lack of financial support for such audits;
- Material and logistics support
- Unclear objectives of programmes / projects and weak accountability in government operations,
- Lack of performance indicators and lack of management information systems.

In the circumstances, value for money audit receives only token and perfunctory attention. But as the controversy over the most recent Audit report of the Audit General has shown Value for Money Audit generates a bitter taste in many quarters when it is applied to very close quarters.

Yet, if our economy is to move forward and begin to realize its full potential, we must find a way of eradicating (or at least minimizing) corruption, waste and mismanagement. The establishment of comprehensive, efficient and effective value for money audit system is a necessary condition for progress on this front.

4.60 Independence of the Auditor General

4.16 One of the basic principles of auditing is that the auditor should be not only been as independent but must be truly independent. At this juncture, however, one would ask how independent are the national auditors. Before one can say that the Auditor General is truly independent there must be:-

a) No interference on his duties
b) His report must be taken very seriously by the authorities.
c) His suggestions and recommendation must be implemented to the letter

However, recent events in the country revealed that the independence of the Auditor General has been eroded due to government influence. Auditor General of the Federation and indeed all auditor in the public sector have a great role to play particularly in the support of government to fight corruption and waste and in the enthronement of accountability, transparency, the pursuit of value for money and the enhancement of productivity.

4.61 In order to ensure the total independence of the auditor in the public sector, the whole auditing system must be totally overhauled with particular reference to the appointment and removal of auditors especially at the higher level.

Furthermore, the staff of the Auditor General of the Federation must be properly trained to focus them on relevant Value for Money audits in support government development objectives.

The auditor has very important role to play if the fiscal responsibility bill will succeed. Therefore the whole audit process should be seriously reviewed to ensure that the performance based budget to process advocated is supported by an articulated evaluation and Value for money review process

- Audit reports must be timely prepared and circulated to interested parties. There is a backlog of government and parastatal audit to be executed and published.
- Training is as important part of the envisaged reformed audit process, therefore the unit must set out in its plan deliberate training processes for the staff to increase their efficiency and improve performance.
- Both the AGF and Accountant General of the Federation must be involved in the budgeting process right from the inception so that they can be well equipped to monitor its execution.

- The budget process must, set up Performance Indicators during the budgeting process, which will form the basis of comparison when the audit is evaluating performance. This will enable areas where low performance exists to be identified, investigated and recommendation necessary for improvement preferred.

6.0 In conclusion the reforms of Budgeting and Audit systems are long overdue. The introduction of Performance base Budgets that link output/ outcome to inputs and focus on value for money should be introduced. Similarly, government audits as the oversight and watch dog mechanism of government and the people must be given legal backing to review outcomes against input to ensure that value for money is being obtained for all government expenditure. The Auditor General must be given the tools to carryout value for money audits, performance measurement review, Benchmarking, Value analysis etc. If we are to fight the hybrid headed evil of waste, corruption, low productivity and under development.

Thank you for listening

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