1. INTRODUCTION:

In our every day life, the diagram above speaks volumes in the way man, institution and any organisation battles along to survive. We think, plan, operate/execute, control and re-think. In order to ensure we are all operating on the same frequency, it is very necessary I place before you the understanding/meaning ascribed to the key terms of this lecture.

(a) **Budget Planning**

This is a statement of specific short and long term objectives describing what a person or management hopes to achieve in the future from the use of economic resources available to him/it. This requires a knowledge of the existing resources, and expected future resource requirement.

(b) **Deciding/Executing/Operating**

This is a process of making a choice of the most effective means of achieving the planned objectives. This requires a knowledge of the alternative means of action from which the choice can be made. Acting on the chosen line of action.

(c) **Controlling**

The process of supervising the chosen means of resource utilisation in order to -

(i) ensure that the planned objectives are being achieved and if not;
alter the chosen methods of action to bring them in line with the planned objectives and, if that fails to achieve the desired result;

amend or discard the existing objectives, substituting others where appropriate.

These are issues confronting men, organisations and men in organisations in their daily affairs, in the use of resources and the struggle to survive.

I have deliberately left mentioning a sub-title of this lecture and that is "The Role of the Audit" while briefing you on the other two because it is my considered view that the main business before us in this lecture is to examine the role of Audit in budget planning operation and control.

I now take on the title -

2. THE ROLE OF THE AUDIT:

In discussing the role played by Audit in management of resources, it is important we clearly understand what audit is. Typically, an audit is looked upon as an examination of an accounting document and supporting evidence for purposes of reaching an informed opinion concerning its propriety. Hence, one way to look at an audit is a means (an examination of documents) to achieve an end, (an expression of an opinion as to the propriety of a particular document). Therefore, the most widely understood meaning for the word auditing is what we refer to as Financial Auditing - an audit that has as its objective an expression of an opinion as to the propriety of a given document. This is a limited view of auditing as practiced today. The full scope of auditing should include:

(i) Financial Auditing - determines whether accounting documents present fairly the information presented therein. Also inherent in financial auditing is what we might call Compliance Auditing which is designed to ensure that relevant statutes and regulations are being followed by the organisation.
Operational Auditing – an examination of the methods of operation of the organisation, efficiency of operation and effectiveness of policies (i.e. determines whether resources have been employed in an efficient and economical manner).

Management Auditing – an examination of policy-making apparatus to determine whether they have produced acceptable results. Inherent in management auditing is what we might call program results or Effectiveness Auditing which is designed to ensure that desired results and benefits are achieved. In short, we can separate auditing into two major categories summarised as follows:

a. Financial Auditing:— to determine the fairness of presentation of financial information and to comment on its propriety.

b. Operational or Management Auditing:— to determine whether the organisation is operating efficiently (i.e. whether it can operate more cost effectively).

To further clarify the difference between these two major categories of audit, we might look at the following simple example:

**Situation** – Two auditors (one financial and one operational or management auditors) are examining a disbursement for a barrel of nails purchased by an organisation.

- **Financial Auditor’s Viewpoint** – in examining the disbursement for the barrel of nails, the financial auditor will have fulfilled the objectives of his assignment if he finds that:
  (i) the barrel of nails was properly ordered and received;
  (ii) the vendor’s invoice was properly computed, and
  (iii) the discount, if any, was properly deducted.

- **Operational or Management Auditor’s Viewpoint** – in examining the disbursement for barrel of nails the operational or management auditor is concerned with:
(i) whether the organisation was in need of the barrel of nails in the first place;
(ii) whether the brand is the best known among available alternatives in terms of quality, price and economy in usage;
(iii) whether the nails were used effectively and for the purpose intended.

3. INTERNAL AND EXTERNAL AUDITORS

As already stated above, an audit is an examination designed to achieve a stated objective or set objectives. Hence an audit serves as the vehicle for an auditor to satisfy his mandate, which is the expression of an opinion as to the propriety and/or economy, efficiency and effectiveness of some facet of the organisation. In the present day Resource utilisation, the Auditor is very handy to serve the management in its day to day running of the organisation — here he is part of the organisation and he is referred to as an Internal Auditor. But today, we have group of persons coming together and pooling their resources which they place in the care and trust of few persons who are charged to put these resources to a stated and/or economic end. These men are required to render periodic accounts of their stewardship. The Auditor who verifies these accounts for purposes of expressing opinion on them to the owners of the organisation is called external auditor. In any organisation, Auditor may exist to serve either the management or the public or the owners of the organisation or both. But in many institutions/organisations of today, auditors exist to serve both management and the public. His role depends on the type of audit activity that he is carrying out.

The role of the auditor in the various settings may be summarised as follows:-
<table>
<thead>
<tr>
<th>Type of Audit</th>
<th>Objectives</th>
<th>Reports</th>
<th>Auditor's Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Audit</td>
<td>1. Determine the propriety of certain accounting information</td>
<td>If internal audit - management</td>
<td>To serve management, the owner and the public</td>
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<td></td>
<td>2. Evaluate compliance with laid down organisational procedures</td>
<td>If external audit - public or owners of organisation</td>
<td></td>
</tr>
<tr>
<td>Operational/Management Audit</td>
<td>1. Evaluate compliance with procedures</td>
<td>If internal audit - management</td>
<td>To serve management, the public and owners of the entity.</td>
</tr>
<tr>
<td></td>
<td>2. Assess the economy, efficiency and effectiveness in the organisation</td>
<td>If external audit - public and/or owners of the organisation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Evaluate policies and/or procedures of the organisation.</td>
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It is now generally accepted that a sound management set up of any organisation must have a section charged with the responsibilities of an Internal Auditor. Not quite long ago and that is when compliance auditing was the order of the day, the Internal Audit Unit was thought more appropriate to belong to Accounts/Finance Department of any organisation. But current thinking which is based on developments in auditing practices and its contribution to effective, efficient and economic utilisation of scarce resources, favours placing Internal Audit directly responsible to the Chief Executive and in some more forward-looking organisation, the Internal Audit reports direct to Board of Directors.

Here at the Federal University of Technology, Owerri, the Internal Audit exists to assist the Management/Administrators in general and the Vice-Chancellor in particular in the economic, efficient and effective utilisation of all available resources to the University.
It is however, necessary to note the basic propositions on which the philosophy of auditing is based -

(i) Management has the prime responsibility for the Organisation;

(ii) Performance of and execution by an auditor does not relieve Management of this responsibility;

(iii) Auditors are competent and are adequately trained and experienced;

(iv) They must be trusted and seen to possess morale courage to speak courageously on all matters affecting the efficient, economical and effective utilisation of Organisation's resources;

(v) The Auditor is independent;

(vi) The Management must, in this light, ensure that there is a well-developed organigram of the organisation. This organigram shows the various levels of decision-making in the organisation.

The responsibility and functions of the various levels must be well documented. The processes and procedures for decision-taking, execution of decisions and reporting system must be well documented. These processes involve the following stages in the accomplishment of the objective:

(i) Serious thinking on identification/selection of objectives to be pursued;

(ii) Identifying the various means of achieving these objectives and selecting the most acceptable ones;

(iii) Acting on these agreed procedures;

(iv) Controlling actions on agreed procedures;

(v) Seeing that agreed procedures are pursued and agreed objectives achieved and where the agreed objectives are not being achieved, steps are taken to revert to stage one i.e. thinking and agreeing on reasons for deviation and thereon identifying means of ratification.
It is under this atmosphere that the functions of the audit can effectively be utilised since its main responsibility is to ensure that objectives the management has set for itself is achieved, advising at every stage when agreed procedures are not being followed, when better alternatives can be pursued and how objectives can be effectively enhanced.

There is no doubt that little or insufficient resources can create problems of rapid and sustained growth/development, but I am of the strong opinion that any man or organisation that is unable to set up a management outfit that can economically, efficiently and effectively utilise whatever resources that are available no matter the quantity, is on a road to retarded growth or total extinction.

O. A. NWOKOEOCHA