

Effectiveness of Internal Audit as Instrument of Improving Public Sector Management

¹Angus Okechukwu Unegbu and ²Mohammed Isa Kida

¹Accounting Faculty, American University of Nigeria, Yola

²Department of Accounting, University of Maiduguri Nigeria

Corresponding Author: Angus Okechukwu Unegbu

Abstract

The research centered on the use of auditing to improving public sector management using Kano state ministry of finance. Kano state is one of the developed states in Nigeria. In carrying out the research, hypotheses were stipulated, which basically questioned the significant existence of auditing departments in public sector and the effectiveness of auditing in checking frauds in pursuance of constant complain that internal audit department is too understaffed and under resource generally to be fully effective. To test these hypotheses, Chi-square statistical tool was employed. We found out that the Internal audit can effectively check fraud and fraudulent activities in the Public Sector and that Public Sectors in Kano State have significant numbers of Internal Audit Departments to function effectively. It is recommended that Government should provide an adequately equip staff with electronic data processing and also maintains an environment within which internal auditors can have sufficient freedom to accomplish their task efficiently.

Keywords: internal auditing, public sector, management, effectiveness and fraud prevention

INTRODUCTION

There is general awareness all over the world for the need to pay greater attention to the improvement of public sector management. The reason is obvious, government constitutes the largest single business entity and her pattern of expenditure through its various parastatals, agencies and commissions stimulate lot of economic activities. As a result of these Government huge involvements in economic activities, initiatives are being taken all over the world towards improvement of the standards of accounting and auditing departments in government.

The public sector accountant has the responsibility of developing systematic arrangements to assist management in the performance of the services of the institution while the public sector auditor has among other duties, the complementary role to examine whether management actually performs that efficiently. The public sector auditor has to satisfy himself that the account presented have been prepared in accordance with statutory and constitutional requirements and regulation and that proper accounting practice have been observed in their compilation. With the growing size and complexity of public sector in the recent years, the importance of the internal audit has correspondingly increased so that it is today a major factor in establishing the quality of the public sector internal control and its development has made a considerable contribution to the improvement of the public sector management. The purpose of this research is to investigate the effectiveness of using Internal audit as

a tool of improving public sector management using Kano State as a case study.

STATEMENT OF THE PROBLEM

Internal audit is an integral part of the finance structure of public organizations. A constant complaint in the sector is that internal audit department is too understaffed and under resourced generally to be fully effective. There exist a lot of arrears of work due to inadequate staffing of Internal Audit Departments. There is inadequate knowledge of Electronic Data Processing (EDP) and Computer for efficient auditing of computerized systems. Most of the public sector management working papers do not provide adequate documentation because of this problem. Staff of the internal audit department is not well remunerated and it makes them to lack interest in their work. Many adduce the argument that internal auditors, being employees in public sector do not have the liberty to exercise the unbiased and independent attitude so necessary to an auditor. In the heat of the controversies for inept public sector performances, Nigeria as a developing economics and Kano State in particular has to garner her resources for effective developmental utilization and the need for the services of Internal Auditors in the Public Sector becomes more imperative, hence this research into the effectiveness of using Internal audits as instrument of improving Public Sector Management.

OBJECTIVES OF THE STUDY

The objectives of the study are as follows;

- To find out whether Internal Audit Departments of the Public Sector in Kano State are adequately staffed to check fraud and fraudulent activities in such Ministries.
- To finding out the persistent existence of frauds and fraudulent activities in ministries despite the existence and adequate functioning of Internal Audit Departments.

SIGNIFICANCE AND SCOPE OF THE STUDY

There is the need for the internal audit to be effective so as to create improvement in the government parastatals. Positive improvements in the public sector will definitely benefit the citizenry of the Nigerian nation. The research was based mainly on the Kano State ministry of finance Kano, Kano State auditor-General's office Kano, and Internal Audit departments in the Public Sectors of Kano State Government. Decisions and conclusions were only based on the views expressed by respondents and no special investigations were conducted in addition.

RESEARCH HYPOTHESES

In order to achieve the stated objectives, the researchers stipulated the following null hypothesis;

- HO₁: Significant numbers of Public Sector Departments do not have internal audit units.
- HO₂: Internal audit cannot effectively check fraud in Kano State public sector.
- HO₃: There are no significant reasons for the persistent of fraud and fraudulent activities in Kano State Public Sectors save the inadequate staffing and insignificant numbers of public sector audit departments.

THEORETICAL FRAMEWORKS

Unegbu and Obi (2007) defined internal audit as part of the Internal control system put in place by management of an Organization to ensure adherence to stipulated work procedure and as aid to management. According to Unegbu & Obi (2007) Internal audit "measures, analyses and evaluates the efficiency and effectiveness of other controls established by management in other to ensure smooth administration, control cost minimization, ensure capacity utilization and maximum benefit derivation. In the view of Adeniji (2004) Internal audit is part of the internal control system put in place by management of an organization. It is an aid to management; it ensures that the financial operations are correctly carried out according to the law and also in accordance with the wishes of the board or council. Internal audit is a branch of management, which enables compliance with established financial instructions on expenditures. In order to achieve agreed objectives, public sector officers must incur expenses in line with established financial instructions. It is the responsibility of the internal

audit to ensure adherence to these instructions by personnel involved in public sector administration. According to Howard (1998) it is appropriate to contrast the public sector with that of private sector. To the former, the main objective of the enterprise in principles is not to make profit but render services. Nwanyawu (2002) opined that public sector auditing means independent examination of and expression of opinion on the financial statements of government establishment, by appointed auditor in pursuance of that appointment and in compliance with the enabling constitution. The final accounts in the public sector especially for the Federal, State and Local government are classified into funds, including:

- a. Consolidated Revenue Fund
- b. Development Fund
- c. Treasury Fund
- d. Special and Trust Funds
- e. Contingency Fund.

Vos (1997) said that objective of internal auditor is to evaluate effectiveness of financial and operating control, confirm compliance with company policies, procedure, protect assets verify the accuracy and consistency of organization's external and internal reports. Stoner (1994) was of the opinion or view that the objective of internal audit is to evaluate several of the organization's reports for accuracy and usefulness and also recommending improvement of the control system. Owler and Brown (1999) stipulated that the objective of internal auditor is to protect management against errors of principle and neglect of duty. Barker (1999) agreed with Owler and Brown but added that it is to review the operations and record of the undertaking and in the course of these checks much of the detailed work of the organization in respect of financial and other statements are effectively audited. Tracey (1994) is of the view that it is the responsibility of the internal auditor to review how well the accounting system works and also evaluate the effectiveness and efficiency of many operations in the organization. A lot of public sector has been operating without internal auditor. This can be attributed to the fact that few people outside the accounting profession realize the importance of the internal auditor. Emphasis was laid on discharging accountability for the use of owners fund through the internal auditor report. Some public sector management adduces the argument that internal auditors, being employees in public sector do not have the liberty to exercise the unbiased and independent attitude so necessary to an auditor.

Roles and Duties of Internal Auditor

- Internal auditors owe a responsibility to the management and the board, providing them with information about the adequacy and effectiveness of the sector's system of internal control and the quality of performance.

- The internal auditor ensures adherence to all financial, personnel, lending, data processing, the other administrative policy and procedure as well as the economy, efficiency and effectiveness with which resources are used.
- Internal audit serves a major management control tool are to provide an assurance to management that the financial information furnished to management to aid decision making is reliable, accurate and based on reliable records and where otherwise to draw the attention of management to deficiencies in the organization or system of internal control and to highlight areas of management practices requiring corrective actions.

Other responsibilities are:

- To review, evaluate and report on the adequacy or otherwise of financial control framework existing in the agency and its efficiency in assuring property, prudence, completeness and accuracy of the agency's activities and transactions.
- To carry out a complete and continuous auditing of the accounts and records of revenue, expenditures, plant, stores and other property.
- To evaluate whether actual performance is within the established financial control framework (compliance auditing).

According to Johnson (1996) General duties of an internal auditor in the public sector management include the following:

- a. An audited copy of a statement of the accounts is to be submitted in a prescribed form together with any report to the appropriate minister or secretary of state who in turn presents the accounts before the National Assembly.
- b. The auditors must state whether the accounts in their opinion give a true and fair view of the operation affairs.
- c. The auditor must state whether the accounts give all the information required under enabling statute.
- d. The auditors will normally report if they are not satisfied with any aspects of the financial statements.

Purposes of Auditing System in A Public Sector Management

There are three major types of report that are basically germane for auditing purposes. These are for:

1. The internal reporting to managers for purposes of planning and control of current and anticipated operations.
2. The internal reporting to chief Executives and Directors or Managers for institutional policy

decisions and the formulation of long range plans.

3. The external reporting mainly for credibility purpose before external entities, government, financial houses, foreign creditors especially for legislation and decision on lending and investment activities.

Management Control in Public Sector

In the eye of Woolf (1986) the public sector is primarily composed of non-profit making organizations. Management control in its broadest context is the means by which an organization carries out its objectives effectively and efficiently. Public sector management can be generally distinguished as having hierarchical structures composed of responsibility centers, units, sections, departments and divisions. Central government department, the natural health services depend directly on the exchequer for all their funds. If changes are made for certain services they are usually nominal and have a little impact on the level of services offered. Autonomous bodies are subjected to high degree of Central government control. Local government authorities receive by far the largest proportion of their funds through the rate support grant or allocation. They can equally raise revenue locally, primarily by levying rates; the extent of their power is strictly monitored by central government. Therefore, the management and control of the public purse is the heart of government administration. The internal audit reports directly to the chief executive, the financial regulations, however, enjoins the chief executive of each ministry to ensure that the accounting and finance functions and internal audit functions are placed under the direct control of suitable competent accountants.

Economic Implications Of Ineffective Internal Auditing System In The Public Sector Management

The dramatic collapse of the global stock markets and subsequent economic crises with its impacts, which accompanied it, resulted in a sharp concentration in both public and private sector established in Nigeria. For an economic development of any public sector to be put correctly as well as guard the pattern its revenue and expenditure, a proper record of the expenditure items must be kept. The effectiveness of auditing System can be reinforced. Economically, internal auditing is meant for internal consumption with varying socio-economic benefits. In Public Sector according to Azubike (2002), internal control is highly effective in increasing the reliability of accounting data and in protecting against fraud. The economic implications of an ineffective auditing system in a public sector management are the negative aspects of the positive development of the auditing system such as:

- i. Inability to plan effectively due to the availability of unconfirmed financial operations of the enterprise in past years.
- ii. Inability to make effective financial decision.
- iii. Lack of credibility of enterprise before external entities-government financial house, creditors etc.
- iv. Inadequacy of information about the enterprise's assets.
- v. Inability of the enterprise to rely on any proper statement on past, current and proposed future balance sheet on revenue, revenue sources, expenditure items, profits and losses.
- vi. Difficulties in controlling the financial operations of the enterprise.
- vii. There is the possibility of the emergence of fraud.
- viii. Inability to detect easily the compliance of enterprise financial accounts with the requirement of law.

Reasons for ineffectiveness of internal auditing in the public sector management are as follows.

- **Lack of Audit Manual:** The absence of standard internal audit manual and detailed audit work plan will affect the quality of audit work particularly for internal auditors who are either non-accountants or non-qualified accountants.
- **Non-Career Auditors and Lack of Growth Prospect:** Most internal auditors who are professionally qualified accountants have been prevented from ascending to levels or status that are equivalent to those held by their professional colleagues in the finance/accounts department. This gives such colleagues in the accounts department an advantage and a feeling of superiority to the internal auditor hence they stifle with impunity the process of information flow to the auditor and makes available only thing they want the auditor to see.
- **Reporting Structure and Professional Independence:** The internal auditor used to be a unit of the accounts department in the past but to ensure a level of independence, they were made to report directly to the Chief Executive. The change however negatively impacted on Public Sectors as most Chief Executives are political office-holders, having no permanent interests and leading to non-commitment to internal audit reports.
- **Scope of Work:** The absence of a proper definition of the duties, rights, privileges and limitations of the internal auditors also inhibits the satisfactory performance of his duties.

- **Privileges Of Office:** The lack of adequate remuneration and pre-requisites of office has made some internal auditors to compromise their positions in favor of fraud stars.
- **Hazards Of Office:** Another factor, which impairs internal audit efficiency, is the hazards that stare the honest and principled internal auditor in the face there are reported cases of assassinations, burglary, native medicine and acid attacks on the lives and properties of internal auditors.

RESEARCH METHODS

Brief on the Population of study:

Kano State is located in North-Western Nigeria. Created on May 27, 1967 from part of the Northern Region, Kano state borders Katsina State to the north-west, Jigawa State to the north-east, and Bauchi and Kaduna states to the south. The capital of Kano State is Kano. The ministry of finance is charged with the responsibility of formulating and implementing the financial, monetary and overall development plan policies of the state Government. It is also responsible for the collection, safekeeping and disbursement of Government funds in such a way that efficiency in the utilization of the financial resources is enhanced just as it collects and analyzes vital statistics for rational decision-making. The following parastatals are under the supervision of the ministry:

- i. Kano State Investments and Properties. Ltd (ksip)
- ii. Board of Internal Revenue
- iii. State Pension Board
- iv. Kano State Computer Center

DATA COLLECTION AND ANALYSIS:

The researchers made use of questionnaires. The techniques used in analyzing the collected data is chi-square statistical tool with SPSS version 16 based. Five hundred and eighty questionnaires were administered, half each to willing and available Accountants and Auditors of various levels in the Public Sector of Kano State. A total of five hundred and ten questionnaires were turned in and correctly filled.

ANALYSIS OF DATA AND HYPOTHESIS

TESTING:

To test hypothesis 2 which states that internal audit cannot effectively check fraud in the public sectors, we used the result from question one, the data which appeared in table 1 below;

Table I. Can the internal auditor effectively check fraud in the public sector management?

Categories	Responses		Total
	Yes	No	
Auditors	153	102	255
Accountants	191	64	255
Total	344	166	510

Testing of hypothesis 11: Internal audit cannot effectively check fraud in the public sectors

To test the stated hypothesis, we made use of Pearson's Chi-square statistical tool, using SPSS based program. The result appeared as seen in tables 2 and 3.

Table 2: Answers from Respondents – Crosstab of Effectiveness of Internal Audit

			Frequencies				Total
			64	102	153	191	
Answers	Yes	Count	0	0	153	191	344
		Expected Count	43.2	68.8	103.2	128.8	344.0
		% within Frequencies	.0%	.0%	100.0%	100.0%	67.5%
		% of Total	.0%	.0%	30.0%	37.5%	67.5%
	No	Count	64	102	0	0	166
		Expected Count	20.8	33.2	49.8	62.2	166.0
		% within Frequencies	100.0%	100.0%	.0%	.0%	32.5%
		% of Total	12.5%	20.0%	.0%	.0%	32.5%
	Total	Count	64	102	153	191	510
		Expected Count	64.0	102.0	153.0	191.0	510.0
		% within Frequencies	100.0%	100.0%	100.0%	100.0%	100.0%
		% of Total	12.5%	20.0%	30.0%	37.5%	100.0%

Table 3: Chi-Square Tests of effectiveness of Internal Audit to check fraud in the Public Sector

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	5.100E2 ^a	3	.000	.000		
Likelihood Ratio	643.558	3	.000	.000		
Fisher's Exact Test	623.203			.000		
Linear-by-Linear Association	4.196E2 ^b	1	.000	.000	.000	.000
N of Valid Cases	510					

Discussions of the Result of Hypothesis 2:

From the result of table 3, which shows that $p < 0.05$ meaning that the outcome is significant, we therefore reject the null hypothesis. The null hypothesis states that internal audit cannot effectively check fraud in the public sectors, is hereby rejected because the significance level of the result is very high.

Outcome of Question 2 and testing of hypothesis 1:

Table 4: The internal audit department does not significantly exit in the public sector?

Categories	Responses		Total
	Yes	No	
Auditors	153	102	255
Accountants	64	191	255
Total	217	293	510

Table 5: Crosstab of the Significance level of exists of Internal Audit Department in the Public Sector

			Frequencies				Total
			64	102	153	191	
Answers	Yes	Count	64	0	153	0	217
		Expected Count	27.2	43.4	65.1	81.3	217.0
		% within Frequencies	100.0%	.0%	100.0%	.0%	42.5%
		% of Total	12.5%	.0%	30.0%	.0%	42.5%
	No	Count	0	102	0	191	293
		Expected Count	36.8	58.6	87.9	109.7	293.0
		% within Frequencies	.0%	100.0%	.0%	100.0%	57.5%
		% of Total	.0%	20.0%	.0%	37.5%	57.5%
	Total	Count	64	102	153	191	510
		Expected Count	64.0	102.0	153.0	191.0	510.0
		% within Frequencies	100.0%	100.0%	100.0%	100.0%	100.0%
		% of Total	12.5%	20.0%	30.0%	37.5%	100.0%

Table 6: Chi-Square Tests of the Significance level of existence of Internal Audit in the Public Sector.

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	5.100E2 ^a	3	.000	.000		
Likelihood Ratio	695.642	3	.000	.000		
Fisher's Exact Test	674.858			.000		
Linear-by-Linear Association	68.706 ^b	1	.000	.000	.000	.000
N of Valid Cases	510					

Discussions of the result of hypothesis 1:

Though the Crosstab outcomes of hypotheses 1 and 2 differed, their outcome of chi-square tests seems the same. As the result showed that p is significant, we reject the null hypothesis which states that significant numbers of Public Sector Departments do not have internal audit units.

Testing of Hypothesis 3:

The data for this which were collected for the test of hypothesis 3 came of the question which asked respondents to list reasons for persistent existence of fraud and fraudulent activities in Kano State Public Sectors despite the presence of internal auditors in those offices. The collected data appeared as depicted in table 7

Table 7: Frequency table of reasons for the persistent existence of Fraud and Fraudulent activities in Kano State Public Sectors other than inadequate staffing & insignificant numbers of Public Sector audit Departments

S/N	Reason	Frequency of Assertions
1	Internal Audit Reports are hardly considered for decisions by Management	300
2	Lack of existence and knowledge of EDP, Computer and Computer Aided Audit programs in the Public Sector audit departments	200
3	Lack of progressive career structure and conducive working environment of audit staff	350
4	Non written , Non seen but real belief system that public sectors are avenues of embezzlements of funds and self appropriations of Government funds by those appointed to safeguard such assets	200
5	Inadequate staff remunerations in public sectors and lack of accountability legislations for Chief Executives of those Parastatals.	400
6	Chief Executives of Public Sectors are not career and professional officeholders but politicians who had no commitments to the office in which they are in-charge. They perceive their appointments as political settlements.	430
7	The Nigerian legal system which makes for prosecution of Frauds and embezzlements in public sectors complex and costly.	150

Table 8 Univariate test on Frequent Assertions

	Sum of Squares	df	Mean Square	F	Sig.
Contrast	113550.000	7	16221.429		
Error	.000	0			

Discussions of The Result of Hypothesis 3

Both univariate test on reasons of continued persistent of fraud and fraudulent activities in Kano State Public Sector assertions as shown in table 8 and the pair-wise test showed that the results are significant, hence we reject the null hypothesis which states that there are no

CONCLUSION AND RECOMMENDATIONS

I also recommend that the internal auditors should ensure that reviews of various departmental functions of There is an inevitable need for today's auditors to acquire the requisite technique and skills in computer

operations and electronic data processing because of the impact, which the advent of computer has made in our lives. It is envisaged that some task such as salary preparation, pension accounts, automation of vote book recording and many other could be tapped. In a system where manpower or manual operation are in use as it is a known fact, auditors are expected to operate at a tolerable level of performance for total system to run properly. Therefore training personnel as well as other training infrastructure becomes an important ingredient in the successful operation of control in such government parastatals, public sector organizations are carried out periodically in order to identify weaknesses in executing responsibilities and make recommendations for improvements such reviews should either be weekly, bi-weekly or monthly. Heads of internal audit unit should be in attendance at top management meetings to be aware of policies affecting organizational objectives.

REFERENCES

Adeniyi A.A (2004): Auditing and Investigations Wyse Associates Limited, Ikeja Nigeria. Pp.204

Azubuike. J.U.B (2002): Auditing: A Nigeria Perspective Mantle Publisher Owerri., pp.3-25

Barker E (1999): Organization and Management Accounting Hill Book Company Inc. New York. P60

Howard F. (1998); Principle and Accounting Practice. The Chencer Press Ltd. Britain. pp.50 -55

Johnson I.E. (1996): Solving Public Sector Management Accounting Problems: Star Press Lagos pp.15.

Nwanyawu L A. (2002): The role of Internal Auditors in Public Sector Administration pp.5

Owler L. & brown J.L. (1999): Cost and Management Accounting Methods Macdonald & Evans Press London pp.39

Stoner A.F. (1982): Management Practice Hall inc. Company New Jersey pp.44

Tracey J. (1994): Fundamentals of Financial Accounting John curly and sons inc. New York. pp.17

Unegbu A.O. & obi B.C. (2007): Auditing Hipuks Additional Press Uwani Enugu. pp.7

Vos P.M. (1987): Auditing Practice Macdonald & Evans Press Ltd. London pp.72

Woolf E (1986): Auditing today U.K. practice Hall International Ltd. U.K. pp. 36