Role of Internal Audit in Nigeria Local Governments: A Case Study of Ijebu Ode Local Government of Ogun State, Nigeria

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Abstract

Internal audit has become an unavoidable control mechanism in both public and private sectors. The importance of sound and effective audit of the finance of local authority cannot be over stressed. Without effective internal auditing, the policies adopted by the local authorities in a great variety of fields may not be capable of successful implementation and sometimes even provide stimulus to the implementation of policies. Thus the study examined the effectiveness of internal auditing as an instrument of internal and financial control in Ijebu Ode Local government of Ogun State, Nigeria. Both primary and secondary sources of data were utilized for the study. The primary data were collected through questionnaires in which 55 questionnaires were administrated to the staff of finance and internal audit department of Ijebu Ode local government out of which only 50 questionnaires were completed and returned. The questionnaires were administered using simple random sampling technique and analyzed by the use of simple statistical techniques such as frequency distribution and percentage. Secondary sources of data were generated from relevant text books, journal, internet sources etc. on the field of internal audit and local government. The study revealed that there are many problems militating against the role of internal audit in ensuring effective internal and financial control at Ijebu Ode local government of Ogun State which include lack of independence under staffing, weak internal control, lack of compliance with general audit standard, poor remuneration, lack transparency, lack of qualified staff etc. The study concluded that internal audit at the local government should be independent of political and management interference and auditors should well be paid so that they can carry out their duties effectively.

Keywords: Financial Control, Internal Audit, Internal Control, Lack of Independence, Local Government,

Introduction

Internal audit is an important link in the business and financial reporting processes of corporations and not-for-profit organizations. Internal audit unit plays a key role in monitoring company’s risk profile and identifying areas to improve risk management (Ejoh & Ejom, 2014). According to Izedomi (2000), internal audit involves an independent examination of the financial statement of an enterprise prepared by the management of that enterprise by an appointed person called auditor in order to express a professional opinion whether or not those financial statements show a true and fair view position of the enterprise as at
the end of the financial period in accordance with the auditor terms of engagement as well as other relevant statutory and professional regulations. Therefore, there is need for the internal audit of local government to be effective in order to achieve its stipulated objectives.

In Nigeria, research has shown that the internal audit at local government level is not effective (Kuta, 2008, Musa, 2012). In view of the above issues, the paper intends to highlight the problems militating against effectiveness of internal audit as an instrument of internal and financial control in the local government with reference to Ijebu Ode Local Government of Ogun State, Nigeria.

**Literature Review**

**The Concept of Internal Audit**

Venables and Impey (1998) describe internal audit as a function that management has chosen to establish as part of the process of monitoring performance to help achieve the operational targets and plans of the organization. Institute of Internal Audit (2009) defines internal audit as an independent, objective assurance and consulting activities designed with the intention to add value and improve an organization’s operations. From the above definition, it is clear that internal audit should be designed in such a way to be independent and objective in order to evaluate and improve the effectiveness of risk management, control and governance processes at the same time, the internal audit are expect to provide assurance and consulting service.

Unegbu and Kida (2012) define internal audit as an aspect of the internal control system established by management of an organization in order to ensure proper compliance with the stipulated policies and procedure in order to achieve management objectives. This definition indicates that the internal audit is part of internal control system established with the organization with the aim of evaluating the efficiency and effectiveness of other controls established by management.

**Scope and Objective of Internal Auditing**

Millichamp (2000) and Sani 2009) identify the common areas covered by internal auditing which include among others; reviewing the internal control system with a view to determining its adequacy and effectiveness, reviewing compliance with government regulations and account rules and standards, checking compliance with policies and procedures, safeguarding the asset of the organization so as to prevent and detect errors, frauds and theft, appraising the effectiveness and efficiency in the use of resources, ensuring that the goals and objectives of the organization are attained, making recommendations on improvement in the operation of the organization, acting as in-house consultant on control matters.

According to the financial memorandum of local government (1999), the objectives of internal audit are:

1. To assist in protecting the assets and inherent of the local government by carrying out a continuous examination of activities in order to detect fraud, misappropriation, irregular expenditure and losses due
to waste, extravagance and non-administration.

2. To ensure the continued maintenance of soundly based system of control with each area of departmental responsibility.

3. To review and where necessary, make recommendation for the improvement of systems, control procedures to ensure that they are both efficient and effective and that they remain adequate in the light of changing circumstances and are adhere to in practice; and

4. To monitor the use of resource in the pursuit of the defined objectives of the local government.

The memorandum also stated that the internal auditor shall report to the chairman at least four times each year on the progress of the internal audit work. The reports shall specifically indicate the internal auditor’s finding with respect to; the collection of revenue, the protection of physical and other assets of the local government, the current and capital expenditure, the efficiency and effectiveness of system control and procedure, the use of resources of the local government in achieving its objectives, any instance of fraud or misappropriation observed by the internal auditor should be revealed to the chairman’s attention.

**Evolution of Internal Audit**

The major factors that led the emergence of internal auditing was a result of the span of control faced by management in business activities which involve the employment of thousand of people and conducting operations in many places. Falsifications and improperly maintenance of accounting records were among the problems, also growth in the level of transactions contributes towards the needs of an internal audit.

The evolution of modern internal auditing commenced in 1941 at the time when the Institute of Internal Auditors (IIA) was formed. Since the inception of the Institute of Internal Auditors, the scope of internal auditing has expanded to include the appraisal of all operations of the enterprise (Sawyer et al). The evolution of internal auditing has seen the practice shifting from an accounting – oriented craft to a management oriented profession. Internal auditing has also moved from attesting to the accuracy of financial matters to providing services that include the examination and appraisal of both controls and performance throughout public and private entities (McNamee and Georges, 1998).

By the year 1978, IIA formally approved the standards for the professional practice of internal auditing which had the following motives: Helping in communicating to others the scope, role, performance and objectives of internal auditing; unifying internal auditing throughout the world and improved auditing; establishing the basis for consistent measurement of internal auditing operation and ensure the recognition of professionalism of internal auditing among others (Mu’azu and Saidin, 2012).

By the year 2002 to date, the new definition of internal auditing was designed by IIA which encompasses the professions through the expanding of the roles and
Responsibilities of internal audit by defining it as an independent, objective assurance and consulting activity which is designed to add value and improve an organization’s operations. Therefore, the internal audit is required to put more efforts towards improving organizational operations.

Roles of Internal Audit
It is imperative that internal audit function assists the organization by ensuring that there is adherence to organizational procedures and policies and accurate maintenance of financial records. Some of the roles of internal audit include:

i. To improve efficiency from investigations and report of an organization.
ii. To act as a deterrent to inefficiency, waste, and fraud in an organization.
iii. To ensure that government risks were being addressed through a strong control environment that promoted an effective internal audit function across the government; and
iv. To serve as a pool from which high caliber staff can be seconded to other units within the organization to fill management positions.

Features of an Effective Internal Audit
Laker (2006) identifies the following as the characteristics of internal audit:

i. Structure and Resources
ii. Independence
iii. Approach
iv. Internal Audit Plan
v. Reporting

Functions of Internal Audit
According to Damagun (2003), the functions of the internal audit are as follows:

i. Review of accounting system and related internal controls.
ii. Examination of financial and operating information for management.
iii. Review of the economy efficiency and effective non-financial control.
iv. Review of the implementation of corporate policies plans and procedures and special investigations.

Internal Audit at the Local Government Level
In Nigeria, Civil Source Reforms in the local government service (1998) as contained in the implementation guideline in section 12 (12) state that an internal audit department or unit shall be established in each of the local government in Nigeria (Aruwa, Ibid). Additionally, Internal auditors of every local government should be accountable to the accounting officer and Auditor General of the local government council on the real situation in terms of conformity with the standards of the audit work and also the internal auditor shall issue special reports, where necessary (Barkan, Gboeyga and Stevens, 2001).

By its structure, the internal audit is a service department and such, it is essential that it should not be connected to finance
and account unit and ideally the head of internal audit should belong to top management and should report to the audit committee. The main objective of internal auditors at local government level is; to promote accuracy and reliability in accounting and operating data, to safeguard government resources against waste, fraud and efficiency, to measure the extent of the operating departments compliance with government policy and to evaluate the overall efficiency of the operating functions (Adams, 2004).

Concept of Financial Control
Adams (ibid) and Mainoma 2001) define financial control as the steps taken to ensure maximum safe custody of financial resources in order to avoid waste, misuse embezzlement, misappropriation or illegal disposal of public finance. Anfayo (1994) defines financial control as an element that requires due consideration in public sector, because no organization can function effectively without a sound and effective financial control in their operational activities.

In view of the above contributions, it can be seen that financial control is very important in organization operation because it is concerned with the steps taken to ensure maximum safe custody of financial resources in accordance with legislation, accounting manual and even organization policies to avoid waste, misuse, embezzlement and misappropriation of financial resources.

The Concept of Internal Control System
Oshisani (1993) regards internal control system as the managerial functions of defining and allocating responsibilities and identifying line of reporting that encompass all aspects of operations for the attainment of corporate objectives of an organization. Adejola (2009) refers to internal control system as all the policies and procedures adopted by a management of an establishment, institution or organization to achieving management objectives of ensuring, the orderly and efficient conduct of its business. This include adherence to management policies, safeguard of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information.

Methodology
The study was carried out in Ijebu Ode Local Government of Ogun State Nigeria. The local government area is bounded in the North by Ijebu North, in the east by Ijebu East Local Government in the South by Lagos State while Odogbolu Local Government is to the western side. The local government has 18 wards and the main occupation in the local government are trading, farming and manufacturing.

Data survey method was used in selecting the respondents for the study. 55 questionnaires were administered to the staff of finance and audit department of the local government of out of which 50 questionnaires were completed and returned. The questionnaires were administered using simple random sampling technique and analyzed by simple statistical technique such as frequency distribution and percentage. The analysis is based on the Yes or No option.
Result and Discussion

Based on the data collected and the responses received the results of the analysis are presented and discussed below:

Table 1: Existence of Internal Audit

<table>
<thead>
<tr>
<th>Responses</th>
<th>Respondents</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2016

Table 1 above shows that the entire respondents are of the opinion that, internal audit exists in Ijebu Ode Local Government of Ogun State.

Table 2: Compliance of Internal Audit with General Standard

<table>
<thead>
<tr>
<th>Responses</th>
<th>Respondents</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>No</td>
<td>38</td>
<td>76</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2016

The table 2 above clearly shows that 12 (24%) respondents agree that internal audit unit comply with general standard of auditing while 38(76%) are of the view that internal audit doesn’t comply with the general standard of auditing. This shows the internal audit it of Ijebu Ode Local government does not comply with general of standard of auditing profession.

Table 3: Dearth of Qualified Audit Personnel

<table>
<thead>
<tr>
<th>Responses</th>
<th>Respondents</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2016

The data collected and presented above shows that 50 (100%) respondents agreed that there is dealth of qualified audit personnel in the local government.

Table 4: Lack of Independence

<table>
<thead>
<tr>
<th>Responses</th>
<th>Respondents</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field survey, 2016

Table 4 above shows that all the respondents agree that there is lack of independence because of the internal audit unit is under the chairman’s office and the management interference at local government level.
Table 5: Weak Internal and Financial Control

<table>
<thead>
<tr>
<th>Responses</th>
<th>Respondents</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>46</td>
<td>8%</td>
</tr>
<tr>
<td>No</td>
<td>4</td>
<td>92%</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Source: Field Survey, 2016**

Table 5 above shows that majority of the respondent attest to the fact that there is weak inter and financial control in the local government due to political and management interference.

Table 6: Lack of Transparency and Inadequate Financial Record

<table>
<thead>
<tr>
<th>Responses</th>
<th>Respondents</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>42</td>
<td>8%</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
<td>92%</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Source: Field Survey, 2016**

Table 5 above reveals that majority of the respondent agree that there is lack of transparency and inadequate financial records in the local government.

Table 7: Poor Remuneration

<table>
<thead>
<tr>
<th>Responses</th>
<th>Respondents</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>50</td>
<td>100%</td>
</tr>
<tr>
<td>No</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Source: Field Survey, 2016**

Table 7 above shows that all the respondents agree that internal auditors are poorly remunerated. The implication of this that qualified auditors will look for greener pastures in order organizations where they will be well paid.

**Recommendations**

Based on the review conducted on related literature and the analysis and the results of data made the following are major findings of the study.

1. The Ijebu Ode Local Government complied with the 1978 provision of Civil Service reforms that each local government should have internal audit unit to provide a complete and continuous audit of the account and records of revenues and expenditures.
2. The local government’s internal auditors lack proper independence in conducting their duties.
3. The local government has weak internal and financial control.
4. The local government internal audit does not comply with general standard of professional auditing.
5. The internal audit lacks transparency and inadequate finance records in the discharge of their duties.
6. There is dearth of qualified audit personnel due poor remuneration
Based on the findings of this study, the following recommendations are made:

i. The internal audit at the local government should be independent of political interference so that they can carry out their duties effectively.

ii. There should be evaluation of control in order to determine their effectiveness in operation and identify weakness so that corrective action can be taken.

iii. Qualified and competent staff needs to be recruited into the audit department of local government in order for the unit to function effectively.

iv. There should be training and retraining of internal auditors through seminars, workshop and symposium in order to improve their effectiveness on internal and financial control.

v. Internal auditors should be transparent and uphold integrity in the discharge other duties.

vi. Adequate financial records should be made available by internal auditors.

vii. The Federal Government should make provision to include the office of the Auditor General for local government in the constitution of Federal Republic of Nigeria to enable the office have constitutional banking and legally approved to carry out its statutory functions.

References


Professional Practice of Internal Auditing. 

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