

# Determinants of Internal Control Effectiveness in Public Organisations In Nigeria

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## ABSTRACT

*Auditing as a concept is fundamental to the accounting profession. The establishing of internal audit function is important as an essential internal assurance mechanism in public financial controls and as a tool for monitoring and evaluating financial management activities in government agencies. Besides, it will assist government organisations to achieve accountability and integrity, improve the implementation of government programs and develop confidence among citizens and stakeholders as well as to lead to use public fund efficiently and cater any risk of mismanagement of public fund. Audit services also can help organization for the success of better financial management in public service by playing the effective and efficient roles to promote better governance in managing public money. The need for internal control effectiveness in the public universities is due to issue of corruption and to ensure accountability in utilization of funds entrusted with those managing the universities. Hence, this paper focused on the determinants of internal control effectiveness in public universities in Nigeria. It specifically examined the influence of top management support and independence of internal auditors on the internal control effectiveness in public universities in Nigeria. It is a library type of research and employed secondary source of information which were obtained from text books, journal articles, seminar and conference papers. This study conceptually reviews related relevant literature and outcomes of extant studies were inconsistent and inconclusive on the specific objectives. The study therefore concluded and recommended that there is need for further study by way of empirically validating extant studies.*

**KEYWORDS:** *Management Support, Internal Auditor Independence and Internal Control Effectiveness*

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## I. INTRODUCTION

Auditing as a concept is fundamental to the accounting profession. The establishing of internal audit function is important as an essential internal assurance mechanism in public financial controls, and as a tool for monitoring and evaluating financial management activities in government agencies. Besides, it will assist government establishments to achieve accountability and integrity, improve the implementation of government programmes and develop confidence among citizens and stakeholders as well as to lead to use public fund efficiently and cater any risk of mismanagement of public fund (Ayitenew & Lakech, 2018). Audit services also can help organization for the success of better financial management in public service by playing the effective and efficient roles to promote better governance in managing public money.

The issue of internal control effectiveness is critical to the survival of public universities (Frazer, 2016; Radzi, Nor, & Ali, 2017). The need and greater demand for internal control effectiveness is necessitated by corporate fraud, business failures, corruption and to ensure accountability by those entrusted in the management of resources in public universities (Dimitrijevic, Milovanovic & Stancic, 2015; Muhunyo, 2018; Adetayo & Oluwakemi, 2019; Nweze, 2019). Soh and Bennie (2011) note that internal control effectiveness is due to different reasons like internal control-risk management system, the need to improve organizational efficiency and effectiveness through constructive criticism and recommendation about organizations status. Others are reduced information asymmetry during decision making; to serve as an important internal assurance in the business and financial reporting process of corporation (Cohen & Sayag, 2010; Mihret & Yismaw, 2007). Effectiveness is concerned with doing Internal control forms part and parcel of the public sector accountability and ensuring credibility in delivering benefits of governance to the citizenry (The Ministry of Finance and Economic Development, 2004). Public sector provides services such as financing, education, communication service, healthcare, police, transportation, electric services, and security, etc. which benefit all of the society (Getie Mihret & Yismaw, 2004). The composition of the public sector is varied by their function and purposes, but in most cases, they are designed to enable the government achieve their goals.

Public sector establishment like public universities are part of the public body which are partly or wholly financed by government budget. Undoubtedly, the efficiency and effectiveness of the management

operations in the public universities are ensured by the effectiveness of audit staff. As part of the key employees in public universities, internal auditors are expected to work independently and objectively to enhance high quality in the universities, achieve good internal control system, avoid corruption, ensure good corporate governance system, promote accountability and greater transparency (Coran, 2008; Van Peuren, 2005). Internal control effectiveness can be enhanced and influenced by factors like support of management, experienced internal audit staffs and an independent internal audit departments (Alzeban & Gwilliam, 2014; Huong, 2018). Drogalas George, Karagiorgos Theofanis & Arampatniz Konstantinos (2015) state that independence of internal auditor, management support and the competence of internal auditor are crucial determining factors to be considered in the enhancement of internal control effectiveness. For an audit to be meaningful the audit unit must be seen to be truly independent and the report produced by competent internal auditor will assist in providing information for planning, decision making and performance evaluation in the public universities.

Effectiveness is concerned with doing something capable of producing desired result while internal control is a general term for all the processes and procedures that management put in place of work to ensure protection of assets, and that all business activities are in line with those policies and procedures entails series of procedures. The internal control system is a vital course of action that organisations use to improve their organizations' attainment of goals and objectives, improve operational efficiency and strength. Lending credibility theory has showed that internal control effectiveness can assist to promote credence and accountability to stakeholders about financial statements prepared and management's stewardship (Egbunike & Egbunike, 2017). The completeness and accuracy of accounting records, timely preparation of financial information, can only be achieved if the proper internal control system is in place. Muhunyo (2018) notes that a sound internal control effectiveness assist universities to prevent frauds, errors and minimize wastage. In effect, effectiveness of the internal control can help in judicious use of funds and resources by those charged with such responsibilities in the public universities. Hence, this study investigates determinants of internal control effectiveness in the public universities in Nigeria.

Internal auditors have the right and ability to access all information in every part of an organization as provided for by the law and their functions lie at all the activities of corporate governance system. All stakeholders are expected to benefit from internal audit functions as such functions often provide value to other cornerstones of corporate governance in the organization (Smet & Mention, 2011). Unfortunately, the internal audit staff are organized inefficiently with low technical staff proficiency, that does not prepare a strategic plan to conduct their activities in order to produce effective internal audit output to their universities (Cohen & Sayag, 2010; Arena & Azzone, 2009; Mihret & Yismaw, 2007). Similarly, internal auditors have many roles and contributions to make to the organization and the public interest, but it also faces many challenges from the organization they work. Some of the challenges identified by the Ministry of Finance and Economic Development (2004) in their internal audit manual are lack of management support, lack of independence, assigning of internal auditors to many tasks and being ignored (conflict of interest) as well as lack of ethical conduct and professional development. Besides this, the audit evidences are attached to their annual reports but due to their limited access for readability, limited distribution to the senior management officers and low level of follow-up for the implementation of audit recommendations, the overall responses by the management to the internal audit (AI) findings and recommendations appear to be generally inadequate in the universities. Mihret and Ysimaw (2007) noted in their study of Ethiopian Public Universities that internal audit recommendation are afforded enough management attention and support which adversely affect the effectiveness of internal audit. Also, lack of mechanisms in place to follow up the implementation of internal audit recommendations; absence of strategic plan and consistent documentation styles for audit work, lack of resources, poor leadership for appropriate framework to measure IAF performance and lack of competent personnel are also some challenges of internal auditors (Mihret & Yismaw, 2007).

Moreover, the number of actual audit work performed in a period is usually less than the number of audits stated in the annual audit plan and this does not make for effectiveness of the internal auditors in the system (Mihret & Yisman, 2007). Poor internal control effectiveness for example in the public universities can be attributed to inadequate personnel, lack of qualified audit staff, cost of implementation, and inability to segregate duties (Feng, Mc Vay & Skaife, 2015).

The main objective of this study is to investigate determinants of internal control effectiveness in the public universities in Nigeria, while the specific objectives are:

- (1) To examine the influence of top management support on internal control effectiveness in Nigerian public universities;
- (2) To examine the influence of independence of internal auditors on internal control effectiveness in Nigerian public universities;

## II. LITERATURE REVIEW

### 2.1 Conceptual Review

#### Internal Control Effectiveness

Internal control effectiveness cannot be fully examined without briefly looking at the concept of internal audit. In the accounting profession, audits play a crucial role in serving the public interest by increasing the accountability of managers and reinforcing trust and confidence in financial reporting process of corporations and not for profit providers at organizational level (Reynolds, 2009). Deepak (2010) sees internal audit as an independent and objective assurance and consulting function designed to help an organization to achieve its objectives. Deepak (2010) further identifies the objectives of internal audit to include: effectiveness and efficiency of operations (programmes and projects), reliability of financial and operational information, safeguarding of assets, compliance with rules and regulations and prevention and detection of fraud. According to Unegbu and Obi (2012), internal audit is 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. They believe that internal audit measures, analyses and evaluates the efficiency and effectiveness of other controls established by management in order to ensure smooth administration, control cost minimization, capacity utilization and maximum benefit derivation.

Enofe, Mgbame, Osa-Erhabor and Ehiorobo (2013) contend that the aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism. This means that identification of areas of weakness and suggestions for improvement are the main thrust of internal auditing. Internal audit helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. (The Institute of Internal Auditors, North America, 2018). The Institute of Internal Audit (2010) sees internal audit effectiveness 'as the degree (including quality) to which established objectives are achieved.' In effect, internal audit (IA) is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.

The issue of internal control effectiveness is concerned more with the outcome of effective internal audit system helps in achieving performance, profitability and prevents loss of revenues particularly in public sectors (Vijayakumar & Nagaraja (2012). Shoommuangpak and Ussahawanitchakit (2009) defined internal control effectiveness as achieving audit's objective by gathering of sufficient and appropriate audit evidence in order to express reasonable opinion regarding the financial statements compliance with generally acceptable accounting principles, Mizrahi and Ness-Weisman (2007) express internal control effectiveness as the number and scope of deficiencies corrected following the audited process.

However, the idea of internal control was initiated by the American Institute of Certified Public Accountants (AICPA) in 1949 (Frazer, 2011). Pang and Li, 2013 and White House (2013) stated the 5 components of COSO internal control framework as: (a) control environments, (b) risk assessment, (c) control activities, (d) information and communication, and (e) monitoring (Whitehouse, 2013). The first four components relate to the design and generation of the system of internal control while the fifth component ensures that internal control operates without hindrance (Missioura, 2014). In 1985, the COSO of the Treadway Commission introduced internal control on the presentation of financial reports, which assisted in improving internal control efficiency in public universities. The fifth component ensures that feedback from monitoring is passed to management (Missioura, 2014) COSO of the Treadway Commission recommended the format for presentation of the financial report which is of benefit to public universities by improving internal control (Egbunike & Egbunike 2014). The COSO report of 1985 also recommends that owners of small businesses should establish internal control system in order to ensure that objectives are accomplished, operations effectiveness and efficiency, sound financial reporting and compliance with relevant laws and regulations (Leng & Zhao, 2013). Soininen, Puumalainen, Sjogren and Syrja (2012) stated that most companies are now adopting internal control for financial reporting, prevention of fraud and control of organizations. COSO advised that where there is no segregation of duties, there should be management examination and reconciliation to boost internal control (White house, 2013). The most effective activity an organization can embark upon to minimize fraud is to improve its internal control practices (Leng & Zhao, 2013). observed that the greatest problem with internal control activities is the absence of controls. When separation of functions is lacking, COSO directs attention to the use of management examination and reconciliation to boost controls (Whitehouse, 2013).

#### Top Management Support and Internal Control Effectiveness

Top management support is very critical for the proper functioning of the internal audit department (Dellai & Omri, 2016). Internal auditing definitions encompass good governance which depends to a large extent on the professionalism of top management to ensure effective internal audit function (Alzeban & Gwilliam, 2014; Carcello, 2015). Top management offers ample evidence for the key role of top management support in the success of almost all programs and processes within an organization. Fernandez and Rainey

(2006) argued, based on a thorough literature review, that top management support and commitment to change play a crucial role in organisational renewal, as senior managers can mobilise the critical mass needed to follow through on efforts launched by one or two visionary thinkers. have demonstrated that support for internal auditing by top management is an important determinant of its effectiveness (Schwartz, Dunfee & Kline 2005). Cohen and Sayag, (2010) indicated that top management must give full support for funding various audit training programmes and facilities in order to ensure effectiveness in internal control.

With the support of top management, internal auditors can obtain sufficient resources to execute their duties and responsibilities, and the internal audit function can employ qualified staff and provide continuous training and development (Alzeban & Sawan, 2013; Cohen & Sayag, 2010). Onumah and Yao Krah (2012) reported that one of the barriers to effective internal auditing in the Ghanaian public sector is lack of management support. Previous studies have argued that management support is very crucial for the objective of the internal audit department to be achieved. For instance, Ahmad et al. (2009) found that management support was the second most important determinant of IAE within the Malaysian public sector, after sufficiency of the auditing staff. Mihret and Yismaw (2007) and, Alzeban and Gwilliam (2014) found management support as the most important factor influencing IAE.

### **Independence of Internal Audit**

Independence is at the heart of the accounting profession but is most significant for auditors. Even though independence of auditors is synonymous with external audit, Alzeban and Gwilliam (2014) states that standard setters as well as professional bodies have placed more significance on independence of the internal audit function even though they are employees of the organization. The independence of internal audit department has been identified as one of the most important ingredients of an effective internal audit function (Baharud-din et al., 2014; Mutchler, 2003; Ahmad et al., 2009; Al-Akra et al., 2016). Dellai and Omri (2016) posit that even though very few studies have examined internal auditor and internal audit effectiveness, these studies have reported a positive relationship between them. Other studies like Soh and Bennie (2011), Alzeban and Gwilliam (2014), Dellai and Omri (2016) have also reported a positive association between the independence of internal audit function and IAE.

## **2.2 Theoretical Framework**

This study is anchored on the lending credibility theory. This theory is propagated by Hayes, Knechel and Wong in 1999 (Hayes, Knechel & Wong 2006). The Lending Credibility Theory states that in order to enhance the confidence of a firm's stakeholders in the stewardship of the management, financial statements as authenticated by the auditors are always be used to make useful decisions (Maroun, (2015). The theory specifies that the fundamental aim of the auditor is to boost credibility of the financial statements. Looking at it from this angle, it means any service received by the client from the auditor must be credible. This theory of auditing regards the primary function of auditing to be the addition of credibility to the financial statements. Akinbuli (2010) states that audited financial statements can enhance stakeholders' faith in management's stewardship. Every financial statement user's credibility must be increased haven noticed key features in the financial statements audited and as presented by the management (in the financial statement) (Egbunike & Egbunike, 2017).

Internal control effectiveness can help to give credible view or opinion on the audited financial statement and accountability of information given. An independence of the internal auditor increases credibility of the audited financial statement and as well increases decision making ability of the users of the financial statements (Alzeban & Gwilliam, 2014). The users' are perceived to gain benefits from the increased credibility, these benefits are typically considered to be that the quality of investment decisions improve when they are based on reliable information based on opinion given by an independent auditor (Michal, 2018). This theory is related to internal control effectiveness in the sense that good internal control can assist in promoting integrity, credibility and accountability to financial report prepared by management of public universities.

This study is anchored on the credibility lending theory because essence of internal audit effectiveness in public university is to ensure accountability, credibility and judicious use of financial resources by those charged in the management of public universities.

## **2.3 Empirical Studies**

Some extant studies in relation to internal control effectiveness are examined respectively. Nwannebuike and Nwadiakor (2016) evaluated the effectiveness of internal audit in the Public Sector with emphasis on Federal Government Parastatals located in Enugu State of Nigeria. The population consist of accountants and internal auditors in the Parastatals was utilized, while the research instrument was self – structured questionnaire. The data analysis tool was chi-square and found that in spite of availability of adequate

punishments, they were not effectively applied across boards for violations of internal audit procedures due to poorly organized internal audit unit.

Kagaba and Mulyungi (2018) examined the determinants of internal audit in Rwanda Revenue Authority using population of 89 employees made up of internal auditors and management team. The research instrument used was questionnaire and applied descriptive research design. The results indicated the Management support, the management's perception, organizational independence and competent internal audit to public sector development have significant and positive effect on the internal control effectiveness.

Arum (2015) examined the influence of competency and objectivity of internal auditor toward internal audit function effectiveness and its implication on financial reporting quality of companies listed in Indonesia Stock Exchange. The statistical tool used is regression and the empirical results indicated that competency and objectivity of internal auditor have a positive and significant effect on internal audit function effectiveness and financial reporting quality.

Adetayo and Oluwakemi (2019) examined the determinants of effectiveness of internal audit in Nigerian public tertiary institutions from the perception of respondents using Federal Polytechnic Ile-Oluji, Ondo State Nigeria. The main research instrument used was questionnaire while the statistical tool was ordinary least square regression. The study found that internal audit independence was considered as the most fundamental and critical in ensuring effectiveness of internal audit in any tertiary institution of higher learning in Nigeria.

Bin Tahajuddin and Kertali (2018) investigated the effects of internal audit independence and objectivity on internal audit effectiveness in the Malaysian context by employing questionnaire as the research instrument. The statistical device was Structural Equation Modeling technique (SEM) using Smart PLS 3 to analyze and interpret the data. The findings revealed that internal audit independence was positively affecting internal audit effectiveness.

Muhunyo (2018) examined the effect of internal control systems on financial performance of public institutions of higher learning in Nairobi city county, Kenya. The study using open and closed ended questionnaires. A multiple linear regression was used and found that the control environment, risk assessment, control activities and information and communication as indicators of internal control systems have a significant influence on the financial performance of the institutions of higher learning in Nairobi City County, Kenya

### **III. METHODOLOGY**

This section shows procedure and method employ to carry out this conceptual paper. It is a library type of research. It conceptually reviews related literature by sourcing information from textbooks, journal articles, seminar and conference papers. It is based on the various reviews carefully carried out that findings, conclusion and recommendations are put forward.

### **IV. CONCLUSION**

The issue of internal control effectiveness has attracted considerable attention among academic researchers and practitioners. The lending credibility theory has demonstrated that essence of internal control effectiveness is to ensure accountability, integrity and credibility in the internal validity. There is no much divergence from outcomes of extant studies examined on the determinants of internal control effectiveness. The findings of this conceptual study based on the extant studies reviewed showed that very few studies were conducted in public universities. There were mixed and inconclusive results on the specific objectives in term of the influence of top management support, independence of internal auditors and competence of internal audit staff on internal control effectiveness. By implication some of the outcomes were weak or critical determining factors enhancing internal control effectiveness. Therefore, there is need for validation of extant studies and strengthens further studies of the effectiveness of internal control, improve the internal control system, and promote the development of public universities in Nigeria.

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