

## **An Assessment of the Effectiveness of Internal Audit Unit at Local Government Level in Adamawa State**

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### **Abstract**

*This study examines the effectiveness of internal audit unit at local government level in Adamawa state with a view to finding out how internal audit unit exists and its level of independence. Primary data were collected through questionnaires administered on a sample of ten (10) local governments drawn randomly from twenty-one (21) local governments of Adamawa state. Simple percentage technique was used in the analysis of the data obtained. The main finding of the study is that, internal audit unit does not exist as a separate department at local government level in the state; rather it exists as a unit under the local government chairman's office. This has made the unit to be highly dependent. The study finally recommends that, internal audit unit should be established as a separate department in all the local governments of the state. This will ensure the independence of the unit and also would make it to report fairly in order to improve transparency and accountability at the local governments' level in the state.*

**Keywords:** internal audit, local government

### **1.0 Introduction**

The local governments came into existence as a result of 1976 local government reform; the reform was aimed at bringing people closer to the government so as to increase wider participation in the government of the state. Local government is the third tier of government in a federal system of government of Nigeria. The local government is headed by a Chairman, and assisted by the vice chairman and the Councilors.

The management of the local government is entrusted with public resources and saddled with the responsibility of managing these resources effectively and efficiently. It is expected that, the local government officials entrusted with the management of public resources at local government level will give account of how these resources are being managed under their care. In order to ensure proper utilization of these resources entrusted to the local government officials, laws are enacted to control the local government revenues and expenditures.

However, the process of accountability is not complete without auditing, which presently remains one of the most neglected and misunderstood area of the financial management cycle, especially in the public sector (Maru, 2002). Therefore, for an audit to be meaningful the audit unit must be seen to be truly independent and the report produced by internal auditor will assist in providing information for planning, decision making and performance evaluation as well as control of activities especially if such information has certain attributes such as relevance, completeness, timeliness, understandability and comparability.

Millichamp (2000) defined internal auditing as "An independent appraisal function within an organization for the view of system of control and the quality of performance as a service to the organization. The objective of auditing is to review and evaluate the activities of the organization with a view to express an opinion on the efficiency and effectiveness of management, as well as the adequacy of internal control within an organization.

According to Dandago and Suleiman (2005), both external and internal auditors are expected, based on their terms of engagement and the accounting and internal control system in place, to express professional opinion on the financial statement(s) vouched or examined and be guided by statutory regulations and professional requirement in discharging their duties. Therefore, an auditor should not be seen as a mere watchdog, he/she should learn to 'bark and bite', where necessary.

Therefore, internal auditor is charged with the responsibility of safeguarding the assets and liabilities of an organization and other constructive services that will enhance the efficiency and effectiveness of the operations of the organization, through the review of accounting systems, internal control systems, implementation of the corporate policies, and carrying out special investigations assigned by the management.

The paper aims at assessing the effectiveness of internal audit at local government level in Adamawa state with a view to determining whether or not the internal audit unit is independent and it exists as a separate unit. In order to achieve this objective, the paper has been divided into five sections. Section one is the introduction. Section two presents a conceptual framework and literature review. Section three focuses on research methodology. Section four is a discussion of results, while section five contains findings and recommendations drawn from the results discussed.

## **2.0 Conceptual Framework and Literature Review**

### **2.1 The Concept of Internal Audit**

Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to help members of the organization in the effective discharge of their responsibilities. In view of this, internal audit furnishes them with analysis, appraisal, recommendations, counsel and information concerning the activities reviewed (Institute of Internal Auditors, 1991).

According to Institute of Internal Auditors (1991), the scope of internal auditor is defined as "The examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities".

Johnson (1996) defined internal audit as an independent appraisal of activities as a service to all level of management. It is a control which measures, evaluate and reports upon the effectiveness of internal control which will be financial or otherwise as a contribution to the efficient use of resources within an organization.

According to Gupta (1999), internal audit is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization.

The Institute of Internal Auditors (IIA) as cited by Quaden (2001), defines internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic discipline approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Danbatta (2004) concludes that a properly conducted internal audit is expected to reveal errors, strengths or weaknesses of internal control system of the organization. Base on his conclusion, there is significant positive relationship between internal audit and internal control.

### **2.2 Types of Audit**

Internal audit can be divided into the following categories, based on audit technique or objective (Aren, 1999; Dandago, 2002 and Sabari, 2003):

#### **2.2.1 System Based Audit**

This refers to an in dept evaluation of the internal control system with the objective to assess to extent to which the controls are functioning effectively.

#### **2.2.2 Performance Audit or Operational Audit**

This assesses whether the activity, programme or body has been manage economically and effectively. A particular performance audit will not necessarily seek to reach conclusions about all three aspects above; it should be clear from the audit objectives, which need to be examined.

#### **2.2.3 Financial or Accounting Audit**

This evaluates the accuracy of the accounting and related procedures and practices. It assesses the accuracy and completeness of the financial statements of the activity, programme or body being audited, and/or evaluates whether the transactions underling the financial statements are legal and regular. However, according to the definition of internal auditing, internal auditors are mainly evaluating the system of internal control.

#### **2.2.4 Compliance Audit**

This evaluates how relevant policies, plans procedures, laws regulations and contracts, usually all audits include the compliance element, because the auditor uses the laws, policies and regulations as a yard stick to measure the performance of the organization.

#### **2.2.5 Management Audit**

It involves a review of each and every facet of management activity and its objective is to ascertain whether or not the resources of an organization are used by its management in the most economic way to produce the maximum possible result in the shortest possible time in accordance with its goals.

#### **2.3 Advantages of Internal Audit**

Tijjan (2003) as cited in Dambatta (2004) observes that internal audit unit to any organization be it private or public, outright the cost of its maintenance. He summarizes the advantages as improving efficiency in the local government operations; the existence of internal audit creates control, which acts as a deterrent to inefficiency waste and fraud. The internal audit department serves as a “pool” from which high caliber staffs can be seconded to other units within the organization to fill management posts. An internal audit also makes the works of external auditor easier.

#### **2.4 Features of an Effective Internal Audit**

Laker (2006) identified the following as the essentials features of internal audit.

##### **2.4.1 Structure and Resources**

The structure of the internal and function is established and an assessment made about the key audit personnel, their routes responsibilities, skills and experience. Where the function is outsourced focus includes the terms of the outsourced arrangement and how this is monitored.

##### **2.4.2 Independence**

The board of the institution should ensure that the independence of the internal audit function is maintained. The internal audit can enjoy the level of independence with that of any department. This independence may be compromised if the function is directly involved in risk management or operational processes. The internal audit function may provide valuable input to those responsible for risk management but the unit should not have direct risk management responsibilities.

##### **2.4.3 Approach**

The approach taken by internal audit should be clear and may be one or a combination of; risk based and review based. The focus is on the high risk areas of the institution and on the review of various parts of the institution, usually chosen both at random or in line with the internal audit plan as well as polices and procedures. The board should have endorsed the approach and there should be sufficient scope to changes where arise enquiring internal audit involvement.

##### **2.4.4 Internal Audit Plan**

The internal audit plan, which usually details the proposed internal audit work for the next twelve months should be documented and endorsed by the board. Importantly, the plan should be consistent with the type of approach to be taken and should be adequate for the scale and complicity of the institution's operations the internal audit unit shall draw up a long term plan and a proposal for next year, based on risk analysis and taking in account the needs expressed by the administrative units. The proposal for the next year shall be submitted for approval to the board, and the proposed annual plan shall specify the required number of staff.

##### **2.4.5 Reporting**

Each assignment shall be followed by a report containing findings, recommendations or remarks, sent to the departments and administrative units responsible, and a summary to the responsible director. The internal audit an assessment of the internal of the facts control system. If necessary, it shall contain recommendations for improving internal control or remarks that indicate which actions or data are not in accordance with the rules. The reports shall be based on adequate working papers.

Other prior studies including Woolf 1992, Philip, 1996, Millicham, 2000 and Dandago 2002 have similar views that, effective audit features includes; ascertaining the accounting and internal control system, evaluate the control to determine that they are satisfactory in principles to determine whether they had be applied as prescribed through out the period, test transactions and balances for completeness, accuracy and validity of transactions, review financial statements by conducting analytical principles or review procedures and determination of audits opinion that would be expressed.

### **2.5 Functions of Internal Audit**

However, other functions as specified by the 1983 guide lines of the auditing practice committee as cited in Damagum (2003) are as follows;

Review of accounting systems and related internal controls, Examination of financial and operating information for management, including detailed testing of transactions and balances. Review of the economy efficiency and effective non-financial control, Review of the implementation of corporate policies plans and procedures and Special investigations.

### **2.6 Problems of Internal Auditing at Local Government Level**

Despite the obvious benefits internal audit brings to local government, many hindrances to internal audit efficiency exist in the local government. The very significant inhibiting factors are:

#### **2.6.1 Recognition**

Based on information gathered through different studies majority of them were on the opinion that appropriate recognition is not given to internal audit department, and as such is always lower and inferior to the status of the department before other Head of departments at local government level. Head of other departments regards the head of internal audit department as subordinate officer in power, authority and responsibility.

#### **2.6.2 Staffing**

The present situation of the staff of internal Audit department is poor. Majority of the studies revealed that in most cases, majority of the staff do not have any basic knowledge in book-keeping and accountancy. Worst still, they are not usually trained. Their performances surely cannot be satisfactory.

#### **2.6.3 Funding and Reporting**

Internal audit department are usually poorly funded by non auditing officers, who are in position of authority.

Internal auditors' reports are often disregarded and no actions are taken on them, whatsoever. The department should be accorded an equal status with other departments, property and adequately funded, staffed with educated, knowledgeable trained and competent personnel and sanctioned for not treating internal audit reports promptly.

After reviewing various scholar's views on the effectiveness of internal audit unit, I agreed with them that, for an internal audit unit to be effective, all the features of internal audit such as: independence, reporting, audit plan, structure and resources etc should all be put in place when carrying out audit.

### **3.0 Methodology**

The methodology adopted in this research is survey method. Questionnaire method of data collection was used in collecting primary data, while textbooks, journals, and articles were used as secondary materials. The population of the study consists of twenty one (21) local government of Adamawa state, out of the total population, a simple random sampling were used which led to the emergence of ten (10) local governments in the State, these local governments are; Girei, Gombi, Song, Micheka, Yola North, Fufure, Yola South, Numan, Mubi South, and Jada. A total of fifty questionnaires (50) were distributed to the ten local government Councils (five to each local government). The targeted respondents include the local government Chairmen, Internal Auditors, Treasurers, Cashiers and Budget Officers. Out of the total questionnaires administered, forty (40) were completed and retrieved. The technique for data analysis is descriptive statistics which involve the use of simple percentage in analyzing the data collected.

### **4.0 Discussion of Results**

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**

RESPONSES	RESPONDENTS	PERCENTAGE (%)
Yes	40	100
No	NIL	NIL
Total	40	100%

Source: field survey, 2010

Table 1 above, shows that the entire respondents are of the opinion that, internal audit unit exists in their local government areas. This shows that the local governments in Adamawa state comply with the provisions of the civil service reform (1998) and financial memoranda for local government (1991) which state that there shall be established in each local government of the federation an internal audit unit headed by an internal Auditor to provide a complete and continuous audit of the accounts and records of revenues and expenditures.

**Table 2: Frequency of Internal Audit Reporting**

RESPONSES	RESPONDENTS	PERCENTAGE (%)
Yes	12	30%
No	28	70%
Total	40	100%

Source: field survey, 2010

Table 2 above clearly shows that, 12 respondents are of the opinion that internal audit unit reports frequently as required to the local government chairmen on issues that require his/her attention, these respondents represent 30% while 28 respondents representing 70% of the respondents are of the view that internal auditors do not report frequently to the local government chairmen on issues that may require his/her attention. This shows that most of the internal auditors are not reporting frequently to their local government chairmen, the implication of this is that, the Chairman and other users of the report will not properly plan, decide and implement policies at the right time.

**Table 3: Communication of Audit Report by Internal Auditors to the Management at Local Government Level in Adamawa State**

RESPONSES	RESPONDENTS	PERCENTAGE (%)
Yes	40	100%
No	NIL	NIL
Total	40	100%

Source: field survey, 2010

The data collected and presented above shows that 100% of the respondents agreed that internal audit unit communicate audit report to the right people but the reports communicated are often disregarded and no actions are taken on them, this shows that the auditors work in accordance with the requirements of chapter 40.2 of the financial memoranda for local government issued in December, 1991 which States "that internal auditor shall be responsible to the chief Accounting officer, Submit their report to the Accounting officer and Auditor general for the local governments a detailed audit programme and thereafter he shall report to the Accounting officer, as well as the Auditor general on the progress of the audit." He shall also Issue Special reports, if necessary where in his opinion; the attention of the Auditor General should be drawn to any irregularity or apparent departure from earlier internal reports/communications.

**Table 4: Internal Auditor's Qualifications**

QUALIFICATIONS	RESPONDENTS	PERCENTAGE (%)
Bsc & ACA	5	12.5%
Bsc & ANAN	10	25%
Bsc/HND	15	50%
OND	5	12.5%
Certificate	-	-
Total	40	100%

Source: field survey, 2010

Table 3 above shows that five (5) respondents are of the opinion that, the internal auditor's qualification at local government should be Bsc & ACA; Ten (10) respondents are of the opinion that, the qualification should be Bsc & ANAN while fifteen (15) respondents are of the opinion that, the qualification of internal auditor will be Bsc/HND. The implication is that, the higher the qualification of an internal auditor, the more efficient, effective, and reliable the auditors work/report. While the lower the qualification of an internal auditor, the lower the quality and reliability of the auditors report presented.

**Table 5: Independence of Internal Audit unit**

RESPONSES	RESPONDENTS	PERCENTAGE (%)
Yes	-	-
No	40	100%
Total	40	100%

Source: field survey, 2010

Table 4 above shows that 100 respondents representing 100% are of the view that their internal audit units are not independent because of the internal audit unit existence as a unit under the chairman's office and the management interference at local government level. The implication of this is that, the auditor will be subjective instead of objective in carrying out his audit work and the final report will be misleading the users of the report.

**Table 6: Skills and Experience of Internal Auditors**

RESPONSES	RESPONDENTS	PERCENTAGE (%)
Yes	32	80%
No	8	20%
Total	40	100%

Source: field survey, 2010

Table 5 above shows that 80% of the respondents are of the opinion that internal auditors in the local government possess the basic skills and experience that an internal auditor of is expected to possess. Only 20% are to the contrary on level of skills and experience of their internal auditors. This shows that most of the internal auditors in the sampled local governments possessed the basic skills and experience to work as internal auditors. Even those with lower qualification possessed the experience, because of the number of years they spent in the internal audit unit.

## **5.0 Findings and Recommendations**

### **5.1 Findings**

Based on the above presentation, analyses and discussion of results, the paper come up with the following findings:

1. All the sampled local governments in Adamawa State complied with the 1998 provisions of Civil service reforms that, each local government in the country should have internal audit unit to provide a complete and continuous audit of the accounts and records of revenues and expenditures.
- 2) Internal Audit unit does not exist as a separate department in the local governments of Adamawa state but they exist as a unit under the chairman's office.
- 3) Internal auditors in local governments of Adamawa state report directly to the chairman and the reports communicated are often disregarded and no actions are taken on them.
- 4) There is still internal auditors with lower qualifications like certificates and diploma but possessed the skills and experience required to work as internal auditors of local government because of the long time working experience they have.

### **5.2 Recommendations**

Based on the above findings, the following recommendations were made.

1. Auditor general of local governments should make sure that the internal audit unit of each local government report frequently as required to the local government chairmen on all matters that require his/her attention.
2. Internal audit unit will be establish as a separate department in all the local government of Adamawa state in order to have independence in carrying out the audit activity.

3. Internal auditor reporting to the chairman's office should enlighten the chairman on the importance of implementation of the report and the dangers of disregarding the report/ the dangers of not taken proper action on the report.
4. On the issues of qualifications, even though there is no specific requirement for someone to become an internal auditor, the Auditor General for local government should make it necessary that for someone to become an internal auditor in local government, he/she must be a holder of Bsc or HND in Accounting and must possess an additional relevant professional qualification. This will make the audit report to be relevance, reliable and sufficient for use.

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