

The Concept of Internal Audit and Its Pragmatic Aim
(A Study of Nigerian Agricultural and Corporative Bank, First Bank of Nigeria and United Bank for Africa Plc)

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ABSTRACT

This research was undertaken to ascertain the role, which an internal Audit can play in financial organizations. The purpose of the study was to find out the role of internal audit departments and if the pragmatic aim of internal audit is being achieved by the Nigerian public sector. Investigations revealed that the internal audit department performs various functions which consist mainly of ensuring the production of accurate and reliable report, limitation of operational inefficiency on the part of the workers and the prevention of misappropriation of funds. The researcher is of the view that if the internal audit is established in financial organizations, it will contribute immensely towards the overall performance of these organizations through minimizing fraud and extravagant use of funds and inducing workers to give complete and accurate information.

Keyword: internal audit, chi square, percentages.

1. INTRODUCTION

Auditing is an independent examination of an expression of opinion on the financial statement of an enterprise or organization by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation. It aims at providing solution to the inevitable problem of credibility in report and accounts. It prevents and detects errors and frauds and also produces a report of the true and fairness of the financial statement. They also obtain full understanding of the operations under review. The role of internal audit has grown tremendously in most organizations in the recent past. This can be attributed partly to the growth of the organizations, which entails widely extended operations and the need to ensure that the organizations policies and basic accounting controls are observed at every facet of the organization. Again it can be observed as a measure by management to ensure that the government regulations concerning the operations of organizations, both public and private are duly complied with so as to guard against conflicts and inconsistency with the law. As the organization expands and supervisory responsibility broadens, the head can no longer have personal knowledge of every aspect of the organization. It becomes impossible for him to control or monitor the continuing effectiveness of all controls. This calls for the delegation of this responsibility to a separate department called the internal audit department. Internal Audit Department is a department set up by management, usually manned by a chartered accountant, as established in section 358 of the companies Act 1976, to review the activities of other employees thereby enhancing controls in the organization.

2. STATEMENT OF THE PROBLEM

The problem in many organizations is that funds and properties are entrusted to certain employees in the organization and in most cases these individual workers are not under surveillance. The result is that much of

the funds and properties are directed to personal use. To arrest this ugly phenomenon, the management of the organization has to set up internal audit department. It has however become questionable whether the role of internal audit in being practically achieved in the Nigerian public sector, that is, if the pragmatic aim of auditing is being realized.

3. THE OBJECTIVE OF THE STUDY

The objective of this study is to determine the roles which an internal audit department can play in financial organizations, as well as ascertain if the practical aims and objectives of auditing are being achieved in the Nigerian public sector. It is the belief of the researcher that the information collected from the study will highlight the advantages unavailable to any organization without internal audit department. The researcher also hopes that interested parties will pay attention to the aims of auditing, see the need and take necessary corrective measures.

4. HYPOTHESES OF THE STUDY

H₀: The concept of the role of internal audit is not practically realized in the public sector.

H_A: The concept of role of internal audit is practically realized in the public sector.

For the purpose of this research, the chi square analysis was used to test the hypothesis. For the test, 5% or 0.05 level of significance is adopted.

Chi-square (X²) formula is stated as:

$$X^2 = \frac{\sum(F_o - F_e)^2}{F_e}$$

Where Fo = observed frequencies

Fe = Expected frequencies

DECISION: Since the calculated value of X² is less than the critical value, the null hypothesis should be accepted while the alternative hypothesis should be rejected.

5. REVIEW OF RELATED LITERATURE

Auditing probably originated from the ancient Egypt. In earlier times, the auditor's objective was probably merely to ascertain the correctness of the sum of money received and disbursed, checking the accuracy of individual entries in a cash record and verifying the balance of cash in hand at a particular point in time. The enterprises, which exist at that time, were mostly joint ventures with a limited life. In the 18th and 19th centuries, it developed to statutory companies.

Okoye (1994) revealed that the word "Audit" comes from the Latin word "audire" meaning "He hears" This is because in ancient times, the account of a noble man in control of an estate or domain were checked by having them read out to him by his steward. Today audit refers to a different process embodied in an audit report, addressed to interested parties to whom the auditors are responsible under the statute.

The joint stock companies Act 1844 was the first enactment in the U.K mandating all incorporated companies to have their annual financial statements audited. This Act is the forerunner of our present Companies and Allied Matters Decree of 1990. Today, quite a number of organizations in Nigeria operate with an internal audit department and this trend may be attributable to the fact that the importance of auditing

is becoming more apparent. However, it has become necessary to turn the searchlight on the pragmatic role of the concept of auditing in the public sector with a view to finding if this aim is being realized.

OBJECTIVES OF INTERNAL AUDIT DEPARTMENT

According to Gray and Manson's point of view, the objectives of internal audit are to assist members of the organization in the effective discharge of their responsibilities. They went further to say that "to this end, internal auditing furnishes them with analysis, appraisals, recommendations, counsel and information concerning the activities reviewed.

FUNCTIONS OF INTERNAL AUDIT DEPARTMENT

According to Mill Champ the functions include the following:

- i. Ensuring that all social responsibility policies adopted by top management are implemented.
- ii. Being concerned with the response of the internal control system to external stimuli.
- iii. To see that assets of the organization are safeguarded.
- iv. To make sure that information supplied to management are accurate and reliable.

To ensure the validity and reliability of the results from an internal audit report, an internal audit function should exist separate and distinct from the work of the control group in the data processing department since the internal auditors are interested in evaluating the overall efficiency of data processing operations and the related internal control. For the aim of the concept of auditing to be accomplished, the internal audit department needs to operate within some frame work or guideline. This framework is referred to as the audit plan and the chief internal auditor is responsible for the implementation of this plan.

INTERNAL CONTROL SYSTEM VIEWED AS AN AID TO EFFECTIVE AUDIT

For an independent audit to take place these must be a well-planned internal control from which information is gathered and recommendations based. Internal control, therefore, comprises the plan of organization and all the co-ordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote efficiency and encourage coherence to prescribed managerial policies. Management has recognized internal control as a valuable tool in effectively carrying out its responsibility and auditors have pressed for improvement in internal control in their effort to be of assistance to their clients, as well as to permit reduction in audit work made possible by the accounting records. The effect of auditing therefore is to reduce the need for routine mechanical verification of book-keeping accuracy. It permits substitution of a less time consuming approach that involves seasoned judgment and stresses such activities as reviews, analysis, evaluation and statistical samplings. Most of the information needed by management about finances and the progress of operations come from the accounting records. For the information to be of value, it must be reliable, complete and available as quickly as possible and at the same time adhering to policies and directives. Management is far removed from the scene of operation in a typical large business organization and so personal supervision of employees is an impossible task. As a substitute, management must rely on various control techniques to implement its decision and goals, and to regulate the activities for which management has ultimate responsibility.

Internal control system is therefore a key factor in the effective management of public sector setup. For achieving a good and effective internal control, the following must apply-segregation of functional responsibilities, system of authorization, sound practice in the performance of duties and functions of each of the organizational departments. Any breakdown or weakness in internal control noted by the independent auditor in the course of examination will be of considerable interest to management for remedying the conditions observed.). According to Okosie (1995) "Internal Control could be likened to the "heart" which regulates business blood, no business could succeed without internal control system. Internal controls can also be likened to the "brake and steering in a vehicle", which if they are not there, and the business "train will crash".

THE IMPORTANCE OF AN AUDIT

The certification of account and balance sheets and the reporting theory must be regarded as the primary objective of an audit. Apart from improved financial management, audit gives the required management control over assets. Employee's frauds are minimized and discipline and accountability inculcated in them. Investors are assured that their interest are properly protected and managed; the internal revenue board gets the assurance that the profit figure on which tax is based is not manipulated, and at the end the auditor reports makes for improved and efficient future performance.. In fact, management is spurred to action after an auditor issues each report. In the area of credit worthiness, money can easily be borrowed from the bank on the basis of proper auditor's accounts.

Generally, audit is used especially in case where the business is managed by some agent or representatives of its owners. Other benefits include Sharma (1984).

1. The audited accounts of previous years are helpful in the settlement of claim by the insurance company in the case of firms.
2. The purchaser of a business can easily assess the cost of the enterprise on the basis of its audited accounts.
3. The audited accounts of business can prejudice or support a legal case before the court; it forms a basis to determine the outcome in bankruptcy and insolvency cases. The auditor's support is sometimes referred to as the auditor's support or sometimes the auditor's opinion or the auditors certification, that is to say, that we certify in our opinion the accompanying financial statements are correct. Regardless of the name by which it is identified, the report is an extremely important document. It is the sole outward evidence of the major activity of the public accounting profession.

6. RESEARCH METHODOLOGY

Primary and secondary data were used in the course of this investigation. The primary data were sourced from questionnaires and oral interview. Questionnaires were used to collect information from responsible officers in the chosen organization and departments. Oral interview was used to collect facts from the staff of the internal audit departments and the management staff of the banks. The school library, books and journals served as sources of secondary data .The research population comprised of staff of the internal audit department of the Nigerian Agricultural, Co-operative and Rural Development Bank limited (NACRDB) , the United bank for Africa PLC and the First bank of Nigeria Plc

7.DESCRPTION OF RESPONDENTS

ANALYSIS OF THE QUESTIONNAIRE

S/N	No of question	Frequency	Percentage
1	Distributed	100	100%
2	Collected	93	93%
3	Not collected	7	7%

This table above shows that ninety-three out of hundred people sampled filled the questionnaire and returned them while seven people did not returned their. As said earlier, 93 people are those conversant with the topic.

8. METHOD OF DATA ANALYSIS

The method of data analysis used in research work is percentage. This is a statistical tool that is usually used when unequal sizes are used so as to provide bases for comparison between the groups. The chi square analysis was also used in carrying out the analysis.

9. DATA PRESENTATION AND ANALYSIS

The data presented in this section of the project are those collected from the primary sources through structured questionnaires. In analyzing the data, the percentage method was used.

QUESTION 1

What is your position in the organization? 10.75% of the staff interview indicated their position as management, 66.67%, were supervisors while 22.58% were clerical officers. (reference table 1)

Table I

Question	Total response	Management	Supervisors	Clerical
What is your position	93	10	62	21
Percentage	100	10.75%	66.67%	22.58%

QUESTION2

How long have you been part of organization? 22.58% said that they have stayed between 1-6 years, 36.54% stayed 7-12 years while 40.86% stayed over 12 years (Reference Table II).

TABLE II

Question	Total response	1-6yrs	7-12	Over 12 years
How long	93	21	34	38
Have you been in this organization				
Percentage	100%	22.58%	36.58%	40.86

QUESTION 3

Is there is an internal audit department in your organization? 86.02% of the accounting workers interviewed answered “yes” while 13.98% answered “No” or were without responses. (Ref. table III)

TABLE 111

Question	Total Response	Yes	No
Do you have an internal audit department	93		
Percentage	100%	86.25%	13.98%

QUESTION 4

Is the objective of the internal audit department being achieved adequately? 79.57% of the workers interviewed agreed strongly, 11.83% of them agreed, 0% strongly disagreed, and 6.45% disagreed while 2.15% no idea. (Ref. Table iv)

TABLE IV

Options	No of responses	Percentage
Strongly agreed	74	79.57%
Agreed	11	11.83%
Strongly disagreed	-	-
Disagreed with reasons	6	6.45%
Total no idea	2	2.15%
Total	93	100%

H₀: The concept of the role of internal audit is not practically realized in the public sector.

H_A: The concept of role of internal audit is practically realized in the public sector.

The chi square analysis was used to test the hypothesis. For this test, 5% or 0.05 level of significance is adopted while degree of freedom is given by the formula K-1

Where K = number of rows

Substituting from the formula therefore,

Degree of freedom = 4-1 = 3

Thus, the critical value is given as $X^2 = 4.835$

Going by chi-square (X^2) formula which is

$$X^2 = \frac{\sum(F_o - F_e)^2}{F_e}$$

Where Fo = observed frequencies

Fe = Expected frequencies

Therefore, comparing the test statistics with the critical value, $2.155 < 4.835$.

DECISION: Since the calculated value of X^2 is less than the critical value, the null hypothesis should be accepted while the alternative hypothesis should be rejected. The conclusion therefore, is that the concept of the role of internal audit is not practically realized in the public sector.

QUESTION 5

Are the internal auditors in the organization competent enough and do they discharge their duties diligently, 52.69% of the accounting workers interviewed agreed strongly, 30.11% agreed, 0% of the workers disagreed strongly, 5.28% disagreed while 11.91% had no idea. (Ref. table vi).

Options	No of responses	Percentage
Strongly agreed	49	52.69
Agreed	28	30.11
Strongly disagreed	-	-
Disagreed with reasons	5	5.28
No idea	11	11.92
Total	93	100

QUESTION 6

On whether other workers perceive the auditors in the internal audit department as enemies whose work they audit, 58.07% of workers interviewed agreed strongly, 19.35% disagreed, 22.58% agreed, 0% disagreed strongly while 0% had no idea

Options	No of responses	Percentage
Strongly agreed	54	58.07
Agreed	21	22.58
Strongly disagreed	-	-
Disagreed with reasons	18	19.35
No idea	-	-
Total	93	100

QUESTION 7

What period does the internal audit take place in your organization? 80.65% of the workers interviewed said that it is done continuously, 17.20% said that it is done at the end of each years, 2.13% said that it is at the happening of a particular event 0% said it is at the beginning of each year while 0% had no idea.

Options	No of responses	Percentage
Continuously	75	80.65
At internal	16	17.20
Occasionally	2	2.15
At the beginning of each year	-	-
No idea	-	-
Total	93	100

QUESTION 8

Does the organization have enough hands in the internal audit department, 22.58% of the workers interviewed agreed strongly, 19.35% agreed, 16.13% disagreed strongly, 41.94% disagreed while 0% had no idea.

Options	No of responses	Percentage
Strongly agreed	21	22.58
Agreed	18	19.35
Strongly disagreed	15	16.13
Disagreed	39	41.94
No idea	-	-
Total	93	100

QUESTION 9

Does the internal audit department encounter any problem in the performance of its duties? 80.65% of the workers interviews said "Yes" while 15.05% said "No" and 4.3% had no idea.

Options	No of responses	Percentage
Yes	75	80.65
No	14	15.05
No idea	4	4.30
Total	93	100

Those who answered yes stated the following problems:

1. Hatred from other staff hence no co-operation with the auditor.
2. Inadequate competent hands to audit the accounting books.
3. Inadequate fund.
4. Lack of adequate material resources.
5. Overlap owing to responsibilities.
6. Confronted from contractors/suppliers of services.
7. Temptation to cover frauds
8. No time they are always in the office or on the road.

10. DISCUSSION OF FINDINGS

On question 1 in which the researcher sought to know the position of the respondent in the organization, it was observed that majority of the respondents were staff. On question 2, on how long the respondent has been stayed in the organization, it was observed that the average period was between 7 and 12 years. On question 3 in which the researcher sought to ascertain whether there is an audit department in the organization, the internal auditors interviewed unanimously agreed that there is a great need for an internal audit department in the organization.

On question 4 in which the researcher sought to know if the objectives of the internal audit department was achieved adequately, some respondents agreed but on further analysis the chi square test showed otherwise. Question 6 also largely reflected the perception of other employees about the office of the internal auditor. Majority had a negative perception and this to a large extent hinders the attainment of the objectives of the internal audit department.

On question 9, which tries to ascertain whether the internal audit department encounters any problem in the performance of the above functions, the internal auditors interviewed stated that they have to battle with a lot of problems most of which are:

- i. Operational inefficiency, which is prevalent.
- ii. Enmity and intimidation by other staff whose works are being audited (as reflected in question 6)

11. SUMMARY AND CONCLUSION

The researcher has come to the following conclusions that despite the number of firms in the public sector equipped with the internal audit department, there is still gross misunderstanding of the role of the internal auditors. This results in a lot of friction between other staff and the office of the auditors and thus militates against efficient discharging of duties by the auditors. As can be seen in table 3, most financial organizations have internal audit department. This is clear indication that the authorities, of these organizations recognize the important roles the internal audit department could play in the running the organization. However, there is further need to carry this awareness on to the workforce. Furthermore, table 4,6 and 9 shows that the objective of the internal audit department, though being pursued rigorously, faces many challenges which go to submerge the conceptual aim of auditing which is to evaluate and examine the reports and account given to management. Other findings include the following :

1. Internal audit department helps to minimize fraud and extravagant use of funds.
2. Internal auditors in Nigeria (against many odds) try performing their duties as required.
3. Internal audit staff of the case study is competent and discharge their duties diligently.
4. The internal audit in the Nigerian public sector have helped to
 - Ensure that all funds due to the company are collected and properly recorded.
 - Make sure that expenditure is prudently made.
 - Internal audit has helped and succeeded in recovery lots of money embezzled by fraudulent individuals in organizations.
 - There is no time limit to the performance of audit duties because their services are needed every day as long as the organization continues to exist and operate.
 - Workers show unwillingness to work in the department perhaps due to hostility or resentment from other co-workers.

The consequences of not having internal audit department are:

- Numerous frauds and misappropriation might be going on without the knowledge of the management.

- The reports going to the management are in many cases inaccurate and unreliable since there are no internal audit department to vouch the credibility and accuracy of the report. Thus management's decisions could be irrelevant and misleading.

11. CONCLUSION

From the data analyzed, the researcher has come to the conclusion that there is inefficiency in the public sector because of inefficiency in carrying out audit thus the defeating conceptual aim of auditing. It was also discovered that auditing has not been effective in public sector because qualified staff are lacking, facilities are poor, and auditors are being restricted and treated with contempt.

Also auditing should be carried out continuously in public sectors and not be done after extended periods of time as this also serves as a deterrent for achieving the conceptual aim of auditing. Continual auditing allows for early detection and correction of fraud and errors.

On the basis of the findings, the study recommended that there should be proper internal audit mechanism for proper reporting. There should be adequate training of workers in the public sector especially the internal audit staff. Government transaction should be computerized to enable the auditors obtain quick and accurate information regarding the auditing department. Auditing of public sector should be a continual process carried out every quarterly, bi-annually or yearly as the case may be. Government auditors should be independent in performing their duties like their counterparts in the private sector and should not be restricted from access to certain files.

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