

The Role of Internal Audit in Financial Institutions
(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 like Nigeria Agricultural, co-operative and rural development bank limited, United Bank for Africa Plc and First Bank of Nigeria Plc. The purpose of the study was to find out the functions of internal audit departments and how far their functions have contributed to the overall performance of their organizations. From the investigation we discovered 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 organization, 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, 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 receive 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 individual employees in the organization and in most cases these individual workers are not brought under thorough surveillance. The result is that much of their 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. This department will be charged with the objective of monitoring the activities of these employees and effecting management control. The question however is if the internal audit improves bottom line result that is, plays its role effectively.

3. OBJCETIVE OF THE STUDY

The purpose of this study is to determine the roles which an internal audit department can play in financial organizations, as well as ascertain how far these roles have contributed to the overall performance of the organizations. 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 believes that this work will serve as a foundation for the setting up internal audit departments in these organizations.

4. HYPOTHESIS OF THE STUDY

H₀: Internal audit have not played a significant role in the overall performance in an organization.

H_A: Internal audit have played a significant role in the overall performance in an organization.

5.REVIEW OF LITERATURE

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 was 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.

Accountants in recent times have reiterated the need for functional internal audit department in organizations. Commenting on the objectives of internal audit, Mill Champ suggested that it makes economic sense to reduce the work of the external auditor by relying on the work of the internal auditors. Holmes and Burns (1995) contended that the objectives of internal auditors are to assist all members of management in the effective discharge of their responsibility by furnishing them with analysis appraisals, recommendations and pertinent comments concerning the activities reviewed. Again, commenting on the objectives of internal audit department, Holmes stated that the department is concerned with the control of transactions and operations, and with the improvement of accounting methods from the point of view of efficiency. In their own attestation, Join Gray and Start Manson stated that the objectives of internal auditing 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. Okosie (1995) likened internal control to the “heart” which regulates business blood. To him no business could succeed without internal control system. He further asserts that internal controls could also be likened to the “brake and steering in a vehicle”, which if they are not there, the business train will crash. Holmes and Burns, in their own contribution, further contended that the responsibilities of internal auditing encompass the following:

- i. To inform and advise management promptly and adequately to discharge this responsibility in a manner that is consistent with the code of ethics of the institute of internal auditors.
- ii. To co-ordinate activities with others so as to achieve audit objectives of the organization.

Okoye (1998) in his book stated the role of internal auditors as:

- i. To make credible, financial statements of the organization.
- ii. To report on the property of actions by management and other persons in a position of trust.
- iii. To provide spin-off effects which included deference of fraud and error by the simple existence of his role and the availability of his expert advice?

For the functions, roles and responsibilities to be successfully accomplished, the internal audit department needs to operate within some frame work or guideline.

Steller (1975) recognized that the accounting system that produces the financial and operating information to be reported is the key factor of the account and reliability of the end results. As a consequence, auditors are increasingly redirecting their accuracy of records.

For an independent audit to take place these must be well-planned internal control from which information is gathered and recommendations based. Stetter (1975) agreed that Internal control comprises the plan of organization and all of the co-ordinate method 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.

The importance of internal control system in auditing is evidenced by the second standard of auditing field work. Adikwu (1984) emphasized the importance of internal control and its role as a preparatory ground for independent audit. Based on this he agreed that there is the need for a proper study and evaluation of the existing internal control as a basis for reliance and for determination of the extent to which auditing procedure are to be restricted.

FUNCTIONS OF INTERNAL AUDIT DEPARTMENT

Internal audit department performs a number of functions in an organization. These functions also prove to be equally valuable in non-profit oriented organization. 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.

The internal auditor should participate in the design of the data processing system to ensure that the system (information technology) provides a proper audit trail and included adequate controls. Among other things, the internal auditors will try to determine that no changes are made in the system without proper authorization, ensure that programming personal are functionally separate from computer operating personnel, ensure that adequate documentation is maintained, input controls are functioning effectively, and that the control groups are performing their assigned functions. The chief internal auditor has to lay down rules and procedures that will guide the performance of their duties and also control the department. He has to provide an outline for those under him to know how they should execute their assigned functions accordingly. This outline is known as audit plan.

Audit plan may be described as a statement of objectives or targets to be attained by the department of internal audit in future, together with an outline of the steps necessary to attain each of them. Audit plan prepared in the planning stages of the engagement, usually include such matters as the objectives of the engagement, nature of the work to be done, a time schedule for major audit work and completion of the engagements and staff requirements.

INTERNAL CONTROL SYSTEM VIEWED AS AN AID TO EFFECTIVE AUDIT

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.

THE IMPORTANCE OF AUDIT

The certification of accounts and balance sheets are regarded as the primary objective of an audit. Apart from improved financial management, audit helps to give the generally required management control over assets. Employee frauds are minimized and discipline and accountability inculcated in them. Investors are assured that their interest are being properly protected and managed, the internal revenue board gets the assurance that the profit figure on which tax is not manipulated, and at the end the auditor records proscribes measures 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 banks on the basis of property auditor accounts. Generally, audit is used especially in cases 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 calculate the amount of purchase consideration on the basis of its audited accounts.
3. The audited accounts of business can prejudice on support of a legal case before the court; it forms a basis to determine action in bankrupt and insolvency cases. The auditor's support is sometimes referred to as the auditor's opinion or the auditor's certification. The later term came from the days when the auditor's report often stated, "we certify that in our opinion the accompanying financial statements are correct, regardless of the name by which it identified". This report is an extremely important document. It is the sole outward evidence of the major activity of the public accounting profession, and it is heavily relied upon the financial statement, it is also the focal point of all independent auditing procedures.

Therefore, the independent auditor must never lose sight of the fact that auditing procedures are directed towards enabling the formation and reporting of an opinion concerning a set of financial statements, thereby attesting to the fairness and reliability of the statement. The report is normally addressed to the person or group responsible for engaging the auditor. In the case of corporation, the auditor is most frequently selected by the board of directors sometimes subject to the review and endorsement of the stockholders, with the payment of the auditor's fees being made from corporate funds. The report will be used however, by the person other than the ones to whom it is addressed and who pay the auditor's fees. This fact is responsible for the peculiar relationship between auditor and client. Even though the auditors are paid by the client, complete independence must be maintained in all matters and decision relating to the audit examination.

6 .RESEARCH METHODOLOGY

Primary and secondary data were used in the course of this study. The primary data was sourced using questionnaire and oral interview. The 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 secondary data used to buttress the researchers findings were derived from journals, books and other related material. Staff of the internal audit departments of the Nigerian Agricultural, Co-operative and Rural Development Bank limited (NACRDB), United Bank for Africa PLC and the First bank of Nigeria Plc formed the population of interest. The sample size is 93.

7. METHOD OF DATA ANALYSIS

The method of data analysis used in this research work is the percentage. This is a statistical tool that is usually used when unequal sizes are used so as to provide bases for comparison between the group and groups. Chi square distribution was used to further analyze the question central to the research. Thus chi-square was employed using the formula

$$X^2 = \frac{\sum (O - E)^2}{E_{ij}}$$

Where O =observed frequency

E= expected frequency

\sum = summation sign

DF = (C-1)(R-1)

C=Columns; R= rows

Decision Rule:

If observed value is equal or greater than the critical value calculated then, we reject Ho and accept Ha.

Test 1

Ho : Internal audit have not played a significant role in the overall performance in the organization.

Ha : Internal audit have played a significant role in the overall performance in the organization.

8. DATA PRESENTATION AND ANALYSIS

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

QUESTION 1. On the question of what the position of the respondent is in the organization, 10.75% of the staff interview indicated their position as management, 66.67%, were supervisors while 22.58% were clerical officers.

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

QUESTION 2. On how long the respondent has 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 have you been in this org?	93		21	34
Percentage	100%	22.58%	36.58%	40.86%

QUESTION 3

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

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

QUESTION 4. On what, the objective of the internal audit department in the organization is 7.53% said that it is to check in management, 65.59% said that it is to evaluate and examine reports and accounts given to management, 7.53% said that it is to see that workers are sacked and 19.35% failed to respond saying that they have no idea (Ref table iv)

Options	No of responses	Percentage
To regulate the management	7	7.53%
To evaluate & examine reports given to management	61	65.59%
To see that workers are sacked	7	7.33%
To idea	18	19.35%
Total	93	100%

QUESTIONS 5. On whether the objective of internal audit department has been performed 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 v)

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%

QUESTION 6. On whether the internal audit department has contributed to the overall performance of the organization (Ref. table vi)

Options	No of responses	Percentage
Strongly agreed	21	22.58
Agreed	59	63.44
Strongly disagreed	6	6.45
Disagreed	5	5.38
No idea	2	2.15
Total	93	100

The table above shows that 86.02% of the total respondents agree that the internal audit department contributes to the overall performance of the organization.

Further testing using the chi square analysis revealed the following;

H₀: Internal audit have not played a significant role in the overall performance in an organization.

H_A: Internal audit have played a significant role in the overall performance in an organization.

Decision rule: Reject H₀ if calculated value of chi-square (x²) is greater than its critical or table value otherwise accept H_A.

The hypothesis stated earlier in this research will be subject to empirical testing using the chi-square (X²) techniques. The chi-square formula is :

$$X^2 = \sum \frac{(O - E)^2}{E_{ij}}$$

Where O =observed frequency

E= expected frequency

∑ = summation sign

DF = (C-1)(R-1)

C=Columns; R= rows

Decision Rule:

If observed value is equal or greater than the critical value calculated then, we reject H₀ and accept H_A

Test 1

H₀ : Internal audit have not played a significant role in the overall performance in the organization.

H_A : Internal audit have played a significant role in the overall performance in the organization.

For this test however, 5% or 0.05 level of significance is adopted while the degree of freedom is given by the formula K-1

Degree of freedom = 5-1 = 4

Thus, the chi-square critical value is given as x² = 7.815

going by the chi-square formula, which is $\frac{\sum(F_o - F_e)^2}{F_e}$

Where F_o = Observed frequency

F_e = Excepted frequency

Thus: $\frac{\text{Total number of frequencies}}{\text{Number of rows}}$

Number of rows

Therefore, comprising the test statistics the critical value is 5.200 < 7.815.

Decision: Since the calculated value of X^2 is less than the critical value, the null hypothesis should be accepted, while the alternative should be rejected. The conclusion therefore, is that internal audit has not played a significant role in the overall performance of an organization.

Question 7. 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 (Ref. table vii)

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 8. On whether there is need for internal audit department in the organization, 63.44% of accounting workers interviewed agreed strongly, 22.58 agreed, 0% disagreed strongly, 13.98% disagreed while 0% has no idea. (Ref. table viii)

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 9. On whether the internal audit department encounters 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. (Ref. table ix)

Table ix–The internal audit department encounters problems in the performance of its duties.

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 staffs hence no co-operation with the audit.
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.

QUESTION 10. On the time period the internal audit staff carryout their job functions. 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. (Ref. table x)

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 11. On whether the organization, has 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. (Ref. table xi)

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 12. On whether the various staff would like to work in the internal audit department, 37.63% of the staff interviewed strongly agreed, 9.68% agreed, 12.90% strongly disagreed, 39.79% agreed while 0% had no idea. (Ref table xii)

TABLE XII- I will love to work in the internal audit department.

Options	No of responses	Percentage
Strongly agreed	35	37.63
Agreed	9	9.68
Strongly disagreed	12	12.90
Disagreed	37	39.79
No idea	-	-
Total	93	100

9. DISCUSSION OF FINDINGS

On question 6 which embodied the target of this research we found that despite the agreement that auditing plays an important role in the performance of an organization, the chi square test did not seem to agree with the assertion. The agreement may have been because of the conceptual knowledge of the aims and objectives of internal audit but whether these aims and objectives are thoroughly being achieved remains a question. More inquiry should be carried out in this area.

Question 4 which looks at the role of accounting, shows that quite a number has some understanding of the role of internal audit. It also shows that quite a number misunderstand the role of internal audit/auditors thus resulting in some level of hostility towards the office. Internal auditors interviewed stated that the internal audit department performs some specific functions distinct from those of the auditing. On inquiry into these functions the following were mentioned;

- (a) Ensuring that all monies, due to the organization are collected and properly recorded in the departments that are responsible.
- (b) Seeing that expenditures are prudently made in the overall interest of the institution.
- (c) Checking errors in other departments especially the accounting department regarding cash management.
- (d) The department serves as a custodian of internal control measures installed by the authorities of the organization.
- (e) The presence of the department and the fact that they are out to reveal any act of misconduct or abnormalities on the part of workers serves as a deterrent to workers with the mind to commit fraud.
- (f) The presence of the department adds credence to the financials statement prepared by the organization.

On question one, the researcher sought to know the position of the respondent in the organization, it was observed that majority of the respondents were regular staff i.e. (not belonging to the audit department). There was a unanimous agreement on the need for audit; however it was observed that there are a few qualified hands in the field. Perhaps due to the nature of the job, which in some cases sets the audit officer as a watch dog against the bad eggs, thereby creating some friction? This was reflected in questions 7 and 8.

10. SUMMARY AND CONCLUSION

From the inquiry the researcher has come to the conclusion that despite the widespread agreement that internal audit indeed has an important role to play and contributes to the performance of an organization, there is a possibility that this view may not represent the true state of affairs in our organizations. There is no doubt that internal audit contributes to the overall performance of organizations but whether this contribution is significant or not remains a question.

It has also been observed that the number of qualified hands in this field is limited and thus a need for more professional in this area Other findings made in the course of this work include:

- Finding and detection of frauds and errors without following the results to logical conclusion, that is, recovery, may not contribute to overall performance. This is because of the resources committed to the investigation. It may even prove better to concentrate efforts on prevention.
- We also found that numerous frauds and misappropriation might be going on without the knowledge of the management.
- The reports going to the management can in some cases be 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. RECOMMENDATION

On the basis of the findings and conclusion in the study the following recommendations were made:

- A. There should be adequate training of workers in the public sector especially the internal audit staff. This will help in creating the much needed understanding as to the roles of auditing.
- B. There should be proper internal audit mechanism and proper reporting.

- C. Government transaction should be computerized to enable the auditor obtain quick and accurate information regarding the department being audited. This however is not fraud proof.
- D. There should be modification in old financial system and old technology equipment and new recording media should be allotted.
- E. Auditing of public sector should not be in arrears rather it should be done if possible every three months as early detection makes remedy easier.
- F. Government auditors should be independent in performing their duties like their counterparts in the private sector and should not be restricted from certain files.

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