

# Impact of Internal Audit on Internal control of Public and Private Universities in Nigeria: A study of Selected Universities in South West Nigeria

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## Abstract

Over the years, internal audit has been the major strategy adopted by management of many organisations to achieve its lofty organisational objectives in an efficient and effective way. This study is basically about internal audit as a tool for strengthening the internal control in public and private universities in Nigeria. The study uses Descriptive statistic of frequency tables and percentages with Inferential statistic of Chi-square in SPSS (i.e. Statistical package for social sciences, version 20) to analyse the 150 questionnaires that were distributed. The result of the analysis shows that internal audit is effective for strengthening the internal control in private and public universities, Based on the findings, the study, recommends that management should ensure regular review of the internal audit activities so to strengthen its controls.

**Keywords:** Internal control, internal audit, organisation, financial crime, financial irregularities

## 1. Introduction

Despite the fact, that internal audit and internal control system have been in existence for many years in most Nigerian universities, yet, the act of financial crime has continued to be on the increase, examples of these include: fraud supported by non academic staff / academic staffs, financial irregularities, collusion among senior /highly-trusted employees to creatively defraud the universities, financial misstatement, breaches of control, among others, Interestingly, only very few university in Nigeria, have successfully developed strong measures to prevent these occurrences. This accounts for the reason why management of most universities are put in place various policies to ensure that internal audit and internal control activities are always very efficient and effective. The Chartered Institute of Public Finance and Accountancy (CIPFA), as cited by Johnson (1996), defined internal audit as "an independent appraisal function within an organisation for the review of activities as a service to all levels of management. It is a control measure, which evaluates and reports upon the effectiveness of internal control, either financial or otherwise, and also contributes to the efficient use of resources within an organisation.

On the other hand, Auditing can be defined as the examination of accounting records with a view to establish their accuracy and compliance with relevant statutory provisions, accounting standards, professional pronouncements, and organisational policies. Auditing also assist in providing solution to the re-occurring problem of credibility in most universities. It prevents and detects errors and frauds and produces a report of the true and fair view of the financial statement at the completion of the audit. Internal audit has grown tremendously in most universities in the recent past, this can be attributed partly to the growth of the organizations, which has resulted in extended operations and in the need to ensure that the organizations policies and basic accounting controls are observed at every facet of the organization. Internal audit can also be seen as a measure put in place by management to ensure compliance with relevant statutory and professional regulations. It also enables both public and private universities to guard against conflicts and inconsistency with the law. This is because as the organization expands and supervisory responsibility broadens, the head (i.e. the management) can no longer have personal knowledge of every aspect of the organization, in fact, it becomes impossible for management to control or monitor the continuing effectiveness of all controls. This often 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, and it is 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 Problems**

The need for financial accountability has existed ever since it became necessary for one individual to entrust the care of his or her possession or business to another, this separation of control between managers (i.e. Vice Chancellor and Registrar) and owners (i.e. board of Trustees) have led to enormous external pressure on both business and social lives of most individuals and organisation involved in auditing all over the world. Also another major challenge facing auditing today in most universities is the inability to provide an unbiased, independent and objective views of the financial statement or report prepared by the audit department of the university. This is usually because most of Nigerian universities, (i.e. both private and public) usually engage their auditor as a regular employee of the universities rather than as an independent employee and this often makes it difficult for them to carry out their task effectively and objectively

## **3. Objectives of the Study**

The main objective of this research work is an assessment of internal audit as an instrument of strengthening internal control in private and public universities in Nigeria. The specific objectives are to:

- (i) to examine if Internal audit effectiveness have relationship with management approval in public and private universities
- (ii) ascertain if there are auditing standards in both public and private universities that must be complied with in other to achieve the university's goal and objectives.

## **4. Research Hypotheses**

For the purpose of carrying out a meaningful research work on this topic, the following hypotheses which are stated in null form shall be tested:

- H<sub>01</sub>: Internal audit effectiveness does not have relationship with management approval public and private universities
- H<sub>02</sub>: The same standards are not applicable in the internal audit department of both Public and private universities.

## **5. Conceptual Framework**

### **5.1 Origin of Auditing**

The origin of auditing is closely related to the fact, that those who own the organisation (usually the share holders) are different from those who manage and control it (i.e. Board of directors). This causes the owner of the organisation (i.e. the shareholders) to employ some individuals to prepare the report of the resources entrusted into their care in form of financial statement (Okerson, 2013). Section 334 of the Companies and Allied Matter Act 2004 states that it is the responsibility of the directors to prepare the financial statement of an organisation. For this purpose, the shareholders are statutorily vested with the right to appoint the auditor of the company whose duty is to form an independent opinion about the true and fair view of the financial statement prepared by the management.

Section 360 (3) of CAMA 1990 emphasised that the duty of this independent party is not limited to only the examination of the report and account prepared, but also involves collection of all relevant information that will lead to the opinion of true and fair view of the report or financial statement being examined.

### **5.2 Definition of Auditing**

Many scholars and accounting professional bodies have given various explanations and definitions to the term auditing. Cyasi (2001) defines auditing as an independent examination and investigation of the evidences that constitute the bases upon which the financial statement have been prepared with the primary aim of finding out

if in their own opinion the financial statements show a true and fair view; and if the explanation given about the financial transactions is correct. From this definition, one can infer that the person carrying out the audit is usually an independent person and he often makes sure that financial statements are prepared based on the actual record of the firm.

According to the Companies and Allied Matters Act (2004) auditing is defined as the examination of, and expression of opinion on the financial statement of an enterprise by an appointed auditor, in pursuance of that appointment, and in compliance with relevant statutory and professional requirements. This definition further emphasises that the auditor is someone who examines the account of the enterprise, to find out if the records comply with any relevant statutory requirement.

### **5.3 Definition of Internal Audit**

Millichamp (2000) defines internal auditing as an independent appraisal of the function within an organisation with the aim of reviewing the system of control and enhancing the quality of service performance in the organisation.

Similarly, Unegbu and Obi (2012) defined internal auditing as the procedure put in place by management of an organisation to ensure strict adherence to stipulated work instructions and assist the management in effective running of the organisation's administration, control cost, and ensure maximum utilisation of capacity and benefit available for the organisation.

Adeniyi (2011) also defined internal auditing as the review of various operations of the company by staff specifically appointed for these purposes. Cai, (1997); Schneider and Wilner, (1990) were of the opinion that internal auditing is the process of measuring and evaluating the effectiveness of organisation control. They further emphasised that it could be seen as a strong control practice that encompasses every level of management in an organisation and also serves a rule that guides the organisation operations.

## **6. Theoretical Framework**

### **6.1 Agency Theory**

Agency theory is concerned with the conflicting interest that often arises between principal and agent. According to Jensen and Meckling (1976), the agency problem is usually caused as a result of the problem of separation of power in some organisations. They further emphasised that agency problem often occurs as a result of relationship between owners and managers, which is very similar to relationship between principals and agents. According to them this relationship is such that the owners contract the managers to perform the controlling task of the firm and then both of them seek to maximise their own utility and self interest. This is because the managers knowing that he has effective control of the firm's resources often develop various ways to ensure that he can consume a lot of benefit from the firm at the expense of the owner, while the owners, often develop various means of supervising and monitoring the agent to reduce all his ulterior motives about the business. Jensen and Meckling (1976), have defined this cost caused as a result of the divergence between owner and managers as agency cost, which consists of; monitoring expenditure by the principal, Bonding expenditure by the agents and the residual loss.

### **6.2 Stakeholder's Theory**

According to Freeman (2004) stakeholder theory emphasises that some individual or group are very important for the survival of the organisation. This explanation is seen as organisation oriented explanation, but in an earlier research Freeman reported that stakeholder theory refers to any group or individual who can affect or who is likely to be affected by the achievement of the organisation objective. Friedman (2009) supported these explanations of Freeman (1984) because according to him, his definition of the stakeholder theory was more balanced and covers a wider area than those of Stanford Research Institute (SRI) (1963) who defined the theory as simply as those people who, without their support and ideas the organisation would not exist. He further stated that Freeman's definition was wider because it included individuals outside the firm and other groups that may consider themselves to be stakeholders of the organisation without the firm acknowledging them to be so. The stakeholder in most organisations usually includes shareholders, employees, customers, lenders, suppliers, local charities, various interest groups and government.

## 7. Empirical Framework

### 7.1 Relationship between Internal Audit and Performance of the Organisation.

Accounting professionals have continually found it difficult to separate an effective internal audit from improved financial performance of the organisation, Bejide (2006) emphasised that internal audit service can, in particular, help reduce the overhead, identify specific ways to improve efficiency and maximize exposure to possible losses which could arise from careless note, safeguard of company asset which might have significant effect on the operation of the company. Similarly, Venables and Impey (1991) reported that internal audit is a very important tool used by management for improving their performance. Fadzil et al., (2005) also noted that it is because of the presence of internal auditors that company operations, runs effectively and effectively, which often result in the increase in shareholder wealth, In the same vein, Hermanson and Rittenberg (2003) echoed that effectiveness of internal audit function usually brings about superior organisational performance.

As noted in the above paragraph, internal audit contributes significantly in improving the organisation performance and effectiveness, however, very few literature has dealt with the issue empirically. In one of the studies concerning internal auditing by Eden and Moriah (1996) 224 bank branches were used as experimental condition (audited or not audited), The outcome of their result showed that a rapid improvement in the performance of the banks during the half year following the audit in the experimental branches, while the control branches, unfortunately experienced a sharp decline in their business operation. It must be stated that even though the study of Eden and Moriah have proven empirically to the advantages of internal audit of business operation, it still fails to give sufficient explanation of how and why internal audit contributes to improving the company performance, and the conditions that could facilitate or hinder its effectiveness.

Dittenhofer (2001) opined that another important reason for the failure of internal audit is ineffective management controls. He further explained that this inability to effectively control, may sometimes result in the inability of the organisation to meet its objectives while Unegbu and Kida (2011) opined that the implication of effective internal control includes; emergence of fraud, low or non-compliance with internal policies and procedures, difficulty in controlling the financial operation of an enterprise. All these problems have made management of most universities to put in place strict policies and procedures o ensure the success of the internal audit department, but, the problem is, have these policies and procedures actually contributed to strengthening the effectiveness of internal audit and internal control in selected universities.

## 8. Methodology

This study is a survey research based on primary data obtained from distribution of one hundred and fifty (150) questionnaires distributed to some selected universities in the south west Nigeria, these universities include Federal University of Science and Technology, Akure, Obafemi Awolowo University, Ile – Ife, Osun State, Joseph Ayo Babalola University, Ikeji, Arakeji, Osun State and Achievers University, Owo, Ondo State. This universities were selected using purposive sampling method and the data obtained from the questionnaire distributed were analysed using Frequency table, percentages and Chi-square statistical tool in SPSS (Statistical Package for social sciences).

## 9. Data presentation, analysis and interpretation.

### 9.1. Frequency Table

Table 1

Rate of Respondents

		Frequency	Valid Percent	Cumulative Percent
Valid	Returned	110	73.3	73.3
	Unreturned	40	26.7	100.0
Total		150	100	
Missing		40		
Total		150		

Source: Field Survey, 2016

(Table showing the amount of questionnaires returned and those unreturned/Missing.)

The above tables shows that One hundred and fifty (150) copies of the questionnaire were printed and distributed, but only One hundred and ten (110) were returned, while the remaining, were either missing or Unreturned, The missing and unreturned ones amounted to forty(40). The reasons for the unreturned and missing questionnaires includes the following.

1. Some respondents misplaced the questionnaires given to them.
2. Some respondents filled the questions wrongly, majorly because they did not read them carefully before answering them, therefore, the researcher had to cancel them and give them another one.
3. Few respondents ticked two answers for a question and this was recorded as void or missing to avoid incorrect interpretation.

**Table 2.**

S/n	Questions	S.A	A	D	UD	S.D
1	Management is responsible for the establishment of internal control and internal audit	67(60.9%)	11(10%)	1(0.9%)	24(21.8%)	7(6.4%)
2	Internal audit serves as a review of service to the management	69(62.7%)	7(6.4%)	1(0.9%)	19(17.3%)	14(12.7%)
3	Internal audit is made attractive by the quality of staff and the quality of report writing	57(51.8%)	13(11.8%)	1(0.9%)	17(15.5%)	22(20%)
4	Usefulness and effectiveness of the internal audit depends on the extent to which the management considers and approves and implement their report	45(40.9%)	10(9.1%)	6(5.5%)	39(35.5%)	10(9.1%)
5	Internal audit ensures compliance of members of staff with the laid down rules and regulation and also ensure the system is not compromised.	46(41.8%)	24(21.8%)	9(8.2%)	23(20.9%)	8(7.3%)
6	Both public and private universities apply the same standards to carry out their internal audit assignment	92(83.6%)	6(5.5%)	9(8.2%)	1(0.9%)	2(1.8%)
7	Benchmark standard being used in both public and private universities are set and formulated by NUC	45(40.9%)	5(4.5%)	3(2.7%)	56(50.9%)	1(0.9%)
8	The Internal audit department in both public and private universities makes use of the same audit approach in carrying out their audit assignment	86(78.2%)	4(3.6%)	8(7.3%)	12(10.9)	

Source: Field Survey, 2016

(Table showing the responses of the respondents for the selected universities)

#### 10. Discussion of Frequency Table

The above table indicates 83.6% of the respondents choose strongly agreed, 5.5% choose Agreed, 8.2% selected the undecided option, 0.9% choose disagreed while the remaining 1.8% chose strongly disagreed. This implies that internal auditing is substantially the same, in the selected public and private universities.

The above table shows that 41.8% of the respondents close strongly agreed, 21.8% selected agreed, 8.2% selected undecided, 20.9% choose disagreed, while the remaining 7.3% choose strongly disagreed. This implies that internal audit can ensure the standard of the universities is not compromise

The above table shows that 40.9% of the respondents selected strongly agreed, 9.1% choose agreed, 5.5% selected undecided, 35.5% chose disagreed while the remaining 9.1% choose strongly agreed. This implies that internal audit can only be useful in achieving the universities objectives if their activities are regularly reviewed by the management.

The above table clearly shows that 51.8% of the respondents choose strongly agreed, 11.8% agreed, 0.9% were of the view that the best option was Undecided, 15.5% ticked disagreed, while the remaining 20% choose the strongly disagreed option. This shows that internal audit can only be effective, if it has quality staff and quality reporting patterns.

The above table show that 62.7% of the respondents choose strongly agreed, 6.4% ticked agreed, 0.9% were undecided, 17.3% choose disagreed, while the remaining 12.7% choose strongly disagreed. This shows that internal auditing is directly linked to directives of management.

The above table indicates that 60.9% of the respondents choose strongly agreed, 10% selected agreed, 0.9% choose Undecided, 21.8% selected disagreed, while the remaining 6.4% choose strongly disagreed, this implies that management are the only one who has the power to float the internal control; and internal audit department in an organisation

The above table shows 40.9% of the respondents choose strongly agreed, 4.5% choose chose agreed, 2.7% choose undecided, 50.9% choose disagreed, while the remaining 0.9% was strongly disagreed.

The above table indicates that 78.2% of the respondents strongly agreed, 3.6% choose agreed, 7.3% were undecided, while the remaining 10.9% disagreed. This shows that there are no differences in the internal audit department in both public and private school.

- **Hypothesis Testing**

Decision Rule: Accept the Null hypothesis if Chi-square value calculated is lesser than Chi-square value tabulated, but, in a situation where the Chi-square value calculated is greater than the Chi-square value tabulated then the Alternate hypothesis will be accepted while the Null hypothesis will be rejected.

- **Hypothesis One**

H<sub>01</sub>: Internal audit effectiveness does not have relationship with management approval in public and private universities

Note: For the purpose of testing this hypothesis table 2 question 1 was used

**Management is responsible for the establishment of internal control and internal audit**

	Observed N	Expected N	Residual
Strongly agreed	67	22.0	45.0
Agreed	11	22.0	-11.0
Undecided	1	22.0	-21.0
Disagreed	24	22.0	2.0
Strongly Disagreed	7	22.0	-15.0
Total	110		

Source: Field Survey, 2016

(Table showing result of the Non-parametric test also called Chi-square)

**Chi-square Test Statistics**

	Management is responsible for the establishment of internal control and internal audit
Chi-Square	128.000 <sup>a</sup>
Df	4
Asymp. Sig.	0.000

Source: Field Survey, 2016



(Table showing the result of chi-square statistic)

Calculated Chi-square ( $X^2 C$ )= 128.000

Tabulated Chi-square ( $X^2 T$ )= 9.488

Level of Significance=5%

Degree of freedom(df)= 4

Interpretation of result

From the above analyses, it can be observed that the calculated chi-square value ( $X^2C$ ) of 128.000 for each of the variables under this hypothesis was greater than the tabulated chi-square ( $X^2T$ ) of 9.488 at 0.05 level of significance, at a degree of freedom of 4. Hence, the Null hypothesis will be rejected, while the Alternate Hypothesis will be accepted, which implies that internal audit effectiveness have relationship with the approval of management of the public and private universities. This also mean that implementation of any of the directive of the internal audit department are usually dependent on management of the university.

• **Hypothesis Two**

Ho<sub>2</sub>: The same standard are not applicable in the internal audit department of both Public and private universities.

Note: For the purpose of testing this hypothesis table 2 question 6 was used

**Both public and private universities apply the same standards to carry out their internal audit assignment**

	Observed N	Expected N	Residual
Strongly agreed	92	22.0	70.0
Agreed	6	22.0	-16.0
Undecided	9	22.0	-13.0
Disagreed	1	22.0	-21.0
Strongly Disagreed	2	22.0	-20.0
Total	110		

Source: Field Survey, 2016

(Table showing result of the Non-parametric test also called Chi-square)

**Test Statistics**

	Both public and private universities apply the same standards to carry out their internal audit assignment
Chi-Square	280.273 <sup>a</sup>
Df	4
Asymp. Sig.	.000

Source: Field Survey, 2016.

(Table showing the result of chi-square statistic)

Calculated Chi-square ( $X^2 C$ )= 228.273

Tabulated Chi-square ( $X^2 T$ )= 9.488

Level of Significance=5%

Degree of freedom(df)= 4

Interpretation of result

From the above it can be observed that the calculated chi-square ( $X^2C$ ) value of 228.273 was greater than the tabulated chi-square ( $X^2T$ ) which is 9.488 at 0.05 level of significance, at a degree of freedom of 4. Hence, we reject the Null hypothesis and accept the Alternate Hypothesis which implies that the same standard are applicable in the internal audit department of both Public and Private universities, which also means that internal audit department in private universities does not have preference to that of public universities.

**11. Conclusion**

The conclusion of this study is that internal audit department in both private and public universities, makes use of the same approach, the study also concluded by establishing that internal audit department can adequately

review the accounting system and related internal control system in the universities. The study also confirmed that benchmark standard for internal audit is not set by the National Universities Commission, but by the universities. It could also be concluded that all activities of internal audit/control are directly related to management permission/approval.

## 12. Recommendations

The study recommends that internal audit must be effective before it can strengthen the internal control in public and private universities. It also emphasised that the establishment of internal audit department will bring about persistent review of the accounting system and internal control in the public and private universities. The study, also recommends that the benchmark standards used in both private and public can be strategically developed by public and private universities in such a way that suits them, since these standards and rules are not determined by National University Commission (NUC). Furthermore, the study recommends that management of private and public universities must review the activities of the internal audit department so as ensure the continual usefulness of the department. Finally, the study recommends that, the management of public and private universities should give the same attention to internal audit assignment and internal control system put in place, because both of them have significant relationship with each other.

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