

Effectiveness of Internal Auditor in Controlling Fraud and Other Financial Irregularities in Private Universities in South-West, Nigeria.

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Abstract

The study examined the effectiveness of internal auditor in controlling fraud and other financial irregularities in private universities in Southwest, Nigeria. It has is specific objective as to evaluate the relevance of internal audit report in exposing various form of financial related institutional fraud. The population of the study consist of all private universities in Southwest, Nigeria and purposive sampling was adopted to choose the sampled universities. The data for the study was collected through the use of structured questionnaire. Regression analysis techniques was adopted to test the formulated hypotheses and results shows that internal auditors were effective in controlling fraud and other financial irregularities in private universities in Southwest, Nigeria. Since f-calculated value of 85.355 was greater than the f-tabulated value of 5.320, it also shows that auditor reports were relevant in exposing various means of financial related frauds since F-calculated of 18.794 was 66greater than F-tabulated of 5.990 The study conclude that internal auditor is effective in exposing frauds in private universities in Nigeria if the structural compositions of the university allow them to do their work. The study recommended internal control involve the check and balances, both operational and financial, should be employed by the management of every university, to ensure that the university's assets are safeguarded, of which cash is one.

Keywords: Internal Audit, Fraud, Financial Statement, Financial irregularities, Internal control system, Auditor's report

Background to the Study

Fraud is the intentional distortion of financial statements or other records by a person (internal or external) to the organisation which is carried out to conceal the misappropriation of assets or otherwise for gain"(Adeniji 2004 and Institute of chartered Accountant Nigeria-ICAN 2006).It can also be define fraud as involving "the use of deception to obtain an unjust or illegal financial advantage; intentional misstatement in, or omissions of amounts or disclosure from an entity's accounting records or financial statements; or theft whether or not accompanied by misstatements in accounting record or financial statement (Mani,1993). Archibong (1992) describes Fraud as a predetermined and well planned tricky process or device usually undertaken by a person or group of persons, with the sole aim of checking another person or university, to gain ill-gotten advantages, be it monetary or otherwise, which would not have accrued in the absence of such deceitful procedure. Fraud involves recording of transactions without substances, suppression or omission of the effect of transaction from records or document, Intentional misapplication of accounting policies and wilful misrepresentation of transaction of the entity's state of affairs. (Olatunji2009). According to Pollick 2006, fraud can be regarded as a "deliberate misrepresentation, which causes one to suffer damages, usually monetary losses.

However, auditors have a significant role to play in the detection and prevention of fraud because they are not only agents of shareholders but their access to internal and external information makes them efficient monitor (Dyck, Morse and Zingales , 2008). The existence and in fact, the high incidence of fraud in university brings to mind the question of competence, skills, due care, honesty, and integrity of auditors in university or business enterprise, qualities are expected to be displayed by an auditor in every time in every circumstances (Olofin,2005 and Agbaje,2007).

Lorsase (2004) notes that when fraud occurs in work place, the question asked is "where were accountants and auditors? That an auditor has the responsibility for the prevention, detection, and reporting of fraud, and other illegal acts and errors is one of the most controversial issues in auditing, and has been one of the most frequently debated areas amongst auditors, politicians, media, regulators and the public Gay et al (2002) However, there seems to be misconception that auditors duties are largely the preventing, detecting and reporting of fraud (Idris,2009). The internal audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of the university (Okoya,2002). Despite the fact that audit exist in various university with internal control system in place, but the act of financial crime still continues e.g. fraud, irregularities and even breaches of other control and no any strong measures being taken to prevent such occurrence.

Auditors are primarily concerned about fraud as it relates to misstatement in the financial statement (Bells & Carcello, 2000). So, auditing has a greater impact in the control of fraud and financial irregularities in universities that make effective use of their auditing system. The study tends to identify financial report users' perceptions of the extent of fraud in university and to determine their perceptions of the auditor's responsibilities in detecting fraud and the performance of related audit procedures

Moreover, according to the Institute of Internal Auditors (1991), the internal audit unit is expected to review the means of safeguarding assets and where appropriate, verify the existence of such assets. Financial control has concentrated on the cash out flow, purchasing procedures and accountability of budget holders for current expenditure on resources inputs (Mainoma, 2007) and (Buhari, 2001). Therefore, internal auditing furnishes authorities with analysis, appraisals, recommendations and information concerning all activities reviewed. The survival of every organisation depends on its effective and efficient utilisation of resources (both financial and non-financial). The internal audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of the organisation (Okoya, 2002). According to Thompson (2003), internal auditing should not be restricted to financial transaction only. Internal auditors can equally assist management by ensuring that adequate financial and management controls have been implemented and are operating effectively or by identifying the weakness in such system and making recommendations toward their improvement which include among others; with internal audit, errors are more likely to be discovered in their early stages. Existence of assets is verified so as to protect the assets of the university, errors in account can be corrected early once detected by the internal auditor, its acts as moral influence on the staffs and promotes efficiency by compelling the officers to keep their books of account entered up to date, a detailed examination of the financial account submitted by contractors is facilitated, cash disbursement, such as for wages and salaries, may be checked before they are cashed.

The responsibility for ensuring that internal control is established in the university lies with management. The internal audit is supposed and to be custodian of internal control by providing assurance to the management that the university has put in place adequate and effective internal control system, and must not hesitate to draw management's attention to lapses observed in the control. A good and viable internal control system increases operational efficiency, thereby making it more difficult for the preparation of fraud (Mayo, 2003). Effective internal control requires; appropriate accounting procedure and system, division of duties i.e. separation of responsibilities, especially those of authorization, regular verification of supervision of each person's work by their superior officers. Internal control in its broad sense includes all controls operated by an university to facilitate its activities and improve its efficiency and productivity. It also includes all administrative controls designed to effect, supervise and check management policies and strategies within an university such as work study, production control, marketing, selling and distribution, financial and accounting control. The main objective of internal auditing is to provide assurance to management that the internal control system in the university is sound in design and effective in operation. It also helps to achieve value for money (Momoh, 2005).

Okwoli (2004) also shares the view that the present requirement of internal audit is not the detection of fraud and errors, but reviewing the system of internal control. This is because in private university, internal audit is meant to carry out an independent appraisal of the effectiveness of internal controls and other financial controls in such ministry. Normanton, as cited in Daniel (1999), emphasizes the importance of internal audit by saying that "without audit, no accountability, no control; without audit, no efficiency; without efficiency, no development. The growth of any economy depends to a large extent on the system of control adopted by the management and the success and sustenance of the internal control lies on internal auditing. The above observation underscores the importance of internal audit in every university of the internal control to effect

Statement of the Problem

Fraud can be said to be the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets, and is unfortunately, much more common in private than some owners realize. It has really been the undoing of many unlucky businesses. Private Universities are particularly likely to be victims of internal fraud, even much more than their larger counterparts (Conventional Universities) as owners tend to put blind faith in their employees. They may also neglect to take proper precautionary measures against fraud, which can add to the cost of doing business. The problem is that the trust that many owners of private universities placed in their employees is not always justified. All it takes is for one employee to decide they deserve a bigger slice of the pie than they are currently receiving, and that could be enough to eventually sink the business.

Clearly, fraud is a pervasive corporate problem, affecting organizations across industries and sectors without regard to size. Because of fraud's disastrous consequences, failure to put deterrent procedures in place could put a university out of business within days. Fraud prevention, then, is a defined program of proactive measures to avoid or mitigate fraud. Failing to address these issues places a university at a competitive disadvantage when

fraud becomes a cost of doing business. Therefore, this study tends to examine the effectiveness of internal auditor in controlling fraud and other financial irregularities in private universities in Southwest, Nigeria.

Objectives of the Study

The general objective of the study is to examine ‘Effectiveness of internal auditors in controlling fraud and other financial irregularities in private universities in Southwest, Nigeria, other objectives include are to:

- i. Evaluate the relevance of internal audit report in exposing various forms of financial related institutional fraud.
- ii. Examine the effectiveness of auditing as an appropriate means of detecting fraud in private universities in Southwest, Nigeria.

Hypotheses

H₀₁: Internal auditors are not effective in controlling fraud and other financial irregularities in private universities in Southwest, Nigeria,

H₀₂: Internal audit reports are not relevant in exposing various forms of financial related institutional fraud.

Methodology

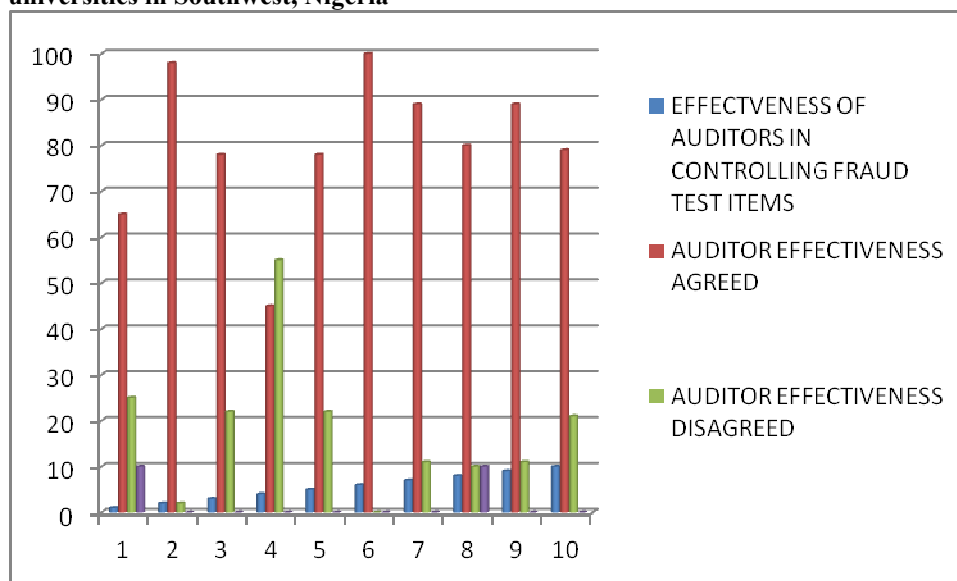
Purposive sampling method was used to select the sample size of this study. The source of data for the was through primary source. Data were collected through the use of structured questionnaire and the study made use of regression analytical techniques to analyse the data collected.

Results and Discussions

Hypothesis 1

Chart 1 shows that most respondents agreed to the effectiveness of Internal auditor in controlling fraud, this infer that auditor effectiveness in controlling fraud and other financial irregularities in private universities in Southwest Nigeria must be of paramount important to the owners of these universities.

Chart 1. : Internal auditor effectiveness in controlling fraud and other financial irregularities in private universities in Southwest, Nigeria



Source: Field Survey, 2013

ANOVA

Source variation	of	Degree Freedom	of	Sum of Square	Mean Square	of	F- calculated	F-tabulated
Regression	1			5854.848	5854.848		85.355	5.320
Residual	8			548.752	68.594			
Total	9			6403.6009				

Source: Research Framework, 2013

Since f-calculated value of 85.355 was greater than the f-tabulated value of 5.320, then, the null hypothesis was rejected and the study concluded that internal auditors were effective in controlling fraud and other financial irregularities in private universities in Southwest Nigeria.

COEFFICIENTS

Model	Unstandardized coefficient		Standardized coefficient	T	Sig
	B	std.error	Beta		
Internal auditors effectiveness	8.424	0.912	0.956	9.239	0.000
Constant	17.867	5.658		3,158	0.013

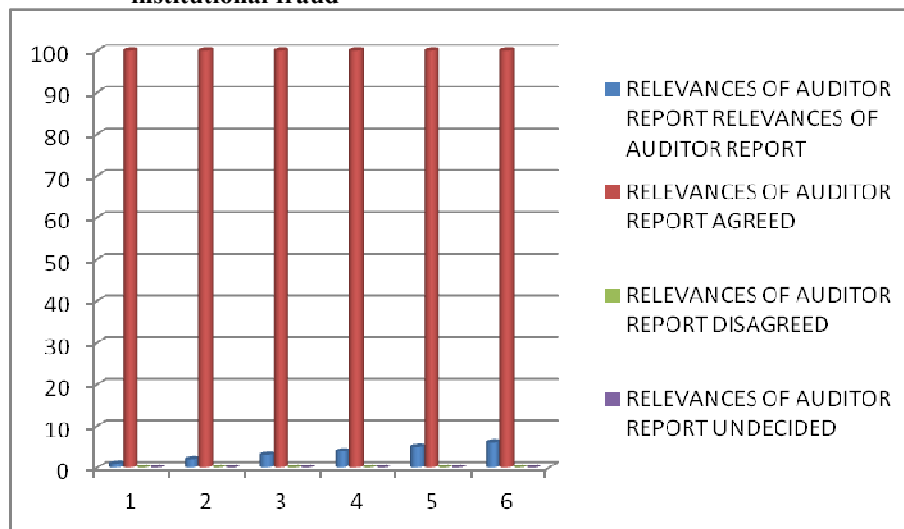
Source: Researcher Framework, 2013

Since the p-value for internal auditors was less than 0.005, then, the regression coefficient internal effectiveness was significant on financial irregularities control.

Hypothesis 2

In hypothesis 2, the chart shows percentage of all respondents who agreed to all the test items, the researcher found out that all the respondents agreed to the test items, that referred to the questions of relevance of audit report in exposing various means of financial irregularities, the study would like to conclude that auditor’s report were relevant and very important in exposing various means of financial related institutional fraud

Chart 2. Audit reports relevant in exposing various means of financial related institutional fraud



Source: Field Survey, 2013

ANOVA

Sources of variation	Degree of Freedom	Sum of Square	Mean Square	F-calculated	F-tabulated
Regression	1	1110.857	1110.857	18.794	5.990
Residual	6	354.643	59.107		
Total	7	1465.500			

Source: Study Framework, 2013

Since F-calculated of 18.794 was greater than F-tabulated of 5.990 then the Ho is rejected. Therefore, the study concluded that auditor reports were relevant in exposing various means of financial related frauds.

COEFFICIENTS

Model	Unstandardized coefficient		Standardized coefficient	T-calculated	Sig
	B	std error	Beta		
Auditor’s report	5.143	1.186	0.871	4.335	0.005
Constant	56.107	5.991		9.366	0.00

Source: Study Framework, 2013

Since the p-value for auditor report of 0.005 was less than 0.05m then, the null hypothesis was rejected and the researcher concluded that auditor's report were significant in exposing frauds.

Conclusion and Recommendations

Based on the study, the following conclusion and recommendation were reached

- That internal auditor is effective in exposing frauds in private universities if the structural compositions of the university allow them to do their work.
- That audit reports are relevant in exposing frauds
- That auditing is an appropriate means of detecting fraud and other financial irregularities.

The study therefore recommends that:

- i. Internal control should be employed by the management of every university, to ensure that the university's assets are safeguarded and this would go a long way in reducing and curbing fraud in university.
- ii. University should try as much as possible to have an effective internal Audit department, which should be headed by a qualified accountant. In addition, the accountant should be responsible to the Management or a higher authority in the university only.
- iii. Management by Example, should be the watch word of every member of staff for internal audit to be effective and staffs should also comply with the laid down policies and procedures in the performance of every university functions.

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