The status of Internal Audit at Local Government Level in Nigeria

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Abstract: Nigeria is one the country that has a largest number of Local Governments with an established internal audit unit in operation. Therefore, to conduct a research on the status of internal audit at local government is very essential. In view of this, the objective of this paper is to highlight the status of internal audit at local government with the hope to be improving in the future Endeavour.

Key Words: Internal audit, Nigeria, Local government.

I. Introduction

Auditing is very essentials because it gives concerned on the evaluation of various controls, examining deviation from applicable standards and any instance or act of irregularity, inefficiency and ineffectiveness with the motive of taking corrective action (Aikins, 2011). Recently, consideration in the topic of internal audit is receiving more attention especially when considering its contributions to the management of either public or private sectors in the aspect of organizational resources (Alberta, 2005; Dhamankar & Khandewale, 2003; Hany & Maged, 2009; Rupsys & Boguslauskas, 2007; Theofanis, Drogalas & Giovanis, 2011; Ussahawanitchakit & Intakhan, 2011), this is because internal audit has become an unavoidable control mechanism in both public and private sectors (Cohen & Sayag, 2010), therefore it is the right time to seriously consider the issue of internal audit (Sumritsakun & Ussahawanitchakit, 2009). Internal audit could also add value by helping organisations to achieve economy, efficiency and effectiveness (Al-Twaijry, Brierley & Gwilliam, 2003).

Ruud (2003) noted that internal audit render two main services to an organisation i.e. assurance and consulting services. An assurance service are those service that has to do with the ability of the internal auditor to provide such as independent assessment on the level of risk management, control, and governance processes of the organization, financial aspect, performance, compliance, system security and due diligence engagements. While the consulting services are those service that concerned with the advisory and related client service activities that concerned with the nature and scope agreed upon with the client and which are intended to add value and improve the organization’s operations. These may also include advice, counsel, facilitation, process design, and training. Despite, all those service above, Dezoort, Houston and Peters (2001) suggested that those internal auditors that act as consultant to the organization they serve definitely may not be able to maintain their objectivity within such organization. Therefore, in order for the internal auditor to provide both assurance services as well as consulting service, they needed to be independent with objectivity, competency, as well as ethical behaviour. In addition, internal auditor needs to be independent and should have right of access to council’s records, personnel and must have sufficient authority to carry out the internal audit role (Payne, 2005).

In Nigeria, research has showed that Nigerian local government councils have internal audit department with internal audit staff that carried out internal audit activities (Adewumi, Akindele, & Ajesin, 2012; Coker & Adams, 2012; Ebimobowei & Kereotu, 2011; Jansson, 2003; Kuta, 2008; Kwanbo, 2009; Ojo, 2009; Unegbu & Kida, 2011). This establishment is consistent with the provision made by department of local government under the internal audit guidelines; which strongly recommends that all local government councils should have an internal audit function for the following reasons: (i) to supports good internal governance (ii) to ensure consistency with other levels of government (iii) to improve the effectiveness of risk management, control and governance processes (iv) helps to instil public confidence in an organisation’s ability to operate effectively and efficiently (IAG, 2008). In addition, Al-Twaijry et al, (2003) also noted that there is much confusion in organizations that do not have internal audit departments with respective roles of internal audit within their operations. Because having such department could adds value to organization in various ways which include: helpings the organization to attain its objectives, strengthens internal controls, improves risk management, and enhances overall corporate governance (Jerome, 2009; Pforsich & Kramer, 2008). Therefore, the objective of this paper is to highlight the status of internal audit at local government in Nigeria in order to be improved. Section two of the paper present literature review and conclusion.
II. Literature Review

2.1 Concept of Internal Audit

Institute of Internal Audit (2009) defined internal audit “as an independent, objective assurance and consulting activities designed with the intention to add value and improve an organisation’s operations. It then helps an organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. From the definition, it’s clear that internal audit should be designed in such a way to be independent and objective in order to evaluate and improve the effectiveness of risk management, control and governance processes at the same time, the internal audit are expect to provide assurance and consulting service.

Jurchescu, (2010) defined internal audit” as an independent and objective functional activity which provides security and management advice with the aim of ensuring effective management of public income and expenditure, ensuring proper activities within public organization, helps the public organization to achieve their objective through systematic and methodical approaches, evaluate and improves the efficiency and effectiveness of internal control system, risk management and management processes”. The definition above concerned with the activities of internal auditors in public organization, especially on the protection of the public property, the proper utilization of revenue and expenditure as well as the evaluation of the efficiency and effectiveness of risk management, internal control system and organizational process.

Unegbu and kida (2011) defined internal audit as “an aspect of the internal control system established by management of an organization in order to ensure proper compliance with the stipulated policies and procedure in order to achieve management objectives”. This definition indicates that the internal auditor is part of internal control system established within the organization with the aim of evaluating the efficiency and effectiveness of other controls established by management. From all the above definitions, internal audit can be seen as independent appraisal established within the organization with the aim of reviewing the effectiveness and efficiency of the activities of an organization, ensuring compliance with established regulations, evaluation of risk management and internal controls system of the organization. Therefore, the internal auditor is an employee within an organization’s internal audit department who is assigned with the responsibility of performing internal auditing functions.

2.2 Brief History of Local Government in Nigeria

Local government has been defined by the United Nations documentary on public administration as a political sub – division of a nation or state which is constituted by law and has substantial control of local activities, which include; the power to impose taxes or to enact prescribed purpose (Ajayi, 2000). From these definitions, local government is a government at the local level, established by law to perform specific functions within defined areas or jurisdiction. Therefore, local government is the third tier of government in Nigeria that is nearest to the people at the grassroots.

Since the paper concerned with Nigerian Local Government, it’s important to give brief about Nigerian Local Government. Even though Johnsen and Vakkuri (2001) point out that what people understand as local government in one country may not be identical with local government in other countries, Therefore, the Nigerian local government was established under the Local Government Reform of 1976. The Local Government Reforms Guidelines of 1976 defined local government “as government at local level exercised through representative council established by law to exercise specific powers within defined region” (Noun, 2010). In line with the above definitions, it’s paramount to consider some of their constitutional functions.

The main functions of a local government as specify in the fourth schedule of the 1999 constitution includes; The consideration and the making of recommendations to the state commission on economic planning or any similar body on: (i) The economic development of the state population in so far as the areas of authority of the council and of the state are affected; (ii) Collection of rates, television and radio licenses fees; providing and maintaining of burial grounds and cemeteries; providing license of bicycles, trucks, canoes, wheel barrows and carts; Providing, maintaining and regulating of markets, motor parks as well as public conveniences; Construction and maintenance of streets, street light, roads, drains and other public facilities as may be prescribed from time to time by the House of Assembly of a state; naming of roads and streets and numbering of houses; provision and maintenance of public convenience, waste disposal, registration of all births, deaths and marriages; (1999 Constitution).

2.3 Internal Audit at Local Government

Due to the growing importance of the internal audit departments, many organizations identified the benefits and they are trying to establish it in their operation (Schneider, Sheikh, & Simione, 2011) in this context, it’s a clear indication that internal audit function within the local government has increased in profile during the past decade (Davies, 2001) that is why internal auditing departments in any organizations help the management of that organization towards solving some of their problems (Jerome, 2009). In line with the above
view; financial audit is also carried out at the local government level by either internal auditor, audit committee or various supervisory organs from the state government and external audit (Friedberg, 1998). Therefore, it’s paramount for the personnel’s of internal audit department to exercise due professional care in carrying out their respective duties (Jansson, 2003). Hence, proper staffing of an internal audit department with enough qualified personnel and proper management of the staff are among the keys to the effective operation of an internal audit (Cohen & Sayag, 2010).

However, all local government councils should have an internal audit function for the following reasons; the supports good internal governance; for ensuring consistency with other levels of government; for the evaluation of the effectiveness of risk management, control and governance processes; helps to build public confidence in an organization’s ability to operate effectively (IAG, 2010). In addition, Al-Twaigry et al, (2003) suggest that organizations that have no internal audit department should be encouraged to have such departments. Consequently, the Local Government Act 1982 in accordance with Section 45(1) of Local Authority Finances Act No. 9 of 1982 stated that each urban and district LGA shall employ its own Internal Auditor who shall audit its accounts (URT, 2005). Similarly, organization that has internal audit department enjoys two main benefits: prevention and detection of irregularities; and economy, efficiency and effectiveness of various section of the organization (Aguolu, 2009; Al-Twaigry et al., 2003).

Likewise, section 95 of the Local Government (Scotland) Act 1973 and section 54 of the Local Government Act (Northern Ireland) 1972 makes provision that all local authorities should have an established internal audit department (CIPFA, 2006). However, in Malaysia the Local government Act of 1976 of the Law of Malaysia Act 171 provided in section 60 (1) that “The Auditor General or other auditor appointed by the State Authority on the recommendation of the Auditor General shall, throughout the financial year, inspect and examine the accounts of the local authority, and the local authority shall, by the Treasurer or other officer authorized by the local authority, produce and lay before the auditor all books and accounts of the local authority together with all vouchers, papers, contracts and documents relating thereto”.

Virtually, all the above are provisions of foreign laws on the establishment of internal audit within their respective local authorities because of the importance of internal audit on organizational efficiency and effectiveness especially the roles play by the internal auditors in the aspect of evaluating risk management, internal control system and good governance as well as review of the activities of organization with the view of ascertaining their level of compliance with various regulations, efficient resources utilization for organizational goals and assets protection. Hence, the strength of an internal audit department must be examined with respect to the degree of independence it benefits from management and from operating responsibilities (Aikins, 2011).

2.4 Internal Audit at Local Government in Nigeria

The fact that the nature and position of the internal audit department in local government differs from one country to another (Mizrahi & Ness-Weisman, 2007). In Nigeria, Civil Service Reforms in the local government service (1998) as contained in the implementation guideline in section 12 (12) stated that, an internal audit department or unit shall be established in each local government in Nigeria, and shall be headed by a qualified accountant in order to provide a complete and continuous audit of the accounts, and records of all received and expenses (Aruwa, 2003). Additionally, internal auditors of every local government should be accountable to the accounting officer and Auditor General of the local government council on the real situation in terms of conformity with the standards of the audit work and also the internal auditor shall issue special reports, where necessary, if is of the views that the Auditor General of the local government council concerned is needed because the financial accountability in local governments is monitored through external audit carried out by an independent Auditor-General of Local Governments as contained in the Section 7 and the Fourth Schedule of the 1999 Constitution (Barkan, Gboyega & Stevens, 2001).

By its structure, the internal audit is a service department and as such, it is essential that it should not be connected to finance and account unit and ideally the head of internal audit should belong to top management and should report to the audit committee. (Aguolu, 2009; Belay, 2007). However, Local governments should periodically measure their internal audit function to ensure that it is operating in accordance with best practice & principles (Glance, 2006). Thus, the motives behind the establishment of internal audit unit at local government level was; to promote accuracy and reliability in accounting and operating data; safeguarding government resources in order to prevent resources embezzlement and fraud, also to determine the extent of compliance with relevant government laws, policies and procedure established within the various department as well as ensuring proper and judicious resources utilization.

Furthermore, when it come to the issues of legality of auditing in Nigeria, the legal instruments that sets the overall framework for the financial management, auditing procedures, government accounting and financial reporting for either the federal, state or local government are: The Constitution of the Federal Republic of Nigeria 1999, the Finance (Control and Management Act) 1958, the Audit Ordinance No. 28 of 1956, the Annual Appropriation Act and the financial memoranda of 1999. While in the aspect of professionalism, is
usually handled by the professional bodies such as ICAN and ANAN through Nigerian Standard on Auditing (NSA) (Aruwa, 2003) which will be address below:

The Nigerian Constitution of 1999 is the optimal instrument which deals with the following area: The funds utilization, the external controls for the effectiveness of accounting system by way of investigations and audit, and the appropriate methods. The Finance (Control and Management) Act 1958 deals with the management and operation of government funds. However, the Act also regulates the various books of accounts, accounting system to be utilized and the methods to be followed in the preparation of accounts and financial statements of the government. Similarly, the Audit Ordinance of 1956 as amended by Audit Act 1988 deals with the Audit and accountability for the public funds of government in Nigeria. Appropriation Acts are also enacted annually for some reasons not only for financial and accounting regulating matters, but also principally to some issues regarded the Consolidated Revenue Fund.

The Financial Memorandum (1999) deals with the accounting at local governments’ level. However, It provide that an internal audit department or unit shall be responsible for carrying out an independent appraisal of the accounting and other processes of the local government with the motives of; safeguarding the assets of the local government, evaluate the internal control system, ensuring compliance with relevant regulations, ensure efficient resources utilization toward achieving objectives of the local government. Furthermore, the Memorandum also make a provision that; the internal auditor shall report to the Chairman of the local government at least four times each year on the achievement of the internal audit work, which include the finding with regard to; the revenue collection, safeguarding of the local government assets, current and capital expenditure, efficiency and effectiveness of system control and procedure, resources utilization, and any instance of fraud observed should be revealed to the Chairman’s attention.

Therefore, from the above provision, it can be clearly seen that the scope and objective of internal audit unit in local government in Nigeria are almost the same with the provision of Institute of Internal Audit to some extent. The Nigerian Standard on Auditing (NSA) concerned with the professional pronouncement on the auditor’s responsibilities relating to accounting issues and related to disclosures in an audit of financial statements as well as the review of organizational operation by an auditor. Internal auditors are uniquely placed in organization with the view to examine and evaluate the systems used in different parts of organization and to make recommendation for improvement (Page & Spira, 2004). Therefore, the status of internal audit at local government in Nigeria should be improving from the current situation to meet international standard so that to improve the performance of local government activities and also to ensure the achievement of local objectives.

III. Conclusion

This paper depicted the status of internal audit at local government in Nigeria; it is a conceptual literature review. The paper contributes to the existing literature on internal audit at local government particularly Nigeria. Therefore, more research is required to be conducted in internal audit at local government in order to contribute on the improvement of internal audit status at local and also to contribute in internal auditing literature.

References


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