

## **Internal Audit Practice and the Use of Consultants in JIGAWA State Universal Basic Education Board (SUBEB), Nigeria**

Sama'ila Idi Ningi\* Aminu Yakubu Wanka\* and Magaji Sani\*\*

\*Accounting and Finance Technology Programme School of Management Technology  
Abubakar Tafawa Balewa university, Bauchi \*\*Jigawa SUBEB

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**Abstract:** *The increasing rate of fraud in accounting system without proper detection has made many citizens question the role of auditors in the economy. In Jigawa SUBEB in particular there is the problem of clash between the consultants and internal Auditors, the problem of fraud in recurrent expenditure. Consequent upon that, Questionnaires were designed and distributed to 16 internal auditors comprising of 12 from the LGEAs and 4 from the SUBEB headquarters. The questionnaire is divided into 4 sections soliciting information for the 4 variables of the study. The questions were in the form of 1= Agreed, 2= Undecided, 3= Disagreed. It is found that the consultant are used to assess contractors competence, they can assess the contract bidders and even find out those that are capable for the contract execution. But sometimes consultants and auditors clash in project supervision; also the staff in the LEAs manipulates and makes fake claims, thereby, siphoning resources of government to private uses. Therefore, as an organization where financial transaction is committed at all the times especial payment of contracts for building, rehabilitation of class rooms and staff expenditure for transport and out of pocket expenses it is of great importance for the JIGAWASUBEB in conjunction with the department of due process to ensure clear separation of responsibilities of consultants and the internal auditors. This will avoid clashes, conflicts and submission of different reports from the consultants and the internal auditors. Also the internal audits units in the LEAs should be improved to stop the fraud and errors in staff claims usually being committed.*

**Key word:** *Internal Audit, Practice, Use of Consultants*

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### **I. Introduction**

The problems associated with auditing in Nigeria, includes bias on the part of those employing the services of an auditor for instance a business where fraud is suspected to have taken place, the management who are to initiate the auditing, may tend to employ only those who will safeguard their interest. Another problem is that the auditors tend to connive with the frauders, not to look into the financial record very well so that they can over look some fraudulent activities. Another problem is that some audit staff are not qualified, to undertake the audit work, as such they may be liable to a lot of errors or manipulations. Problems associated with internal audit are the inadequate inspection which results to inadequate operational coverage, low status of the departmental head, usually below management Cadre, involvement of the internal auditors in operational functions thereby compromising the audit process by the top management who only pay lip service to the importance of the audit functions, (1).

Jigawa State Universal Basic Education Board is a broad organization, receiving fund from different government and donor agencies (the state government, local government, Educational Trust Fund (ETF), United Nation International Children Emergency Fund (UNICEF)). This funds are used for capital projects, overhead cost, payment of staff salaries, for running the office administration for both headquarters and the LGEAs and construction of classrooms, purchase of furniture, vehicles to mention but a few.

Therefore, due to this fact auditing must be undertaken to ensure proffer spending of such funds, weather the expenditure made within the headquarters and the LEAs are following normal accounting procedures and contracts awarded are without inflation need to be assessed. Some of the problems that call for the research in Jigawa SUBEB are the problem of consultant with project audit and the problem of internal expenditure. One of the problems which call for this research is the clash which occurs between the consultants and the internal auditors in Jigawa SUBEB. Consultant are employed to oversee and supervise the capital projects especially construction and rehabilitations of classrooms. At this end sometimes consultants include in the valuation work not executed by the contractor. Therefore, at this end Audit project inspection is carried out by the internal auditors, were reports will be submitted to the board. And whatever is included but not executed the amount will be slashed from the contractor amount payable. This makes the consultant to see the Auditors as their rivals. Another problem is the internal expenditure or recurrent expenditure. Government allocates money

for recurrent expenditures which includes salaries and overhead costs. But sometimes some staff made claims for payment more than the expenditure incurred or expenditure yet to be done.

## **II. Literature Review**

According to Dandago (2002) auditing is an independent examination of the expression of an opinion on the financial statement of an enterprises by an appointed auditor, in accordance with his term of engagement and the observance of statutory regulation and professional requirements. An auditor has to be independent of the management who are responsible for the preparation of financial statements and that he is responsible only to the owners who appointed him and utilize his report. He should be independent of government agencies or other interest groups who have contact with the client organization. Auditing is the independent examination of financial information of any entity, whether profit oriented or not, (2). In general audit is an evaluation of a person, or organization, system, process, enterprise, project or conduct. The term must commonly refers to audit in accounting, internal auditing, government auditing. As general rule, audits should always be an independent evaluation that will include some degree of quantitative and qualitative analysis where as an assessment implies as less independent and more consultative approach.

The outcome of the assessment should relate to the norms that were set for the task, product or event. According to (3) internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organizations operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, competent and governance process.

Internal audit is an important part of the public sector structure within an organization. Corporate governance includes those oversight activities undertaken by the board of directors and audit committee to ensure the integrity of the finance reporting process (4). Three monitoring mechanisms have been identified to be use in checking the public sector activities. They are external auditing, internal auditing, and directorship (Anderson, 1993). In recent years, high profile corporate collapses have focused attention on corporate governance and also emphasized internal auditing as part of the governance process. The institute of internal audit (IIA) sees the objective of internal auditing as both supporting and strengthening an organization's governance mechanisms and evaluation and improving the effectiveness of risk management and control (5). Despite the increasing focused on internal audit, there has been little research on their benefits and importance.. Studies have used an agency cost framework to illustrate the value relevance of the internal audit function (6;7). While the variable size, debt or agency are not associated with the presence of an internal audit function in Australian family owned companies, internal and external audit are used as monitoring substitutes by the these companies, (6). A more recent US study examined the size of internal audit budgets and found that they were positively related to company ; leverage; financial, service, or utility industries; inventory; operating flows; and audit committee review of the internal audit budget (7). (8) Reviewed the role of internal auditing in corporate governance. The review found that the role of an internal audit function in corporate governance has to do with the external auditors' evaluation of its quality, determinants of its reliance discussion the extent and nature of its work relied on by the external auditor and other aspects of the external audit.

Therefore, to evaluate the work of internal auditors is to examine how well they detect errors within an organization and there has been limited research on this area. Studies found the number and magnitude of errors requiring adjustment by the external auditor to be substantially lower for entities that had an internal audit department compared to those that did not have an internal audit department (9).

Therefore internal auditors are employed by the organizations they audit. They work for government agencies (Federal State and Local), for publicly traded companies, and for nonprofit organizations across and industries. Thus professional internal auditors provide independent and objective audit and consulting services focused on evaluating whether the boards of directors share holders, stakeholders and corporate executives have reasonable assurance that the organization governance, risk management, and control process are designed adequately and function effectively.

### **Problems Encountered by Auditors in Nigeria**

The Nigerian society has high expectations on the accounting profession, because it can be the bedrock for any social, political and economic transformation of the society. An essential pre-requisite of any group of professional accountants is the acceptance and observation of the legal and professional requirements. It is a fundamental requirement that the auditor be effective and efficient in carrying out his duties, otherwise the authority of his opinion and the value of those who prevail on it would be eroded. In acceptance of these, the auditor would be require to work according to the frame work provided by the law and his professional requirements, which if abided by, would go a long way in protecting the interest of the auditor himself, his client, employees of his clients, governments and the other interested parties who may wish to rely on his

professional opinion in taking various decisions, (1). Therefore, the duties and responsibilities of auditors in any organization in Nigeria, in relation to fraud, irregularities and errors deserve critical attention.

In making ordinary examination, the independent auditor should be aware of the possibility that fraud may exist. Financial statements may be misstated as a result of deflection and similar irregularities or deliberate misrepresentation by management or both. The auditor should appreciate the fact that fraud, irregularities and errors if sufficiently material, should effect his opinion on financial statement and which may eventually be a ground for his qualification of the audit report, ( 1).

### **Role of Consultants/Internal Auditors**

There was a wide range of opinion regarding the differences between auditing and consulting. A large majority agreed that compliance reviews and risk assessment objectives were very strongly associated with auditing, and that implementing policies and procedures was very strongly associated with consulting. A significant majority, however, believed that the identification of critical issues and recommendations to solve problems were a mix of auditing and consulting (10). The following were identified:-

**Table 1: Differences between Consulting and Auditing**

Consulting activities	Audits activities
i. Future oriented	i. Historical oriented
ii. Address implementing activities	ii. Address compliance issues and business risks
iii. Initiated by line manager	iii. Initiated by audit director
iv. Primary client is line manager	iv. Primary client is audit committee/senior management
v. It involves staff outside the IA department or the organisation	v. Conducted exclusively by members of IA department
vi. Yields a product rather than an audit report	vi. Leads to standard audit report,

Source: (10).

Consultant assists in the assessment of the competence of the contractors. Meanwhile, preparation and assembly of the safety file based on the information supplied by the consultant and the contractor, (this is in case of issuing the certificate of valuation). Then, internal audit is an independent appraisal function which an organization uses for the review of activities as a service of management. It is a contract mechanism which measures, evaluates and tends to report upon the effectiveness of internal control, financial and otherwise, as a contribution to the efficient use of resources within an organization (1).

Therefore, internal audit role include independence from operational functions, that the auditor should be independent in discharging his duty. Also the internal auditor should be allowed access to top management. Furthermore, there should be action and support by the management upon the advice provided by the auditors. On their part auditors should posses high level of objectivity in reporting their findings.

### **Possible Areas of Conflict between Consultants and the Internal Auditors**

Internal auditors are employed by the organizations they audit. They work for government agencies (Federal, State, and And Local) for publicly traded companies and for no-profit companies across all industries. The internationally recognized standard setting body for the profession is the Institute of Internal Auditors (IIA). (3) defined internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organizations operations. It helps an organization accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The criteria that are used for prioritizing acceptance of consultancy assignments may not be the same as those used for identification of assurance assignment. Putting finding into context should be done at the time of the conclusion of a consultancy assignment. The internal auditor should interpret the consultancy assignment report into assurance terms with due regard to the materiality of the consultancy conclusions in relation to organization risk and control priorities, (11).

Therefore, some of the possible areas that may cause conflict between consultant and the internal auditors are: Consultant do not want internal auditors to come along and criticize after they have either conducted an analysis and evaluation of the project supervise or after giving a report on what could have been done better or an alternative approaches that might have been helpful. Also linking consultant work to the delivery of audit assurance, the nature of the consultancy services and the power that the internal auditors have in the organization are possible areas of conflict, (11).

### **Fraud and Errors in Staff Claims**

The duties and responsibilities imposed upon auditor of any organization in relation to fraud, irregularities and errors deserve attention. In making ordinary examination, the auditor should be aware of the possibility that fraud may exist. Financial statement may be misstated as a result of irregularities, or deliberated misrepresentation by management, or both. The auditor should appreciate the fact that fraud irregularities and errors if sufficiently material should affect his opinion on the financial statement and which may eventually be a ground for his qualification of the audit report, (1).

Though, the auditors are not responsible for preventing fraud, other irregularities or errors. The auditor should make recommendations to the management on such matters as significant weakness in the structure of accounting system and internal controls, and deficiencies in operations. If management implements the suggested measures for improvement, this would help to prevent fraud, and other irregularities and the errors. But the auditors responsibility is to properly plan, perform and evaluate his audit work so as to have a reasonable expectation of detecting material misstatement in any claim or fraud, and other irregularities or errors, (1).

So to detect fraud from staff claims the internal auditors in Jigawa SUBEB take some measures thus are: Vetting of submission prior to grant of approval, specification of items and prices quoted in accordance with the current market price. Internal auditors Check overhead cost and salary payment vouchers as well as stock checking and valuation. Therefore, in general an auditor is a watched dog and not a blood hunt. He designed test specifically and uniquely to detect fraud and irregularities when his suspicion are aroused.

### **III. Methodology**

The study adopted survey method. Questionnaires were designed and distributed to 16 internal auditors comprising of 12 from the LGEAs and 4 from the SUBEB headquarters. The questionnaire is divided into 4 sections soliciting information for the 4 variables of the study. The questionnaire asked questions in the form of 1= Agreed, 2= Undecided, 3= Disagreed. The research population is thirty one (31) respondents. There are twenty seven (27) internal auditors in the twenty seven (27) LGAEs of the state in addition there are four (4) internal auditors in the SUBEB headquarters. The techniques used in this research are simple random sampling. The data obtained from the questionnaires are analyzed using percentage and mean. Data were presented in tabular form.

### **Data Presentation and Analysis**

Table 2 present analyses of responses from the questionnaire administered that solicited information on role of consultants in contract supervision in JSUBEB, conflict between consultants and auditors in JSUBEB, fraud in staff claims in JSUBEB and Efficient Management of Resources in JSUBEB.

Table 2: Summary of responses

Options	Role of Consultants in Contract Supervision in JSUBEB	Conflict between Consultants and Auditors JSUBEB	Fraud in Staff Claims JSUBEB	Efficient Management of Resources JSUBEB
Agreed	76	59	59	75
Undecided	02	12	02	2
Disagreed	02	09	29	3
Conclusion	Agreed	Agreed	Agreed	Agreed

Source: Field Survey, 2013

### **IV. Analysis and Discussion**

Government has reduced the power of auditors by not using them fully in contract supervision. The consultant are professional in supervising building projects than the auditors, they are building engineers so they have skills of project supervision more than the auditors who are only professional in office work. This agrees to the above analysis, since the consultants are professional building engineers they can be responsible for the assessment of work carried out by the contractors. This agrees with (1), consultants are responsible for the preparation and assembly of the safety file based on the information supplied by the consultant and the contractor (This is in case of issuing the certificate of valuation). If the consultant and the contractor would supply the information to be used for the issuance of certificate of valuation (CV), there is every tendency that false information may be given. Unless if the auditors are very curious to understand what has been done.

Consultants can assess the contract bidders and even find out those that cannot be capable for the contract execution. But auditors found that consultant include in the valuation, work not executed by the contractor. The analysis also auditors also indicate that auditors slash the sum of work not executed by the contractors. And this

is some of the areas that cause conflict between the auditors and the consultants. Because whenever they slash the amount, contractors complain to the consultant, thinking that the consultants did not give full valuation of the work executed.

The auditors supervise the project at the same time the consultants do. The consultants are building professionals while the auditors are professional in finance (Account). Therefore, what the consultant sees and recommend the auditor may object due to difference in professionalism. This is in agreement to the (11) whose work shows that consultants do not want internal auditors to come along and criticize after they have either conducted an analysis and evaluation of the project supervise or after giving a report on what could have been done better or an alternative approaches that might have been helpful.

Going by this analysis if the consultants are paid high charges, and the internal auditors are there only receiving meager salary. The consultants are paid high charges because they are the employee of another organization just been hired to conduct such duties.

Staff claims are not supported with required documents. The research found that in the LGEAs sometimes payments are made before the expenditure and the internal auditors are not capable enough to stop such activities; they are over powered by the education secretaries. It is found that this usually happens in the LEAs especially when the schools are on holidays. The overhead costs allocated to the LEAs sometimes during the holidays are in surpluses which make the staff to make such huge claims in order to exhaust the amount in surplus. And some claims are not supported with Store Receipt Voucher (SRV).

Any organization that have an internal audit unit which is functioning well, can easily control and over see the financial commitment which can lead to proper keeping of financial records. But this statement does not agree with (1), where he said auditors are not responsible for preventing fraud, other irregularities or errors, rather they can detect. Because they will not be aware when the fraud usually occurs they only report their findings. This analysis can also agree with (4). But, the report of the internal auditor if implemented can deter others from committing the same offence if punishment is meted to perpetrators.

## V. Conclusion

The consultant are use to assess contractors competence, they can assess the contract bidders and even find out those that are capable for the contract execution. But sometimes consultants and auditors clash in project supervision; also the staff in the LEAs manipulates and makes fake claims, thereby, siphoning resources of government to private uses. Therefore, as an organization where financial transaction is committed at all the times especial payment of contracts for building, rehabilitation of class rooms and staff expenditures for transport and out of pocket expenses it is of great importance for the JIGAWASUBEB in conjunction with the department of due process to ensure clear separation of responsibilities of consultants and the internal auditors. This will avoid clashes, conflicts and submission of different reports from the consultants and the internal auditors. Also the internal audits units in the LEAs should be improved to stop the fraud and errors in staff claims usually being committed. The internal auditors in the LEAs should be well trained so that they can work well and be able to detect fraud and any other irregularities in the financial operations of the LEAs.

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