

Internal Auditor and Local Government Administration in Nigeria

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ABSTRACT

Before the advent of the internal audit department in the local government, the government was seriously characterized by financial misappropriations and other financial irregularities. They were people who never worked for the government for even a day but had their names in the payment voucher. To stem the tides, the policy makers considered the establishment of internal audit department. Thus this paper studied the role of an internal auditor in the local government administration by examining related documents and discovered that the internal audit department is still facing a lot of challenges. Hence, recommendations that will salvage the department from the whims and caprices of ineffectiveness are offered.

Keywords: Internal Auditor, Local Government Administration, financial misappropriations

INTRODUCTION

Internal auditing has evolved to meet the needs of business, governmental and non-profit making organizations. Originally, the need for internal auditing arose when managers of early large companies realized that annual audits of the financial statements by the certified public accountants were not enough. There was a need for timely employee involvement beyond that of the external auditors to ensure accurate and timely financial records and to prevent frauds. Subsequently, the demand for reliability of the published accounts gave rise to the expansion of internal auditing. This demand resulted in the expansion of the internal auditor's responsibilities, including a more detailed test of internal control and other accounting information not taken into consideration by the external auditors (Whittington and Pany, 2001).

Gradually, the role of internal auditor expanded to accommodate overall operational policies and procedures. Organizations in the defense industries were among the first to demand for such activities. They recognized the need for reliable reports that management use for decision making. Then the auditors worked hard to ensure dependability of the audit reports. As organizations grew larger and become more complex, they encounter additional operational problems that resulted in internal auditing. The internal auditor's role was to ascertain whether each operating unit followed the generally accepted accounting standards and the organizations financial policies provide sound and effective control over all operations. The extension of the internal auditing into operational activities required

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internal auditors with specialized skills and knowledge in other disciplines such as economics, law, computer, engineering, statistics, and so on. Adeniji (2010) posited that because of the requirement of the specialized knowledge, local government now outsource either wholly or part of the internal audit work.

INTERNAL AUDIT PERSPECTIVE

The term “Auditing” is an independent examination and investigation of evidence from which the financial statement has been prepared with a view to enabling the independent examiner to report whether in his opinion and according to the information obtained by him, the financial statement is properly drawn up and gives a true and fair view of what it supposed to show and if not, to report that he is not contented. Internal audit within the contemplation of Oyetunji (2005) refers to an independent appraisal activity within an organization for the review of operations as a service to the management. Give its operational confinement in terms of place, internal audit becomes a type of audit performed within an enterprise (Cook and Winkle) in (Okezie, 2004). Also, considering internal audit significance, the institute of internal Auditors (IIA) put it as an independent objective assurance and consulting activity designed to add value and improve an organization’s operations (Whittington and Pany, 2001).

Though a litany of concepts may go on, what are important are the main objectives of internal audit and audit as a part of the control system which functions by measuring and evaluating the effectiveness of the other controls. Its main objective as observed by Okezie (2004) is to assist the management in the discharge of their responsibilities, by furnishing them with analysis, appraisal, recommendations, and pertinent comments concerning the activities reviewed. Besides, Adeniji (2010) posited internal audit objective to include ensuring adequacy of the internal control as a contribution to proper economic, effective and efficient use of resources. Added to the forgoing, Udoyang and James (2004) and ICAN (2009) shared the same view of the objective of the internal audit as a test compliance policies, procedures and criteria established by the management. Thus, internal audit functions cover all the management activities that could be useful to the management. To attain the overall objectives of internal audit, Okezie (2004) identified the activities involved thus:

- (a) Reviewing and appraisal the effectiveness, adequacy and application of accounting, financial and other operating controls and promoting effective controls at reasonable cost.
- (b) Determining the extent of compliance with management established policies, plans and procedures.
- (c) Ascertaining the extent to which the organizational assets are accounted for and safeguarding them from losses of all kinds.
- (d) Ensuring the reliability of management data developed within the organization.
- (e) Appraisal the quality of performance in carrying out assigned responsibilities.
- (f) Recommending the operating improvements within the systems and controls.

The Differences and Similarities between the Internal and External Auditor of the Local Government

Internal auditor is an employee of the local government while the external auditor also known as the auditor general for the local government is appointed by the state. The internal auditor is directly responsible to the chairman of the local government who doubles as the chief accounting officer of the local government. The auditor general reports to the house of assembly. The internal auditor carries out the routine review of vouchers and transactions to ensure that they comply with the council's policies. On the other hand, the external auditor conducts audit into the local government's affairs at any time. The primary objective of the internal auditor of the local government is the discovery of errors and frauds while that of the auditor general is to express opinion on the financial statements of the government. Detection of errors and frauds are secondary objectives of the auditor general for the local government. The external auditor does not directly involve in the establishment of the local government policies while the internal auditor directly involves in the setting up of the council's policies (Udoyang and James, 2004). Both auditor general and the internal auditor have the responsibilities of ensuring ethical standard in the council because of their independence of the management of the council. They draw their powers and duties from the constitution. Both have great interest in the sound and effective system of the internal controls in the local government. They safeguard the local government properties and enhance flow of information through reports. Okezie (2004) recognized the following qualities as the ones required of internal auditors for the rendition of impartial and unbiased judgments in connection with their roles.

Professional Qualities

- (a) The internal auditor should be an internal audit specialist.
- (b) He should have the knowledge of other sciences.
- (c) He should be an information technology (IT) expert.
- (d) He should be skillful in production control and management.
- (e) He should have academic and professional qualifications.

Personal qualities

- (a) The auditor must be tactful.
- (b) He must be tolerant and understandable.
- (c) He must communicate well.
- (d) He must have analytical skills.
- (e) He must possess leadership skills.
- (f) He must have personal integrity.

The Scope of Internal Audit Functions in the Public Sector

Generally, the scope of internal audit is established by the management (Udoyang and James, 2004) and (Oyetuniji, 2005). Internal audit covers areas of the organization such as operation, finance and so on (Adeniji, 2010) and (Whittington and Pany, 2001). On the

strength of the above views, ICAN (2009) summarized the scope of internal audit functions as:

- (a) Pre-audit.
- (b) Payroll vouching and third party claims verification.
- (c) Auditing of store movement and records.
- (d) Conducting internal investigations and evaluation for management.
- (e) Constant appraisal and review of the existing control measures.

The Role of an Internal Auditor in the Local Government

The instrument that established the local government made provision for the internal control audit department headed by an internal auditor to provide a complete and continuous audit of the account and records of revenue, expenditure, allocate and unallocated stores. ICAN (2009) posited that the internal audit is expected to render continuously an 'exception report' on the financial activities of the government. Oyetuniji (2005) viewed the internal audit role to include:

- (a) Being concerned with response of internal control systems to errors and required changes to prevent errors.
- (b) Being concerned with response of internal control systems to external stimuli-the world does not stand still and the internal control system undergoes changes.
- (c) Audit information given to the management of the council particularly interim accounts and the management reports.
- (d) Acting as a training officer on internal control matters in the council.
- (e) Taking a share of the external auditors responsibilities in relation to figures in the annual accounts and facilitates work of the alarm committee (A committee through which the stakeholders and members of the public raise an alarm whenever there is any irregularities, frauds and so on).
- (f) Being directly responsible to the chief accounting Officer-the Chairman
- (g) Acting as a watchdog on the local government assets.
- (h) Submit to the chief accounting officer the detail of audit programme.
- (i) Issue special where necessary to draw the attention of the auditor general to any irregularities.
- (j) Where a system of store stock verification does not exist he installs it.
- (k) Periodical inspection of books of account in the local government to ensure proper recording and balancing.
- (l) Conducts investigation into malpractices such as fraud, forgeries carried out within the organization.

Problems of Internal Audit Department in the Local Government

Despite the above roles played by the internal audit department in the local government, there are still some bottlenecks inhibiting the effective functioning of the department. The bottlenecks are examined below:

- (a) **Dearth of Accounting Personnel:** There is shortage of qualified accountants in the local government. This is informed by the poor reward system. Consequently, internal audit work has suffered serious neglect.
- (b) **Inadequate financial records:** Internal audit objectives cannot be achieved if records are not properly kept. In a situation where few records are kept in the local government and are full of errors and also are inconsistent with the generally accepted accounting principles (GAAP) and the local government policies, the financial records are adjudged to be inadequate for audit assignments.
- (c) **Inconsistence in Government Policies:** A change in local government administrators usually exacerbates the formation of new polices. Sometimes, the internal auditor is not furnished with these changes especially when he/she just resumed work in a new location (i.e. any of the local government he/she is posted to).
- (d) **Political instability:** The change in the system of government also informs changes in polices and the composition of audit department. This impairs internal audit work in no small measure.
- (e) **Lack of Management Support:** According to Udoayang and James (2004), the primary responsibility of internal audit is to test the compliance with policies, procedures and criteria established by the council's management. The ability to reshape the ethical environment of the local government is critically affected by the attitude of the executive officers. Where the top management is not prepared to set high standard, then it becomes difficult for internal audit department to play its effective role.
- (f) **Inadequate Resources:** Where facilities for the proper training of the internal audit staff are lacking or inadequate, internal audit exercise bears the brunt.
- (g) **Line of Reporting:** Line of reporting goes a long way in determining internal auditor's independence. Where the auditor reports to the chief accounting officer who concern for ethical standard imagine how the internal audit work will suffer in such local government.

CONCLUSION AND RECOMMENDATIONS

Obviously, the role of an internal auditor in the running of the local government administration is quintessentially imperative to guarantee effectiveness. However, there are some bottlenecks which forestall proper internal audit assignment. Given these, this paper provides the following recommendations:

- (a) The reward system of the internal auditors in the local government should be

- improved. They should be remunerated like their counterparts in the private sector.
- (b) Adequate financial records should be maintained by the accounting department and they should be free from errors.
 - (c) The internal audit department should not serve as an appendage to any department in the council to guarantee independence.
 - (d) The internal auditor should report to the legislative arm of the local government since it (the arm comprises councilors who represent wards and by extension the villages.
 - (e) Where the council's policies are changed, the internal auditor(s) should be informed.
 - (f) The change in government should not change the policies and composition of the internal audit department if they are objectively composed.
 - (g) There should be adequate resources for the proper training of audit staff. The local government should encourage the development of its internal auditors by sending them to professional education programme.
 - (h) Internal audit work should be restructured to maximize the chances of internal audit recommendation.

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