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**The role of internal auditing in the local  
government financial management: a case  
study of Isi-Uzo Local Government of Enugu  
State**

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**MARCH, 1995**



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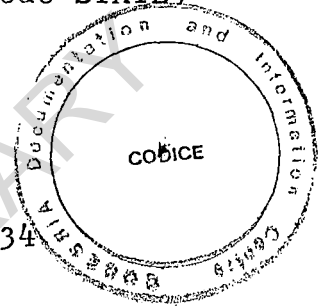
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TITLE PAGE

THE ROLE OF INTERNAL AUDITING IN THE LOCAL  
GOVERNMENT FINANCIAL MANAGEMENT: (A CASE STUDY  
OF ISI-UZO LOCAL GOVERNMENT OF ENUGU STATE)

BY

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REG. NO. PG/MPA/90/9634



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BEING A RESEARCH-PAPER PRESENTED TO THE  
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## CERTIFICATION

Ugwoke Josephat Ngwu, a postgraduate student in the Sub-Department of Public Administration and Local Government, Department of Political Science with Registration No. PG/MPA/90/9634, has satisfactorily completed the requirements for research work for the degree of Master of Public Administration. The work embodied in this project report is original and has not been submitted in part or in full for any other diploma or degree of this or any other University.

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EXTERNAL EXAMINER

DEDICATION

This work is dedicated to Mum and Vicky,  
Brothers and Sisters and Friends, for their  
love and encouragement.

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## ACKNOWLEDGEMENT

In carrying out this research, I received advice and co-operation from many people.

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I finally thank God for keeping me alive till date.

Ugwoke, J. N.  
Nsukka

March, 1995.

## PREFACE

This project was designed to take a critical view of the role, of Internal Auditing in Nigerian Local Governments Financial Management. My choice of this field of study (Internal Audit as a check to improprieties) was not accidental or just for the sake of "partial fulfilment" of the requirements for the award of masters degree. It was born out of the fact that local government is riddled with inefficiency, ineffectiveness and fraudulent practices. Ironically, the instrument (internal audit) that is supposed to be a panacea to these social malice is crippled by lack of attention by practitioners and government alike.

There is an erroneous belief that external auditing will rest on probity and accountability in our public sector. But management auditing extends far beyond the attestation of the truth and fairness of financial statements. The work while not trying to relegate external auditing to the background intends to champion internal auditing as one of the most effective instruments for financial management yet untapped in Nigeria.

In view of the fact that most of my readers may not be internal auditors, efforts have been made to simplify the work as much as practicable. Terminologies likely to distort the understanding of the work have been elaborately

and copiously explained.

The work has been divided into five chapters for possible fair treatment. Chapter one serves as background to the study. Chapter two delves deeply into the Auditing Approaches and procedures in the local government, its objectives, scope and the requirements. Chapter Three treats Nature of Internal Audit Report. Chapter Four looks at Presentation and Analysis of Data. Chapter Five reports the research findings, recommendations and conclusion.

Although, to limit the scope of this study, attention has been focussed on Isi-Uzo Local Government, the comments and observations made, and issues raised, apply equally to majority of other local governments in the country (Nigeria); including some other arms of the public service in Nigeria.

I hope that all those who are actively engaged in the task of management will find this work very useful.

UGWOKE, J. N.

University of Nigeria  
Nsukka  
1995



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## CHAPTER ONE

### 1.1 INTRODUCTION

#### Background of Internal Auditing

"Internal Auditing is an independent appraisal activity within an organization for the review of operations as a service to management. It is a managerial control, which functions by measuring and valuating the effectiveness of other controls".<sup>1</sup>

Internal auditing appeared on the business scene much later than auditing by public accountants. The principal factor in its concerning employing thousands of people and conducting operations from widespread locations. "Defalcations and improperly maintained accounting records were obvious problems under these circumstances and the growth in the volume of transaction presaged a substantial bill for public accounting services for the business that endeavoured to solve the problem by continuing the traditional form of audit by the public accountants".<sup>2</sup>

The solution was, of course, to provide the needed auditing service on an internal basis, particularly as the magnitude of the problem made it possible for one or more persons to specialize in such auditing services and devote their full time to the needs of a single organisation. Other advantages also resulted from an internal approach to the

problem: internal auditors tended to become better acquainted with the procedures and problems of the organisation, and the auditing activity could be carried on continuously, rather than once a year when outside auditing services were utilized. As a further inducement to the development of internal auditing, public accountants were finding an increasing demand for independent audits leading to the expression of an opinion on financial statements, and they recognized that they could seldom perform the function of detailed verification as effectively or efficiently as could the company's own specialists.

To ensure the judicious application of the resources and inculcate at the grassroots the culture of public probity and accountability, the Implementation Guidelines on the Application of Civil Service reforms in the Local Government service provides that:

"There shall be established in each Local Government an Internal Audit Unit headed by a qualified accountant to provide, a complete and continuous audit of the accounts and records of revenue, expenditure, plant, allocated and unallocated stores where applicable."<sup>3</sup> In addition, the office of Auditor General of Local Government with its audit out-fit was created in each state of the federation in compliance with section 124

of the 1979 constitution of the federal Republic of Nigeria and within the spirit of the Civil Service Reforms of 1988 as applied to local governments.

Auditing therefore, emanates from the desire to ensure accountability by the operators of a system. This study thus sets out to examine the role of Internal Audit Unit in the Nigerian Local Government Financial Management through a case study of Isi-Uzo Local Government Area of Enugu State.

#### 1.2 Statement of the Research Problem

In Nigeria, the oil boom of the early 1970's increased the funds available to the public sector, expanded economic opportunities, but has conversely created chronic problems relating to financial impropriety on the part of the public officials. Increased availability of money led to widespread fraud in contract awards and execution. This, among other factors, has increased the need for an efficient auditing system in public sector financial management.

With reference to the local government system, it is disturbing to note that financial impropriety which internal auditing exist to check still occur on recurrent basis, despite the establishment of internal audit unit in every local government of the federation. This impropriety takes the following forms:

- (a) Misappropriation/embezzlement of funds
- (b) Falsification of accounting records
- (c) Perpetration of accounting errors, and
- (d) Gross mismanagement of Local Government property and its meagre financial/material resources.

Some public affairs observers attribute the persistence of this impropriety to inefficient audit system; others contend that it is due to the insensitivity of relevant public officials to audit advice. There are also others who hold the view that lack of independent authority hampers the ability of the internal audit unit to check the above anomalies.

In carrying out the above assignment, we shall address the following research questions:

- (a) Does lack of necessary working equipment affect effective operation of the internal audit unit in the local government system?
- (b) Does the neglect of internal auditing starve management of information necessary for sound financial management?
- (c) Does lack of qualified personnel limit the efficiency of the internal audit unit?
- (d) Does insufficient independent authority hamper the effectiveness of the internal audit unit in the Local Government system?

### 1.3 Objectives of the Study

The purpose of this study is to find out:

- (a) Whether the internal audit unit is well-equipped.
- (b) The extent to which auditors' recommendations on the activities of financial managers are respected or neglected by those concerned.
- (c) Whether the internal audit unit is adequately staffed to cope with the auditing work-load needed in the local government system.
- (d) Whether the internal audit unit has sufficient independent authority needed to discharge its duties effectively.

### 1.4 Significance of the Study

This study is important for the following reasons:

In Nigeria there seems to be a general lack of interest among the citizenry concerning how resources are utilized and accounted for by public officials. Often there are very scant and weak societal reactions to the excesses of these officials. Arising from this seemingly lack of concern is the general lack of understanding of the purpose of government accounting and auditing. This study intends to contribute to arousing this concern.

Furthermore, the literature on government accounting and auditing in Nigeria is very scanty, thus showing that not much intellectual interest has as yet been shown in this

crucial area of our national concern. The very few works that are available on this subject have a general tendency to neglect the material dimensions of the role of internal auditing in Nigerian public sector.

In reference to probity and public accountability, it is doubtful whether such advance can be made without greater public awareness of the need for a system which check abuses and inefficiency in the allocation and utilization of public resources. This research work will help to sensitize the general readers to the grave anomalies perpetrated in our financial management system, and subsequently demonstrate the inherent danger this entails for our economy.

It will also be a good guide and of practical benefit to financial administrators, general administrators and other professionals. The work will generally serve as a stimulus to further researches into public sector auditing system and make significant contribution to existing body of literature on this important area of financial administration.

### 1.5 Review of Literature

The literature on Government Accounting and Auditing is very scanty. This could be because of the lack of cohort existent among government accountants (unlike their commercial counterparts), and the apparent reason that independence of government accounting and auditing is not very easy to



establish. However, concerted efforts have been made to review a few that are available.

Chapter 30 of the Financial Instructions deals with internal audit. "It stipulates the appointment of the internal auditor, his duties, programmes, restrictions and half-annual report".<sup>4</sup>

The financial instruction made it clear that the accounting officer of a ministry or (Non-ministerial) department will ensure that, subject to the availability of staff, "an Internal Audit Unit is established to provide a complete and continuous audit of the accounts and records of revenue, expenditure, plant, allocated and unallocated stores where applicable. The existence of an internal audit unit will not divert any member of the ministry or department of the individual responsibilities placed upon him, neither will it obviate the necessity for normal departmental check."<sup>5</sup>

The instruction also placed some restrictions in the duties of internal audit staff. It states that "the staff of the internal audit unit may not be employed within the ministry, department or unit, on accounting duties or on the internal check of accounting records or in answering of the Director of Audit Reports and Queries."<sup>6</sup> Further, an officer will be precluded from taking up the duties of internal audit staff i.e. he has previously been engaged on accounting

or internal check duties within the ministry, department or unit over the period to be covered by the internal audit.

From the foregoing, one will quickly notice that the Financial Instruction does not deem the establishment of an Internal audit in every ministry or Non-ministerial department as a sine-qua-non. The inclusion of the clause "subject to the availability of staff" confirms this fear. But the duties of an internal audit department to management generally has no substitute and therefore, its establishment in any organization is a necessity.

It is the desire of governments and tax payers to be assured of the selflessness of the operators serving their interest that Auditing (internal) appeared on the business scene much later than auditing by public accounts. For instance, in business, "the companies Act 1968, directs every company to keep proper books of account in respect of all sums of money received and expended. It further requires such books to be examined together with the summarizes therein and the latter reported on annually by statutory auditors".<sup>7</sup>

The 1979 constitution of the Federal Republic of Nigeria stipulated measures for the control of public funds. These include "audit of public accounts and appointment of Auditor General".<sup>8</sup>

In the local governments in Nigeria, the Implementation Guidelines on the Application of Civil Service Reforms in the local Government service, 1988 made it clear that:

"Internal Audit Unit be established in each Local Government to provide a complete and continuous auditing of the accounts and records of revenue, expenditure, plant, allocated and unallocated stores where applicable".<sup>9</sup>

The instruction furthermore, established Audit Alarm Committee and the Office of Auditor General of Local Government in each State of Nigeria.

In fairness, these stipulations and legislations have not been mere imaginations. The establishment is a necessity to create sanity and inculcate at the grassroots the culture of public probity and accountability.

Lennox L. Moak et al in their book titled Local Government Finance. They believe that:

"the role of Internal Auditing in Local Government finance is becoming increasingly more important than before because there is a growing need for developing new means for reviewing the end results."<sup>10</sup> They are however, disappointed that local government audit function on the whole has been largely restricted to ascertaining that the balance sheet represents a proper statement of the governments financial condition. They suggest that the post audit function needs to be extended to embrace performance auditing which at the moment is enforced in local

government internal audit unit.

Chart Foulks believes that the primary objective of an audit is to form and express an opinion concerning the truth and fairness of financial statements. To him the word 'true and fair' are probably the most important, and yet the most ill-defined words for the auditor. They do not identify a unique picture, they do not mean correct in the mathematical sense nor even legally accurate. To be true and fair "is to be not misleading and to be understandable by the educated layman. The examination and report of the auditor adds credibility to the financial statements."<sup>11</sup>

However, to maintain that credibility, the auditor must be independent of the management. Anything that indicates an involvement of financial interest in the managing of the enterprise will reduce the effectiveness of the auditor's opinions.

On the controls of auditing, former Anambra State Local Government financial memoranda form the most comprehensive instrument through which an internal management of control of local government funds are carried out. It also provides for how local government funds should be "accounted for in various accounting books and records of financial management described in Financial Memoranda 21 to ensure a sound means of control

over local government expenditure."<sup>12</sup>

Whereas, some observers are of the view that control exist in local government with little or no explanation on the effectiveness of the control.

Among these critics is J.U.T. Okolo. He focused his attention on the area of the procedure for the printing, custody and issue of various receipts. His opinion is that:

"the greatest number of frauds committed in the local government councils are affected by printing of fake receipts by revenue collectors."<sup>13</sup>

Some of these receipts could be so well printed as to look genuine. Except by chance an auditor does not ordinarily discover this type of fraud. It is the duty of the council Treasurer to Watch closely the returns of each revenue collector. If a particular revenue collector appears to be accounting for less than he should be collecting from a particular source (say motor park fees), an effort should be made to secretly obtain from drivers some receipts he issued, to ensure that they are genuine. Even if they are, such a revenue collector should be closely watched.

Another area Okolo identifies as very important, and that the auditor should be on the watch out, is the inquiry into the employment and use of casual labour. Cases are known where people placed on council payroll as road workers are

in fact engaged full-time on the private farms of some top local council officials. Inclusion of non-existent casual labourers on the payroll is also a common type of fraud in local government council, and the auditor has to pay particular attention to this.

In addition, H.H. Nwosu in his article 'The need for an effective cost control system in Nigerian Local Government councils in Nigerian Journal of Public Administration and local government suggested that:

"all public agencies in Nigeria should adopt effective cost control system which facilitates attainment of targeted objectives. PPBS serves as both a cost control system and a (management) tool for accomplishing better results."<sup>14</sup>

Oladimeji (1986) picks hole with the state local government edicts. According to him, the edicts have little to say about the manner in which the auditor should undertake his task. The edict provisions concentrate mainly on five matters only, viz, "disallowance and surcharge, recovery of surcharges, taking evidence, appeals from decisions of the auditors certification by the auditor of the Annual financial statement".<sup>15</sup>

He sees audit report as very vital in the chain of financial management. He believes that the entire edifice of financial management in government revolves around one single

theme-the principle of accountability. Accountability is a comparison of the accounts submitted at the end of the cycle with the budget made at the beginning - a check of performance against legislative authorisation.

One may point out here that the pursuit of accountability and the control of regularity is in fact the whole of the formal and traditional functions of a state or local government auditor. Regularity here means conformity with all the accounting, administrative, budgetary and other financial regulations and accepted procedures, as well as the laws of the land. However, the pursuit of regularity, only is negative criterion because it deprives the auditor of the use of his initiative.

Oladimeji points out three main objectives of auditing:

- (1) "Assuring the proper public accountability,
- (2) assuring that the Annual Financial Statement produced at the end of the financial year is a true and fair statement of its financial transactions during the year;
- (3) to assure the people that the affairs of the government has been properly conducted during the year."<sup>16</sup>

It would be quickly noticed here that the auditor is being conceived as a financial regulator only. This is not the whole truth. Apart from establishing the arithmetic accuracy of the accounts, the auditor should concern himself with an examination of economy and efficiency employed in

the organisation. He should also assess whether programmes or projects undertaken to meet established policy goals or objectives have met those aims. This is an area that has long been neglected and which this work aims to highlight.

Okoroafor (1977) observes that in the past, some external audits have been carried out two or three years after the end of the financial year to which they relate. Not only does such a practice run contrary to the provisions which require, government and the auditors report thereon to be published within six months after the end of the financial year, but such a long delay often destroys completely the effectiveness of the provisions relating to disallowance and surcharge. Where, for example, a substantial amount has been committed, it is unlikely that those concerned will be stupid enough and content to remain in post for very long.

In the light of the above, he suggests that there is a strong case for the external audit of a government financial affairs to be partly carried out during the financial year. This arrangement should enable prompt action to be taken, when necessary, by way of disallowance and surcharge and it will also facilitate the speedier completion of the audit after the end of the year. This will enable an earlier submission of the audit report to be made.



Another factor which he points out as a barrier to effective audit practices in the public sector is the quality of audit staff. To him, "Government Auditors are frequently little more than "ticking machine" with an inadequate understanding of the transactions, practices and procedures which they are supposed to be auditing. The tendency has been to check calculations, costs, postings and entries in books and records but seldom to look beyond the books to question whether the transactions which purport to have been made, actually took place and whether the accounting entries are an accurate reflection of such transactions".<sup>17</sup>

Abdullahi (1979) dealt copiously with internal audit in local authorities. He believed that in the past far too little attention was given to the internal audit of a council's financial transactions. He stressed that internal audit is not only a very important aspect of financial control, but also a most effective aid to financial management. He suggested that the responsibilities of the internal audit unit will be such that it will need to be headed by an official of some seniority, a person whose views will be respected by those to whom he submits reports to and recommendations.

He also thinks that in due course, once the internal audit unit is firmly established and has demonstrated its capacity to undertake the functions of an auditor, then

the functions should be extended to monitoring the use of resources in the pursuit of the defined objectives of the local government. At this stage, the unit will start to carry out management audit functions. In this regard, "the internal audit unit will sometimes need to work with the co-operation and involvement of a spending department; at other times it may be preferable that the audit unit should work in isolation".<sup>18</sup>

In view of the great importance of finance in any organisation, one of the policies that must be clearly established is who within the enterprise is charged with financial responsibility. Hugh (1987) opines that the incumbent of such responsibility should religiously accept the fact that the best system of public finance and financial management is that which secures the maximum social advantage from the operations which it conducts. This calls for two major economic tests for social advantage: Improvements in the production and improvements in the distribution of what is produced. This in government organisation is measured in terms of services. Hugh believes that "the two tests are complementary and where they are not given majority consideration, that industry is not making the required progress and its expenditure may not be justifiable".<sup>19</sup>

Wariboko (1988) is of the view that the idea of ensuring ministerial financial responsibility be extended beyond the more civil service audit queries to management audit. In essence he is saying that there should be a shift from proper book-keeping (steward accounting) to proper control of public resources.

The object of management audit of public institutions and ministries will be to ascertain whether or not economic resources of government organisations are used by their management in the economic way to produce results in accordance with the goals of the country. He believes that "this kind of auditing is not new. However, what is new is its introduction in the public sector economy".<sup>20</sup>

Ezimoha, H.M. (1988), noticed that most financial reports from government department are not presented with dispatch. He sighted the Anambra State Director of Audit as complaining that the financial statement for 1979/80 submitted by the Accountant-General was received in his office in August 1981, over 16 months after the end of the financial year, and outside the six months stipulation of section five of the Audit Law.

He pointed out two reasons responsible for this delay. One is, the employment of unqualified staff to man accounting

functions. Secondly, the Laissez-faire attitude of officials in-charge of the accounting functions. This according him is due to "environmental influence" including the attitude of political administrators to office work and financial mismanagement."<sup>21</sup>

The Director of Audit of Anambra State himself expressed shock over the attitude of some establishments to audit reports. According to him, "Audit reports which are management tools are often seen from a wrong perspective. In some cases, management develops a protectionist attitude in its efforts to rescue a staff indicated in an audit report. He notes that cases abound where the explanations of a staff or an outstation establishment to an audit report are forwarded to his department without any comments from the Headquarters of the Ministry or Department concerned. There are also cases where the person indicted replies and signs for the Chief Executive of the establishment concerned making the person preside over his own case. He expressed with regret that all these frustrate audit efforts and make the work of the department very labourous entailing follow-up letters and correspondence which could be avoided if the users of audit reports accord the report the treatment and attention they deserve".<sup>22</sup>

He also expresses regret about the unfortunate practice of reporting cases of losses many months after they occurred.

Boards of inquiry to investigate losses are often appointed some years after the event, too late to serve any useful purpose. He suggests that the audit section needs to do more than adhere to the audit programmes. It needs to acquire that intangible quality known as the "audit mind" and the willingness to search and enquire beyond the books.

The auditor's work would be a little easier and less cumbersome if the accounts are kept properly. However, the Director-General of Audit, reports that difficulties are encountered during the verification of the accounts as no considerable improvement has been made in keeping many of the financial records.

He maintains that despite his comments in his reports on the manner in which most accounts were kept, the situation has not improved. He pointed out the following defects:

- (a) "In the Accountant-General's Office, no proper ledger accounts were maintained to show details of Loans and interests paid or payable to government during each financial year.
- (b) No proper accounts were kept for the investments made by government and the dividends accruing to them. This situation was worse in the 1982 and 1983 financial years. In the same manner, no record was maintained for loans, internal and foreign, contracted by government as well as loan repayments and interests. This made it difficult to ascertain at any particular time the extent of

government liabilities.

- (c) In a few instances where records were maintained the accounts were not brought up-to-date. The vouchers were not posted nor were the books balanced. For example, out of 37 Deposit Accounts verified in audit, only 4 accounts were written up-to-date while 33 were not brought up-to-date. This situation applies to many other below-the-line accounts such as advances.
- (d) Inaccuracy in the figures - As a result of non-posting and non-balancing of the various accounts, most of the figures in the financial statements were found in audit to be incorrect."<sup>23</sup>

Taking into consideration the general carefree attitude towards the expenditure of public funds in this country, and the pressures that can be put on Government auditors from very high quarters, the auditor's task of reporting is not an easy one. J.U.T. Okolo (1987) shares this view, but maintains that it is a task that must be accomplished. He seem cordial relationship between the Auditor-General or a state Director of audit and the Executive as desirable but not indispensable.

Okolo delved deeply into "the audits of ministries, departments and government boards and corporations. No points out that the Federal Auditor-General or the state Director of Audits, as the case may be could not only be interested in the accuracy of accounts and financial records. As the watch-

dog over public funds, he is interested in the efficiency of operations. He should therefore, be much more concerned with the reasonableness of expenditure than the auditor of a limited liability company. This is because the chances of unreasonable expenditure is much more in government boards and corporations where those who take decisions on major expenditure have no financial stake in the organisation, as would be the case with members of the boards of directors of a limited liability company."<sup>24</sup>

Koleade, and Peter Dean are two joint authors that delved very deeply into the problem of financial management in the Nigerian public sector. They argued that the role allotted to Nigerian government accountants have been too narrow and that there is a lack of financial managers both in numbers and quality.

They epitomized audit as an indispensable aspect of financial accountability. They, however, regretted that inspite of the important role audit plays in effective financial management, it has not been fully developed and accorded its place of honour in the Nigerian public sector.

No amount of external pressure will make an entity administratively efficient unless the entity itself is properly managed and controlled. The latter mentioned authors recognised this point when they accorded "internal control system the "most important building block" in an efficient system of financial management."<sup>25</sup>

The public service Review Commission (1974) was set up to examine (among other things) "the organisation, structure and management of the public services". One of the areas of which the commission reported was financial management. The commission found several defects in the field of internal control.

Under the heading "over-checking", the commission observed that "checking in the civil service is excessive and indeed is almost carried to a point regardless of cost." For instance, it was found that payroll data were first checked by staff independently of those who prepared the original data, and then subjected to a 100% internal audit before payment was made.

The view of the commission was that internal audit should not be used to carry out routine day-to-day checking but should be an independent means of reviewing systems of control. The commission drew particular attention to the overlap and duplication of checking work which was carried on in ministries and departments by:

- (a) "The departments own staff,
- (b) internal audit staff on a continuous, 100% basis,
- (c) external audit staff on a test check basis, and
- (d) by the Treasury Inspectorate Division of the ministry of Finance".<sup>26</sup>



The Public Accounts Committee report (1979) constitutes a detailed commentary on financial management and accountability in the Nigerian public sector. The picture portrayed is however, disturbing in the range and variety of failures documented.

The report showed that in certain ministries, the whole system of accountability had broken down. In these cases no specific answers could be given to audit queries. The bodies most affected were the ministry of defence (in particular the army), and the Nigerian Police Force, the concept of public accountability was less familiar to those bodies than to many other ministries. It transpired that the Auditor-General's staff had been driven away from auditing the accounts of some army units, and in some cases-physically harmed.

The shortcomings of the army included, improper maintenance of accounting records, non-attachment of documents to support expenditure, failure to adopt public tender procedure, etc. The findings of the committee concerning the police force were that "unpresented cheques made out of fictitious names were used to exhaust budget allocations that would otherwise lapse, and that such dishonest accounting methods are fraught with serious consequences."<sup>28</sup>

When one examines the 1979 report, one would constantly remember however, that the report covered an extremely long period, including the abnormal conditions produced by the

civil war. Difficulties arose from the delay between the occurrence of an event and its subsequent investigation by the committee. Such delays impose a strain on the record-keeping and memories of those called to give evidence. In many cases, the staff involved had long since left. This type of delay can damage the system of public accountability. They invite unusual judicious cover up, the glossing over of failures and errors, concerning the loss of records or the retirement of staff, and the likely explanation that the defects are a matter only of history. One would therefore, think that investigations and reports thereon be made as soon as they are suspected.

Having examined the opinions of various writers on this subject matter, one point stands out clearly - that much of the work is done on the establishment of auditing, whereas auditing in the local government system is yet to be developed. However, it will be difficult to cover all the local governments in Enugu State in a work of this nature. Consequently, Isi-Uzo Local Government council of Enugu State has been selected as a case study. In this research, our study hopes to contribute to filling the gap in literature in the area of local government audit functions.

#### 1.6 Conceptual Frame Work

Conceptual frame work like theoretical frame work is used to make the research more manageable, and thus, provide

guidelines for diagnosing the research problem. This will help the researcher to draw inferences and adduce conclusion about the problem posed in the course of his work.

The only concept that can effectively analyse the problem under-study is the concept of "Reliance on Internal Audit".<sup>29</sup> The concept is all embracing and shall, therefore, be applied in this study.

It takes into account:-

- "(a) the degree of independence of the internal Auditor from those whose responsibilities he is reviewing;
- (b) the number of suitably qualified and experienced staff employed in the internal audit function;
- (c) the scope, direction, extent and timing of the tests made by the auditors;
- (d) the evidence available of the work done by the internal auditor and of review of that work;
- (e) the extent to which management takes action based upon the reports of the internal audit function".<sup>30</sup>

Explaining these guidelines further, Vivian, R.V. Cooper, in his book "Students Manual of Auditing" states

".... whereas Internal accounting controls are exercised by those individuals who perform the basic controls and disciplines over basic controls and disciplines over basic controls on a regular basis, internal audit acts as a separate higher level of internal control, to determine whether the underlying accounting system and the internal accounting controls therein are functioning effectively...."<sup>31</sup>

As already mentioned earlier the concept is all embracing in that it includes such other analytical tools as compliance tests, substantive tests and the concept of materiality, all these put together would clearly bring to light the

extent of the role of internal audit unit in the local government financial management.

If it is borne in mind that the whole process of preparing accounts for audit and other accounting purposes "... involves aggregating classification and codification, as well as presentation of all the transactions in such a way as to give a true and fair view of the results for the period and of the position at a specified date".<sup>32</sup> Then, the study of the role, of the internal audit unit in the local government Financial Management would be useless, if this concept "Reliance on Internal Audit", is not applied in the assessment of the internal auditor's performance. The application of the concept would, therefore, serve as a guide to determine:-

- (a) the degree of independence of the Internal Audit Unit in the local government system;
- (b) the effectiveness of the Internal Audit Unit, and
- (c) the level of resources available to the Internal Audit in the local government in terms of equipment, human and other operational facilities.

The result of all these tests or assessments would, therefore, aim at finding possible solutions to the identified problems so as to allow the internal audit unit to achieve the objectives for which it was established.

## 1.7 Hypotheses

Based on the preceding discussion we posit the following hypotheses:

- (a) Lack of necessary working equipment limits the effective operation of internal audit unit in Isi-Uzo Local Government.
- (b) The neglect of internal auditing by any organisation starves management of information necessary for sound decision making.
- (c) Lack of qualified manpower limits the efficient operation of the internal audit unit in the local government system.
- (d) Insufficient independent authority hampers the effectiveness of the internal audit unit in the Local Government system.

## 1.8 Method of Research and Data Analysis

We adopted the following method of data collection and analysis.

### 1. Primary Source

- (i) Questionnaire: We administered questionnaire to eighty experienced accounting officers not below the rank of Assistant Executive Officer in various departments, field offices and markets of Isi-Uzo Local Government to allow for possible coverage of views, opinions and experience relating to Internal Auditing in the Local Government. The questionnaire

included both open-ended and close-ended questions.

(ii) Interviews and Oral Conversations:

This consisted of direct face to face interviews in which we engaged the chairman of Isi-Uzo Local Government, other executives, Heads of Departments, and Officers in-charge of personnel matters, as well as other staff members who are likely to be in possession of useful information. Furthermore, we interviewed workers to find out their feelings about the role of the internal audit unit.

(iii) Observation: We tried to observe some of the activities of the Internal Audit Unit in Isi-Uzo Local Government with a view to perceiving directly the actual situation. This approach approximates participant observation and is particularly advantageous in view of the unbiased nature of the data collected through it.

2. Secondary Data

(i) Documents, including government annual publications, gazettes, and edicts.

(ii) Textbooks on Auditing, Accountancy, Financial management and public Administration.

(iii) Journals, magazines, Newspapers and periodicals.

(iv) Official Records: Annual reports, payment vouchers, staff list, files and staff disposition.

## Data Analysis

In analysing the data collected, a case study approach would be adopted. The case study is that of Isi-Uzo Local Government of Enugu State. In addition percentage ratio and tables were employed in the analysis of our research findings.

### 1.9 Operational Definition

Accountant: Any officer of the local government designated "Accountant" either by direct appointment or lateral conversion from the executive cadre to the accountant cadre.

Auditor: Any professional accountant or finance officer charged with the duty of auditing the local government accounts.

Audit Staff: Any officer (not necessarily a professional accountant) that is deployed in the internal audit unit and charged with the responsibility of conducting audit work on a regular basis.

Accounting Officer: Any officer deployed in any of the local government departments who is involved in keeping any financial or accounting records except the chairman who is the chief Executive and the Accounting Officer of the Local Government by virtue of his position.

Auditing Staff: (Same as Audit Staff above)

Auditing: Examination of the completed records and the subsequent submission of a report by the auditor. It is a continuous and complete examination of the activities of an organisation for a defined period by an auditor, with a view

to submitting a written report thereon, to keep the management properly informed on financial and other related matters.

Audit Programme: Is the Auditor's plan of action for a given period. It is a guide to auditing.

Audit Report: Any findings made by the internal auditor in the course of his audit work that is reported to the chairman.

In other words, it is an auditor's findings prepared and submitted to the management in writing, after an audit exercise.

Audit Standards: Prescribes the basic principles and practices which members of the various accounting bodies are expected to follow in the conduct of any audit.

Audit Evidence: This include all relevant and reliable informative concepts such as signs, indications, testimony and facts which an auditor obtains in the course of his examination of a financial statement as would enable him to form an objective opinion as to the correctness or otherwise of the financial statement he is auditing and to make appropriate report therefrom.

Audit Credit: As the term suggests, it represents those aspects of the internal audit unit which have made positive contribution to the prudent financial management of the local government.

Audit Debit: Is the reverse of audit credit, i.e, it is the short-comings of the internal audit unit in the discharge



of its responsibilities.

Control: Involves checking of account records to ensure that the prescribed rules and regulations guiding the use of funds are strictly obeyed.

Cost Centres: Are departments, stores, and/or other areas of the local government included in the schedule of duty of the internal audit unit.

Internal Audit: Is the unit charged with the function of auditing the local government accounts internally.

Concept of Materiality: This concept presupposes that anything that is material is very important or significant. The meaning in relation to a statement of account is the extent to which its non-disclosure or mis-statement will affect the overall perception of an impression on the reader or the user of the statement of the account. Factors that would determine whether an item is material or not include:-

(a) amount involved (b) nature of item (c) statutory requirements and purpose of a financial statement.

Internal Auditing: Is the independent appraisal activity within the local government for the review of accounting, financial and other operations as a base for service to management.

Internal Auditor: Any professional accountant charged with the responsibility of auditing the local government accounts internally.

Internal Checks: Aggregate of checks and balances imposed on

on the day-to-day transactions in our organisation whereby the work of one person is verified independently by or is complementary to the work of another, the objective being the prevention or early detection of errors and frauds.

Internal Control: Is the regular checking and monitoring of the local government financial and other operational activities which include revenue accounts, expenditure accounts, stores, administration etc. within the local government.

I.O.U.S.: Money advanced to responsible officials to serve a particular purpose. Such moneys are normally retired or accounted for after a given period whether or not the purpose for which the moneys were released was carried out.

Qualified or Unqualified Audit Report:

A qualified Audit Report is one in which the auditor expresses reservations or gives an adverse opinion when he is unable to report affirmatively on the matters that contain in the financial statements. While unqualified Audit Report is one in which the auditor gives without reservation, thus indicating that he is completely satisfied that the financial statements give correct or actual position of the owner's affairs.

Resources: Include human element (labour force), material goods and funds available and essentially procured at any given time for purposes of carrying out the business of the local government at any given period.

Running Cost: Is the value or total cost of the resources (in the form of money) needed within a particular period, for running of the local government business for a given period. It includes capital expenditure such as procurement and maintenance of the local government assets (Erecting New Buildings - Administrative Blocks, Purchasing and Maintenance of plants and machinery) for expansion purposes, and Revenue Expenditures, such as other goods and services.

Local Government Finance:

This comprises all Revenue (Income) and Expenditure (payments) of the local government. It embraces Internal and External Revenue and the Running cost of the local government.

Endogenous Factors: Factors within that influence the growth of internal audit unit in the local government.

Below-the Line Accounts: Include such accounts as contingent funds, consultancy services, Advances etc. These accounts are not normally inclusive in the budget.

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CHAPTER TWO  
INTERNAL AUDITING

2.1 Auditing Approaches and Procedures

In this section consideration is given to some audit approaches and procedures. However, it is not intended to provide here a detailed exposition of common auditing methods. Rather, attention is focussed on two methodologies used by the internal audit of Isi-Uzo Local Government.

Internal Control Questionnaire

It has been stressed earlier that one of the primary objectives of internal audit is to appraise internal control arrangements. "Fundamental to an examination of internal control is the Internal Control questionnaire which is a list of questions about each section or division of an organization designed to reveal the system of internal control actually in operation and to determine the extent of their efficiency or otherwise".<sup>1</sup> Weaknesses and loopholes in the system can then be identified and necessary action taken,

- (a) to bring such matters to the notice of management;
- (b) to determine an appropriate programme of audit test.

Here are some of the advantages that could flow from the use of internal control questionnaire:-

- (1) "Greater concentration is effected on the efficiency of the system that produce the result.

- (2) The need for detailed checking is reduced.
- (3) Attention is focussed on weaknesses thereby leading to better use of audit time.
- (4) Attention is also focussed on the people in the organisation and the way they do things.
- (5) The auditor is enabled to get an overall view of the whole picture.
- (6) Greater job interest is created in the audit staff.
- (7) The questionnaire helps to train audit staff better.
- (8) An improvement and strengthening of Internal control system can result.
- (9) A ready understanding of the systems in operation by new members of audit staff is facilitated as is also the understanding of audit staff from one audit to the next".<sup>2</sup>

One may comment here that an internal control questionnaire is not an easy task. Considerable thought and effort are required to design an effective internal control questionnaire and once designed, it needs to be regularly reviewed and updated so as to take account of changes in control procedures. Above all, audit staff require to be trained in regard to the proper use of the questionnaire since there is a danger of superficial evaluation and of misleading conclusions being drawn if answers to questions are not based on verified facts.

## Flow Charts

"A flow chart is a map of inter-related operations logically arranged to indicate the sequence and types of such operations as part of a larger complex."<sup>3</sup>

Flow charts illustrate, in diagrammatic form, the flow of documentation in its correct sequence from the initiation of a transaction to its final entry in the books. Flow charts are used in auditing to record the systems actually in operation so as to highlight internal control strengths and weaknesses. They may be used either to complete the internal control questionnaire or in-lieu of it, because it is difficult to integrate, absorb and retain, mentally, the complex ramifications of systems and procedures. They are therefore, convenient means of recording the systems, analysing them and finding out their weaknesses. Since the auditor is concerned with the controls operating within a system, flow charts should be drawn with the key control features specifically in mind.

### 2.2 Objectives of the Local Government Internal Auditing

The entire tools of financial management controls in government establishments revolve around one simple theme, Viz, the principle of Accountability since auditing is a vital component of those tools (representing in fact, part of the structure of governmental control of finance), accountability necessarily became an essential ingredient of the audit approach.



Therefore, the base on which this ingredient could be attained is through the establishment of an "Internal Audit" approach. Hence chapter 40.2 of the former Anambra State Financial memoranda was entirely devoted for the objective of internal auditing in local government establishment.

In line with this provision and in consonance with the objectives of the internal auditing in Local Governments, the objectives of the internal audit unit in Isi-Uzo Local Government can be out-lined as follows:-

- (a) To ascertain that there had been proper authority for the acquisition, retirement and disposal of assests;
- (b) To examine the protection afforded to the assests and the use to which they are put;
- (c) To assist in protecting the assests and interest of the local government by carrying out a continuous examination of the activities in order to prevent/ detect frauds, misappropriation, irregular expenditures and losses due to waste, extravagance, pilfering and maladministration;
- (d) To ascertain that the standard accounting practices in use are being adhered to;
- (e) To confirm that liabilities have been incurred only in respect of legitimate operations of the Local Government;
- (f) To conduct special investigations for the management;

- (g) To secure the continued maintenance of soundly based systems of control within each area of developmental responsibility and ensure that resources are used in the pursuit of the defined objectives of the local government.
- (h) To analyse, review and where necessary make recommendations for improvement of systems controls and procedures to ensure that they are both efficient and effective, and that they remain adequate in the light of changing circumstances and are strictly adhered to in practice. In other words, the overall objectives of these activities is to assist all members of the local government (The management and staff) in the effective discharge of their responsibilities by furnishing them with analysis, appraisals, pertinent comments and recommendations on the activities reviewed. Thus, these tasks go beyond mere examination of accounting and financial records to obtaining full understanding of the whole operations under-review so as to be of service to the local government.

### 2.3 The Local Government Budget

The greatest instrument/tool for the management and control of the local government finances is the Budget/Estimates. This is a yearly financial plan of action which include among other things, forecasts of possible income and expenditure of the local government in a given year coupled

with the legal authority for incurring expenditure thereon. It has been succinctly described as "The Annual Estimates of Income and Expenditure on revenue account and payments on capital account and such other forecasts or estimates as may be required by the local government council".<sup>4</sup> It thus, serves as an essential mechanism for possible over-view of sources of revenue open to the local government for a given year and ensuring that adequate controls are maintained over the expenditure of the local government. For instance, in it the income side lists detailed sources of revenue open to the local government which can be grouped under the following headings:-

(a) (b) (c) etc. Other information which the income side shows include: Budgeted income, Actual income and Estimated income.

While the expenditure side shows detailed estimates of recurrent expenditure including capital expenditure and debt repayment service charge. These expenditure can also be grouped under the following headings:-

- (a) Personal Emoluments - Salary and Non-salary benefits such as Rent subsidy, Leave pay, Transport allowance, Responsibility and shift allowances;
- (b) Goods and services;
- (c) Special expenditure;

- (d) Miscellaneous expenditure which include pensions and gratuities, other administrative over-heads, maintenance of property, utilities and General Welfare expenditure and
- (e) Debt Repayment service charge:

Another useful guide provided for in the budgets (estimates is the coding system. Appropriate code numbers were provided for proper receipt of the various income. Also all expenditures of the local government are disbursed and heads controlled through the appropriate heads and sub-heads of the coding system.

In any case, the auditing staff should take proper note of this all important documents of the local government and make sure that the local government is collecting revenue and incurring expenditure based on the "Approved Estimates" in any given year. Any default or deviation from the "Approved Estimate" by any officer of the local government must therefore, earn an audit query.

While the officers controlling the votes are normally held responsible for any short-comings or default, the auditor should, at the end of the financial year, compare the budgetary achievements in terms of progress in the provision of services and amenities with the proposed forecasts in the "Approved Estimates". This should form the final appraisal stage of the local government's operation by the internal

auditor in any given year.

#### 2.4 Accounting Books

The auditing staff should also note that apart from all other regulatory documents, files and budget/estimate, the most essential sources of audit information for his audit functions are contained in the local government's accounting books. Some of the accounting books that are vital to the auditors include:-

The main cash book, Fixed Assets Register and the General Ledger, Payment Vouchers etc.

Since all the transactions of the local government are always quantified and expressed in monetary terms based on the 'Approved Estimate' of the local government, and recorded in the Account Books, the auditing staff should therefore, be fully conversant with the procedures and systems of keeping these books, otherwise, their roles as the watch-dogs, on-the-spot checkers and appraisers of the local government's finances and other operations would not be achieved. This is so because the auditors are required to check at regular intervals, all the receipts and payments recorded in these books and keep the management informed on regular basis about the position of the financial transactions of the local government.

#### 2.5 Accounting Errors

Another important aspect that calls for serious attention

in the auditing of the local government accounts is in connection with the accounting errors that are inherent in the local government accounting records. These errors if exposed, would always guide the auditing staff in the conduct of their audit functions. These errors can be conveniently classified into two major groups, referred to here as 'discloseable' errors and 'undiscloseable' errors. The discloseable errors as the name implies, are those errors that can be easily noticed or uncovered with little or no effort in the course of examination of the accounting records while the 'undiscloseable' errors include those errors that can not be easily noticed in the course of ordinary checking of the accounting records.

Examples of 'discloseable' errors include: Wrong classifications, errors in cast (i.e. wrong addition), wrong balances brought down or carried forward, transposition errors and errors in coding. Other errors are observed where (i) "A debit entry is made and the equalizing credit omitted or vice-versa; or (ii) Two debit entries are made instead of one debit and one credit or vice-versa; or (iii) An incorrect amount is entered in one ledger account, the corresponding debit or credit being correct."<sup>5</sup>

While undiscloseable errors include:

- (i) "Errors of omission or duplication;
- (ii) Errors in original entry;

- (iii) Errors of commission;
- (iv) Errors of principle and
- (v) Compensating errors."<sup>6</sup>

All these errors including purposeful acts of forgery, teeming mutilation etc., are inherent in the accounting records of the local government. In the light of these, it is obvious that such errors would not make for a complete appraisal of the local government operations since some of the data or accounting information are wrong and or missing. The auditing staff should therefore, bear these in mind in the course of their auditing exercises and ensure that the errors were detected, and brought into records, so that their reports on the position of the activities reviewed are reliable and can vouch for the true and fair view of the local government's operations for the period reviewed.

## 2.6 The Scope of Internal Auditing

The broad outlines, the scope of Internal Auditing is listed as follows:-

- (a) "Reviewing and appraising the soundness, adequacy and application of accounting, financial, and other operating controls, and promoting effective control at reasonable cost.
- (b) Ascertaining the extent of compliance with established policies, plans, and procedures.

- (c) Ascertaining the extent to which company assets are accounted for and safeguarded from losses of all kinds.
- (d) Ascertaining the reliability of management data developed within the organisation.
- (e) Appraising the quality of performance in carrying out assigned responsibilities.
- (f) Recommending operating Improvements."<sup>7</sup>

However, the Internal Audit Boss, Mr. Omeh, agreed that the internal audit work is limitless, adding that the scope of internal auditing in the local government encompasses every facet and section of the local government operations. He has full access to all the local government's records, properties and personnel. This should always be declared by management, though subject to some "security restrictions".

## 2.7 Requirements

### (a) Staff Requirement:

Auditing is a specialised function requiring skilled staff, and for the exercise to succeed, skilled staff with specialised knowledge of the function must be selected. In other words, the right calibre of staff must be employed.

In view of the numerous functions of the internal audit unit and in pursuit of its objectives as listed above, it is evident that the job requires a sizeable number of skilled staff



to perform the duties. The current staff strength of the internal audit as observed in the course of this investigation, is far less the number and skilled manpower required in the unit as could be seen in the table below:-

S/No.	Rank	Number of Staff Required	Number of Staff on ground	Excess	Short fall
1.	Senior Internal Auditor	1	-	-	1
2.	Assistant Chief Executive Officer	1	-	-	1
3.	Principal Ex. Officer	1	1	-	-
4.	Auditor I	1	-	-	1
5.	Auditor II	1	-	-	1
6.	Senior Executive Officers	1	-	-	1
7.	Higher Executive Officers	2	-	-	2
8.	Executive Officers	4	-	-	4
9.	Senior Typist	1	-	-	1
10.	Typist II	1	1	-	-
11.	Senior Clerical Officers	2	1	-	1
12.	Clerical Officers	4	3	-	1
13.	Assistant Clerical Officers	1	3	2	-
14.	Messengers	2	2	-	-
	Total	23	11	2	14

Source: Organization chart/schedule of Duties of the Internal Audit Unit, Chairman's Office Ikem.

The above table shows that the internal audit is short staffed (thus, shortfall of 14 less excess of 2-12 more staff required). This fact was further confirmed by the result of our findings on the staff position of the internal audit unit - see chapter four (Presentation and Analysis of data).

(b) Authority and Responsibilities of the Auditing Staff:  
Authority:

Another contributing factor for non-implementation of audit reports in the local government is lack of sufficient authority to enforce the implementation. Independence without authority is like a king without mandate (a ceremonial head). If truly independence is granted, the internal auditor should also be provided with the requisite authority sufficient to gain full access to all the local government records, properties and personnel relevant to the subject under-review. As in the local government, the internal auditor should have access to the authorizing officers, the signatories to the bank accounts, including the bank statements and certificates of balances. He should also have access to, or be a member of the policy-making committees of the local government, such as the local government council, the finance and General purposes committee and/or the Tenders Board of the Local government so as to become

fully aware of the financial policies and possibly assume vantage position to advise on the adequacy or otherwise of the policies. All these would help him in the conduct of the audit functions especially on financial transactions and the enforcement of the implementation of the audit reports.

He should also be free to review, and appraise, the plans, policies, procedures and records pertaining to "below the line accounts" to ensure proper over-all financial probity in the local government.

Acquisition of this type of authority should not solely be based on the auditor's professional competence and integrity. It should be entrenched in the statutory instruments of the local government.

#### Responsibilities:

The responsibilities of the internal auditing in the local government should be clearly established as a management policy and should be discharged in a manner that is consistent with the code of conduct and ethics of the Institute of Internal Auditors.

For internal audit unit to succeed and achieve the required goals needed from it in the local government operations, a high degree of authority and responsibility should be accorded the unit by law. Therefore, the practice

where the internal audit unit is made to be operating under a department in the local government should be discouraged. The internal auditor may not be safe in the hands of the head of department under whom he is operating, especially where his head of department would be responsible for his assessment for promotion or otherwise. This is a risky position if an internal auditor should perform effectively.

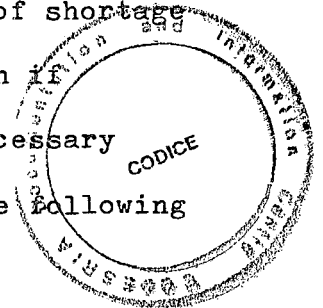
(c) Tools:

Lack of necessary tools in a unit is like a case of shortage of blood in a pregnant woman. The result of shortage of blood in a pregnant woman is ill-health or death if necessary care is not taken. Similarly, lack of necessary tools in a unit will give rise to some or all of the following problems:-

- (a) Low productivity (b) Inefficiency (c) Poor job output
- (d) Ineffectiveness, etc.

Another factor contributory to the weaknesses of the internal audit has been observed as lack of necessary tools to carry out its functions as appropriate. My personal interview with the Internal Audit Boss, confirmed this problem of the internal audit.

Enumerating the internal audit problems, he mentioned among other things, lack of necessary tools such as photo-



copying machine, duplicating machine and mobility. Explaining further he said:

"Questionable documents should be photocopied and referred to the head of department concerned for comment and necessary action. The internal audit requires a functional photocopying machine to be able to make its observations known to the department concerned."

Unfortunately, the only photocopying machine available in the chairman's office gives priority to chairman's office papers and causes considerable delay in the issuance of the reports.

Buttressing the last point the internal audit Boss, Mr. Omeh, explained that most of the substantive tests which involves among other things, tracing receipts to suppliers or markets have been abandoned due to lack of mobility, with the result that the local government may be lossing a huge sum of money through inflated receipts (which the internal audit can not check due to lack of mobility). He also added that calculating machines were grossly inadequate, that the ratio of the available calculating machine in the unit is 4:1.

(d) Incentives:

Incentives can be viewed from a number of perspectives. But for our purpose here, we shall examine incentives as the function which management performs to stimulate employees to contribute effectively to the achievement of the local government objectives. So far, it is no longer in doubt that the activities of the internal audit unit are certainly

aimed at assisting the local government management and staff to achieve the desired objectives of the local government. Similarly, it is equally true that the internal audit can not render this essential service in the absence of the desired incentives. The desired incentives include among others facilities such as decent office accommodation, working materials and mobility. Others include, training opportunities, adequate security and improved condition of service.

In the course of this study, it was observed that most of these incentives were lacking.

As regards working materials, most of the staff interviewed complained about short supply of working materials such as stationery and calculating machines.

The risk involved in auditing, such as witch-hunting, hazards of some drugs and chemicals etc. emphasize the need for protective clothing such as masks, aprons etc. Yet, none of all these, including rain coats, booths were not made available to the audit staff.

Lack of mobility, in spite of the fact that most of the assignments of the auditors are field work, has been highlighted above under "Tools".

The essence of the staff training was given emphasis in the 1988 civil service reforms, however, in the 1992/93

academic year such opportunity was given to two staff of internal audit unit to run a Diploma programme in public Administration at the University of Nigeria, Nsukka.

For fear of being fired and the lack of adequate security in the event of retrenchment exercise, staff developed cold feet in their method of reporting.

Inspite of the risks involved in auditing generally, none of the auditing staff is paid hazard allowance.

All these are but a few plight of the internal audit unit and its staff at Isi-Uzo Local Government.

#### Notes

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## CHAPTER THREE

THE NATURE OF INTERNAL AUDIT REPORT IN ISI-UZO  
LOCAL GOVERNMENT

The audit report, be it external (or independent) or internal is the financial instructions of any audit exercise. The provision in section 227 of the Company's Act dealing with the content of an auditor's report require him to state:<sup>1</sup>

- (a) Whether or not the information and explanations required by him have been found to be satisfactory.
- (b) Whether or not the transactions of the Company which come to his notice have been within the powers of the Company.
- (c) Whether or not the returns received from the branch offices of the company have been found adequate for the purposes of his audit.
- (d) Whether the profit and loss account shows a true balance of profit or loss for the period covered by such account.
- (e) Any other matter which he considers should be brought to the notice of the shareholders.

The above provision relates more to external audit report than to internal audit report. However, the Financial Instructions states that the Internal Auditor-in-charge will render a half-yearly report to his accounting officer with cope of the Director of Audit and to the Accountant-General, "to certify to what degree he is satisfied with the safeguards against fraud, with



the controls of the receipts and of payments, with the control on the issues and consumption of stores, with the verification of cash and stores held, and with the accuracy of the accounting records".<sup>2</sup>

The audit work is not complete without a report. It is obviously an essential element in an auditor's duties. Without an adequate communication system he cannot hope to get suitable and prompt action taken on his findings and recommendations. In this regard the independent status of the internal auditor is reassured by his power to report directly to the chief Executive and copy Director of Local Government Audit - in the case of the Isi-Uzo Local Government - the Chairman.

### 3.1 Principles of Internal Audit Report Writing

Any benefits to be derived from the internal auditor's activities will ordinarily be accomplished through the medium of reports on findings and recommendations. Consequently such reports must be carefully prepared, well written, and designed to catch and hold the attention of the person to whom directed.

"The readers self-interest will, of course, be an important attention - getting device, but the report must set forth conclusions and recommendations quickly and succinctly, or the reader may lose interest before completing the reading of the most vital portion of the report. Supporting details should always be included to complete the picture, but they are best relegated to a less important position near the end of the report".<sup>3</sup>

Because, the internal auditor should not exercise direct authority over other persons whose work is reviewed, the report is in effect delivered to an immediate superior, who in turn transmits the report to the person responsible for the operation that have been reviewed. It is desirable, however, that the internal auditor reviews the report informally in rough-draft form with the persons directly involved before the report is typed and released through the regular channels. Through this informal procedure the auditor can emphasize the point that a major purpose of the examination is to help the person involved do a better job, and that the auditor is not merely an "informer" on other persons' shortcomings. In addition the person directly involved will usually appreciate learning about the internal auditor's findings directly rather than after their superior has read the report.

It should be quickly pointed out that not all reports should be shown to the offender. Serious cases like fraud of any type, where the Internal auditor has every reason to believe that the staff has some bad intentions must be prepared formally to the Chief Executive.

However, one will also notice an important safety factor in such an informal review, for if there should be errors in the internal auditor's findings, or if there are unconsidered factors that might make recommendations unworkable, these will

ordinarily be revealed and can be corrected before the report is officially released.

J.U.T. Okolo thinks that there are more general principles of report writing to bear in mind than the above-mentioned.

These are:<sup>4</sup>

- (a) Without prejudice to content in terms of information conveyed and to clarity, a report should be concise and to the point.
- (b) Dogmatism should be avoided. Any assumption made in arriving at any opinions or conclusions should be clearly stated.
- (c) Where necessary, the report should be supported with comprehensive schedules. These should be attached to the report as annexures or appendixes and should not be put in the main body of the report.
- (d) In writing a report, full cognizance should be taken of the level of the technical knowledge of the parties to whom it is addressed and be framed in the simplest acceptable manner. An unduly sophisticated report may be impressive, but it also stands a good chance of being misunderstood. It needs not be stressed that very great care must go into the preparation of an audit report. Complete accuracy on all occasions is essential as great damage to personal

relationship and to the prestige of the auditor himself may, otherwise, result. In particular an audit report should display the following characteristics as have been proposed (GAO).<sup>5</sup>

- (a) Conciseness
- (b) Accuracy, completeness and fairness
- (c) Objectivity
- (d) Constructiveness of tone

There is no hard and fast rule in adopting a particular methodology in writing the report. The internal auditor will need to strive to develop his own capacity for writing reports of high standard. In furtherance of this objective, he should seek to attend suitable training programme which will assist him to improve his communication style.

### 3.2 Significance of the Report

The auditor's report is sometimes referred to as the auditor's "opinion" or the auditor's "certificate". The latter term is a carry over from the days when the auditor's report often stated "We certify that in our opinion the accompanying financial statements are correct".<sup>6</sup>

Regardless of the name by which it is identified, the report is an extremely important document. It is the sole outward evidence and the major activity of the public accounting profession, and it is heavily relied upon for financial

decisions based on financial statements. It is also the focal point of all independent auditing procedure. The logical place to begin the study of auditing is thus the auditor's report, even though in practice the preparation of the report is the last step in the examination.

### 3.3 The Audit Evidence

The consultative committee of Accounting Bodies in the United Kingdom in its Auditing standards of April 1980 stated among other things:

"The auditor should obtain relevant and reliable audit evidence, sufficient to enable him draw reasonable conclusion therefrom".

Audit evidence comprises -

"the totality of indications, signs, testimony, and facts which an auditor obtains in the course of his examination of financial statement as would enable him to form an objective opinion as to the correctness or otherwise of the financial statement and to report accordingly".<sup>7</sup>

Mr. Omeh (Internal Auditor Isi-Uzo Local Government) defines evidence as "Proof, or testimony whether oral, documentary or real which may be received in order to provide or disprove some facts".

From the above we could see that the audit evidence is a sine-qua-non for a good and objective internal audit reporting.

A report not based on concrete audit evidence is bound to be defective and lacks merits.

### Obtaining Audit Evidence

The entire process of auditing can be said to be tests which enable the auditor to form an opinion on the financial statement he has to report on. Audit evidence is obtained by conducting audit tests which may be classified as compliance Test or substantive according to their primary purpose:<sup>8</sup>

#### (1) Compliance Test

This is a test of the effectiveness of the internal control system in operation. As has already been mentioned, an internal control system may lay down rules, regulations and procedures which are perfect on paper and which would seem to assure that no fraud or error can pass undetected. However, if these laid down rules and procedures are not followed in practice, then it would be unwise for the auditor to place any reliance on the internal control system. The auditor must therefore, conduct tests, by inspecting some documents, by observing work procedure, by making enquiries and, if need be, computing for himself figures to determine, if the laid down rules and regulations are being complied with. Such are compliance tests.

#### (2) Substantive Test

Substantive tests are those which the auditor carried out on transactions and balances to enable him to form an opinion

as to the completeness, accuracy and validity of the information contained in the accounting records or in the financial statements. Substantive test will therefore include the processes of vouching, posting, casting and balancing of ledgers, and examination of assests. The extent of substantive tests an auditor carries out in the course of his audit will be very much influenced by the result of his compliance tests. As already indicated, when the internal control system in an organisation is satisfactory, the auditor would not need to conduct a complete examination of vouchers, postings in the ledger.

#### Sources of Audit Evidence:

The auditor obtains his evidence from the following sources:<sup>9</sup>

- (1) The accounting system
- (2) Accounting and other documents
- (3) Physical assests
- (4) Management and other staff.

#### (1) The Accounting System:

Evidence from the accounting system will be centred on the following:<sup>10</sup>

- (a) Adequacy in principle, and effectiveness in operation of the internal check and internal control system in the organisation. In respect of these, the auditor would carry

out compliance tests.

(b) The adequacy of the accounting records being kept both as to volume and format. The auditor, should know what accounting records need to be kept by any organisation to suit the nature and size of its operations.

(c) The promptness with which accounting records are written up. There are organisations whose ledger postings are allowed to fall months or even years behind. This is an unfortunate situation. But an examination of the ledgers of some government ministries and corporations in this country will confirm that it very much exists.

## 2. Accounting and Other Documents:

The accounting, record-receipt books, payment vouchers, receipt vouchers, store issue vouchers, cash books, store ledgers, advance ledgers, purchase ledgers, sales ledgers, etc., of course, form the main source of evidence. It is an these that the auditor spends most of his time. In vouching these documents, he may need to refer to some other documents such as personal files of employees and minutes of executive meetings.

## 3. Physical Assests

An auditor, where possible, will need to see physically the assests recorded in the book of account to satisfy himself of their existence and operating condition. If the



accounting records of the local government, for example, show that it bought a motor vehicle during the accounting period, apart from looking at the documents relating to the vehicle, the auditor will be more satisfied as to the authenticity of the accounting record if he sees the vehicle physically.

#### 4. Management and Other Staff

In the course of an audit, the auditor will ask for oral or written explanations or representation from the management or other employees of the local government. The information he obtains constitutes vital evidence on the basis of which he can judge the reliability of the evidence he may have obtained from other sources, say, a payment voucher.

In addition to the above listed sources of audit evidence, the auditor can generate evidence from his own computation from the figures shown in the accounting records. He could, for example, complete schedules to show the trends of expenses under various captions and relate it to existing circumstances in the local government and know how realistic the figure or trend seem to be. The auditor could compile ratios of some items to others. These computations highlight certain facts and constitute vital audit evidence.

### Sufficiency and Insufficiency

While insufficient evidence is weak and unsupportive sufficient evidence is evidence that is relevant to enable the auditor in conjunction with other factors to form an opinion which is embodied in his report. What evidence an auditor accept as satisfactory or sufficient proof of the authenticity of any particular item in the account of an organisation will be a matter of personal judgement. The important point to note, however, is that an auditor may and often does require more than one type of evidence to satisfy himself on an item. Factors which influence the auditors judgement are:<sup>11</sup>

(1) Knowledge of the Business - In the case of the local government, the business is the development of the rural communities. It includes all contracts to acquire the factors which produce the final products, labour, materials, assests etc.

(2) The nature and materiality of the items, e.g. in the medical store items of drugs are very material and carry risk factors likely to lead to irregularities in the records.

(b) The reliability of the staff and the records and the auditor's experience and assessment. For example, an unsound mind produces an unsound work. A trained and dutfiful worker minds his records and turns out good work output.

(c) The possible management bias - This may take the form of presumptions as to the suitability of personnel for specified jobs.

(3) The persuasiveness of the evidence. If documentary evidence is sufficiently persuasive the auditor would normally accept it without seeking further confirmatory evidence. For example, a payment voucher for electricity supported with a NEPA (National Electric Power Authority) bill/receipt showing that it is for electricity consumed in the premises of the local government, would appear sufficiently persuasive to be acceptable to an auditor without further inquiry in the absence of anything special calling for such inquiry.

#### Relevance of the Audit Evidence

The relevance of the audit evidence should be considered in relation to the overall audit objective of forming an opinion and reporting on the financial statements.

To achieve this objective, the auditor needs to obtain evidence which gives assurance that the properties of the enterprise are in existence and have been brought into the records/accounts at the correct price relative to the accounting period to which it relates.

Relevance, known also as logical relevance is used to refer to connections, relationships between facts and events

which will ordinarily tend to render one probable from the other."<sup>12</sup>

- (a) Questions of relevance are usually determined on the basis of logical and human experience.
- (b) In general, hear-say, witness's opinions, conduct on other occasions and characters are matters which, although possible relevant, are excluded.
- (c) Evidence which is too remote or which may raise too many side issues is generally not admissible.

#### Reliability of Audit Evidence

All evidence available to the auditor can be viewed in terms of oral or documentary. It goes without saying that documentary evidence is more reliable than oral evidence as anybody giving oral information or explanations to an auditor can deny or genuinely forget what he said at any time. This is why on important issues, an auditor may insist on written representation. The following presumptions are helpful:<sup>13</sup>

- (a) Documentary evidence is more reliable than oral evidence.
- (b) Evidence obtained from independent sources outside the enterprise is more reliable than that secured from within.
- (c) Evidence originated from analysis and physical inspection are more reliable than others.

The auditor then considers whether the conclusions drawn from the differing types of evidence are consistent with one another. When audit evidence from one source appears inconsistent with that obtained from another, the reliability remains in doubt until further work has been done to resolve the inconsistency.

### 3.4 Writing the Report

In the local government, the internal auditor's report is addressed to the chairman for action and copied to the Director of Local Government Audit. It is made up of a conglomeration of other junior staff's reports. The work programme of the internal audit unit is divided into twelve parts. Each portion is taken up in a month under normal circumstances. Internal auditors are assigned to execute this work. At the end of the month they submit their reports to the Acting Chief Internal auditor. For example, an internal auditor may be assigned to vouch payment vouchers for the month of December. After carrying out his work, he will report back thus:

"We have audited the payment vouchers on pages ..... to ..... in accordance with approved Auditing Standards. In our opinion the vouchers give a true and a fair view of the state of the local government's financial affairs for the month of December, 1992".<sup>14</sup>

It is a compilation of reports of this nature from the junior auditors that make up the internal auditor's reports to the chairman and Director of Local Government Audit. One would wonder if these reports would be reliable and valid recognising the fact that most of these "auditors" do not have the adequate training. The acting internal auditor of the local government admits that he does not rely on all their reports. Where he is not satisfied with the job done, he will send a senior auditor to compliment the audit performed by the junior worker.

The internal audit report is made as often as there is need to do so. Normally, the internal auditor is expected to make the following reports in a year:-

- (a) "Monthly reports
- (b) Special assignment reports
- (c) Progress reports
- (d) Cash survey reports
- (e) Stock-taking reports
- (f) Auxiliary Enterprise reports
- (g) Annual reports".<sup>15</sup>

However, in accordance with the Anambra State Financial Memoranda section 40 subsection 5 (40.5) the Internal Auditor shall report to the council through the secretary four times each year on the progress of the internal audit work.

These reports shall specifically indicate the internal auditor's findings with respect to:

- (a) the collection of revenue;
- (b) recurrent and capital expenditure;
- (c) the protection of physical and other assets of the Local Government;
- (d) the efficiency and effectiveness of systems, controls and procedures relating to (a); (b); (c) above;
- (e) the use of the resources of the Local Government in achieving its objectives;
- (f) any instances of -
  - (1) fraud
  - (2) misappropriation
  - (3) irregular expenditure
  - (4) waste or extravagance
  - (5) maladministration
  - (6) any other matters revealed by internal audit to which it is considered the council's attention should be drawn.

Section 40 subsection 6 (40.6) states that the internal auditor shall report without delay to the finance and General Purposes Committee any instances of fraud, misappropriation, irregular expenditure, waste, extravagance or maladministration which came to light during the course of

Internal audit duties. Wherever circumstances necessitate it, a special report shall also be submitted by the Internal auditor to the finance and General Purposes Committee on such other matters, including those set out at (a) - (e) of Financial Memorandum 40.5, as are appropriate.

Section 40 subsection 8 (40.8) stipulates that a copy of the internal auditor's reports under financial memorandum 40.5 and 40.6 shall be sent to the Ministry of Local Government, Local Government Inspector and the Auditor.

### 3.5 The Concept of Materiality

A set of financial statements summarizes a mass of facts, and those who prepare and report on them have to extract from all that information those items which have a real bearing on the true and fair view. Not to disclose an important fact or figure may give a misleading view to the financial statement, conversely, the overall view can be obscured by the inclusion of too much detail.

"A matter is material if its non-disclosure, misstatement or commission would be likely to distort the view given by the accounts or other statements under consideration".<sup>16</sup>

The English Institute preface their definition of materiality by describing the word as requiring a "wide interpretation according to the variety of circumstances



which can arise" and therefore that it is "not possible or desirable . . . . to give a precise definition of such an expression".<sup>17</sup>

In other words, the materiality of an item is relative to the circumstances surrounding it and it is therefore essentially a matter of judgement. That judgement must be based on professional experience, an awareness of the particular circumstances, and with regard for the needs of the reader of the reports. As far as the internal auditor is concerned, his judgement as to materiality must be grounded in a sound knowledge of the business of the organisation upon which he is reporting.

The concept of materiality as regards to internal audit report should be grasped more readily when one understands that the internal auditor is essentially the "eyes and "ears" of the topmost level of management. The chief Executive depends on him for information to help him (the Chief Executive) in making policy decisions. It therefore, behoves the internal auditor to report virtually every matter.

The internal auditor of the Local Government, Mr. Omeh, reiterates the above point when he says that "every item is material in internal audit report". But it is difficult, if not impossible to report every matter to the

Chairman at each point in time without confussing issues. The Internal audit Unit of the local government appreciates this difficulty and adopts the "exception principle" in reporting. This principle concerns itself with highlighting errors and mistakes which are very substantive and that can affect the policy of the establishment by concentrating on the areas which are not performing fine and then making suggestions for improvement.

We do not think that the internal audit adopts this system religiously. Some of the local government staff interviewed complain that the internal auditor is in the habit of reporting directly to the chairman matters that could have been settled between the department involved and the unit (internal audit).

Mr. Sabestine Ajogwu of Agricultural Department gave an instance where a staff of his department was found short of ₦80.00 (eighty naira). He was never aware of the matter until the Chairman copied him a query to that effect. He felt embarrassed about the whole issue. The problem was later solved when the staff involved produced a genuine receipt accounting for the short-fall. The chairman was also unduely alerted that the Cashier II has an excess of ₦5.00 (five naira). The cashier in question was not given time to check properly, and it was found out later

(after the report), that he mixed his personal money with the day's collection and this resulted in the excess.

This kind of cases have created bad blood between the workers of the Local Government and the internal auditors. By this the internal auditors seem to create the impression that they are suspecting everybody to be a rogue and the slightest mistake seems to confirm their fears. The workers claim that their reports (internal auditors) are always in the negative. The internal auditors do not usually make favourable reports commending good operations. This is bad. Nobody would be delighted to get into trouble or lose his/her job unnecessarily.

### 3.6 Unqualified and Qualified Reports

In internal audit reports, unqualified and qualified terms apply to annual and special reports only. Otherwise, "audit reports are more procedural reports."<sup>18</sup>

#### Unqualified Audit Report

This is a report where the auditor is able to state that he is satisfied with the financial statement of the organisation, and its other lay-down principles - internal control system, and internal check.

#### Matters to be Disclosed in an Unqualified Report

The following items are to be succinctly disclosed or unfolded in an unqualified audit report:<sup>19</sup>

- (1) To whom it is addressed.

- (2) The financial statements to which it relates.
- (3) That the audit has been conducted in accordance with approved auditing standards.
- (4) Whether in the auditor's opinion the financial statements show a true and fair view.
- (5) That the statements comply with relevant legislation or policies.

#### Implications of an Unqualified Report

Unqualified audit report is a confirmation by the auditor:-

- (1) That he has exercised reasonable care and skill in examining the accounting records and that he got all the evidence he required for his audit.
- (2) That the organisation has kept sufficient and proper accounting records.
- (3) That the assets listed on the balance sheet do in fact exist, belong to the organisation, and have been correctly stated.
- (4) That in respect of the organisation's policies and regulations, all necessary requirements have been met.

It is these assurances, implicit in an unqualified report by an auditor as an independent third-party that adds to the credibility of an audited financial statement. It is also these assurances that make an auditor liable

for damages if it turns out that the financial statement he certified is wrong. In such circumstance, the auditor would have given false assurance to whom his report was intended for.

### Qualified Reports

If the internal auditor is not satisfied upon any points, or there is any information which in his opinion, should be placed before the chairman, he must qualify his report accordingly, and make any such matters clear therein.

Qualified reports are usually dependent on audit evidence. These evidences could be oral or documentary, but it must be reliable. This provision is to avoid unnecessary victimization of the staff by the internal auditor.

The nature of the circumstances giving rise to a qualification of opinion will generably fall into one or two main categories described by the Auditing standards dealing with Qualifications in Audit Reports:<sup>20</sup>

Uncertainty - "Where there is uncertainty which prevents the auditor from forming an opinion on the matter".

Disagreement - Where the auditor is able to form an opinion on a matter but this conflicts with the view given by the financial statement".

Circumstance of Uncertainty - The circumstances which give rise to uncertainties may be described as those "where

management makes an estimation which, although not unreasonable in the circumstances, is not susceptible to objective assessment by the internal auditor".<sup>21</sup>

It should be emphasized, nevertheless, that the internal auditor has a duty to form a view wherever possible and the fact that an item is surrounded by an element of uncertainty should not be used as a means of avoiding this responsibility.

The circumstances which give rise to "uncertainties" includes any limitation on the scope of the auditor's examination which he has not been able to circumvent by alternative procedures."<sup>22</sup> In this case, the examination can not be said to have been carried out in accordance with approved auditing standards.

The staff of the local government are obliged to make information available, to give adequate explanations of their conduct, and to give access to records, documents, transactions, assets, etc. in accordance with the requests of the internal auditor. If they refuse to do so and the auditor believes that their refusal has prevented him from reaching an informed opinion he may qualify his report accordingly:- "I have not received the information and explanation which I required for the purposes of our audit".<sup>23</sup> This qualification is extremely serious, signifying that the

auditor has been prevented from carrying out his work in the manner which he considers appropriate.

### Circumstances of Disagreement

Circumstances which might give rise to a difference of opinion between the auditor and those who have prepared the accounts are described as including:-

- (a) "disagreement as to the facts or amounts disclosed in financial statements, or as to the manner or extent of disclosure;
- (b) departures from acceptable accounting practices, or failure to comply with statutory or other requirements".<sup>24</sup>

The Internal Auditor's Report should deal with, but not necessarily be limited to, the following matters:-<sup>25</sup>

- (a) Weaknesses in the system of internal control, together with recommendations for their improvement;
- (b) Points arising on accounting practices which the auditors consider, require modification or further consideration by management.
- (c) Suggestions generally to improve the financial and accounting efficiency of the organisation under review. The internal audit report will generally follow this format:-

- (i) Purpose of the Report
- (ii) The scope to be covered
- (iii) Opinions
- (iv) Findings
- (v) Suggestions.

### 3.7 Internal Audit Report - An Aid to Management

(a) Information - Most information needed by management in order to keep informed about finances and the progress of operations comes from the accounting records. The information, to be of maximum value, must be reliable, complete, and available as quickly as possible. It is through the medium of the internal auditor's regular reports that the chief executive gets such vital "news" about the local government.

Value for money type of audit is an examination of economy and efficiency, to bring to light examples of wasteful extravagant, and unrewarding expenditure. It is the duty of the internal audit unit as an independent appraisal activity within an organisation to bring these weaknesses to management when they occur. Regrettably, we found the internal auditor of the local government wanting in this regard. The local government is suffering from many wasteful practices and gross inefficiency on the part of the workers. These we have pointed out earlier. The Internal auditor seems to be



concerned with the accuracy or otherwise of the accounts, while relegating the personnel activities to the background. Going through his reports one seldom sees recommendations in respect of greater economy and efficiency.

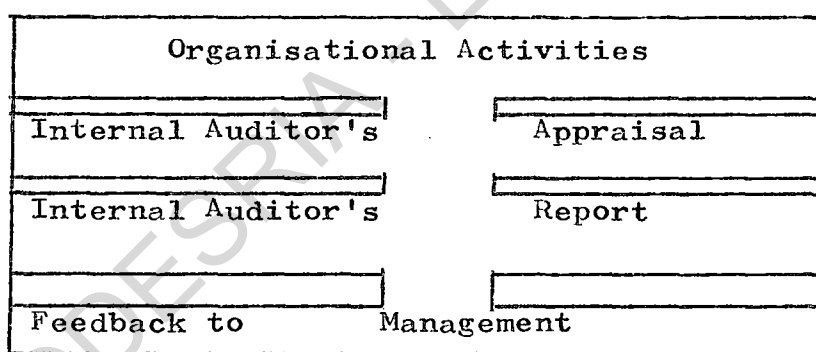
The classification of accounts and all aspects of the accounting system must be designed with management's needs for information in mind. Information may be needed to answer such diverse questions as: "What amount does the local government spend on junior and senior staff salaries every month"? "How many people reported on the second shift last month at the Obollo-Afor Health Centre and other Health Centres and how much over time was incurred?" Questions such as these and more could be answered by the Internal Auditor's monthly salary variation report.

(b) Protection: Protection of the resources of the local government is important against a multitude of possible losses ranging from embezzlement to such cases like use of supplies or productive materials, failure to purchase from the lowest - cost supplier, inefficient workers, and outright theft. Through the internal auditor's attention of Heads of Departments and the entire management cadre are drawn to lapses.

(c) Control: Control is necessary to assure that management policies and directives are properly adhered to. However, management is far removed from the scene of operations in a

large organisation like the local government, and the personal supervision of employees is an impossibility. As a substitute, management must rely on various control techniques to implement its decisions and goals, and to regulate the activities for which management has the ultimate responsibility. It is therefore, through the internal auditor's report that management confirms whether these laid down principles are working out as designed.

The importance of the internal auditor's report to the management can not be over-emphasized. The chart below summarizes this succinctly.



### 3. Limitations of the Internal Audit Reports

As has been noted earlier, the management appoints the internal auditor. The internal audit unit is under the chairman's office and according to the internal audit boss, Mr. Omeh, the chairman himself, is the head of the unit. This very fact implies that management is not bound to accept the internal auditor's report and consequent

suggestions. As happens in real life, his suggestions may be quite reasonable but they may just be ignored by the management and he can do nothing about it. This means that at advisory level lies the internal audit report. The internal auditor may help, advise and report, he has no power to demand that his suggestions and recommendations must be implemented.

Some form of follow-up is desirable to ensure action on the internal auditor's findings and recommendations. Frequently, the individual to whom the report is addressed is requested to prepare a written report setting forth the action that is proposed to correct deficiencies that may have arisen.

If deficiencies are very serious, the internal auditor may make a follow-up review to ascertain that corrective action has actually been taken. But in most instances no further steps are taken by the internal auditor until the time of the next regular examination of those operations. At that time it is particularly important to watch for a recurrence or continuation of any problems previously reported. If corrective action has not been taken as a result of the previous recommendations, the next report should be proportionally stronger in pointing out any continuing situations.

In the event of this ugly situation rearing its head, the internal auditor may highlight this particular area to the external auditor. The latter may throw his weight behind the suggestions and the management may then be inclined to consider them seriously.

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## CHAPTER FOUR

## PRESENTATION AND ANALYSIS OF DATA

We had indicated at the beginning of this research work that different methods would be used in collecting data for our study. Once, again we re-state these sources:- Official documents, direct observation, personal interviews and questionnaire. We shall therefore, test the hypothesis posited in chapter one using the data collected from these sources.

In case of interviews these were mostly held with treasury and audit staff, Heads of departments, units and sub-units to find out the role of the internal audit unit. These interviews occasioned mostly unstructured questions (see Appendix II) in the sense that they were not restricted to a few optional answers to the questions we asked. In the case of questionnaire, we administered them to experienced accounting officers not below the rank of Assistant Executive Officer in various departments, field offices and markets. Responses from these sources were weighed against what we could glean from relevant documents and files as well as what we gathered through direct observation during our numerous visits to the cost centres.

Generally, we concentrated our enquires on the internal audit side in view of the nature of the subject matter of our study - the role of internal audit unit in the local government financial management. Those in the unit are therefore, adjudged best placed to be well acquainted with issues pertaining to this subject. Nevertheless, a few non-audit employees were interviewed, principally to find out their feelings about the role of internal audit in the local government. The obvious and not unexpected setback in this case was that a few of the staff especially those from other departments outside treasury department knew little or nothing about the expected role of internal audit unit in the local government Financial Management.

#### TESTING OF HYPOTHESES

##### Hypothesis I:

Lack of necessary working equipment limits the effective operation of the internal audit unit in Isi-Uzo Local Government.

In testing this hypothesis we shall first examine the relevant data collected from the questionnaire. Four questions in the questionnaire relate to the hypothesis, namely question Nos 6, 13, 18 and 19 - all questions made exclusively for accounting officers and management staff.

Question No. 6

"Do you agree that lack of working equipment affects the effectiveness and efficiency of the internal audit unit in the local government system"?

The distribution of responses to this question is shown below:

Table I

Alternative Choices	Frequency	Percentages %
Agree	5	6.25
Strongly Agree	75	93.75
Disagree	0	0
Strongly Disagree	0	0
Total	80	100

The above table shows that out of 80 staff who responded to question No. 6, 5 or 6.25% indicated that lack of working equipment affects the effectiveness and efficiency of the internal audit unit while 75 representing 93.75% strongly supported the claim.

From the number of responses above, one would see that this is a clear case of 'NEM. COM.', i.e. 'no one contradicting! There was no opposition whatsoever, All the respondents answered in affirmative. However, subsequent responses and evidence will confirm the authenticity of this



hypothesis.

Question No. 13

"How often does the Internal audit check the cost centres in a year?"

The responses are as follows:

Table II

Alternative Choices	Frequency	Percentages %
One yearly	38	47.50
Twice yearly	20	25.00
Thrice yearly	15	18.75
Quarterly	7	8.75
Total	80	100

A break down of the responses shown on table II shows that 38 respondents representing 47.50% claimed that the visit should be once yearly, 20 respondents representing 25% were of the opinion that the visit should be twice in a year, however, 15 people representing 18.75% supported the visit to be thrice yearly while 7 respondents representing 8.75% were in favour of quarterly visit to the cost centres. Looking at the above responses they are distributed but one point stands out clear, 47.50% of the respondents supported the visit to be once yearly. This is far below average considering the importance of this visit to the cost centres by internal auditors.

Question No. 18

"Do you think that absence of Departmental Van limits the effective operation of the internal audit unit in Isi-Uzo Local Government.

The responses were shown below:

Table III

Alternative Choices	Frequency	Percent-ages %
No.	15	18.75
Yes	60	75.00
No Response	5	6.75
Total	80	100

The table shows that out of 80 staff who responded to this question, 15, representing 18.75% answered negatively, 60 staff representing 75% responded positively while 5 or 6.25% did not respond to the question. These responses confirm that absence of Departmental Van limits the effective operation of the internal audit unit.

Question No. 19

"If your answer to No. "18" is "Yes" how does this affect the efficient operation of internal audit? The responses are shown below.

Table IV

Alternative Choices	Frequency	Percentages %
No adverse effect	10	16.50
Adversely	50	83.50
Don't know	0	0

From the above table one can see that 10 respondents representing 16.50% maintained that absence of Departmental Van has no adverse effect on the efficient operation of the internal audit unit while 50 respondents representing 83.50% were of the view that absence of Departmental van adversely affect the efficient operation of the unit. However, tables I, III and IV support our first hypothesis.

This information from the questionnaire merely buttressed what we had got from documents and interviews with experienced accounting officers and top administrative staff of the local government.

Of course, this point has been exhaustively discussed in chapter Two of this paper under "Tools". We were sufficiently informed that lack of necessary working equipment is a contributory factor to the weakness of the internal audit unit.

Lack of necessary tools in a unit is like a case of shortage of blood in a pregnant woman and this will give rise to some or all of the following problems:-

(a) Low productivity (b) inefficiency (c) poor job output, (d) ineffectiveness etc. My personal interview with the Internal Audit Boss, confirmed this problem of the internal audit.

Enumerating the internal audit problems, he mentioned among other things, lack of necessary tools such as photocopying machine, Duplicating machine, calculators, Adding machines and mobility.

Buttressing the last point, the Internal Audit Boss, explained that most of the substantive tests which involves among other things, tracing receipts to suppliers or markets have been abandoned due to lack of mobility, with the result that the local government may be losing a huge sum of money through inflated receipts.

Furthermore, the internal auditor suppose to go out constantly on verification of prices and confirmation of completed projects before payments are made. The essence is to ensure that project executed for which retention is to be paid

has not collapsed, blown off or cracked. To carry on the above functions the internal auditor finds it difficult to get into the interior communities to perform his functions effectively.

The foregoing supports our hypothesis that lack of necessary working equipment limits the effectiveness and operational efficiency of the internal audit unit in Isi-Uzo Local Government.

#### HYPOTHESIS II

The Neglect of Internal Anternal Auditing by any organisation will starve management of information necessary for sound decision-making.

However, in testing this hypothesis three questions in the questionnaire relate to it, namely question Nos 7, 9 and 10 our second hypothesis focuses attention on internal audit as a tool of management. It assumes that the internal audit unit is the "eye" and "ear" of management and to eliminate it tantamounts to starving management of crucial information necessary for sound decision-making. Question No. 7 wanted to determine the truthfulness or otherwise of the above.

hypothesis.

#### Question No. 7.

"Do you agree that the internal audit unit is the "mirrow" through which management of an organisation views activities

going on in the entity? The distribution of responses to this question is shown below.

Table V

Alternative Choices	Frequency	Percentages %
Yes	75	93.75
No	0	0
No Responses	5	6.25
Total	80	100

The table shows that out of 80 staff who responded to this question, 75 representing 93.75% answered positively, nobody replied in the negative while 5 or 6.25% did not respond to the question.

These responses confirm that management depends on internal audit for most of its information. The internal audit achieves this feat through its various reports to the chief executive. Clearly, management is far removed from the scene of operations in a large organisation like the local government and the personal supervision of employees is not practicable. But the internal audit unit makes management feel so near and aware of happenings in the organisation by giving it feed-backs on how the set goals and objectives are being achieved, through

constant reviews, evaluations and verifications in Isi-Uzo local government. For instance, the chairman is constantly furnished with information as regards revenue and expenditure in the local government through the monthly salary verification and analysis etc. prepared by the internal audit staff. This represents a sound idea, manifested by those concerned. Further responses and evidence will help to confirm the hypothesis.

Question No. 9

Do you think that a local government that is not continuously audited should witness very high fraudulent practices? The responses are as follows:

Table VI

Alternative Choices	Frequency	Percentages %
Agree	30	37.5
Strongly Agree	30	37.5
Disagree	18	22.5
Strongly Disagree	2	2.5
Total	80	100

A break down of responses shown on table VI shows that 30 respondents, representing 37.50% agree that a local government that is not continuously audited should witness very high fraudulent practices, also the same number of respondents representing 37.50% strongly agreed to the above claim while 18 respondents representing 22.50% answered negatively and finally 2 respondents representing 2.50% strongly disagreed

to the claim.

From the responses so far one could see that majority of the respondents are in support of the question.

Question No. 10

For an organisation to achieve public accountability and be administratively efficient and effective, which type of audit would you recommend? The responses are as follows:

Table VII

Alternative Choices	Frequency	Percentages %
External Auditing by Independent auditors	20	25
Internal Auditing by the organisation's own staff	50	62.5
Both	8	10
Not sure	2	2.5
Total	80	100

From the number of responses one would see that more "voted" for internal audit by the organisation's own staff. We can therefore, conclude that an internal control system is the most building block in an efficient system of financial management. When one realises the functions of external and internal audits one would be less cynical about this conclusion. The



primary concern of the external auditor is to attest to the truth and fairness of the financial statements presented before him. The objective of internal auditing as has been treated before goes beyond the accounting and financial records and concerns itself with every phase of business activity in an organisation. Internal Auditing is carried on continuously, rather than once a year when outside auditing services are utilized. This presupposes that the former will reveal frauds and any other practices detrimental to the organisation as soon as they occur;

By this analysis, we are not in any way suggesting that external audit should be scrapped, it has its own functions in the realm of financial management. However, what we are advocating is that internal auditing should be given proper recognition and a befitting place to occupy in the organisational chart of our local government system. After all, no amount of external pressure will make an entity administratively efficient unless the entity itself is properly managed and controlled.

It has been observed that management can not perform effectively without adequate information and control. Information is needed by management in order to be regularly informed about the current position of finances and the progress of operations for possible adjustments where necessary.

The most reliable technique to supply these needed information and control on regular basis, is the internal audit

through its reporting technique. We observed that in 1989, the internal audit reports led to the recovery of the sum of ₦11,400.00, being amount deposited in full settlement for supply of eleven water tanks of two thousand gallons each to the staff quarters since 1986, which was never supplied by the Company (Oko Welding Works Co. Nig., Ltd., Enugu) that received the money.

Others not yet recovered, but which action is in pipe line for the recovery include:-

- (a) ₦40,296.89 at the local government fuel dump in 1989.
- (b) ₦7,550.00 Liquor licence scandal at Obollo-Afor field office in 1992.
- (c) The total amount collected at Eha-Amufu field office from November 1991 to June, 1992.
- (d) The internal audit revelation of the missing peugeot 504 GL Engine valued at ₦50,000.00.

The above questionnaire responses and other supporting evidence tend to validate our second hypothesis.

### HYPOTHESIS III

Lack of qualified manpower limits the efficient operation of the internal audit unit in the local government system.

To test this hypothesis four questions in the questionnaire relate to it, namely questions Nos 11, 14, 16 and 17.

Question No. 11

"Do you think that lack of qualified manpower limits the effective and efficient operation of the internal audit unit in Isi-Uzo Local Government?"

The responses are as follows:-

Table VIII

Alternative Choices	Frequency	Percentages %
Agree	20	25
Strongly Agree	50	62.5
Disagree	8	10
Strongly Disagree	2	2.5
Total	80	100

The distribution of responses from the table shows that 50 staff representing 62.5% strongly agree while 20 representing 25% also agree that lack of qualified manpower limits the effective and efficient operation of the internal audit unit in the local government. But a total of 10 respondents representing 12.5% replied in the negative. However, subsequent responses and evidence will further confirm the hypothesis.

Question No. 14

Part of the internal audit weaknesses is caused by the following problems (please tick one option as would best represent your opinion). The responses are as follows:-

Table IX

Alternative Choices	Frequency	Percentage %
Lack of Adequate incentives	20	25
Negative influence of social ties	7	8.75
Non-recognition of internal audit in policy-making committee	5	6.25
Under-staff situation	41	51.25
Absence of rapport between internal audit and other depts	5	6.25
None of the above (14(a-e))	0	0
Not sure	2	2.5
Total	80	100

From the table, we can see that 41 respondents representing 51.25%, more than half of the respondents supported that under-staff situation contributes to the internal audit weaknesses. 20 respondents representing 25% indicated that lack of adequate incentives is their major factor. The responses are distributed, refer to the table.

Question No. 16

How many professional accountants are deployed to the internal audit unit? The responses are shown below:-

Table X

Alternative Choices	Frequency	Percentages %
One	0	0
2 to 5	0	0
6 to 10	0	0
None	76	95
Not sure	4	5
Total	80	100

A break down of responses shown on table X shows that 76 respondents representing 95% indicated that the internal audit unit has no professional accountant to its credits while 4 respondents representing 5% could not indicate whether the internal audit unit has professional accountants or not.

Question No. 17

Do you think that the staff strength of the internal audit unit is adequate to cope with the auditing work-load in the local government?

The responses are shown below:-

Table XI

Alternative Choices	Frequency	Percentages %
Yes	15	18.75
No	60	75
Don't know	5	6.25
Total	80	100

From the table we can see that 15 respondents representing

18.75% answered that the staff strength of the unit is adequate, 60 respondents representing 75% answered that the staff strength of the unit is inadequate to cope with the work-load while 5 respondents representing 6.25% could not support or reject the claim.

This information from the questionnaire merely buttresses what we had got from documents and interviews with the staff. Auditing is a specialised function requiring skilled staff and for the exercise to succeed, skilled staff with specialised knowledge of the function must be selected. Our observations in the course of this research do not only confirm shortage of staff in the internal audit unit, but also a serious lack of qualified staff. Subsequently, many of the auditing staff are inexperienced and had little or no in-depth training in auditing principles. In other words, they are not professionals and do not possess necessary qualities that would enable them to perform internal audit functions effectively.

The current staff strength of the internal audit as observed in the course of this investigation, is far less the number and skilled manpower required in the unit as could be seen in the table below.

Table XII

S/No.	Rank	No of Staff Required	No of Staff on Ground	Excess	Short-fall
1.	Senior Internal Auditor	1	-	-	1
2.	Assistant Chief Executive Officer	1	-	-	1
3.	Principal Executive Officer	1	1	-	-
4.	Auditor I	1	-	-	1
5.	Auditor II	1	-	-	1
6.	Senior Executive Officer	1	-	-	1
7.	Higher Executive Officers	2	-	-	2
8.	Executive Officers	4	-	-	4
9.	Senior Typists	1	-	-	1
10.	Typist II	1	1	-	-
11.	Senior Clerical Officers	2	1	-	1
12.	Clerical Officers	4	3	-	1
13.	Assistant U. Officers	1	3	2	-
14.	Messengers	2	2	-	-
	Total	23	11	2	14

The above table shows that there is no professional accountant in the unit. The Acting Internal Auditor is a Principal Executive Officer (General Duties). The net effect is that the internal audit will continue to perform below expectations, if necessary steps are not taken. The following findings observed in the external auditors' reports on the financial statements of the local government, which the internal audit could not reveal, confirm the point that the internal audit performs below expectations (as a result of this lack of qualified staff). In 1988, it was

observed that the internal audit was not thorough in their assets verification exercises. For example, some payment vouchers examined showed that there were no supporting documents such as store receiving vouchers, LPOS, suppliers invoices or any other evidence to show that the following items valued ₦65,250.00 were actually received:

Table XIII

S/No.	PV NUMBER	DESCRIPTION OF ASSESTS	AMOUNT ₦
a.	146M/8/88	1020 Chairs	40,800.00
b.	043C/2/88	81 Ceiling fans	24,450.00
Total			65,250.00 =====

Yes, the internal audit unit check the payment vouchers regularly.

Further observations, show that the Investment Register did not record all the shareholdings of the local government.

The following shares were not covered by any share certificates:

Table XIV

S/No.	COMPANY	SHARES WITHOUT CERTIFICATES
a.	Nigeria Cement Co. Ltd. Nkalagu	11,080
b.	Premier Brew. Ltd. Onitsha	9,890
c.	CCB Ltd.	20,120

There was no evidence to show that the internal audit had made any attempt to investigate the Investment Register.



Furthermore, as at 20-12-92 a total cash payment in the sum of ₹214,610.84 did not pass through the necessary departmental Vote control cards in the Treasury/personnel, neither did it receive proper authorization, yet, the internal audit could not discover these serious lapses.

However, a comparison with the fact that only two or three men of the external auditors (as against more than twelve men of the internal audit unit) audit the local government's operations each year, is a clear indication that the unit seriously lack qualified staff.

This tends to uphold our third hypothesis.

#### Hypothesis IV

Insufficient independent authority hampers the effectiveness of the internal audit unit in the Local Government system.

Two questions in the questionnaire relate to this hypothesis, namely question Nos 8 and 20.

#### Question No. 8

Lack of strict Implementation of Internal Audit Recommendations in the Local Government is due to insufficient independent authority of the internal Audit Unit.

The distribution of responses to this question is shown below:

Table XV

Alternative Choices	Frequency	Percentages %
Agree	20	25
Strongly Agree	50	62.5
Disagree	8	10
Strongly Disagree	2	2.5
Total	80	100

A break down of the responses shown on table XV shows that 20 respondents representing 25% agreed to the question, also 50 respondents representing 62.5% strongly agreed to the above claim while 8 respondents representing 10% answered negatively and finally 2 respondents representing 2.5% strongly disagreed to the claim.

From the responses so far one could see that majority of the respondents are in support of the question.

Question No. 20

Do you agree that Internal Audit Unit has sufficient independent authority to carry out her duties in the Local Government system. The responses are as follows:

Table XVI

Alternative Choices	Frequency	Percentages %
Yes	2	2.5
No	73	91.25
No Response	5	6.25
Total	80	100

From the above table one can see that 2 respondents

representing 2.5% maintained that the internal audit unit has sufficient independent authority while 73 respondents representing 91.25% were of the view that the unit has not got sufficient independent authority to carry out her duties and finally 5 respondents did not indicate their choice. However, tables XV and XVI support our fourth hypothesis.

This information from the questionnaire merely showed what we had got from documents and interviews with top administrative officers of the Local Government.

Of course, this point has been well discussed in chapter Two of this work under "Authority and Responsibilities". We were sufficiently informed that the main reason for non-implementation of audit reports and recommendations in the Local Government is lack of sufficient authority to enforce the implementation. Independence without authority is like a king without a mandate. As in the Local Government, the internal auditor should have access to the authorizing officers, the signatories to the bank accounts. He should also have to, or be a member of the policy making committees of the Local Government, such as the Local Government Council, the Finance and General Purposes Committee etc. so as to become fully aware of the financial policies and possibly assume vantage position to advise on the adequacy

or otherwise of the policies. Acquisition of this type of authority should not be based on the professional competence and integrity but it should be entrenched in the statutory instruments of the Local Government.

The foregoing supports our hypothesis that Insufficient independent authority hampers the effectiveness of the internal audit unit in the Local Government system.

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## CHAPTER FIVE

## RESEARCH FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 Research Findings

Stated below are the important findings of the study. These findings are the result of the analysis of the data collected in all phases of the investigation. We discovered that:

1. In the absence of internal audit, there will be no limit to perpetration of fraud/misappropriation of the local government's funds and property;
2. the internal audit unit of the local government is handicapped by lack of:-
  - (a) qualified staff
  - (b) accommodation
  - (c) office working equipment
  - (d) adequate incentive.
3. the internal control systems of the local government especially the internal check is bad. The system is sometimes manipulated to serve personality interests and as such, a reasonable chunk of the local government's funds were executively syphoned through IOUS and false medical bills. However, the local government cashier is in the bad habit of keeping huge sum of money with him in the safe for long;

4. the internal auditor was not a member of any policy-making body or disciplinary committee of the Local Government;
5. the use of unofficial Receipt Booklets for collecting of revenue was also observed;
6. we observed with dismay that the management does not always implement the auditor's recommendations;
7. the relationship between the internal audit staff of the local government and the workers in general is not cordial. The local government staff see the auditors as always trying to find "trouble" and "embarrass" them. This is because they report direct to chairman without due consultation with the staff involved;
8. the greatest inefficiency in the local government occur among the junior staff like clerks, labourers, messengers, securitymen etc. We have the belief that this category of workers are under-employed.

#### 5.2 Recommendations

Based on the above findings, we make the following suggestions or recommendations.

1. We recommend that the external auditors of the local government be made to be more serious with their work. They should be advised to do their work thoroughly and not to rely heavily on the internal auditors and

thereby leaving much of the accounts untouched. Their failure to do this, could indicate that such has been swept under the carpet and local government offices may be taken over by avarices.

2. Adequate incentives, decent office accommodation and office equipment, including departmental van should be provided for the internal audit unit.
3. To a large extent the quality of audit work depends upon the quality of audit staff and their organisation. We therefore, argue for a further strengthening of the staff of the local government audit unit, not via an indiscriminate expansion of staff, but by the training, recruitment and retention of better staff. We recommend a more attractive salary, to avoid the brain drain of qualified staff to the business world.
4. The internal control system of the local government should be allowed to apply strictly in all cases, irrespective of rank, race, creed or social inclinations.
5. The internal auditor should, at least, be a member of the local government disciplinary committees, especially, those that treat cases of fraud and loss of funds/assets. He should also be a member or co-opted into such committees as the finance and General Purposes Committee, Tenders Boards and other committees where

decision to commit expenditure are taken. This would not only afford him the opportunity to advise the committees/Boards on policy matters as it affects finance management, but also facilitate the implementation of the auditor's findings and recommendations.

6. For an improvement in the internal control system of the local government, we recommend a regular supervision and reviews of work done by the junior workers by the higher officers. This will ensure conformity with established standards. The treasurer for example, should make it mandatory upon the cashier to lodge money collected with the bank within twenty-four hours of collection or at the shortest possible time, and that under no circumstance should any expenditure be made from daily collections. He has to check from time to time to see if these rules are being adhered to or not.
7. There is need to improve the relationship between the internal auditors and the other workers of the Local Government. This could be done by urging the Chief Internal Auditor to adopt the "informal" reporting technique. This entails reviewing the report in rough-draft form with the person directly involve before the report is typed and released through the regular channels. By this practice he will dis-



illusion people's mind that he is not after all only out to implicate them, but to correct their mode of operations. He is also advised to commend systems of operations that are good.

8. In respect of the grave inefficiency rampant among junior staff of the local government, we recommend closer and constant supervision by unit heads. Apparently these categories of workers lack supervision and as such detect the pace of work for themselves.

Furthermore, we see the need to employ most of these workers on part-time basis. This is because most of them especially the artisans, cleaners, labourers etc., seem not to have enough to do for the day. As early as 10 a.m they are "free" and start roaming about the premises and some will simply sneak away to their farms. This system of working full-time elsewhere and coming to claim monthly salary is not in the best interest of the local government economically. If the local government employs these people on part-time basis or reduce their numbers to a reasonable size, it will save immensely.

### 5.3 Conclusion

In the preceding chapters of this paper, we were able to explore the theoretical arrangements in relation to the place of internal audit unit and the conduct of internal auditing in the local government operations.

The need for the internal auditor to be regularly responsible for an independent appraisal of the local government's activities was highlighted. Consequently, we proceeded to assess the performance of the internal audit unit. This assessment showed that the audit unit did fairly well, but did not live up to expectations.

We also saw that the staff strength and quality of staff of the internal audit unit were not sufficient to cope with the scope of auditing responsibilities in the local government.

Lack of incentives, office accommodation, equipment including departmental van, were found as some of the major obstacles to effective discharge of audit responsibilities in the local government.

However, efforts were also made to look at the internal audit report as an aid to management. It is through the medium of the internal auditor's regular reports that the chief executive gets such vital "news" about the local government.

Finally, this study can be said to have delved into the territory of financial management in Isi-Uzo Local Government, using internal auditing as an illustration. We believe that the picture here is not so different from what obtain in some other local governments in the country. From our

survey, we can conclude that the problem of poor accountability and gross mismanagement of our Local Governments' resources are largely due to failure to establish adequate procedure for monitoring probity and accountability in the Local Government system.

One of the best ways to ensure probity and accountability in our Local Governments is internal auditing.

It is our belief that if these research findings are taken into consideration and appropriate steps taken to implement the recommendations thereon, cases of incessant improprieties in our Local Governments will certainly be curtailed, while probity and accountability would be enhanced.

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APPENDIX A

137 Nkrumah Hall  
University of Nigeria  
Nsukka

August 6, 1992

Dear Sir/Madam,

I am sending this interview questions to you with the hope that you will help in answering them.

The questions are designed to elicit information that will enable me to produce a research paper on "The Role of Internal Auditing in Local Government Financial Management (A Case Study of Isi-Uzo Local Government)".

I wish to promise here that whatever information you supply will be treated with confidence, and will be used solely for this academic programme. I also believe that honest treatment to the questions will be to our mutual benefits, for your Departments stands to gain and improve from the research.

I am,

Yours faithfully,

Ugwoke, J. N.

QUESTIONNAIRE

Some of the questions below have boxes attached to them. Please insert a tick ( ) only in the box beside your chosen alternative. For questions without boxes, please outline your answers in the spaces provided.

1. Sex (a) Male  (b) Female
2. Age (a) below 20 years  (b) 21 to 30   
(c) 31 to 40  (d) 41 to 50   
(e) 51 and above

3. Highest Education Qualification

- (a) First School Leaving Certificate
- (b) G.C.E. O/L/WASC or Equivalent
- (c) G.C.E. A/L or Equivalent
- (d) First Degree or Equivalent
- (e) Other Degrees (Please specify)

4. Working Experience with Local Government

- (a) 1 to 4 years  (b) 5 to 10 years
- (c) 11 to 20 years  (d) 21 to 30 years
- (e) Other

5. Do you think that there will be no limit to perpetration of fraud/misappropriation of the Local Government's funds and property if Internal Audit ceases to exist?

- (a) Agree  (b) Strongly agree
- (c) Disagree  (d) Strongly disagree

6. Do you agree that lack of working equipment affects the efficiency of the Internal Audit Unit in the Local Government System.

- (a) Agree  (b) Strongly agree
- (c) Disagree  (d) Strongly disagree

7. Do you agree that the Internal Audit Unit is the "mirrow" through which management of an organisation views activities going on in the entity?

- (a) Yes  (b) No  (c) No response

8. Lack of strict Implementation of Internal Audit Recommendations in the Local Government is due to insufficient independent authority of the Internal Audit Unit.

- (a) Agree  (b) Strongly agree  (c) Disagree
- (d) Strongly disagree

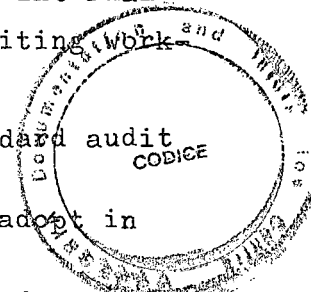


9. Do you think that a local government that is not continuously audited should witness very high fraudulent practices.
- (a) Agree  (b) Strongly agree   
 (c) Disagree  (d) Strongly disagree
10. For an organisation to achieve public Accountability and be administratively efficient and effective, which type of audit would you recommend.
- (a) External auditing (b) Internal auditing   
 (c) Both  (d) Not Sure
11. Do you think that lack of qualified manpower limits the effective and efficient operation of the Internal Audit Unit in Isi-Uzo Local Government
- (a) Agree  (b) Strongly agree   
 (c) Disagree  (d) Strongly disagree
12. For Internal Audit to live up to expectations it must run the following audit cycles consistently every year.
- (a) One cycle yearly  (b) Two cycles yearly   
 (c) Three cycles yearly  (d) Four cycles yearly
13. How often does the Internal Audit check the cost centres in a year?
- (a) Once yearly  (b) Twice yearly   
 (c) Thrice yearly  (d) Quarterly
14. Part of the Internal Audit Unit Weaknesses is caused by the following problems (Please tick one option as would best represent your opinion).
- (a) Lack of Adequate Incentives   
 (b) Negative influence of socialties/relations   
 (c) Non-recognition/Inclusion of the Internal Audit Unit in some of the policy-making committees   
 (d) Under-staffed situation   
 (e) Absence of rapport between Internal Audit Unit and other Departments  (f) None of the above  
 (14 a-e)  (g) Not sure

15. If management does not always implement the Auditor's recommendations, please suggest ways or means by which the implementation of auditor's recommendation can be improved \_\_\_\_\_
16. How many professional accountants are deployed in the Internal audit unit?  
 (a) One  (b) 2 to 5  (c) 6 to 10   
 (d) None  (e) Not sure
17. Do you think that the staff strength of the internal audit unit is adequate to cope with the auditing workload in the local government?  
 (a) Yes  (b) No  (c) Don't know
18. Do you think that absence of Departmental van limits the effective operation of the internal audit unit in Isi-Uzo local government?  
 (a) No  (b) Yes  (c) No responses
19. If your answer to No "18" is "Yes", how does this affect the efficient operation of internal audit?  
 (a) No adverse effect   
 (b) Adversely   
 (c) Don't know
20. Do you agree that Internal Audit Unit has sufficient independent authority to carry out her duties in the Local Government system. (a) Yes  (b) No   
 (c) No Response

APPENDIX BTYPICAL QUESTIONS DURING INTERVIEWS

1. Are you an Accounting Officer/Administrative Staff?
2. Are you an Executive Officer Accounts or an Accountant?
3. How long have you been in the Local Government Account's Department.
4. What types of Accounting Records does the Local Government keep?
5. Do you have an Internal Audit Unit in the Local Government?
6. How effective and efficient is the Internal Audit Unit in the Local Government?
7. How often is the Internal Audit staff exposed to courses, Seminars and Workshops?
8. Do you think that the staff strength of the Internal Audit Unit is adequate to cope with the auditing work load in the Local Government?
9. Does the Internal Audit operate with a standard audit programme?
10. What type of audit does the Internal Audit adopt in auditing of the Local Government's account?
11. Is there any specified rules, regulations and procedures guiding the operation of the Internal Audit Unit in the Local Government?
12. If there is none, what specific rules/regulations does the Internal Audit adopt in the conduct of her auditing functions in the Local Government.
13. What general principle should the internal auditor bear in mind while making his report?
14. Does the management always accept internal auditor's reports and act on them quickly?
15. How often is the report made in a year?
16. How quickly are the internal auditor's queries answered by the Isi-Uzo Local Government staffers?



17. Is the internal audit unit provided with convenient office accommodation?
18. What matters could prompt the local government internal auditor making a qualified report?
19. What are your recommendations toward the improvement of Internal Auditing in the Local Government.

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## ABSTRACT

An empirical investigation of the role of internal auditing in the local government financial management using Isi-Uzo Local Government of Enugu State as a case. One of the major research problem was finance. Relevant information was gathered from eighty experienced accounting officers not below the rank of Assistant Executive Officers in various departments through well structured questionnaire designed for them. Additional information was collected from chairman and his executives, Heads of department etc, through interviews, records, documents, textbooks on auditing, government Annual publications, Journals, etc, and personal observation of the activities of the internal audit unit. It was discovered among other things, that the internal audit unit lacked qualified staff and office working equipments, the internal control system especially internal check was bad, unofficial receipt booklets were used to collect revenue, the internal auditor was not a member of any policy making body or disciplinary committee of the local government and above all, inadequate working conditions for the staff of the audit.