



Auditing as an Effective Tool for Financial Control in the Public Sector: A Focus on Ika South LGA of Delta State

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ABSTRACT

The study was designed to examine auditing as an effective tool for financial control in Ika South LGA. Three research questions and two hypotheses guided the study. The population comprised 42 auditors in Ika South LGA. All the subjects in the population were used for study due to size of the population. Data was collected from respondents using structured questionnaire and hypotheses were tested using Pearson moment correlation. It was found out from the study that: Interference of council management to auditor work, council constitutions sets limits of auditors, restricted access to information needed to execute their work, insufficient fund to carry out their activities, incompetence of the head of audit unit negatively influenced auditor effectiveness in carrying their duties. Style of management leadership; support of the council management team; safeguarding auditors independence of their work; introducing external auditor when need be; and distribution of audit report to all stake holders where management roles are needed for auditors to function effectively. Gathering evidence to assess aspects of government performance beyond financial reporting; ensures programs, contracts and form of governance accomplishments; examines productivity, unit cost, or indicators such as utilization rates, backlogs, or service wait times being developed by contracts and programs awarded by the government; auditors ensures public institutions compliance with laws and regulations; provides expert advice to the councils management team were roles played auditors to ensure good governance in Ika South LGA. The researchers recommended that council management should support the activities of the auditors by providing them with organizational independence, adequate finance and required documents to effectively carry out their duty.

Keywords: Auditing, financial control, public sector, accountability and integrity

INTRODUCTION

Auditing is a cornerstone of good public sector governance as it provides unbiased objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, auditors help public sector organizations achieve accountability and integrity, improve operations, and instill confidence among stakeholders. Auditing in the public financial management system is essential in ensuring proper budgetary control. It reduces misappropriation of funds, enhances financial risk management, effectively and efficiently controls the use of limited resources, nips corruption and ensures value for money. In this regard, the role of auditing as means of financial control cannot be underestimated because it ensures good governance (Aguolu, 2009). Financial control refers to the effective control measures established by an organization with the aim of safeguarding their assets to ensure the reliability of financial records in compliance with relevant policies and procedure that will ensure the achievement of the local government authority (Amudo & Inanga, 2009). However, financial management in Nigeria local government system revealed that insufficient understanding of the role of internal audit in ensuring appropriate control in an environment where the accounting officer is formally

held accountable for his/her expenditure, combined with weak capacities amongst internal audit unit staff in the government sectors including the local government, undermine the effectiveness of the internal audit function in carrying out its roles. Mihret & Yismaw (2007) indicated that competence of auditors determines effective auditing in an organization. It contributes to the ability of the auditors to perform a systematic and disciplined audit.

Another significant problem facing auditing activities in the public sector like Local government is organizational independence. Organizational independence and objectivity do not allow the audit activity to conduct work, thereby interfering into the task of the auditor. The independence and objectivity of internal auditing is with respect to both assurance services and consulting for the organization. Independence and objectivity are closely related where the freedom from conditions that may threaten objectivity and no significant quality compromises are made while rendering the audit service (Institute of Internal Auditors [IIA], 1999). In fact, the audit activity should have sufficient independence from those it is required to audit so that it can both conduct its work without interference and be seen to be able to do so (IIA, 2011). Unfortunately, the management team most times is not committed to support the auditors in rendering appropriate financial control. This weakens the auditing process.

An internal control system has been found very significant to the Local government Area especially in the assurance of reliability of the financial report, however, despite the preponderance of literatures there are indications that disparity gap exist between audit practice and financial performance of Local governments (Kiabel, 2012). It is against this background the study seeks to assess the impact of auditing as an effective tool for financial control in the public sector, using Ika South LGA of Delta State as case study

Objectives of the study

The purpose of this study is to examine auditing as an effective tool for financial control in Ika South LGA of Delta state. Specifically, the study seeks to:

1. examine factors affecting effectiveness of auditors in Ika South LGA of Delta State;
2. determine management roles needed for auditors to function effectively; and
3. identify roles played by auditors to enhance effective governance in Ika South LGA

Research Questions

The following research questions guided the research work:

1. What are the factors affecting effectiveness of auditors in Ika South LGA of Delta State?
2. What management roles are needed for auditors to function effectively?
3. What roles are played by auditors to enhance effective governance in Ika South LGA?

Hypotheses

HO₁: There is no significant relationship between management roles and factors affecting auditors' effectiveness in Ika South LGA

HO₂: There is no statistically significant relationship between needed management roles and effective governance in Ika South LGA

METHODOLOGY

Agbor is the headquarters of Ika South LGA and is spread out on hills and a deep valley, the Orogodo valley. The research work adopted an expo-facto research design. The method is appropriate for the study since a questionnaire was used in the collection of data that already exist. As a rule, Nworgu (2006) opined that, in any study, where the questionnaire is the main instrument for data collection and respondents not manipulated, the most appropriate method for such a study is expo-facto.

The population of the study comprised of forty two (42) auditors in the Ika South LGA (Office of the Chairman, 2014). All the subjects in the population were used for the study due to its manageable size. Reliability of the instrument was established using the Cronbach Alpha and the split-half technique. Trial testing of the instrument was carried out in Oshimili South LGA using 10 internal auditors in the Local Government Council. A coefficient value of 0.797 was obtained.

Statistical tools such as mean and standard deviation were used for the questionnaire while hypotheses were analyzed using Pearson Product moment correlation at 0.05 level of significance. Items with mean weight of 2.5 and above were accepted while items with less mean weight were rejected.

RESULTS

Research Question 1

What are the factors affecting effectiveness of auditors in Ika South LGA of Delta State?

Table 1: Mean responses of respondents on factors affecting effectiveness of auditors in Ika South LGA of Delta State

S/N	Item Statements	Mean	S.D	Remark
1	Auditors conduct their work without interference by the council management	1.51	0.63	Disagreed
2	Auditor's activities, powers and duties are established by the public sector's constitution guiding the council	3.31	0.72	Agreed
3	Auditing are not provided with complete and unrestricted access to employees, property and other information needed to execute their work	3.56	0.74	Agreed
4	The audit activity lacks sufficient funding relative to the size of its audit responsibilities	2.51	0.78	Agreed
5	Head of the audit activity must be competent to oversee and manage an audit function	2.61	0.68	Agreed
6	Some audit staff have impartial attitudes and entertain conflict of interest	2.03	0.54	Disagreed
7	Audit activity needs a professional staff that collectively has the necessary qualifications and competence to conduct the full range of audits required by its mandate	3.45	0.67	Agreed

Source: Field Work, 2015

The result in Table 1 shows that the respondents agreed on most of the items on factors affecting effectiveness of auditors. However, items 1 and 6 were rejected because the mean values were below the cut-off point of 2.50. This implies that most of the identified items were factors affecting auditors in the study area from performing their duty effectively. The standard deviation of the items ranged from 0.54 to 0.78. This indicated that respondents were unanimous in their responses as they were not from each other.

Research Question 2

What management roles are needed for auditors to function effectively?

Table 2: Mean responses of respondents on management roles needed for auditors to function effectively

S/N	Item Statements	Mean	SD	Remark
1	Management style of leadership should influence the activities of auditors positively	3.02	1.74	Agreed
2	Success of auditors function depends on the strength of management's support for the auditing process	3.09	1.56	Agreed
3	Safeguarding auditor independence is particularly needed when the internal audit activity reports to officials who also may be held accountable for any significant problems	3.15	1.79	Agreed
4	There should be combination of external and internal audit activities - based on needs and circumstances	3.19	1.79	Agreed
5	Distribution of the audit reports should not be limited to management but to all stakeholders	3.15	1.77	Agreed

Source: Field Work, 2015

Table 2 shows that the respondents agreed that all the items are the management roles needed for auditors to function effectively. The statement items had a mean range of 3.02 to 3.19. All the mean items were above the cut-off point of 2.50. The standard deviation of the items ranged from 1.56 to 1.79. This indicated that respondents were unanimous in their responses as they were not from each other.

Research Question 3

What roles are played by auditors to enhance effective governance in Ika South LGA?

Table 3: Mean responses of respondents on roles are played by auditors to enhance effective governance

S/N	Item Statements	Mean	SD	Remark
1	Auditors assess the adequacy of corporate governance and the control environment	3.36	1.83	Agreed
2	Auditors systematically gather evidence to assess aspects of government performance beyond financial reporting	3.24	1.80	Agreed
3	Auditor ensures programs, contracts and form of governance accomplishments	3.02	1.74	Agreed
4	Examines productivity, unit cost, or indicators such as utilization rates, backlogs, or service wait times being developed by contracts and programs awarded by the government	2.92	1.71	Agreed
5	Examines the extent to which a public sector operation has minimized its use of inputs (e.g., money, staff resources, equipment, or facilities) consistent with the quality needs of the program	2.96	1.72	Agreed
6	Audits assess public institutions compliance with laws and regulations, contract requirements, grant requirements, and organizational policies and procedures	3.35	1.83	Agreed
7	Audits provides expert advice to the management team in a range of areas in which they possess expertise	3.37	1.84	Agreed

Source: Field work, 2015

The statement items on Table 3 had a mean range of 3.02 to 3.19. The mean items were above the cut-off point of 2.50. This implies that respondents agreed that the identified items are roles played by auditors to enhance effective governance in Ika South LGA. The standard deviation of the items ranged from 1.71 to 1.84. This indicated that respondents were unanimous in their responses as they were not from each other.

Hypotheses

Hypothesis 1

HO₁: There is no relationship between management roles and factors affecting auditors’ effectiveness in Ika LGA

Table 4: Pearson’s product moment analysis on the mean responses of respondents on relationship between management roles needed for auditors to function effectively and factors affecting auditors’ effectiveness

Variables	Σx^2	Σy^2	Σxy	R	P-value	Remark
Management Roles (x)	104.93	107.77	105.05	0.83	0.49	Rejected
Auditor’s Effectiveness (y)						

Source: Field work, 2015

Table 4 presents Pearson’s product moment analysis on relationship between management roles needed and factors affecting auditors effectiveness for auditors to function effectively. The result showed that the R-value is greater than the critical value of P at 0.05 level of significance. This indicates that there is relationship between management role needed for auditors to function effectively and factors affecting auditors’ effectiveness. Therefore, the null hypothesis is rejected. The result also showed that there was positive relationship between the variables considered.

HO₂: There is no statistically significant relationship between needed management roles and effective governance in Ika South LGA

Table 5: Pearson’s product moment analysis on the mean responses of respondents on relationship between management roles and effective governance in Ika South LGA

Variables	Σx^2	Σy^2	Σxy	R	P-value	Remark
Management Roles (x)	104.93	91.57	84.05	0.21	0.49	Accepted
Effective governance (y)						

Source: Field work, 2015

Table 5 presented Pearson’s product moment analysis on relationship between management roles needed and effective financial control of governance. The result showed that the R-value is lesser than the critical value of P at 0.05 level of significance. This indicates that there is no relationship between management role needed for auditors to function effectively and effective financial control of governance. Therefore, the null hypothesis is accepted. The result also showed that there was positive relationship between the variables considered.

DISCUSSION

Factors affecting effectiveness of auditors

The findings in Table 3 showed that factors negatively affecting effectiveness of auditors in the Ika South LGA include: interception of council management to auditor work, council constitutions sets limits of auditors, auditors are restricted access to information needed to execute their work, insufficient fund to carry out their activities, incompetence of the head of audit unit. In relation to the findings, Mihret & Yismaw (2007) concluded in their study that Internal Auditor’s office constantly face the problem of low technical staff proficiency, which would limit it capacity to provide effective service to management. Independence and objectivity are closely related where the freedom from conditions that may threaten objectivity and no significant quality compromises are made during rendering the audit service (Institute of Internal Auditors, (IIA), 1999). In fact, the audit activity usually suffers from interference from management staff which negatively affects the way audit conduct its work (IIA, 2001). This is very crucial element in conducting audit because the auditors can’t access documents relating to the audit work and conducts the auditing with favour and fear.

Management roles needed for auditors to function effectively

The findings in Table 4 showed that management roles needed for auditors to function effectively in Ika south LGA depends on the style of management leadership; support of the council management team; safeguarding auditors independence of their work; introducing external auditor when need be; and distribution of audit report to all stake holders. According to Ahmi and Shahdan (2010), they stated that the effectiveness of the auditors function in State and Local Government appears to be directly related to the management style of organization heads and their links, relationships and position in the social contract. Some auditors function appears to be doing well, the determining factors appear to be the attitude and leadership qualities of the head of an organization (Ahmi and Shahdan, 2010). Auditors evaluate internal controls as part of their audit planning process, but they are not responsible for the design and effectiveness of your controls. As the title of this guide suggests, management (including the

governing board) is responsible for making sure that the right controls are in place, and that they are performing as intended.

Roles are played by auditors to enhance effective governance

The result in Table 3 showed that auditors play the following role to enhance effective governance in Ika South LGA. They include: gathering evidence to assess aspects of government performance beyond financial reporting; ensures programs, contracts and form of governance accomplishments; examines productivity, unit cost, or indicators such as utilization rates, backlogs, or service wait times being developed by contracts and programs awarded by the government; auditors ensures public institutions compliance with laws and regulations; provides expert advice to the councils management team. Auditing ensures that any public expenditure management system and should ensure that public spending is within budgetary provisions; disbursements comply with specified procedures, provides for the timely reconciliation of accounts and effective systems for managing and accounting for physical and financial assets (Commonwealth Secretariat, 2005). Internal audit activity has become an essential internal assurance mechanism in public financial controls and tool for monitoring and evaluating managerial activities prior to external evaluation by external auditors. In correspondence to the findings, Austin (2012) opined that auditors may provide objective, expert advice in a range of areas in which they possess expertise. Based on their knowledge and expertise, they may provide technical advice on issues related to good governance, accountability, ethical practices, and anticorruption programs; effective risk assessment and management; internal controls; sound business processes; information technology systems development and operations; project management; program evaluation; and other areas affecting the effectiveness, efficiency, and economy of operations. In addition, auditors may provide services (e.g., control and risk assessment workshops) and training in areas such as fraud awareness, performance measurement, and control design. They also may provide advice on implementing audit recommendations.

Hypotheses

The result in Table 5 indicated that there is relationship between management roles needed for auditors to function effectively and factors affecting auditors' effectiveness. This implies that management role can help to correct or improve factors negatively affecting auditors from effectively doing their job. In correspondence to the finding, Zulkifli, Alagan, and Mohd (2014) indicated in their result using Pearson Correlation statistic to show that there are significant positive correlation between management support and effectiveness of auditors in the public institutions.

The result in Table 6 indicated that there is relationship between management role needed for auditors to function effectively and effective financial control of governance. The result also showed that there was positive relationship between the variables considered. Good governance principles require that auditors or oversight bodies, work closely with management in an organization to improve fraud risk evaluation and investigations. In addition, Patience (2011) stated that management has the responsibility to put in place systems and processes that will prevent and detect fraud within an organisation. However, it is internal audit that gathers sufficient objective information for management to carry out its stewardship function and to be well informed on the risks of fraud and effectiveness of fraud control procedures and to enable them to understand the complexities of fraudulent activities.

CONCLUSION

The findings of the study showed auditing is key to good public governance, it is crucial that it control financial resources for the right amount of time with an appropriately broad mandate to achieve the Local Government objectives. However, there is need for the support of the management team in the LGA to allow auditors function as an independent body so as to ensure that people of Ika south LGA reap the dividends of governance.

RECOMMENDATION

1. The council management should support the activities of the auditors by providing them with organizational independence, adequate finance and required documents to effectively carry out their duty

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