

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Internal audit is a management tool used in ensuring transparency in conduct of business. Auditing took the entire stage after the industrial revolution since before this period, transactions increased, precipitated by the development of large corporations, limited liability companies, there became the need for divorce of ownership from control. Hence managers and shareholders became two different partners. Then it became apparent for managers to render accounts of their stewardship to those who has pooled their resources together for the business .it is noteworthy that an independent person be appointed to represent the interest of the shareholders in reviewing the report of managers to ensure accuracy and transparency. This is how auditing started.

We have two types of sectors. Public and Private sectors. Public sector is the governments initiate and control in economic activities with the aim of rendering services at a breakeven point.

The private sector is the private initiative aimed at profit/wealth maximization for the owners Mill champ (1996) defines internal audit

as an independent appraisal function within an organization for the review of system of control and the quality of review of systems of control and the quality of performance as a service to the organization.

The papers seek to empirical and statistically ascertain the impact of the internal audit in the private sector of the Nigerian economy, while the private sector of the economy is studied at large; the case study MB ANAMCO Ltd, Emene, Enugu is particularized.

1.2. Statement of the Problem

The private sector according to Anyanwu (1993; 25) is that part of the economy not under direct government control. It entails production and distribution that is in private hands. It serves as a complement to the public sector since increased public sector efficiency results from improvements and places government in a better position to focus on the objectives, conduct and performance of those enterprises that remain in the public sector (Hamming and Mansoor 1987).

Despite this enormous role, the sector has been beclouded with problems such as:

- (i) Financial impropriety

- (ii) Lack of auditing control
- (iii) Lack of independence of the internal control
- (iv) Incomplete recording of business transactions
- (v) Over blow expenses to reckless spending
- (vi) Non compliance and adherence to accounting standard and guide lines.
- (vii) Mismanagement of scarce funds

1.3 Statement of Objectives

The broad objective of the study is:

1. To determine if internal audit ascertain the correctness of financial records.
2. To determine the extent to which internal audit helps in enforcing compliance to rules and regulations regulating private sector accounting and auditing.
3. To find out if internal audit inspect and verifies organizational assets and liabilities.
4. To know the factors hammering pa ring audit procedures in the private sector

1.4 Research Hypothesis

To address the above mentioned problems the following hypothesis are formulated.

- (i) Ho: internal audit has not significantly affected Private sector performance.
- (ii) Ho: There is no relationship between achieving corporate objective and efficient internal auditing in the private sector.
- (iii) Ho: Inefficient internal audit and internal control has hampered audit reports.

1.5. Significance of the Study

- (i) The study will be of immense benefit to the shareholders who have contributed the funds for the business and needs a reward in form of dividends.
- ii) This can be achieved if ineffectiveness and corrupt practices such as fraud, loss of revenue, sharp practices, and lack of transparency etc .associated with the private sector are minimized or even eradicated.
- iii) Since a virile private sector is noted for the economy will be of great benefit from the findings of the study

- iv) Equally, future researches on auditing will find the study interesting in their research.

1.6. Scope of the Study

As the study is centered on the effect of the internal audit in M.B ANAMCO LTD, Emene Enugu State, the research covers all department under the firm in order to ascertain whether auditing has an effect in the private firm and if not what is the cause.

1.7 Limitation of the Study

The researcher in the course of carrying out the research was faced with the following problems and constraints.

- (a) **Time factor:** Time shortage posed serious challenges, since it was indeed very short considering the enormity of the research work.
- (b) Lack of information and data due to unavailability of materials and other vital information. Libraries are either out of stock or scanty in their content of relevant materials.
- (c) Financial problem was also a deterrent in carrying out the research since the available fund was not enough to sustain the vast research proposals, it was also a challenge in that regard.

1.8 Definition of Term:

(A) Audit:

Audit can be define as the independent examination of a financial statement and expression of opinion on the financial statement of enterprise by an appointed auditor in pursuance of that appointed and in compliance with any relevant statutory obligation.

(B) Auditor:

Auditor is a qualified accountant who also passed a professional examination. Such a person must be of good conduct and have a vast knowledge and able to understand a practical business, endeavor always to grasp the technicalities and business, methods of any concern whose account he undertakes to audit.

(C) Internal Auditing

According to Bright (1964) "Internal auditing has to do with the independent examination of the books of account so as to ascertain whether the books of accounts are in agreement with the organization transaction.

(D) Private sector:

Private sector includes the part of the economy that is fully controlled and managed and financed by private individuals.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Concept of Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risks management, control, and governance processes.

Internal auditing is a catalyst for improving an organization's governance, risk management and management controls providing insight and recommendations based on analyses and assessments of data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Professionals called international auditors are employed by organizations to perform the internal auditing activity.

The world private firm or sector and audit had undergone frequent usage in the country that for this research by deserve special mention and explanation.

However private firm includes the part of the economy that is fully controlled, managed financed by individuals. Therefore fairness and truth of that account will have to be confirmed by a third party after an impartial examination, this act of examining and confirming is known as audit.

Therefore, this chapter is expected to make an extensive and critical review of related literatures. Thus the promotion of expected standards from adequate reviews, critical analysis and evaluation of several tests in areas that will be helped and instrumental to achieving the objectives of this research work will be ensured.

2.2. Meaning of Audit

According to Eze (2005) one of the simplest ways of economizing efforts in an inquiring is to review one build upon the work already done by other.

Santoki (1974) stated that an audit may be define or describe as an examination and evaluation of the authenticity, and therefore the reliability of the firm's business documents and records, and it also involves in making inquires to ascertain that the financial statements on which the auditor is reporting and which have been prepared from

their records display a true and fair view of the financial results for the year under review and true and fair view of the affairs at the end.

Taylor (1982) stated that an audit is an investigation by an auditor into the evidence from which the final revenue accounts and balance sheet, or other statements of an organizations have been prepared, in order to ascertain that they present a little and fair view of the summarized transactions for the period under review and of the financial statement of the organizations at the end date so to enable the auditor to report thereon.

Okolo (1987), expressed that an auditor could be a conscientious and objective examination of an inquiry into, any statement of account relatively to money or money worth, the underlying documents and the physical assets where possible, as will enable the auditor to form an opinion as to know whether or not the statement of account present shows a true and fair view of whatever it purport to presents, and to report accordingly.

Nwabueze (1997) stated that audit is an exercise which is carried out in order to lend credence to statements prepared by directors of the company (who are not the owners) for the use by the owners of

business shareholders, creditors, the employees, the government etc) whereby the auditors express his opinion as to the true and fair nature of the transactions he examined while carrying out the audit.

The institution of internal Auditors (IIA) defines an audit as an independent of examination by a statutory appointed person called the auditor to investigate an organization, its records and the financial statements prepared for them and thereby form an opinion on the accuracy and correctness of the financial statement.

2.3. Origin and Historical of Auditing

Eze (2005) stated that the term audit was derived from the Latin verb “audire” which means “to hear”. The origin of audit could be traced to the ancient times in Britain when Landowners allowed tenant farmers to farm on their land.

The Landowners never associated themselves with the land cultivation nor in the supervision of these tenant farmers, cultivation of the land done by these tenant farmers while the supervision of the tenant farmers was done by the overseer’s appointment by the landowners. The tenants were to render accounts of their tenancy to the appointed overseers who listened to the accounts. The overseers in return rendered final accounts to the Landowners.

The above mentioned scenario can be likened to the present trend where various organizations, such as charitable organizations, social clubs, student union bodies, transport unions, trade unions, profit and non -profit oriented organizations etc, make provisions in their constitution, deeds etc the elution of union officials who collect and disburse the organizations money and funds such constitution provide for audit of the accounts of the organization. In the recent time, most large firm (where ownership is divorce from management) are managed by board of directors (elected from the shares holders)

The bare for huge and large corporation, firms, establishments and organizations, could be traceable to the past industrial Revolution era. During the period of profit maximization objectives, it was characterized by exploitation, Intimidation of the cultures for the selfish gain of the sole proprietorship. At the dawn of the industrial revolution, the profit optimization objectives of contributors of capital and the owners of the business are distinct from managers of the business. The need arises for the managers to give account of their stewardship to the contribution of capital.

2.4. Audit and Auditing

Although the two words are always used interchangeably, arguably they differ. Nwabueze (1997) sees audit as an exercise which is carried out in order to lend evidence to statement prepared by directors of the company (who are not actually the contributors of the capital) for the use by the owners of the organization (shareholders), creditors, employee's government etc. Whereby

The auditor express his opinion as to the true and fair view of the transactions he examined which carry out the audit.

Auditing on the other hand can be seen as the totally of efforts, procedures and process involved the conduct of audit.

2.5. Types of Auditing

It will be recalled that the following types of auditing exist

- 1 Internal Audit: This is an audit carried out by specially assigned staff of an enterprise known as internal audit and appointed by the management.
- 2 External Audit: This is an audit carried out by an independent person who is not an employee of the enterprise.

- 3 Statutory Audit: Audit which are compulsorily required by the law and mandatory for those enterprises(companies and Allied Matters Act CAMA(1990)
- 4 Private Audit: Audit carried out the request of the owner of the business and not required by law.
- 5 Management Audit: This is an audit that involves a review of management policies and procedure in order to evaluate their effectiveness and efficiency.

2.6. Audit and Internal control in the Organization

Every organization has the need to establish internal audit for the purpose of internal control. Internal control is the whole system, finance or otherwise established by the organization in an orderly manner, ensure adherence to the existing role, and safeguard the assets of the organization in order to accomplish a task.

PRINCIPLES OF AUDITING

Auditing is a practical course. It is something that people do. Attempts have been made at various times to develop theories of auditing with, however, little range of underlying principles.

The Auditing practice Board (APB) in the Audit Agenda identified eight principles of auditing.

1 **Integrity:** An auditor is expected to be a person of proven integrity.

This is in view of the expectation that if he fails to behave with integrity i.e. honesty, adherence to moral principles and is seen to behave the way round then the auditing report will tend to be biased any may be ignored by the public and hitherto the entire audit process would have no value.

Independence: if auditors are not independent of the entity being audited, their reports will not be believed. It is necessary that auditors must be objective, give their opinions without fear or favor and be unaffected by conflict of interest or presume from any source.

2 **Accountability:** Auditors should act in the best interest of shareholders of the organization and have regard to the public interest.

3 **Competence:** If auditors are not competent, then the entire audit process makes no meaning.

- 4 **Judgment:** There is need for auditors to apply sound ethical, professional and unbiased judgment in specific area where judgment is required.
- 5 **Communication:** Auditors should disclose all matters necessary to make their opinion understandable as well as making disclosure to the appropriate authorities of the matters they should disclose in the public interest.
- 6 **Rigor:** This implies that auditors should apply strictness in conducting their work and informing their opinion. Auditors should apply a sense of professionalism to their work. They should assess the risks and dangers involved and should obtain sufficient and reliable evidence on all matters from a range of source.
- 7 **Providing Value:** Auditing should usually be conducted with a minimum resources input and with a maximum of utility to the public.

2.7. Internal Audit

The institute of internal auditors defines internal audit as “an independent appraisal activity within the organization for the review of operational as a service to management “it is a management control activity which functions, by measuring and evaluating the

effectiveness of other controls. The institute of chartered Accounts of England and Wales (ICE \$ W) defines internal audit as a review of operations and records by specially assigned staff”.

The inestimable value and importance of internal audit to the organization cannot be overemphasized.

It is a tool for ensuring effective working of internal control systems. Okezie (2004) see internal audit as independent appraisal function within an organization for the review of system of controls and the quality of performance as a service to the organization. Internal control objectivity examines, evaluates and reports on the adequacy of internal controls as the contribution to the payer, economic efficient and effective use and utilized of resource.

Fredrick Gallegos et al (1981) opined that internal audit is “an independent appraisal activity within an organization of the review of accounting and other operations for a basis for service to management.

The basic objective of internal audit is to ensure that internal control systems operating is an organization or state in a healthy one.

Adeniyi (2004) observed that the scope and objective of internal audit as “varying widely”

However, internal audit operates in one more of the following broad areas.

Reviewer of the accounting and internal control systems: Often internal audit is assigned specific responsibility for recovering the designs of the system monitoring their operation and recommending improvements. None existence of appropriate and effective internal control or machinery can be attributed to one of the private firm like MB Anamco Ltd in Emene Enugu State when internal audit is reduced to a mere checking approval limit in the firm, it becomes difficult for the expected goals and objectives to be realized.

Some setbacks in the actual performance of internal audit function in functioning in the firm are attributed to the level of skill of audit staff. The firm employed so many mediocre who are not equipped with recent audit techniques and developments. An accounting qualification is not necessarily required by one to be a successful internal auditor. This is because the range of function performed by any internal auditor is multidisciplinary. Also the independence status which is an essential ingredient for auditing is found lacking in the independence; its consistence is theoretical rather than practical.

THE OBJECTIVE AND SCOPE OF INTERNAL AUDIT

The objective of any organization whether public or private enterprise is to provide an adequate means of safeguarding its assets for effective development of the economy. These objectives includes

- (1) To ensure that the any weakness observed which the management could not correct before publication of audit report is adequately and clearly highlighted.
- (2) To give credibility statement of accounts prepared by those who manage operations for others to enable the various users to rely on them for decision in respect of the result or state of the enterprise reported upon.
- (3) Conducting special investigation another task as may be assigned by management.
- (4) To act as training officer in internal control matters
- (5) To make a share of the external auditors responsibility in relation to the figures in the annual accounts.
- (6) To ensure that reporting entity complies with minimum accepted audit standard.

- (7) To ensure that managers of resources conform to specific procedures as stated in the guidelines setting up the organization reported upon.

SCOPE OF INTERNAL AUDIT

The scope of internal audit varies widely. Normally however, internal audit operates in one or more of the following board areas.

1 Review of the accounting and internal controls systems

Management is responsible for the establishment of adequate accounting and internal control system. Often internal audit is assigned specific responsibility for reviewing the design of the systems, monitoring their operation and recommending improvements.

2 Examination of financial and operating information: This may include review of the means used to identify measure, classify and report information and specific enquires into individuals into including details testing of transaction, balances and procedures.

3 Review of economy, efficiency and effectiveness: This review may include the non-financial controls of an organization.

4 Review of compliance: This review may cover compliance with laws, regulations and other external requirements and with internal

policies and directives and other requirements including appropriate authorization of transactions.

5 Special investigation: Where one example is suspected fraud.

Development of internal Audit

Eze (2005) the development of internal audit is due to the expansion in the size of many corporate entities. In a limited liability company (small business) consisting of an owners will be able to keep in close touch with all activities. As the size of the business increases, this task would become more and more difficult. In the relatively small organization, the senior manager can personally supervise the day to day running of the business, so as to ensure full compliance with management guideline.

2.8. The Purpose of Internal Audit

The main purpose of internal auditing is to assist management in achieving the most effective administration of the operations of the business.

L.G Campbel (1990: 88) identified three reasons why internal audit is required

The Reasons are;

1 The Lending of credibility: That is to detect errors, fraud and disclose hidden information.

1 Accountability: The directors are the agents of the shareholders. Therefore, their performance needed to be evaluated.

2 To solve conflicts of interest: To accomplish the above purpose, the internal audit department must perform certain roles, which must be in line with the requirement of the corporate entity or organizational internal control system.

The Problems of internal Audit

Eze (2005:35) stated that apart from the various benefits internal audit functions brings to organization, a lot of hindrances includes that the following factors.

1. **Staffing:** The staffing of the department is poor. Some of the staff does not have any basic knowledge in book keeping and accounting. In most cases, they are not usually trained. Their performances cannot actually be satisfactory.

1 **Funding:** Internal audit department is poorly funded by non-auditing officers who are in a position of authority.

2 **Recognition:** Appropriate recognition is not given to the internal audit department .The status of the Head of the department is

always lower and therefore inferior to the status of the department. Head of other department regard the Head of the internal audit department as subordinate officers in power, authority and responsibility.

- 3 Internal auditor reports are often disregarded and no actions are taken on them whatever. All the four enumerated in habiting actors have given adverse influences and effects on the operations and performances of internal Audit functions.

Merit of Internal Auditing

Onovo (2011:110) Stated some merits that are derived from internal auditing apart from the problems encounter from it (Internal auditing) some of the merit include.

- 1 Internal auditing provides moral influence to promote efficiency.
2. Internal auditing assists management in dealing promptly with some issues which would have created problem if left to linger until they come to the attention of owners.
3. Internal auditing makes errors to be corrected easily while the events are still fresh in the mind
4. With internal auditing, fraud can be detected at an early stage and may prevent the occurrences of fundamental errors or mistakes.

Demerit of Internal Auditing

As it is generally accepted that everything that has advantage must have disadvantage, it is for this reason that general auditing possesses these demerits.

Internal auditors independent, according to Onovo may be impaired since as an employee, he may not be free to report objectively.

In most cases his opinion does not go beyond management level.

Characteristics of Internal Auditing

From the definition of internal audit, we can deduce that a good internal audit function has the following characteristics.

- (a) Independence
 - (b) Staffing and Training
 - (c) Due care
 - (d) One case
 - (e) Relationship
 - (f) Audit planning stages
 - (g) Evaluation of the Internal control system
 - (h) Evidence
 - (i) Reporting and Follow up
- (a) Independence:

The following conditions can assist the status of an internal auditor

- He should be free to arrange and pursue his duties by himself
- He should not have any restrictions to the records of the enterprise.
- He should be free to report to a high level of management than his immediate superior.
- He should be objective
- He should have no conflicting interest within the enterprise and no restriction upon the extent of his work by management
- He should be consulted on new or revised systems
- He should not hold non-auditing functions.

(b) Staffing and Training:

The internal audit unit should be staffed by qualified, trained, efficient, effective and experienced workers and who should be too busy to look into every part of the auditing function. Training should be a planned and continuing process at all levels.

(c) Due Care:

An internal auditor must at all times exercise care, skill and judgment. He should be knowledgeable in terms of the enterprise he works for,

his environment and the technicalities of his offices, He should be honest and of high integrity. He should be professionally qualified.

(d) Relationship:

Internal Auditors should have a good working relationship, maintain mutual understanding with management, external auditors, review agencies etc.

(e) Audit planning stages:

The internal auditor must be able to approach his duties as follows.

- Identification of organizational goals
- Following up relevant changes in status rules and procedures.
- Definition of internal audit objectives
- Identification and valuation of risks to which organization is exposed
- Following up strengths and major weakness in internal controls of the organization
- Identification of major audit areas.
- Following up external and plans and other review panels.

(f) Evaluation of internal Control system:

The internal auditor's uses the same approach as external auditors to verify the system and this involves:

- Investigation

- Recording
- Identification of controls and
- Compliance test of controls.

(f) Evidence

In the same way as the external auditor, the internal auditor will evaluate audit evidence to ensure sufficiency, relevance and reliability.

(g) Reporting

The internal auditor must produce timely ,accurate and complete reports to management as regularly as laid down.

The importance of internal Audit Department in an Organization

From the foregoing characteristics of good internal auditing, the researcher were able to observe that any unit of an organization that has the elements mentioned above is of paramount importance to the organization.

The world wide body: the institute of internal Auditors stated some of the importance of internal audit departments as follows.

- Internal Auditor provide management with necessary information of great value to decision making in respect of the operation of his business .External auditors and review panel often rely on the

internal auditors in verifications of records and resources of the clients organization.

- Internal auditor often cover a wide variety of assignments , which will not necessarily related to the accounting areas in which the external auditor is called upon to cover.
- Internal auditor ensures that his concept of self control and accountability of officers in the organization is maintained.

Distinction between the Internal Auditors and External Auditors (Statutory Auditors)

The researcher found it very necessary to drawn the various distinctions between internal auditor and External auditors. He observe that the areas here these differences occur are

- Scope
- Approach
- Responsibility
- Objectives
- Legal basis

The following diagram explains the topic better

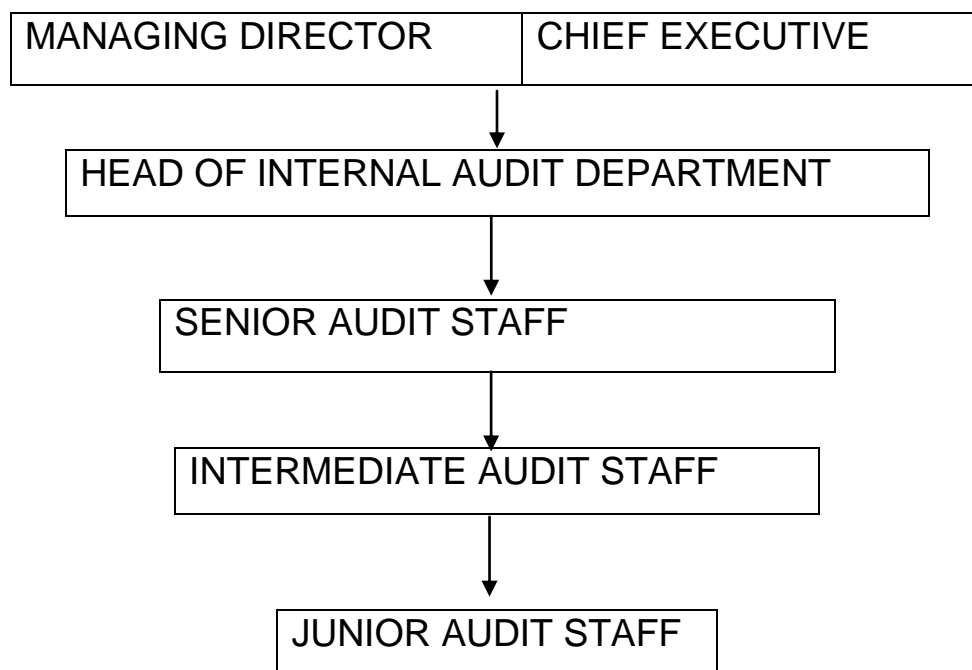
Areas	Internal Auditor	External Auditor
Scope	All areas of the organization, operational as well as financial	Financial focus
Approach	Appraisal of internal control system and management information system to ensure compliance with management plans.	Forming of an opinion about and reporting on the truthfulness and fairness of accounts as presented by the directors.
Responsibility	To advise and make recommendations on internal and corporate governance	To form an opinion on whether financial statement provide a true and fair view.
Objectives	To advice management on whether the organization has sound systems of internal controls to protect the organization against loss	To provide an opinion on whether the financial statement provides the true and fair view.

2.9. Internal Audit

M.B ANAMCO LIMITED EMENE, ENUGU STATE

Organization chart of internal audit department

The following organization chart is drawn by the researcher from M.B ANAMCO LIMITED INTERNAL AUDIT DEPARTMENT.



From the above chart, the researcher observed that the head of internal audit department reports to the highest level of management. Head of internal audit department receives instructions from chief Executive whom he makes regular contact with and passes down these instructions to his supervisor who will make draft plans of work to achieve audit objectives. The plan of work approve by the head of

internal audit is passed to junior auditors under supervision to senior for proper implementation supervisors senior audit staff will monitor and report to the head of internal Audit department on the problems.

2.10. The Private Sector

The private sector includes the part of the economy that is fully controlled, managed and financed by private individuals etc. it is not under any direct control of government although government can influence and regulate it through laws, legislations etc.

Succinctly put, the private sector is that part of the economy who activities are under the control and directors of non-governmental economic units such as households and firms.

Role of the private sector on the Economy

The private sector leads to improved efficiency of enterprises by limiting the scope for political inference by making managers more responsible to shareholders and by imposing the financial discipline of capital market improvement in allocation efficiently. The locative efficiency involves the manner in which limited resources are distributed among commodities produced goods are distributed among all in the society.

There is also greater access to private sector financing especially through sale of shares or raising debenture or bonds. Also private sector owners may bring access to new market hither to unexplored in view of the above, the private sector is saddled with enormous responsibility as the mover of the economy. So for economic growth and development, the privates sector must be vibrant, effective, result oriented. One of the ways to ensure such is a transparent, effective internal control, which can be achieved through internal audit.

2.11. Internal Auditing and Private Sector Performance

The internal audit ensures that the internal control systems are adhered to and strictly carried out. The aim and objective of the private sector is profitability. If the merits and rationale for internal audit are harness performance and in the private sector be stimulate and enhanced, hence improvement in profitability.

If this is the case, the economy will benefit and hence the stimulation in economic development and growth.

2.12. The Effect of Internal Audits

In responses to the accounting scandals that occur in 2001, congress passed the Sarbanes – Oxley Act of 2002 (SOX) to help instill

confidence in the financial statement of both public and private trade companies. It required management to disclose significant deficiencies in the internal controls when they certify quarterly or annual financial statements. The Act also requires all privately firms to assert as the effectiveness of internal controls around the financial reporting process and requires a private accounting firm to express an opinion on the effectiveness of internal control over financial reporting.

These standards include the process that companies and accounting firms are required to follow to determine the effectiveness of firm's controls.

Securities Exchange Commission (SEC) Release, No .33-8124 (August 29, 2009) required management to disclose significant deficiencies in internal control, when the certify quarterly or annual financial statements. The Act required all private firms to assert as to the effectiveness of the internal control around their financial reporting process and to have a private accounting firms express an opinion on the appropriateness of management's assertion.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

In this chapter, the researcher stated the methods which he adopted in carrying out the research work. The methodology encapsulates such as research design, population of the sample size and sampling techniques ,instrumental for data collection, testing techniques, inferences and conclusion .The content of this chapter will not be only make it simpler for the reader to understand the analysis done in this study, but will clarify the procedure adopted.

3.2. Research Design

The research design for this study provides for the collection, measurement and analysis of data related to the projected questions. The research design used for the collection of data was the survey design which entails the construction, distribution and collection of questionnaires data forms as well as the examination and analysis of related literature.

3.3. Sources of Data

For the purpose of this study, the researcher used two basic sources of data, primary data and secondary sources of data

PRIMARY DATA

Questionnaires and personal interviews were adopted in the collection of data .The questionnaires were administered personally to the concerned staff that falls within the survey range .some key personnel such as internal auditor .Head of Accounts Department etc where interviewed and further information was gathered .Observation was made on the actual principles, practice of auditing. Audited books and procedures were personally scrutinized for the information purposes of the research. Telephone call were made whenever it was expedient

SECONDARY DATA

Secondary data are data obtained from magazines, nation's dailies, Journal, Published and unpublished work and statistical records. These sources for the written materials include University of Nigeria Enugu campus Libraries, the Enugu State University National Library and Caritas University Library Enugu State.

3.4. Area of Study

The area of study for this research work is the M. B ANAMCO manufacturing company Plc located at Emene Enugu.

3.5. Population of the Study

The population of this study includes 40 staff of the internal audit department of the MB ANAMCO LTD Emene Enugu. Staff belongs to various cadres, management, middle and other cadres. But the sample will only comprise of 3 ACA holder, 8 B. Sc holder, 7 HND holders 9 OND holders, 13 GCE holder. Which brings them to total the number of forty (40)

3.6. Sample Size

This research project will be sampled to ANAMBRA MOTOR MANUFACTURING COMPANY and the internal audit selected. The sample size was determined by choosing the staff of the internal Audit, Accounts Department of MB ANAMCO LTD Emene Enugu whose position falls within the management, middle and other cadres. A total of 40 staff were in determining the sample size of a given population above (40), the formula below will be used.

Using Taro Yamani Formula to get sample size.

$$n = \frac{N}{1 + N(e)^2}$$

When; n = is the sample size

e = error of margin

N = Population

I =Constant

Therefore, the sample size becomes;

$$n = \frac{40}{1 + 40 (0.05)^2}$$

$$\frac{40}{1+40 (0.0025)}$$

$$\frac{40}{1.1} = 36$$

In line with the above computation, a total of nineteen (36) copies of questionnaires measuring the options of the work of the ANAMBRA MOTOR MANUFACTURING COMPANY Ltd were distributed.

The Bowely stratified sampling techniques is used in distributing the questionnaire.

$$NX = \frac{n(Nr)}{N}$$

Where N=population

n =sample size

Nr =population in each department

In line with this research work, n =36, N=40

Nr =population in each department

Numbers and Percentage of questionnaire distributed.

Department	Number Distributed	Number Returned	%
Internal Auditor (Executive)	15	12	37.5
Internal Auditor (Account cadre)	15	15	37.5
Audit Department Headquarters	10	9	25
TOTAL	40	36	100

3.7. Reliability of Test

This is a test or measure of the extent to which a research instrument will yield the same result under the same conditions that is the consistency of the work.

For reliability of the instrument a pilot survey was carried out to test the questionnaire that was distributed on a similar sample from the criteria for the selection of subject met by the subject.

3.8. Validity of Test

According to Anyanwu (2000), validity refers to the degree to which a measuring instrument measures what is designed to measure.

The face validity was carried out by giving questionnaires to supervisor who went through the questions drafted and made appropriate suggestions and corrections that helped meet the validity and this brought the items on the questionnaire to 36 of the initial 40 that was drafted.

The content validity was also carried out by my supervisor, lectures and experts in the field to ensure that the research work was in line with what is actually taking about and this was done by going through the written work before completion and was valid.

3.9. General Description of Data Analysis Techniques

In analysis data for this research, chi-square method will be used and the decision rule comes immediately after it.

CHAPTER FOUR

DATA PRESENTATIONS AND ANALYSIS

The purpose of analysis of data is to dig out information useful in decision making. Data appear in a variety of forms and the measured. (Enns 2005:166).

This chapter focuses on the analysis of general characteristics of respondents, analysis of responses and empirical test of the two hypotheses using the chi- square techniques. It is conducted by stating the decision rule.

4.1. Analysis General Characteristics of Respondent

Table 4.1 Questionnaire Distribution and Response

Department	Number Distributed	Number Returned	Number not Returned	%
Internal auditor (Executive Cadre)	15	12	1	33.4
Internal Auditor (Account Cadre)	15	15	2	41
Audit Department Headquarters	10	9	1	25
Total	40	36	4	100

Sources: Researcher's Field survey 2013

The table 4.1 shows that out of 40 questionnaires distributed of which 35 out of 40 questionnaire were completed and returned and this representing 100, of the total questionnaires administered.

However 5 were not returned and this represents 12.5 % administered.

QUESTION 1

WHAT CATEROY OF STAFF ARE YOU?

Table 4.2

Category	Number	%	Computation
ACA	3	7.5	$3/40 \times 100$
B.SC	8	20	$8 /40 \times 100$
HND	7	17.5	$7 / 40 \times 100$
OND	9	22.5	$9/40 \times 100$
GCE	13	32.5	$13/40 \times 100$
Total	40	100	

Table 2 above shows that out of forty respondents, only 3 holds a professional qualification in accounting given 7.5%, 20% holds B.SC,17.5% holds HND, the holder of OND and GCE were 22.5 % and 32.5% respectively from the above table. It can be concluded

that there is few qualified professional personnel in the Audit department s of the private sector. This can be attributed to poor remuneration in private nongovernmental services as better alternatives exist in industries and public firms.

QUESTION 3

TO WHAT EXTENT HAS INTERNAL AUDIT IMPACTED ON PRIVATE SECTOR?

Table 4.3

Response	A	B	Total	%
Not significant	3	4	7	19
Significantly	8	12	20	56
Other specify	7	2	9	25
Total	18	17	36	100

Sources Research Field survey 2013

The table 4. 3 above shows, 19% or 7 respondents affirmed that the internal auditor has not significantly affected public sector performance, while 56 % or 20 respondents disagreed. Also 25 % or 9 responsibly were undecided.

QUESTION 4

WHAT RELATIONSHIP EXISTS BETWEEN ACHIEVING CORPORATE GOALS AND EFFICIENTS INTERNAL AUDITING IN PRIVATE SECTOR?

Table 4.4

Responses	A	B	Total	%
Positive Relationship	10	11	21	58.3
No Relationship	1	1	2	5.6
Others specify	8	5	13	36.1
Total	19	17	36	100

Sources Research's Field survey:2013

The above table shows that 58.3% or 21 respondents affirmed that there is a positive relationship that exist between the achievement of corporate goals and objectives, and efficient conduct of internal audit in private firm or sector. However, 5.6 % or 2 respondents disagree while 36.1 % or 13 respondents were undecided.

QUESTION 5**WHAT FACTORS HAS MILLIATED AGAINST AUDIT REPORTS IN PRIVATE FIRM?****Table 4.5**

Response	Number	%
Inefficient internal control system	-	-
Inefficient internal audit	-	-
Lack of internal audit independence	-	-
All of the above	30	83.5
None of the above	6	16.6
Total	36	100

Source: Research Field survey 2013

From the table 4.5 above 83.4 or 30 respondents associated inefficient internal control system, inefficient internal audit. Neglect of internal auditors by management and lack of internal auditor's independence as factors militating against audit reports of private firms. However 16.6 % or 6 respondents have diverse opinions on the factors.

QUESTION 6**WHAT FACTORS AFFECTING THE EFFECT OF THE AUDIT
REPORTS IN THE PRIVATE FIRMS?****Table 4.6**

Options	Response	%
Lack of Qualified staff	10	27.7
Lack of facilities	15	41.7
Restriction of Auditors from certain files	11	30.5
Total	36	100

Source: Research Field survey 2013

The table 4.6 above, shows that the opinion of respondents shows that 10 % or 27.8 said that lack of qualified staff effective auditing in the private sector, while 15 % or 41.7% are of the opinion that lack of facilities affects effective auditing in the private sector while 30.5 or 11 also holds that the restriction of certain files adversely affect effective auditing in private sector.

QUESTION 7

WOULD YOU SAY THAT AUDITORS ENJOY ENOUGH INDEPENDENCE IN THE PERFORMANCE OF THEIR WORK?

Table 4.7

Category	Number	%
Yes	9	25.8
No	27	75.2
Total	36	100

Sources: Researcher Field survey 2013

Table 4.7 above shows that 9 respondents or 25.8% are of the opinion that auditors enjoy enough independence in the performance of their duties in the private firm, while 27 or 75.2 % are of the opinion that the auditors do not enjoy independence. From this information, it is observed that the independence of the auditors, which is fundamental right of the auditors, is not fully guaranteed in the private sector.

QUESTION 8

WHAT IS THE PRESENT VALUATION OF AUDITING SYSTEM IN THE PRIVATE SECTOR?

Table 4.8

Options	Response	%
Very Effective	15	41.7
Effective but not Efficient	10	27.8
Average Effective	5	13.9
Poor	6	16.6
Total	36	100

4.2 Test of Hypothesis

The hypothesis stated earlier in this research will be subjected to empirical testing using the chi-square (χ^2) techniques

$$\text{Chi-square } (\chi^2) = \sum (F_o - F_e)^2 / F_e$$

Where;

F_o =observed Frequency

F_e =expected Frequency

$F_e - F_o$ = the difference between the frequency (deviation)

$\sum (F_o - F_e)^2 =$ the sum total of all the deviation square and weight (the chi-square)

Hypothesis One

Ho= the internal Audit has not significantly Affected private sector performance

H1=the internal Audit has significantly Affected private sector performance.

To test hypothesis ,we shall use the table which evaluated the present auditing system in the private sector compared with the public sector .The table will recast for the chi-square purpose to give the observed frequencies.

QUESTION 8

WHAT FACTOR HAS MILLIATED AGAINST AUDIT REPORS IN PRIVATE FIRM?

Table 4.8

Response	Senior staff	Middle staff	Junior staff	Total
Inefficient internal control system	3	4	3	10
Inefficient internal Audit	5	7	3	15
Lack of internal audit Independence	4	3	3	10
Poor	1	3	2	6
Total				36

COMPUTATION OF THE EXPECTED FREQUENCY INEFFECIENT INTERNAL CONTROL SYSTEM

Cell	Fo	Fe	Fo-Fe	(Fo-Fe)	(Fo-Fe)²
R1C ₁	3	3.24	-0.25	0.0625	0.019
R1C ₂	4	4	0	0	0
R1C ₃	3	2.75	0.25	0.0625	0.0227

INEFFECTENT INTERNAL AUDIT

Cell	Fo	Fe	Fo-Fe	(Fo-Fe)	(Fo-Fe) ²
R2C ₁	5	4.9	0.1	0.01	0.002
R2C ₂	7	6	1	1	0.1167
R3C ₃	3	4.1	-1.1	1.21	0.02951

LACK OF INTERNAL AUDIT INDEPENDENCE

CELL	Fo	Fe	Fo- Fe	(Fo-Fe)	$\frac{(Fo-Fe)^2}{Fe}$
R3C ₁	4	3.25	0.75	0.5625	0.1731
R3C ₂	3	4	-1	1	0.25
R3C ₃	3	2.75	0.025	0.00625	0.0227

POOR

Cell	Fo	Fe	Fo-Fe	(F0-Fe) ²	$\frac{(Fo-Fe)}{Fe^2}$
R4C ₁	1	1.6	-0.6	0.36	0.225
R4C ₂	2	2	0	0	0
R4C ₃	3	1.4	0.6	0.36	0.2571
Sum Total		40	5.9	4.69	1.4334

Therefore, $\chi^2 = 1.4334$

COMPUTATION OF χ^2 TABLES

Degree of freedom = $(R-1)(C-1)$

$$= (4-1) \times (3-1) = 3 \times 2 = 6$$

Therefore, the number of degree of freedom is 6 and the level of confidence is 99%, with critical value of 1 %m (0.01).

Decision Rule

At a critical value of 0.01 and 6 degree of freedom, chi – square table is 16.812.

The decision rule is

Reject H_0 if $\chi^2_{cal} > \chi^2_{table}$

Accept H_0 if $\chi^2_{cal} < \chi^2_{table}$

From the computation: $\chi^2_{cal} = 1.4334$

$\chi^2_{table} = 16.812$

This means that $\chi^2_{cal} < \chi^2_{table}$ i.e. $1.4334 < 16.812$

Based on the decision rule the null hypothesis is accepted. Therefore it can be concluded that significant role in the promotion of effective audit in the private sector.

4.3 Summary

The data collected have been analyzed in the chapter for the purpose of the analysis; responses were grouped to category of staff.

The hypothesis which was analyzed and tested was done using chi-square (χ^2). The null hypothesis was accepted because it meets the decision rule stated.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

This is the conclusion chapter of this study. The finding and the result of the findings will be presented in this chapter and a general conclusion in respect of the outcomes of the study and recommendation for further research will be outlined.

5.1. Summary of Findings

Internal audit is very important in every company. The internal audit is explained above; though effective, still have problems which have constituted to unsatisfactory performance as expected of a standard internal audit.

The problem range from:

Inadequate staff, Lack of independence of internal auditors, Lack of properly qualified staff with cognate experience, Management neglect of the internal auditors, Lack of mobility.

We have got an idea of who an auditor is, it becomes necessary for us then to know who are the non-auditing officers and their hindrances to internal audit efficiency. The way i understood ‘an officer’ is anybody who has been entrusted with the authority to

command, direct or to possess certain vital information. The non-auditing officer was those within the establishment other than the auditor (internal and external who possess the authority to command, direct influenced the auditor's opinion through the information they possess.

In other words, the non auditing officers are those persons within the system under who are not involved directly in the audit but hold or possess certain information whose provision influence the audit opinion or that person whose performance are under auditors examination.

THE ROLE OF NON- AUDITING THAT AFFECT AUDIT WORK

The responsibility to examine the financial records falls on the auditors and so they are accountable for the assignment. Their work cannot be efficiently done. (I .e they cannot express a reliable opinion of the non auditing officers refuse to discharge their moral and legal obligations as required. The roles of non-auditing officers with respect to audit work may not be their primary roles but the same they are vital to audit work.

Some of roles are:

- (a) Making available books, accounts and other records as may be required. section 36 (3) of companies and allied matters degree
- (b) (CAMA) 1990 gave them auditors the right to have access at all times to the company's books accounts and vouchers. It is from these books that auditors may obtain reasonable evidence that financial statement were prepared as reflections of what transpired during the period under reporting. It is therefore the duties of non-auditing officers to ensure the existence of these books of account and vouchers, ensure that they are well kept and made available to the auditors without procrastinations.
- (c) Provision of any other information as ay be required
- (d) To assist auditors in obtaining information as explanation from third parties where necessary .At times the auditor may need certain and vital information within the establishment. It becomes necessary to make contacts with third parties outside the establishment to obtain or confirm such information. It becomes necessary that non auditing officers concerned be ready and co-operating in enabling the auditors to obtain the information.

(1) Deliberate refusal to supply vital information on the pretence of unavailability or confidentially

These non auditing officers are often found of withholding information that know would be useful for the audit and even where the auditors made requests they would still deny having such information. By this, the auditor or may be forced to device further methods or techniques to obtain the required information which may be more expensive and time consuming.

(2) Non Recognition of internal audit department:

A way to frustrate a unit is to give little or no recognition to the importance of that unit; this will definitely lead to poor funding and staffing of that unit. This has been the case for many internal audit departments that are given due recognition and so they are poorly funded and staffed by the non-auditing officer who are in position of authority.

(3) Creating opportunities to influence auditors opinion through threats and gifts:

Many non auditing officers and usually those whose performances are under examination often resort to threats and the giving gifts as the case maybe in order to dissuade the auditors from giving opinion

expected of persons independent in mind and attitude .Threat come in the area of employments and promotion and mostly associated to internal audits while gifts often used to dissuade the external auditors ,though the external auditors can be threaded with non auditors fees and remuneration and that of non reappointment ,their interest are legacy secured.

WHY BEHAVE IN SUCH WAYS AS THEY DO?

There is a common saying “there is no fire without smoke’ so I do believe that every behavior must have at least a cause. The following are some of the cause of the attitude of these non auditing officers in their attempt to hinder the auditors work.

(a) Ignorance of objects of audit: Most of the non auditing officers have not appreciated the necessities of the auditors and most importantly, the internal auditor. Some believe that the private sector created internal department in its industries and establishments to provide jobs for people. It is even seen by some that is a way to promote and maintain the continuity of red tapism usually associated with government functionaries. Many have called for its abolitions; many have seen it as an enemy a watch dog for the owners and therefore, need to be treated as enemy. So it is not too surprising to

see these non auditing officers putting up various kinds of behavior to fight the unit.

(b) Ignorance of the responsibility to auditor: The refusal of some non auditing officers to co-operate has been claims to be due to the fact that they hold certain confidential information on trust, but are ignorant of the fact that the law empowers the auditor to get whatever information he requires.

(c) An attempt to cover up fraud and internal errors: Some non auditing officers are aware of the objects of audit and their responsibilities to auditors but they still put up their un co-operation attitude just to cover up the fraud and intentional errors they have committed or they collaborated to commit.

5.2 Conclusions

From this study it could be observed that the internal auditor occupies such a paramount position that his importance cannot be emphasized. He ensures people good and effective internal control system.

Specifically as a watch dog for the management, the internal auditor forms a connecting link between the various segments of

management. He ensures that accounting and the management controls are implemented. However, in this part of the world the importance and functions of internal auditor are to a great extent overlooked. Apparently, most of our limited liability companies and some government establishment never care to set up an internal auditor or department. And this is why in daily news like huge sums of money have been misappropriate or mismanaged in one way or the other. Moreover, at times when some of these companies create internal audit department in their offices, they fail to take the advice of internal auditor's. The implication of refusal to take advice of internal audit department in their offices, they fail to take the advice of the internal auditors. The implication of refusal to take advice will not be for better management and up keep of financial records while probing the management when required thus they do these by not implementing the reports of the internal auditors.

It is common knowledge that most company's chief executive does not have time to go through the internal auditors report.

And as such they do not know when the correctives measures applied by the internal auditor could be introduced in order to check

or control excesses. These are the reason why in some areas, the internal auditors are being describe as toothless-bull-day.

Also from the foregoing, it can be seen that the purpose of internal auditing is not to detect fraud as some people think. A properly conducted internal audit may reveal discrepancies, mistakes loopholes in the system and sometimes fraudulent ,manipulations as a by-product of the work.

Finally, looking through this research generally and thoroughly, it is observed that internal audit department should not be overlooked in any establishment .for instance, most understandable managers and top personnel offices avert fraud (taking something of value from someone also through direct) of some sort for fear of being detected, harassed and penalized by the auditors .And as such other crimes such as theft of cash, theft of materials and suppliers. This paper has therefore established how internal audit could be a tool from management control.

5.3 Recommendations

Based on the problems identified above, and having examined the effect of non auditing officers, the ways they had been performing these roles and why they are behaving the way they do, the task

would be incomplete if we do not suggest ways of ensuring that the best is to be obtained by the auditors from the non auditing officers. The researcher therefore wishes to put forward the suggestions and recommendations which if implemented will augur well for the establishment and improve the internal auditing process generally. The internal audit department is ill staff to be compared with the magnitude of work they carry out before the department to function effectively; more staff should be engaged. This will facilitate the audit work of the establishment. Assuming that there are enough staff in the unit the staff could be distributed to various departments or stations to check the activities of the workers and report their findings to the management.

(1) Evaluate the non auditing officers on the advantages to the management: it is a tool for ensuring effective implementation of the internal control system and in fact it allows such internal system to be reviewed. With internal management policies are seen to be complied with and adequate information is made available to management for review and decision making. If non auditing officers are given proper education they would see reasons to co-operate with the auditors since the exercise will

benefit them and this would enable them to give more attention to the internal and external audit reports.

The internal auditor should be given a higher status in the establishments. In most establishments I visited, there were strong feelings and expressions about the low status of internal auditor's hierarchy of organization. Head of internal audit departments appeared to be in executive cadre (H.E.O) nearing retirement. I observed that they are pushed away from the main building and are provided accommodations in some of the leaking wooden structures around the industry with poorly furnish offices. it is strongly recommended that internal should be considered for consider for higher status comparable to those of their counter parts who perform management duties. This will make it possible for them to attend important meetings and contribute to the growth of the establishments.

(2) Mobility: There is an urgent need for transportation to be readily available to staff of this office .It is very important that internal audit staff should provided with vehicles. The nature of their work warrants that allocation be made to the department to enable them carry out audit work at the branches or zones or perform other field

assignments such as market survey. Sometimes, management required internal auditor to conduct investigation on certain issues and the information needed may be obtained at Port Harcourt, Aba, Onitsha, etc .In such circumstances use of vehicle is inevitable. In most of the places which I visited during research work, there was a general compliant that internal audit requires vehicle to enhances their productivity.

(3) Establishment of audit committee: Section 359 (3) of companies and allied matters decree 1990, (CAMA) made it mandatory for all public companies to have audit committees. Much good would be done to internal audit. If every organization has an audit committee and if the internal auditors can be appointed by this audit committee and made to report to them so as to prevent the unnecessary and direct or indirect intervention of the management in the internal audit.

(4) Appointment and qualification of internal of internal auditors: The caliber of people to occupy the position of internal auditor should be such as to make them comparable in status and responsibility with that of other management staff. This would enable the management to accord much to the internal audit.

(5) Management should react promptly to audit reports quinces: Whenever anomalies should be corrected immediately and adherence to lay down polices by the staff concerned should be monitored where possible reassignment of incorrigible staff should be strongly recommend. It is advisable that internal auditor should report direct to the chief executive of the establishment, so that his report will be properly and promptly treated.

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APPENDIX

Faculty of Management Science,
Department of Accountancy,
Caritas University,
Amorji- Nike, Eungu,
Enugu.

Dear Respondent,

I am a final year student of the Department of Accountancy in the above institution. Currently, writing a project **the “The Effect of Internal Audit on the Performance of the Private Firm”** a study of M. B Anamco Ltd, Emene Enugu State. This research questionnaire is designed to elicit information which will help the researcher to arrive at the local findings. It is purely academic and it is in fulfillment of the requirement for the award of a B.SC degree in Accounting.

I hereby request assistance in the conduct of this research work in filing and returning this questionnaire.

I will ensure that any information you give will be confidential and will be for the purpose of this study. Thanks for your co-operation.

Yours faithfully,

Iheke Patricia
ACC/2009/580

QUESTIONNAIRE

PERSONAL INTERVIEW SCHEDULE

SECTION A:

Instruction: Kindly indicate your response to each of the question below by ticking (✓) in the box where appropriate and comment where necessary.

- 1 Name []
- 2 Occupation []
- 3 Martial Status []
- 4 Sex []
- 5 How many departments got the questionnaire?
 Account production [] Internal audit operation []
 Audit department []
- 6 What category of staff are you?
 ACA [], B. SC [], HND [], OND [], GCE [], RSA []
7. How long did you work in the office of Accountant General?
 1-5 [], 5- 10 [], 10- 15 [] 15 – above []
8. What is the present Evaluation of Auditing System in the private sector?
 Very Effective [], Effective but not Efficient [],
 Averagely Effective [], Poor []

SECTION B:

1. Did you have any staff strength or classification

(a) Yes (b) No

2. Would you say that the strength is adequate for you?

(a) Yes (b) No

3 Is the office of the state Auditor –General concerned with what they do?

(a)Yes (b) Yes

4. Has the Auditor General carried out his duties effectively?

(a) Yes (b) Yes

5. Are there hindrances in the performances of the auditor’s job?

(a) Yes (b) No

6. Is the word audit effect “Taken seriously in the private sector?

(a) Yes (b) No

7. Are there internal control systems in the non-government accounting system?

(a) Yes (b) No

8. Are there adequate facilities for the auditor’s jobs?

(a) Yes (b) No

9. Does the offices of the state Auditor General have adequate and qualification staff?

(a) Yes (b) No

10. What difference would it make engaging in independent external auditor?

(a) Yes (b) No

11. Are the financial statements of the Accountant General prepared timely for audit?

((a) Yes (b) No

12. Are audit reports adequately responded to by those concerned

(a) Yes (b) No

13. What situations are available against defaulters?

(a) Yes (b) No