

**THE CHALLENGES OF INTERNAL AUDIT FUNCTION IN THE  
NIGERIAN PUBLIC SECTOR.**

**(A study of Kaduna state ministry of finance.)**

**BY**

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**APPROVAL PAGE**

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**CERTIFICATION**

This is to certify that this project titled THE CHALLENGES OF INTERNAL AUDIT FUNCTION IN THE NIGERIAN PUBLIC SECTOR was carried out by OKERESON CYNTHIA OGECHI, with the registration number ACC/2009/525, under my supervision in the department of Accountancy, Caritas University, Amorji-Nike, Enugu.

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## **DEDICATION**

I dedicate this piece of work to God almighty, the impossibility specialist who gave me a functional brain and good health to attain this height of academic ladder.





## **ACKNOWLEDGEMENT**

All praises, thanks and adoration are due solely to almighty God for making it possible for me once again to successfully pass this academic hurdle.

My sincere gratitude goes to my project supervisor, Dr. ovute frank without whose supervision, constructive criticism, suggestion and useful advice this work would not have been completed and to the of the faculty Prof. C. C Umeh, H.O.D Dr. Frank Ovute and also to my departmental lecturers Mr. Ugwu James, Mr. Desmond obani, Mr. Enekwe chinedu Innocent, prof E.O Nwadilor, Mr Agu and Mr. Ezeamama Martin C. I remain ever grateful to them also for the help and inspiration I derived from their scholarly experience.

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Udofia Israel for their love, care and contribution of advice and encouragement they gave me and the whole of PFCU Family for their prayers.

May the Almighty God reward you all in Jesus name Amen.



## ABSTRACT

This research work deals with the challenges of internal audit function in the Nigerian public sector with reference to Kaduna state ministry of finance. Internal auditing is a process generally adopted towards ensuring and safeguarding of resources and promoting operational efficiency in organization. The objective of this study has been to evaluate the internal control system in the Nigerian public sectors, to ascertain the non- implementation of routine audit report and the lack of proper segregation and assignment of duties. In recent times, a combination of forces has led to a quiet revolution in the profession. Government moving towards democracy must demonstrate accountability in the use of public money and efficiency in the delivery of service. In many cases internal control system are weak, staffs are poorly paid making them unmotivated, coupled with non-implementation of routine audit report by appropriate authorities. The Responses from staffs were analyzed using relevant statistical tools from which three hypothesis were formulated and tested using Z-test statistics, while questionnaire were analyzed in tabular form using simple percentage. It was discovered that the internal audit is facing a lot of challenges which includes inadequate staffing, lack of independence, lack of facilities to carry out audit function and also poor funding. As a result of some of these challenges the effectiveness of the internal audit in the Nigerian public sectors, has been hindered as well as the organizational change it can bring to its environment. I recommend that for internal audit to be effective, it must be a completely independent group, adequately funded and equipped with qualified internal auditors as well as sufficient opportunities for internal auditors to become qualified.



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## **CHAPTER ONE**

### **INTRODUCTION**

The Kaduna state ministry of finance started when the country was pre-independent in 1958 during the northern region, the ministry of finance is the custodian of public fund and stores and is therefore essentially a controlling ministry as opposed to other executing agencies of the government. The ministry is headed by a commissioner as the chief executive officer and deputized by the permanent secretary who is a carrier and servant and is the chief officer of 145 staff including accounting officers on monthly basis. The ministry consists of three (3) major departments and seven (7) sub-treasuries.

1. Administration and finance which further sub-divided into stores and verification division.
2. Treasury which is further sub-divided into final accounts and debts management and ministry of finance Incorporated division and sub-treasury.
3. Internal audit (state)



## 1. ADMINISTRATION AND FINANCE DEPARTMENT.

The department is headed by the director and is responsible for the general administration of the ministry which includes maintenance of staff records, processing of staff promotion, recruitment training discipline and welfare etc.

### STORES AND VERIFICATION DIVISION.

This division is headed by the chief stores officer who is charged with the responsibility of purchasing and disturbing of office equipment's the ministry of finance is in custody of the public funds and stores, and is therefore a protective clothing to all government ministries and department and boarding of unserviceable equipment/ vehicles.

## 2. TREASURY DEPARTMENT

This department is headed by the accountant general and is charged with the responsibility of keeping receipt of government funds banking and maintenance of bank accounts, disbursement of all approved fund released, bank reconciliation, control of treasury documents and control of pooled accounting staff of the state.

### MINISTRY OF FINANCE INCORPORATED (MOFI) DIVISION

This division is headed by the deputy director and is responsible for revenue collection management. Appraisal of investment opportunity for government,



management, of investment of government companies and ensuring the receipts of dividend and other funds due to government.

## FINAL ACCOUNT AND DEBT MANAGEMENT DIVISION

The division is headed by the deputy director and is responsible for the collection and accounting data from ministry department, analysis of accountant-general's reports, maintenance of external internal loan records and supervision of the state computer center.

### 3. INTERNAL AUDIT DEPARTMENT (STATE)

The department is headed by the director and is charged with the responsibility of drawing up of internal controls and checks ensuring the adherence to the administrative and finance controls, investigation of fraud and other malpractices.

## SUB-TREASURY

There are seven (7) sub-treasuries located at Kaduna, Zaria, Ikara, Saminaka, Kafanchan, Kachia and Birnin gwari. They are charged with the responsibility of collecting revenue and payment of pension.



## **1.1 BACKGROUND OF THE STUDY**

Internal audit had been defined “as an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization”. Internal auditing is a process generally adopted towards ensuring and safeguarding of resources and promoting operational efficiency in organizations. The responsibilities for effective internal auditing normally rest on with the internal auditors who in turn rely a great deal on the soundness and effectiveness of internal control system.

The business world is developing so in the complex nature of the organizations. This complexity of modern organizations and hence the management has led to the much broader role at the internal audit. The role of internal audit is fast moving from mere checking of documents and physical duties to analyzing the ability of organization to react to changing circumstances.

Auditing for the public sector is aimed at prevention of mistakes, shortcomings and misdeeds in the public administration. The internal audit has become a good control measures that can foretell all the incidence of fraud and misappropriation of fund in government ministries if properly put in place.



## 1.2 STATEMENT OF THE PROBLEM

Many business organizations are rapidly assuming complexity resulting to remarkable reliance to internal audit and management as a wider range area of control.

In spite of the existence of internal audit departments in organizations, it is often argued that the rate of fraud and misdeeds is still on the increase, particularly in the public sector. Some people argues that the internal auditors are creating more problems than they are solving, others see it as tools for witch-hunting and therefore sees them as unnecessary evil.

The internal control system in Nigeria public sector may be insufficient based on some predicaments.

- Lack of proper segregation and proper assignment of duties as well as shortage of qualified staff to carry out internal audit and accounting duties.
- Lack of implementation of routing audit report by appropriate authorities.
- Inadequacy of internal control system leading to improper investigation.

The above reasons greatly affect the effectiveness of internal audit in the public sector. This gives the researcher the impetus for undertaking a study on this study with a view coming up with solution of those challenges.



### **1.3 OBJECTIVES OF THE STUDY**

The objective of this research is to outline the specific task to be set out towards achieving the purpose of a research problem. However, appears to be inhibiting the proper discharge of the role of internal auditing in the Nigerian public sector due to the necessity for public Accountability. Many people do not know why internal audit department should exist and it should be part of internal control in public organization.

The research project is expected to achieve the following objectives:

- To ascertain the lack of proper segregation and proper assignment of duties as well as shortages of staffs to carry out audit duties.
- To ascertain reasons for improper implementation of routine audit report by appropriate authorities.
- To evaluate the internal control system in the Nigerian public sector.

### **1.4 RESEARCH QUESTIONS**

The following are the various research questions. They are as follows:

1. Are there challenges of internal audit function in the Nigerian public sector?
2. Are the impacts of Nigerian public sectors on the internal audit function?



3. Can public organization do with an internal audit function?

## **1.5 RESEARCH HYPOTHESES**

The following hypotheses were found relevant to the above stated problems and objectives, and thus tested in this study.

### **Hypothesis i:**

**H<sub>0</sub>:** The inadequacy of the internal control system in Kaduna state ministry of finances not the motive for the trials of the internal audit.

**H<sub>1</sub>:** The inadequacy of the internal control system in Kaduna state ministry of finance is the motive for the trials of the internal audit.

### **Hypothesis ii:**

**H<sub>0</sub>:** The lack of proper segregation and assignment of duties as well as shortages of staff to carry out audit duties does not influence the effectiveness of the internal audit.

**H<sub>1</sub>:** The lack of proper segregation and assignment of duties as well as shortages of staff to carry out audit duties influences the effectiveness of the internal audit.



**Hypothesis iii:**

**H<sub>0</sub>:** The lack no of implementation of routine audit report by appropriate authorities.

**H<sub>1</sub>:** There is lack of implementation of routine audit report by appropriate authorities.

**1.6 SIGNIFICANCE OF THE STUDY**

The project intended to bring to light the challenges of internal audits department in the Nigerian public sector with a view of coming up with possible ways to overcome such challenges.

The research work will be of vital importance to the government, bringing to light the challenges hampering the efficiency of the internal audit and how these challenges can be tackled.

The research work will also be of significance to the management or head of department of various government ministries and public corporations so as to see the importance of effective internal control system and the discharge of their responsibilities to the internal auditors as a yardstick to improve organizational



performance. It is also necessary for the internal auditors to understand their loopholes so that necessary adjustments could be made to enhance their efficiency.

## **1.7 SCOPE OF THE STUDY**

The scope of this research work in the Nigerian public sectors as a whole specifically the internal audit and accounting department, with particular interest in the Kaduna state ministry of finance.

## **1.8 LIMITATION OF THE STUDY**

The limitation to this research work is the lack of adequate information from the senior staff of the ministry considering such information as “Top Secret”. Inability to have access to vital documents in the ministry considering such document as confidential.

## **1.9 DEFINITION OF TERMS**

In every study, there are some terms that are frequently used; also in the course of this study the following terms relating to the subject matter will frequently be used.



**FRAUD:** This is defined as criminal deception in an act of acquiring other people money kept in one's possession deceitfully.

**INTERNAL AUDIT:** A.H. Millichamp defined internal audit as “an independent appraisal function within an organization for the review system of control and quality of performance as a service to the organization”. The objective is to examine, evaluate and report on the adequacy of internal control as a contribution to the proper economic efficient and effective use of resources.

**INTERNAL CONTROL:** Internal control is the whole system of control, financial and otherwise, established by management in order to carry on with the business to an enterprise in an orderly manner, ensure adherence to management policies, safeguard its asset and secure as far as possible the completeness, accuracy and reliability of books and other records.

**INTRENAL CHECK:** Internal check is the aggregate of the check and balance imposed on the day to day transactions in an organization where by the work of one person are verified independently by or is complementary to the work of one another.

**MINISTRY OF FINANCE:** This is a ministry that is responsible for the administration of government finance [public fund].



PUBLIC SECTOR: consist of all organization whose control lies in the hands of the public and whose objective involves the provision of services where profit is not the primary motive.



## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.1 INTRODUCTION**

The origin of auditing is as a result of the separation of ownership from control. It is instituted to protect the interest of the owners by ensuring that the financial statement are justifiable. Because of the separation of ownership from control, it turns out to be necessary to those manager assigned with the owners financial and economic resources to present their financial report to their employer.

The report presented might contain error to disclose fraud and mismanagement, be inadequate or deliberately misleading, or refuse to disclose relevant information. For these reason, the owners may hold some reservations about the credibility of the manager (stewardship) report.

For the ownership to be satisfied and even for the manager to be justified so as to establish and maintain their integrity, it becomes necessary to write an impendent party, one who is not involved with and either party to examine the stewardship reports for the purpose of expressing an opinion as the truth and fairness of the report.

This independent party's duty is not just mere examination of the account from which the financial statement can be prepared, rather it includes collections of all

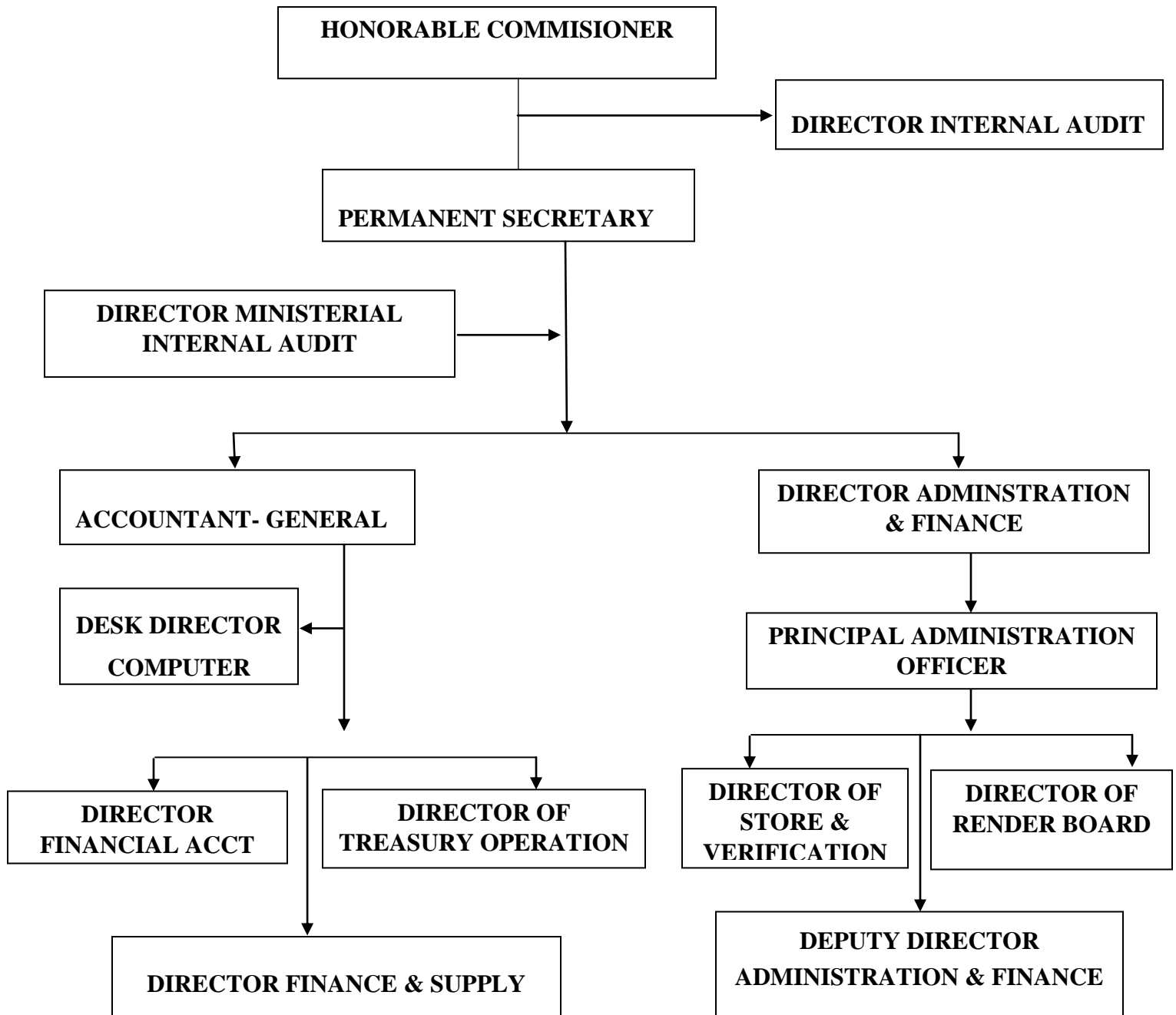


relevant information necessary to classify section 360 (3) of the companies and allied matters Act [CAMA] 1990.

This project has therefore been designed to discuss the definition of auditing, as given by scholars. The objectives of the audit, type of audit, the role of Non auditing staff, element of internal audit and what is require of the auditor in order to have maximum co-operation from the auditing in the course of performing his job or duties.



## 2.2 ORGANIZATIONAL STRUCTURE OF MINISTRY OF FINANCE





## **2.3 DEFINITION OF AUDITING**

Many professional bodies in accounting and various scholars have offered many definitions and explanations as to what auditing really means.

Cyasi (2001), defined auditing as the independent examination and investigation of the evidence from which a financial statement has been prepared with a view of enabling the independent examiner to report on whether his own opinion according to the information and explanation obtained by him, the statement is properly drawn up and give a true and fair view of that which is supposed to show and if not to report in what respect he is not satisfied.

From this definition it can be deducted that auditing is the process of accessing the financial statement of an organization to which the person undertaking the task is not a member with the aim of ensuring that these financial statement were truly prepared from actual records of financial transaction.

The auditing standard (2004), defined auditing as the independent examination of an expression of opinion on the financial statement of an enterprise by an appointed auditor in pursuance of that appointment and compliance with any relevant statutory obligation.

Therefore, an auditor in an ordinary sense is any person who is in charge with the responsibility of examining the books of accounts of an organization in such a



detailed form as well as enabling him form an independent opinion as to the truth and fairness of the financial statement (okolo 2007).

There are two kinds of auditors namely: Internal and External Auditors. The external auditors differ from the internal auditors in the areas of appointment, scope of work, reporting, independence responsibility and approach to work among others. An internal auditor is an employee of the organization whose managers' performance he is expected to examine and review. In fact, the scope of this work appointment and by this, the internal auditor's independence is necessary for effective audit is not encouraging.

## **2.4 TYPE OF AUDITING**

A.H Millichamp (2005) categorizes audit into four types and these are private, statutory, internal and management audit, according to him, a private audit is carried out because the owners desire it not because the law requires it. Statutory audit is an audit required by law. Internal audit is one conducted by an employee of an organization into any respect of its affairs and lastly management audits an enquiring into the effectiveness of management.



## **2.5 MEANING OF INTERNAL AUDITS**

Many organization of various size have seen the need for internal audit as a tool for ensuring effective working of internal control system owing to this priceless value from internal audit, the institute of chartered accountants of England and wales [ICAEW] defined internal auditing as an independent appraisal function established within an organization to examines and evaluate its activities as a service to the organization. The objective of internal audit is to assist members of the organization in the effective discharge of their obligation to this end, internal auditing finishes them with analysis, appraisal, counsel, recommendation and information concerning the activities reviewed.

Internal audit is an examination and review of management performance by some people working as employees of the organization. The activities of the internal audit is done or known in a department or units known as internal audit department and the people involved in the department known as internal auditors. It is practically difficult for internal audit to possess any reasonable degree of independence because of the management influence on the terms of reference and scope of work. In fact, one area of interest to the external auditor in assessing the degree of reliance to be placed on the work of the internal auditor is the degree of dependence enjoyed by the internal auditor.



## 2.6 MEANING OF INTERNAL CONTROL

Samtok, (2002) refers to internal to control not as internal audit and internal check but as the whole system of control, financial or otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records.

The consultative committee of accounting bodies in the United Kingdom has the same view with that of Samtok except for inclusion of three essentials of internal control such as plans and organization recording and custody procedures and management supervision and reviews.

Millichamp has the same view with the others but went ahead to elaborate on each phrase used in the definition such as:

- (A) The Whole System: a system is a combination of parts. The internal control system covers all measures of methods employed in ensuring the authorization, approval and control of documents, the restriction of unauthorized access to company's assets and books, compliance with relevant laws, standards and guidelines.
- (B) Financial and Otherwise: internal control system involves administrative accounting control and physical controls. He emphasized that financial



could include the use of control accounts which are principally concerned with safeguarding assets and providing assistance that the financial statements and the underlying accounting records are reliable and otherwise may include physical access restrictions to computer terminals, cash office and store.

- (C) Established By Management: The management of an entity establishes internal control system. They achieve this by direct involvement or through external auditors and consultants.
- (D) Carry on Business in an Orderly and Efficient Manner: There must be properly drawn organizational chart giving authority and allocating responsibilities to staff.
- (E) Adherence to Management Policies: for an entity to achieve its set target, management policies must be adhered to. These could be policies with respect to investment and divestment, depreciation and amortization, appointment and promotion and pricing and selling.
- (F) Safeguarding the Assets: he stressed that allowing assets to be damaged, mishandled, wasted or stolen is unacceptable and procedures are always devised to safeguard them.
- (G) Accuracy of Records: he states that this to ensure that proper and adequate procedures are in place to capture and record all financial transactions. Example of procedures to achieve this include checking of the work of one



clerk by another or the use of control account, independent comparison of two sets record for example stock records and stock or piece work payment and good work put into store. It should be noted from all indication that internal check and internal audit are only part of internal control in an organization and is not limited to accounting matters where for example you have security officers at the gate of a ministry searching all vehicles leaving the premises, these will be part of internal control system in the organization such checks cannot account of a financial matter.

## **2.7 MEANING OF INTERNAL CHECKS**

Okolo (2007) defined internal check as the aggregate of the and balance imposed on the day to day transaction on an organization where by the work of one person is verified in complementary by or as complementary to work of another, the objective been the prevention or early defection of errors and fraud.

According to Oremade (2006) internal check is the organization of duties of the accounting staff in such a way that the work of each employee will be subject to contribute and automatic checking by another member of the organization's staff. It includes division of work allocated to authority, proper method of recording



transactions and the use of independently ascertaining totals against which number of individual entries can be treated.

Internal check therefore is necessary starting from the allocation of authorities and proper division of work in such a manner that one person alone does not see through a transaction from the beginning to the end. This is the most form of internal control that exist; the duties performed by every individual are checked at the same time or the other by another employer. Thus, before any fraud can be committed or error pass understate, at least two people have to be in collusion or overlook the error.

- a. The sequence of staff who examines documents, the reason why they examine them and the extent of their responsibility for them.
- b. Who should authorized the transaction, how the transaction would appear in the record of the company and whose control they will be under.
- c. He must satisfy himself and the entire organization, that the accounting and administrative control laid down in theory represent the idea.

## **2.8 OBJECTIVES AND PURPOSE OF THE INTERNAL AUDIT**

The main objectives of internal audit is to assume in the management that the internal check and the accounting system are effective in design and operating L.G



Campbell in his book titled, “internal auditing” identified the three major reasons why audit is required.

- a. The lending of credibility: that is to detect fraud and disclose hidden information.
- b. To resolve conflicts of interest: there is need for the shareholder to be satisfied with the management of their resources.
- c. Accountability: the directors are the agents of the shareholders their performance needs to be evaluated.

For the above Objectives to be accomplished, the internal auditing department must perform certain functions which must be in line with the requirement of the company or organizations’ internal control system. Some of the functions are enumerated below:

1. To ensure the safety of the organizations’ assets.
2. To review the internal control system to detect error and lapses with the aim to improve.
3. To ensure that management policies are executed and it the right time.
4. To ensure that management are supplied with quality information necessary to perform their function as required by them.



5. To provide training for non-auditing officers in ensuring effective implementation in internal control system.
6. To ensure that the internal control system of the organization is well designed and well implemented.
7. To carry out investigation and audit committee.
8. To assist the internal auditors as may be required.

## **2.9 QUALITIES REQUIRED OF AN AUDITOR**

Okolo (2007) in his book titled “concept and practice of auditing outline the following as the qualities required of an auditor.

- a. Theory and practice of accountancy: to be able to examine a statement of account prepared by some other person. It stands to reason that the auditor should be able to prepare the account himself and understand it. An accountant in practice as an auditor, in variably deals with statement of an accountant relating to the very different organization. The objectives and operations of these organizations differs a great deal. For an auditor to be effective in dealing with he needs a considerable knowledge of the theory of practice of accounting.



- b. Honesty: the need for honesty on the part of an auditor needs no emphasis.

The end result of any audit exercise is the report which people will rely on as an unbiased and objective statement of the true state of affairs. If an auditor is not honest and is willing for whatever reason to report less than the whole truth, then his work will be of no value.

- c. Method and accuracy: reporting on a financial statement as to whether or not

it presents a true and fair view is a serious matter. It is therefore very essential that the auditor should be sure of whatever he reports. As far as possible, figure should be checked individually, and all totals should be checked, all available evidence should be considered before a figure is accepted. Accountancy is fundamental in auditing job and unless this is ensured that report cannot be reliable.

- d. Painstaking, patient and conscientious: in the course of his work the auditor

need to go through various necessary document which he has to read through. In some cases these documents are badly write-up and stored in a disorderly fashion before he can satisfy himself on figures on which an account is build. He also has to check physical assets and sometimes demands explanations from offers of the organization, patient, conscientious and painstaking individual.



- e. Vigilance and caution: the auditor needs to be very tactful in dealing with people. Some people are very hostile towards auditors this may be possible when the auditor is demanding some explanation on some account from the officers. The auditor has to gain their confidence and co-operation, if he wants his work to be easier. There is also the need for the auditor to be vigilant in observing the extent to which the rules and regulations guiding the accounting practices are clearly followed.
- f. Courage of his own conviction: the report that the auditor present at the end of his work should be his own opinion arrived at after a careful and objective evaluation of all available evidence relating to the accounts he examined in his report, should be honest findings not been influenced by management of the organization.

## **2.10 ELEMENT OF INTERNAL AUDIT**

A.H Millichamp (2005) identifies the following has been the essential element of internal audit for internal auditors.

A. Relationship: they must foster productive working relationship and internal understanding with the management, external auditors and audit committee.



B. Independence: The internal auditor should have independence in terms of organizational status, and personal objectivity permits the proper performance of their duties.

C. due care: The internal auditors cannot be expected to give total assurance that control weakness or irregularity does not exist, but they should exercise due care in fulfilling their responsibilities.

D. staffing and Training: Like external auditor teams, the internal audit team or unit, should be appropriately staffed in terms of members, qualifications, experience and grades, having regard to its responsibilities and objectives. Training should be a planned and continuing process at all levels.

E. Evidence: The internal auditor should obtain sufficient relevant and reliable evidence on which to base reasonable conclusions and recommendations.

F. Planning, Controlling and Recording: The internal auditors should adequately plan, control and their work. As part of the planning process the internal auditor should identify the whole range of systems within the organization.

G. Evaluation of the internal control system: The organizations internal control system should be identified and evaluated as basis for reporting upon its adequacy and effectiveness.



H. Reporting and follow-up: Findings, conclusion and recommendations arising from each internal audit assignment are communicated promptly to the appropriate levels of management and they should actively seek a response.

## **2.11 SCOPE OF INTERNAL AUDIT**

The scope of internal audit function of an organization very wide and are dependent upon the responsibility assigned to it by management, the size and structure of the organization and the skills and experience of the internal auditors [Millichamp 2003] normally the internal audit operates in one or more of the following broad areas:

- a. Review of the accounting systems and related internal controls
- b. Examination of financial and operating information
- c. Review of economy, efficiency and effectiveness
- d. Review of compliance
- e. Special investigations e.g. of fraud



## **2.12 DUTIES AND RESPONSIBILITIES**

The standard and scope of an internal audit varies considerably. It requires the internal auditing making most careful assessment before deterring the extent to which he can rely on the internal audit in drawing up his on programs. However, it should be noted that the duties of internal auditor largely, depend on the need of the organization [millichamp 2005].

From the definition of internal audit, it can be seen that the job of an internal audit is to appraise the activities and to perform any specific part of data processing another control organization are fulfilled for effective internal control system and is well designed and properly maintained [millichamp 2005].

Other duties of internal auditor may be summarized as follows:

- i. Acting as training officer in internal control matters.
- ii. Verification of the accuracy of financial records
- iii. Being concerned with the response of the internal control system to errors and required changes to prevent errors.
- iv. Auditing the information given to management particularly internal accounts and management accounting reports.



### **2.13 ROLE OF INTERNAL AUDIT INT THE NIGERIA PUBLIC SECTOR.**

Financial regulation [revised 1999] stipulated the role of internal audit as given below

- A. The internal auditor is directly responsible to the accounting officer for a comprehensive audit of all operations and activities of the ministry/ extra-ministerial department. For these purpose he shall carry out only financial audits but also management audit of other area of the ministry's' functions with the view to monitor their efficiency and effectiveness.
- B. The safeguard introduced for the prevention or the prompt detection of fraud and loss of cash are adequate. Normal safeguards include the observance of government and for existence of internal checks.
- C. The control for collection of revenue is adequate, and that all money received have been properly recorded under correct account head and sub-head.
- D. The system for the control of the issues and consumption of stores is adequate, that all issues are properly authorized and correct, that issues are made to the right person, and are used for the purpose for which they are authorized.
- E. The system for the control of expenditure is adequate and that all payments made are properly authorized and correct, that they are paid to the right person, from the correct head and sub-head, and made for the purpose for which they were authorized.



F. There are adequate means for the verification by him of all cash, stored and plant held.

G. The accounting records are accurate.

The internal Auditor is required to submit to his permanent secretary a detailed audit program and send copies to the Accountant- General and Audit-General.

## **2.14 CHALLENGES OF INTERNAL AUDIT**

In the Nigeria public sectors, the internal audit unit does encourage some challenges in the process of discharging their responsibilities which makes it difficult for the unit to efficiently carry out its functions. The problem seems to be dual in that some of the problems arise from the Non auditing staff. However, for the purpose of their research it has been discovered that most of the problems are caused by the non-auditing staff. Some of these challenges areas follows [oseni, 2004]

### **1. UNAVAILABILTY OF ADEQUATE ACCOUNTING SYSTEM.**

Some of the Audit evidence is available from accounting records thus entails that, reliable accounting records can only be made available if good accounting system is put in place. The non-auditing staff do feel that the way to hinder the auditors work is by installing or operating in adequate accounting system.



## 2. NON-RECOGNITION OF THE INTERNAL AUDIT DEPARTMENT

A way to frustrate a unit is to give little or no recognition to the importance of that unit. This has been the case of many, internal audit, they are not given due recognition and so they are poorly funded by the non-auditor staff who are in position of authority.

## 3. INDEPENDENCE OF THE AUDITOR

Another challenges facing the internal audit unit in the public sector, is that, the management does influence the independence of the auditors. Because they are employees of the organization their independence is less. Most of the time the internal auditor will try to do the right job but one of the officers of the company will ask him to work in his favor so as to allow that officers achieve his selfish desire.

## 4. LACK OF SUBMISSION OF MONTHLY REGISTER FOR EXPENDITURE

Sometimes the register in respect of payment of salaries and charges are not submitted to the internal audit unit so as to further improve accountability.

## 5. INADEQUATE OBSERVATION.

This is due to the fact that the internal audit or himself is negligent to his duties or restive from series, but due to adequate observation by the internal audit



department, the salary of the restive or dismissed employees will be received or collected illegally by other employees in that ministry.

#### 6. INFLUENCING OF AUDIT OPINION THROUGH THREATS AND GIFTS:

Many Non-audit staff are usually those, whose performance are under examination. Often they bring gifts and make threats as the case may be to discourage the auditor from giving an opinion expected of persons.

### **2.15 FACTORS RESPONSIBLE FOR THE PROBLEM OF INTERNAL AUDIT**

The following are some of the reasons accountable for the attitude of these non-audit staff in their attempt to hinder the auditors work [oseni 2004].

1. **IGNORANCE OF THE AUDIT OBJECTIVE:** The non-auditing staff have not appreciated the necessary of the auditor and most importantly the internal audit believes that the government created its department in the ministry to prove jobs for the people. Many have called for its dissolution, many are seeing it as an enemy because it is a watch dog for the government and more over is been treated as an enemy. So it is not surprising the department [internal Audit].
2. **IGNORANCE OF RESPONSIBILITY BY AUDITOR:** The refusal of some non-audit staff to co-operate is because the information which is seen to be too



confidential is been told to the auditor and they are ignorance of the fact that the auditor by law should be entitled to all the financial statement.

3. AN ATTEMPT TO COVER UP FRAUD AND INTERNATIONAL ERROR:

Somenon-auditing staff are aware of the objectives of audit and they are responsible on the Auditor but they still put their uncooperative attitude just to cover up fraud and international errors they have committed.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

Research refers to a process of arriving at dependable solutions to problems through planned and systematic collections, analysis and interpretation of data. Research is an important mechanism for enhancing knowledge and also promoting of progress in order to enable man to relate to his environment for the purpose of achieving his objectives.

Methodology on the other hand refers to the way in which some things is being carried out. In other words, it is a set of method used in working at something. Therefore research methodology relates to the way in which problems are systematically solved through planned collection and analysis of data. Information and vital issues are always discovered through careful enquires and they are in verifying and broadening the existing knowledge.

#### **3.1 RESEARCH DESIGN**

This comprises of the techniques used in gathering the data for a proper project analysis. The data necessary to help solve the problem faced with internal audit function in the public sector, which is Kaduna state, ministry of finance. The research decided to employ a type of method and procedure in getting the



population size of the ministry and its complexity of which gave him the idea for the generation of the needed information for the study. In carrying out the study, the research made use of both primary and secondary source of data to gather the information needed for the study.

## **3.2 SOURCES OF DATA**

### **PRIMARY DATA**

This can be done through personal interview, administering of questionnaire to the people on observation. The data collected by the researcher is the direct information decided by the researcher from employees of the Kaduna state ministry of finance on the topic of study. For the purpose of this research work questionnaires were distributed to staff members of the ministry of finance to be filled for relevant information needed for the research work.

### **SECONDARY DATA**

The secondary source of data entails information gotten by the researcher from already existing materials that are related to this topic of study, hence the secondary data for this was obtained by the researcher from textbooks, published materials of bureaus, newspaper, magazines, journals and securitization of existing documents.



### 3.3 AREA OF THE STUDY

The area of this research study is restricted to the ministry of finance, Kaduna state.

### 3.4 POPULATION OF THE STUDY

The population consist of all staff of the internal audit department and other department of the Kaduna state ministry of finance are considered as the population of the study. The ministry under study is having a total of one hundred and forty-five [145] officers. The population is made up of:

DEPARTMENT	NO OF STAFF
Internal Audit	49
Treasury	44
Administrative & finance	52
Ground Total	145



### 3.5 DETERMINATION OF THE POPULATION SIZE

The sample size is a proportion of individual drawn population, determine the sample size from the study, the researcher implored the use of YARO the formula is:

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

Where:

n= Sample size

N= Population

e= Level of significance

1= Constant

Take into consideration the following

$$n=?$$

$$N=145$$

$$e=0.05^2$$

By substitution in the formula

$$\frac{n = 145}{1 + 145[0.05]^2}$$

$$\frac{145}{1 + 145[0.0025]}$$



$$\frac{145}{1+0.3625} = \frac{145}{1.3625}$$

n= 106 sample size

The researchers' Distribution of the questionnaire to the staff was determined using the bowlers, proportion allocation formula.

The Bowler's proportion formula is stated thus:

$$\frac{n = n_1(n)}{N}$$

Where  $n_1$  = the proportion of each element

n = the sample size of the study

N = the population for the study

Through substitution of values from the above formula

$$\text{Inter audit} = \frac{49 \times 106}{145} = 36$$

$$\text{Treasury} = \frac{44 \times 106}{145} = 32$$

Therefore  $= 36 + 32 + 38 = 106$ .



### **3.6 RELIABILITY TEST.**

Data from the primary sources are very reliable. It has been tested over and over again and the same results were achieved which means the information are very reliable.

### **3.7 VALIDITY TEST**

The questionnaire was administered and collected from respondents immediately, of the Kaduna state ministry of finance staff. This research study has been read, corrections has been made by the supervisor and revision were modified.

### **3.8 METHOD OF DATA COLLECTION**

There are two ways used in collecting data, they namely: primary data and secondary data. In this research work the research instrument used is questionnaire and data obtained from the ministry record and business journals of ICAN and ANAN publication.



### 3.9. TECHNIQUES FOR DATA ANALYSIS

Data obtained were analyzed used percentage and sample statement. As referred to the information collected from respondents through research questionnaire delivered as represented in a tabular form.

A parametric statistical testing tool Z-test is used to test hypothesis about the difference between the mean of the group. The formula for Z-test statistical tool is as stated below;

$$Z = \frac{x_1 - x_2}{\sqrt{\frac{(SD_1)^2}{n_1} + \frac{(SD_2)^2}{n_2}}}$$

Where Z = Test Statistics

$X_1$  = Mean of sampled population 1

$X_2$  = Mean of sampled population 2

$SD_1$  = standard deviation for sample 1

$SD_2$  = standard deviation for sample 2

$n_1$  = Size of sample from population 1

$n_2$  = Size of sample from population 2

A four scale was used to award point to each specific question responded by the respondents. The favorable statements are scored as follows:



Strongly agreed [SA]

Agreed [A]

Disagreed [D]

Strongly disagreed [SD]

### **DECISION CRITERION FOR VALIDATION OF HYPOTHESIS**

The decision rule is based on the comparison between the calculated values.

Reject the Null hypothesis  $\langle H_0 \rangle$  and uphold Alternative hypothesis  $\langle H_1 \rangle$  if the Z-calculated value exceeds the Z-critical value. Otherwise do not reject the null hypothesis.



## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND INTERPRETATION.**

#### **4.1 DATA PRESENTATION.**

The presentation of data collected means the way of presenting and arranging the different forms of data obtained through various data collecting techniques to enable the researcher perform analysis and extract conclusions from it.

The data collected will be presented in simple table. The data analysis was based on the answers to the questions received from the staff of the Kaduna state ministry of finance. The key questions in the questionnaires will be analyzed by the use of simple percentage. The formulation hypothesis will also be tested with the aid of necessary tables and statistic figures.

A total of 106 questionnaires were distributed and a total number of 92 were returned. Efforts were made to recover the remaining 14 questionnaires, but due to high rate of transportation fare and time factor, they have not yet been recovered.



TABLE 4.1

## DISTRIBUTED QUESTIONNAIRES

DEPARTMENT	NO OF QUESTIONNAIRES DISTRIBUTED	NO OF THOSE RETURNED	PERCENTAGE (%)
Internal Audit	36	32	35
Treasury	32	26	28
Administrative & finance	38	34	37
Total	106	92	100

Field survey, 2013.



## 4.1.2 Do you agree to the existence of internal audit unit in the ministry?

TABLE 4.1.2

RESPONSE	NO OF RESPONDENT	PERCENTAGE [%]
STRONGLY AGREED	43	47
AGREED	39	42
DISAGREED	6	7
STRONGLY DISAGREED	4	4
TOTAL	92	100

SOURCE: Question no.6, field survey, 2013.

Table 4.1.2 reflects that 43 respondents [47%] strongly agreed and 39 respondents agreed [42%] that the ministry operates internal audit unit. 6 respondents [7%] disagreed and 4 strongly disagreed [4%] that the ministry does not operate internal audit unit therefore making it not to be in existence.



4.1.3: would you admit that the internal auditor enjoys a degree of independence in the course of his duty?

TABLE 4.1.3

RESPONSE	NO. OF RESPONSE	PERCENTAGE[100%]
STRONGLY AGREED	19	21
AGREED	12	13
DISAGREED	33	36
STRONGLY DISAGREED	28	30
TOTAL	92	100

SOURCE: Question no. 7, field survey, 2013.

The above response of respondents who agreed 12 and 19 strongly agreed are of the opinion that the internal auditor enjoys a degree of independence while 33 respondents disagree and 28 strongly disagreed. This is an indication that there is management influence in the activities of the internal audit.



4.1.4: do you think the internal audit function has an impact on the Nigerian public sectors?

TABLE 4.1.4

RESPONSE	NO. OF RESPONDENTS	PERCENTAGE[100%]
STRONGLY AGREED	29	31
AGREED	9	10
DISAGREED	23	25
STRONGLY DISAGREED	31	34
TOTAL	92	100

SOURCE: Question no. 8 field survey, 2013.

Table 4.1.4 shows that 29 respondents [31%] strongly agreed and 9 respondents [10%] agreed that internal audit function has an impact on the Nigeria public sector to help ensure proper accountability while 23 respondents disagreed, 31 strongly disagreed stating that it is not of use.



4.1.5: Is there challenges faced with the internal audit function in the Nigerian public sector?

TABLE 4.1.5

RESPONSE	NO. OF RESPONDENTS	PERCENTAGE[100%]
STRONGLY AGREED	10	11
AGREED	32	35
DISAGREED	36	39
STRONGLY DISAGREED	14	15
TOTAL	92	100

SOURCE: Question no. 9, field survey 2013.

From the above table the response of about 11% and 35% respondents strongly agreed and agreed respectively that the internal audit unit is faced with challenges like poor funding, inadequate facilities etc. while 39% and 15% respectively of disagreed and strongly disagreed respondents are of the view that the internal audit department do not encounter any challenge.



4.1.6: do you agree that the possession of a sound academic knowledge in accounting is essential for effective performance of internal audit function?

TABLE 4.1.6

RESPONSE	NO. OF RESPONDENTS	PERCENTAGE[100%]
STRONGLY AGREED	34	37
AGREED	32	35
DISAGREED	15	16
STRONGLY DISAGREED	11	12
TOTAL	92	100

SOURCE: Question no. 10, field survey, 2013.

From table 4.1.6 37% of response strongly agreed and 35% agreed that a sound academic knowledge in accounting is essential for effective performance of audit duties while 16% disagreed and 12% strongly disagreed that a sound academic knowledge does not matter.



4.1.7: Is there any level of efficient audit performance on financial audit in the public sector?

TABLE 4.1.7

RESPONSE	NO OF RESPONDENT	PERCENTAGE [%]
STRONGLY AGREED	24	26
AGREED	33	36
DISAGREED	16	17
STRONGLY	19	21
TOTAL	92	100

SOURCE: Question No.11, field survey, 2013.

From the above table the response of those that strongly agreed 26% and agreed 36% indicated that the audit performance on financial audit is efficient. The remaining 17% and 21%, disagreed and strongly disagreed respectively to that fact.



4.1.8: is there performance on quality assurance by the internal audit unit?

RESPONSE	NO OF RESPONDENT	PERCENTAGE [%]
STRONGLY AGREED	22	24
AGREED	24	26
DISAGREED	27	29
STRONGLY DISAGREED	19	21
TOTAL	92	100

SOURCE: Question No.12, field survey, 2013.

From the response of the above table it is seen that the audit performance on quality assurance proved to be moderate.



4.1.9: Do you agree that the inadequacy of the internal control system is not the motive behind some challenges the internal audit unit face?

TABLE 4.1.9

RESPONSE	NO OF RESPONDENT	PERCENTAGE [%]
STRONGLY AGREED	31	37
AGREED	26	28
DISAGREED	19	21
STRONGLY DISAGREED	16	17
TOTAL	92	100

SOURCE: Question No.13, field survey, 2013.

From the above table 21% strongly agreed and 17% agreed respondent believe that inadequacy of the problem of inefficient internal audit and 35% respondents disagreed and 27% strongly disagreed that it does not contribute to their challenge.



4.1.10: Do you agree that other departments of the ministry co-operates with the internal auditor?

TABLE: 4.1.10

RESPONSE	NO OF RESPONDENT	PERCENTAGE [%]
STRONGLY AGREED	19	21
AGREED	22	24
DISAGREED	26	28
STRONGLY DISAGREED	25	27
TOTAL	92	100

SOURCE: Question No. 14, field survey, 2013.

From the above table it is seen that 28% and 27% of respondents disagreed and strongly disagreed is respectively that departments of the ministry do not co-operate with the internal auditors while 21% and 24% respondents strongly agreed and agreed that other departments co-operates internal audit unit.



4.1.11: The lack of proper segregation of duties does not have a position effect to the ineffectiveness of the internal audit. Do you agree?

TABLE: 4.1.11

RESPONSE	NO OF RESPONDENT	PERCENTAGE [%]
STRONGLY AGREED	25	27
AGREED	31	34
DISAGREED	21	23
STRONGLY DISAGREED	15	16
TOTAL	92	100

SOURCE: Question No.15, field survey, 2013.

From the above table 4.1.11 we can see that the response of both strongly agreed 27% and agreed 34% indicate that there is lack of proper segregation of duties while 23% disagreed and 16% respondents strongly disagreed that it does not affect the internal audit unit.



4.1.12 Do the Non-implementation of routine audit report by appropriate authorities contribute to the challenges of inefficiency in the internal audit?

TABLE: 4.1.12

RESPONSE	NO OF RESPONDENTS	PERCENTAGE [%]
STRONGLY AGREED	39	42
AGREED	32	35
DISAGREED	16	18
STRONGLY DISAGREED	5	5
TOTAL	92	100

SOURCE: Question No 16, field survey, 2013.

From the above table 25% respondents strongly agreed and 23% agreed that the non-implementation of audit report by appropriate authority contributes to the challenges of the internal audit, 27% respondents disagreed and strongly disagreed respectively that the non-implementation of audit report do not contributes to the challenges of inefficient internal audit system.



## 4.2 TEST OF HYPOTHESIS

The hypothesis, which were stated earlier in chapter one, would be tested in this chapter for acceptance or rejection. The hypothesis is to be tested using the Z-test for uncorrelated:

$$\text{Formula} = Z = \frac{x_1 - x_2}{\sqrt{\frac{(SD_1)^2}{n_1} + \frac{(SD_2)^2}{n_2}}}$$

Where Z = Test Statistics

$x_1$  = mean of sampled 1 [i.e. group of respondents that answered agreed & strongly agreed]

$x_2$  = mean of sampled 2 [i.e. group of respondents that answered disagreed & strongly disagreed]

$SD_1$  = standard deviation for sample 1

$SD_2$  = standard deviation for sample 2

$n_1$  = sample size of sample 1

$n_2$  = sample size of sample 2.

### 4.2.1 TEST OF HYPOTHESIS ONE

For the purpose of clarifying, the hypothesis are hereby tested thus:



**H<sub>0</sub>:** The inadequacy of the internal control system in Kaduna state ministry of finance is not the motive for the trials of the internal audit.

**H<sub>1</sub>:** The inadequacy of the internal control system in Kaduna state ministry of finance is the motive for the trials of the internal audit.

From table 4.1.9

A] To determine the mean for the two groups [i.e.  $x_1$  &  $x_2$ ]

DEPARTMENT	NO. OF RESPONDENTS	GROUP THAT STRONGLY AGREED & AGREED $X_1$	GROUP THAT DISAGREED AND STRONGLY DISAGREED $X_2$
INTERNAL AUDIT	32	20	12
TREASURY	26	16	10
ADMINISTRATIVE	34	21	13
TOTAL	92	57	35

$$\text{Mean } x_1 = \frac{\Sigma x}{n_1} = \frac{57}{3} = 19$$

$$x_2 = \frac{\Sigma x}{n_2} = \frac{35}{3} = 11.67$$



B] To determine the standard deviation of the group that answered strongly agreed & agreed and disagreed & strongly disagreed [ $x_1$  &  $x_2$ ]

$X_1$	$X_1 - \bar{X}_1$	$ X_1 - \bar{X}_1 ^2$	$X_2$	$X_2 - \bar{X}_2$	$ X_2 - \bar{X}_2 ^2$
20	1	1	12	0.33	0.11
16	3	9	10	-1.67	2.79
21	2	4	13	1.33	1.79
14					4.69

$$SD_1 = \sqrt{\frac{X_1 - X_1}{n_1 - 1}}$$

$$SD_1 = \sqrt{\frac{14}{3 - 1}}$$

$$SD_1 = \sqrt{\frac{14}{2}}$$

$$SD_1 = \sqrt{7}$$



$$SD_1 = 2.646$$

$$SD_2 = \frac{\sqrt{4.69}}{3 - 1}$$

$$SD_2 = \frac{\sqrt{4.69}}{2}$$

$$SD_2 = \sqrt{2.345}$$

$$SD_2 = 1.531$$

C] Now the Z-test formula will be applied:

$$Z = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{(SD_1)^2}{n_1} + \frac{(SD_2)^2}{n_2}}}$$

$$\text{Where: } \bar{x}_1 = 19$$

$$\bar{x}_2 = 11.67$$

$$SD_1 = 2.646$$

$$SD_2 = 1.531$$

$$N_1 = 3$$

$$N_2 = 3$$



NOTE:

1. The level of significance is 0.05
2. Decision rule stated that the  $H_0$ [i.e. Null hypothesis] should be accepted if the Z calculated value is less than the Z critical value of  $[\pm 1.98]$  and the alternative hypothesis should be accepted if the Z calculated value is greater than the critical value
3. The  $[\pm 1.98]$  is the critical value of Z for a 2 tailed test at 0.05 level of significance.

SUBSTITUTE:

$$Z = \frac{19 - 11.67}{\frac{(2.646)^2}{3} + \frac{(1.531)^2}{3}}$$

$$Z = \frac{7.33}{\frac{7}{3} + \frac{2.345}{3}}$$

$$= \frac{7.33}{2.333 + 0.782}$$

$$= \frac{7.33}{3.115}$$

$$= \frac{7.33}{1.765}$$



$$Z = 4.153$$

D] To compute the critical value and the computed value:

$$\text{Critical value} = (\pm 1.98)$$

$$\text{Compute value} = 4.153$$

$$\text{Compute value} > \text{critical value}$$

$$4.153 > 1.98$$

E] Decision on the acceptance/rejection of  $H_0$ , null hypothesis: since the calculated value of Z is greater than the critical value, we shall reject the null hypothesis and uphold the alternative hypothesis.

#### **4.2.2 TEST OF HYPOTHESIS TWO.**

**$H_0$ :** The lack of proper segregation and assignment of duties as well as shortages of staff to carry out audit duties does not influence the effectiveness of the internal audit.

**$H_1$ :** The lack of proper segregation and assignment of duties as well as shortages of staff to carry out audit duties influences the effectiveness of the internal audit.



From table 4.1.11

A] To determine the mean for the two groups [i.e.  $X_1$  AND  $X_2$ ]

DEPARTMENT	NO. OF RESPONDENTS	GROUP THAT STRONGLY AGREED & AGREED $X_1$	GROUP TTHAT DISAGREED & STRONGLY DISAGREED $X_2$
INTERNAL AUDIT	32	19	13
TREASURY	26	16	10
ADMINISTRATIVE	34	21	13
TOTAL	92	56	36

$$\bar{X}_1 = \frac{\sum X}{n_1} = \frac{56}{3} = 18.67$$

$$\bar{X}_2 = \frac{\sum X}{n_2} = \frac{36}{3} = 12$$



B] To determine the standard deviation of the group  $X_1$  and  $X_2$ .

$X_1$	$X_1 - \bar{X}_1$	$ X_1 - \bar{X}_1 ^2$	$X_2$	$X_2 - \bar{X}_2$	$ X_2 - \bar{X}_2 ^2$
19	0.33	0.11	13	1	1
16	-2.67	7.13	10	-2	4
21	2.33	5.43	13	1	1
		12.67			6

$$SD_1 = \sqrt{\frac{x_1 - x_1^2}{n_1 - 1}}$$

$$SD_1 = \sqrt{\frac{12.67}{3-1}}$$

$$SD_1 = \sqrt{\frac{12.67}{2}}$$

$$SD_1 = \sqrt{6.34}$$

$$SD_1 = 2.52$$

$$SD_2 = \sqrt{\frac{x_2 - x_2^2}{n_2 - 1}}$$

$$SD_2 = \sqrt{\frac{6}{3-1}}$$



$$SD_2 = \sqrt{\frac{6}{2}}$$

$$SD_2 = \sqrt{3}$$

$$SD_2 = 1.73$$

C] Now the Z- test formula will be applied

$$Z = \frac{x_1 - x_2}{\sqrt{\frac{(SD_1)^2}{n_1} + \frac{(SD_2)^2}{n_2}}}$$

Where:  $x_1 = 18.67$

$$x_2 = 12$$

$$SD_1 = 2.52$$

$$SD_2 = 1.73$$

$$n_1 = 3$$

$$n_2 = 3$$

Substitute:

$$Z = \frac{18.67 - 12}{\sqrt{\frac{(2.52)^2}{3} + \frac{(1.73)^2}{3}}}$$



$$Z = \frac{6.67}{\frac{6.35}{3} + \frac{2.99}{3}}$$

$$Z = \frac{6.67}{2.12+1}$$

$$Z = \frac{6.67}{3.12}$$

$$Z = \frac{6.67}{1.77}$$

$$Z = 3.77$$

D] To compute the critical value and the computed value:

Critical value = ( $\pm 1.98$ )

Computed value = 3.77

$$3.77 > 1.98$$

E] Decision on the acceptance/rejection of  $H_0$ , null hypothesis: since the calculated value of  $Z$  is greater than the critical value, we shall uphold the alternative hypothesis and reject the null hypothesis.

### 4.2.3 TEST OF HYPOTHESIS THREE.

**$H_0$ :** The lack no of implementation of routine audit report by appropriate authorities.



**H<sub>1</sub>:** There is lack of implementation of routine audit report by appropriate authorities.

From table 4.1.12

A] To determine the mean for the two groups [ $x_1$ -  $x_2$ ]

DEPARTMENT	NO. OF RESPONDENTS	GROUP THAT STRONGLY AGREED & AGREED $X_1$	GROUP TTHAT DISAGREED & STRONGLY DISAGREED $X_2$
INTERNAL AUDIT	32	25	7
TREASURY	26	20	6
ADMINISTRATIVE	34	26	8
TOTAL	92	71	21

$$\text{Mean} = x_1 = \frac{\Sigma x}{n_1} = \frac{71}{3} = 23.67$$

$$x_2 = \frac{\Sigma x}{n_2} = \frac{21}{3} = 7$$

B] To determine the standard deviation of the group that answered strongly agreed & agreed and disagreed & strongly disagreed [ $x_1$  &  $x_2$ ]



$X_1$	$x_1 - \bar{x}_1$	$ x_1 - \bar{x}_1 ^2$	$x_2$	$x_2 - \bar{x}_2$	$ x_2 - \bar{x}_2 ^2$
25	1.33	1.77	7	0	0
20	-3.67	13.47	6	-1	1
26	2.33	5.43	8	1	1
		20.67			2

$$SD_1 = \sqrt{\frac{x_1 - \bar{x}_1^2}{n_1 - 1}}$$

$$SD_1 = \sqrt{\frac{20.67}{3-1}}$$

$$SD_1 = \sqrt{\frac{20.67}{2}}$$

$$SD_1 = \sqrt{10.335}$$

$$SD_1 = 3.2148$$

$$SD_2 = \sqrt{\frac{x_2 - \bar{x}_2^2}{n_2 - 1}}$$

$$SD_2 = \sqrt{\frac{2}{2}}$$

$$SD_2 = \sqrt{1}$$

$$SD_2 = 1$$



C] Now the Z-test formula will be applied:

$$Z = \frac{x_1 - x_2}{\sqrt{\frac{(SD_1)^2}{n_1} + \frac{(SD_2)^2}{n_2}}}$$

Where:  $x_1 = 23.67$

$$x_2 = 7$$

$$SD_1 = 3.2148$$

$$SD_2 = 1$$

$$n_1 = 3$$

$$n_2 = 3$$

Substitute:

$$Z = \frac{23.67 - 7}{\sqrt{\frac{(3.2148)^2}{3} + \frac{(1)^2}{3}}}$$

$$Z = \frac{16.67}{\sqrt{\frac{10.335}{3} + \frac{1}{3}}}$$

$$Z = \frac{16.67}{\sqrt{3.445 + 0.333}}$$

$$Z = \frac{16.67}{\sqrt{3.778}}$$

$$Z = \frac{16.67}{1.944}$$



$$Z = 8.575$$

D] To compute the critical value and the computed value:

Computed value > critical value

$$8.575 > 1.98$$

E] Decision on the acceptance/ rejection of  $H_0$ , null hypothesis: since the calculated value of Z IS greater than the critical value, we shall uphold the alternative hypothesis and reject the null hypothesis.

### **4.3 DISCUSSION OF FINDINGS**

1. The sample population responded to the question on the existence of internal audit unit in the ministry and from some respondents they highlighted that the reason behind the establishment of the unit was for proper checking of financial records, to ensure accountability and to utilize organizational finance.
2. The internal audit department is not fully independent there is always management influence in the activities of the internal audit.
3. The internal audit encounters challenges like inadequate facilities, poor funding and understanding.



4. The internal control system in the Nigerian public sector is not adequate enough to check each staff on the incidence of fraud and misappropriation of funds.
5. Some of the non- auditing staff in the Nigerian public sector does not recognize the function of the internal audit department. They consider the departments as a tool which helps the management in committing fraud.
6. There is no proper record keeping in government ministries and parastatals and therefore, making the work of the internal auditor difficult.
7. There is negligence on the incidence of fraud by the appropriate authorities responsible for the implementation of routine audit report.
8. The internal audit department in the Nigerian public sector partially gives proper attention to the areas of quality assurance and risk assessment. Most of their functions rest on the aspect of financial audit.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 SUMMARY**

The study was undertaken to survey the challenges of internal audit function in the Nigerian public sector. The focus of this study was to evaluate the internal control system which includes the audits functions, to investigate the lack of proper implementation of audit and also the lack of proper segregation of duties in the internal audit.

In sourcing for information various relevant literature was reviewed on the duties, function, roles and challenges of the internal audit in the Nigerian public sector.

Chapter three highlighted the research method used for the study which consisted of the area of the area of study, population sample size, method of data collection and sampling techniques and analysis of questionnaires which were structured for data collection and were administered by the researcher to the staff of Kaduna state ministry of finance.

At the end of the study discussion on findings were made based on the findings from the study.



## **5.2 CONCLUSION.**

At the beginning of the study, the researchers' incentive is to survey into the challenges of internal audit functions in the Nigerian public sector. Thus, based on the analysis of data, it is concluded from this study that the internal control system in Nigeria public sector is not adequate enough to fore still the incidence of fraud among public officers and this has a negative effect on the efficiency of the internal audit department.

The inadequacy of staff, poor funding and lack of segregation of duties in the internal audit department is also a hindrance to the effectiveness of the internal audit in the Nigeria public sector, there is also negligence from the government and appropriate authorities in implementing routine audit report. There is need to demonstrate accountability in the use of public money and efficiency in the delivery of service, for this to be achieved the government must look into the challenges hindering the efficiency of the internal audit and give proper attention to this unit.

## **5.3 RECOMMENDATIONS.**

1. I recommend that Improvement should occur on two levels; management needs to know what internal auditing can firmly contribute and internal auditing needs



to become more professionally competent and focused on the organization's objective. A more professional internal audit function will be able to assist management in decision making and thus will fill a more proactive and forward looking role in adding value to the organization's objective.

2. Installation or operation of adequate accounting system, some of the audit evidence is available from accounting records that are reliable and this can only be made available if good accounting system is put in place.
3. Salaries and other fringe benefits of the staffs should be enhanced and paid as when due in order to reduce any fraudulent act and practices and employ more staff so as to produce more efficient and sophisticated work output.
4. Establishing an internal audit agency in the public sector to oversee quality assurance and to protect internal auditing in independence, and for audit committees to become a requirement in both public and private sectors.
5. Together with management, internal auditing needs to identify functional areas, risk area and risk element to achieve a risk profile.
6. A formal mandate from the board or audit committee would give the internal audit function the authority to audit anything that, in its professional opinion has impact in the organization. The effectiveness of the governance risk management and control process.



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## APPENDIX I

Caritas University



Amorji-Nike Enugu

Faculty of Management and social  
Sciences

Accountancy Department.

26<sup>TH</sup> June, 2013.

Dear Respondent,

The bearer is a final year student of the above named institution carrying out a research on THE CHALLENGES OF INTERNAL AUDIT FUNCTION IN THE NIGERIAN PUBLIC SECTOR (A study of the ministry of finance Kaduna, Kaduna state). This study is purely on academic exercise in partial fulfillment of the requirement for the award of a bachelor of science (B.Sc.) Degree in Accounting.

I will be most grateful if you help by filling and returning the questionnaire. Any information you give will be treated in strict confidence and will be used properly and purely for academic purpose.

Thanks for your co-operation.

Yours faithfully,

OKERESON CYNTHIA O.

## **APPENDIX II**



## QUESTIONNAIRE

Kindly indicate your response to each of the question below by ticking [v] in the bracket where appropriate and comment where necessary.

### SECTION A: PERSONAL DATA

1. Sex

Male [ ]

Female [ ]

2. Age

21 – 30 [ ]

31 – 40 [ ]

41 – 50 [ ]

51 – above [ ]

3. What category of staff are you?

ACA [ ]

B.sc/ HND [ ]

GCE/WASSCE [ ]

OND/A LEVEL [ ]

4. How long have you been in service?

1 – 5 [ ]

6 – 10 [ ]

11 – 15 [ ]

16 and above [ ]

5. Official occupation in the ministry?

Audit [ ]

Administrator [ ]

Treasury [ ]



## SECTION B.

6. Do you agree to the existence of internal audit unit in the ministry?

Strongly agree [ ]      Agree [ ]      Disagree [ ]

Strongly disagree [ ]

7. Would you admit that the internal auditor enjoys a degree of independence in the course of his duty?

Strongly agree [ ]      Agree [ ]      Disagree [ ]

Strongly disagree [ ]

8. Do you think the internal audit function has an impact on the Nigerian public sectors?

Strongly agree [ ]      Agree [ ]      Disagree [ ]

Strongly disagree [ ]

9. Are there challenges faced with the internal audit function in the Nigerian public sector?

Strongly agree [ ]      Agree [ ]      Disagree [ ]      strongly disagree [ ]

10. Do you agree that the possession of a sound academic knowledge in accounting is essential for effective performance of internal audit function?

Strongly agree [ ]      Agree [ ]      Disagree [ ]

Strongly disagree [ ]



11. Is there any level of efficient audit performance on financial audit in the public sector?

Strongly agree [ ]      Agree [ ]      Disagree [ ]

Strongly disagree [ ]

12. Is there performance on quality assurance by the internal audit unit?

Strongly agree [ ]      Agree [ ]      Disagree [ ]

Strongly disagree [ ]

13. Do you agree that the inadequacy of the internal control system is not the motive behind some challenges the internal audit unit face?

Strongly agree [ ]      Agree [ ]      Disagree [ ]

Strongly disagree [ ]

14. Do you agree that departments of the ministry co-operates with the internal auditor?

Strongly agree [ ]      Agree [ ]      Disagree [ ]

Strongly disagree [ ]

15. The lack of proper segregation of duties does not have a position effect to the ineffectiveness of the internal audit. Do you agree?

Strongly agree [ ]      Agree [ ]      Disagree [ ]

Strongly disagree [ ]



16. Do the non- implementation of routine audit report by appropriate authorities contribute to the challenges of inefficiency of the internal audit?

Strongly agree [ ]      Agree [ ]      Disagree [ ]

Strongly disagree [ ]