Critical Evaluation of Internal Control Environment Situation of Nigeria Public Audit

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The importance of public audit is their ability to satisfy the citizenry that transparency and accountability of government operations help to reduce corruption to the barest minimum. However, full information has not been provided about the Nigeria public audit. The study critically examined internal control environment situation of public audit in Nigeria. Through observation, the study discovered a significant impact of internal control environment on public audit practices. The study concluded Nigeria public audit information relevance depends on the strength of internal control environment. To strengthen public audit quality, the study recommends a review of existing practices and research on collaboration of policy-makers; academia, private and public audit sector so that citizenry can enjoy the benefit of audit creation.

Keywords: control environment, Government audit, Nigeria

Introduction

Public sector is an important aspect of a nation which success determines individual's wealth. Professionals’ duty is to protect the interest of the citizenry by making available information that can help in reducing corruption and wealth maximization. Quality and reliable financial information can only be provided by professional accountant who has gone through the rigor of academic and professional training whose opinion on financial statement can be generally acceptable by the public. However, the citizenry should bear in mind that financial information can only provide reasonable and not absolute assurance about the achievements of an entity’s progress, because no information can change an inherently poor manager into a good one (INTOSAI, 2004). To minimize rampant cases of corrupt practices in public sector, the internal control was updated to add ethical aspect of operations into new definition of internal control as an integral process that is affected by an entity’s management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity’s mission, the following general objectives are being achieved: executing orderly, ethical, economical, efficient, and effective operations; fulfilling accountability obligations; complying with applicable laws and regulations thus safeguarding resources against loss, misuse, and damage (INTOSAI, 2004).

The general consensus among scholars on Nigeria public audit is that the system of public audit practices has been found not effective to enhance accountability and transparency. However, according to Chambers (2012), public auditors are the guardians of public trust and they have credible insight into the inner workings of the government. Asein, Soetan and Akintoye (2018) argued financial statements can only be relevant when financial
and non-financial information is made available for decision-making. But to what extent does Nigeria public audit information relevant for decision making.

Though there is increase of professionals in the public audit sector, however the study of Olasupo, Adewumi and Adekola (2018) found only one out of the 150 samples of professional accountants in public audit holds a doctorate degree. It may be argued that academic are not needed in the public sector, yet, it validated the gap between theory and practice of public sector accounting as also identified by (Omolehinwa & Naiyeju, 2015).

According to agency theory, management as agents of the public should provide oversight control and feed the principal necessary information about the activities of the organization. Controls can be affected by everybody working in an organization. Thus, the theory of corporate governance which suggests a holistic system of control aimed at achieving corporate goal. Abel (2015) identified existence of institutional structure, legal, observation of rule of law, good relationship, and economic activities are needed to achieve transparency and honesty for the benefit of the larger society.

Auditors are expected to first evaluate the adequacy of internal control system before undertaking any specific tests, so as to detect areas of weakness or reliance upon the safeguards instituted by the management. This knowledge will help to determine risk, the nature, extent, and timing of audit test to be applied in his examination of the financial statements.

To increase the knowledge on the Nigeria public audit practices and determine the extent of relevance of public audit information the researcher through insider observation critically examined the Nigeria public audit and its internal control environment situation.

**Government Audit**

In Nigeria public sector, there are internal and external audit. Internal auditors are the staff of accountant’s general working in the treasury department to carry out pre-payment audit of all government vouchers to ensure compliance with the provisions of financial regulations investigates any reported cases of breach of any provision of the financial regulations or fraud and recommend appropriate disciplinary actions against any erring officer. They also report whatever observations discovered to the accounting officers of the concerned ministry for necessary actions. Copies of their report are usually sent to the accountant general

Public external auditors are the staff of auditors general, whose position is created by the 1999 constitution (Omolehinwa & Naiyeju, 2015). The appointment of the auditor general for the state requires the state house of assembly for confirmation subject to the governor’s approval while his salaries and allowances are charged to consolidated revenue funds. The removal from office requires the support of two-third majority of the state house or on health grounds, illegal activities, or age. Auditor general’s duties as stated in the financial regulation include: financial audit to determine compliance with the existing laws, appropriation audit to ensure funds are spent as proposed by the budget, value for money audit to ensure the economy, efficiency, and effectiveness of government projects and programme and financial controls to prevent wastages, pilferages, and extravagances. To achieve these objectives, the constitution provided independence and free access of audit staff to all necessary government information and books relating to accounts of ministries or extra-ministerial offices and other arms of government or units. The overall objective is to provide audit report as evidence of government performance.

**Control Environment**
Five components of internal control identified by International Organisation of Supreme Audit Institution (INTOSAI 2001), as guidelines for internal control standards for the public sector include: controlled environment, risk assessment, control activities, information and communication, and monitoring.

There is no sector that is isolated from its environment. Every organisation and its component part are immersed within a particular environment; whether private or public, it exists in a natural world and is affected by human activities either directly or indirectly. Control environment is the foundation on which other controls are based. It sets the tone of interaction among people within the organisation and influences the control consciousness of all staff. Various definitions are given to control environment by researchers. There is a global, national, political, economic, social, and technological environment. There is also a public sector environment, private sector environment, institution, or organisation’s internal environment; all these can directly or indirectly influence an organisation. Olasupo et al. (2018) identified environmental factors that influence public audit as professional, political, technocratic technology and sociology. Afdha (2015) analysed control environment situation in Indonesia, the descriptive statistics revealed weakness of internal control system implementation, which led to manager’s inability to implement efficient and effective transparency and accountability in the conduct of government activities.

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Since resources in the public sector embody information on public money and its uses in the public interest requires special care, it then become of professionals of accounting and auditing to analyse the concept of management control by stressing the importance of non-financial information embedded in the internal control environment in which the provider of such information operates. This information can be used by the professionals and policy-makers as tools of judgement or correction, so that the quality received from public audit can be of the same standards with international best practices.

Conceptual Model of Public Audit Information

In the researchers view, public audit financial information is a result of different elements graphically demonstrated in the schematic diagram.
According to Whittington and Kurt (2010), information risk includes the possibility that the financial statement might contain material departures from generally accepted accounting principles. The framework of control environment elements provided by the guidelines for internal control standards for the public sector identified: the personal and professional integrity and ethical values of management and staff; commitment to competence; the tone at the top (i.e., management’ philosophy and operating style); organisation structure; and human resource policies and practices.

A public audit that has a sound internal control environment based on principle and trust will enable quality information to function independently, confidently, and reliably, thereby bringing orderliness, impressive development, and reduction of suspicion. However, where the internal control environment is weak, a lot of indiscipline, lawlessness, insincerity, dishonesty, corruption, and war of all against all will be the order of the day. Information from such cannot be a good tool for decision-making.

Critically evaluating the Nigeria government audit internal control environment elements as identified by Whittington and Kurt (2010), integrity and ethical values are measured in terms of the behaviour of a professional; this is in line with the moral principles of each profession, which may be called code of professional ethics that dictates the respect and trust the profession enjoys. Audit profession like any other profession has its integrity and ethical value under personal, fieldwork, and reporting standards. External auditors help to maintain the integrity and efficiency of the financial statements presented to financial institutions or stakeholders, while internal auditors provide assistance about a sound internal control system.

Audit professional integrity and ethical standards are at various levels, such as international standards, national standards, and office standards. Each level has punitive consequences for non-compliance. These consequences affect personal standards, field work standards, and reporting standards. The two accounting professional bodies recognised in the Nigerian public sector are the Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN), and each has its professional
ethics called code of conduct expected of their members.

In public sector, top managers are expected to develop, administer, monitor, and communicate a well-articulated statement of ethical values so as to guarantee a good internal control environment and discourage employees from fraudulent acts, thereby promoting a culture of honesty and ethical behaviour within the sector. According to Charles (2015), unethical behaviour in the public sector impacts all taxpayers and citizens, so, to ensure ethical behaviour are complied with, Musa (2016) recommended that professional accounting bodies ought to enforce compliance among their members. However, in the study of Adewumi (2016), few professionals were identified in Osun and Ogun States audit practices and audit report writing is not only limited to professionals in the field, how then can the attitude or behaviour of non-professionals be monitored so that quality information can be provided from the field?

Another important element of the internal control environment is the board of its directors or public audit committee. This set of people act as overseers to the management of controls and help in fraud prevention. In order to actively perform their stated duties, the management ought to be skilled in finance and methodical in standards of operation. To guarantee the independence of public internal auditors, the Institute of Internal Auditor IIA (2012) recommended that they should report to the audit committee, so as to improve the quality of internal audit financial report. Ilaboya and Ohiokha (2014) emphasised the independence of the audit committee because it could reduce audit report lag in Nigeria. Considering the constitutional approval of the state auditor general’s appointment by the governor, how can an auditor criticise his employer without being bias or writes indicting report against the governor when majority of the house of assembly who constitutes the public accounts committee may belong to the same political party as the governor; will they be willing to implicate their political member? No wonder, Seddi (2005) opined that public account committee in Plateau State of Nigeria never met to consider the report of auditor general between 1999 and 2003. “…even when such annual reports are received, there are no serious reviews on the reports” (Achua, 2009). In the same vein, Osipitan (2014) observed national executive arm of the government and that of the Nigerian National Assembly was not audited since inception to 2010 and that few states manage to publish a one or two page summary of their audited accounts periodically. Who then can effectively control public audit?

Management philosophy and operating styles are another element that can influence financial reporting and risk-taking in an organisation. Philosophy in terms of cosmic outlook, knowledge base, ethics, arts, and politics of audit practices influence someone’s decisions and behaviour. While some group leaders are aggressive to audit information and regard auditing as a witch-hunting exercise, some consider it as assisting them to perform better and establishing ways of achieving their organisation’s stated objective. Though auditors are expected to act independently, audit exercise, however, cannot be done without the management’s support. It was observed that most leaders in the Nigerian public sector belong to the first group; public auditors cannot freely audit the executive office holder’s account despite the acclaimed constitutional independence. Whereas privately, some of these leaders have personal businesses and they rely on audit report for some decisions. Why then are these leaders not practicing in the public sector what they do in their private businesses? This act is contrary to the importance placed on the external audit report in Britain where it is considered as a major component of accountability index rating. In Britain, it is mandatory to give an audit report on the floor of parliament to secure the performance of the government! No wonder Abel (2015) opined that the Nigerian constitution gave room for impropriety. Why is leadership philosophy in Nigeria merely theoretical? The practical aspect of philosophy has little or no impact on practice.
A good organisational structure as one of the internal control environment element assists in controlling operations, such that a junior worker is not placed above a senior staff, especially within the same office. In an ideal organisational structure, internal auditors ought to be placed above or equal in rank to accountants so as to prevent the impairment of audit independence. This is the experience in the World Bank assisted projects where the management prefers professionals, senior staff, or officers in the same rank with recognised professional certificates to be used as internal auditors. However, observation in the Nigerian public sector revealed internal auditors that are junior in rank to the accountants are normally used in the ministries. Can this practice not jeopardise internal auditor’s independence?

Assignment of authority and responsibility among the staff is an element which could enhance the internal control environment, such that each employee has a clear description of his job, and each knows that non-performance of one activity could affect all other sections. Managers are directly responsible for activities, such as designing, implementing, and supervising internal control; the internal auditor examines and contributes to the effectiveness of internal control through evaluation and recommendation, and the external auditor audits financial statements to ensure compliance to the standards while staff members are to effect and abide by the available controls and to report non-compliance. Other stakeholders are also to contribute in any area that could be of benefit to the organisation. According to INTOSAI’s (2001) guideline, internal control is the responsibility of everyone in an organisation. But to what extent are these duties clearly stated in the Nigerian public service?

Human resource policies and procedures concerning hiring, training, promoting, compensating, and evaluating employees is another element that could significantly affect the internal control environment. Human resource policies in the Nigerian public sector care less about familiarity threat; an accountant may be the son of the manager. Recently, the public sector is characterised with non-payment of salary for months or half salary and promotions are randomly effected without financial backing especially during elections. Professionalism participation in public sector was made compulsory for senior officers, but not usually backed up with financial assistance and where funds are released for conferences and training, such funds are released after the conference thereby discouraging the use of the money for its intended purpose. Such funds are usually diverted to meet personal needs. Also, where an employee engages in self-development, future promotion packages are not usually sufficient to pay back the cost of training. How can an officer be effective in these cases?

Commitment to competence as another element of internal control environment ensures that employee possesses the skill and knowledge essential to audit performance, especially when such an employee is to perform audit control functions. Accounting and auditing as a technical course is both professional and academic. Sometimes, an officer may be posted into the audit sector with lower certificate or other certificates that may not be accounting major, such as secondary education, computer or mathematics due to accountants not willing to work in the public sector. Such an officer can rise to the position of accounting officer either through seniority or mere possession of recognized professional certificates; with the influence of the governor or a powerful individual in the government, and when confronted with issues of corruption, some claim they are not accountant. Such a person will not be able to build on a business risk perspective of its clients given the current sophistry of the government business environment. According to Abel (2015), persons in governance positions should not rely on professional skepticism, horn on his skill through training and retraining or on previous knowledge of the client honesty and integrity.
Conclusion

Based on the observed information about Nigeria public audit internal control environment situation, the study concluded that internal control environment practices have a significant impact on the relevance of public audit information and such trend may not serve the public interest. Dwiputianti (2011) opined less response are from academic than professionals on challenges faced by public auditors on posing and testing theories that are well suitable to the changing environment and task demands.

The study recommended research on collaboration of policy-makers, academia, private, and public audit to achieve good governance through adherence to generally accepted internal control principles. Osipitan (2014) opined it is futile to clean up one sector of a society, without doing same to the other sector, because the unclean will contaminate the cleaned sector, hence filthiness will continue.

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