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The Impact of Internal Audit Function on Financial Accountability in Tertiary Institutions in Ekiti State, Nigeria

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ABSTRACT

Internal audit has been designed to improve the quality and reliability of financial statement via the prevention of manipulation and misrepresentation of accounting information so as to ensure the public confidence is enhanced in any organization. Therefore, the study examined the internal audit function and financial accountability of tertiary institutions in Ekiti State, Nigeria. Primary data were sourced from selected institutions in the state using both descriptive and inferential statistics for the analysis. A well-structured survey questionnaire with five Likert-scale response options was used to gather the data and distributed to the audit and accounting units of each of the four schools selected in the state. The result of the study showed that internal audit control (IAC), asset and liability verification (ALV) and compliance with plans and procedure (CPP) (proxies of internal audit control) showed a positive and statistically significant with financial accountability (FACT). Therefore, the study recommends among others that the internal audit control should be further empowered and strengthened to carry out the function of internal auditing as and when due in all tertiary in Ekiti State. Also, in order to improve the level of accountability as it depicts excellent quality management skill, there should be adequate recording, verification, authorization and security of all assets and liability in all tertiary institution in Ekiti State.

Keywords: Internal Audit Function, Accountability, Tertiary Institutions, Ekiti State.

Introduction

Internal Auditing is designed to enhance the quality and reliability of financial statements through the prevention of the manipulation or misrepresentation of accounting information in order to promote public confidence in the affairs of an organization It is a procedure that entails an impartial evaluation or examination of an organization's accounting, financial, or other associated processes with the goal of offering management constructive and protective services (Suleiman, 2015).

According to Ejoh and Ejom (2014), internal auditing with the backing of the board of directors or chief executive officer is the first step towards any successful management and accountability of tertiary institutions with a well-structured internal audit unit in a business. It is impossible to overstate the role that internal audit plays in promoting institutional accountability. It is a procedure that entails an impartial evaluation or examination of an organization's accounting, financial, or other associated processes with the goal of offering management constructive and protective services (Suleiman, 2015).

Accountability entails disclosing, elucidating, and defending one's actions or the efficient performance of one's duties (Gehya, 2014). As the leader of an internal audit unit, it is the responsibility of the internal auditor to be financially and administratively accountable in the performance of his duties (Johnson, 2004; Sholadoye, Isa, and Abdulahi, 2018). Universities, polytechnics, and colleges of education make up the post-secondary, or tertiary, portion of the national education system (Adeleke, 2022; Sholadoye, Isa, and Abdulahi, 2018; Hamidu, 2020). Therefore, the purpose of tertiary institutions is to aid in the growth of the country by helping students acquire the intellectual and physical abilities necessary to become independent and valuable members of society. Adequate financial reporting and accountability are essential to any institution's development in order to accomplish this. Financial reporting's primary goal is to supply sufficient and practical data for appropriate planning, management, and decision-making that will support the accomplishment of both short- and long-term organizational objectives. When information obtained is clear, fast, accurate, comprehensive, and comparative, this can be accomplished (Muhammad, 2006). For these qualities to be achieved, some kinds of professional work known as auditing need to be carried out by an auditor. This auditor may serve as an internal or external auditor. According to several authors (including Adeniji (2004) and the Auditing Standard of England and Wales), auditing is the independent review and opinion on an organization's financial statements by an independent auditor appointed in accordance with that appointment and any applicable statutory obligations. It is also the entire system of control, financial or otherwise, that management has put in place to ensure that an organization's operations are conducted in an orderly and efficient manner, protecting its assets and securing them as safely as possible while also guaranteeing the accuracy and completeness of its records. Internal and external auditing are the two types of auditing. In fact, from the perspective of the control system and performance quality as a service to the company, Millichamp (1996) sees internal audit as an independent evaluation role within an organization. According to the definition given above, an internal auditor is a member of an organization's workforce whose job it is to make sure that the internal control system is operating efficiently and to report back to management in order to maintain accountability. Accountability is proving success or accomplishment to another person. It entails disclosing, elaborating, and defending one's actions or manner of carrying out one's duties (Watoseniyi, 1996). Similarly, according to Adesola, who was quoted in Rafiu and Oyedokun (2007), accountability is the duty to show that work has been done in compliance with established guidelines and standards and that officers report fairly and honestly on performance outcomes in relation to assigned tasks and plans. It entails carrying out procedures in a transparent manner while adhering to due process and giving feedback. As a complement to public management, Boven (2005) sees accountability as a defining feature of contemporary democratic governance, where those in authority must answer for their choices, policies, and spending. Higher education has evolved into a legitimate profession with the ability to impact public financial management. However, it is appropriate for any business to have an efficient accounting control system with internal audit to assure compliance with legal requirements, monitor and check financial statements, and protect the institution's assets. Currently, it is crucial to update auditing practices to evaluate the sufficiency, dependability, efficiency, and effectiveness of other controls, which include procedures, standards, and budgeting systems, because of the growing demand for change, good governance, transparency, and accountability in the public sector. Therefore, insufficient accountability, which may be the consequence of a poor internal control system and internal audit, may be the cause of Nigeria's public tertiary institutions' underdevelopment in comparison to other tertiary institutions worldwide and the frequent disputes between the government and institution managements. In our public tertiary institutions today, there are lots of abandoned projects, poor facilities coupled with white elephant projects which are of no benefits and diversion of funds from one sub-heads to another. However, there is a wealth of previous literature on the role and accountability of internal auditing in Nigerian higher institutions, many of which focus only on universities, polytechnics, colleges of education, or all Nigerian institutions. Adeleke (2020), for example, examined how the performance of tertiary institutions in southwest Nigeria was affected by the internal control system. Additionally, Sholadoye, Isa, and Abdulahi (2018) looked into the accountability and role of internal auditing in tertiary institutions in Kano State, Nigeria. Likewise, Ejoh and Ejom (2014) and Hamidu (2020) focused on the Polytechnic in Bauchi State and the College of Education in Cross Rivers, respectively. In Ekiti State, it seems that little to no research has been done on this subject. In light of this, the purpose of this study is to examine the role and responsibility of internal auditing in Nigeria's Ekiti State's higher education institutions.

Literature Review

Theoretical Review

Agency Theory

Jensen and Meckling promoted agency theory in 1976. They also hypothesized that a "agency problem" occurs when investors are unable to monitor the funds provided to managers. Since they are the ones entrusted with the institution's resources, organizational leadership acts as the agents. The principal and the agent may have conflicting interests when ownership and management are separated; the agent may try to maximize their own gain at the principal's expense, and the principal may be at a disadvantage due to the information gap that results. Information asymmetry and the agent's self-interest are the main causes of the agency problem, which is the principal lack of trust in the agent.

The application of efficient internal control can improve performance when management is convinced to behave in the shareholders' best interests. Cao, Thanh, and Cheung (2010) assert that effective internal controls can enhance quality reporting, which produces information asymmetry. An internal control system is one strategy an organization uses to address the agency problem. Maintaining an efficient internal control system and enforcing all controls set by management are the responsibilities of the internal control officer.

Stewardship Theory

Stewardship Theory was introduced by Lex Donaldson and James Davis 1991. The theory identifies circumstances in which managers lack personal motivation. Instead, they are stewards whose goals coincide with those of their principals. According to stewardship theorists, the principal's pleasure and the organization's success are closely related (Davis et al. 1997 as referenced by Kaars, 2011). In contrast to the agent, the steward prioritizes group goals over individual ones and sees the organization's success as his personal achievement. Regarding this work, the stewardship theory suggests that in order for audit to be successful, management and internal audit must collaborate. This is because audit needs management support in order to improve accountability and achieve organizational goals as a whole. Users are able to make economic judgments thanks to the information principle. Valid audited financial data is necessary for investors to make informed investment decisions and evaluate risks and projected rewards. Enhancing the financial information utilized for internal decision-making is another benefit of an audit (Davis et al. 1997 as referenced by Kaars, 2011). More accurate data would increase accountability and facilitate better internal decision-making. Here, the information principle suggests that the auditors' primary components for assuring accountability and improved decision-making by an organization's management are more reliable and accurate data.

Empirical Review

Kisanyanya (2018) examines how internal control affects public institutions' financial performance, concentrating on the effects of particular internal control components like risk assessment, control environment, information and communication, and monitoring on public institutions' financial performance in Kenya.According to the study, the institutions had efficient internal control measures in place, including frequent audits, task division in the accounting department, and physical controls to stop excessive funding allocation.

Umar and Dikko (2018) conducted a survey in a few chosen commercial banks to examine the effects of internal control systems on the Nigerian banking sector. The study's conclusions demonstrated a connection between the banks' performance and the elements of internal control, including risk assessment, information and communication, the control environment, and monitoring.

A study on the application of internal controls by South African manufacturing small-scale enterprises was conducted by Dubihlela and Nqala (2017). The study's objectives were to evaluate how SMEs in the manufacturing industry implement internal controls and the connection between internal controls and risk reduction or avoidance. During the observation phase of the qualitative study, the interactive case study method was utilized. According to the report, internal control aids in risk mitigation for manufacturing SMEs.

A study on the application of internal control systems in Nigerian tertiary institutions was conducted by Adetula et al. (2016). Four universities in the nation's southwest were chosen for examination. A questionnaire instrument was used to gather data, and descriptive statistics were used for analysis. The study's conclusions showed that while the universities' audit departments lacked independence, all of the internal control components were present and operational.

Similarly, Akosile and Akinselure (2016) investigated how internal control affected Nigerian universities' financial management. One hundred and fifty (150) copies of questionnaires were given to employees at particular universities in the southwest region of Nigeria using the survey research approach. The study's conclusions demonstrated a favorable correlation between prudent institutional resource management and internal control.

In their study, Eniola and Akinselure (2016) looked at how internal control affected a few chosen companies' financial results. They employed the non-probability sampling technique, and survey questionnaires were used to help collect data. The regression approach of data analysis was always used to examine the acquired data. The study's conclusions demonstrated a robust correlation between financial misconduct in the chosen companies and internal control.

Adagye (2015) used Niger State Polytechnic as a case study to evaluate the effectiveness of the internal control system in the nation's higher education institutions. The study employed a survey research design, and the results showed that the institution of learning's financial and human resources were not managed using internal control (Salihu, 2015). Furthermore, the check that the school's higher authorities are expected to conduct was not there. This indicates that the institution's internal control mechanism was ineffective.

A study on the efficiency of internal controls in Adamawa state's tertiary institutions was conducted by Salihu (2015). The study's findings demonstrated that the institution's administration had not implemented sufficient internal control procedures, particularly with regard to monitoring, approval, and task segregation. This could lead to a loss of revenue for the institution.

Ejoh and Ejom (2012) used Calabar State College of Education as a case study to evaluate the impact of internal control on the financial performance of Nigerian tertiary institutions. It was found that the institution's internal control system was not being properly followed, and that employees were not receiving enough training to fulfill their responsibilities.

Methodology

The study was conducted using a quantitative research approach. The survey method was used as the research design for this investigation. Non-experimental research describes data and the relationship between variables using a variety of techniques. The sample size was determined by administering 150 questionnaires to respondents, of whom 85 eventually returned them.

For the investigation, basic random sample methods and purposeful sampling were employed. Because only employees of specific institutions had an equal chance of being randomly selected, purposive sampling was employed.5-Strongly Agree, 4-Agree, 3-Neutral, 2-Disagree, and 1-Strongly Disagree are the five-point Likert scale. The replies to all of the questions were measured using a five-point rating scale, which ranged from Strongly Agree to Strongly Disagree. This is because this scale is simple for responders to understand, which is why many researchers have used it. Hence, responses from five-point scale are most probably reliable (Zuriekat, Salameh & Alrawashdeh, 2011). In order to administer the questionnaire to the respondents, visitations were made to the selected tertiary institutions (Ekiti State University Ado Ekiti, Bamidele Olumilua University of Education, Science and Technology Ikere, FUOYE, and The Federal Polytechnic Ado). Financial accountability (FACT) serves as the dependent variable for this research work. Since the variable is latent in nature it cannot be measured directly therefore, some proxies will be adopted to measure it for the purpose of this study. Also, the independent variable of this study is Internal Audit Functions (IAF) proxied by Internal audit control (IAC), Asset and Liability Verification (ALV), Compliance with plan and procedures (CPP).

Presentation and Data Analysis

This section presents the results of the descriptive statistics of the data collected.

Table 1. Descriptive Statistics

Variable	**N**	**Mean**	**Std. deviation**	**Minimum**	**Maximum**
FACT	85	6.6824	0.2022	4	10

IAC	85	.0648	0.0608	4	10
ALV	85	6.6244	0.2242	4	10
CPP	85	5.6842	0.4242	2	10

Source: Author's computation 2024

Table 1 presents the descriptive statistics of the dependent variable (Accountability) of this study as well as the independent variable – Internal audit functions (Internal audit control (IAC), Asset and Liability Verification (ALV) and Compliance with established policy, plans and procedures (CPP). It displays the minimum, maximum, mean and standard deviation for both the dependent and independent variables of this study. The nature of the data shows that they are ordinal data, which are in categories and the size of the data is 85. The data are transformed by taking the average of the responses and rounded off to the nearest whole number.

Table 2: Correlation Matrix

	FACT	**ICS**	**ALV**	CPP
FACT	**1**			
IAC	0.3349	**1**		
ALV	0.4402	0.3545	**1**	
CPP	0.5336	0.4455	0.4982	**1**

Source: Author's Computation 2024

Table 2 shows the relationship between Accountability and the subset variables of Internal audit functions: IAC, CMP and ALV. It can be observed from the first matrix that all the subset variables of internal audit functions, ranging from Internal audit control (IAC = 0.3349), Asset and Liability Verification (ALV = 0.4402) and Compliance with established policy, plans and procedures. (CPP = 0.5336), all have a positive and relatively moderate relationship with Accountability. It can be deduced that internal audit functions help to improve accountability in all the tertiary institutions in Ekiti state.

Table 3: Regression Analysis

Model	**Unstandardized Coefficients**		**Standardized Coefficient**	**T**	**Sig**
	B	**Std Error**	**Beta**		
(Constant)	-5.835	11.844		-.493	.656
1 IAC					
ALV	1.056	.077	.992	13.642	.001
CPP	3.059	0.67	0.99	10.321	0.00
	6.180	0.612	0.432	12.510	0.00

a. Dependent Variable: FACT

Source: Author's Computation 2024

Form table 3 above, the result indicates that, a unit increase in internal audit control (IAC) would result to an increase in financial accountability of tertiary institution in Nigeria by a magnitude of 0.922. this implies that there is positive relationship between financial accountability of tertiary institution and internal audit control. In the same vein, asset and liability verification (ALV) show a direct relationship with financial accountability considering the coefficient of ALV (0.99). this indicates that a unit increase in ALV would lead to increase in FACT to the magnitude of 0.99. Finally, Compliance with established policy, plans and procedures (CPP) also showed a positive or direct relationship with FACT given the value of CPP coefficient (0.432). this is an implication that a unit increase in CPP would lead to increase in FACT by a magnitude of 0.432

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate

1	.992[a]	.984	.979	19.42374

Predictors: (Constant), ICS, ALV& CPP

Source: Author's Computation 2024

Table 4 above shows that the Model revealed the value of R^2 = 0. 984 and Adjusted R2value is .979. This suggests that the model explains about 98% of the systematic variations in the dependent variable. This means that the regression explains 98% of the variance in the data. The value of adjusted R^2 of 98% also shows that 2% of the variation in the dependent variable is explained by other factors not captured in the study model.

Table 5: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	70218.155	1	70218.155	186.116	.001[b]
1	Residual	1131.845	3	377.282		
	Total	1350.000	4			

Source: Author's Computation 2024

In table 5, it is revealed that the model is statistically significant given the value of F-statistics (186.116) and the p-value of 0.001 which less than 0.05 level of significance.

Discussion of Findings

Based on the aforementioned, this study determined the connection between financial accountability, compliance with established policies, plans, and procedures (CPP), asset and liability verification (ALV), and internal audit function (as represented by internal audit control, or IAC) in tertiary institutions in Ekiti State. The outcome showed the following:

Firstly, there was a favorable and statistically significant correlation between the financial accountability of Ekiti State's tertiary institutions and internal audit control (IAC). The IAC coefficient value of 0.992, which demonstrated a strong and positive association with the study's dependent variable, financial accountability (FACT), and the p-value of 0.01—less than the 0.05 level of significance—make this clear. This finding is consistent with the findings of Sholadoye, Isa, and Abdulahi (2018) and Hamidu (2020), who discovered a favorable and statistically significant relationship between tertiary institution financial accountability and internal audit control.

Secondly, the value of the coefficient and the p-value of ALV, which are 0.99 and 0.00, respectively, make it abundantly evident that asset and liability verification also revealed a positive and statistically significant relationship with the financial accountability of tertiary institutions in Ekiti state. The findings of Sholadoye, Isa, and Abdulahi (2018), who discovered a negligible impact of ALV and financial responsibility at Kano State's higher institutions, run counter to this.

Lastly, there was a small but statistically significant positive correlation between financial accountability (FACT) and compliance with established policies, plans, and procedures (CPP). This was demonstrated by the study's results in Table 3, which showed a p-value of 0.00 and a coefficient of 0.432. This result is consistent with the findings of Edna (2019), Ezejiofor and Sholadoye, Isa, and Abdulahi (2018), who discovered a positive and substantial correlation between financial accountability and adherence to established plans and procedures.

Conclusion and Recommendation

Conclusion

According to the study's findings, the internal audit role is essential to the effective operation of the institutions in terms of the asset, financial, and administrative management of tertiary institutions in Ekiti State. The relationship between internal audit control and financial responsibility in the chosen Nigerian tertiary institutions makes this clear.

It is also demonstrated in the connection between the chosen tertiary institutions in Ekiti State and the assistance with liability verification and financial accountability. Finally, there is the connection between financial accountability and adherence to established policies, plans, and processes in a subset of Ekiti State's academic institutions.

Recommendations

Based on the findings of this study, the following are recommended:

i. In order to do internal auditing as and when it is due in all tertiary institutions in Ekiti State, internal audit control should be further empowered and strengthened.

ii. All tertiary institutions in Ekiti State should have proper documentation, authorization, verification, and security of all assets and liabilities in order to raise the degree of accountability since it demonstrates exceptional quality management skills.

iii. The audit committee should work harder to guarantee that all tertiary institutions in Ekiti State follow the set method in order to increase compliance with plans and procedures.

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