

**INTERNAL AUDIT EFFICIENCY AND PUBLIC SECTOR  
PERFORMANCE IN SOUTHWESTERN NIGERIA**

**By**

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### CERTIFICATION

This is to certify that TAIWO ISAAC BABATOPE carried out this research work under my supervision in the Department of Management and Accounting, Faculty of Administration, ObafemiAwolowo University, Ile-Ife, Nigeria.

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(Head, Dept. of Accounting)

.....

## DEDICATION

This thesis is dedicated to GOD ALMIGHTY, the one who has been my source of inspiration, strength and bestowed upon me, the grace, wisdom, knowledge and understanding to start and finish this programme.

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## TABLE OF CONTENTS

Title page.....	i
Authorization.....	ii
Certification.....	iii
Dedication .....	iv
Acknowledgements.....	v
Table of Contents .....	vi
List of Tables.....	x
List of Figures.....	xii
Abstract.....	xiii
<b>Chapter One: Introduction</b>	<b>1</b>
1.1 Background to the Study	1
1.2 Statement of the Research Problem	4
1.3 Research Questions	4
1.4 Objectives of the Study	5
1.5 Hypotheses of the Study	5
1.6 Justification for the Study	5
1.7 Scope of the Study	6
1.8 Limitation of the Study	6
<b>Chapter Two: Literature Review</b>	<b>7</b>
2.1 Conceptual Review	7
2.1.1 Internal audit	7

2.1.2	Internal Audit System	8
2.1.3	Objectives of Internal Auditing System	9
2.1.4	Components of Effective Internal Audit System	9
2.1.5	Qualities of a Good Internal Audit Unit	12
2.1.6	Advantages of Internal Audit	14
2.1.7	The Role of Internal Audit	14
2.1.8	Internal Auditor's Approach to Auditing Assignment	15
2.1.9	History of Internal Audit in Government	17
2.1.10	Origin of Auditing in Nigeria	17
2.1.11	Overview of Internal Control	18
2.1.12	Limitation of Internal Control	19
2.1.13	Value for Money Auditing; A Measure of Public Sector Performance	20
2.1.14	The Auditor General	21
2.1.15	The Public Account Committee	21
2.1.16	Linking the Conceptual Review	22
2.2	Empirical Review	22
2.2.1	Developed Country	22
2.2.2	Developing Countries	26
2.2.3	Review in Nigeria	30
2.3	Theoretical Framework	33
2.3.1	Agency Theory	33
2.3.2	Institutional Theory	35
2.3.3	The Stewardship Theory	36
2.3.4	Contingency Theory	36
2.3.5	Linking the Theories	37
<b>Chapter Three: Methodology</b>		<b>39</b>
3.1	Area of Study	39
3.2	Research Design	39
3.3	Population, Sample Size and Sampling Technique	40
3.4	Measurement of Variables	42

3.5	Data Collection Techniques	42
3.6	Research Instruments	43
3.7	Validation and Reliability of Data Collection	43
3.8	Data Analysis Techniques	43
3.8.1	Decision criterion for validation of hypothesis	44
<b>Chapter Four: Data Presentation, Analysis and Interpretation</b>		<b>45</b>
4.1	Social-Demographic Characteristics of Respondents	45
4.2.	Assessing the Determinants of Internal Audit Efficiency in the Nigerian Public Sector.	50
4.2.1	There is Negligence on the Incidence of Irregularities by the Appropriate Authorities Responsible for the Implementation of Routine Audit Report	50
4.2.2	Internal Audit Function Enhances Efficiency in the Nigerian Public Sectors	51
4.2.3	There is Flaw of Audit Model and Accounting System in the Public Sector	51
4.2.4	Internal Audit Unit has a Quality assurance and Improvement Programme	52
4.2.5	Inadequacy of the Internal Control System has Significant Effect on the Internal Audit Function in Nigeria Public Sector	52
4.2.6	The Non-implementations of Routine Audit Report by Appropriate Authorities Contribute to the Challenges of Inefficiency of the Internal Audit	53
4.3	Evaluate Public Sector Performance in Compliance with Established Financial Control Frameworks in Nigeria	53
4.3.1	Internal Audit Functions are Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing	53
4.3.2	The Ministry Internal Auditors Perform their Duties with a Greater Degree of Autonomy and Independence from the Management	54
4.3.3	The Internal Audit Unit in the Ministry Engage in Periodic Reviews that Include Risk Assessments, Analysis of Performance Metrics, and Best-practice Benchmarking	55





4.3.4	The internal Audit Department is Sufficiently Staffed in the Ministry	55
4.3.5	The Number and Skill of Internal Audit Unit match the Scope of Ministry's Operations	56
4.4	Examine the Impact of Internal Audit Efficiency on the Performance of the Nigerian Public Sector	56
4.4.1	There is Enough Awareness and Good Perception as Regards the Internal Audit Function in the Ministry	57
4.4.2	The Audit Functions in the Ministry are Carried out Spontaneously	57
4.4.3	The Ministry sees Internal Auditing as Providing Internal Assurance through Investigations, Check, Assessment, Consultants and Advisory Functions	58
4.4.4	Ministry Internal Auditor makes Appropriate Recommendation for Management to Improve Performance	58
4.4.5	The members of the Internal Audit Unit have the prerequisite Professional Designations that Demonstrate their Competency	59
4.4.6	The Relationship between the Internal Audit Staff and other Staff within your Ministry are Cordial	59
4.4.7	Internal Audit Functions are Perceived as a Threat to other Department Functions	60
4.4.8	Internal Audit Report Addresses Weakness in the Ministry Controls System	60
4.4.9	Proper Accountability and Supervision of Internal Auditors Work will help to Improve Efficiency and Public Sector Performance in Nigeria	61
4.5	Test of Hypothesis	61
4.5.1	To Determine the Mean for the Two Groups (i.e. $x_1$ and $x_2$ )	62
4.5.2	To Determine the Standard Deviation of the Group	63
4.5.4	To Compute the Critical Value and the Computed Value	65
4.5.5	Decision on the Acceptance/Rejection of $H_0$ , Null Hypothesis and $H_1$ Alternate Hypothesis	65
<b>Chapter Five: Summary, Conclusions and Recommendations</b>		<b>66</b>

5.1	Summary of Findings	66
5.2	Recommendations	68
5.3	Conclusion	70
5.4	Contribution to Knowledge	70
5.5	Limitation to the Study	71
5.6	Suggestion for Further Research	72
	<b>Bibliography</b>	73
	<b>Appendix Copy of Questionnaire Distributed to the Respondents</b>	84

OBAFEMI AWOLowo UNIVERSITY

**LIST OF TABLES**

3.1	Population Distribution for the Study	40
3.2	Sample Size Distribution for the Study	41
4.1	Analysis of the Questionnaire Administered to the Respondents	45
4.1.1a	Gender Composition of the Respondents	46
4.1.1b	Marital Status of the Respondents	47
4.1.1c	Age Composition of the Respondents	47
4.1.1d	Highest Level of Education of the Respondents	48
4.1.1e	Distribution of Respondents with Respect to Length of Service	49
4.1.1f	Distribution of Respondents with Respect to Job Office Title	50
4.2.1	Question on the Incidence of Irregularities by the Appropriate Authorities Responsible for the Implementation of Routine Audit Report	50
4.2.2	Internal Audit function Enhances Efficiency in the Nigerian Public Sectors	51
4.2.3	There is Flaw of Audit Model and Accounting System in the Public Sector	51
4.2.4	Internal Audit Unit has a Quality Assurance and Improvement Programme	52
4.2.5	Inadequacy of the Internal Control System has Significant Effect on the Internal Audit fFunction in Nigeria Public Sector	52
4.2.6	The Non-implementations of Routine Audit Report by Appropriate Authorities Contribute to the Challenges of Inefficiency of the Internal Audit	53
4.3.1	Internal Audit functions are Conducted in Conformance with the International Standards for the Professional Practice of Internal	53

## Auditing

4.3.2	The Ministry Internal Auditors Perform their Duties with a Greater degree of Autonomy and Independence from the Management	54
4.3.3	The Internal Audit unit in the Ministry Engage in Periodic Reviews that include Risk Assessments, Analysis of Performance Metrics, and Best-Practice Benchmarking	55
4.3.4	The Internal Audit Department is Sufficiently Staffed in the Ministry	55
4.3.5	The Number and Skill of Internal Audit Unit Match the Scope of Ministry's Operations	56
4.4.1	There is Enough Awareness and Good Perception as regards the Internal Audit Function in the Ministry	57
4.4.2	The Audit Functions in the Ministry are Carried out Spontaneously	57
4.4.3	The Ministry sees Internal Auditing as providing Internal Assurance through Investigations, Check, Assessment, Consultants and Advisory Functions	58
4.4.4	Ministry Internal Auditor makes Appropriate Recommendation for Management to Improve Performance	58
4.4.5	The Members of the Internal Audit unit have the Prerequisite Professional Designations that Demonstrate their Competency	59
4.4.6	The Relationship between the Internal Audit Staff and other Staff within your Ministry are Cordial	59
4.4.7	Internal Audit Functions are Perceived as a Threat to other Department Functions	60
4.4.8	Internal Audit Report Addresses Weakness in the Ministry Controls System	60
4.4.9	Proper Accountability and Supervision of Internal Auditors work will help to Improve Efficiency and Public Sector Performance in Nigeria	61

4.5.1	Determine the Mean for the two Groups (i.e. $x_1$ and $x_2$ )	62
4.5.2	Determine the Standard Deviation of the Group	63

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## LIST OF FIGURES

2.1	Conceptual Framework on the Internal Audit Efficiency and Public Sector Performance	7
2.1.4	Effective Internal Audit Model	9

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## ABSTRACT

The study assessed the determinants of internal audit efficiency in the Nigerian public sector. It also evaluated public sector performance in compliance with established financial control frameworks in the country, and examined the impact of internal audit efficiency on the performance of the Nigeria public sector. This is with a view to providing information on internal audit efficiency determinants with application of audit manual and the level of compliance with the financial control framework in public sector performance measured through budget implementation.

The study utilized primary sources of data. Two ministries were selected using purposive sampling technique. The selected ministries are Ministry of Finance and Economic Development, and Ministry of Works and Infrastructure in Southwestern Nigeria. The population for the study consisted of 130 respondents in Ekiti State, 155 officers in Ondo State, 140 officers in Osun State and 163 officers in Oyo State totaling 588 respondents. These four states were selected because they have more public sector institutions than private sector organizations and similar internal control system. Proportionate random sampling technique was used to select the respondents from each of the two ministries selected from the four states. Yamane statistical formula was used for distribution of the questionnaire to the respondents. The research was carried out in the internal audit departments, treasury departments, administrative departments and finance departments of the selected ministries because most of the government financial and managerial activities are carried out in these departments. The budgets and relevant statistical bulletin of government activities in the states covering year 2003 to year 2014 was considered. The selection of 2003 as base year was because it marked the beginning of political



stability sustaining public sector economic development in Nigeria. Data were analyzed using descriptive and inferential statistics

The results showed that there is negligence on the incidence of irregularities by the appropriate authorities responsible for the implementation of routine audit report (66.2%). The results also revealed that there is flow of audit model and accounting system in the public sector (67.9%). It also revealed that the inadequacy of the internal control system has significant effect on the internal audit function in Nigeria Public Sector (65.0%). The results also showed that internal audit functions are conducted in conformance with the international standards for the professional practice of internal auditing (85.5%). The results also revealed that the ministry internal auditors do not perform their duties with a greater degree of autonomy and independence from the management (75.1%). The results further showed that internal audit report addresses weakness in the ministry controls system (59.0%). The result further revealed that internal audit efficiency has significant effect on the performance of the Nigerian public sector ( $Z = 13.546$ ).

The study concluded that internal audit efficiency have moderately enhanced public sector performance in Southwestern Nigeria.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

The need for financial accountability has existed ever since it became necessary for one individual to entrust the care of his or her possessions or business to another. In both private and public sector, the providers of economic resources are separate from the management of such institutions (Abudu, 2010). In the same vein Onoja, Ajanya and Audu (2013) stated that the general awareness all over the world is the need to pay greater attention to the improvement of the management of public sector, because government constitutes the largest single business entity and her pattern of expenditure through its various parastatals, agencies and commissions stimulate lot of economic activities based on the premise that government huge involvements in economic activities. Initiatives are being taken all over the world towards improvement of the standards of accounting and internal auditing departments in the public sector.

Historically internal audit department is confined to merely ensuring that the accounting and allied records have been properly maintained, the assets management system is in place in order to safeguard the assets and also to see whether policies and procedures are in place and are duly being complied with, but due to incidence of accounting scandals and inefficiency that led to the defunct of some government organizations like Power Holding Company of Nigeria Plc, NITEL Plc and the effect of the conviction of corrupt officers in the Nigerian Public Service have made internal control compliance, transparent financial management and accountability to come under a sharp scrutiny by the public in order to ensure efficiency in internal audit in public sector (Babatunde, 2013). Also Prawitt, Smith and Wood (2008) stated that in other forestall continued increase in accounting scandals in recent years; the internal audit function has received impressive attention as an important contributor to effective corporate governance and financial reporting, because a high quality internal audit function focused on improving financial reporting through ensuring standard compliance.

Therefore, internal auditing furnishes authorities with analysis, appraisals, recommendations and information concerning all activities reviewed, because the audit unit is vested with the power of independent checks, in order to assess compliance with established

rules and regulations of the organization (Okoya, 2002). Internal audit serves as an important link in the business and financial reporting processes of corporations and internal auditors play a key role in monitoring organization's risk profile and identifying areas to improve risk management (Ejoh and Ejom, 2014). Internal audit is an additional safeguard for proper financial control in the public sector, because each ministry, parastatal and government agency is expected to establish an internal audit division that is responsible for the audit of all financial transaction by carrying out a continuous examination of all accounting books and records maintained in the organization with a view to check or detecting fraud and correcting errors. It is also concerned with the examination of the system and procedure in place so as to ensure their conformity with the regulations, as the case may be, that the system of internal control is adequate and that it is continuously operating in accordance with government regulations (Badara, 2012). Momoh (2005) stated that it is the job of internal auditor to ensure that all financial transactions are in accordance with the approved regulations and that adequate system of security exists in the establishment.

Performance in the public sector has always been a challenge because results are not measured in naira alone, and it is difficult to secure agreement on how best to determine the effectiveness of government organization. Yet it is important that we continue efforts to improve measures of the effectiveness of government organization, and how they may be better targeted to achieve the outcomes expected by government. Today's public sector organizational performance management and measurement is one of the most popular terms that spread rapidly from the private sector to the public sector in the developed economies and has recently found its way in many developing economies, new initiatives and legislations continue to be issued as a sign of governments' insistence on performance orientation. Performance management in government has received increasing interest since the late 1980s, fostered by the 're-inventing government' movement (Osbourne and Gaebler, 1992). However, Carter, Rudolf, and Patricia (1992) noted that the introduction of performance measurement in the public sector reflects a dissatisfaction with pluralistic or interest group politics, and that its use is an attempt to replace the rationality of politics with the rationality of planning. Hyland, Ferrer, Santa and Bretherton (2008) stated that while many public sector organizations are putting considerable energy into measuring performance, the effectiveness of the measure used varies considerably. The accrual-based outcomes and outputs framework was viewed as a key component in creating a more

competitive, efficient and effective public sector, and to provide a more complete picture of performance, including financial performance, for decision making and accountability. Under the framework, managers were to have better and more complete information on how they will manage their operations and be accountable to government and the parliament on their performance. In designing and implementing any performance measurement system, it is vital to address the essentials of performance measurement (Department of Finance and Administration, 1998).

The unsatisfactory performance of government organizations in Nigeria had been blamed on diverse reasons. Makoju (1991) stated that it is as a result of bureaucratic poor audition system, red-tapism and lethargy of the civil service which is still intact in the management and operations of the government. The Federal Ministry of Finance Incorporated (2006) disclosed that high incidence of fraud, government's employment of staff based on political connections rather than on ability to perform, parliamentary control and financial indiscipline are the causes of poor performance. The accounting systems of government enterprises in Nigeria do not seem to guarantee proper and up to-date financial records thus making auditing difficult, if not impossible (Dogo, 1990). Bureau of Public Enterprises (BPE) report (2003) noted that only 160 of the 590 federal government-owned public enterprises were involved in economic activities and that their rate of return was less than 0.5 per cent.

The accounting control practices such as effective and efficient internal auditing and internal control system put in place by any organization is widely believed to be crucial to the success of such enterprise as it acts as a powerful brake on the possible deviations from the predetermined objectives and policies. This means that an organization that put in place an appropriate and adequate system of accounting controls is likely to perform better in financial terms than those that do not (Taylor and Glezen, 1979). This study is much of interest on internal audit efficiency and public sector performance in Southwest Nigeria.

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