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Determinants of Internal Audit Task Performance in Nigerian Tertiary Institutions: A Conceptual Approach

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Abstract

The increasing rate of financial irregularities, fraud, and mismanagement rocking Nigerian Tertiary Institutions calls for concern. Despite all control measures put in place by the government, coordinating and regulating agencies, and the institutions themselves, lack of transparency and accountability continues unabated. Literature and documentary evidence have shown that lack of functional internal audit department is one of the factors responsible for the frequent occurrence of these acts. The objective of this study, therefore, is to examine conceptually management support and communication skills as the key factors affecting internal audit task performance in the Nigerian tertiary institutions. Based on the existing literature and the pronouncement of accounting and auditing professional bodies, the study develops a framework of these factors as influencing task performance. The study suggests that adequate management support and effective communication skills of internal auditors will enhance the task performance of internal audit department, hence, curbing the incidence of financial malpractices. The study has policy implications as it will assist the proprietors (government and private individuals), coordinating ministries, regulatory authorities, professional bodies, councils and management of tertiary institutions, and auditors in their decision making and oversight functions.

Keywords: Internal audit, higher education institutions, task performance, management support, communication skills.

1. INTRODUCTION

In recognition of internal auditing importance and essence, the government and private sectors in many countries consider the establishment of internal audit unit and empowerment of Internal Auditors (IAs) as imperative. The global perspective is that internal audit is a necessity and adds value to the organization. In line with this, the Federal Government of Nigeria, through the mechanism of the Federal Government Financial Regulations (FGFR) (2009), provides for the establishment internal audit functions and states the expected duties of internal auditors (Sections 1701-1715 of the FGFR). The regulation considers internal audit as a control mechanism which operates by assessing and measuring the effectiveness of internal control system in an organization.

In the same manner, the regulatory authorities of Tertiary Institutions (TIs) such as National Universities Commission (NUC), National Board for Technical Education (NBTE), and National Commission for Colleges of Education (NCCE) also provide for internal audit functions through uniform accounting and audit manuals. Furthermore to this, each institution also has Financial Regulations and Operational Guidelines and audit manual that likewise specify the functions, duties, responsibilities and powers of IAs. Among many other functions, the
regulation and the manuals mandate the department to ensure compliance with the internal control system put in place, safeguard the assets of the institutions, prevent and detect irregularities, fraud and wastages, and audit all the daily transactions of the institution. In order to achieve these functions, IAs are empowered to have unrestricted access, at all reasonable times, to records, stores, personnel, and information required for their audit (Section 1715 of FGFR, 2009).

Despite the reforms and the existence of internal audit task, studies have shown lapses in the internal control system and several occurrences of fraud, misappropriation, and irregularities in the Nigerian TIs (Whawo, 2015; Adetoso, Oladejo, & Akesinro, 2013; Akpomi, Ugodulunma, & Nnadi, 2005). The term “Tertiary Institution” in this study includes Universities, Polytechnics, and Colleges of Education. Literature has also established various violations of normative rules (Auditor-General for the Federation 2009 Annual Report). The report of the Auditor-General for the Federation, dated 15th May 2009 contains queries and indictments of many Chief Executive Officers (CEO) of TIs in Section 7 subsections 10, 11, 12, 15, 29, 61, 78 and 92 of the report. Furthermore, captions on the daily newspapers and media publications, do not give a good indication of prudent management of fund of the institutions.

Lack of task performance of Internal Audit Department (IAD) is being attributed to internal auditors’ inability to prevent irregularities and perform their duties as expected of them. Professional Standards stipulate that the task performance of IAD is enhanced if the management supports its operations, and the internal auditors themselves possess necessary communication skills. Akpomi et al. (2005) examined the factors responsible for the frequent occurrence of fraud and irregularities in Nigerian TIs. The study concludes that non-functional IAD is one of the reasons for such. The study, therefore, calls for the empowerment and support of the department by the management. Adetoso et al. (2013) cited from Lorsase (2004) assert that the concern and question that is always being asked when there is an incidence of fraud or irregularity is “where are the Accountants and the Auditors?” (p.106). Therefore, the effective task performance of internal audit in Nigerian tertiary institutions becomes imperative as the department cannot be exonerated for any malpractices or fraudulent practices.

The objective of this study, therefore, is to examine conceptually key factors influencing the task performance of internal audit in the Nigerian TIs. Based on this, the following specific objectives are developed:

(i) To examine the relationship between management support and the task performance of internal audit department in the Nigerian tertiary institutions.

(ii) To investigate the relationship between communication skills and the task performance of internal audit department in the Nigerian tertiary institutions.

Significance of the study

Prudency, probity, transparency, and accountability are of much interest and concern to Nigerian government especially now that government is seriously battling with corruption and irregularities at all levels. Since internal auditing is a control mechanism that ensures such, and TIs are arms of government that consume significant government allocation, this study becomes significant as it exposes the factors the influence IAs Task Performance, and invariably assisting and complementing government crusade in combating corruption. Furthermore, previous literature called for the extension of studies on Internal Auditing to developing countries. Aside, there appears to be a dearth of study on internal auditing in the educational sector. This study is, therefore, significant, because it contributes to the body of the knowledge by answering the calls of prior literature in extending study in internal auditing to Nigeria and particularly the educational sector.

The study encourages the regulatory authorities such NUC, NBTE, NCCE and the offices of the Auditor-General for the Federation and States, in the discharge of their oversight functions. It helps the management of the TIs in their policy and decision making. It also motivates the regulators of Accounting and Auditing profession in Nigeria, that is, the Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN) because a greater percentage of their members are IAs in TIs. It assists in their policy decision-making regarding training of their members in internal auditing field. Lastly, the study is significant to the Council, management, and the internal auditors of TIs.

2. LITERATURE REVIEW

2.1 Task Performance

Internal auditing is an integral function that assists organizations in achieving their objectives and prevent them from asset loss (Abuazza, Mihret, James & Best, 2015; Cohen & Sayag, 2010). The definition of internal
auditing by the Institute of Internal Auditors (IIA) considers it as value added. However, Dukie and Dordevic (2014) argue that the establishment of internal audit task through the assignment of competent internal auditors is not a guarantee toward goals accomplishment. Hence, Sawyer (1995) states that internal audit task is incomplete until and unless the defects of an organization are corrected and remain corrected. Therefore, for internal audit to continue to be relevant and being value added, it must perform its task effectively and efficiently as required by law, standards and organizational regulations. Through management support and communication skills, the task performance, and invariably the value adding desire, is achievable.

Performance Standard 2100 of the International Standard for the Professional Practice of Internal Auditing (ISPPIA) (2012), mandates internal audit task and activities to evaluate and contribute to the improvement of organizational governance, risk management, and control process. Standard 2120.IA particularly requires internal auditors to assess the risk exposures of their organizations; reliability of financial and operational information; quality of operations and programs; and safeguard of the organization’s assets.

Abuazza et al. (2015) investigated the scope of internal audit function in public enterprises operating in Libya. The finding of the study indicates that the extent of internal audit task is concentrated and restricted to traditional audit relating to the financial matter. The study found a little concentration of internal audit task on risk, effectiveness, and efficiency of various aspect of the enterprises. Christopher (2014) also examined internal audit functions and how they enhance university sector governance in Australia. The finding of the study revealed that the universities in Australia have internal audit charter which empowered IAD to perform its task as required. Consequently, the result of the study further showed that the performance of internal audit was effective, and the department covered a broad range of audit tasks consisting of a financial audit, operational audit, performance based audit, compliance audit, IT audit, fraud audit, and consultancy type of audit. Hence, internal audits in Australian universities add value through their effective and efficient task performance.

Alzeban and Gwilliam (2014) also investigated the factors influencing the effectiveness of internal audit in the Saudi Arabian public sector. The outcome of the study indicates that both managers and internal auditors perceived internal audit to be performing its task as expected. This is evidenced by internal audit review of the adequacy of the internal control system; review of the accuracy of financial report; review of compliance with policies and procedures; safeguarding the properties of the organization, and recommending improvement of established internal control system.

On the ground that the existence of internal audit task and the empowerment of IAs alone is not an assurance that internal audit will perform well and achieve its goal (Dukie & Dordevic, 2014, p.364), many studies focus on the factors that influence the effectiveness of internal auditor. Thus, once the department is effective, task performance will be achieved. Prior studies (Mebratu, 2015; Cohen & Sayag, 2010; Ahmad et al. 2009; Mihret & Yismaw, 2007; Al-Twaijry, Brierley & Gwilliam, 2003) found problems ranging from insufficient staff, lack of management support, and lack of knowledge and training as major constraint militating against effective performance of internal audit task. They argued that for IAs to perform as expected, an enabling environment has to be created.

2.2 Management Support

Nigerian Standard on Auditing (NSA) No. 7, paragraph 11, issued by ICAN (2013) defines management as the person(s) with managerial responsibility for the conduct of the entity’s operation. Management support, therefore, refers to the motivation, encouragement, and backing provided by the management to internal audit in the form of training and educational program, adequate finance, financial incentives such as bonuses and compensations, and implementation of audit reports and recommendations (Abu-Azza, 2012).

The ISPPIA (2012) identifies management as an important tool for the success of internal audit task, hence, makes provisions for how the Head of Audit should relate to the management. The Performance Standard 2010A mandates the Chief Audit Executive (i.e., Head of Internal Audit) to plan audit activities and engagement based on documented risk assessment, and that the input of the management must be taken into consideration in this process. The standard, therefore, makes it obligatory for the Head of Audit to identify and consider the interest and expectations of the management for internal audit opinion and other conclusions. Performance Standard 2020, and Practice Advisory primary related standard 2020 of International Professional Practice Framework (IPPF), issued by the IIA, also expect the Head of Audit to communicate internal audit plans of activity and the required resources to achieve them to the management and the board for approval. The rationale behind this is to keep the management abreast of internal audit scope of work.
The management of an organization and the IAD are two separate arms of an organization. However, communication is one of the powerful mechanisms that links both. IAD assists the management in making sound decision through its qualitative input. No matter how well structured IAD is, no matter how good is its audit procedures, and no matter how proficient internal auditors are, the task performance of the department will still be deficient if its outputs are not well communicated to the management.

Communication is crucial in achieving audit task, and without it, IAs cannot effectively achieve their aim of adding value to the organization. Therefore, the communication skills of reading, writing, listening and speaking become imperative. Communication skill is the skill that underpins all aspect of auditing (Chong, 2009). Consequently, Chong (2009) citing Parsowith (1995) stressed the need for auditors to take communication serious:

“Communication is not easy because something said doesn’t mean it was stated correctly; something said correctly does not mean it has been heard; something heard does not mean it was understood; something understood does not mean it has been agreed upon; something agreed upon does not mean it has been applied; something applied does not mean it has been continually practiced” (p.1).

Anderson (2012) asserts that auditors need more than just the knowledge of debit and credit in the actualization of their task performance, rather, enhanced performance is achieved through adequate skill in communication. Supporting this, Chambers and McDonald (2013) state that auditors need to be skillful in formal and informal speaking and to listen because effective communication goes beyond report writing. They note that structured and unstructured talking and listening to the members of the organization are also important.

Excellent communication skill is required by the Internal Auditors to succeed in the performance of their duties (Smith, 2005). Performance Standard 2420 of ISPPIA (2012) prescribes seven characteristics that must be possessed by internal auditors’ communication. The standard emphasizes that communication by the auditors must be accurate, objective, clear, concise, constructive, complete, and timely. According to Endaya and Hanefah (2013), the inability of individual to interact and communicate effectively could be related to inappropriate information or communication complexity.

A report written in a clear, concise, accurate, and accurate manner enhances sound decision making by the management (Algeru, 2011). According to Khosravi (2012), the fundamental aim of developing effective
communication skill is to have a shared and unambiguous language of interaction between the auditors and the auditees. Auditors with excellent communication skills conduct audit task in a more effective and efficient manner (Zacchea, 2013).

Harrington and Piper (2015), in a general survey of 14,518 respondents involving Chief Audit Executives (CAE), Directors, Managers and staff from 166 countries, 3,304 CAEs were asked to choose five most essential skills required when recruiting IAs or building IAD. Communication skill was ranked as the most important skill by the CAEs. Similarly, in Common Body of Knowledge (CBOK) (2010) study conducted by the IIA, involving 13,582 respondents from 107 countries, IAs were asked to evaluate the importance of general competencies and rank them for Internal Audit staff, management, and Head of Audit. The finding of the study revealed that communication skill ranked first as the most important skill required by Internal Audit staff, and ranked second for the management and Head of Audit. Overall, the study found that communication skill, comprising oral, written, report and presentation, ranked as the top general competency. This study, therefore, examines communication skill as a factor influencing internal audit task performance.

3 RESEARCH FRAMEWORK AND HYPOTHESES DEVELOPMENT

The framework of this study emanates from theories, professional standards issued by professional bodies, such as IIA, ICAN, ANAN, and the result of findings from the literature. From the theoretical perspective, this study emanates from Resource-Based theory and Communication theory. In line with Resource-Based theory, the task performance of an organization tends to improve if provided with necessary human and material resources. In other words, management support, regarding the provision of required resources, plays a significant role in the task performance. Similarly, Communication theory emphasises that effective communication be a catalyst for effective task performance.

The ISPPIA (2012) issued by IIA provides a guideline coded as Attributes and Performance Standards which highlight the factors worthy of consideration by IAs and organizations for practical audit task. Management support and communication skills are considered in the performance standard. Based on the literature reviewed, and the problem highlighted, a theoretical framework is proposed in Figure 1

Based on the above, the following hypotheses are formulated:
(i) There is a significant positive relationship between management support and task performance of internal audit department in Nigerian Tertiary Institutions.
(ii) There is a significant positive relationship between communication skills and task performance of internal audit department in Nigerian Tertiary Institutions.

4 CONCLUSION

The aim of this study is to examine conceptually the key factors influencing internal audit task performance in Nigerian TIs. The study examined key determinants of task performance comprising management support and communication skill. Based on the identified theories, the pronouncement of professional standards, and findings from the prior literature, this study conceptually found a relationship between management support and task performance, and likewise communication skills and task performance. Hence, both constructs affect the task performance. The study, therefore, calls for empirical examination to verify this conceptual revelation and claim, and test the hypotheses. The study has policy implications. The government and private proprietors of the institutions as the providers of the fund; the councils as the overseers; the management as the drivers of the institutions; and the internal auditors as the practitioners will benefit from the study in their decision makings. It will also assist the professional bodies (IIA, ICAN, and ANAN) in their decision making and judgment.
REFERENCES


