

Influence of culture and structure on implementation of internal control: A case study of Awgu local government of Enugu State Nigeria

Anzor Edith Chima

Department of Business Administration, Faculty of Management Sciences, Enugu State
University of Science and Technology, Enugu State, Nigeria.

Email: anzoredith1@gmail.com

ABSTRACT

This study examined the influence of culture and structure on implementation of internal control: A case study of Awgu local government of Enugu State Nigeria. The findings revealed that culture and organisational structure hinder effective implementation of internal control. The findings revealed that direct line managers do not sanction their subordinate for misconduct, and the Chairman who is the Chief Executive Officer and Chief Financial Officer neither understood duties of staff nor hold regular meeting with staff on ways to ensure internal control. Therefore, appointment of the elected Chairman who is not a qualified accountant to be the Chief Executive Officer and Chief Financial Officer in Nigeria local government is a major flaw and hindrance to effective internal control over financial, management and operational procedures.

Keywords: Influence, culture, structure, implementation and internal control.

INTRODUCTION

Previous researchers have studied the internal control and management of fund in some local government and public sectors in Nigeria in relation to internal control, and found some irregularities [1, 2, 3, 4, 5, 6]. For example, [7, 8, 9] noted that some local government funds in Oyo state in Nigeria are mismanaged and embezzled by the board and management staff as a result of ineffective internal control system. Similarly, [10, 11, 12] study on the internal control system over financial accountability in some local government in Borno state indicate ineffectiveness in financial transparency. They suggested revisiting of local government policies and procedures as a way to address the problem [13, 14]. Evaluation of the financial management Ido-Osi local government area reveals the necessity of restructuring the ways of controlling fund and decreasing expenses [15, 16]. In addition, [17] investigation on the perception of stakeholders regarding the internal control in public organisations

indicates the positive influence of internal control on financial accountability, and suggest that application of penalty on offenders will result to compliance with regulation. Consequently, the establishment of effective internal control system is paramount for transparent and accountability in financial reporting, and this will help to verify irregularities during disbursement of funds in the local government areas [18]. However, researches have been conducted in other areas of internal control system especially in banks, hotels and few public owned companies but very few research have been done on local government [19, 20, 21, 22, 23]. To this end, this research aims to examine the influence of culture and structure on implementation of internal control in Awgu local government of Enugu State Nigeria. In addition, this study provide an understanding of the problems inherent and suggest solutions for the way forward.

Objective of the study

The objective of the research was to determine the influence of culture and structure on implementation of internal

control in Awgu local government Area of Enugu State Nigeria.

Research question

In order to achieve the aim and objective of this study an attempt has been made to answer the following questions.

1. Are measures in place sufficient to detect, prevent and eradicate fraud?

2. Do culture and current Local Government structures hinder the effective implementation of Internal Control Systems?

Findings and Discussion

Out of the two hundred (200) questionnaires distributed to staff of Awgu local government in Enugu state, Nigeria, twenty five (25) staff responded. The results obtained from the respondents that comprise of internal auditors and other senior staff are shown in Table 1. Similar questions were given to staff of Rhondda Cynon Taff local government in South Wales, United Kingdom. Out of twenty (20)

questionnaires issued to Rhondda Cynon Taff local government in South Wales, United Kingdom eighteen (18) staff responded and the results are summarised in Table 2. The findings obtained from these two local governments and their comparisons are discussed in four sections below.

Table 1: Summary of the questionnaires finding from Awgu Local government area of Enugu State.

Question Numbers	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Number of staff
QNO1	0	25	0	0	0	25
QNO2	18	5	0	2	0	25
QNO3	18	7	0	0	0	25
QNO4	3	22	0	0	0	25
QNO5	4	18	1	2	0	25
QNO6	1	22	2	0	0	25
QNO7	0	24	1	0	0	25
QNO8	0	23	0	2	0	25
QNO9	0	0	24	1	0	25
QNO10	0	2	18	5	0	25
QNO11	0	24	0	1	0	25
QNO12	0	20	2	3	0	25
QNO13	0	0	0	25	0	25
QNO14	0	2	0	23	0	25
QNO15	0	22	3	0	0	25
QNO16	0	23	0	2	0	25
QNO17	0	21	0	4	0	25
QNO18	0	0	2	23	0	25
QNO19	0	0	1	22	0	23
QNO20	0	0	2	23	0	25
QNO21	0	0	24	1	0	25
QNO22	0	1	1	23	0	25
QNO23	0	0	0	25	0	25
QNO24	0	1	0	24	0	25
QNO25	0	1	0	24	0	25
QNO26	0	0	0	25	0	25
QNO27	0	23	1	1	0	25

Table 2: Summary of the questionnaires finding from to Rhondda Cynon Taff local government in South Wales, United Kingdom.

Question Numbers	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Number of staff
QNO1	100	0	0	0	0	18
QNO2	6	94	0	0	0	18
QNO3	100	0	0	0	0	18
QNO4	100	0	0	0	0	18
QNO5	100	0	0	0	0	18
QNO6	100	0	0	0	0	18
QNO7	94	6	0	0	0	18
QNO8	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	18
QNO9	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	18
QNO10	0	100	0	0	0	18
QNO11	0	0	0	0	100	18
QNO12	0	0	0	0	100	18
QNO13	0	0	0	0	100	18
QNO14	100	0	0	0	0	18
QNO15	100	0	0	0	0	18
QNO16	100	0	0	0	0	18
QNO17	100	0	0	0	0	18
QNO18	94	6	0	0	0	18
QNO19	94	0	6	0	0	18
QNO20	0	100	0	0	0	18
QNO21	No response	No response	No response	No response	No response	18
QNO22	0	0	100	0	0	18
QNO23	0	100	0	0	0	18
QNO24	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	18
QNO25	No response	No response	No response	No response	No response	18
QNO26	0	0	0	0	100	18
QNO27	100	0	0	0	0	18

The evaluation of the effect of culture and the existing local government structure as well as the evidence of impediments to implementation of effective internal control were investigated using seven (7) well structures questions incorporated in the questionnaires administered to the respondents. The result (Fig. 1) indicates

that 88% of the Awgu LGA staff agree that the organisational culture encourages reporting of irregularities and misconduct of staff to the appropriate authority whereas 8% strongly agreed with the statement. However, 4% of the staff did not agree that the organisation encourages reporting of irregularities to appropriate authorities whereas 0% were

neutral to the statement. In contrast, 100% staff of Rhondda Cynon Taff, United Kingdom strongly agree that their

Anzor local government encourages reporting of irregularities and staff misconduct to the appropriate authority.

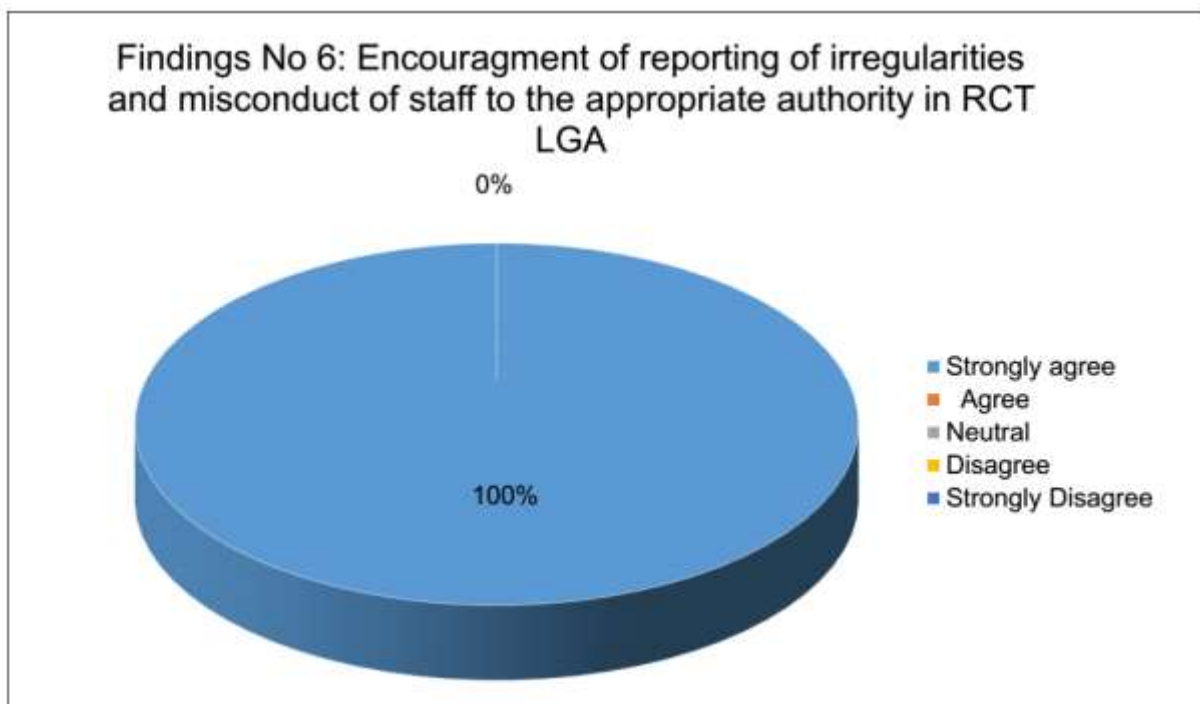
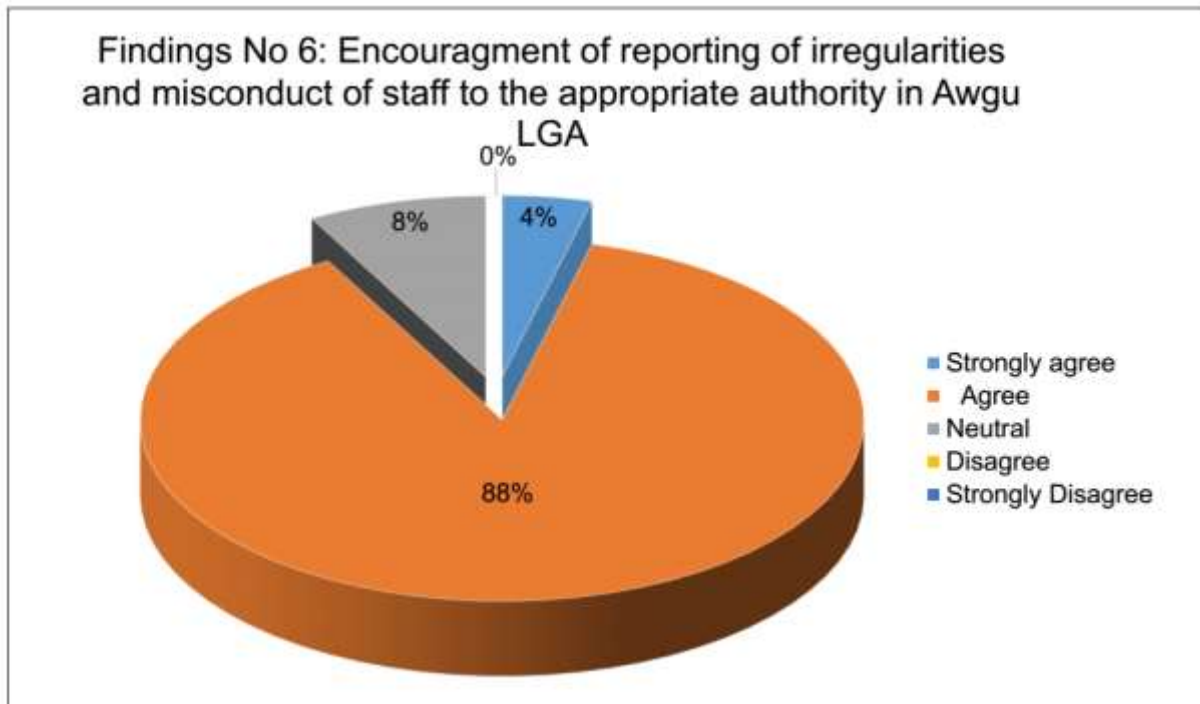


Fig. 1: Percentage of Awgu and Rhondda Cynon Taff (RCT) staff opinions on organisational encouragement on reporting of irregularities and misconduct of staff.

The findings on whether the local government helps in provision of relevant awareness of reporting procedures on misconducts to staff through induction and training (Fig. 2) reveal that 96% of the Awgu LGA staff agreed that there is significant awareness. However, 4% of the staff were neutral to the statement indicating that

most of the staff affirms the knowledge of procedures to take in order to report any misconduct of staff. Similarly, the result from of Rhondda Cynon Taff, indicates that staff strongly agree (94%) to agree (6%) that the local government provides awareness of the reproducing procedures.

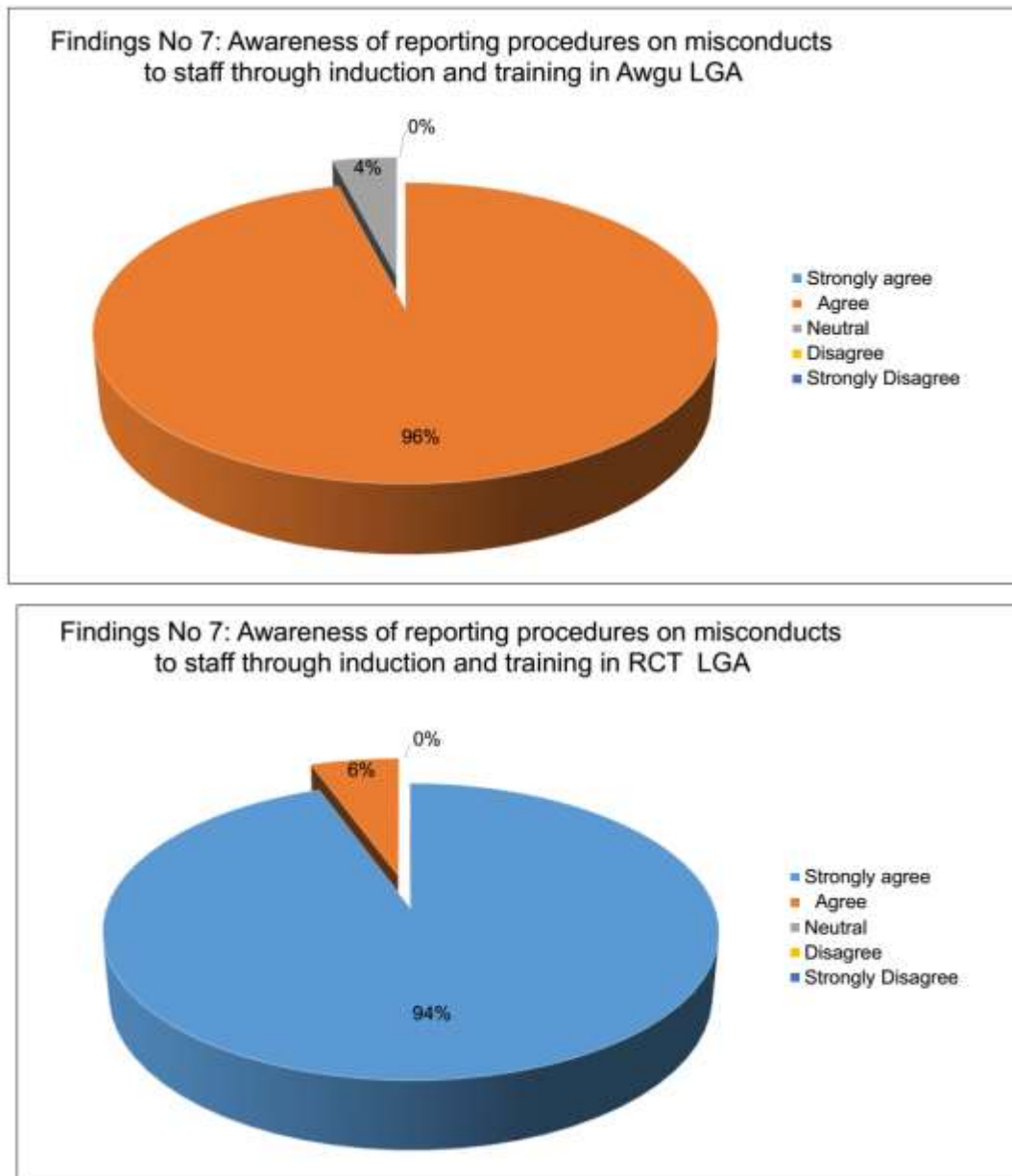


Fig.2: Percentage of Awgu and Rhondda Cynon Taff (RCT) staff opinions on awareness of reporting procedures on misconduct of staff.

Figure 3 below summaries the findings obtained from the respondents on whether the chairman of the local government has right to appoint any

staff to carry out supervisory functions on daily account and receipts tendered to customers. The result revealed that 92% of Awgu staff are fully aware of the power

ascribed to the chairman on delegation of duties whereas 8% disagreed with the statement or had no knowledge of right of the chairman to appoint any staff for

Anzor supervisory function. However, in Rhondda Cynon Taff, United Kingdom, there is no existence of chairman, therefore, the question do not apply.

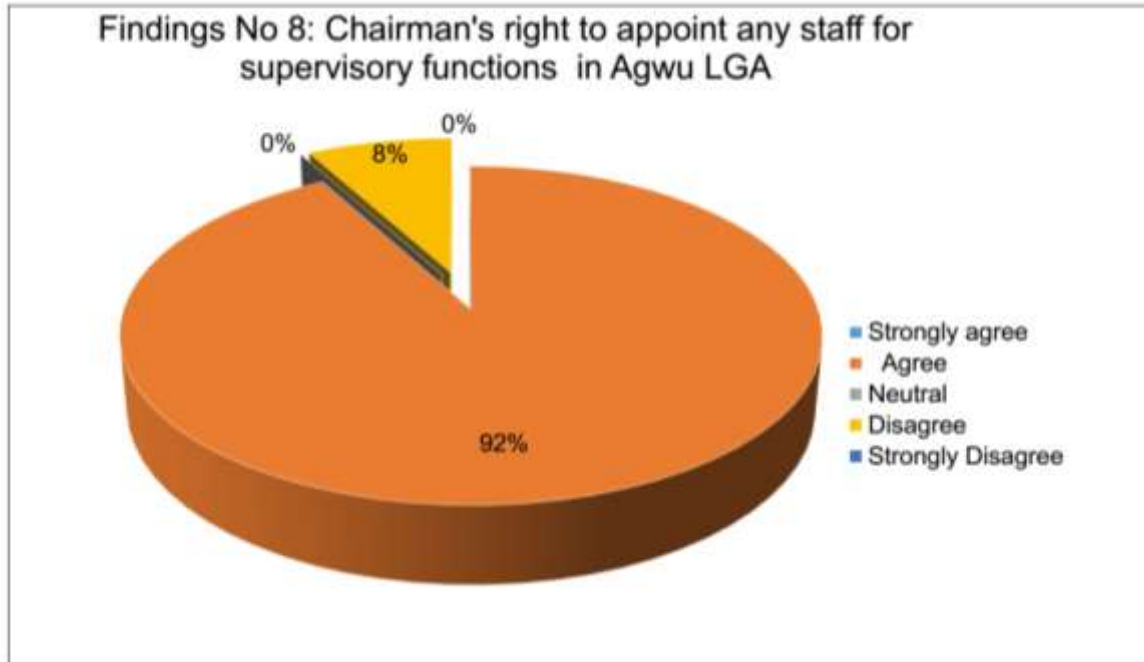


Fig.3: Percentage of the Awgu LGA staff opinions on awareness of Chairman's right of delegation of duties.

The Fig. 4 below reveals that 96% were neutral to the statement that chairman knows daily duties of every staff and request detailed management accounts in order to check accuracy of the documents. However, 4% disagreed with

the statement indicating that the chairman do not know the duties of the staff he/she is overseeing. In contrast, Rhondda Cynon Taff, United Kingdom do not have any chairman, therefore, no response was obtained for this question.

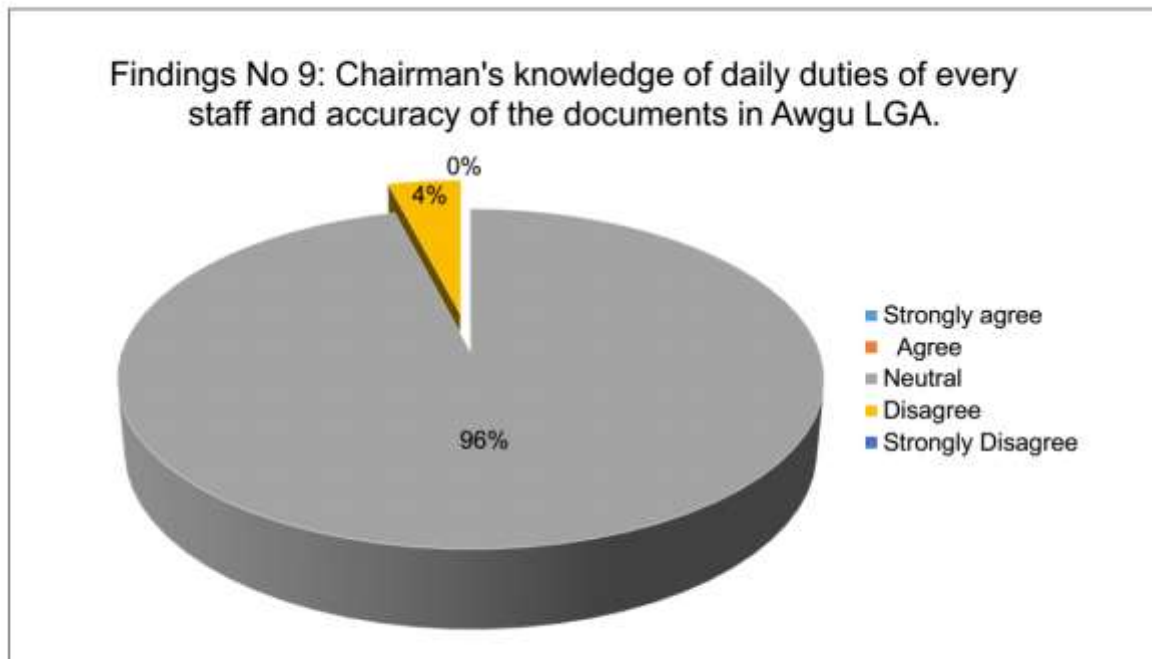


Fig.4: Percentage of the Awgu LGA staff response on chairman’s knowledge of the duties of all staff and accuracy of documents.

The summary of the findings on whether the organisation helps to provide awareness of penalties for misconducts and inappropriate behaviour to every staff through induction and organisational policy is shown in Fig. 5 below. The result indicates that 8% of Awgu LGA staff agreed with the statement that appropriate awareness of penalties for misconducts are provided

whereas 20% disagreed with the statement. However, 72% were neutral to the statement while 0% neither strongly agreed nor disagreed with the statement. In contrast, the result obtained from Rhondda Cynon Taff, United Kingdom reveals that 100% staff agree that there is provision of awareness of penalties for misconduct and inappropriate behaviour through induction and policies.

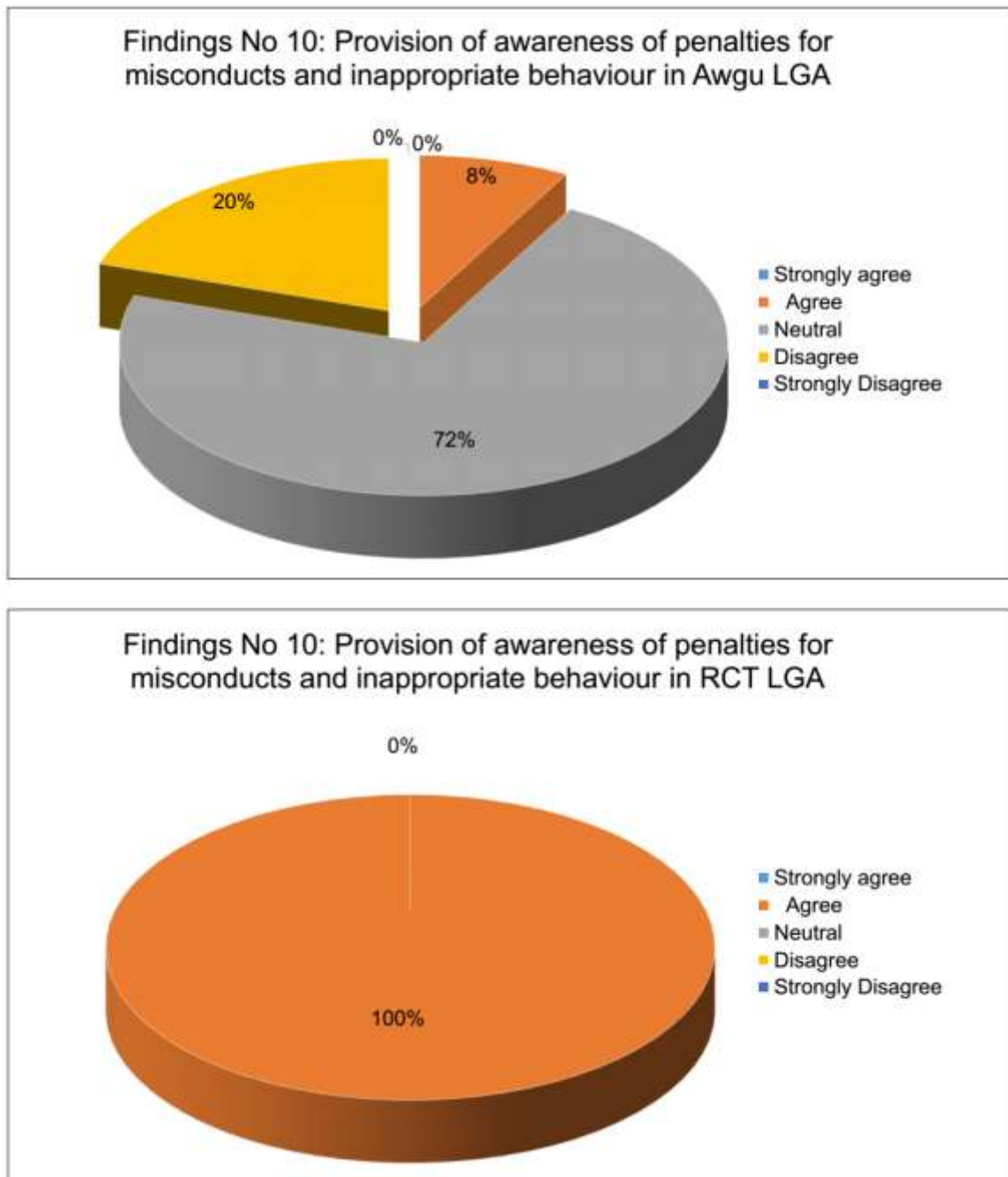


Fig.5: Percentage of Awgu and Rhondda Cynon Taff (RCT) staff awareness of the penalties for misconducts and inappropriate behaviour.

Ninety six percent (96%) of Awgu LGA staff agreed that the organisation sometimes overlooks misconduct and do not apply the penalties on offenders as stated in the company’s policy (Fig. 6) whereas 4% disagreed with the statement. Also 0% staff strongly agreed,

strongly disagreed or were neutral with the statement. In contrast, the 100% staff of Rhondda Cynon Taff, United Kingdom strongly disagreed that their organisation overlooks misconduct and non-application of punishments to offenders (Fig 6).

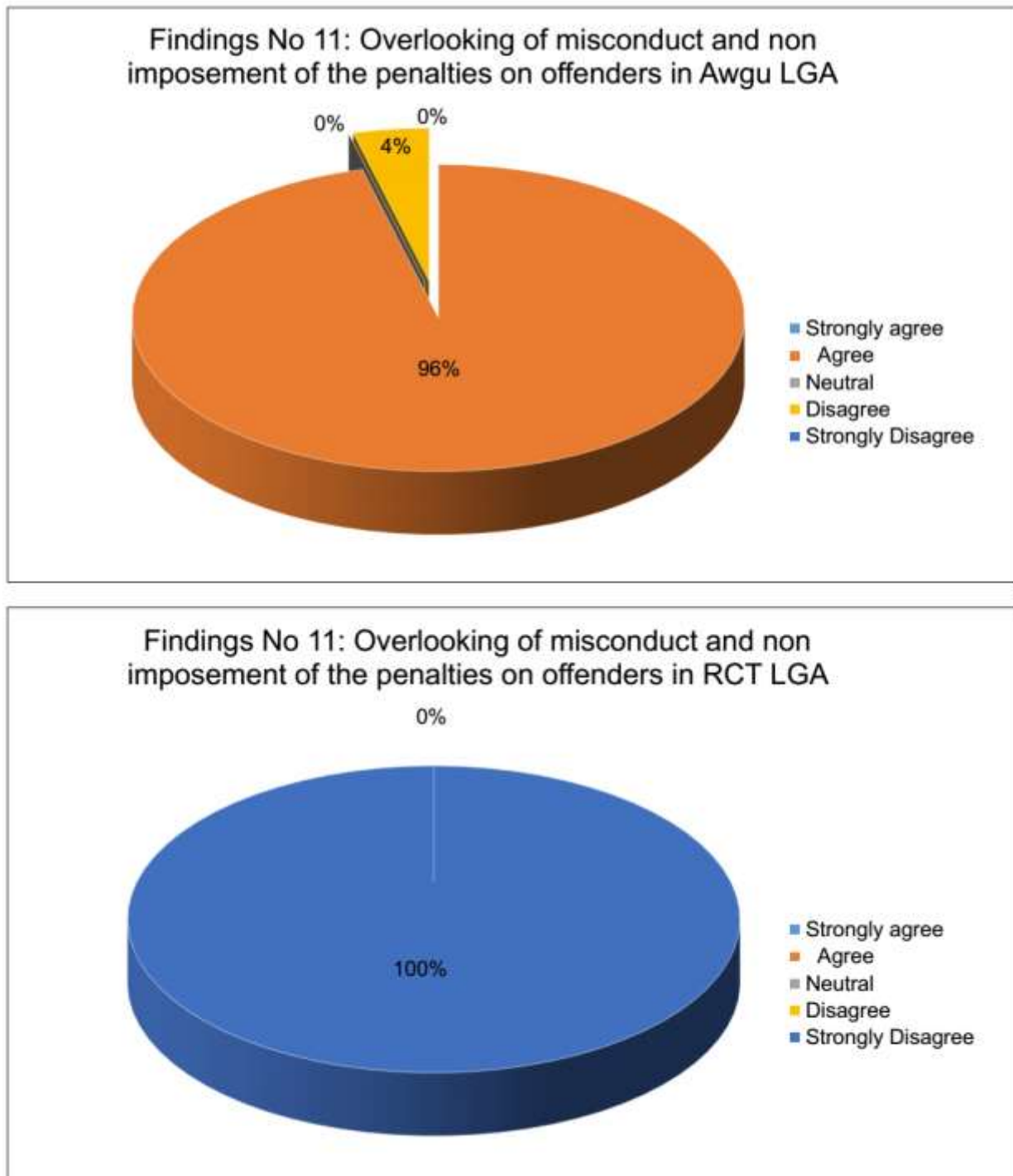


Fig.6: Percentage of Awgu and Rhondda Cynon Taff (RCT) staff views on overlooking of misconducts and enforcement of penalties by the local government officers.

The summary of the finding on whether the direct manager imposes sanction for inefficient performance of daily duties is shown in Fig 15 below. The result indicates the 80% of the Awgu LGA staff agreed that their direct line managers do not discipline them for not carrying out

the assigned duties diligently whereas 12% disagreed with the statement. However, 8% of the staff were neutral whereas 0% neither strongly agreed nor strongly disagreed with the statement. This implies that there is no discipline for misconduct or failure to impose

punishment may be due to fear, unstrict approach to work ethics or over liberal. In contrast, 100% of staff of Rhondda Cynon Taff, United Kingdom strongly

disagreed with the statement, and are picked up on or criticised if they do not carry out their duties diligently

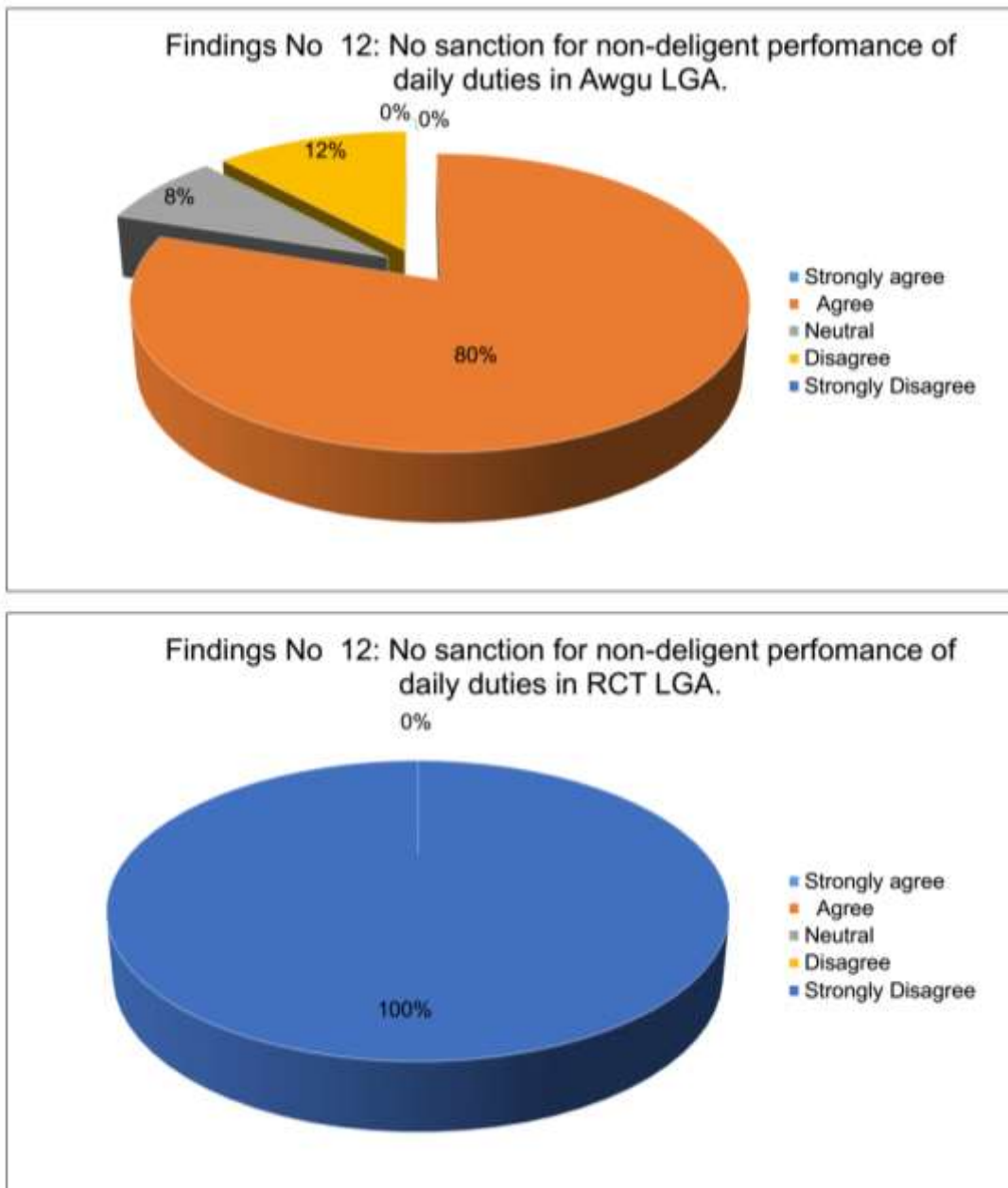


Fig.7: Percentage of Awgu and Rhondda Cynon Taff (RCT) staff view on application of sanctions for non-diligence performance of duties by direct line managers.

The Fig. 16 below show that 100% of Awgu LGA staff disagree with the statement that their line manager do not understand my duties and therefore cannot oversee it or recognise any irregularity. In addition, the result indicates that no staff (0%) agreed, strongly agreed, strongly disagreed or

was neutral with the statement. The implication is that all the line managers understands the duties of those staff on whom they have oversight responsibilities. Similarly, the 100% staff from Rhondda Cynon Taff, United Kingdom strongly disagree that their line manager do not have understanding of

their duties and cannot identify irregularities.

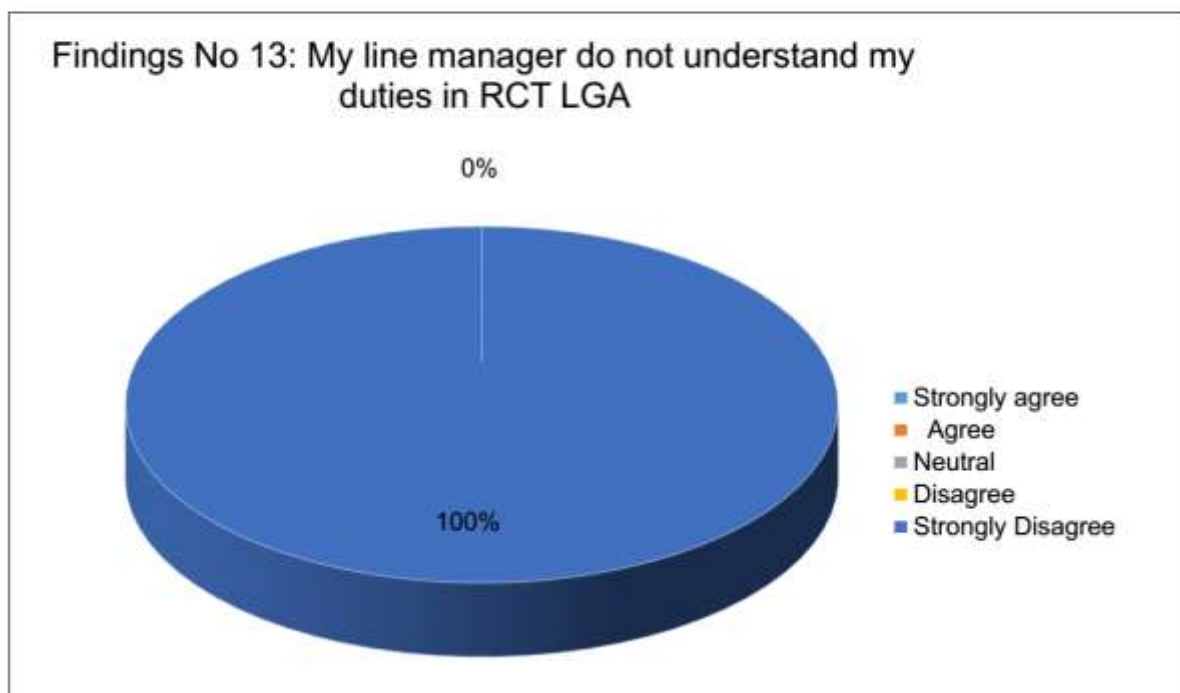
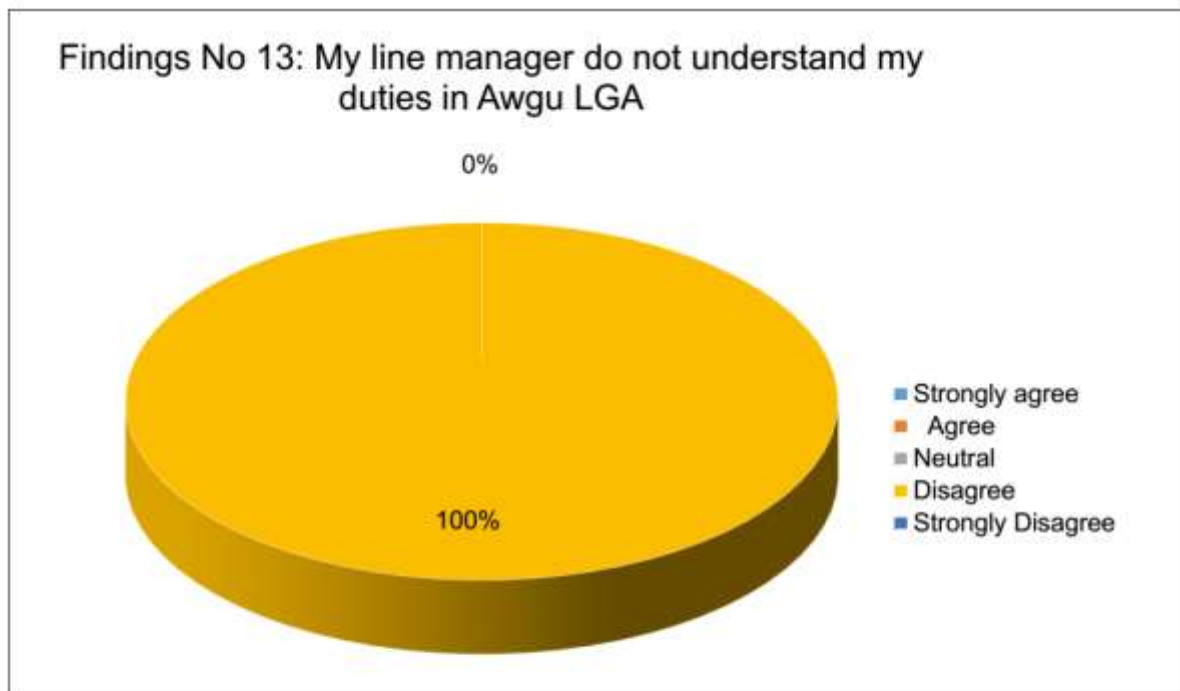


Fig.8: Percentage of Awgu and Rhondda Cynon Taff (RCT) staff opinions on whether their line managers understood their duties.

The summary of the finding on whether the local government has established a separate body to receive report on misconducts or ineffectiveness and imposes sanctions on offenders is shown in Fig. 17 below. This result indicates that 92% of Awgu LGA staff disagreed

that there is existence of established independent body that receives report for misconduct and enforce appropriate sanction whereas 8% agreed to the statement. Also no staff (0%) were neutral, strongly disagreed nor strongly agreed with the statement. In contrast, 100% staff from Rhondda Cynon Taff,

United Kingdom strongly agree that there is presence of independent body that receives report on misconducts and

enforcement of sanctions on offenders. This independent body is the Council's Audit Committee

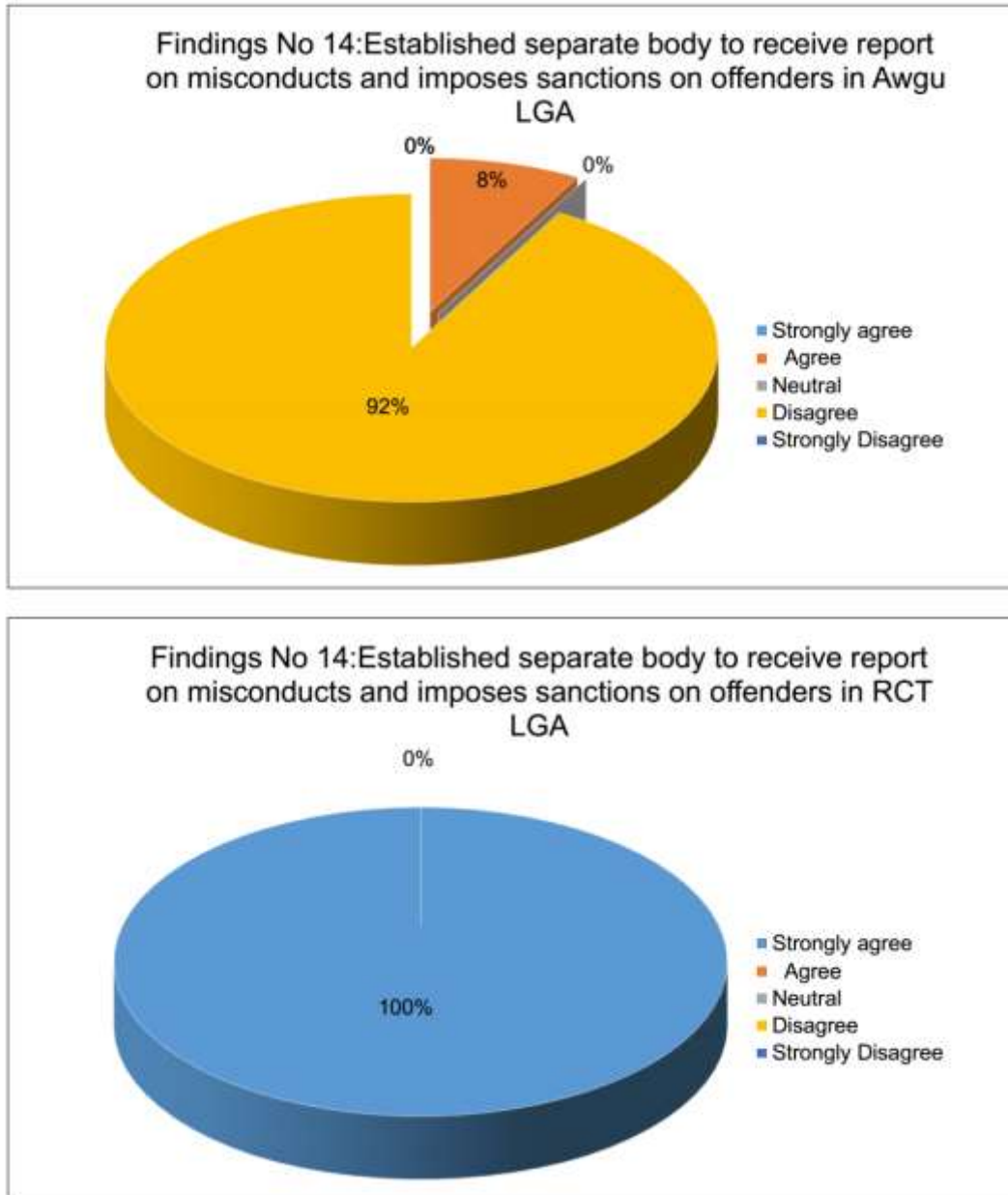


Fig.9: Percentage of Awgu and Rhondda Cynon Taff (RCT) opinions on whether there is established independent disciplinary body.

Critical evaluation of the staff's views on questions relating to effect of culture and organisational structure on effective implementation of internal control indicates the presence of both cultural and structural hindrances in Awgu LGA. The cultural factor is evident on the percentage of staff (80%) that agree that their line manager do not sanction them

or punish them for misconduct. This could be as a result of over familiarity, insensible respect, and undue influence of the subordinate over boss, lack of integrity, work ethic etc. Similarly [18] found that power distance and country's culture has positive correlation with reported internal control material weaknesses (ICMWs) whereas occurrences due to uncertainty have

negative link to ICMW. Similarly, [7] research on the relationship between the quality of internal control and management guidance reveal the existence of positive association between the firms with ineffective internal control and the inaccurate guidance of their management. A comparative study of Rhondda Cynon Taff, United Kingdom, indicate that staff are criticised for misconduct and non-diligent performance of assigned duties. The structure of the Awgu local government is one of major contribution of ineffective internal control in the system. The analysis of the finding indicates that most of the staff are aware of the power ascribed to the chairman of the local government. However, the chairman who is also the Chief Executive Officer do not know the duties of the staff nor does he/she hold regular meetings with the issues relating to internal control and organisational objectives as indicated by the findings. The chairman office is a political appointment and anyone who the governor of the state wants takes up the role whether the individual is educated or not. According to the Financial Memoranda, the Chairman is also the Chief Financial Officer and is responsible for ensuring internal control. However, Internal Control over Financial Reporting is ensured by the Chief Executive as well as Group Directors in Rhondda Cynon Taff, United Kingdom (RCTCBC, 2018). In addition, the Council Constitution stated clearly that the Chief Executive should not be the Chief Financial Officer if he is not a professional accountant and he/she is not democratically elected, but a qualified individual employed by the Council to help achieve its aim and objectives. The finding reveals that the Chief Executive and Head of Paid Services in Rhondda Cynon Taff, United Kingdom hold regular meeting with staff on matters relating to progress and internal control. Control environment in Indonesia local government is affected by the guidance and authority of the head of local government [14]. According to [14], the financial management in is largely influenced by control activities

and information technology monitoring in Baringo, Kenya. In summary, appointment of the elected, Chairman who is non-qualified accountant to be the Chief Executive Officer and Chief Financial Officer in Nigeria local government is a major flaws and hindrance to effective internal control over financial, management and operational procedures. Also, contrary to Rhondda Cynon Taff, Awgu local government do not provide awareness of penalties for misconducts and inappropriate behaviours through training or induction nor was it written clearly in the company policies and procedures. In addition, ninety six percent (96%) of the respondents agree that the organisation sometimes overlooks misconduct and do not apply the penalties on offenders as stated in the company's policy. This an indication of lack of internal control and commitment to duties as well as presence of irregularities and mismanagement of power. In contrast, the Rhondda Cynon Taff, United Kingdom has zero tolerance to misconduct and disciplines any misconduct appropriately. The finding reveals non-existence of established a separate body to receive report on misconducts or ineffectiveness and imposes sanctions on offenders. This indicates there is no disciplinary body that deals with misconduct or punishes offenders in the local government, which is a major flaw in the organisational structure. This can instigate misappropriate behaviours in staff that has criminal tendency. In contrast, the staff from Rhondda Cynon Taff, United Kingdom has independent Council's Audit Committee that receives report on misconducts and enforcement of sanctions on offenders. However, [20] research on the effect of auditing and corporate government in eradication and deterring of fraud, and found that the management authorities are the backbone of corporate government whereas auditors are not effective and have insufficient control in corporate governance.

CONCLUSION AND RECOMMENDATIONS

The findings reveal that there is absence of effective internal control over

financial procedures as a result of inadequate segregation of duties and

lack of verification of receipt issued to customers. In addition, culture and organisational structure affects the effective implementation of internal control. According to the finding, direct line managers do not sanction their subordinate for misconduct. This could be as a result of over familiarity, insensible respect, and undue influence of the subordinate over boss, lack of integrity and work ethic. In addition, the structure of the local government is one of major contribution of ineffective internal control in the system. The result reveals that the Chairman neither understand duties of staff nor hold regular meeting with staff on ways to ensure internal control. Therefore, appointment of the elected Chairman who is not a qualified accountant to be the Chief Executive Officer and Chief Financial Officer in Nigeria local government is a major hindrance to effective internal control over financial, management and operational procedures. Also, staffs are not provided with training or induction on awareness of penalties for misconducts and inappropriate behaviours or through company policies and procedures. In addition, overlooking misconducts and in application penalties on offenders as stated in the company's policy as indicated by the result is an indication of lack of internal control and commitment to duties as well as presence of irregularities and mismanagement of power. The under listed are the recommendations that will help to ensure effective internal control system in Nigerian local government:

1. Establishment of well-resourced independent internal audit department to review the internal control system. This department should comprise of accountants, auditors and non-accountants to undertake examination, evaluation, and reporting of effectiveness of internal control. They should conduct annual auditing of financial report, approval of annual audit plan,

1. Afiah, N.N.A., P.C. (2015) ' The effect of the implementation of government internal control system (GICS) on the quality of

ensure that measure for bribery prevention are in place and establishment of prompt fraud investigation procedures, and act as whistleblowing unit to receive reports of potential or suspected fraud.

2. Encouragement of staff to report areas of potential fraud through whistleblowing and issuance of compensation for people that reported fraud. This can be achieved by setting the adequate control environment and assuring staff that all reports are in confidence and will not lead to implication or intimidation of the individual.
3. Establishment of independent Corporate Fraud Team that has the responsibility of reviewing, receiving and monitoring fraud report. The team will made up Councillors, lay members and members from Internal audit department.
4. Training staff on how to report executive, senior or junior staff that are involved in fraud and embezzlement. This can be achieved by informing staff that they can report the senior or executive staff to the Audit and Scrutiny Committee as well as the Corporate Fraud Team.
5. Providing training on areas with potential fraud risk e.g. receipts, salaries and ways to recognise original receipts tendered to customers. All receipts should have a seal and a secret number. This training should be carried out every month through seminars and workshops on handling receipts, recording of receipts, recognition of original receipt through checking the secret number. Establishment of another team that will cross check if the receipt tendered to the customers are original by verifying the existence of secret numbers and seals.

REFERENCES

financial reporting of local government and its impact on the principles of good governance: A research in district, city, and

- provincial government in South Sumatera. ', *Procedia - Social and Behavioral Sciences*, 211, pp. 811 - 818.
2. Agu, S.U. (2007) Revised Financial Memoranda and the Management of Local Government Finance. University of Nigeria, Nsukka
 3. Aguolu, A. (2009). Designing an effective audit group. Association of Accountancy bodies in West Africa.
 4. Akinbosade, A. (2016) 'Challenges of Local Government Administration', [Online]. Available at: <http://theopennewspapers.com/2016/07/challenges-local-government-administration/>.
 5. Alan, M. and Taylor, J. (2012). Auditing 10 Ed ed. North Way, Andover, Hampshire, SP10 5BE, UK: Cengage Learning EMEA Chelton House.
 6. Babatunde, S.D., K.I (2014) 'Internal Control System Deficiency and Capital Project Mis-management in the Nigerian Public Sector.', *Procedia - Social and Behavioral Sciences* 164, pp. 208-221.
 7. Cohen, J.K., G. Wright, A. M. (2002) 'Corporate Governance and the Audit Process', *Contemporary Accounting Research*, 19(4), pp. 573-594.
 8. Collis, J. and Hussey, R. (2003). *Business Research: a Practical guide for undergraduate and postgraduate students*. 2nd Ed ed. Basingstoke. Palgrave Macmillan.
 9. General Accounting Office (GAO) (1999). Internal Control Standard for Internal Control in the Federal Government. . GAO/AIMD-00-21.3.1.
 10. Ghauri, P. and Gronhaug, K. 2010. *Research methods In Business Studies*. 4th Edition ed. England: Pearson Education Limited, Edinburgh Gate, Harlow, Essex CM20 2JE, England.
 11. Ghazali, M.Z.R.M., S. Ali, A. Abidin, S. (2014) 'A preliminary study on fraud prevention and detection at the state and local government entities in Malaysia. ', *Procedia - Social and Behavioral Sciences*, 164 , pp. 437 - 444.
 12. Hair, J.F.J., Celsi, M.W., Money, A.H. and Page, M.J. (2011). *Essentials of Business Research Methods*. 2nd Ed. New York: M. E. Sharpe, Inc.,.
 13. Isenmila, P.A. and Adeyemo, K.A. (2013). Mandatory Adoption of International Financial Reporting Standards in Nigeria: The Unresolved Institutional Question. *Journal: Mediterranean Journal of Social Sciences*, Vol. (1), pp. 175-184.
 14. Jankowicz, A.D. (2005). *Business Research Projects*. United Kingdom: Thomson Learning, High Holborn House, 50-51 Bedford Row, London, WC1R 4LR.
 15. Kanagaretnam, K., Lobo, G. J., Ma, C., and Zhou J., (2016) National Culture and Internal Control Material Weaknesses around the world, *Sage journal* Vol 31 Issue 1 pp. 28-50.
 16. Klamm, B.K., Kobelsky, K.W. and Watson, M.W. (2012) 'Determinants of the Persistence of Internal Control Weaknesses', *Accounting Horizons*, 26(2), pp. 307-333.
 17. Okelo, C.A.L., C.K. (2016) Effect of internal control systems on financial management in Baringo county government, Kenya. *Journal of Economics, Finance and Accounting*, Vol. 3 , no.1, pp.1-16.
 18. Osho, A.E. and Afolabi, M.B. (2014). The Effects and Effectiveness of Accountability and Transparency in Government Sectors. *Journal of Business and Management (IOSR-JBM)* Volume 16, Issue 4, 46-54.
 19. Othman, R & Ali, N 2014, 'NPO, Internal Controls, and Supervision Mechanisms in a Developing Country' *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations*, vol 25, no. 1, pp. 201-224. DOI: 10.1007/s11266-012-9335-4.
 20. Othman, R., Aris, N.A., Mardziyah, A., Zainan, N. and Amin, N.M. (2015) 'Fraud Detection and Prevention Methods in the

- Malaysian Public Sector: Accountants' and Internal Auditors' Perceptions', 7th International Conference on Financial Criminology 2015, 7th Icfc 2015, 28, pp. 59-67.
21. Paino, H., Razali, F.M. and Abd Jabar, F. (2015) 'The Influence of External Auditor's Working Style, Communication Barriers and Enterprise Risk Management toward Reliance on Internal Auditor's Work', 7th International Conference on Financial Criminology 2015, 7th Icfc 2015, 28, pp. 151-155.
 22. Pfister, J. (2009) 'Managing Organizational Culture for Effective Internal Control: From Practice to Theory', *Managing Organizational Culture for Effective Internal Control: from Practice to Theory*, pp. 1-243.
 23. PwC. (2011) 'Fighting fraud in the public sector. The government and public sector extract from PwC's Global Economic Crime Survey, [Online]. Available at: https://www.pwc.com/gx/en/psrc/pdf/fighting_fraud_in_the_public_sector_june2011.pdf (Accessed on 15th March, 2018).