

Evaluation of the effectiveness of internal control system in the local government system using Awgu local government of Enugu state, Nigeria.

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ABSTRACT

Effective internal control is crucial for prevention of fraud, mismanagement, inadequate declaration of accounting information, company closure and bankruptcy in both public and cooperate organisations. This study examines the effectiveness of internal control in the Awgu local government area of Enugu state, Nigeria in order to provide an understanding of the problems inherent and suggest solutions. 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. The following recommendations were made to curb the absence of effective internal control on financial procedures: provision of mandatory training and induction for all staff on the penalties for misconducts and inappropriate behaviours as well dissemination of information through company policies and procedures. Establishment of independent disciplinary and monitoring office to enforce sanction and legal action on staff that do not comply with policies and procedures.

Keywords: Effectiveness, internal control, local government, Awgu and Nigeria.

INTRODUCTION

Many organisations today are in dilemma because of lack of effective internal control. Consequently, auditing and accounting entities in differently countries mapped standards and guidance that will ensure internal control [1, 2, 3]. In United State of America, for example, Sarbanes-Oxley Act 2002 requires the management of public corporation to plan, assess and examine the efficiency of internal controls over financial reporting [4, 5, 6]. In addition, external auditor is mandated to declare whether adequate, comprehensive, effective control measures and efficient documentation are constantly applied throughout the auditing process in order to avoid financial misstatements in accordance to Sarbanes-Oxley Act (SOX) Section 404 and Business Risk Audit (BRA) guidance [7, 8, 9]. Noncompliance to Sarbanes-Oxley Act (2002 attracts penalties of \$1 million and imprisonment for ten years for breaching the section 302 (disclosure) and Section 404

(financial reporting) and 20 years imprisonment and \$5 million fine for breaching of Section 906 (certification of periodic information on financial statements, from Chief Financial Officers and Chief Executive Officers of some listed firms in United State of America (US) and non US firms [10, 11, 12]. In United Kingdom, the ISA 315 was introduced in 2003 using United States' COSO framework and requires the auditor to understand the company's environment and assess the risk of any material misstatement [13, 14, 15]. Also, the corporate governance code (Combined code, C.2.1) of United Kingdom mandates that the board of directors of firms listed firms in London Stock Exchange market carry out comprehensive yearly review comprising of financial, compliance controls, operational and risk management systems to determine the efficiency of the internal controls systems of the group, and disclose the findings the

shareholders (Chambers, no date) [16]. The requirement of UK Financial Services Authority's Disclosure and Transparency Rule DTR 7.2.5 R is that firms should describe the major feature of the internal control as well as the risk management (Chambers, no date). Also, the King's report of South Africa encourages the board recognition of internal control modules and risk assessment (Chambers, no date). Similarly, the "Criteria of Control" (COCO) practiced in Canada have guidance very close to Sarbanes-Oxley Act except that there is absence of persecution and penalties if breached [17].

Nigeria adopts international financial Reporting Standards (IFRS) for financial reporting as stated by the FRC Act 2011 [18]. The section 60 (d-f) of Investment and Securities Act 2007 of Nigeria mandates the signing officers to establish, maintain, design and evaluate the efficiency of internal control [19]. However, internal control procedures and management of local government finances in Nigeria are stated in the Revised Model Financial Memoranda 1991 and 2009. The requirement of Financial Memorandum is that generated

Aim and objective of this research

To examine the effectiveness of Internal Control system in the local government

funds will be channelled for the development and catering of citizens at the local government level. Local government is a bridge through which citizens in remote areas are reached and catered for, thus it fills the breach between the federal government and the people [20] as cited in [21]. Nigeria local government has some contribution to the growth and transformation of cities and villages such as refuse disposal, construction of rural roads, and provision of primary education and dispensaries for the cure of communicable disease [22, 23]. Some services provided by Town Councils include supplying of water, environmental sanitation, market supervision, however, rendering of these services declined as a result of internal and external problems arising from both the local council and the federal government [23,24,25]. In general, the dividend of federation is not actualised in Nigeria [26, 27]. Poor development in Nigerian local government is as a result of insufficient funding and lack of financial autonomy as well as poor management of available fund generated [28, 29, 30, 31].

system using Awgu local government of Enugu state, Nigeria.

Research Methodology

Research questions

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

1. How effective are current Internal Controls in ensuring that financial procedures and guidelines are adhered to?

Data Collection

The methodology implemented in this research is survey technique through administration of both online and hard copy questionnaire as well as personal interview. The questionnaire was used as a source of primary data collection, while secondary data was based on journals, textbooks, and articles. The number of questionnaires issued out to Awgu local government areas, Nigeria were 200 whereas 20 questionnaires were given to Rhondda Cynon Taff, South Wales, United Kingdom. The respondents are senior officers and managers with

experience in Internal Control. Data are collected from Awgu, Local Government areas of Enugu state Nigeria and Rhondda Cynon Taff, Pontypridd. UK. This research is based on qualitative techniques with some element of quantitative. Qualitative data are characterised by how quality the data is and the opportunity to investigate a subject matter in a manner that is possible. This means that the value of qualitative research varies based on the relationship between the data analysis and collection [25, 27, 28, 29, 30].

Research Ethics

This study adherence to good research ethics and principles. This includes the following:

- Gaining access to local government sector through an employee.
- Get approval for the use of the acquired data for the purpose of research
- Maintain privacy and ensure that the integrity of the respondents are protected and non-disclosure of information to third parties.
- Exact response of each respondent will not be part of the final report

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, Nigeria.

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

Effectiveness of internal control over financial procedure and guidelines

The effectiveness of internal control on aspects relating to funds and to ascertain if guidelines are followed in accordance to the Financial Memoranda are determined using five questions on the administered questionnaire. Figure 1 below shows the percentage of the staff in Awgu and Rhondda Cynon Taff (RCT) local government area (LGA) that agreed on the statement that there is presence or existence of internal control in the organisation. The result shows that 100% of Awgu LGA staff agree that there is existence of internal control. Thus, 0% staff strongly agree, neutral, disagree

and strongly disagree. This implies that all the staff acknowledge that there is element of internal check in the organisation or probably the respondent may not understand the term 'internal control' even though they were senior officers including accountants and internal auditors with education above degree levels. The comparative study of Rhondda Cynon Taff local government in South Wales, United Kingdom reveal the existence of strong internal control as indicated by 100% strongly agree feedback of staff to the statement.

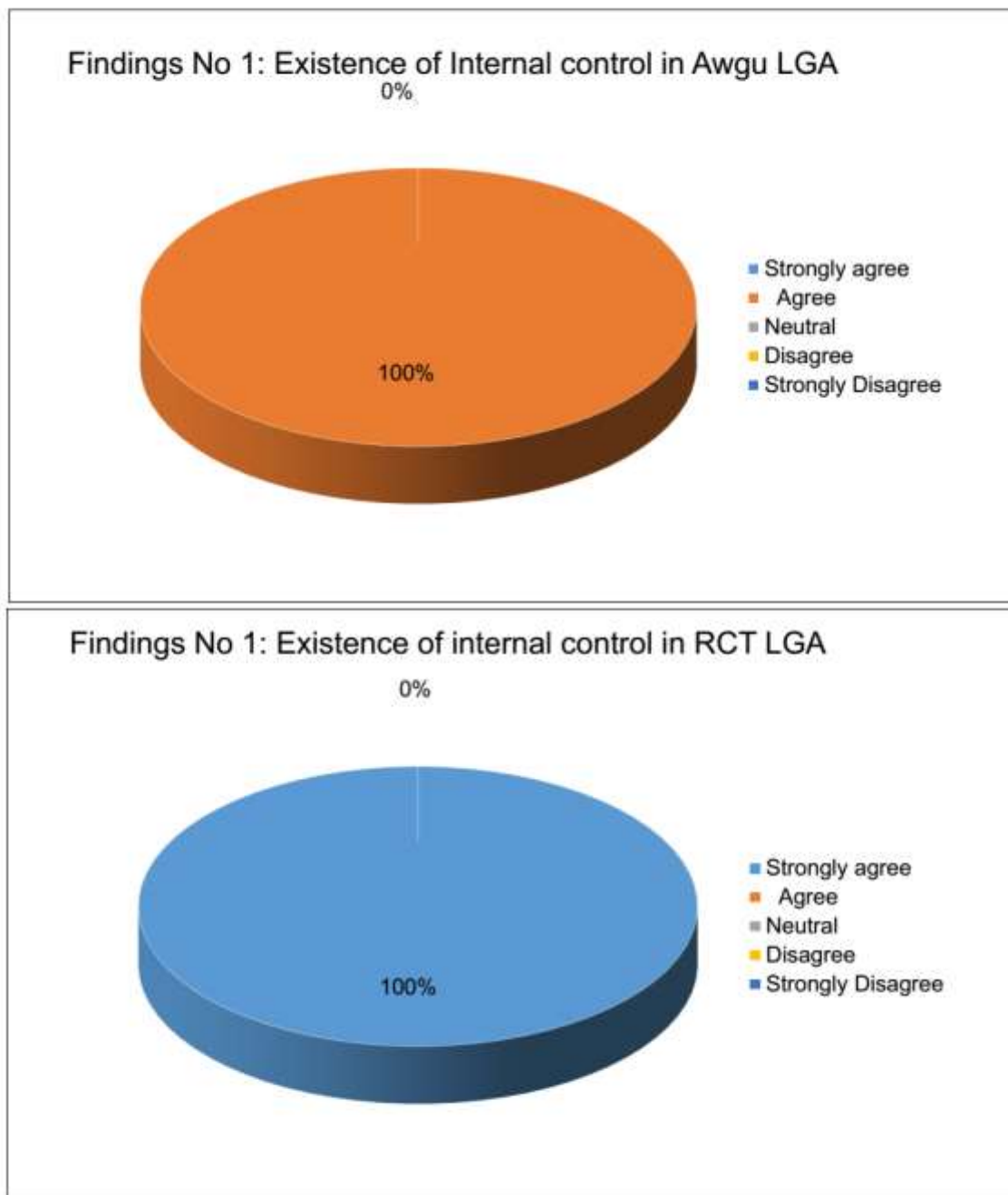


Fig. 1: Percentage of the staff in Awgu and Rhondda Cynon Taff (RCT) local government area that agreed on presence or existence of internal control in the organisation.

The figure 2 below shows the views of the respondents on whether there is adequate internal verification of receipts after payments after transactions expressed as percentages of their opinions. Seventy two (72%) of Awgu LGA staff strongly agreed that all receipts are internally verified, 20% agreed that receipts are internally verified, 8%

disagreed with the statement whereas 0% neither strongly disagreed nor neutral to the statement. This indicates that majority of the staff strongly believe that every receipt issued for payment of services are verified by an internal staff. Similarly, the feedbacks from the staff of Rhondda Cynon Taff South Wales, United Kingdom reveal that 94% of staff agreed

whereas 6% strongly agreed with the statement.

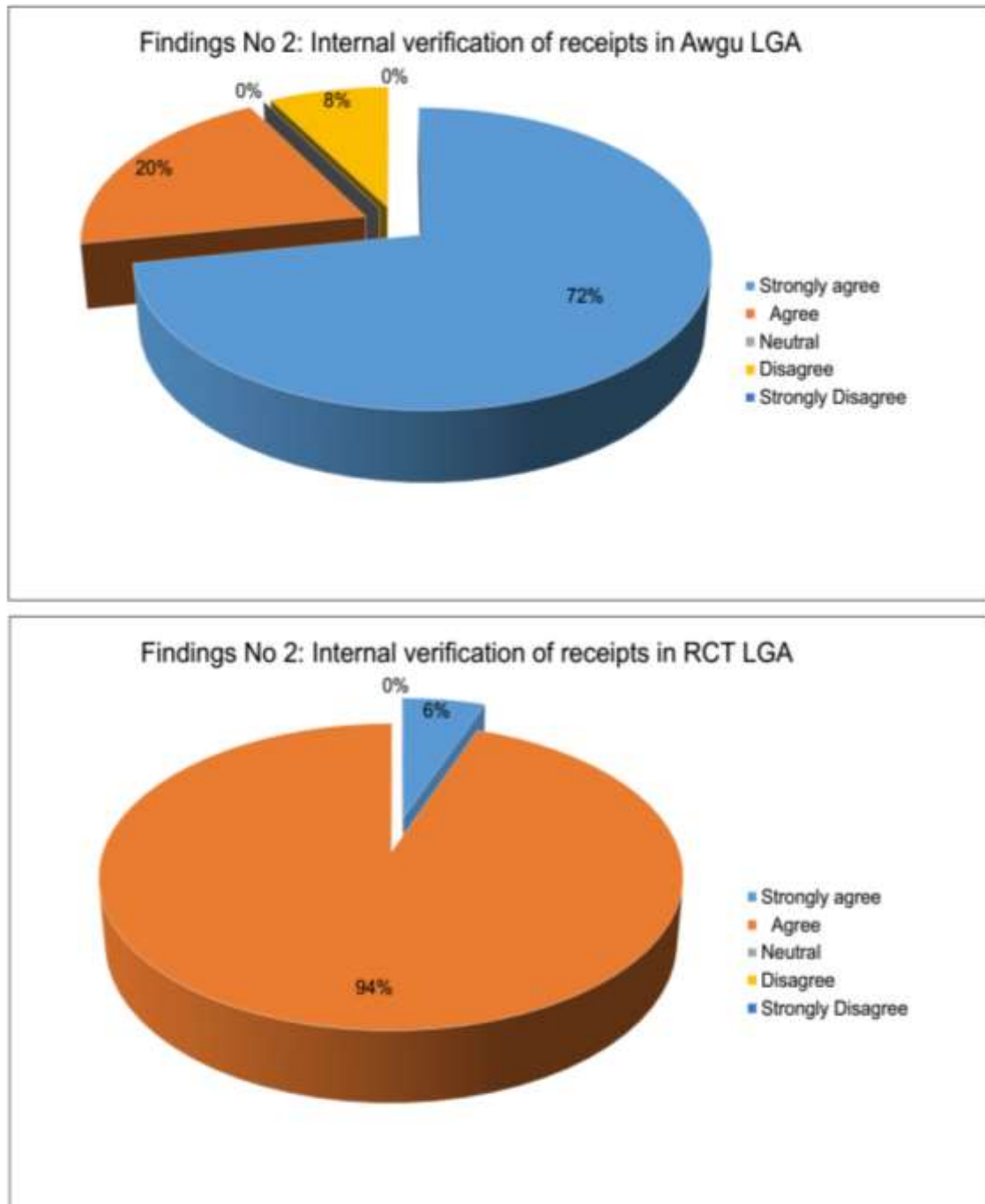


Fig. 2: Percentage of the Awgu and Rhondda Cynon Taff (RCT) opinions on internal verification of receipts.

The finding for determination of the existence of adequate authorisation and

approval (Fig. 3) before any payment or purchases are made revealed that 72% of Awgu staff strongly agreed that there is

significant approval and authorisation whereas 28% agreed to the statement. In addition, 0% staff was neutral, disagree or strongly disagreed with the statement. This indicates that the personnel with the responsibility of authorisation and

approval carries his or her duties as required. Similarly, 100% strongly agree was obtained as response from staff of Rhondda Cynon Taff, LGA United Kingdom.

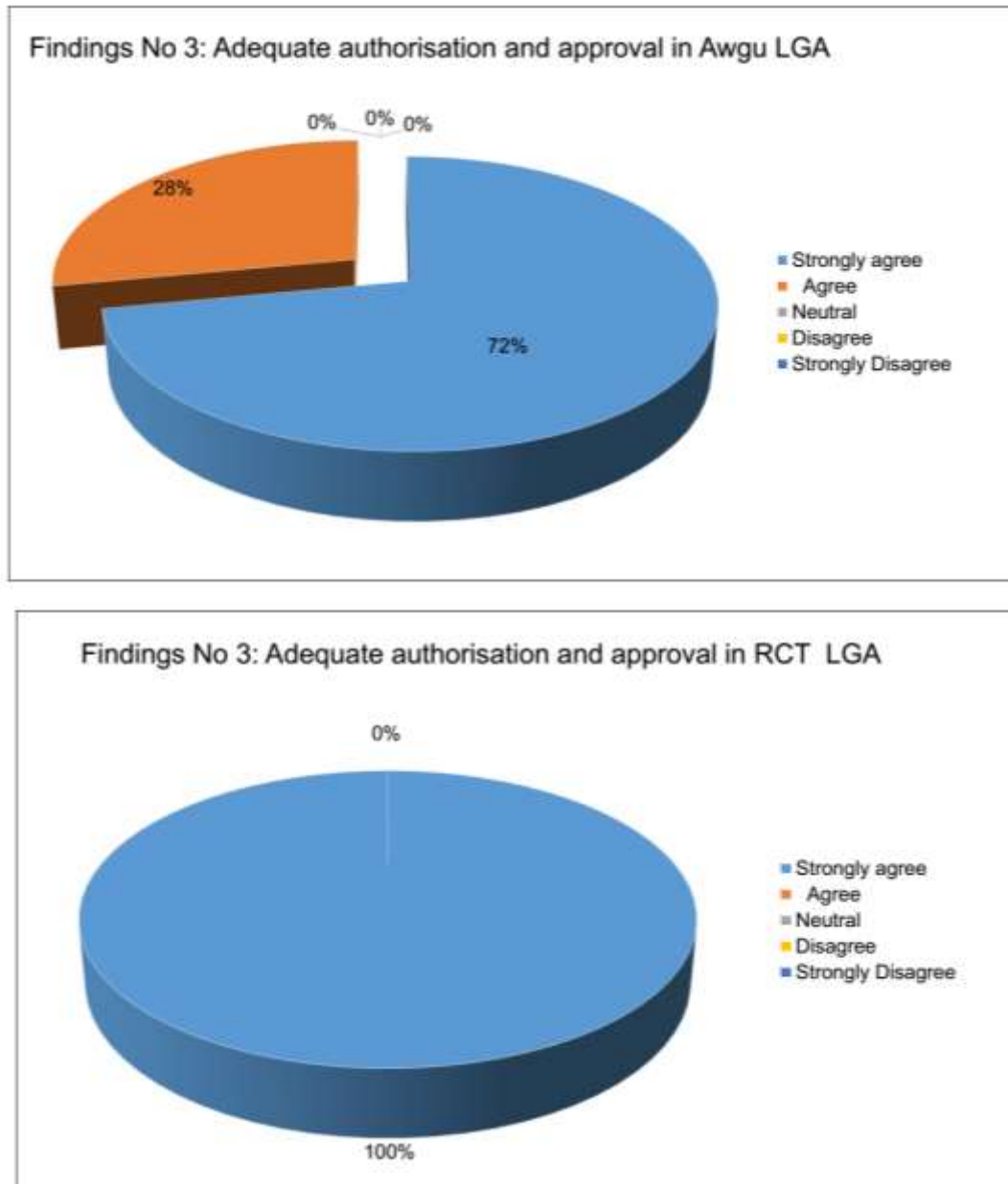


Fig. 3: Percentage of the Awgu and Rhondda Cynon Taff (RCT) staff opinions on existence of adequate authorisation and approval.

The figure 4 below shows the view of the respondents on whether all approving officer must endorse their signature before payment is made. The finding indicates that 88% of Awgu LGA staff agree that there is endorsement of signature before payment whereas 12%

strongly agreed with the statement. No staff (0%) strongly disagreed, disagreed or were neutral to the statement. This implies that there is evidence of endorsement of signature for every transaction made in the local government. In contrast, the staff of

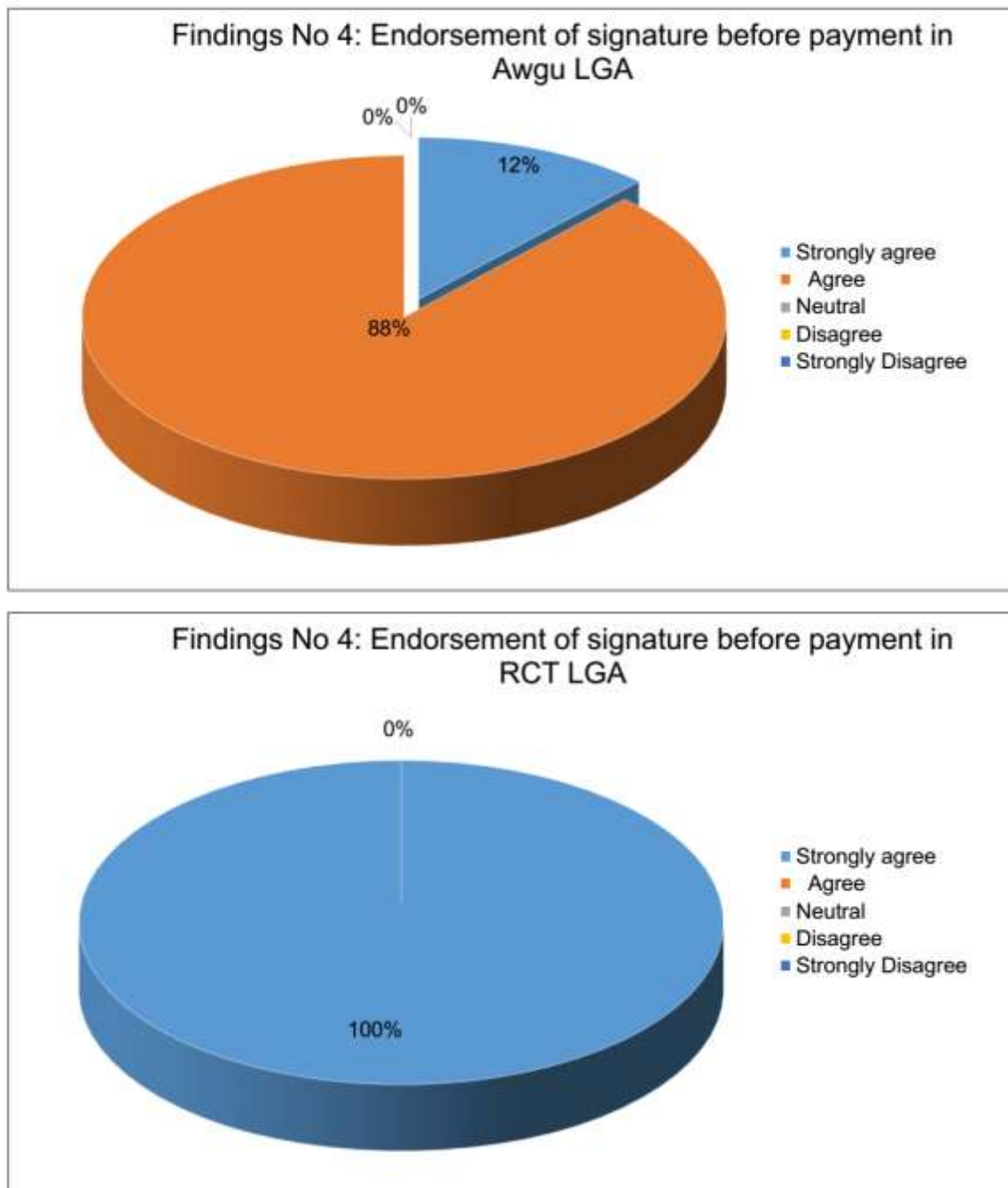


Fig. 4: Percentage of Awgu and Rhondda Cynon Taff (RCT) staff opinions on endorsement of signature before payment.

The diagram in Fig. 5 below illustrates the finding obtained from the respondents from Awgu and Rhondda Cynon Taff on whether there is adequate segregation of duties among the staff in the local government. This result indicates that 72% of Awgu LGA staff agreed that there is adequate separation

of duties, 16% strongly agreed with the statement, 8% disagreed with the declaration and 4% of staff were neutral to the statement. In contrast, the 100% of staff of Rhondda Cynon Taff, United Kingdom strongly agreed that there is adequate segregation of duties in their work place.

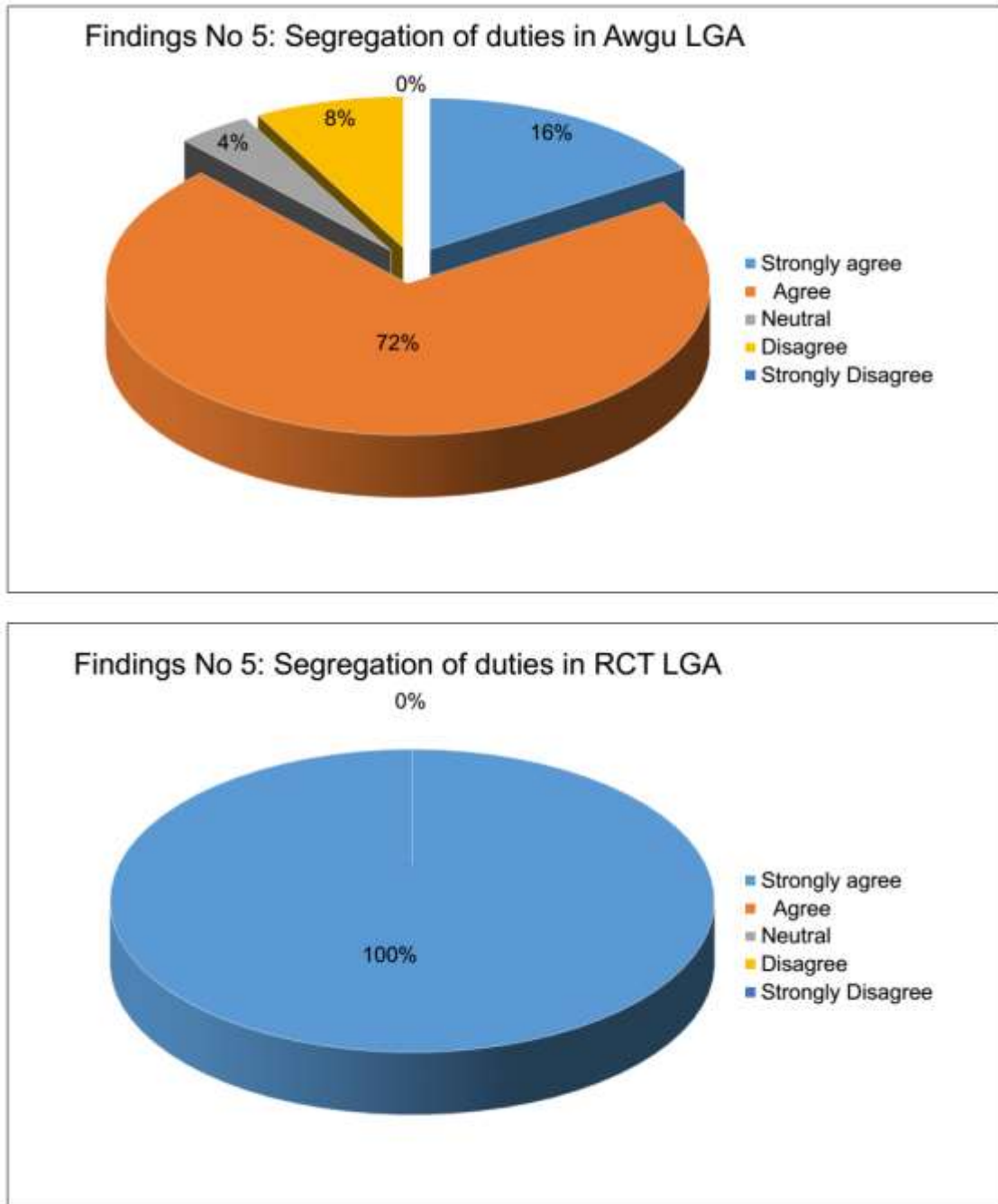


Fig. 5: Percentage of Awgu and Rhondda Cynon Taff (RCT) staff opinions on existence of segregation of duties among the local government staff.

The overall staff response on the effectiveness of internal control on financial procedures and guidelines in Awgu LGA ranges from agree to strongly agree on statements that indicate existence of adequate internal control. However, 8% of staff believe that there is no segregation of duties and verification of receipt issued to customers when

payment are made. Even though the number of these negative responses is small, it is significant enough to conclude that there may be presence of ineffectiveness in internal control as it relates to fund management and financial procedures. In addition, this implies that there may be problem in the areas relating to segregation of duties or

staff do not clearly understand their responsibilities, Similarly, [4] notes that the internal control is not well known in the public sector, especially, in the local government in Nigeria and found that fraud and embezzlement of fund influence the system in the local government in Imo state, Nigeria. Comparing the finding from Awgu with that obtained from Rhondda Cynon Taff indicates that there is strong effective internal control in Rhondda Cynon Taff in all aspects relating to financial reporting and procedures. [7], agrees that consolidation the internal control of an organisation enhances adequate financial management and accounting information, and suggests effective measure to address the problems associated with accounting financial management. In addition, [13], studies on the effectiveness of internal accounting controls in china show that it has the potency of ensuring adequate financial management and serves as a tool for risk assessment. The under listed are the recommendations that will help to ensure effective internal control system in Nigerian local government: Clearly stating of responsibilities in job description and strict adherence to the assigned duties no matter the circumstance.

1. Provision of mandatory training and induction for all staff on the penalties for misconducts and inappropriate behaviours as well dissemination of information through company policies and procedures. This can be achieved

- through conduction of seminars for every new staff and monthly seminars for old staff on code of conducts and consequences of misconduct.
2. Establishment of independent disciplinary and monitoring office to enforce sanction and legal action on staff that do not comply with policies and procedures. This independent disciplinary board will oversee the work and services of the local government and the Head of the board will not be a politician but a qualified lawyer or accountant.
3. Revision of Financial Memoranda to incorporate the five COSO internal control frame work and adding that the Chief Executive officer or Chief Financial Officer must be an accountant. This will enable local government in Nigeria to equate the internal control system obtainable in developed countries.
4. Adopting Rhondda Cynon Taff, United Kingdom Internal Control System that stipulates that the Chief Executive and Group directors to be responsible for ensuring internal control. This can be achieved by employing qualified Chief Executives and Group directors that understands ways to achieve internal control and educating the existing the Group director on ways of ensuring internal control.

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