

# Internal Audit Effectiveness in the Public Health Sector in South-South Nigeria

Inyang, O. Ethel<sup>1</sup>, Enya E. Francis<sup>2</sup>, and Otuagoma O. Florence<sup>3</sup>

<sup>1,2,3</sup>Department of Account, Faculty of management science, University of Calabar

Email: <sup>1</sup>[einyang@unical.edu.ng](mailto:einyang@unical.edu.ng) and <sup>2</sup>[enyafranciseje@unical.edu.ng](mailto:enyafranciseje@unical.edu.ng)

**Abstract**— The internal audit function is an essential part of an organization, which if functioning effectively should ensure transparency, accountability, and efficient service delivery. In recent times, the public health sector has become the focus of debate among stakeholders who decry the poor state of health facilities, poor service delivery, misappropriation of funds, misuse/mismanagement of assets, fraud. This has resulted in an increase in private hospital patronage as patients prefer private hospitals to public hospitals. The major objective of this study is to assess those attributes that influence internal audit effectiveness in the Nigerian public health sector. The study employed exploratory and case study research design in examining and understanding the problem. Data for this study was collected using semi structured face-face interviews with the head of department and unit heads of the internal audit department of the sample institutions and review of relevant documents (audit manuals and reports) where available. The results reveal that internal quality (scope of work, independence, communication skill, staffing and staff expertise) and management support (funding, response to audit finding and staff training) are key factors affecting internal audit effectiveness, while audit attributes and organizational setting are relevant but not key factors in determining internal audit effectiveness. It is therefore recommended that the scope of internal audit work should be broadened to include risk assessment, compliance audit and internal control review to enhance audit quality. Similarly, audit reports should be prepared and communicated more regularly and adequate follow up should be made to ensure their implementation. Management should provide adequate support in terms of employing permanent and qualified staff for the audit department and also provide regular technical training to ensure that the auditors are up to date in terms of skills and expertise to carry out their assignments effectively.

**Keywords**— Auditee attributes, Internal audit effectiveness, Internal audit quality, Management support.

## I. INTRODUCTION

With the latest global economic meltdown and increasing fraud cases, the internal audit function has become increasingly vital in both the private and public

sectors. Public sector failure to deliver the required and needed services questions the effectiveness of the internal audit function in the Nigerian public sector. In an interview granted by Tunku Abdul Aziz Tunku Ibrahim, He listed corruption, lack of transparency and accountability are all part and parcel of Nigerian life. These problems impede the development of the Nigerian economy considering her vast human and natural resources. It is therefore imperative that the Internal Audit function be an integral part of financial reforms in government ministries, department and agencies (MDA's), to enable the government achieve of rendering effective services for the good of the public (Ali 2007). The internal audit function has seen a paradigm shift in the last three decades which has witnessed a portfolio of skills required for the internal auditor to achieve professional and technical success in the discharge of his duties. Internal auditors' effectiveness is a function of a number of attributes which includes internal audit quality, management support, auditee attributes and organizational setting (Mihret and Yisamaw, 2007).

Nigeria, like many other developing countries, is having serious shortcomings in the internal audit function with lack of competent staff, poor support from management with regards to accepting and implementing audit recommendations, inadequate training and development, low level of corporation from the auditee etc, all of these affect the effectiveness of the internal audit function. There are a number of government MDA's where the internal audit units are largely understaffed and also lack the requisite skill to enable them operate effectively (Ali et al 2007). As posited by Ali et al (2007), The National Audit Department (NAD), sees the internal audit unit as a training grounds for their staff which further undermines the and credibility of the internal audit units. A critical research on the above issues as they affect the internal audit effectiveness in the public health sector is lacking, which gives the prompting for this study. Therefore, this study is carried out to examine the factors affecting the internal audit effectiveness in public health institutions in Nigeria. Specifically, this study will consider; internal audit quality, Management support, Auditee attributes and Organizational setting as there affect internal audit effectiveness.

## **II. INTERNAL AUDIT FUNCTION IN PUBLIC SECTOR**

The internal auditor by implication is the organizations critical friend – someone who can challenge current practice, champion best practice and be a catalyst for improvement. The internal audit function includes risk evaluation, evaluating controls at all levels, analyzing operations and other adhoc duties. Internal auditors play a vital role in enhancing the operations of public sector parastatals. There ensure accountability and transparency of financial operations as well as checks and balances, report to management of lapses in the internal control system which might likely lead to the perpetuation of fraud and other fraudulent activities. Given the vast nature of public sector operations, the independence, credibility and effectiveness of the internal auditor is very important. Given that the internal auditor is an inherent part public organization, It makes it even more difficult for them to attain and maintain the level of independence required to carry out their functions effectively. When observing the public sector and international institutions in general, the function of IA is essential for effective management. As the Institute for Internal Audit (2012) points out the IA function in the public sector is of great importance and must be structured in a manner that ensures the fulfillment of their accountability and transparency to the general public, while at the same time allows them to efficiently, effectively and cost-effectively meet its goals. For the IA in the public sector the key point is the credibility and the level of independence with which this function is performed. One must keep in mind that the staff of these departments are also an integral part of public organizations, so credibility and independence, as well as their advisory role, is becoming an increasing challenge and the point of potential conflicts of interest. The public sector internal audit has been looked into by various researchers across the world. It is not surprising that many countries are facing dilemmas in managing the internal audit in their country. In the public sector, the internal auditors perform a number of functions ranging from prepayment verification and control, asset counting, checking the correctness of transactions, reporting past events to various management (Enofe 2013). The internal audit function holds high prospects for promoting accountability and public sector performance. (Ali et al; 2007). Over the years, there has been a quiet rotation in the internal audit profession with government moving towards improving the levels of transparency and accountability in the use of public funds in efficient and effective service delivery (Deloitte 2011). Given the vital role that the internal auditors play in the public sector, a number of countries have reemphasized their commitment to reinforcing the

internal audit function to equip them to carry out their functions effectively. As Ali et al (2007) puts it, government is committed to the establishment of internal audit units where there were previously nonexistent, developing professional auditing standards to guide the audit practice, provision of training and adequate resource allocation. All, in a bid to enhance their effectiveness.

## **III. INTERNAL AUDIT EFFECTIVENESS**

Most researches relating to audit effectiveness in literature has focused mainly on external audit with little emphasis on internal auditing (Porter & Gowthorpe, 2004; Goodwin,2004, Ubaka, 2016). Internal audit effectiveness became prominent in the 1990's as various studies were conducted to establish the importance of internal audit effectiveness in different countries. Different factors and models have been used to measure effectiveness in audit (Arena & Azzone, 2009) and there still exists arguments among scholars as to the best framework to measure audit effectiveness. Effectiveness is the measurement to evaluate whether the goals of the organization has been achieved or not. Effectiveness becomes the main aspect that affects the goal achievement of an organization. So, the organization must decide how to do some activities which will help them to achieve the goals. The internal audit must be so effective that they can achieve the goals of their audit activity. There are a number of factors affecting their internal auditor's ability to achieve their goals thereby affecting their effectiveness. Arena and Azone (2009) in their paper on internal audit in Italian organizations, highlight characteristics of the audit team, audit process, activity and organization relationship as some of the factors affect IA effectiveness. Mihret and Yismaw (2007) lists auditee attributes and management support as key factors that affect internal audit effectiveness in the public sector. Alzeban and Gwilliam (2014) from their study shared similar views and listed management support, independence and competence of the internal audit staff, size of the internal audit unit as well as the relationship between the external auditor and external auditor. This study adopts a similar approach as Mihret & Yimaw (2007) by grouping the factors that affect internal audit effectiveness into 4 subheads which includes Management support, internal audit quality, organizational setting and auditee attributes to show how the interaction of these four factors affects the internal audit effectiveness in the health sector in Nigeria.

Audit findings, reports and recommendations will make little or no meaning where management is unwilling to implement them. Management support come in the form of provision of adequate funding for the internal

audit unit, regular staff training, and willingness to implement audit recommendations. As stated by Alzeban (2014), support from management will give the internal auditors the morale to carry out their functions effectively and maximally. Ahmed et al. (2009) highlights management support as the second most important factor that affects internal audit effectiveness based on their study in Malaysia. They posit that the recommendations of the internal auditors will be more relevant if there are implemented by management. It is generally accepted that, to be effective, the internal audit function must have the full support of the organization's senior management. The support of line management is also critical. The attitude of management towards internal audit can have a significant influence on the behavior of an organization's staff - similarly the attitude of management towards internal audit can either strengthen or hamper its role.

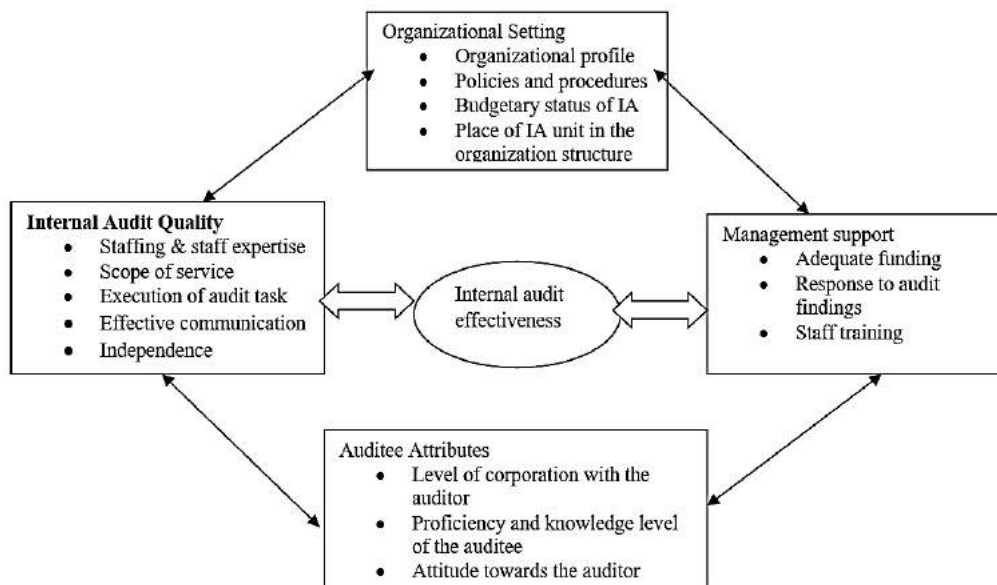
Internal audit quality which encompasses independence and objectivity of the audit staff, expertise, scope of work, planning, communication skills and effective execution of audit task is key to internal audit effectiveness. With regards to IA quality, the International Standards for the Professional Practice of Internal Auditing (ISSPIA) insist that the internal auditors must possess the requisite professional and educational qualification, competencies and skills as well as practical training and experience to ensure that the activities of the internal auditors is value adding and contributes to improving organizational operations. (Mihret&Woldeyohannis 2008; Ali & Owais 2013. Based on Mihret et.al (2010), both technical competence and continuous training are considered essential for

internal audit effectiveness. Bailey 2010) also highlights effective communication as a factor that can influence competence of internal audit department.

Auditee attributes also influences the effectiveness of the internal audit function. This includes the proficiency and knowledge of the auditee, willingness and readiness to cooperate with the internal auditor in terms of provision of documents and generally creating conducive environment for the auditor. The organizational setting also can influence the effectiveness of the internal audit function; where the internal audit unit is placed in the organization's structure, recognition given it, the organizational profile and budgetary status etc.

As stated by Mihret & Yismaw (2007), internal audit effectiveness is a function of these four factors and the interplay among them. Audit quality and management support affect IA effectiveness, which in turn, has a positive bearing on the two factors. Where the internal audit function improves quality to the point where management's involvement is ignited, their support would be a natural quid and have a positive outlook on IA quality which will invariably improve IA effectiveness. Management's commitment to implementing recommendation made by the internal auditors will also have an effect on the auditees and their operations which will also have a spiral effect on IA effectiveness. Moreso, management has the charge to improve the organizational setting and influence the auditee towards a positive effect on audit effectiveness, which in turn result in better audit quality. Fig. 1 shows the factors affecting IA effectiveness and the interplay among these factors.

*Fig. 1 Illustration of the factors affecting internal audit effectiveness and interplay among the,*



Source: Adapted from Mihret & Yismaw 2007

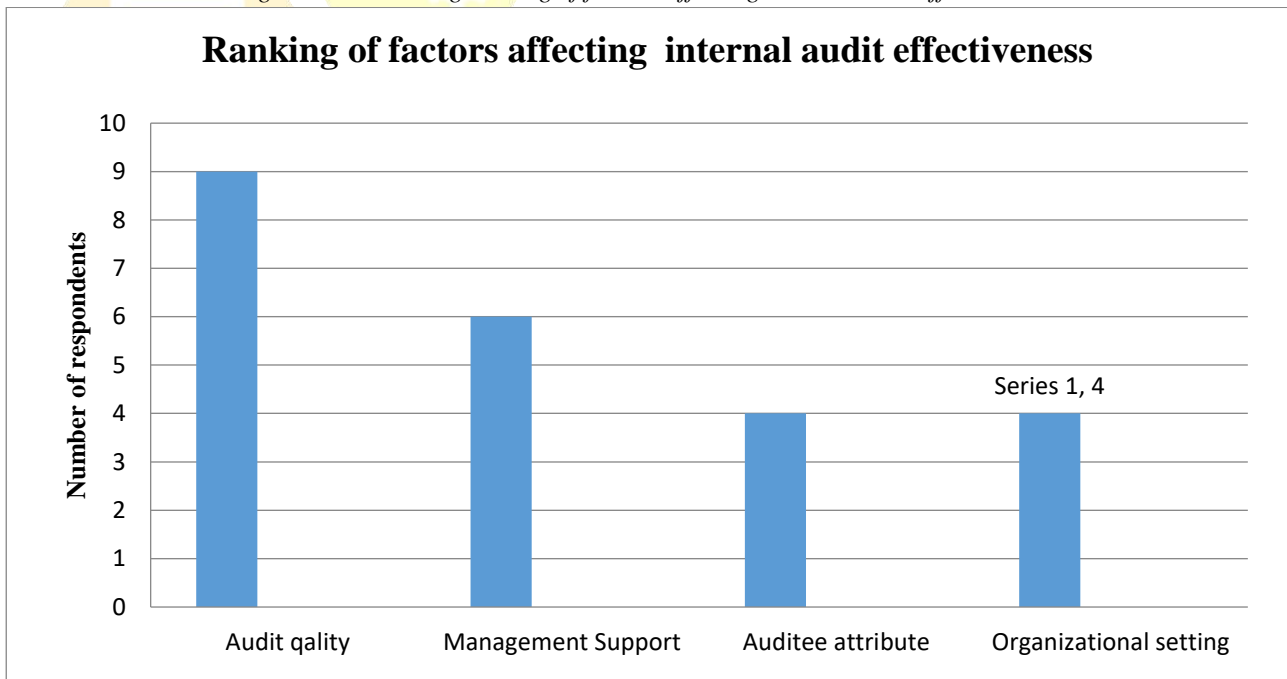
**IV. METHODOLOGY**

The exploratory research design is adopted for this study given that the problem (internal audit effectiveness) in the Nigeria public health sector has not previously been extensively studied. The case study approach is also adopted as it allows the researcher to obtain deeper insights into the subject being studied. The study was based on four public health institutions located in Cross River State, Nigeria. To enhance the validity of the result obtained from this study, it should be noted that these health institutions are all public health institutions with their audit and account functions under the purview of both the Auditor General and Accountant General of the federation respectively and are bound by common set of audit principles and rules particularly the civil service rules, financial regulations and audit guidelines. Primary data was obtained using semi-structured face to face interviews with the heads of department, deputy and heads of unit of the internal audit department of the four health institutions. A total of 9 persons were

interviewed, which formed the sample size. The samples were classified based on the four public health ministry’s located in Calabar and were named as Case A for organization A, Case B for organization B, Case C for organization C and Case D for organization D. Subsequently, the findings from the interviews of each respondent from each of the health institutions were then analyzed. The interviewees from ministry A (Case A) was denoted as A1 for internal auditor 1, A2 for internal auditor 2, and A3 for internal auditor 3. Same was done for (cases B, C and D). To improve the validity of the responses obtained from the interview, documents such as audit manual, plans and reports were available were also reviewed. Data obtained was analyzed graphically to reveal trends and commonalities and the result of the interviews were analyzed with the help of a reputable law firm to help identify themes and highlight key factors affecting internal audit effectiveness.

**V. DISCUSSION**

Fig. 2 Chart showing ranking of factors affecting internal audit effectiveness.



Source: Field Survey 2020

From the interview conducted, all nine (9) respondents ranked audit quality as the key determinant internal audit effectiveness closely followed by management support, auditee attributes and organizational setting. From the data obtained, only two out of the four health institutions have professional accountants as internal auditors and none has any professional auditor. They decry low level of staff in the audit unit and high staff turnover where auditors are frequently transferred to other units of the organization leaving the internal audit unit lacking greatly in terms of staff. Six out of the nine

respondents rank lack of adequate staff and lack of adequate professional expertise and skill as key in audit quality. Interview respondents also state that management influence greatly affects the independence of the internal auditor, which in turn has an adverse effect of audit quality. The respondents also state that the internal auditor’s scope of work is greatly limited majorly to the review of records and verification of vouchers and supplier invoices. The internal auditors do little or nothing with regards to compliance audits and review of systems internal control process. Response to

interview questions and review of audit reports show that the auditor reports which are collated monthly by the head of the internal audit department and communicated quarterly to management are quite clear and explicit. This is so given that some of the internal auditors have been in the employee of these organizations for at least 5 years.

Management support ranked second after internal audit quality as one of the factors affecting internal audit effectiveness in the public health sector. The interview respondents cited lack of adequate management support as hindering IA effectiveness. The respondents state that management rarely implements the recommendations of the internal auditors, but they still go ahead to provide these reports to exonerate themselves in the event of any issues that may arise as a result of failure to implement their recommendations. The respondents also state that managements support with regards to funding the internal audit unit and staff training is greatly inadequate. The poor support of management has very far reaching consequences considering that it might have a demotivating effect on the auditors as they may not see any need to carry out their work if their reports and recommendations are not implemented. Respondents agree that management does not provide any form of formal training or funding to provide this training to staff that are employed/ deployed to the internal audit unit, rather these persons are sent to field to learn on the job, which is not the most effective as it is time consuming and gives room for a lot of mistakes.

Organizational setting and auditee attributes ranked third and fourth as factors affecting internal audit effectiveness. The internal audit unit has a head of department and a second in command as well as sub units which include verification unit, Electronic payment (E-Payment) unit, monitoring unit, Drug Revolving Fund (DRF) unit and general duties units. From the organizational structure the internal; audit unit is set to be independent from management, but evidence obtained from the interview shows that the internal auditor is not completely free from management influence and the regular rotation of staff is done without recourse to relationships of prior unit of work. For instance, temporal staff who have as worked in the internal audit unit for about three years can be moved to the accounts units of the organization.

Auditee attributes is another factor affecting internal audit effectiveness. Though not ranking first or second but equally vital. Willingness of the auditee to cooperate with the internal auditors, unrestricted access to records and relevant information are vital to the quality if the

internal audit function. Interview responses reveal that the level of responses received from auditee vary, while some are willing to provide need records other out rightly refuse. Some request for an authority from management before granting access others insist on only releasing information to the head of the audit unit directly. The internal auditor also records cases where the auditees do not keep adequate or complete records to facilitate their audit work.

## **VI. SUMMARY OF FINDINGS**

The results presented above show that the internal audit unit of the organizations studied has a high level of staff turnover and low level of proficient staff with regards audit skill and expertise. It also shows that the scope of audit work is greatly limited which adversely affects the quality of the internal audit function. The results also show that audit reports and recommendation are not given adequate attention which in turn serves as a deterrent to the auditor. Although, the frequency of these reports (quarterly) is a cause for concern, it might be attributed to the attitude of management towards implementing audit recommendations. There is also low level of management support with regards to provision of adequate funding and trainings for the internal audit function. Auditee attributes and organizational setting though relevant factors are not key determinants of internal audit effectiveness.

## **VII. CONCLUSION**

This study sought to investigate factors influencing the internal audit effectiveness in the Nigerian public health sector. Adopting methods similar to that used by Mihret & Yismaw (2007) four factors (audit quality, management support, auditee attribute and organizational setting) and the interaction among them were tested using semi-structured face-face interviews with the heads of department and heads of units of the internal audit department of four public health institution in Cross River State Nigeria. . The findings of this study reveal that audit quality, which encompasses, staffing, audit independence, skill and expertise if the auditor, scope of work, communication skill and management support are key determinants of internal audit effectiveness in the Nigerian public health sector. The results show that management's commitment to implementing audit recommendation, provision of qualified staff, reduction of staff rotation, and provision of technical training for the internal auditors is a requisite for internal audit effectiveness. Given the key role that the internal auditor plays in checking fraud and irregularities, ensuring compliance with best practices and ensuring transparency and accountability, it is important that they are adequately

equipped to carry out their audit effectively and without any undue influence. It is therefore recommended that the scope of internal audit work should be broadened to include risk assessment, compliance audit and internal control review to enhance audit quality. Similarly, audit reports should be prepared and communicated more regularly and adequate follow up should be made to ensure their implementation. Management should provide adequate support in terms of employing permanent and qualified staff for the audit department and also provide regular technical training to ensure that the auditors are up to date in terms of skills and expertise to carry out their assignments effectively.

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