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- I. Title page
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- V. Literature Review
- VI. Methodology
- VII. Results and Discussion
- VIII. Conclusion and Recommendations
- IX. References (APA 7th Edition)
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DETERMINANTS OF INTERNAL AUDIT QUALITY OF SELECTED MDAs IN NIGERIA

JUNAIDU SHEHU AND SAIDU IBRAHIM HALIDU

ABSTRACT

The main purpose of this study is to investigate on the determinants of internal audit quality of selected Ministries, Department and Agencies (MDAs) In Nigeria. This investigation is focused on 15 purposely selected MDAs that are expected to represent all other MDAs. The management teams and the internal auditors of the selected MDAs are the source for the required data to the researcher through the questionnaires administered. The study further evaluates and examines the determinants of Internal Audit Quality of selected Ministries, Departments and Agencies (MDAs) in Nigeria. The determinants studied are management support, competent of internal auditors, availability of information technology and organizational independence. The study adopts descriptive survey design while ordinal regression was used for the analysis. From the analysis, it was found that management support, competent of internal auditors, organizational independence and information technology has a significant effect on audit quality. The study recommends that There should be separation of powers between the appointing authority of internal auditors and those in charge of determining their incentives and remuneration so as to ensure total independence and objectivity of internal auditors.

Keywords: Determinants, Internal Audit, Audit Quality, Ministries Departments and Agencies

1.0 INTRODUCTION

In every country that is administered in a democratic policy needs to be accountable in its use of public money and in providing efficient, effective and economical service delivery. To achieve those government objectives, ensuring audit efficiency and quality were the major mechanism for controlling the use of all scarce resources available in the public sector (Nordin & Gansberghe, 2003). Public sector offices are part of the public body which is partly or wholly financed by government budget and concerned with providing basic government services to the whole society (Federal Ministry of Finance and Economic Planning (FMoFEP, 2004). The compositions of the public sectors are varied by their function and purposes, but in most cases, they are designed in order to enable the public sectors to achieve their goals. In order to achieve these goals, there must be good monitoring mechanism such as internal audit.

Audit is an independent inspection of an entity where the auditor delivers unbiased results about the appropriation of funds by underlying organization (IFAC, 2001). The first and foremost goal of auditing is to bring transparency and accountability in public or private sector. Audit serves as a tool for making public and private entities responsible and accountable for

their duties. Audit brings accountability, transparency, equity and integrity in operations of organizations. According to Karen and Stephen (2003), there is audit efficiency when the auditor bears responsibility for fraud detection. Moatasem and Abdulqawi (2020) look at efficiency as the allocation of capital, human, physical and information resources in such way that the output is maximized for any given set of resource inputs, or input is minimized for any given quantity and output quality.

The development in internal audit profession brings changes in the scope and functions of internal audit. Previously, internal auditors were seen just as an assistant of accountants and an external auditor but recently internal audit is certainly considered an independent profession, which is playing a significant role in the management of organizations. Internal Audit is part of the internal control system put in place by management to measure, analyse and evaluates the efficiency and effectiveness of other controls established by management in order to ensure smooth administration, cost minimization, ensure capacity utilization and maximum benefit derivation (Unegbu & Obi, 2012). Internal audit determines the reliability, reality, and integrity of financial and operational information that comes from different organizational units, on which appropriate business decisions at all

levels of management are based. Internal audit is an additional safeguard for proper financial control in the public sector (Ljubisavljevic & Jovanoyi (2011).

Asare (2008) asserts that, in some organizations, the scope of modern internal auditing has been broadened from financial issues to include value for money, evaluation of risk, managerial effectiveness and governance processes. This helps an organization accomplish its objectives by bringing systematic, disciplined approach to evaluate and improve the effectiveness of risk management control, and governance processes. De Anglo (1981) opines that it is necessary to maintain the audit quality because it helps to minimize the agency problem in public sector. Agency problem arises when the interests of ministries do not match with the interest of public and government. Wheelen and Hunger (2002) argued that agency problem arises when management is not willing to take responsibility of where they have directed funds to achieve the desired goals. According to Institute of Internal Auditor (2006), the principal-agent relationship exists in public sector. Government is an agent of public because it collects funds from public in the form of taxes. Then, ministries act as an agent of government because they receive funds from government for public welfare. In this dual principal-agent relationship, government auditors exist on behalf of government to oversee the working of ministries. So, the audit quality is a mechanism to strengthen the public trust. Despite the significance of internal audit quality in either public or private sector, it is determined by many factors such as management's support, competent of internal auditors, objectivity of internal auditor, availability of information technology and organizational independence. The success of Internal audit will depend on the strength of management's support for the auditing process. They have to accept the fact that the Internal Audit process is just as critical and important activity as any other process within the organization (Baharud-din & Serjana, 2014).

Competency determines the quality of the auditor in setting a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's activities and financial management as well as governance processes. According to Millichamp (2002), management established internal audit system, either directly or by means of external consultants. It follows that management is responsible for designing controls in order to carry on the business of the enterprise in orderly and efficient manner, ensure adherence to management policies, safeguard its assets and secure as far as possible the completeness and accuracy of the records.

There are depths of literatures on the subject matter such as Baharud-din and Serjana (2014), Ahmed (2016), Awinbugri and Daniel (2019), Joshi (2020), Kruger and Kearney (2002), Moatasem and Abdulqawi (2020). However, their studies are from other nations with different public financial management and government structure. Also, despite the fact that some of the studies were current, their scope in terms of period is obsolete which renders the findings obsolete also. This cannot aid in policy formulation due to passage of time.

Also, some of the previous studies does not evaluate the combined determinants (management's support, competent of internal auditors and availability of information technology and organizational independence) that this paper intends to study. With this, this study will improve on some of the previous literatures.

The main objective of the study is to examine the determinants of internal audit quality of selected Ministries, Departments and Agencies (MDAs) in Nigeria with the following specific objectives:

- i. To examine the extent to which management's support determine internal audit quality of selected MDAs in Nigeria.
- ii. To evaluate the effect of competent of internal auditors on audit quality of selected MDAs in Nigeria.
- iii. To assess the effect of availability of information technology on internal audit quality of selected MDAs in Nigeria.
- iv. To ascertain how organizational independence of internal auditors determines Internal Audit quality of selected MDAs in Nigeria.

2.0 LITERATURE REVIEW

2.1 Determinants of Internal Audit Quality Management Support

Management support is expressed in terms of supporting the auditing process by deploying the necessary resources, finance, transport if required, providing training, introducing internal auditors with new technology and procedures, budgeting funds for certification and other facilities that facilitate the internal auditing works. According to Ahmet (2021), Management support for internal auditing is vital for the recognition and appreciation of internal audit practices within an institution. Management support is crucial to the operation of internal audit because other determinants strongly depend on it.

The support and commitment of management also have the certain impact to make sure Internal Auditor is functioning effectively. The success of Internal Auditor function will depend on the strength of management's support for the auditing process. They have to accept the fact that the Internal Audit process is just as critical and important activity as any other process within the organization (Baharud-din & Serjana, 2014).

International Standards of Internal Auditing (ISIA), state that internal auditors should be supported by the senior management and board of directors to effectively fulfill their responsibilities. Management support has a far-reaching consequence on Internal Audit quality in organizations. For example, Mihret and Yismaw (2007) in their case study of IA effectiveness on public sector shows that the component of management support consists of the response to audit findings and the commitment to strength internal audit which has significance influence on IA quality.

The management support is most crucial to the operation and internal audit; because all other determinants of IA quality derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence for IA work are the results of decisions made by top management (Cohen & Sayag, 2010).

The head of internal audit department should encourage senior management to be involved in internal audit plan and provide them with a detailed plan of internal audit activities indicating the required resources, including significant interim changes, for senior management to review and approve for further progress with other deciding authorities in the company" (Sobel & Riddle, 2017).

Competent of internal Auditors

According to Baharud-din and Serjana (2014), competency relates to the ability of an individual to perform a job or task properly base on the educational level, professional experience and the effort of the staff for continuing professional development. Competence determines the internal audit quality in the organization. It contributes to the ability of the auditors to perform the systematic and discipline audit approach to improve the effectiveness of Internal Audit. Competency determines the quality of the auditor in setting a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's activities and financial management as well as governance processes. The international

standards for the professional practice of internal auditing (ISPPIA) necessitate that an internal audit department of an institution should be independent and that internal auditors be objective while performing their internal auditing activities (Comfort & Oludayo, 2021). Performance management ability audits include determining whether the auditee has the ability to handle its processes and services efficiently and effectively. (Hell stern & Gerd-Michael, 1991).

Information Technology

This century, technology has a rapid development. It is not doubtful that entities will use more technology now and in the future to management and audit. For instance, Krishna (2011) found that "effective use of audit technology tools is critical to the success of audit activity", which will definitely improve the internal audit quality and eventually affect the effectiveness of IA. In addition, the study of Krishna (2011) found that "effective use of audit technology tools is critical to the success of audit activity", which will definitely improve the internal audit quality and eventually affect the effectiveness of IA.

On the other hand, Ahmi and Kent (2013) stated that technological availability could also include both human resources and IT infrastructure. Additionally, advances in information technology has led to a close collaboration between IT auditors and financial auditors resulting in a higher demand for internal auditors with ERP know-how (Héroux & Fortin, 2013, Kanellou and Spathis, 2011). New IT systems enabled internal auditing to provide management with more relevant information at lower cost and without delay by automated processes, real time facilities and integrated internal auditing (Shin et al., 2013; Sobel & Kapoor, 2012) Therefore, IT will definitely play an important role in influencing the quality of Internal Audit.

Attwood and Stein (1986) stated that every business has some kind of accounting system by which transactions are processed and recorded. Millichamp (2002), further stipulates that management established internal audit system, either directly or by means of external consultants. It follows that management is responsible for designing controls in order to carry on the business of the enterprise in orderly and efficient manner, ensure adherence to management policies, safeguard its assets and secure as far as possible the completeness and accuracy of the records. The above responsibility stems from the fiduciary responsibility of management. Brusca and Manes-Rossi (2018) state that auditing guarantees the quality and reliability of public accounting systems.

Organizational Independence

Internal audit should report directly to the Chief Executive of Ministries, Department and Agencies (MDAs) of the public sectors. A copy of the report should be submitted to the Audit Monitoring Department, Office of the Accountant General of the Federation to follow up on reported audit findings & recommendations. The audit activity should have sufficient independence from those it is required to audit, so that it can both conduct & perceived to conduct its work without interference (the role of auditing in public sector Governance, 2nd edition, 2012). Internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating the results.

Independence has no one single meaning and interpretation across the people; However, for the purpose of the case study, independent refers to the concept of being free from any management influence while internal auditors perform audit activities and issue report (Ahmed & Tayloe, 2009; Bely, 2007; MoFED, 2004). Individual auditors should have an impartial, unbiased attitude, characterized by integrity and an objective approach to work and should avoid conflict of interest. They should not allow external factors to compromise their professional judgment. Internal auditors should declare any conflicts of interest arising from audit work (MoFED, 2004).

Independence is fundamental to the reliability of auditor's reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent both of mind and appearance. The assurance service provided by auditors derives their value and credibility from the fundamental assumptions of independence of mind and independence in appearance (Wines, 2012; Stewart and Subramanian, 2010). To maintain objectivity, to increase the reliability of information, to be free from unacceptable risk of material bias, and to issue reasonable and credible audit opinion, auditors should be independent (IIA, 2001). Independence in fact exists when auditors are actually able to act with objectivity, integrity, impartiality and free from any conflict of interest. While the concept of independence in appearance of the auditor should be perceived by others (the public or other third party) to be independent. In this case, conflict of interest will also exist when a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the auditor, or professional member of the audit team, is not capable of existing

objective and impartial judgment in relation to the conduct of the audit of the audited body. Auditors should be sufficiently independent from those they are required to conduct their work without interference. Coupled with objectivity, organizational independence contributes to the accuracy of the auditor's work and gives employers confidence that they can rely on the results and the reports (Cohen & Sayag, 2010). However, Hellman N. (2011) suggested that CFOs seek to influence audit planning, particularly with regard to internal controls and the selection and scope of entities subject to audit; and this in return impairs the independence of internal auditors.

Internal Audit Quality

Audit Quality is a function of the internal audit effectiveness. The Institute of Internal Auditors requires the internal auditor to plan and perform the work such that he or she would be able to arrive at useful audit findings and forward recommendations for improvement. The Internal Audit Department's ability to properly plan, perform and communicate the results of audits is usually taken as a proxy for audit quality. Therefore, audit quality is arguably a function of extensive staff expertise, reasonableness of the scope of service; and effective planning, execution and communication of internal audits.

In addition, the auditing standards No (65) (AICPA, 1991) have highlighted some internal audit quality factors which include the following: Competence of the internal auditor as measured by the educational and professional qualifications. Objectivity factor which is measured by the parties that examined or assessed the internal audit report and parties responsible for his appointment. Quality of internal audit assignment is measured by the level of accuracy and scope of audit.

The Institute of Internal Auditors (IIA, 2003) have added three other factors to include U2 the level of independence of the internal auditors, the objectivity and proficiency.

Thus, management of an enterprise as well the external auditors who normally determine the level of reliance to place on the work and report of internal auditor should carry out a quality assessment of the quality of internal control system in force in such enterprise.

Doing so will however require the evaluation of the internal audit function in the first place. Consequently, it is understandably assumed or required that the Chief

or Director of internal audit should conduct a periodic review of internal audit function and a wider spectrum of internal control system. In this responds Eisa have (2008) advocated the use of both management and audit committee for the above exercise.

Al Matarneh (2011), study of the factors determining the internal audit quality of financial institutions observed that the Internal Audit of Jordanian banks consider such issues as: competence, objectivity and performance of internal auditors as important factors affecting the quality of internal audit. Other studies noted other factors. For instance, Faudziah, Hasnah and Muhamad (2005) observed that the management of internal audit department, professional proficiency, objectivity and necessary review, will significantly affect the quality of internal audit as well as risk assessment of internal control system. Similarly, Eisa (2008) observed that the factors of internal audit quality tend to equally improve the quality of corporate governance. Internal audit is essentially an integral component of corporate governance structure.

3.0 METHODOLOGY

The study adopts a descriptive survey design. The target population is the employee of selected MDAs in Nigeria. Specifically, the study looks at Internal Audit Quality in 15 selected MDAs in Nigeria. The sample is drawn from the target population of 300. This research adopts the Taro Yamani formulation. The study has an estimated population of 300 staffs from the study area.

$$N = \frac{N}{1+N(e)^2}$$

$$N = \frac{300}{1+300(0.05)^2}$$

$$N = \frac{300}{1+300(0.0025)}$$

$$N = \frac{300}{1.75} = 171.42$$

The sample size of this study is one-hundred and seventy-one (171) respondents. The study survey utilizes tool like questionnaires to ascertain the needed information for analysis while ordinal regression method was used for the analysis.

The model for the hypothesis is presented below:

$$AQ_i = a + \beta_1 MS_i + \beta_2 CIA_i + \beta_3 AIT_i + \beta_4 OI_i + \epsilon_i$$

Where;

AQ = Audit Quality

MS = Management's support

CIA = Competent of internal auditors

AIT = Availability of information technology

OI = Organizational Independence

a = Constant term

$\beta_1 - \beta_4$ = Estimates of the regression parameters

ϵ = Stochastic error

4.0 ANALYSIS AND RESULTS

Table 1

PROFILE	CLASSIFICATION	FREQUENCY	%
GENDER	Male	56	32.94
	Female	144	67.06
AGE	25-34	66	38.82
	35-44	39	22.94
	45-54	28	16.47
	Above 54	37	21.77
QUALIFICATION	FSLC	22	12.94
	OND/NCE	31	18.24
	BSC/HND	71	41.76
	MASTERS & ABOVE	46	27.06
WORK EXPERIENCE	5-10	66	38.82
	11-15	71	41.76
	16-20	25	14.71
	Above 20	8	4.71

Descriptive Analysis of Respondents

From the above table, 32.94% of the respondents are male while 67.06% are female. This implies that most of the respondents are female. 38.82% are within the age of 25 to 34. 22.94% are within the age of 35 to 44. 16.47% are within the age of 45 to 54. 21.77% are within the age 54 and above. This show a balance distribution of response from individuals of various

age range. Also, Majority of the respondents (41.76% and 27.06%) are well educated with B Sc. and other higher degree. Lastly, Majority of the respondents have experience between 5 -10 and 11-15 years with 38.82% and 41.76% respectively. This implies that the respondents have adequate experience required to make relevant contribution to this research.

Test Hypotheses

Table 2. Regression results of the study

Variable	Beta Coefficient	Std. Error	t-Statistic	p-value
C (AQ)	0.681	0.948	2.31	0.41
MS	0.885	0.783	0.986	1.050
CIA	0.027	0.0787	0.249	0.306
AIT	0.035	0.0805	0.149	0.554
OI	0.063	0.0561	0.181	0.299

Research Findings

Following the regression equation estimated as $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$

$$AQ = 0.681 + 0.885X_1 + 0.027X_2 + 0.035X_3 + 0.063X_4$$

The regression results, as presented above shows that, given only the intercept model, there will be a variation in audit quality by 0.681 units respectively. This simply implies that there is a likely increase in audit quality without management support, competent of internal auditors, and availability of information technology.

With the introduction of management support, competent of internal auditors, and availability of information technology, there has been a further increase in audit quality by 0.885, 0.027, 0.035, and 0.063 units respectively.

5.0 Discussion of Findings

H1: Management's support has no significant effect on audit quality of selected MDAs in Nigeria

The study found that management support has a significant effect on internal audit quality. This indicates that increase in management support will improve audit efficiency and quality because it is the management who shapes the organization strategic move and if they see internal audit as a strategic point for the organization, they will provide all the necessary input for the successful accomplishment of internal audit. The management can support in terms of providing resources, giving trainings, introducing new technologies, providing enough facilities and

encourages the internal audit process with commitments to promote and communicate their added value for the effectiveness of internal audit work in their office, contributes for the effectiveness of the internal audit work. The result is supported by the following studies Karrar and Elbashir (2018), Ahmed (2016), Musah, Gapketor and Anokye (2018), Dellai and Omri (2016), Masood and Afzal (2016) but not supported by Tackie, Marfo-Yiadom and Achina (2016).

H2: Competent of internal auditors has no significant effect on internal audit quality of selected MDAs in Nigeria

On the issue of competent of internal auditors and internal audit quality, the study found significant effect of internal auditors on audit quality of selected MDAs in Nigeria. This indicates that increase in the competent of internal auditors will improve internal audit quality, because if audit staffs are free to make their work without biased, fraud will be minimized and they can do their work professionally as a result, the quality of internal audit. The result is supported by the finding of Karrar and Elbashir (2018), Ahmed (2016), Musah, Gapketor and Anokye (2018), Mwangi (2017), Mustika (2015).

H3: Availability of information technology has no significant effect on internal audit quality of selected MDAs in Nigeria

The study found that information technology has significant effect on internal audit quality of selected MDAs in Nigeria. However, provision of computer aided software enables the competency and efficiency of audit in the public sector. For information to be relevant, it must be identified, captured and communicated in a form and time frame that enable people to carry out their responsibilities. Information systems produce reports containing operational, financial and compliance-related information that make it possible to run and control the organization.

H4: Organizational independence has no significant effect on internal audit quality of selected MDAs in Nigeria

The study found that organizational independence has significant effect on internal audit quality of selected MDAs in Nigeria because the level of independence, reporting level, direct contact to the board and senior management, conflict of interest, interference, the unrestricted access to all departments and employees, appointment and removal of the head of internal audit, and performing non-audit activity may not be equally perceived. But, without the relevant senior management support simply the independence of the organization to the internal auditors may not be enough to add value and to identify the noncompliance activities performed in their office. The result is supported by the finding of Ephraim and Yidana (2019), Wakil, Alifiah and Teru (2020), Tackie, Marfo-Yiadom and Achina (2016), Musah, Gapketor and Anokye (2018), Dellai and Omri (2016) however, the finding of Mihret and Yismaw (2007), refute the finding that organizational independence affects audit efficiency.

5.0 CONCLUSION AND RECOMMENDATIONS

The study concludes that the determinants have a significant effect on internal audit quality. This indicates that increase in determinants will improve internal audit quality. From the conclusion of the study, the following recommendations were provided that: Management of public sector should support their internal auditors by allowing them to improve their professional certification in line with the institute of internal audit standards and organizational guidelines and by introducing themselves with modern technologies that improve their internal audit function for their office. Internal Auditors should be encouraged to go for regular training relating to internal audit functions. This will enable them to embraced changes on the internal audit functions and improve their efficiency were necessary. Based on the findings, an awareness has to be maximized on employees to better cooperate with internal audit staff to improve the applications of internal audit standards.

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