

## Factors Contributing to the Effectiveness of Internal Audit in Selected Federal Polytechnics in South-West, Nigeria

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### ABSTRACT

*The study investigated factors that influence the effectiveness of internal audit in selected Federal Polytechnics in south-west states in Nigeria. This study focuses on 6 Federal Polytechnics in south west states in Nigeria that were purposively chosen to represent all other Federal Polytechnics in Nigeria. The management teams and internal auditors of the selected Federal Polytechnics provide the researchers with the necessary data via questionnaires, and the findings of this study show a direct relationship between management perception, management support and independence of internal auditors, data were collected using self-structured questionnaires and responses were analysed using frequency count and percentage analysis and all substantially and favourably contributed to the efficacy of internal audits in the Federal Polytechnics in Nigeria. The contributions of these factors were collectively substantial in identifying any noncompliance actions in their workplace and adding values for the IAE in the Nigerian Federal Polytechnics.*

**Keywords:** Internal Audit, internal audit effectiveness, independence, management perception, management support

**JEL Classification:** M42

### 1. INTRODUCTION

Every democratically managed country must be accountable in its use of public funds and in ensuring effective, efficient, and economical (3e's) service delivery. To fulfil those government objectives, the internal audit function was the primary control and utilization mechanism for the finite resources available in the business organization. Internal audit has had to become more professional as systems have become larger and more sophisticated, necessitating more competition (Gansberghe, 2003). Furthermore, independence of internal auditors has always been a difficult subject when an employee of the business; above all, a poorly organized structure or reporting line complicates the problem in such offices (Rupsye, 2005). Internal auditors, the subject of this study and a key employee in government, are expected to work independently and objectively to improve the high quality of public services, achieve a good internal control system, avoid corruption, ensure a good corporate governance system, promote accountability, and greater transparency (Coram et al, 2008; Van Peurse 2005; Belay, 2007).

As a result, having an efficient internal audit units as part of a contemporary governance structure in public sector organizations is critical. Internal audit (IA) has attracted increased attention in company governance in recent years for a variety of reasons. Internal audit, for example, links to the internal control-risk management system; improves

organizational efficiency and effectiveness by providing constructive criticism and recommendations about the organization's status; reduces information asymmetry during decision making; and serves as an important internal assurance in the business and financial reporting processes of corporations (Soh and Bennie, 2011; Cohen and Sayag, 2010; Mihret and Yismaw, 2007).

Based on the importance of internal audit in proper governance, this paper will focus on analysing the factors that contribute to the effectiveness of internal audit in the Federal Polytechnics in Nigeria (Finance, 2016). Studies undertaken by other researchers considered that these are the elements that contribute in increasing the efficiency of internal audit in an organization: quality of internal audit, competences of the internal audit team, independence of internal audit, and the support of internal audit by the management. Moreover, the new Institute of Internal Audit's (IIA, 2022), board of directors defined internal audit as "An independent, objective assurance and consulting activity meant to contribute and improve an organization's operations. It assists a company in achieving its goals by applying a systematic, disciplined approach to evaluating and improving the efficacy of risk management, control, and governance systems". These definitions provide a general overview of the relevance and value of internal audit activities in businesses. Internal auditing, for example, is involved in consulting activities and provides value added contributions to the evaluation and development of the efficacy of risk management and governance processes (IIA, 2022).

Furthermore, internal auditors face challenges such as a lack of mechanisms to monitor the implementation of internal audit recommendations, a lack of a strategic plan and consistent documentation styles for audit work, a lack of resources, poor leadership for the internal audit function (IAF), a lack of an appropriate framework to measure IAF performance, and a lack of competent personnel (Mihret and Yismaw, 2007; belay, 2007). In this regard, the researchers are seeking to discover the elements impacting internal auditor effectiveness in government agencies such as the Federal Polytechnics in Nigeria. The impact of management's perspective of the importance of internal audit, management support, organizational independence, appropriate competent internal audit staff and an authorized IA mandate on the effectiveness of internal audit in government offices are specifically examined and addressed.

### **1.1 Objectives of the study**

The main objective of the study is to investigate the factors contributing to the effectiveness of

the internal audit in selected federal polytechnics in South-west, Nigeria, specifically the study sought:

- i. To determine the management perception of internal audit effectiveness in the selected Federal Polytechnics in South west, Nigeria.
- ii. To ascertain the Management's independence of internal auditors in the selected Federal Polytechnics in South west, Nigeria
- iii. To examine the effect of management support of internal audit in the selected Federal Polytechnics in South west, Nigeria.

### **1.2 Hypotheses Development**

H<sub>1</sub>: Management perception has positive effect on internal audit effectiveness in the selected Federal Polytechnics in south west, Nigeria.

H<sub>2</sub>: Organizational independence has positive impact on the effectiveness of internal audit in the selected Federal Polytechnics in south west, Nigeria.

H<sub>3</sub>: Management's support has positive effect on the effectiveness of internal audit in the selected Federal Polytechnics in south west, Nigeria.

## **2. LITERATURE REVIEW**

### **2.1 Internal Audit Effectiveness**

Internal audit effectiveness is a process that is integral to the actions and activities that are continuously carried out by both management and staff to provide a level of assurance for achieving corporate objectives through effective and efficient financial reporting, the safeguarding of state assets, and adherence to laws and regulations. Arena and Azzone (2009) defined effectiveness as "the capacity to generate results that are congruent with aims". The achievement of internal auditing goals and objectives through the use of factor measurements provided for identifying such variables is referred to as effectiveness (Dittenhofer, 2001). Internal audit effectiveness is defined as "the extent to which an internal audit office fulfils its purported purpose or the extent to which it meets the desired outcome" by Mihret and Yismaw (2007). All three authors defined efficacy in terms of attaining the IA goals and objectives, but in different ways. From the perspective of internal audit, Mihret and Yismaw (2007) outlined the qualities of an effective internal audit unit. Effective Internal Assurance (IA): Conducts an impartial assessment of financial and operational systems and processes; contributes to the attainment of organizational objectives; requires managerial commitment to put suggestions into action, and makes beneficial recommendations for changes as needed; While Sarens and Beelde (2006) highlight the significance and functions of internal audit in companies or corporate governance from the perspective of senior management expectations.

#### **2.1.1 Management Support**

The management support is the management commitment to implement audit recommendations and to ensure that the operations of the internal audit improve the internal audit effectiveness, and the management in this context are the Rectors of the institutions, their principal officers and other senior management team. The support giving to the internal audit staff will no doubt improve their effectiveness. In their daily activities, internal auditors have a close relationship with the organization's management. They require strong management support and perception to be more effective and meet audit objectives. Management support is expressed in terms of assisting the auditing process by providing the necessary resources, finance, and transportation if necessary, providing training, introducing auditors to new technology and procedures, budgeting funds for certification, and providing other facilities that facilitate internal auditing. Management support has a significant impact on IA effectiveness in organizations. In their case study of IA effectiveness in the public sector, Mihret and Yismaw (2007) show that the component of management support consists of the response to audit findings and the commitment to strengthen internal audit, both of which have a significant influence on IA effectiveness. Given that internal audit activities are carried out in a dynamic management process and a more supportive environment, internal auditors anticipate that senior management will take the first steps to support the IA process. Because, according to Sarens and Beelde (2006) the overall acceptance and appreciation of IA within the company is heavily dependent on the support they receive from senior management. Internal audit actively seeks management support in the form of resources as well as a commitment to promote and communicate their added value.

#### **2.1.2 Management Perception**

Perception is the process of becoming aware of or comprehending sensory

information, or it is the mental image or intuitive recognition of experience when one is aware of the elements of one's environment. Internal auditors and audit service customers must share a common understanding of what makes internal auditing a value-added activity in order to function effectively. Failure to achieve this understanding may lead to the perception that internal audit is simply an impediment to meeting production goals. This can lead to underutilized audit services and ignored audit recommendations (Flesher and Zanzig, 2000), both of which have a negative impact on the effectiveness of IA. Employees at all levels will cooperate and support these processes if they believe that top management values the function of IA. Given good management's awareness of IA values, this implies that internal audit staff are more motivated and encouraged to perform audit activities. Sarens and Beelde (2006) used a case study approach with five Belgian firms to investigate senior management and internal auditors' expectations and perceptions of the relationship between these two parties. They discover that when internal audit functions primarily as a management support function, there is a lack of perceived objectivity and a strained relationship with the audit committee.

### **2.1.3 Independence**

Independent refers to being free of any management influence while internal auditors perform audit activities and issue audit reports. The independence of auditors is critical to the dependability of their reports. If auditors were not independent in fact and appearance, those reports would be untrustworthy, and investors and creditors would have little faith in them. Auditor assurance services derive their value and credibility from the fundamental assumptions of mental independence and appearance independence. While internal audits typically cover the entire management process, they must be independent in order to maintain objectivity, increase the reliability of information, be free of unacceptable risk of material bias, and issue reasonable and credible audit opinions. However, due to a frequently strong direct or indirect relationship between IA and the Chief Executive Officer (CEO) and/or Chief Finance Officer (CFO), it is reasonable to expect senior management to have significant influence over IA.

## **2.2 Theoretical Review**

Stewardship theory was first introduced to the management literature by Davis, et al. (1997) as a criticism of the postulated selfishness and shirking of agents in much of the literature. Stewardship theory also analyses how to ensure accountability when a task is delegated from a principal to an executive. Stewardship theory is a framework that contends that people are intrinsically motivated to work for others or for organizations in order to complete the tasks and responsibilities that have been assigned to them. It contends that people are collectively minded and pro-organizational rather than individualistic, and thus work to achieve organizational, group, or social goals because doing so provides them with a high level of satisfaction. As a result, stewardship theory provides a single framework for characterizing motivational behaviour in various types of organizations. It believes that organizations should have a broader social purpose than just profit or maximizing shareholder fortunes from the start. It holds that organizations are social entities concerned with the welfare of stakeholders who have a relationship with the organization and are influenced by its achievement or performance (Donaldson & Preston, 1995). Because this study focuses on public institutions, the choice of this theory was based on its prominence in public organizations. Its model is based on "stewardship" rather than "agency," which is self-interested. Although agency theory can be useful in this study by demonstrating the existence of internal audit in organizations, stewardship theory is more appropriate and would be considered in this study.

### 2.3 Empirical review

Bello et al.(2018), examined the moderating effects of top management support in the relationship between internal quality dimensions and organizational performance in Nigerian Federal universities The research looks at how top management support influences the relationship between internal quality dimensions and organizational performance in Nigerian federal universities. The study used a sample of senior internal audit staff from 40 federally owned universities in Nigeria, from which 400 samples were drawn for analysis. A questionnaire instrument was used to collect data, which was then subjected to Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA) to determine underlying dimensions. The data were collected and analysed using inferential statistics, and the findings revealed that the interaction of internal audit competence, independence, and size, along with top management support, significantly and positively influences the organizational performance of Nigerian federal universities.

Drogalas et al.,( 2015), investigated the specific factors associated with internal audit effectiveness in the Greek business environment. Empirical evidence was collected by means of a mailed survey. Factor Analysis and regression analysis are used in order to illustrate the gathered information. The findings indicate that the main factors affecting internal audit effectiveness are: quality of internal audit; competence of internal audit team; independence of internal audit; and management support. The results also reveal that independence of internal audit is the foundation of internal audit effectiveness, as it is the most crucial factor in our model. Finally, the paper concludes that internal audit is of major importance for Greek business. Alzeban and Gwilliam,(2014) assessed factors influencing internal audit effectiveness (IAE) in Saudi Arabia. Data were obtained from 203 managers and 239 internal auditors from 79 Saudi Arabian public sector organizations. Multiple regression analysis examines the association between IAE and five principal factors. Results suggest that management support for IAE drives perceived effectiveness of the internal audit function from both managements and the internal auditors' perspective

Ayedh, (2018), explored the implementation and function of internal audit department in four selected zakat institutions in Malaysia. Thus, effective internal audit function is one of key important elements to be focused in order to achieve good governance practices. Each zakat institution was represented by chief auditor and internal auditors. There are four factors explored, namely organizational status, scope of function, management support and competency of auditors. Based on the findings, it can be concluded that internal audit function in selected zakat institutions has appropriate organizational status, scope of functions, management support and competent in performing the internal audit work. However, there are areas still need to put focus on, which include lack of staffs, especially staff with auditing background, less focus on financial audit and independence structure of the internal audit function

Mihret, (2012) in his study antecedents and organizational performance implication of internal audit effectiveness: evidence from Ethiopia attempted to examine the association between internal audit effectiveness and organizational performance using the major guiding question: how does internal audit effectiveness associate with company performance in Ethiopian organizations? The hypothesis that internal audit effectiveness and ROA are positively associated has been tested to address this research question. Nevertheless, this association was not statistically significant. The moderating effect of management attention to internal audit reports on the relationship between internal audit effectiveness and company performance was also tested using the hypothesis that management action on internal audit findings positively moderates the association between internal audit

effectiveness and ROA. This later relationship was also not statistically significant.

Masood & Afzal, (2016) investigated the factors that impact the quality of government internal audit working paper review. Numerous concerns have been expressed about the quality of government audits in recent years. Audit quality is much debated, but little understood; and there is little agreement, given the concept's diversity, on how audit quality should be interpreted, let alone assessed. Audit standard vision may rely heavily on what eyes one looks. Consumers, auditors, policymakers, and other stakeholders can have somewhat different opinions about what defines audit quality, which may affect the type of metrics that can be used to assess audit quality.

### 3. METHODOLOGY

The population of this study consists of six (6) Federal Polytechnics in south west, Nigeria. Chosen among the 40 Federal Polytechnics in Nigeria (NBTE, 2023). The selected Federal Polytechnics are; Federal Polytechnic, Ado-Ekiti, Federal Polytechnic, Ile-Oluji, Federal Polytechnic, Ede, Yaba College of Tech, Federal Polytechnic, Ilaro, Federal Polytechnic, Ayede. The researchers made use of purposive sampling techniques which allows the researchers to generate meaningful insights that help to gain a deeper understanding of the research phenomena by selecting the most informative participants that are satisfactory to its specific needs.

### 4. DATA ANALYSIS AND DISCUSSION OF FINDINGS

#### 4.1 Background Information of respondents

Table 1 showed the background information of the respondents. The result showed that the 100 members of staff are male, representing 56% of the entire population, while 80 are female, representing 44% of the entire population. To analyse the respondents' educational qualification, it was revealed that 40(22%) held National Diploma certificate, 90(50%) held HND/BSC certificates, while 50(28%) are MBA/MSc holders. From the Table also, 65(36%) of staff held professional certification.

**Table 1: Background Information of respondents**

<b>Demographic of the respondents</b>		
<b>Items</b>	<b>Number</b>	<b>Percentage (%)</b>
Male	100	56
Female	80	44
<b>Total</b>	<b>180</b>	<b>100</b>
<b>Respondents' educational qualification</b>		
<b>Qualification</b>	<b>Number</b>	<b>Percentage (%)</b>
ND	40	22
HND/BSC	90	50
MBA/MSC	50	28
<b>Total</b>	<b>180</b>	<b>100</b>
<b>Professional Qualification</b>		
ANAN	40	62
ICAN	25	38
<b>Total</b>	<b>65</b>	<b>100</b>

**Source: Authors' Computation (2023)**

## 4.2 Analysis of the Factors contributing to the Effectiveness of the Internal Audit

### 4.2.1 Management perception and internal audit effectiveness

Overview of the Table 2 showed that the spirit of good perception of the management to the factors affecting the effectiveness of internal audit function in identifying the awareness of internal audit roles, compliance activities and their ability to add value to their office were nothing without the appropriate management support to the internal audit functions and without the existence of adequate and approved IA staffs in the office. Furthermore, the supports from the management and the availability of the adequate and competent IA staff may overshadow in the determinants of the management's perception for the internal auditor's value. From the table above, 150,150, 135, and 136 respondents representing 83.4%,83.4%,74.9% and 70% respectively consented that good perception about internal audit roles, internal audit practices as an activity that add value to the Polytechnics, compliance and implementation of audit's recommendations are all connected to internal audit effectiveness in the selected Federal Polytechnics.

**Table 2: Management perception and internal audit effectiveness**

QUESTIONS	SA	A	UD	D	SD
The Polytechnics have enough awareness and good perception about internal audit roles	50(27.8%)	100(55.6%)	10(5.6%)	8(4.4%)	12(6.6%)
The polytechnics consider internal audit practices as a value-added activity and work smoothly and regularly with the management	32(17.8%)	118(65.6%)	11(6.1%)	9(5.0%)	10(5.5%)
The management encourages internal auditors to implement their recommendations, to provide value added activities and to strengthen internal audit functions	60(33.3%)	75(41.6%)	15(8.3%)	21(11.6%)	9(5.0%)
The position of internal audit is clearly recognised by the management in the polytechnics	48(26.7%)	78(43.3%)	26(14.4%)	16(8.8%)	12(6.7%)

**Source: Authors' Computation, (2023)**

### 4.2.2 Management support and internal audit effectiveness

Table 3 presented an analysis of the management's support of internal audit in improving the internal auditors' performance in selected federal Polytechnics in south western, Nigeria. Responses in the table above reported that management support improves the performance of internal auditors if the internal audit enjoys separate annual budget, as well as have access to the principal officers and unrestricted access to documents. Also, job trainings and professional certification, improve the auditors' performance. Sanctions imposed by the management for failure to respond to audit queries improve the audit performance. Specifically, survey result presented in table above showed that 120 respondents representing 66.6% consented that audit units should have separate annual budget, while 135,132,130,123 and 129 representing 75%, 73.3%,72.2%,68.4%, and 71.7% respectively of the respondents opined that access to principal officers, access to documents, trainings, professional certification, and sanctions for not responding to audit queries improve auditors' performance

**Table 3: Management support and effectiveness of internal audit**

QUESTIONS	SA	A	UD	SD	D
Internal audit units enjoy separate annual budget	56(31.1%)	64(35.5%)	30(20.0%)	14(7.7%)	16(8.8%)
Internal audit units have access to the principal officers	62(34.4%)	73(40.6%)	24(13.3%)	12(6.7%)	9(5.0%)
Internal audit units have unrestricted access to documents	71(39.4%)	61(33.9%)	21(11.7%)	15(8.3%)	12(6.7%)
Internal audit staff undergo job related trainings as the need arises	62(34.4%)	68(37.8%)	19(10.6%)	17(9.4%)	14(7.8%)
Management support internal audit units' staff to undergo professional certification	59(32.8%)	64(35.6%)	18(10.0%)	21(11.7%)	18(10.0%)
Managements sanction officers/departments/units who receives queries or fail to respond to audit queries promptly	63(35.0%)	66(36.7%)	15(8.3%)	23(12.8%)	13(7.2%)

**Source: Authors' Computation, (2023)**

#### 4.2.3 Organizational independence and internal audit effectiveness

Table 4 presented an overview of the factors contributing to the effectiveness of the internal audit in selected federal polytechnics in south-western states, Nigeria. Sampled in the study based on the organisational independence of internal auditors is associated to internal auditors' effectiveness Whereas, it is consistent with the previous studies conducted, the more organizational independence to the internal auditors plays the vital role in assurance of internal audit effectiveness by freely access of necessary documents, information and data about the organization for audit work, and can provide audit finding /report/ freely and directly to the responsible body, and this all supports the IA effectiveness in their sector. Specifically, survey results presented in Table showed that 129(71.7%) of the respondents sampled in the study consented that internal audit independent improve Polytechnics performance, while 130(33.3%) submitted that the Polytechnics resources are utilized in more efficient and effective manner. In the opinions of 123(68.3%) and 122(69.5%), respondents, internal audit staff are not required to carry out non-audit assignment, and no interference in any form from the management to interfere with the work of the auditors. 132(67.8%) of the respondents opined that internal auditors freely decide the scope, time and procedures.

**Table 6: Organizational independence and effectiveness of internal audit**

QUESTIONS	SA	A	UD	SD	D
Internal audit improves polytechnics performance	57(31.7%)	72(40.0%)	21(11.7%)	14(7.8%)	16(8.9%)
Internal audit reviews the economic, efficiency, and effectiveness in the utilization of polytechnics resources	70(38.9%)	60(33.3%)	18(10.0%)	14(7.8%)	18(10.0%)
Internal audit staff are not required to perform non-audit functions	60(33.3%)	63(35.0%)	24(13.3%)	19(10.6%)	14(7.8%)
The internal audit staff rarely face interference by management while conducting their audit assignments	64(35.6%)	61(33.9%)	18(10.0%)	17(9.4%)	20(11.1%)
The internal audit freely decides the scope, time and extent of auditing procedures based on auditing guidelines and the auditing standards	58(32.2%)	64(35.6%)	20(11.1%)	15(8.3%)	23(12.8%)

**Source: Authors' Computation, (2023)**



## 4.2 Discussion of Findings

This study finds that the composite measure of management support, management's perception, and organizational independence of internal auditors added contributions to the Federal Polytechnics in Nigeria. That means, the impact of these three independent variables contributed to the dependent variable IAE. In general, the results of respondents were positive for all analysed elements: management perception, the independence of internal audit and internal audit support from management. Nevertheless, there are some exceptions where respondents gave negative ratings (slightly disagree, strongly disagree, and undecided).

## 5 CONCLUSIONS AND RECOMMENDATIONS

This paper investigated factors contributing to the effectiveness of the internal audit in selected Federal Polytechnics in south-west, Nigeria in the light of independence and support of the internal audit by the management, the perception of management with the effectiveness of internal audit. The results confirmed that these factors have a positive relationship with the effectiveness of internal audit which can come to a conclusion that the public sector internal audit if: audit quality is at an appropriate level, the team of auditors has the competence and independence in their work and is also supported by the management, then audit is effective anyway; something that would also contribute to a better management of public finances in the country. When there is more support from management, adequate and independence of internal audit staff, and the management perception of the IAE of Federal Polytechnics increases. The analysis (shown in tables 4-6) revealed that these variables have significant contributions to the IAE. As a result, the overall effect of management support, the management perception, and the independence of internal audit in the discharge of their duties in Nigerian Federal Polytechnics is critical for IAE in the public sector,

- i. The results of this study demonstrated that management support, the presence of adequate independence of IA staff, and the management perception of IA were statistically significant and positively related to IAE in Nigerian Federal Polytechnics. Thus, management should provide more support to internal audit functions by facilitating IA work, recruit more adequate and experience IA staff, provide adequate training and professional certification for the existing IA staffs, and maintain the approved IA guidelines and workable manuals for the office because it directs the overall activities of the internal auditors in accordance with IIA standards and the office policies and guidelines.
- ii. It is recommended that the management gives adequate support to internal auditors in order to improve their efficiency.
- iii. Given that the research found that the existence of management support, as well as adequate and experience IA staff, were the major determinants of IAE in the Nigeria Federal Polytechnics, it is recommended that the management of the Federal Polytechnics in Nigeria continually evaluate the internal audit guidelines through the office of the Auditor General for the Federation.

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