The Role of Internal Auditors in Ensuring Effective Financial Control at Local Government Level: The Case of Alkaleri L.G.A., Bauchi State

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Abstract
This paper assesses the role of internal auditors in ensuring effective financial control at local government level, a case of Alkaleri L.G.A Bauchi State. The methodology employed for data collection is only primary source, which involved the use of questionnaires, in which 50 questionnaire were administered to the staff of Accounting and Internal audit department of Alkaleri L.G.A, out of which only 35 questionnaires were completed and returned. The data generated for the study were interpreted using simple percentage. The main finding of the study include among other; lack of proper independent exercise by the internal auditor, understaffing in the side of internal audit unit, the internal control system is very weak toward financial and other controls and also non adherence by the auditors on general auditing standard. The paper recommends that internal auditors should exercise the degree of independency on various department within the organisation in performing their duties, the internal control system should be efficient in such away that it will prevent any act of financial crime and detection of fraud and local government council should established a scheme for internal auditors training from time to time because it will enhances there operational capacities and skills in administering the internal control system by way of attending professional seminars, workshop and symposium.

Key word: Internal Auditors, Internal Control System, Financial Control and Alkaleri L.G.A

INTRODUCTION
Auditing is the examination of accounting records with a view to ascertaining their accuracy and compliance with relevant statutory provisions, accounting standards, professional pronouncements, and the organisational policies. The Chartered Institute of Public Finance and Accountancy (CIPFA), as cited by Johnson (1996:47), defined internal audit as “an independent appraisal function within an organisation for the review of activities as a service to all levels of management. It is a control which measures, evaluates and reports upon the effectiveness of internal control, financial and otherwise, as a contribution to the efficient use of resources within an organisation.”

Jocelyn (2003:67) traces the definition of internal auditing given by the Institute of Internal Auditors as “an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation.” The objective of internal auditing is to assist members of the organisation in the effective discharge of their responsibilities.

The local government as a segment of the public sector is the third tier of government in Nigeria. At that level, the authority is entrusted with public resources and charged with the task of ensuring their proper utilisation. To optimise the utilisation of resources entrusted to the officials, laws and regulations are enacted to control expenditures and sources of financing these expenditures. To ensure adherence to financial regulations, laid down procedures, policies and plans, internal audit units are established. According to the Institute of Internal Auditors (1991), the internal audit unit is expected to review the means of safeguarding assets and where appropriate, verify the existence of such assets. Financial control has concentrated on the cash out flow, purchasing procedures and accountability of budget holders for current expenditure on resources inputs (Mainoma, 2007) and (Buhari, 2001).

Therefore, internal auditing furnishes authorities with analysis, appraisals, recommendations and information concerning all activities reviewed. The survival of every organisation depends on its effective and efficient utilisation of resources (both financial and non-financial). The internal audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of the organisation (Okoya, 2002). Despite the fact that internal audit exist in various local government with internal control system in place, but the act of financial crime still continue e.g. fraud irregularities and even breaches of other control and no any strong
measures being taken to prevent such occurrences. However, the objective of this paper is to review the general objective and function of the internal audit unit at the local government level with reference to Alkaleri Local Government in Bauchi State. The paper will finally recommend appropriate measures that would enhance the role and performance of internal audit unit on financial control.

LITERATURE REVIEW

Auditing is an independent examination of, and the expression of an opinion on the financial statements of an enterprise by an appointed auditor, in accordance with his terms of engagement and the observance of statutory regulations and professional requirements (Dandago, 1999) and (Mainoma, 2007) This definition clearly stated that there must be someone (auditor) responsible for expressing an opinion on the entire financial statement of an organisation. The auditor here may mean an individual or firm carrying out the audit of an enterprise. The auditor should be approved and must have personal and operational independence in order to perform his duty effectively.

Akpata (2001) and (Sabari, 2003), classifies audit into four: private, statutory, management and internal audit, even though all the types of audit focus on regulations, which lead to control of expenditure or revenue.

Millichamp (2000:35) defined internal auditing as “an independent appraisal function within an organisation for the review of system of control and the quality of performance as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control system to the proper economic, efficient and effective use of resources”.

The concept of Internal Audit

Internal audit is an additional safeguard for proper financial control in the public sector. Each ministry, parastatals and local government is expected to establish an internal audit division. The internal audit is responsible for the audit of all financial transactions by carrying out a continuous examination of all accounting books and records maintained in the organisation with a view to checking or detecting fraud and correcting errors. It is concerned with the examination of the system and procedure in place so as to ensure their conformity with the regulation, as the case may be, that the system of internal control is adequate and that it is continuously operating in accordance with government regulations. It is the job of internal auditor to ensure that all financial transactions are in accordance with the approved regulations and that adequate system of security exists in the establishment (Momoh, 2005).

Internal audit is expected to be independent and directly responsible to the chief executive. The unit should be properly organised, adequately staffed and equipped to be able to effectively perform its functions (Sabari, 2003), (Dandago, 2000) and (Sunday, 2003). These should include periodic surprise cash survey in all sections of the ministry or parastatals or local government, checking of revenue collectors’ cash books, receipt books and bank tellers, as well as, inventory verification of the store and maintenance of plant registers and ledgers for the purpose of easy location and identification of the assets of the organisation (Jocelyn, 2003).

Scope and Objective of Internal Auditing

According to Mayo BPP (1993: 211), the scope and objective depend upon the responsibilities assigned to the internal auditor by the management, the size and structure of the enterprise and the skills and experience of the internal auditor. Millichamp (2000), (Mainoma, 2007) and (Sani, 2009) identifies the common areas covered by internal auditing which include among others; reviewing the internal control system with a view to determining its adequacy and effectiveness, reviewing compliance with government regulations and accounting rules and standards, checking compliance with policies and procedures, safeguarding the asset of the organisation so as to prevent and detect errors, frauds and theft, appraising the effectiveness and efficiency in the use of resources, ensuring that the goals and objectives of the organisation are attained, making recommendations on improvement in the operation of the organisation, acting as in-house consultant on control matters. The Financial Memorandum (1999), however, states that an internal audit unit shall be responsible for carrying out an independent appraisal of the accounting, financial and other processes of the local government with the objective of; assisting to protect the assets and interests of the local government through a process of continuous examination of its activities, securing a continuous operation of a sound internal control system within each department, reviewing, and where necessary, making recommendations for improvement of the system, controls and procedures in the local government with a view to ensuring that they operate effectively, monitoring the use of resources in the pursuit of defined objectives of the local government. The Memorandum also stated that; the internal auditor shall report to the Chairman at least four times each year on the progress of the internal audit work. The reports shall specifically indicate the internal auditor’s finding with respect to; the collection of revenue, the protection of physical and other assets of the local government,
the current and capital expenditure, the efficiency and effectiveness of system control and procedure, the use of resources of the local government in achieving its objective. Any instance of fraud or misappropriation observed by the internal auditor should be revealed to the Chairman’s attention. From this, it can be seen that the scope and objective of internal auditing varies from organisation to organisation, depending on the size, structure and management of the organisation.

Millichamp (2000) identifies the following as the essential elements of internal audit: independence, staffing, training, relationship, due care, planning, controlling and recording, system control, evidence, reporting. It can be seen that without such essential element, no way the internal audit can perform their duties effectively.

**Benefit of Internal Audit**

The benefits that may be derived in establishing internal audit are numerous. Tijjani (2003), observes that the setting up of an efficient and effective internal audit department involves huge cost in form of salaries for personnel, stationery, travel allowances and other departmental overhead cost. But if analysed critically, the benefits of an internal audit unit to an organisation, be it private or public, outweighs the cost of its maintenance. Some of the benefits that may accrue to organisations with good internal audit departments include among others: improved efficiency shall accrue from investigations and reports of the internal audit department, the existence of internal audit creates control, which acts as a deterrent to inefficiency, waste and fraud, the internal audit department serves as a ‘pool’ from which high calibre staff can be seconded to other units within the organisation to fill management positions, the work of the external auditors is made easier, training and experience acquired by internal auditors on the job combine to provide a secure foundation for career advancement. From the above contribution it can be seen that the benefit of internal audit outweigh the cost of maintenance, if utilised properly.

**Internal Audit and Management**

According to Thompson (2003: 17), internal auditing should not be restricted to financial transaction only. He believes that internal auditors can equally assist management by ensuring that adequate financial and management controls have been implemented and are operating effectively or by identifying the weaknesses in such system and making recommendations toward their improvement which include among the others; with internal audit, errors are more likely to be discovered in their early stages. Existence of assets is verified so as to protect the assets of the organisation, errors in account can be corrected early once detected by the internal auditor, it acts as moral influence on the staff and promotes efficiency by compelling the officers to keep their books of account entered up to date, a detailed examination of the financial account submitted by contractors is facilitated, cash disbursement, such as for wages and salaries, may be checked before they are cashed.

**Internal Audit at the Local Government level**

The implementation guideline on the application of civil service reforms in the local government service (1998) as cited in Shehu (2004) and (Sani, 2009) provided that; there shall be established in each local government, an internal audit unit, headed by a qualified accountant to provide a complete and continuous audit of the accounts, and records of revenue and expenditure. The internal auditor of each local government shall directly be responsible to the accounting officer and the Auditor General of the local government council, and therefore he shall report monthly to the accounting officer, as well as to the Auditor General of the local government council, on the true progress of the audit. He shall also issue special reports, if necessary, where, in his opinion, the attention of the Auditor General of the local government council should be drawn. The main objective of internal auditors at local government level is; to promote accuracy and reliability in accounting and operating data, to safeguard government resources against waste, fraud, and inefficiency, to measure the extent of the operating departments compliance with government policy, to evaluate the overall efficiency of the operating functions (Adams,2004). (Shehu, 2004) is of the view that properly conducted internal audit is expected to reveal errors, strengths or weaknesses of the internal control system of the organisation.

**The Concept of Financial Control**

Buhari (2001:174) defined financial control as “the process of ensuring that cash and other financial resources
of government are in accordance with the legislation, regulation and accounting manual which constitute legal and administrative framework of a particular entity”.

Anfayo (1994:60), defined financial control as “a process of assuring that cash is used properly and for authorised programmes, i.e. involves observation and measurement by comparing actual performance against the planned and correcting variances.

Adams (2004:151) and (Mainoma, 2007:3) defined financial control as “the steps taken to ensure maximum safe custody of financial resources in order to avoid waste, misuse, embezzlement, misappropriation or illegal disposal of public finance”. Government enforces financial control through the use of such instruments like civil service rule, financial instrument, financial memorandum, treasury accounting manual, financial regulation, etc. When these documents are issued, it is expected of all arms of public service to comply and be guided by them (Akpata, 2001). Anfayo (1994:61), said “financial control is an essential element that requires due consideration in the public sector, because no organisation can function effectively without a sound and effective financial control in their operational activities”. In view of the above, we can understand that financial control is very important in organisation operation because it concerned with the steps taken to ensure maximum safe custody of financial resources.

Financial discipline is the judicious allocation and utilisation of scarce resources to ensure that benefits accrue from any activity undertaken. It focuses on ensuring that funds are only expended on activities (projects) from which benefits accrue. The essence of financial discipline is to ensure accountability and prudent utilisation of scarce financial resources. Without a disciplined financial set-up, businesses are bound to fail. Financial discipline entails the following; Prudence in spending, ensuring proper expenditure control, blocking all leakages and eliminating all sorts of malpractice associated with funds management, ensuring value of money, accountability strict adherence to budget, Review of budget and financial allocation from time to time (John- son,1996), (Damagun,2003) and (Sani, 2009).

(Adams, 2004), (Buhari, 2001) and (Sani, 2009) agreed that financial control at local government level are of two ways; Internal and External control. Internal financial control include; issuance of financial authorities e.g warrant, appointment of committee for different service, centralisation of all payments to and out of the council, preparation of estimate of income and expenditure for the year and establishment of authority limit. While the External financial control include; parliamentary control, State/ Federal Government control, control by general public and external auditor control. Local Government service are finance through internally generated revenues, share from the Federation Account, borrowing, leasing etc (Adams, 2004)

From the above concept of financial control, it is clear that financial control is all about proper utilization of financial resources in accordance with legislation, accounting manual and even organisational policies in order to avoid waste, misuse, embezzlement and misappropriation of financial resources.

The concept of Internal Control System

Oshisami (1993:50) defines internal control system as “the managerial functions of defining and allocating responsibilities and identifying line of reporting that encompass all aspects of operations for the attainment of corporate objectives of an organisation”. The objective of internal control system can be deduced from the definition of internal control system. However, the public sector internal control standard (1998) and Okwoli (2004) identify the following objective of internal control system; to ensure that correct procedures are established, maintained and followed so that the financial and management data disclose through timely report, to safeguard the organisation’s asset against obsolescence and deterioration, to improve the organisation’s efficiency in line with stated objectives, to ensure that everybody in the organisation follows the relevant laws, regulations, policies and stated directives, to ensure the completeness, accuracy and reliability of all records.

The operational Auditing Guideline on internal control as cited in Shehu (2004) and (Jenfa, 2002) identifies some classification of internal control system which include among others; organisational Control, segregation of duties, physical control, authorisation and approval Control, arithmetical and accounting controls, personnel controls, supervision control. This shows that every internal control system must has the above component in order to ensure its effectiveness.

Relationship between Internal Audit and Internal Control System

The responsibility for ensuring that internal control is established in the organisation lies with management. The internal audit is supposed to be the custodian of internal control by providing assurance to the management that the organisation has put in place adequate and effective internal control system, and must not hesitate to draw
management’s attention to lapses observed in the control. A good and viable internal control system increases operational efficiency, thereby making it more difficult for the preparation of fraud (Mayo, 1993). The International Auditing Guideline (IAG) 6, as cited in Dandago (2000:107) and (Daniel, 1999:33) defines internal control system as “the whole system of control, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records”. This definition reveals that the internal control is established in order to enhance prudent management of resources and transparency in the accounting process. Also effective internal control requires; appropriate accounting procedure and system, division of duties i.e. separation of responsibilities, especially those of authorisation, regular verification of supervision of each person’s work by their superior officers.

Oshisami (1993:50) defines internal control system as “the managerial functions of defining and allocating responsibilities and identifying line of reporting that encompass all aspects of operations for the attainment of corporate objectives of an organisation”.

The System of Auditing Procedure (SAP) 33 of the American Institute of Certified Accountants, as cited in Daniel (1999:43) defines internal control system as “the plan of organisation and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies”. The adherence to prescribed managerial policies in order to promote operational efficiency.

The above definition of internal control brings out, in clear terms that the internal control extends beyond financial and accounting matters, on the custody of the organisation’s assets. In its broad sense, it includes all the controls operated by an organisation to facilitate its activities and improve its efficiency and productivity. It also includes all administrative controls designed to effect, supervise and check management policies and strategies within an organisation such as organisation and method, work study, production control, marketing, selling and distribution, financial and accounting control.

The main objective of internal auditing is to provide assurance to the management that the internal control system in the organisation is sound in design and effective in operation. It also helps to achieve value for money (Momoh, 2005).

Okwoli (2004) also shares the view that the present requirement of internal audit is not the detection and prevention of fraud and errors, but reviewing the system of internal control. This is because in public organisations, internal audit is meant to carry out an independent appraisal of the effectiveness of internal controls and other financial controls operating in such ministry.

Normanton, as cited in Daniel (1999), emphasizes the importance of internal audit by saying that “without audit, no accountability; without accountability, no control; without audit, no efficiency; without efficiency, no development. The growth of any economy depends to a large extent on the system of control adopted by the government and the success and sustenance of the internal control lies on internal auditing. The above observation underscores the importance of internal audit in every government organisation.

METHODOLOGY

The methodology adopted for this research work is the survey method, and collected the data for the study through primary source only. The researcher administered 50 questionnaire to the staff of Alkaleri LGA. The population of the study were the entire staff of audit and account departments of Alkaleri Local Government, Bauchi state. However, the sampling technique adopted was the simple random sampling technique in which the respondents were given equal opportunity of being selected as a sample. In this regard, the 50 questionnaire were distributed to both Audit and Account department of the LGA on equal basis.

Result and Discussion

Result of the Questionnaire

As explained above that the researcher distributed 50 questionnaire to the respondents i.e. Audit and Account department of Alkaleri Local Government out of which 35 questionnaire were completed and returned. The analysis is based on the 35 questionnaire received through the use of simple percentage with the option of “Yes or No”.

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Table 1: Responses of the questions

<table>
<thead>
<tr>
<th>QUESTIONS</th>
<th>YES</th>
<th>NO</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Existence of internal control?</td>
<td>35</td>
<td>-</td>
<td>35</td>
</tr>
<tr>
<td>2. Did internal audit comply with general</td>
<td>7</td>
<td>28</td>
<td>35</td>
</tr>
<tr>
<td>standard?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Independence of internal auditors?</td>
<td>5</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>4. Is the internal audit department well</td>
<td>-</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>staffed?</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>5. Is the organization well structure?</td>
<td>-</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>6. Are the internal auditors make a prepayment</td>
<td>29</td>
<td>6</td>
<td>35</td>
</tr>
<tr>
<td>audit?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Are there proper checking of financial</td>
<td>30</td>
<td>5</td>
<td>35</td>
</tr>
<tr>
<td>records?</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>8. Evaluation of internal control system?</td>
<td>-</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>9. Did the LGA make a provision for flow of</td>
<td>7</td>
<td>28</td>
<td>35</td>
</tr>
<tr>
<td>information?</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: Field Survey (2012)

Table 2: Percentages of the responses

<table>
<thead>
<tr>
<th>QUESTIONS</th>
<th>YES %</th>
<th>NO %</th>
<th>TOTAL %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Existence of internal control?</td>
<td>100</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>2. Did internal audit comply with general</td>
<td>20</td>
<td>80</td>
<td>100</td>
</tr>
<tr>
<td>standard?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Independence of internal auditors?</td>
<td>14</td>
<td>86</td>
<td>100</td>
</tr>
<tr>
<td>4. Is the internal audit department well</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>staffed?</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>5. Is the organization well structure?</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>6. Are the internal auditors make a prepayment</td>
<td>83</td>
<td>17</td>
<td>100</td>
</tr>
<tr>
<td>audit?</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>7. Are there proper checking of financial</td>
<td>86</td>
<td>14</td>
<td>100</td>
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<tr>
<td>records?</td>
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<tr>
<td>8. Evaluation of internal control system?</td>
<td>-</td>
<td>100</td>
<td>100</td>
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<td>9. Did the LGA make a provision for flow of</td>
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<td>100</td>
</tr>
<tr>
<td>information?</td>
<td></td>
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</tbody>
</table>

Source: Field Survey (2012)

Analysis of the Responses

On confirming whether or not the internal audit unit exists in the respective local government, all the respondents (100%) agreed that there is an internal audit unit in the local government. This shows that the local governments comply with the requirement of the Civil Service Reforms which state that, “there shall be established in each local government an internal audit unit.

For an internal audit to be effective, general standards set up by the Public Sector Accounting Standard (1998) should be observed. These general standards relate to: competence, independence and professional care.

Competence suggests that the audit staff assigned with the responsibilities to conduct the audit should collectively possess adequate professional proficiency necessary for the task. The study reveals that only 20% of the respondents agreed that the internal auditors possess the professional proficiency required for tasks, while 80% did not.

For an auditor to be independent, the standards place the responsibility on each auditor such that conclusion, opinions, judgement and recommendations of the auditor should be impartial. 86% of the respondents agreed that the
internal auditors are partial in expressing opinion and judgement. (I.e. are not independent). While only 14% was of the view that internal auditors are not partial when it comes to conclusion, expression of opinion and judgement. This implies that the internal auditors of local government level lack the required independence.

The success or failure of any organisation depends largely on the staff. In the survey, 100% of the respondents agree that the internal audit departments are under-staffed. For any internal control system to be effective there must be a clear line of authority and responsibility in the organisation. This will enable people to know those that are responsible for certain actions, and those to report and to whom they should report. In the survey, 100% of the respondents believe that it is not in all organisations that there are clear lines of reporting and responsibility. This shows that there cannot be effective co-ordination of the activities of such organisation.

Prepayment audit and checking of financial records are also a function of an internal audit. Financial memorandum states that “before any payment is made, a prepayment audit of vouchers and supplying documents shall be made by the internal auditor.” The study reveals that 83% of the respondents agreed that internal auditors regularly perform prepayment audit, while 17% of the respondents indicated that they do not. This means that prepayment audit has been comprehensive.

Checking of financial records on regular intervals is another function is expected to be performed by an internal auditor. The study revealed that 86% of the respondents agree that the internal auditor performs the checking, while 14% of the respondents were of the opposite view. This implies that they perform their duties with regard to checking of financial records.

It is the responsibility of the internal audit to regularly survey, evaluate and monitor the internal control system put in place by an organisation with a view to assessing the effectiveness of such system and identify weaknesses in order to take necessary action. The internal audit is required to have good working relationship with other departments. In the survey, 100% of the respondents believe that there is no continuous or regular evaluation of the internal control system. This may lead people to be tempted to violate the normal procedure and practice in the organisation. Proper dissemination of information is necessary for the smooth operation of any control system or the activities of any organisation. This will enable those operating the internal control system to know what is required of them at any moment and in their respective capacities. In the survey, 80% of the respondents believe that there is no free and regular flow of information in their organisations, while 20% believe that there is free flow of information. The implication of this is that, the organisations’ internal control system would be ineffective because of the interdependency of the different departments.

CONCLUSION AND RECOMMENDATIONS

Based on the review conducted on related literature and the analysis and interpretation of data made, the following are the major findings of the research work:

i. Local governments’ internal auditors lack proper independence in conducting there duties. This is due to the fact that the independent as to verify various records of the various departments and to ensure other control majors in place is very weak.

ii. Internal auditors do not evaluate the internal control system of the local government to the extent that it can prevent irregularities and fraud.

iii. The internal audit unit of local governments are understaffed and they experience excessive work load.

iv. They also lack the compliance with general standard (professional proficiency).

v. Problem of organisational structure (clear line of reporting and responsibility).

vi. Problem of information dissemination within the local government on some control majors being taken for other protection.

Based on the findings enumerated above, the following are some recommendations which will improve the role of internal auditors with regard to financial control.

i. The internal auditors at all level should be adequately independent of members of various departments within the organisation so that they can carry out their duties effectively.

ii. There should be regular evaluation of control in order to determine their effectiveness in operation and identify weaknesses, so that corrective action can be taken.

iii. The internal audit units at local government need additional staff that are qualified and competent in order to perform their functions effectively.
iv. The government at all level should make a provision that would allow the internal auditors to attend important seminars, workshop and symposium which would improve their effectiveness on financial control and other controls.

v. There should be a clear organisational structure at local government area so that the work of internal auditors can be effective.

vi. There should be clear information dissemination within the various departments in all local government on the control measures taken, so that each department would comply with the respective control systems.

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