IMPACT OF EFFECTIVE INTERNAL CONTROL SYSTEM ON FINANCIAL ACCOUNTABILITY IN TERTIARY INSTITUTIONS IN BAUCHI STATE - NIGERIA.

HAMIDU SHEHU
Department of Accountancy School of Management Studies ATAP, Bauchi

Abstract
Internal control system is the process by which an organization governs its activities for effective and efficient operation, reliability of financial accountability and compliance with applicable law and regulation. It is important to appreciate the fact that for Tertiary Educational Institutions (private or public) to achieve its desired objectives effectively, the management of such tertiary educational institution must establish a sound internal control system that lead to an effective internal audit unit which would be able to furnish the management of the institutions with necessary analyses, appraisals, and recommendations for onward decision making. Thus, the study examined the effectiveness of internal control system on financial accountability of tertiary educational institution in Bauchi state-Nigeria. The study provides empirical evidence on the essential factors that contribute on sound internal control system as well as causes and consequences of a weak internal control system on tertiary educational institutions. Data obtained was coded and analyzed using frequency table and percentage, more so, non-parametric statistical test, Chi-square was used to test the formulated hypothesis using STATA 10 data analysis package. The study found out that: internal audit units of tertiary educational institutions in Bauchi State are ineffective because they lack independence, insufficient internal audit staff, which led to ineffective of internal control system. Components of internal control system of tertiary educational institutions in Bauchi State-Nigeria are not properly put in place especially in the area of authorization, approval, and supervision, segregation of duties and personnel control. It is recommended that management of TEIs in Bauchi State should...
ensure that all the features of effective internal audit unit like audit structure and resources, internal audit approach and audit plan are properly put in place, sound and effective, this will lead to effective internal control.

**Keywords:** internal control system, effectiveness, tertiary institutions, financial accountability, efficiency, reliability, compliance.

**Introduction**

Tertiary Educational Institutions are Institutions of higher learning where knowledge is imparted to its seekers and researches are undertaken in various fields of human Endeavour. The main objective of either public or private Tertiary Educational Institutions is to provide educational services and counseling to the public at the right time. Anyafo (2000), opines that the primary objective of Tertiary Educational Institutions is to provide educational services to desirous members of the public. It is important to appreciate the fact that for Tertiary Educational Institutions (private or public) to achieve its desired objectives effectively, the management of such tertiary educational institution must establish a sound internal control system that lead to an effective internal audit unit which would be able to furnish the management of the institutions with necessary analyses, appraisals, and recommendations for onward decision making.

Internal controls are measuring that organizations institute with the aim of ensuring that the objectives, goals, and mission of the organization are met (Rezaee, 2002). They refer to set of organizational policies and procedures that ensure any transaction is processed in the appropriate way to avoid waste, theft and misuse of organization resources. Through internal control systems, organizations achieve performance and organizational goals, prevent loss of resources, enable production of reliable reports and ensure compliance with laws and regulations. Thus, internal control is established by the organizational management to ensure that the business of enterprise is carried out in an orderly and efficient manner. This further ensures adherence to management policies safeguard the assets and secure the completeness and accuracy of the records.

Organizations are constantly and extensively working to improve their internal control systems so as to increase revenue inflow, survive in the rapidly changing economic and competitive environments, and adapt to the
shifting customer demands and priorities (Kantzos & Chondraki, 2006). Internal control consists of five interrelated components which are derived from the way management runs a business and are integrated with the management process: control environment; risk assessment; control activities; information and communication; and monitoring (Carmichael, 1996). According to Liu (2005) and Rittenberg et al. (2005), under the current operations of organizations in general, the importance of internal control can be divided into six major categories; detecting error and fraudulence, decreasing illegal conduct, improving the competence of the business entity, improving the quality of data, helping to create the business infrastructure, and decreasing auditors’ fee.

**Problem statement**
The management of tertiary educational institutions derives its revenue from both internal and external sources. Therefore, it is the responsibility of management governing bodies of this institution to ensure accountability in the disbursement of this revenue in providing infrastructure service for the development of the institutions. In a nutshell, there is need for public officials to respond periodically to questions concerning their activities and to be held responsible for exercising the authority given to them. This process can only be effective through proper internal control systems. However, the main objective of this present study is to determine the relationship between the effective internal control system and financial accountability at tertiary educational institutions in Bauchi state- Nigeria. Although there are many studies concerning internal control effectiveness: Dandago (2008), said a major problem in Nigeria as a developing nation is the fact that the government is not capable of dealing with the rigidities of the Nigerian society that hold back economic development, a firm government action is needed to overcome those rigidities. Dandago (2008) also, stated that even though there are numerous legal frameworks for accountability, they are backed up by soft punishment and sometimes double standard. Amudo and Inanga (2009) made a significant contribution in this area, their study noted that monitoring of operations in an organization ensures effective functioning of internal control in achieving the set objectives. Salawu and Agbeja (2007)’s study, which examined auditing and accountability mechanism in the public sector, provided a significant contribution towards
the need for a strong internal control. Esu and Inyang (2009) also provided evidence on the need for performance management in the public sector. Although their studies focused on internal control system, they are not linked with accountability in Nigerian public sector. Therefore, this study is evaluating the effectiveness of internal control system on financial accountability of tertiary educational institution in Bauchi state-Nigeria is expected to fill some of these gaps.

Objectives of The Study
The main objective of this present study is to determine the relationship between the effective internal control system and financial accountability of tertiary educational institution in Bauchi state-Nigeria.

Research Questions
This study attempts to provide answers to the following question in order to achieve the set objectives:
Does effective internal control have a positive impact on the financial accountability of tertiary educational institution in Nigeria?

Research Hypotheses
Based on the objective of the study and the research question for which answers were intended from the findings of the study. A hypothesis were formulated for testing and stated in the null form as follows:

Hypothesis I:
Ho: Effective internal controls have no significant impact on the financial accountability tertiary educational institution in Nigeria

Significance of the Study
This study contributes to the literature designed to assess the consequences of lack of an effective internal control in an organisation. It is among the first to provide evidence about peoples' perception about the potential benefits of strong internal control in terms of the quality of externally reported financial information.

Literature review
Role of Internal Control System in Tertiary Educational Institutions
Internal control system is an indispensable mechanism which plays vital role in all educational institutions. For an educational institution to provide quality
education, good and enabling teaching, learning and research environment, it must establish a sound internal control system. The system immensely assists the administrators of the institutions, particularly when decisions are to be made. Internal control keeps an organization on course towards its objectives and the achievement of its mission, and it minimizes wastages along the way. It also ensures that reliable financial information is reported because, financial information is the bedrock upon which management relied on to make short/long term tactical decisions and also predict the future with relative precision. Scott (1995), observes that the quality of any decision making is entirely dependent on the nature of the information made available. It is a well-known fact that, timely and reliable financial data guides management in the formulation of appropriate policies in a given organisation. Abdullahi (1997) adds that ICS is not only relevant to financial controls but it is the most effective aid to financial management. Adejola (2009) states that, effective ICS assists organizations in many ways amongst which are preserving the data is integrity and ensuring accurate and complete data processing. Owo (2003), opines that well established ICS ensures profit maximization and loss/cost minimization. Internal control system assists in seeing that ethics governing the organization are adhered to by all and sundry, this is apart from clashes of responsibilities for different cadre of officers. Walker (1999), adds that, ICS if well designed and implemented would provide reasonable assurance regarding the prevention of or prompt detection of an authorized acquisition, use, or disposition of University’s assets.

This study agrees with the above studies and added that, collusion among employees and fraud perpetration by the staff is as a result of ineffective internal audit unit of the organisation which will leads to weak internal control system and finally to make the internal control system not to provide absolute assurance that; all the objectives of an organisation will be achieved.

**Causes and Consequences of a Weak ICS on Tertiary Educational Institutions**

There are so many issues that make an internal control system ICS to be weak, they include, management is attempt at overriding the established internal controls, inadequate or improper record keeping and accounting, reluctance of senior staff to accept independent oversight, lack of good and round audit coverage, understaffing, abnormal separation of duties, and improper and
untimely reconciliation of major assets and liabilities; (Rotberg, 2000; and Hawk, 2000; Olatunji, 2009).

The effects of weak ICS cannot be over emphasized. It distorts the plan of the institutions, paves way to financial indisline, fraud, errors, irregularities, and misallocation of resources. Lawal (2005), contends that some tertiary educational institutions administrators use resources meant for developing the institutions into personal gains and this trend is not possible where the control system is effective. The study conducted by Norvee (2006), shows that one of the major reasons behind the collapse of giant companies in USA is as a result of weak ICS. Ahmad (2005), discovers that one of the main reasons why fraudsters normally have their ways with relative ease is as a result of the lapses in the structure of ICS of organisations. Petrovits et al (2009) contend that weak ICS foster organisational inefficiency.

**Determinants of an Effective Internal Control System**

Internal Audit Guidelines (2008), adds that internal audit role is primarily about providing independent assurance over the internal control system frameworks to an organization.

Another main determinant of effective internal control system is a competent and independence of an auditor. By independence here, the auditor should not relent in carrying out his duties as specified by relevant laws and pronouncements as well as the ethics of his profession. The internal auditor should only be responsible to the Chief Executive Officer and not anyone else. Being answerable to other staff, like the Bursar or the Chief Accountant, this will make him loss independent. On the issue of internal auditors independence some scholars have conducted a number of studies, and the summary of their findings is that internal auditors in Nigeria, particularly in the public sector, lack the basic tenets of auditing and this is attributed to the issue of lack of guaranteed independence (Sabari, 2003; Tijjani, 2003; Dandago and Suleiman, 2005).

Adejola (2009), opines that to have effective and efficient ICS, some basic factors must be present. They include God factor, time management factor, knowledge factor, ICT factor and finally competence and integrity factor. This means that employees, whether at the management level or at the non-managerial level, should go about discharging their responsibilities with the fear of God and make best and judicious use of time. They should always
regularly update their knowledge and exhibit the virtues of integrity and competency. In the same vein, all employees of an organisation should be seen and considered as important agents for achieving the aim of the organisation. This is because; ICS is a people effected mechanism. More importantly, the cost of instituting ICS should not exceed the benefits to be derived from it. In other words, an effective internal control system should be economical.

**Theoretical Frame Work**
The theory that best suits the framework of this study is the agency theory, because the theory involves the establishment of monitoring processes such as internal auditing to achieve optimality and with the establishment of effective internal audit unit, there is likelihood of achieving an effective internal control.

**Methodology**
The study utilized a cross sectional research design. According to Creswell (2008), cross-sectional design can be defined as the process of collecting data and information of a sample or population once at a point in time. For this study, quantitative research technique is adopted. Langdrine and Hggerjohnson (2009), concur that quantitative research technique is judged suitable for a study of this nature in terms time and cost.

The population of this research is limited to only the staff of internal audit unit, staff of bursary/finance department and the staff of registry department of Government owned Tertiary Educational Institutions in Bauchi State. The institutions are ten (10) in number and they are grouped into two strata the Federal and the State owned tertiary educational institutions. These groups of respondents are regarded as appropriate because of the knowledge and experience they have about the internal audit and internal control system of the institutions in the State. For analyzing the data obtained from questionnaire that well administered, frequency table, percentage and mean score analysis were used. The non-parametric statistical test, Chi-square, was used to test the formulated hypothesis using STATA 10 data analysis package.

**Discussions**
Table 1 and 2 present the computations and output of STATA10 based on Authors' field survey. Based on the data presented in the table 1, our finding indicates that majority of the respondents (more than 70%) perceived that causes of poor financial accountability at the tertiary educational institutions
are due to high level of corruption at the top management level, poor transparency and bad financial disclose and lastly, lack of understanding of accounting policies and procedures among the staff. While majority number of respondents (70%) reported that ineffective internal control system, lack of rewards and incentives for good accountability, lack of punishment for financial misappropriation, and poor level of communication regarding the importance of internal control system and good conduct to all staff are not the actual causes of poor financial accountability in the tertiary educational institutions.

It is also deduced from the table 1, that majority of the respondents (60%), strongly agree that adequate verification of vouchers and other financial documents is one of the major control mechanism could be used to enhance good internal control and financial accountability in the tertiary educational institutions. While just few respondents (15%) have weak belief that adequate verification of vouchers and other financial documents is a control mechanism used to ensure good internal control and financial accountability.

It is also revealed from the table 1, that virtually all the respondents (more than 65%), agree that approval and confirmation of financial transaction, adequate control over cash and bank balances as well as severe punishment for erring officers are the keys control mechanism that can be used to ensure good internal control and financial accountability in the tertiary educational institutions. While less than 30% have weak belief on this as a control tool.

On mechanism for achieving effective internal control and financial accountability, it is shown in the table 1, based on our finding, more than 70% of the respondents in support that staff commitment towards accountability and adequate compliance with accounting policies and procedures are the important tools necessary in achieving effective internal control and financial accountability in the local government council. In the same manner, 60% of the respondents belief that provision of rewards for good conduct is an important factor for achieving internal control and financial accountability in the tertiary educational institutions. On the other hand, less than 30% of the respondents have weak perception to this tools.

**Test of Hypothesis**

**Ho:** Effective internal control has no significant impact on the financial accountability of tertiary educational institutions in Nigeria. Since the
calculate Chi- square for all the variables greater than the prob > Chi- square = 0.000. Therefore, the null hypothesis stated earlier i.e effective internal control have no significant impact on the financial accountability of tertiary educational institutions in Nigeria was rejected. Thus, the alternative hypothesis was accepted i.e effective internal control have significant impact on the financial accountability of tertiary educational institutions in Nigeria.

**Conclusion**

The study revealed the following

a. The internal audit units of tertiary educational institutions in Bauchi State are ineffective because they lack independence, insufficient internal audit staff, which was lead to ineffective of internal control system.

b. That is, most of the internal audit work like record keeping, checking, authorization and approvals are done by a single person and the unit does not ensure timely internal audit reporting after each audit assignment.

b. The components of internal control system of tertiary educational institutions in Bauchi State-Nigeria are not properly put in place especially in authorization, approval, and supervision, segregation of duties and personnel control.

**Recommendations to Policy and Practice**

Based on the findings of the study, the study made the following recommendations:

The management of TEIs in Bauchi State should ensure that all the features of effective internal audit unit like audit structure and resources, internal audit approach and audit plan are properly put in place, sound and effective, this will lead to effective internal control.

Internal audit unit of TEIs in Bauchi State should recruit additional internal audit staff to make them enough in discharging their duties and the internal audit staff that lack internal audit training should be trained or sacked, if not trainable. The unit should also ensure timely internal audit reporting after each audit assignment.

**Suggestion for Further Studies**

The study focused on the effective internal control system on financial accountability of tertiary educational institutions in Bauchi-Nigeria thus
another study should be carried out on the effect of external factors on financial accountability of tertiary educational institutions in Bauchi- Nigeria. The study focused on tertiary educational institutions in Bauchi alone thus another study should be carried out on the effect of internal controls system on financial accountability of tertiary educational institutions in other part of the country.

Reference


