

## Internal Control System and Financial Accountability: An Investigation of Nigerian South-Western Public Sector

Feyisayo Kemisola Adeyemi<sup>1</sup>, Odunayo Magret Olarewaju<sup>2</sup>

**Abstract:** This study examines the effect of internal control system on financial accountability, in terms of effective and efficient financial operation, compliance with applicable laws and regulations. Reliable financial reporting, transparency and flow of information were obtained primarily from a random sample of 354 Heads of Units in the Account and Audit Departments, in 65 Ministries of the Southwestern Nigeria. These participants were directly involved in the management, financial planning and controls. The 222 fully completed and returned questionnaires were coded and analysed using descriptive analysis and regression technique. The results of the study revealed that internal control system had a positive effect on financial accountability, in terms of effective and efficient financial operation, compliance with applicable laws and regulations, reliable financial reporting, transparency and flow of information with the mean scores of 4.22, 3.91, 3.86, 3.81 and 3.47 respectively. The regression results also showed that control environment, control activities, risk assessment, information and communication and monitoring and evaluation significantly impact on financial accountability in public sector. The ANOVA with the  $F = 16.995$ ,  $p < 0.05$  showed that all the components of internal control system had significant effect on financial accountability in public sector. Therefore, the study concluded that internal control system put in place in the public sector is well established and adequate for effective and efficient financial accountability with adequate use of all channels of communication and information flow for proper financial accountability. This study recommends that the internal control unit should be encouraged to maintain their independent role, such that the internal auditor should be adequately independent from those responsible for the financial operation, as well as to be able to provide additional assurance on cost efficiency and effectiveness of the internal control system.

**Keywords:** Internal control; Public sector; Financial accountability; South Western Nigeria

**JEL Classification:** H83; L1; L22

### 1. Introduction

The level of financial impropriety among office holders and political class across the globe has called for the attention of various scholars. The rate of corruption and decadence that pervades many countries, especially in the African region, has

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<sup>1</sup> Department of Accounting, Ekiti State University, Nigeria, Address: Ado-Ekiti, Ekiti State, Nigeria, Tel.: +234 8060127957, Corresponding author: feyisayo.adeyemi@eksu.edu.ng.

<sup>2</sup> Department of Management Accounting, Durban University of Technology, Durban, South Africa, Address: Ritson Campus, 7 Ritson Road, Durban, South Africa, E-mail: odunayoo@dut.ac.za.

rekindled interest on the need for financial accountability and account for stewardship. In view of this, emphasis is placed on financial accountability and efficient use of public funds across the globe. The act of reporting to the public on operation performance is referred to as financial accountability. The aspect of financial accountability that requires the government to handle finances and other resources prudently is public financial accountability. It incorporates financial and non-financial reporting, control budgeting and performance; report on expenditure incurred in respect of public utilities in detail; and moral behaviour. Financial accountability requires the public or private establishment to manage and prepare financial reports and ensure openness in financial and non-financial reporting (analysis), monitor the sustainability of benefit that accrue from its investments and fulfils its performances reporting and fiduciary obligation to all stakeholders. It is beyond the technical competence of managers in charge of finances and complete accountability encompasses the thorough actions, attitudes and reporting correlation among all stakeholders.

Public accountability is stressed in the Nigerian Constitution, as it is a requirement of the law and the establishment of internal control system (unit) is part of the efforts to make sure that there is control in place. The Constitution of the Federal Republic of Nigeria, 1999 through Section 47, established the National Assembly for the Federation which consists of the Senate and House of Representatives, while Section 90 of the 1999 Constitution established the House of Assembly for each of the 36 states of the federation. The public service in Nigeria can be grouped into three categories which are the core ministries, parastatals and the government agencies. A number of the parastatals are semi-autonomous, while the majority of the agencies are autonomous under the supervision of the government. The law sets up these bodies to meet the ever-increasing wants and desires of the public. They are authorised by the statute to be in charge of all moneys and control all incomes for the advantage of the totality of the populace. Now, the big question is, are the public office holders in Nigeria abiding by the standard of public accountability and freely rendering stewardship of their deeds, while occupying government office? This question becomes relevant because the citizens have the right to request for the activities of their elected public officers and these elected public officers should be willing to render explanation pertaining to their stewardship to the general public. For accountability to be improved in the public sector, there is a need for internal control system to make sure that correct procedures are put in place, maintained and followed to ensure that the financial and management data are disclosed through quality and timely reports, safeguard the assets of the organisation against obsolescence and deterioration, improve the efficiency of the organization, in line with stated objectives. It must ensure that each person in the organisation complies with the relevant laws, regulations, policies and stated directives, and finally, ensure the completeness, accuracy and reliability of all the

records. However, despite the efforts put in place in Nigeria, to ensure accountability through internal control system, there is still evidence of financial unfaithfulness and lack of proper accountability for public funds. It is against this background that this study examines the effect of the existing internal control system on financial accountability in Nigeria's public sector.

## **2. Literature Review**

### **2.1. Conceptual Review**

#### **Concept of Internal Control**

Committee of Sponsoring Organizations (COSO) of the Treadway Commission report (1992) defined internal control as a practice which guides the credibility of financial affairs of an organisation. The report defines internal control and describes a framework for internal control. What makes the report different is that it also serves as a guide for the management. Aldridge and Colbert (1994) opined that internal control is a multi-dimensional tool for controlling the orderliness of an organisation, detecting the increase in the worth of the organisation and achieving the level of effectiveness and performance of the organisation.

#### **Fundamentals of Internal Control**

Treba (2003) opined that internal control is put in place to ensure the adequate management of resources and proper accountability. Internal control systems also assist in ensuring that public expenditure is reliable, decent and gives guarantee that all expenditure incurred and programmes of the organisation have been in accordance with the stipulated regulations. Wales (2005) also posited that controls consist of financial reporting and operational controls within a process. Treba (2003) observed that the entity's internal audit function should recognise three types of control; these are preventive, authorisation and detective controls. It was further stated that preventive controls guide against the occurrence of risks, and these controls include segregation of duties, recruiting and training qualified staff; that authorisation controls prevent fraudulent or erroneous transactions from occurring and detective controls discover errors or fraud that has not been prevented; and these will assist to prevent unwanted acts in the organisation.

In the same way, Lawrence (2000) noted that controls can either be preventive or detective; that preventive controls are proactive controls and this attempts to prevent undesirable events from taking place. The examples of this include segregation of duties, proper authorisation, adequate documentation and physical control over assets; while detective controls are the ones that attempt to detect undesirable acts. Bazzoli (2000) opined that detective control gives evidence that a loss has actually taken place, but do not prevent a loss from occurring. In the study

reviews, analyses, reconciliations, physical inventories and audits, were given as examples of detective controls. Chen (2004) argued that the two types of controls are important for an effective internal control system, but from a quality point of view, preventive controls are vital because they are proactive and emphasise quality. Meanwhile, Wales (2005) emphasised that for an organisation to provide evidence that preventive controls are functioning and preventing losses, detective controls are important. Hayes (2005) submitted that internal auditing is a means of improving an organisation's governance, risk management and management controls by providing insights and recommendations, based on analyses and assessments of data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Wee (2009) argued that the scope of internal auditing within an organisation is wide and may involve topics such as efficacy of operations, risk management and management controls over: efficiency and effectiveness of operations include safeguard of assets, the reliability of financial and management reporting and compliance with laws and regulations. Internal auditing may also involve conducting proactive fraud audits to identify potentially fraudulent acts; participating in fraud investigation under the direction of fraud investigation professionals and conducting post investigation fraud audits to identify breakdowns of control and establish financial loss.

#### **Accountability in Nigeria's Public Sector**

Adebite (2010) opined that the term public sector can be referred to as the art of the economy that the government is controlling, so as to be able to provide the basic infrastructures and services to the public. These infrastructures and services that are to be provided by the government are so numerous, as a result of persistence increase in population. Okoh and Ohwoyibo (2010) pointed out that the factors hindering accountability in Nigeria include poor record keeping system in the various public establishments, fraudulent practices owing to the existing poverty syndrome in the country, coupled with the poor value systems, poor mode of releasing funds to the public establishments, shortage of personnel and facilities in the monitoring units of the public establishments. The advantages of tighter scrutiny of decision-making and more transparent regimes of accountability are difficult to challenge; that all government managers as trustees of public resources owe the responsibility to make sure that they carry out their responsibilities with probity, prudence and concern for effectiveness, efficiency and economy. Appah and Coleman (2009) stated that cases of fraud are rampant in the Nigerian public sector, to the extent that every segment of the public service is virtually involved in this act of financial misconduct.

### **Internal Controls and Financial Accountability**

Lawrence (2000) posits that internal control is the circulatory system of any organisation and argued that strong internal control function helps firms to operate strongly and profitably. Kayongo (2004) submitted that by implementing an effective corporate internal control system, a lot of advantages can be to the benefit of the organisation; that among others, it detects and prevents errors and irregularities in time and thereafter promote reliable and accurate accounting information which can easily resolve issues arising as a result of errors from reporting; that it also protects the interests of employees by specifically stating their duties and responsibilities, as well as safeguarding them against accusation of irregularities or misappropriations. Kakuru (2001) enunciated that in a business involving a number of transactions that affect financial performance of the firm, if internal control is not well implemented, it will negatively affect the performance and productivity of the firm and hence, retard its capacity; that Internal control assists managers to get the best measures of the impact of different transactions geared towards generating a diversified portfolio of investments, thus enhancing proper accountability. ACCA (2004) stipulated that control activities are policies and procedures that are formulated by management so as to ensure that the organisational activities are carried out effectively, with the aim of achieving goals. Van Horne (2002) argued that financial accountability is to measure performance and it is related to ensure that money released to people is spent in line with the budgetary provisions in accordance with the set rules.

#### **2.2. Empirical Reviews**

Fadzil, Haron and Jantan (2008) studied internal auditing practices and internal control system. A correlation analysis was used to examine the extent of effective relationship between internal control system and the organisation's success in meeting its revenue target. The findings of the study affirmed positive and strong correlation between the two variables. Miller (2007) examined the documentation of internal controls from theory to implementation reported and concluded, through the findings that poor internal control leads to asset misappropriation, corruption and fraud in financial statements. Emmanuel, Ajanya and Audu (2013) examined an assessment of internal audit control on the efficiency of public sector in Kogi State, Nigeria, using structured questionnaire which were analysed through cross tabulation and chi-square test. They found that internal audit can effectively check fraud and fraudulent activities in the public sector, while the public sector in Kogi State has significant numbers of internal audit and department to function effectively. These led to the recommendation that there is need for effective internal control system which is free from interference.

Osezua and Julius (2013) examined the imperativeness of transparency and probity in the Nigerian public sector, using econometric estimation model and two-way

estimation. In their findings, they discovered that the Nigerian public sector is characterised by mismanagement, resulting in low growth of the economy, lack of transparency and probity thereby promoting corruption, serving the personal interest of managers of the resources and that mechanisms for control to ensure compliance are ineffective, thereby recommending that the principles and regulations for enthrone of transparency and probity in public service should be upheld, as they remain the vital checks against abuse of position. Muazu and Siti (2014) investigated empirical evidence of antecedents of internal audit effectiveness from a Nigerian perspective, by collecting primary data through questionnaire and analysing them using SPSS version 21. The findings of the study indicated that for internal audit to achieve the established objectives within various local government or organisations, there should be well established risk management in place by such organisations. It was also stated that internal audit effectiveness can equally be attained where there is effective internal control in place.

Owizy (2011) assessed the effectiveness of internal control in government ministries. Owizy established that the Benue State Ministry of Finance prepared the annual budget promptly and it also has adequate expenditure tracking to prevent financial recklessness. The recommendation in this regard was that the Ministry of Finance should strictly abide by the principles and procedures, in order to ensure that slacks are built into the budget. El-Nafabi (2009) investigated the role of the public sector audit and financial control systems in Sudan. The study revealed that audit and control systems are vital in ensuring accountability, for the use of public funds, safeguarding public resources against corruption and other misappropriation and unlawful practices. The study established that weak and ineffective financial control systems and deficiencies in accounting systems are some of the facilitating factors of financial corruption in Sudan. Thus, this study also contributed to the existing knowledge by examining the effect of internal control system on financial public sector accountability in Nigeria's public sector

### **3. Research Method, Sample and Data Collection Techniques**

The study adopted the survey and explanatory research design. Primary data used were collected in Southwestern Nigeria, which comprises six states with the three clusters namely Lagos/Ogun, Oyo/Osun and Ondo/Ekiti. Lagos and Ogun are dominated by both public and private organisations, Oyo and Osun are characterized by public organisations and few private organisations, while Ondo and Ekiti are mainly dominated by public organisations. From these clusters, Lagos, Oyo and Ondo were selected and a well-structured five-point Likert scale questionnaire was administered to a sample of 354 participants who were drawn from the population of 4431. The purposeful sampling technique was employed in

this study. The sampled participants mainly comprised of Heads of Units in the Account and Audit Departments in the three states, with 23, 19 and 23 respective ministries which were directly involved in the management, financial planning and controls in the organisations. The questionnaire was made up of six (6) sections such as demographic information, effective and efficient financial operations, compliance with applicable laws and regulations, reliable financial reporting, flow of information and transparency.

### 3.1. Model Specification and Definition of Variables

The model used for this study was stated as follows, to establish the relationship between internal control system and accountability in Nigeria's public sector.

$$PSA = f(ICS) \dots\dots\dots (i)$$

Thus, internal control system (ICS) was captured by control environment (CEN), control activities (CAC), risk assessment (RAS) info and communication (ICO) and monitoring and evaluation (MEV). However, the accountability of the public sector was measured by efficient and effective and efficient financial operation.

Therefore, the model stated in (i) above was expressed in functional and mathematical form as given in (ii) and (iii)

$$EEF = f(CEN, CAC, RAS, ICO, MEV) \dots\dots\dots (ii)$$

$$EEF = \alpha_0 + \alpha_1 CEN + \alpha_2 CAC + \alpha_3 RAS + \alpha_4 ICO + \alpha_5 MEV + \varepsilon \dots\dots\dots (iii)$$

Where: EEF = effective and efficient financial operation, a measure of accountability in public sector

CEN = environmental control

CAC = control activities

RAS = risk assessment

ICO = info & communication

MEV = monitoring and evaluation

$\alpha_i$  = the parameters to be estimated

$\varepsilon$  = error term

The estimation techniques used were descriptive statistics such as frequency counts, percentages, mean scores and standard deviation; and inferential statistics, involving multiple linear regression analysis to determine the effect of internal control system on financial accountability in the Nigerian public sector. All analyses were conducted using the Statistical Package for Social Sciences (SPSS) software.

#### 4. Analysis and Discussion of Results

This section deals with the presentation of the data collected from the survey, analysis of the data in accordance with the study objectives, and a discussion of the results to show the effect of internal control system on financial accountability in the public sector of Southwestern Nigeria. Thus, from the 354 questionnaires administered, 260 questionnaires were retrieved and 222 copies were completely filled. Therefore, the 222 fully completed questionnaires returned were coded and use for the analysis done in this study. The response rate of the survey was 62.71%, which was satisfactory for the study. The analysis of data was based on these usable questionnaires. Despite all efforts to recover the remaining 94 copies of the questionnaires, the researcher could not recover any, as a result of the economic situation in the country on the part of the respondents.

**Table 1. Distribution of Respondents by Socio-Demographic Characteristics**

Characteristics	Items	Frequency	Percentage
Gender	Male	82	36.9
	Female	140	63.1
	Total	222	100.0
Age (years)	18-25	2	0.9
	26-33	28	12.6
	34-41	179	80.6
	42-49	12	5.4
	50 & above	1	0.5
	Total	222	100.0
Educational Qualification	School Certificate	0	0.0
	ND/NCE	8	3.6
	First degree/HND	208	93.7
	Masters	6	2.7
	Doctorate	0	0.0
	Total	222	100.0
Department	Administration	10	4.5
	Accounts & Finance	137	61.7
	Internal audit	71	32.0
	Others	4	1.8
	Total	222	100.0
Number of Years in the Department	1-5	102	45.9
	6-10	62	27.9
	11-15	48	21.6
	16-20	8	3.6
	Over 20	2	0.9
	Total	222	100.0
Level of Management	Top management	38	17.1
	Middle management	177	79.7
	Lower management	7	3.2
	Total	222	100.0

*Source: Researchers' Computation from Field Survey, 2018*



The analysis in Table 1 shows the distribution of respondents based on their socio-demographic characteristics such as sex/gender, age, educational qualification, departments, length of service and the level of management in the organisation. The gender distribution showed that 63.1% were females and 36.9% were males. Thus, the views of both sexes were captured in the research. The age distribution revealed that 12.6% was between 26 and 33 years, 80.6% was between 33 and 41 years, 5.4% was between 42 and 49 and 0.5% of the respondents was 50 years and above. The results also indicated that the majority of the respondents were adults who were capable of providing reliable information without fear and intimidation. The educational qualification showed that 3.6% of the respondents held ND/NCE certificates, 93.7% held first degree/ HND and 2.7% held Master's degree. This implies that all of the respondents possessed the necessary qualification that could make them to be knowledgeable in giving reliable and relevant information. The distribution of the respondents according to departments revealed that 4.5% of the respondents was in administration, 61.7% was in accounts and finance, 32% was in internal audit unit and 1.8% was in other departments. This strongly showed that the majority of the questionnaires were completed by appropriate, experienced and knowledgeable respondents.

The analysis also showed that 45.9% of the respondents had spent 1 to 5 years in service, 27.9% had spent 6 to 10 years, 21.6% had spent 11 to 15 years, 3.6% had spent 16 to 20 and 0.9% of them had spent over 20 years. This revealed that high numbers of the respondents had spent more than 5 years, and so were experienced in the operations of the organisations. The distribution of the respondents according to cadre showed that 17.1% of the respondents was at top level of management, 79.7% of the respondents was at middle level of management and 3.2% was at the lower level of management. This indicated that most of the respondents were occupying positions that showed that they were having adequate knowledge of the study. Thus, the data collected from these calibers of respondents could be adjudged relevant and highly reliable.

**Table 2. Distribution of Respondents on Effect of Internal Control System on Financial Accountability in Public Sector**

S/N	FINANCIAL ACCOUNTABILITY	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree	Mean	Standard deviation
	<b>Effective and efficient financial operation</b>							
i.	The office prepares financial statements on budget versus actual and comparative basis to achieve a better understanding of our	3 (1.4)	1 (0.5)	3 (1.4)	100 (45.0)	115 (51.8)	4.45	0.68

	finances							
ii.	Adequate verification of vouchers and other financial documents are usually made	0 (0.0)	0 (0.0)	5 (2.3)	119 (53.6)	98 (44.1)	4.39	0.61
iii.	There is always approval and confirmation of financial transaction	3 (1.4)	3 (1.4)	1 (0.5)	76 (34.2)	139 (62.6)	4.55	0.70
iv.	Staff are trained to implement the accounting and financial management system	36 (16.2)	45 (20.3)	5 (2.3)	59 (26.6)	77 (34.7)	3.43	1.52
v.	There is always adequate control over cash and bank balances	1 (0.5)	5 (2.3)	4 (1.8)	130 (58.6)	82 (36.9)	4.29	0.65
vi.	There is always severe punishment for erring officers	2 (0.9)	2 (0.9)	39 (17.6)	86 (38.7)	93 (41.9)	4.19	0.82
vii.	We prepare cash flow projections	0 (0.0)	3 (1.4)	40 (18.0)	169 (76.1)	10 (4.5)	3.83	0.50
viii.	The office reconciles all cash accounts monthly	0 (0.0)	3 (1.4)	7 (3.2)	75 (33.8)	137 (61.7)	4.55	0.62
ix.	Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given	1 (0.5)	1 (0.5)	20 (9.0)	86 (38.7)	114 (51.4)	4.40	0.70
x.	The office reviews process to monitor whether appropriate and accurate financial information is implemented	0 (0.0)	2 (0.9)	6 (2.7)	181 (81.5)	33 (14.9)	4.10	0.44
	<b>Compliance with applicable laws and regulations</b>							
i.	There is adequate compliance with accounting policies and procedures	3 (1.4)	1 (0.5)	3 (1.4)	199 (89.6)	16 (7.2)	4.00	0.47
ii.	Our accounting practices conform to accepted standards	0 (0.0)	4 (1.8)	4 (1.8)	179 (80.6)	35 (15.8)	4.10	0.48
iii.	Controls are in place to exclude incurring expenditure in excess allocated funds	17 (7.7)	0 (0.0)	7 (3.2)	151 (68.0)	47 (21.2)	3.95	0.96
iv.	Guidelines and policies of the organization are working and being implemented	0 (0.0)	3 (1.4)	42 (18.9)	147 (66.2)	30 (13.5)	3.91	0.61
v.	Quality assurance is adhered to for all department's projects	0 (0.0)	37 (16.7)	28 (12.6)	143 (64.4)	14 (6.3)	3.60	0.83
	<b>Reliable financial reporting</b>							
i.	There is proper, prudent and timely documentations and progress reports	0 (0.0)	49 (22.1)	2 (0.9)	82 (36.9)	89 (40.1)	3.95	1.13
ii.	Responsible officials submit all statutory financial returns to the office when and where they are required in time.	0 (0.0)	1 (0.5)	2 (0.9)	159 (71.6)	60 (27.0)	4.25	0.48
iii.	The office reviews process to monitor whether appropriate and accurate financial information is received	0 (0.0)	18 (8.1)	5 (2.3)	186 (83.8)	13 (5.9)	3.87	0.62
iv.	The reporting system on organizational structures spells out	0 (0.0)	2 (0.9)	45 (20.3)	117 (52.7)	58 (26.1)	4.04	0.70

	all the responsibilities of each section/unit in the organization							
v.	Management has assigned responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in audit reports	0 (0.0)	91 (41.0)	8 (3.6)	107 (48.2)	16 (7.2)	3.21	1.06
	<b>Flow of information</b>							
i.	There is adequate knowledge of expected role	17 (7.7)	5 (2.3)	48 (21.6)	142 (64.0)	10 (4.5)	3.55	0.91
ii.	There is timely release of reliable information.	18 (8.1)	44 (19.8)	3 (1.4)	144 (64.9)	13 (5.9)	3.40	1.11
iii.	Our organization has a well-developed Chart of Accounts	50 (22.5)	2 (0.9)	6 (2.7)	105 (47.3)	59 (26.6)	3.54	1.46
iv.	Management provides feedback to the junior officers about the operation of the system	0 (0.0)	68 (30.6)	11 (5.0)	127 (57.2)	16 (7.2)	3.40	1.00
	<b>Transparency</b>							
i.	The office has procedures in place to manage its financial responsibilities.	1 (0.5)	2 (0.9)	6 (2.7)	185 (83.3)	28 (12.6)	4.06	0.47
ii.	Management acts with a great degree of integrity in execution of their roles	1 (0.5)	2 (0.9)	3 (1.4)	185 (83.3)	31 (14.0)	4.09	0.47
iii.	Ethical values are upheld in all management decisions	1 (0.5)	4 (1.8)	24 (10.8)	176 (79.3)	17 (7.7)	3.91	0.54
iv.	Internal reviews of implementation of internal controls in units are conducted periodically	1 (0.5)	3 (1.4)	79 (35.6)	121 (54.5)	18 (8.1)	3.68	0.65
v.	Our organization has an objective, independent and active audit committee	2 (0.9)	2 (0.9)	7 (3.2)	199 (89.6)	12 (5.4)	3.97	0.45
vi.	Segregation of duties or mitigating controls exist within transaction processing, authorization custody, and recording functions	1 (0.5)	32 (14.4)	74 (33.3)	100 (45.0)	15 (6.8)	3.43	0.83
vii.	Separation of duties exists between procurement, account payables and disbursements.	0 (0.0)	43 (19.4)	48 (21.6)	116 (52.3)	15 (6.8)	3.46	0.88
viii.	Internal audit is independent of management influence	0 (0.0)	41 (18.5)	5 (2.3)	117 (52.7)	59 (26.6)	3.87	1.00

Source: Field Survey, 2018

Note: Percentages are in Parenthesis

**Table 3. Summary Statistics on Effect of Internal Control System on Financial Accountability in Public Sector**

Financial Accountability	Mean	Standard deviation	Ranking
Effective and Efficient Financial Operations	4.22	0.72	1 <sup>st</sup>
Compliance with Applicable laws and Regulations	3.91	0.67	2 <sup>nd</sup>
Reliable Financial Reporting	3.86	0.80	3 <sup>rd</sup>
Transparency	3.81	0.66	4 <sup>th</sup>
Flow of information	3.47	1.12	5 <sup>th</sup>

*Source: Field Survey, 2018*

The analysis in Table 2 shows the distribution of respondents on the effect of internal control system on financial accountability in the public sector in Southwestern Nigeria. Based on COSO's framework, financial accountability is divided into five components which are effective and efficient financial operations, compliance with applicable laws and regulations, reliable financial reporting, reliable flow of information, as well as transparency.

Considering the effect of internal control on effective and efficient financial operations, 96.8% of the respondents agreed that the office prepared financial statements on budget, versus the actual and comparative basis to achieve a better understanding of finances, 97.7% agreed that adequate verification of vouchers and other financial documents were usually made, 96.8% agreed that there was always approval and confirmation of financial transaction, 61.3% agreed that staff members were trained to implement the accounting and financial management, 95.5% agreed that there was always adequate control over cash and bank balances, 80.6% agreed that there was always severe punishment for erring officers, 80.6% agreed that cash flow projections were being prepared, 95.5% agreed that the office reconciled all cash accounts monthly, 90.1% agreed that the departments had budgeted reviews, where the actual expenditure is compared with budgeted expenditure and explanations for the variances are given, and 96.4% of them agreed that the office reviewed process to monitor whether appropriate and accurate financial information is implemented. This showed that the majority of the respondents agreed that internal control aided effective and efficient financial operations in the public sector. This was confirmed by a high mean score of 4.22 on a 5-point Likert scale (see Table 3).

Considering the effect of internal control system on compliance with applicable laws and regulations, 96.8% of the respondents agreed that there was adequate compliance within the accounting policies and procedures, 96.4% agreed that accounting practices conformed to accepted standards, 89.2% agreed that controls were in place to exclude incurring expenditure in excess of allocated funds, 79.7% agreed that guidelines and policies of the organisation were working and being implemented, and 70.7% agreed that quality assurance was adhered to, for all of the department's projects. Therefore, a high percentage of the respondents agreed

that internal control system promotes compliance with applicable laws and regulations in public sector. A high mean score of 3.91 on a 5-point scale confirmed this position (see Table 3).

Concerning reliable financial reporting as a result of effective internal control system, 77% of the respondents agreed that there was proper, prudent and timely documentations and progress reports, 98.6% agreed that responsible officials submitted all statutory financial returns to the office when and where they were required in time, 89.7% agreed that the office reviewed process to monitor whether appropriate and accurate financial information was received, 78.8% agreed that the reporting system on organisational structures spelled out all the responsibilities of each section/ unit in the organisation, and 55.4% agreed that the management assigned responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in audit reports. Thus, the majority of the respondents agreed that internal control enhanced reliable financial reporting in public sector in Southwestern Nigeria. This was confirmed by a mean score of 3.86 on a 5-point Likert scale (see Table 3).

Pertaining to the flow of information in public sector, 68.5% of the respondents agreed that there is adequate knowledge of expected role, 70.8% agreed that there is timely release of reliable information, 73.9% agreed that organization has a well-developed chart of accounts, and 64.4% agreed that management provides feedback to the junior officers about the operation of the system. Thus, majority of the respondents agreed that internal control enhanced flow of information in public sector. This was confirmed by a mean score of 3.47 on a 5-point Likert scale (see Table 3).

Pertaining to the effect of internal control on transparency, 95.9% of the respondents agreed that the office had procedures in place to manage its financial responsibilities, 97.3% agreed that management acted with a commendable degree of integrity in the execution of their roles, 87% agreed that ethical values were upheld in all management decisions, 62.9% agreed that internal reviews of implementation of internal controls in units were conducted periodically, 95% agreed that organisation had an objective, independent and active audit committee, 51.8% agreed that segregation of duties or mitigating controls existed within transaction processing, authorisation custody and recording functions, 59.1% agreed that the separation of duties existed between procurement, account payables and disbursements and 79.3% agreed that internal audit was independent of management influence. Thus, a mean of 3.81 showed that internal control system positively influenced transparency in the sector (see Table 3).

In summary, effective and efficient financial operation ranked top most and was closely followed by compliance with applicable laws and regulations, reliable

financial reporting, transparency, while flow of information ranked the least (see Table 3).

**Table 4. Multiple Regression Analysis showing Effect of Internal Control System on Financial Accountability in Public Sector**

<b>Analysis of variance</b>					
	Sum of Squares	Df	Mean Square	F	Sig.
Regression	24.489	5	4.898	16.995	0.000
Residual	62.249	216	0.288		
Total	86.739	221			
<b>Coefficients</b>					
Independence Variable	Unstandardized Coef.		Standardized Coef	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.740	0.452		3.850	0.000
Control environment	0.489	0.088	0.405	5.547	0.000
Control activities	0.519	0.074	0.497	7.026	0.000
Risk assessment	0.032	0.074	0.032	0.431	0.047
Info & communication	0.182	0.058	0.215	3.154	0.002
Monitoring & evaluation	0.197	0.066	0.185	2.997	0.003
<b>Correlational Statistics</b>					
Dependent Variable	Multiple R	Adjusted R Square	Adjusted R Square	S.E of Estimate	Durbin Watson
Financial Accountability	0.531	0.282	0.266	0.537	1.821

*Source: Researchers' Computation, 2018*

A multiple regression model appropriate for this study was presented in Table 4. The results of the study revealed that each of the components of internal control system on financial accountability which was measured by effective and efficient financial operations, the results showed that control environment ( $t = 5.547$ ,  $p < 0.05$ ), control activities ( $t = 7.026$ ,  $p < 0.05$ ), risk assessment ( $t = 0.431$ ,  $p < 0.05$ ), information and communication ( $t = 3.154$ ,  $p < 0.05$ ) and monitoring and evaluation ( $t = 2.997$ ,  $p < 0.05$ ) had significant effect on financial accountability in the public sector of the Southwestern Nigeria.

Considering the overall effect of internal control system on financial accountability, the ANOVA in the regression analysis showed that all the components of internal control system had combined significant effect on financial accountability in the sector ( $F = 16.995$ ,  $p < 0.05$ ). In addition, there was positive relationship between components of internal control system and the organisation's financial accountability, as the intensity of internal controls explained a significant

proportion (28.2%) of variation in financial accountability. Therefore, it implies the reliability and acceptability of internal control system in examining the financial accountability in the public sector of the Southwestern Nigeria.

## 5. Conclusion

This study examined the effect of internal control system on financial accountability in the public sector of the Southwestern Nigeria. Based on the analyses and the findings of the study, it was discovered that internal control system had positive effect on financial accountability, in terms of effective and efficient financial operation, compliance with applicable laws and regulations, reliable financial reporting, transparency and the flow of information, with the mean scores of 4.22, 3.91, 3.86, 3.81 and 3.47 respectively. The results of the multiple linear regression showed that control environment ( $t = 5.547, p < 0.05$ ), control activities ( $t = 7.026, p < 0.05$ ), risk assessment ( $t = 0.431, p < 0.05$ ), information and communication ( $t = 3.154, p < 0.05$ ) and monitoring and evaluation ( $t = 2.997, p < 0.05$ ) had significant effect on financial accountability in the public sector. The ANOVA with the  $F = 16.995, p < 0.05$  showed that all the components of internal control system had significant effect on financial accountability in the public sector. Therefore, the study concluded that internal control system put in place in the public sector of the Southwestern Nigeria was well established and adequate for effective and efficient financial accountability; there is a need for the internal control system in the public sector, to ensure adequate uses of all channels of communication and information flow for proper financial accountability. Based on the findings and the conclusion, the study thus recommends that the internal control unit should be encouraged to maintain their independent role, that is, the internal auditor should be adequately independent from those responsible for the financial operation of the organisation, so as to be able to provide additional assurance on cost efficiency and effectiveness of the internal control system; adequate and regular training should be given to those in the audit section by government, such as constant seminars and workshops to guide the auditors and accountant on issues relating to proper implementation of accounting policies and procedures, so as to enhance their skills and expertise in their practice as professionals.

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