Internal Control System in the Nigerian Tertiary Institutions

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Abstract

Internal control systems play a vital role in achieving the objectives of an organization. This study assessed the internal control system of tertiary institutions in Nigeria using four tertiary institutions in South West, Nigeria. Data was collected through primary source using questionnaire. The method of data analysis was descriptive statistics. Findings revealed that many components of internal control system are properly situated except that the internal audit unit of those institutions are not independent. The study therefore recommends that internal audit unit should have an independent department and the head of that department should report directly to the highest level of management within the institution.

Keywords: Internal Control System, Internal audit, Tertiary Institutions

Introduction

Internal controls (ICs) are very fundamental component of the risk management systems. ICs can be applied to several parts of a business, whether "strategic, financial, operational and compliance" (Financial Reporting Council, 2014). According to Adeoye and Adeoye (2014), "internal control system is a topical issue following global fraudulent financial reporting and accounting scandals in both developed and developing countries". Internal control is defined by Committee of Sponsoring Organizations of the Treadway Commission (COSO) as "the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regards to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations". An alternative definition was given by Benjamin (2001) as "the whole system of control, financial and otherwise, established by management in order to carry on the business of the enterprises in an orderly and efficient manner".

For any organization to maximize its finances and safeguard its assets, it must be able to manage its business processes which is one reason why ICs are very crucial. The subject of Internal controls is not new but then there have been series of fraudulent practices both in the past and in recent times. The cases of Enron, Parmalat, Cadbury among others are evidences around us. The instances of breakdown in controls have brought about formulation of different frameworks, codes and regulations like the COSO "1992 Framework" (updated 2013) in The United States, Sarbanes-Oxley Act of 2002 (U.S.), Combined Code of Corporate Governance 2003 (UK), Turnbull guidance on Internal Control (revised in October 2005) in the UK, SEC code of 2003 (updated 2011, 2014) in Nigeria.

With all these frameworks in place, the challenges with the breakdowns of ICs should have been over. However, studies in Nigeria (Gbegi and Adebisi (2015), Alao and Amoo (2014), Abiola and Oyewole (2013), Hamilton and Gabriel (2012), Akinyomi (2010)) show that some internal control systems are weak, inadequate or not complied with, yet these frameworks are in place to guide companies with respect to compliance with internal controls. If this is the situation in the public and private sectors that are guided by strict regulations and standards, what will the situation of tertiary institutions look like where strict compliance to preparation of accounts or deadline of submission of accounts is not the primary focus in Nigeria? Meanwhile, Al-Atiqi and El-Azma (2007) argued that financial monitoring and accountability of higher education institutions has been a relevant subject matter of apprehension in many countries. In fact, Salihu (2015) assessed the effect of internal audit on internal controls' effectiveness in tertiary institutions in Adamawa state and found that the components of internal control system are not properly put in place by the management of the institutions, especially in the area of authorization and approval, supervision, segregation of duties and personnel controls. The implication is that these institutions may lose income which may otherwise have been utilized more usefully. On the contrary however, Ejoh & Ejom (2014) conducted a case study analysis on Cross River State College of Education, Akamkpa and found that a lot of controls are in place such as, clear separation of roles in the accounts department, supervision by superior officers and strict adherence to budget to avoid extra-budgetary spending.
The findings reveal a mixed result between Northern and Eastern Nigeria. Furthermore, Adeoye and Adeoye (2014) posited that considering a serious assessment of the existing internal control structures are required so as to ascertain their capacity in ensuring the adherence of organisations to policies and procedures. In the light of the foregoing, this study seeks to establish the position of private tertiary institutions in South-west, Nigeria, with respect to existence of and compliance with internal controls and how these controls have enhanced the financial management of these institutions. The result of this study will complement the result of existing studies in formulating policies that would guide the formulation and implementation of internal controls in tertiary institutions in Nigeria.

Literature Review and Theoretical Framework

Theoretical Framework

This study adopts the stewardship theory. According to Madison (2014), stewardship theory assumes a humanistic model of man whereby the behaviour of the steward is based on serving others and hence behaves in a manner that will align with the interest of the principal. Here, structures are established to enhance harmonisation of the steward's interest and that of the principal. This study adopts stewardship theory since the management (agent) is charged with the responsibility of establishing internal controls. It is believed that their actions are in the best interest of the owners and so they are given a reasonable level of autonomy to manage the institutions.

Literature Review

Glance (2006) provided that internal control system refers to "the Institution process and procedure that is been established with the aim of objective achievement. The internal control system also serves as a process that guides an organization towards achieving its established objectives. According to International Organization of Supreme Audit Institution (2004), internal control system is a process effected by an entity's board of directors, management and other personnel's, designed to provide reasonable assurance regarding the achievement of the set objectives and the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations and generally the controls are of two types which are preventive and detective controls. According to Church and Schneider (2008), effective internal controls system are fundamental drivers toward earnings quality.

Salihu (2015) assessed the effect of internal audit on internal controls' effectiveness in tertiary institutions in Nigeria and found that the components of internal control system are not properly put in place by the management of the institutions, especially in the area of authorization and approval, supervision, segregation of duties and personnel controls. Ejoh and Ejom (2014) examined the impact of internal control activities on financial performance of tertiary institutions in Nigeria using Cross River state college of education as a case study and found that while there are some measures of controls in place, for example, clear separation of role in the institutions' finance and account department, inadequate training of staff to implement the accounting and financial system is a challenge thus making the internal control less effective.

Research Methods

The approach used in this study is the survey method. The survey method was used to elicit information from respondents using questionnaires. Descriptive statistics was used to analyse data gathered. Internal control was operationalized using the five components of internal controls which are segregation of duty, supervisors monitoring of subordinates, management review function and internal audit department.

The population for this study was all tertiary institutions in South-West, Nigeria. There are One Hundred and Fifty-Two (152) licenced Universities in Nigeria comprising of Forty (40) Federal Universities, Forty-Four (44) State Universities and Sixty-Eight (68) private Universities (National Universities Commission (2016)). The sample size was four institutions- Federal, State, individual private and mission-based private universities- in the South-West geo-political zone of Nigeria. These universities are chosen because they represent the major types of tertiary institutions in Nigeria. The choice of this geo-political zone is because it has the highest number of tertiary institutions. The questionnaire was administered to the staff of the registry, financial services, bursary and accounts departments of the sample institutions.

Findings, Conclusion and Recommendation

The objective of the paper is to establish the position of tertiary institutions in South-west, Nigeria, with respect to existence of and compliance with internal controls and how these controls have enhanced the operations of these institutions. Findings revealed that the schools studied adhered to internal controls established by management such as segregation of duties, performance of supervisors' role, internal audit functions and the management review function. These results are in line with Ejoh and Ejom (2014) research finding.

The study found adequacy of internal controls in the sampled institutions except that the internal audit unit is within the bursary/financial services. Consequently, the autonomy and objectivity of the unit is weakened. Therefore, it is recommended that the internal audit unit should be independent and the head of that unit should report directly to the highest level of management within the institution.

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