

**AN ASESMENT OF THE EFFECTIVENESS OF INTERNAL CONTROL
SYSTEM AT THE LOCAL GOVERNEMENT LEVEL IN NIGERIA: A CASE
STUDY OF KADUNA SOUTH-LOCAL GOVERNMENT**

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ABSTRACT

The focus of this research work in general is to assess the effectiveness or otherwise of internal control system at local government level, problems and prospects with specific reference to Kaduna south Local Government, Kaduna State.

This study work was started by introducing the general background of the subject matter in chapter one. These include statement of the problem, the objectives of the study, the research hypotheses, the significance of the study, the scope of the study, limitation of the study, and operational definition.

Chapter two is the literature review, which contained the views of some scholars and intellectuals as regard to the topic under study. It covered the concepts of internal control and the internal control system, features of internal control, effective internal control system, link between internal audit and internal control and internal control system at the local government level.

Chapter three covers the research methodology, research framework, the chapter comprises of population of the study, sample size, sampling techniques, methods of data collection and data analysis.

Chapter four which is the main concern of the study covers the presentation of data, analysis, test of hypotheses of the study and the summary of findings. Finally, Chapter five covers the summary of the research, conclusions and recommendations based on the findings of the study.

DEDICATION

This paper is dedicated to my father who taught me that knowledge is essential in one's life no matter the gender and one should keep upgrading his or her knowledge because the sky is the limit. Additionally, the paper is dedicated to my mother who has taught me that no matter the circumstances nothing seems to be impossible with the existence of God Almighty.

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LIST OF ABBREVIATIONS

- PPF:** Public Financial Management
IIA: Institute of Internal Auditors
NCE: Nigerian Certificate in Education
WAEC: West African examination council
HND: Higher National Diploma
OND: Ordinary National Diploma
GCE: General Certificate Examination
BSc: Bachelor in Science
O'LEVEL: Ordinary level

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CHAPTER I

1.0 INTRODUCTION

1.1 BACKGROUND TO THE STUDY

However, any organization or establishment being effective and efficient in its operation must adopt a sound internal control system. As a definition, the term internal control can be stated as the "complete method of control, financial and non financial recognized by the administration of an organization so as to continue with the business of the firm in an organized and professional manner, guarantee strict devotion to management conduct, protect the firm's wealth and ensure they are safe and sound, and guarantee as far as possible the comprehensiveness and exactness of the records". (Woolf, 1986).

More so, it is a process in which bodies affected safeguard their assets and manage them appropriately so that they are not misused or misappropriated (Internal control policy, 2011). The Institute of Internal Auditors (IIA) perceive control and control practices as "A step fulfilled by the board and other bodies to control the possibility of facing threats and boost the chances that designed goal congruence will be attained in future" (Treba, 2003; Quaden, 2001). Treba additionally stated further that an entity's board plans, organizes, and directs the timely routines of satisfactory proceedings to provide rational pledge that objectives and goals will be achieved. These processes are the strategies, measures, and organizational tricks that are known to be part of a control outline, made to make certain that threats are restricted inside the risk leniency accustomed by the risk management process. Risk management is a method used to recognize, evaluate, manage, and run likely events or

state of affairs to make available guarantee that an entity's plan to attain its goal congruence is being met.

The Internal Control System is the system which allows an entity's board to adapt to its objectives and make certain that the execution is acceptable and obeys applicable laws and convention. It is however known that no imperfection in any system is inevitable; for that reason an indispensable feature of any Internal Control System is expected have the capacity to notice stoppages and create a frontier following damage of such failures to the business. Hence, having sound Internal Control Systems have achieved a set of scales which re-positioning its control tends to be its price in ways that the level of outstanding letdown is convenient. These control measures are internal to the organization; hence they are referred to as its internal control measure which is different for different organization.

The design of its measures depends on management's view of their organizational actions. Therefore effective and efficient administration is that which is thriving in the manner in which organizational activities are carried out. Also, to have the function of scaling out the effectiveness of an organization; the board members need to measure its success in terms of performance and its failures and how these failures are being managed or solved. This evaluation is usually a directive of the board of the organization whilst other factors such as; computer mal-ware, the word count of fraudsters as cashiers, the increase in bad debts etc; are consistent in putting outer strains on the Internal Control System. (List and Brewer, 2004). Effective internal control in the public sector implies that the sector generates consistent financial reporting and to a reasonable degree obeys the laws and regulations that are relevant to all three bodies of the government.

Therefore this study aims to weigh up the effectiveness or otherwise of internal control system at the local government level with exact mention of Kaduna-south local government.

1.2 PROBLEM STATEMENT

Many organizational actions engage in a far above the ground volume of business connections and various judgments as regards the linked accounting for business dealings approximates, and other proceedings that necessitate identification in the accounting report and financial statements. However, with the absence of sufficient controls to guarantee the suitable managing of such items, the consequential financial facts may be defective and challenge management's skill to make true and fair judgments, as well as jeopardizing its management's sincerity with stakeholders of the organization. A useful system of internal control is wide in magnitude and involves every individual in the business, together with many who do not believe not having any accounting or control tasks. Additionally, it also entails those who carry on accounting records, prepare and publish policies, and observe systems as well as affiliates of audit committees and the board of directors, who will be held accountable when it comes to accounting for the organization's financial performance and position.

In modern times, financial transfer programs adopted in many emergent nations have given local governments added service tasks and admittance to other unrestricted means of financial support, either by the local government allocated funds or using the implementation of taxes on local sources. Nonetheless, increasing their expenditure responsibilities and expenditure authority without a civilized unrestricted financial control system has had minute effect on service delivery.

The absence of these effective control systems at both central and local levels have seldom led to financial discrepancy, weak accountability,

political capture, and deterioration in public services. A lot of pressure has been exacted on most economies because of their weak internal control system. With the inclusion of the local government, political instability, lack of a sound internal control system, and external oversight and also the intention to bail out when bankruptcy occur has led to weak internal control system at this governmental level.

It has been observed that most local governments face serious challenges in fulfilling their legal role of providing social services at the grass root level, which is associated with lack of a sound internal control system thereby leading to wastage of resources, mismanagement of assets, fraud and embezzlement. (Petrovits et al, 2010). Also, as observed by Kwambo (2009), most local governments in Nigeria face serious challenges of proper books of account and safe guarding local government assets, personnel lacking skills, knowledge, and tools to be able to carry on job tasks. Therefore, there is a great need to keep local governments' financially alert and to hold accountable the local government officials responsible. However, an up to date internal control and audit framework will be a reasonable step towards achieving both objectives. (Baltaci and Yilmaz, 2006)

1.3 RESEARCH QUESTIONS

- i. What are the features of internal control system?
- ii. What is meant by an effective internal control system at the local government level?
- iii. What is the relationship between internal auditing and internal control?
- iv. What is the nature of internal control system at the local government level?
- v. Is the weakness or success of internal control system affected by the problems of internal control system?

1.4 RESEARCH OBJECTIVES

The general intention of this paper is to examine and assess the problems and prospects of internal control system at local government level. However, the specific objectives are to:

- I. To research on the features of internal control system
- II. To examine what is meant by an effective internal control system at the local government level
- III. To examine the relationship between internal auditing and internal control?
- IV. To assess the nature of internal control system at the local government level
- V. To examine if the weakness or success of internal control system is affected by the problems of the internal control system

1.5 RESEARCH HYPOTHESES

For the function of accomplishing the above objectives the researcher formulated the following hypotheses in null form.

Ho1a. Weakness of the internal control system does not significantly affect the performance of Kaduna south Local Government.

Ho2a. The weakness in financial, procedural and structural control does not significantly affect the financial operations of Kaduna south Local Government.

Ho3a. The quality of training and experience of internal audit staff does not significantly affect the internal control system of Kaduna south Local Government.

Ho4a: The weakness of proper keeping of books does not significantly affect the internal control system of Kaduna-south local government

1.6 SIGNIFICANCE OF THE STUDY

This research paper is vital in the sense that in most cases, the success or failure of a business entity depends highly on the existence of internal control in that organization. The study will benefit the Kaduna south Local Government Administration so as to enable it establish an effective internal control system and it will also enable them appreciate the weakness that are inbuilt in their internal control system.

The research work will also benefit Kaduna State Ministry for Local Government and Chieftaincy affairs so that it will appreciate the challenges facing Kaduna south Local Government. The legislatures will also benefit from the study as shortfalls in the administration of local government affairs are well expressed which will enable them to adjust all errors by coming up with strategies on internal control or by making the most of the outcome of this research.

Likewise the treasurer, accountants as well as other accounting and auditing staffs and the whole personnel of the local government will benefit from the study, as it will give them a deep perception of what an effectual or sound internal control system is all about.

1.7 SCOPE OF THE STUDY

This paper intends to cover the problems and prospects of internal control system inherent in Kaduna south Local Government. It will also cover areas such as financial records, staff capability, staff experience and procedural control. It will cover a period of 5(Five) years from January, 2006 to December, 2010. The period covers the second Local Government Chairman election in Kaduna south Local Government, which is barely 7years after the return of democratic government and therefore there was more pressure on the Chairman and his cabinet to improve the standard of living of his community by providing social