AN EVALUATION INTO OF EFFECT OF INTERNAL CONTROL SYSTEM ON THE FINANCIAL MANAGEMENT OF TERTIARY INSTITUTIONS IN ANAMBRA STATE

Anozie Patience Ukamaka (Mrs)
&
Igboanugo, Amaka R. (Mrs.)

Abstract
The study examines the effect of internal control system on the financial management of tertiary institutions in Anambra State. The methodology of this study is based on the survey research approach which involves the distribution of one hundred and fifty (150) copies of a questionnaire to the selected four (4) tertiary institutions in Anambra State. Three (3) research questions were used with twelve items to guide the study for data collection. The data obtained from the questionnaire were analysed using both descriptive and inferential statistics such as frequency tables and percentages. The result of the analysis shows that there was significant relationship between internal control and prudent management of resources. Based on the result, the study recommends amongst all that management should develop stronger policies that will encourage a strong and reliable internal control system so as to encourage the prudent management of resources in the selected tertiary institutions in Anambra State.

Keywords: Internal control, financial management, internal audits, tertiary institutions.

Introduction

Good financial management practices demand that key management concepts and principles such as sustainability, accountability and transparency among others, are put in place to ensure administrative efficiency. Some tertiary institutions also ensure this administrative efficiency is achieved by installing well organized internal control procedures. According to David (2008) internal controls can be defined as a procedure designed by those charged with governance, (i.e. management) to ensure reasonable assurance about the achievement of an entity's objectives, with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Management of most tertiary institutions adopts the internal control in a flexible way, such that the system checks itself and any irregularities within the system, are being detected and corrected without much effort. To ensure that the system checks itself, management could adopt controls such as: segregations of duty, supervision of work and acknowledgement of performance. Financial management is focused on financial aspects of running the tertiary institution and can be described as the application of planning and control to the finance function of a tertiary institution. It helps in profit planning, measuring costs, and controlling inventories and accounts receivables. It also helps in monitoring the effective deployment of funds in non current asset and in working capital. It aims at ensuring that adequate cash is on hand, to meet the required current and capital expenditure. It facilitates ensuring that significant capital is procured at the minimum cost to maintain adequate cash on hand, and to meet any needs that may arise in the course of business.

Concept of Internal Control:

International Organisation of Supreme Audit Institution (2011), defines internal control as an integral process that is affected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the general objectives are achieved and executed in an orderly manner ethically, economically, efficiently and effectively thereby fulfilling accountability obligations; complying with applicable laws and regulations; and also it help in safeguarding resources against any loss, misuse and damage.

Dinapoli (2013), provide that, the internal control system is the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization would achieve its objectives and mission. This contribution is a unique one because it does not see the senior managers as the only personnel responsible for internal control but all the staff in the organization. Employees tend to go extra miles in seeing that they place organizational objectives above their personal objectives provided their effort is seen and appreciated as instrumental towards the survival of the organization.

COSO (2007), defines internal control system as a process, designed by an entity's management to provide reasonable assurance regarding the achievement of objectives in the following ways: effectiveness and efficiency of operations; reliability of financial reporting and; compliance with applicable laws and regulations. However, where the internal audit unit of the organization discharges its responsibilities diligently by putting into account, all the relevant laws and regulations and, when the operational processes are followed in the most orderly manner, the audit reports prepared by them the auditors would be considered or regarded as reliable.

Furthermore, Cahill (2016) defines internal control as a system of internal administrative efficiency which often leads to design of a system that will enhance financial check and balance which will support corrective actions intended by the management of the organisation and will ensure the primary goal of the organisation is achieved.

International Standard on Auditing (ISA 400) defines internal control as all policies and procedure adopted by the management of an entity to assist in achieving the primary objectives of the management by ensuring that the business is conducted in the most efficient way possible and also ensuring strict adherence to management policies, safeguarding of asset, prevention and detection of fraud and timely preparation of reliable account records.

Amudo and Inanga (2009) studies reveal that internal control can be defined as the process involving the use of integrated activities often suggested by management of the organisation and which are embedded in all organisation direct and indirect activities so as to achieve the primary goal of the organisation.

Puttick and Van Asch (2008) cited in Motubatse (2005) reported that internal control are those methods and procedure adopted by the management of an entity to support the management in achieving its objectives and ensures the business of the entity is conducted in an orderly and efficient manner.

Samtok (2005) define internal control as a whole system, financial or otherwise designed by management of the organisation for the purpose of conducting the activities of the organisation in an efficient and effective manner, ensure adherence to management policies, safeguard the asset and secure as afar as possible the completeness and accuracy of the records. This definition is very popular in most accounting textbook, infact, The Consultative Committee of Accounting Bodies also supported this definition except that "CCAB" added some key element of internal control not present in the definition, as planning and organising of records, custody procedure and management supervision.

According to Association of Certified Accountants (ACA, 1998), Internal control is the system that controls financial and otherwise established by the management in order to carry on the business of the enterprise in an orderly and efficient manner and to ensure as far as possible the completeness and accuracy of the records concerned with assigning staff to various departments and the existence of those departments greatly enhances the efficiency of internal controls.

Howard (2010) opined that internal control is the plan of organization and all the co-ordinate, methods and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. He also saw it as not only internal check and internal audit but the whole system of controlling financial and otherwise established by the management in order to carry on the business of the company in an orderly manner, safeguard its assets, and secure as far as possible the accuracy and reliability of records.

Concept of Financial Management

Financial management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the institution. In other words, financial management is the management of the finances of a business/organization in order to achieve financial objectives. In general terms, it means applying general management principles to catalysing and sustaining the financial resources of the institution.

Objectives of Financial Management

The primary purpose of financial management is to do with procurement, allocation and control of financial resources of a concern. The objectives of financial management specifically encompass the following (Ishola, 2008);

- To ensure regular and adequate supply of funds to the concern,
- To ensure optimum funds utilization. Once the funds are received they should be utilised in maximum possible way,
- To ensure safety on investment. This implied that funds should be invested in safe ventures so that adequate rate of return can be achieved,
- Overall control of the institution's resources;
- Guidance to all departments in all financial matters, particularly as regards the preparation and monitoring of their budgets;
- The Institution's accounting, reporting and internal control procedures;
- Maintaining the financial information system;
- Administering the pay-roll, loan and pension schemes;
- Arranging adequate insurance cover for the Institution's assets;
- Ensuring that surplus funds are invested and managed prudently.

Roles/Importance of Internal Control System in Tertiary Institutions

Internal control 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 (2015), 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 (2007) 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 organisation are adhered to by all and sundry, this is apart from clashes of responsibilities for different cadre of officers. Walker (2009), 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 Institution'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 lead 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.

Merits of the tertiary institutions in Anambra State are required to use funds for improving the living standard of their employees and their immediate environment, but more often than not the reverse is the case, as some employees in various institutions are often found guilty of diverting fund for their personal use (Lent, 2004). This often makes the management of most institutions conduct surprise audits, which serves as a form of control to check mismanagement of funds.

Nwoko (2007) therefore enlisted some importance of internal control system as follows:

Internal control system helps the

institutions to achieve institutional goals or objectives. As efficient internal control system ensures adequate accounting system which invariably provides information necessary for preparing true and fair financial statements. It helps in the prevention and early detection of errors and fraud. It is important to the institution because it is a means by which institutions, can best discharge the primary responsibilities for the reporting of adequate and accurate financial operating information to such interested parties.

It helps maintain good working relationship among staff.

It also helps the institutions to rely on various control techniques in implementation of its decisions and goals. Arens *et al* (2000) said that auditing and good internal control provides reliable data which enables management to have accurate information for carrying out operations. The physical assets of an institution can be stolen, misused and accidentally destroyed unless they are protected by adequate controls. The same is true of non-physical, important documents and records, general ledger and journals.

Chue de Panta (2011), says that a good internal control saves the external auditors time and energy since the auditor is going to carry out much inquiries. Good internal control also helps the auditor to pass items in the book as being reliable though he must exercise caution since he is going to be held responsible in case of any misappropriation. It ensures adequate segregation of duties among staff members. Panta also says that a good internal control should ensure proper authorization and approval of payment.

Effects/Consequences of A Weak Internal Control System in 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, reluctancy 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; Hawk, 2000; and Olatunji, 2009). The effects of weak ICS cannot be over emphasized. it distorts the plan of the institutions, paves way to financial indiscipline, 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. 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.

Statement of the Problem:

The responsibility for the establishment of internal control is basically that of the management. For any organisation to achieve the targeted goals and objectives, the internal control must be strong and reliable. To get this done, all the basic characteristics that guarantee effective functioning of the internal control must be readily available. These characteristics include: authorization, segregation of duties, physical control and others to mention a few. However, recent developments have shown that where due approval or authorization has not been granted by appropriate authorities (i.e. the institution's governing council) this often leads to wastages and mismanagement of resources. Furthermore, challenges associated with segregation of duties, which is also a major characteristic of internal control, has led to problem of collusion, fraud and misstatement of financial records in most of the organisations.

Therefore, the statement of this problem includes:

- the problems encountered in apply internal control in the management of tertiary institutions in Anambra State.
- the importance of internal control system in the management of tertiary institutions.
- proffer solutions to the problems encountered in applying internal control in the management of tertiary institutions in Anambra State.

Research Questions:

The following research questions guided this study:

1. What are the importance of internal control to the management of tertiary institutions?
2. What are the problems encountered in applying internal control in the management of tertiary institutions in Anambra State?
3. What are the solutions to the problems encountered in applying internal control in the management of tertiary institutions in Anambra State?

Methodology:

The study is a survey research based on primary data obtained from distribution of one hundred and fifty (150) questionnaires distributed to four selected tertiary institutions in Anambra State which includes: Nnamdi Azikiwe University, Awka, Chukwuemeka Odumegwu Ojukwu University Uli, Nwafor Orizu College of Education, Nsugbe and Federal College of Education (Technical), Umunze. The total population of the study consists of 100 senior accounting personnel, 20 students and 30 lecturers in the Department of Business Education and Accounting Education of the selected four institutions.

A 12-item questionnaire was used in collecting the data relevant for answering the research question. The instruments was structured on a 4-point Likert rating scale of Strongly Agree (SA), Agree (A), Disagree (D) and Strongly Disagree (SD). The scores assigned to the scales were 4, 3, 2, 1 and the mean was determined such that <2.5

is rejected and >2.5 is accepted thus:

$$\frac{4+3+2+1}{4} = \frac{10}{4} = 2.5$$

The content and face validity of the instrument was determined by giving the questionnaire to some experts in the four selected tertiary institutions in Anambra State which were: Nnamdi Azikiwe University, Awka, Chukwuemeka Odumegwu Ojukwu University Uli, Nwafor Orizu College of Education, Nsugbe and Federal College of Education (Technical), Umunze. These experts offered useful suggestions which helped to modify some items. The face-to-face method was adopted in the administration of the data and the instruments were administered on the respondents. Ten (10) copies of the questionnaire were withheld by ten respondents while 140 respondents returned their own fully completed. The collected data were analysed statistically using mean (x) method. The decision rule is that any score less than 2.5 is rejected while scores greater than 2.5 will be accepted.

Results: Table 1: Mean rating on the importance of internal control system to the management of tertiary institutions

S/N	Items	$\bar{x}$	Remark
1.	Internal control system helps management to achieve institutional goals and objectives.	2.6	Accepted
2.	An efficient internal control system ensures adequate accounting system which invariably provides information necessary for preparing true and fair financial state.	3.1	Accepted
3.	It is important to the management because it is a means by which management can best discharge the primary responsibility for the reporting of adequate and accurate financial operations information to such interested parties.	2.1	Rejected
4.	Internal control helps management to rely on various control techniques in implementation of its decision and goals.	2.8	Accepted

From table 1, items 1, 2 and 4 were accepted because they have mean rating of 2.5 and above, except item 3 which was rejected because it has a mean rating below 2.5 which shows that internal control is important in tertiary institutions.

Table 2: Mean rating on the problems encountered in internal control management.

S/N	Items	$\bar{x}$	Remark
5.	Unavailability of adequate accounting system in tertiary institutions in Anambra State.	2.9	Accepted
6.	Non-recognition of the internal audit department in the institution's management.	2.5	Accepted
7.	Independence of the internal auditor in tertiary institutions in Anambra State.	3.1	Accepted
8.	Influencing of internal audit opinion through threats and gift	2.3	Rejected

From Table 2, the items 5, 6 and 7 were all accepted because they had a mean rating of 2.5 and above except item 8 which was rejected because it has a mean rating below 2.5. It shows that the unavailability of adequate accounting system in the institution, non-recognition of the internal audit department, independence of the internal auditor and influencing of the internal audit opinion through threats and gifts are problems encountered in the management of tertiary institutions.

Table 3: Mean rating on the possible solutions to the problems encountered in applying internal control in the financial management of tertiary institutions in Anambra state.

S/N	Items	$\bar{x}$	Remark
9.	There should be a continuous internal check and audit on the part of management and low level of management to ensure adequate internal control system.	3.1	Accepted
10.	There should be effective use of information technology to enhance the high level of security check in the various departments.	3.3	Rejected
11.	The internal control officer should avoid any form of favoritism in discharging his/her duties	2.5	Accepted
12.	There should be competent team of experts to work out control system in institutions.	3.3	Accepted

From this table, the research questionnaire 9, 11 and 12 were all accepted because it has a mean rating above 2.5 which shows that internal control system helps in detecting errors and fraud. It was also revealed that internal auditors in the companies are not left out in making sure that they assert maximum control and supervision of records, as well as preparing reports for management decision making. This is a development that has aided the easy detection of errors or omissions or even fraud.

Discussion of Findings

The findings from the research questions revealed that tertiary institutions in Anambra State have effective internal control system.

Research question 1 tries to find out the importance of internal control to the management of tertiary institutions in Anambra State. It was revealed from the findings that internal control system helps the management to achieve institutional goals and objectives, adequate accounting system and helps the management to rely on various control techniques in the implementation of its decision and goals. This was supported from the question items 1, 2 and 4 which were all accepted because of mean rating above 2.5, except 3 which was rejected because it rates below 2.5. This attested that internal control is very important in tertiary institutions.

Research question 2 also tries to find out the problems encountered in applying internal control in the management of tertiary institutions in Anambra State. It was revealed from the findings that some tertiary institutions influences audit opinion through threats and gifts, there is no recognition of the internal audit department in the institution and unavailability of adequate accounting system in the institution's management. This is evident from questionnaire items 5, 6 and 7 which were all accepted because they had a mean rating of 2.5 and above, except item 8 which was rejected because it rates below 2.5.

Finally, Research question 3 focuses on the solutions to the problems encountered in applying internal control in the management of tertiary institutions in Anambra State, it enhances a continuous internal check and audit, provides an effective use of information technology to enhance the high level of security check in various departments and enhancement of competent team of experts to work out control system in the institutions. This is supported by evident from the questionnaire items 9, 11 and 12 which were all accepted because of above 2.5 rating, except 10 which was rejected because of below 2.5 rating. This is attestation that internal auditors make sure that there is maximum control and supervision of records, as well as preparing reports for decision making which is a development that aids the easy detection and prevention of errors or omission and fraud.

Conclusion

This study is basically about the impact of internal control system in the financial management of tertiary institutions in Anambra State. It emphasizes that internal control helps in attainment of the organization's goals and objectives. The findings of this study shows that properly established and implemented internal control has significant relationship with the prudent management of organization resources in the tertiary institutions. Based on the above findings, following conclusions were advanced:

- The introduction of the effective use of information technology will help to enhance a continuous internal check and audit and also enhance the high level of security check in various departments.
- There should be maximum control and supervision of records by the internal auditors from time to time to ensure proper reports for decision making which will aid in easy detection and prevention of errors and omissions or fraud.
- There should be competent team of experts to work out control system in tertiary institutions in Anambra State.

Recommendations

Based on the findings of the study, the following recommendations will be highlighted:

- The management of the tertiary institutions should have well developed strategies that will ensure that the submissions of the internal control department are always implemented since this contributes to the prudent management of the institutions resources.
- Attainment of tertiary institutions goals and objectives can be made easy if the staff are regularly trained. Therefore, the management should organise training of staff especially in the area of the use of information communication and technology systems.
- The internal audit department of the selected tertiary institutions should be regularly monitored to reduce bias judgement and prevent gradual or systematic collapse of the institutions.

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