

CONCEPTUAL ASSESSMENT OF SKILLS AND TRAITS REQUIRED BY AUDIT PERSONNEL IN LOCAL GOVERNMENTS AREAS OF NIGERIA

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Abstract

Audit function is very vital in every organization for it ensures effective check and balances. This leads to due-diligence and better management of organizations. When the organization manages its risk efficiently, it has the key to its success. Be as it may, audit function is even more important in the public sector where public servants in Nigeria exhibits nonchalant attitude in their jobs. The purpose of this paper is to assess the skills and traits required by internal auditor personnel in local government areas in Kano state. Through desk research, the paper reviewed a number of related literature. After critical review and assessment it was concluded that local government audit personnel, in line with international standards, have to possess certain skills and traits for effective conduct of their jobs. It was recommended that audit personnel require: professional qualification; autonomy; better package among others for better performance.

Keywords: Internal/Public Auditor, Local Government, Competencies, Audit Personnel

JEL Classification: H7; L26

1. Introduction

Local government plays an important role in bringing government's services closer to the citizenry. Essential service delivery is a major aim for the existence of government at different levels. Hence, the success of any local government depends on its ability to utilize its human and material resources to achieve the desired objectives i.e. rendering needed services to the community. Local government is a government in which there is popular participation both in the choice of decision makers and in its recognition as a third tier of government. It should however be noted that the aforementioned function of government could not be effectively achieved without checks and balances in the form of control mechanism. Thus, in the public sector there is both internal and external control system. Public sector audit has experienced considerable expansion throughout the world. The reason for this is closely related to changes in the structure of government and concern for more accountable and transparent governance, which has resulted in sophistication of financial reporting (Dowdall, 2003). Public sector accounting is quite distinct from commercial accounting in terms of objectives, sources of revenue and bases of recording accounts, responsibility and accountability among others. Despite the differences, the aim is to achieve good results thus researchers suggest that public

sector should adopt Results-Based Management (RBM) (Maiyaki, 2009).

It is useful however, to distinguish between audit and other forms of regulation and inspection. Public audit applies to almost every public sector body and is relatively wide-ranging, from certifying the accounts to examinations of economy, efficiency and effectiveness. For instance, Fourie, Plant, Staden and Coetzee (2013) explained that internal auditor's roles are not novel to any environment of business. It had more emphasis and high demands since the beginning of 20th century. It is now revealed that internal auditors help management right from the strategic level down to the operational level to make sure organization survive and works effectively and efficiently. Furthermore, mismanagement of public funds and poor governance has exposed the extreme importance of internal auditor activity especially in local government. Siriwardane, Hu and Low (2014), asserted that auditors are often blamed on any accounting scandals despite the fact that auditors do not deter the fraud but rather obliged to detect it as a result it will be discontinued. Performing this function is very challenging even for professionals. Thus, auditors need exceptional competencies to execute such a difficult task.

Internal auditor needs to possess a peculiar set of qualities and competencies that will make him different

from other professions and help him to execute the whole range of audit activities. These competences are not the choice of internal auditor but they conform to Institute of Internal Auditors (IIA's) standard, code of ethics and core principles for the professional practice of internal auditing (Institute of Internal Auditors (IIA), 2018). Code of ethics rule 4.1 to 4.3 restricted services of auditor to:

- What he has knowledge, ability, and experience
- To act in conformity to International Standard for Professional Practice of Internal auditing and,
- Urge them to keep on updating their competencies and their service quality as well.

To this end, this paper focuses on the essential skills and characteristics that are pertinent to the discharge of an effective internal audit in local government areas of Kano state.

1.1 Historical Background of Local Government in Nigeria

The historical evolution of the local government system in Nigeria dates back to the colonial era when it was called the colonial native authority system which existed between 1920's and 1930's (Orewa & Adewumi, 1983). In their form, they represented a system of indirect rule whose aim was to establish a system of local authorities through traditional authorities. The main task of local government in this era was maintenance of law and order at grass root level. Also the issue of revenue generation in the local government system has been in existence since during this traditional era of local government. In pre-colonial Nigeria the Chiefs, Obas and Emirs were responsible for revenue generation. This they usually did through levies and taxes, which they use in managing their communities. During the colonial era, the British especially in the North introduced a system of indirect rule in which direct taxes were introduced in various local communities for running their affairs. By 1933, the powers of the local authorities were extended to cover expanded functions due to reliable performances. After the independence in 1960, local governments acquired more responsibilities that were assigned to them by the constitution.

Also the constitution made provision for substantial funds to local councils. This is because there is no doubt that sound financial base is a prerequisite for effective performance of the roles assigned to local government. For instance, section 7(6) of the 1999 Constitution makes provision for the funding of local government as follows;

- a) The National Assembly shall make provision for statutory allocation of public revenue to local government councils in the federation; and

- b) The House of Assembly of a state shall make provisions for statutory allocation of public revenue to local government councils within the state.

More specifically, provision was made earlier under the Revenue Allocation Act of 1981 for statutory allocation of 10 percent of national revenue to local government, became operational in 1989 and 20 percent in 1992 (Idike, 1995). In addition, state governments were required to contribute 10 percent of their internally generated revenue to local government (Dasuki Report, 1985).

Under this fiscal arrangement, local government depended mainly on State and Federal Governments for revenues and grants. This source of revenue is in some cases unreliable and unstable. This is due to the fact that most state governments have failed to release 10 percent of their internally generated revenue to their local governments. In addition, some State Governments interfere with the statutory allocations to local governments.

1. Concept of Internal Audit

Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to help members of the organization in the effective discharge of their responsibilities. In view of this, internal audit furnishes them with analysis, appraisal, recommendations, counsel and information concerning the activities reviewed (Institute of Internal Auditors, 1991). According to Institute of Internal Auditors (1991), the scope of internal auditor is defined as "The examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities".

Johnson (1996) defined internal audit as an independent appraisal of activities as a service to all levels of management. It is a control which measures, evaluate and reports upon the effectiveness of internal control which may be financial or otherwise as a contribution to the efficient use of resources within an organization. According to Gupta (1999), internal audit is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. Internal audit are courses of action that collect and process information to make sure that the processed data conform to the predetermined standard (Daniela, 2010). Internal auditing is a self-reliant, goal assurance and consulting act arranged to add value to the organization's performance, (Institute of

Internal Auditors (IIA), 2018). Institute of Chartered Accountants of India (ICAI), (2009), described internal audit as an independent, continuous, and critical assessment function performed by management to improve, add value and strengthen the risk management strategy, internal control mechanism and the system of the entity.

2.1 Objectives of Internal Audit

Gboyega (1991) equally observe that the essence of internal audit is to assist in protecting the assets and interest of the local government by carrying out a continuous examination of activities in area to detect fraud, misappropriation and irregular expenditure and losses. According to Institute of Internal Auditors (2018), the secondary objective of internal audit could be seen in the following:

- a. To identify opportunities and provide timely suggestions for improvements in internal control system efficiency, financial or tax planning and accounting methods to the extent that such identification and, provision can be combined economically with the procedures required under the primary objective or one requested by the client, and were not already made during the interim report.
- b. To prepare the local government financial statement as an accounting service.

Types of Audit

Based on audit objective, Internal Audit can be divided into the following categories, (Dandago, 2002; Sabari, 2003):

- i. **System Based Audit:** This refers to an in depth evaluation of the internal control system with the objective to assess the extent to which the controls are functioning effectively.
- ii. **Performance/Operational Audit:** This assesses whether the activity, programme or body has been managed economically and effectively. A particular performance audit will not necessarily seek to reach conclusions about all three aspects above; it should be clear from the audit objectives, which need to be examined.
- iii. **Financial/Accounting Audit:** This evaluates the accuracy of the accounting and related procedures and practices. It assesses the accuracy and completeness of the financial statements of the activity, programme or body being audited, and/or evaluates whether the transactions underling the financial statements are legal and regular.

- iv. **Compliance Audit:** This evaluates how relevant policies, plans, procedures, laws, regulations and contracts are being complied. Usually all audits include the compliance element serve, as yard stick to measure the overall performance of the organization.
- v. **Management Audit:** Involves a review of each and every facet of management activity and its objective is to ascertain whether or not the resources of an organization are used by management in the most economic way to produce the maximum possible result in the shortest possible time in accordance with its goals.

2.2 Skills and Characteristics Required for Effective Auditing

Competency is defined by Thabet, (2017) as composition of knowledge and skills an individual has to produce activity. Competencies are sets of abilities necessary for the auditor to carry out his responsibilities (Bailey, 2010). The following are some of the essential skills and traits required for an effective auditing:

Planning Skills

Audit activity contains a series of important steps that are needed to be completed within a specific time. Therefore, a strategic preliminary plan that comprises the comprehensive objective, scope, nature, time and neutral opinion are needed to accomplish the organizational objective easily and smoothly. When preparing the audit plan, the company's size, regulatory laws and financial regulation of the company, prior problems encounter in the audit should be taken into consideration. The audit plan and its process have to be discussed between the audit team and the internal audit unit. They also have to determine the concerned critical decisions (Bani-Ahmed & Al-Sharairi, 2014).

Communication

Salleh, et al.(2011) reported that accounting and legal knowledge are not only the requirement for professional accountant other non-technical skills like human skills, problem solving and communication skills are very vital. A good auditor needs to possess the skills that interpret any accounting jargons and terms. This will bring mutual understanding between auditor and client (Darina, 2017). This was proven by the KPMG/ FORBES report "Audit 2015" surveyed. According to the report 200, respondents that constitute CFOs, controllers and audit committee chairs mentioned communication skills as one of the top skills they need as

auditors. Communication and technology skills were ranked top qualities with 66% and 67% respectively.

A Thirst for Knowledge

According to Chambers and McDonald (2013), Internal auditor needs continuously, to fine-tune and upgrade his business knowledge through a blending of formal training and development scheme, rotational assignment, self-directing learning, stretch projects, certifications, insatiable reading, etc. Darina, (2017), stipulated that any latest changes in accounting standards, rules and theories must be learned by the accountant/auditor. Consequently, they have to keep on updating their knowledge especially regarding the General Accepted Accounting Principles (GAAP), statutory accounting law and any tax law modifications.

Critical Thinking

Critical thinking is one of the top three skills required from an auditor (KPMG, 2017). The IIA, 2013 survey ranked critical thinking as the top 5 skills required from the auditor. Critical thinking is defined as an unprejudiced method used to diagnose a task or situation for the creation of an acceptable conclusion and presenting the analyzed outcome logically. To create value for the organization, the internal auditor should use critical thinking techniques in internal audit (KPMG, 2017).

Technology

Internal auditors are expected to be abreast of new technology and prepare for new technology that evolves. Clients agree that technology has improved and will keep on improving the quality of the audit. It is clear that the auditing profession has faced with a remarkable change in advancing technology. This accelerating change is related to data, advanced analytics, etc. Responses from the research showed that auditors should use a huge amount of samples and ultra-modern technology to gather and analyses data (KPMG, 2017).

Building relationship

Interpersonal skill is among the top non-technical skills internal auditor needs to improve his audit communication (Elmghaame & Ntim, 2016). Similarly, Chambers and Macdonald (2013), viewed that in all internal audit functions building confidence, faith and admiration by others in the organization is the most universal objectives. This relationship building requires long time and consequently leads to: quick response to auditor requests on the information and access to voluminous information; reduces deterrence in the audit activities; and stimulates the organization to accept internal audit advice

2. Theories of Auditing

There are many different auditing theories as follows:

Policeman Theory

Police officer theory was the most famous auditing theory in the 1940s. Under the theory, an auditor serves as a policeman paying attention to mathematical accuracy and on prevention and finding out of fraud (Imegi & Oladutire, 2018; Salehi, 2011). The theory loss its explanatory power because it failed to explain the ability of auditing to verify the trust and fairness of financial statement (Salehi, 2011).

Agency Theory

Agency theory examines the relationship between investors known as principal and manager as an agent (Niyonzima & Soetan, 2018). Manager entrusted with investors' resources to work and get rewarded in return (Salehi, 2010). In principle, the theory assumption is agent cannot be trusted he can make himself rich, at the expense of the investor, if he get the chance (Ogbonna & Appah, 2014). This lack of trust forced the investor to hire an auditor for verification of trust and fairness of financial statement (Ateya & Kukreja, 2015)

Quasi-Judicial Theory

Salehi, (2011) reported that this theory saw auditor as a judge in the process of financial distribution and it was highlighted that this theory cannot be sustained due to:

- i. In auditing, the doctrine of consistency/precedence is not guaranteed.
- ii. Decision process and decision of auditor are not publicly available.
- iii. There is difference in rewarding system of both, this also affect the auditor's independence.

Moderator of Claimants' Theory

Under this theory, it was explained that all participants in the entity keep on contributing as a result of this, the participants will receive fair of share from the company's income (Ebimobowei & Binaebi, 2013; Salehi, 2011). Auditor who represents interested participant in the financial statement stand as moderator through giving his opinion on the income statement accuracy (Salehi, 2011).

The Theory of Inspired Confidence

The theory of inspired confidence also known as theory of rational expectation was proposed by Theodore Limperg in the 1920s. The theory explained the demand and supply for auditing. Audit services was demanded as a result of participation of outside investors in the entity (Jachi & Yona, 2019; Okpala, 2015). These parties believed that biased information may come from management report, so they need auditors for assurance and reliability of the information reports

The Lending Credibility Theory

The theory proposed that auditors' primary function is adding credibility to the financial statement. The theory assumed audited financial statement resulted to: reduction of information asymmetry that occurs between preparer and user of financial statements. It also advances the attitude of financial statement preparer. Demand for financial information credibility enforced demand for auditor, information asymmetry defuse conflict between manager and investors (Ateya & Kukreja, 2015)

3. Conclusion

The paper assessed the essential skills and traits required in effective auditory role for ensuring accountability in managing the accounts of local governments in Nigeria. The paper hereby makes the following specific conclusions:

- i. That local government is a key institution established by law in order to bring government services closer to people at the grass-root level
- ii. That internal control system in the form of audit is dearly required for ensuring the accountability and prudent management of local government resources
- iii. Certain essential skills and traits are required in order to carry-out the internal auditory function professionally and ethically
- iv. Certain bottle-necks are usually encountered in carrying out the important responsibility of internal audit

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4. Recommendations

Based on the foregoing conclusions, the following recommendations are hereby proffered:

- i. There is a need for adequate, professionally qualified and experienced personnel to serve in audit department of the local governments in Nigeria.
- ii. There is a need for autonomy and independence in the operations within the audit department. Nobody should interfere in the operations of audit unit because there is ultimate need to have an objective judgment at the end of the exercise, ensuring adequate segregation of duties.
- iii. Better pay package should be ensured for the audit staff of the local government and their salary scale structure should be matched with those of the state government. This will keep the auditors away from the temptation of bribery.
- iv. There should be policies on personnel up-gradation in terms of their paper qualifications attainment and skills acquisition to keep pace with trends and that should be subjected to verification by external body under the auspices of an uncorrupted administrator from either within the state or from the civil service commission.
- v. Ensure once in a while staff rotation.

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