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INTERNAL AUDIT QUALITY AND PUBLIC SECTOR MANAGEMENT IN NIGERIA

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Abstract:
The broad objective of the study is to empirically examine the impact of internal audit quality on public sector management in Nigeria. Specifically, the study examined the relationship that existed between some variables of internal audit such as financial controls, management controls, public sector efficiency and public sector management. In the study, primary data was utilized through the administration of 150 copies of questionnaire to respondents in internal audit, ministries, departments, agencies, parastatals and commission in Ondo state, but 144 copies were received. Simple percentage, descriptive statistics and categorical (general) least square were used as data analysis techniques. The findings of the study revealed that; internal audit quality such as internal audit competence (COMP), internal objectivity (OBJEC), internal audit challenges (CHAL), and internal audit performance (PERF) had a positive and statistically significant relationship with financial controls in the selected public entities in Nigeria. Internal audit quality such as internal audit competence (COMP), internal audit objectively (OBJEC), internal audit challenges (CHAL), internal audit performance (PERF) had a positive and a statistically significantly relationship with the effective management controls in the selected public entities in Nigeria. Internal audit quality such as internal audit competence (COMP), internal audit objectively (OBJEC), internal audit challenges, internal audit performance (PERF) had a positive and statistically significant relationship with public sector service delivery in the selected public sector entities in Nigeria. The study recommends that both the internal auditors and the public sector

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management team should participate actively in the management of public sector entities thus lead to enhance managerial performance.

Keywords: internal audit quality, public sector, management, Nigeria

1. Introduction

Internal audit is now increasingly assuming a strong separate professional status. In fact, it has experienced considerable expansion all over the world for the previous few eras now. The main reason for this increased relevance and its awareness has been linked to the various changes in the structure of governance and the need for better accountability and transparency in governance particularly in the developing economies like Nigeria. (Okerson, 2013).

The increasingly and continuous demand for accountability and transparency in governance has actually brought about tremendous upsurge in the number, quality and sophistication of pecuniary reporting of not only government activities and transaction but in company business organizations. Internal audit now plays a stronger role in promoting transparency and accountability in government business and dealings. It is in fact one main components of corporate governance structure in an organization directed at ensuring financial integrity (Unegbu & Kida, 2011).

Internal audit is relevant both in cloistered and open sector environment. Even the quasi sector entities which are strictly non-profit-making can also benefit from internal audit (Okolo, 2001).

The major difference according to (Odesomi, 2010) involves objectives, sources of revenue, bases of recording of accounts, responsibility among others. Large corporate firm have and operate functional audit department but in small enterprise internal audit function is subsumed in the accounting and financial management functions. For public sector internal audit function is compulsory. Irrespective of the type of sector involved, internal audit is seen as relevant in providing assurance services within the organization and even rendering consultancy services to management.

According to Cohen and Sayag (2010), internal audit are those audit that being carried out by employees within an enterprises. It also an independent appraisal functions established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and report on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of resources. The head of internal audit department normally report to the highest authority within the enterprises in order to be independent of members of staff. The audit approach under this type of audit is continues audit approach which involves examination of transaction and balances, throughout the accounting period without auditing to a specific date.

According to Millichamp (2000), internal audit is viewed as an independent appraisal function established within an organization to examine and evaluate the activities of an organization as a service to the organization. It is also a process generally adopted towards ensuring and safeguarding the resources and promoting operational efficiency in organizations Okereson (2013), further asserts that the responsibilities for ensuring effective internal auditing normally rest on with the internal auditors who are staff of the internal audit department.

The Chartered Institute of Public Finance and Accountancy (CIPFA) as cited by Johnson (2000:47), defined internal audit as *"an independent appraisal within an organization for the review of activities as a service to all levels of management. It is a control which measures, evaluates and reports upon the effectiveness of internal control, financial and otherwise, as a contribution to the efficient use of resources within an organization."*

Management of public sector entities whether at the federal, state or local government level are entrusted with public resources and saddled with the responsibility of managing these resources effectively and efficiently for the benefits of the citizenry. Internal audit ensures economy.

Internal auditors are appointed by the management of the organization to examine and evaluate the effectiveness and soundness of financial administrative activities as well as procedure put in place. They are essentially regarded as the watchdog of management. They monitor, examine and ensure adherence to management operational policies and guidelines. They evaluate the effectiveness of the system of internal control and check.

While the role of internal auditors is fast changing from pure financial accounting to quality assurance and consulting services there seems to be little or known empirical studies in this direction. Therefore, there is the need to examine their responsibilities, functions and consequent impact on the Nigerian public sector services which constitutes our focus of study.

2. Statement of Research Problem

Many public sector entities in Nigeria in recent time have been characterized with the high incidence of fraud, misappropriation, misapplication of funds and poor operational efficiency (Jenfa, 2003). Despite the fact that internal audit departments exist in public sector entities in Nigeria, various forms of financial crimes still continue. For instance, there are cases of fraud, irregularities and even breaches of other controls (Okoya, 2002). Therefore, there is the need to also examine internal audit and financial control of public sector entities in order to establish if internal audit truly helps to control financial fraud. In fact, there is hardly any empirical evidence to ascertain the internal audit quality for now in Nigeria. This in itself tends to provide another justification for this study.

There are some proponents who believe that the role of internal auditors if properly coordinated can effectively and efficiently assist in the management of public organization. Particular studies by Schwartz, Dunfa and Khae (2005) have supported the view of the role of internal audit department as an effective management control tool in public sector entities. Thus, indicating that the existence of relationship between internal audit and public sector management. Other studies did not find any relationship. This therefore has provided gaps in knowledge. It is against this divergent opinion that the study attempts to focus on role of internal auditors in public service as a way of investigating the existence of relationship between internal audit quality and financial and management control on the one hand and to identify the challenges and the impact of internal audit quality in the efficiency and effectiveness of resources utilization in the selected public sector entities. To achieve this, the following research questions have been targeted as addressing the issues more specifically.

What is the relationship between internal audit qualities on effective financial controls in public sector entities? What is the relationship between internal audit qualities on effective management control in public sector entities? What is the relationship between the internal audit qualities on the efficiency of the public sector entities?

The broad objective of this study is to examine the impact of internal audit quality on the activities of selected public sector entities in Nigeria.

1) investigate the relationship between internal audit quality and effective financial controls in the selected public sector entities.
2) examine the internal audit quality and effective management control in the public service.
3) ascertain the internal audit quality affect the efficiency of public sector entities.

2.1 Research Hypotheses

The following hypotheses stated in the null forms will be tested in the course of this study.

2.2 Hypotheses

H_{o1}: There is no relationship between internal audit role and effective financial controls in the selected public sector entities.

H_{o2}: There is no relationship between the internal audit role and management controls in the selected public sector entities.

H_{o3}: Internal audit does not significantly affect efficiency on public sector service delivering.

2.3 Scope of the Study

The scope of this study is limited to entities in the public sector in Nigeria notably Ministries, Departments, Agencies, (MDAs), Parastatals and Commission in Ondo State. In particular, they include Ministry of Education while the Parastatals include Rufus Giwa Polytechnic and Adekunle Ajasin University Akungba Akoko of Ondo State. The Departments include Office of the Auditor-General of the State and, the Office of the Accountant-General of the State and Agencies/Commission include Board of Revenue and Local Government Commission. All of them have strong internal audit departments. The choice of these public sector entities is based on the existence and strong presence of internal audit and the important role of internal audit in these entities selected for the study. The only state for the study is Ondo State.

3. Review of Related Literature

3.1 Concept of Internal Audit

Institute of Internal Audit (2009) defined internal audit as an independent objective assurance and consulting activities designed with the intention to add value and improve an organization's operations. It assists an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

According to Adams (2005), internal audit is an independent appraisal activity within an organization for the review of operation as a service to management. Jurchescu (2010) defined internal audit as an independent appraisal activity within an organisation essentially for the review of operations as a service to management. Suffice to say that the internal auditors are employee of the organisation to achieve their objective through systematic and methodical approaches, evaluate and improves the efficiency and effectiveness of internal control system, risk management and management processes. Unegbu and Kida (2011) defined internal audit as "*an aspect of the internal control system established by management of an organization in order to ensure proper compliance with the stipulated policies and procedure in order to achieve management objectives*".

Activity within the organisation for the review of operations as a service to management. It is a management control that functions by measuring and evaluating the effectiveness of other controls. Internal audit within an organisation should be a permanent function. In fulfilling its duties and responsibilities, the senior management should take all necessary measures so that the organisation can continuously rely on an adequate internal audit function appropriate to its size and to the nature of its operations. These measures include providing the appropriate resources and staffing to the internal to the internal audit department to achieve the objectives.

3.2 Financial Control

Buhari (2001), defined financial control as "*the process of ensuring that cash and other financial resources of government are in accordance with the legislation, regulation and accounting manual which constitute legal and administrative framework of a particular entity*". Anfayo (2016), defined financial control as "*a process of ensuring that cash is used properly and for authorized programmes, i.e. involves observation and measurement by comparing actual performance against the standard setting*."

Mainoma (2007), defined financial control as "*the steps taken to ensure maximum safe custody of financial resources in order to avoid waste, misuse, embezzlement, misappropriation or illegal disposal of public finance*".

Government enforces financial control through the use of such instruments like civil service rule, financial instrument, financial memorandum, treasury accounting manual, financial regulation to mention a few. When these documents are issued it expected of all arms of public service to comply and be guided by them (Akpata, 2010).

Anfayu (2010) defined "*financial control is an essential element that requires due consideration in the public sector, because no organization can function effectively without a* *sound and effective financial control in their operational activities*". In view of the above, we can understand that financial control is very essential in organization because it is concerned with the steps taken to ensure maximum safe custody of financial resources. Financial discipline is the judicious allocation and utilization of scarce resources to ensure that benefits accrue from any activity undertaken. It focuses on ensuring that funds are only expended on activities (projects) from which benefits accrue.

According to Sani (2009), financial control at local government level like in any other MDAs are of two ways, internal and external financial control. Internal financial control include; issuance of financial authorities such as warrant, appointment of committee for different service centralization of all payment to and out of the council, propagation of estimate of income and expenditure for the year and establishment of authority limit. While the External financial control include, parliamentary control, State Federal Government control, control by general public and external auditor control. Public sector entities services are financed through internally generated revenues, share from the Federation Account, borrowing, leasing, etc. (Adams, 2004).

3.3 Internal Control System

Oshisanmi (2007) defined internal control system as "*the managerial functions of defining and allocating responsibilities and identifying line of reporting that encompass all aspects of operations for the attainment of corporate objectives of an organization*". Okwoli (2004) identify the following objectives of internal control system; approving and controlling documents, reporting, reviewing and approving reconciliations, limiting direct physical access to assets and records, comparing internal data with external sources of information, maintaining and reviewing control accounts and trial balances.

The operational Auditing Guideline on internal control as cited in Shehu (2004) and Jenfa (2002) identifies some classifications of internal control system which include among others; organization, segregation of duties, physical, authorization and approval, arithmetical and accounting, personnel, supervision. This implies that internal control system must have all the above features which an auditor may place.

3.4 Relationship between Internal Audit and Internal Control System

The scope of internal audit is as broad as the definition and can be applied to operation, computer systems, business process, and accounting system. The major types of internal audits are the risk management and control evaluations, operational audits and compliance audit (Momoh, 2005).

The International Auditing Guideline (IAG) 6, as cited in Dandago (2007), defined internal control system as: *"the whole system of control, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the asset s and secure as far as possible the completeness and accuracy of the records"*.

This assertion reveals that the internal control is established in order to improve prudent management of resources and transparency in the accounting process. Also, that effective internal control system requires, appropriate accounting procedure and system, allocation of duties which include the separation of responsibilities, especially those of authorization, regular verification of supervision of each person's work by their superior officers.

There is also the managerial aspect of internal control which Oshisanmi (2007), defines the measures taken by an organisation for the purposes of protecting its resources against wastes, fraud and inefficiency, ensuring accuracy and reliability in accounting.

From this definition, it could be deduced that, internal control involves the whole system of control and encompasses all functions of management. Also, management established the controls in order to run the organisation in an orderly manner. Auditing is an independent appraisal activity within the organisation for the review of operations as a service to management. It a management control that functions by measuring and evaluating the effectiveness of other controls.

The company's board of directors has the ultimate responsibility for ensuring that senior management establishes and maintains an adequate and effective system of internal control (Momoh, 2005).

The subsidiary objectives of audit according to Millchamp (2000), include to detect errors and fraud; to prevent errors and fraud by the determent and moral effect of the audit and to provide spin-off effects.

3.5 Internal Auditors

Many experts and writers in auditing literature have provided a series of definitions on internal auditor. According to Okereson (2013), the responsibilities for ensuring effective internal auditing normally, rests on the internal auditors. Internal auditors are internal audit staff of an organization appointed by the management of the organization to examine and evaluate the effectiveness and soundness of financial administrative, and internal control systems put in force by the management as a service to the organization. Internal auditors, therefore, measure, examine and evaluate the operational efficiency of the management.

The Institute of Internal Auditors ((IIA, 2005), defines internal auditing as an independent, objective, assurance and consulting activity designed to add value and improve an organization's operations. According to Salisu (2007), internal auditor in an employee of the organization who provide information to management. According to Millichamp (2007), internal auditors are employees of the organization and work exclusively for organization. Thus, the internal auditor's job is to appraise the activities of other not to perform a specific part of data processing. The internal auditors therefore require skill and time to review the system of control in force.

3.6 Nature and Scopes of Internal Audit of Nigerian Public Service

The nature of the internal audit of government-owned establishments is considered statutory as it is contained in the Constitution of the Federal Republic of Nigeria. Section 1703 of the Financial Regulations provides the internal auditor to report to the Accounting Officer of the organization on the progress of the audit and not to the

Chairman of the Governing Board. The internal auditor submits his report to the Accounting Officer, the head of management to whom he is responsible.

The internal auditor is appointed through a formal recruitment proceed by the management as an employee of the establishment where he provides audit services. A person acting as an internal auditor of the public sector organization is subject to the provisions of public service rules, as a result he shall only be removed from office on transfer, change of career path, redeployment, recruitment, resignation or extinction of the entity. Similarly, Millichamp (2000) and ICAN (2006), agree that the scope of internal audit is set by management and vary widely. According to Millichamp (2000). They include Reviewing accounting systems and internal control, examining financial and operating information for management, including detailed testing of transactions and balances reviewing of the economy, efficiency and effectiveness of operations and of the functioning of non-financial controls; review of the implementation of corporate policies, plans and procedures; special investigations. ICAN (2000), provide the scope as follows: prepayment audit; vouching of payroll and third party claims auditing of store movement and records; conducting internal investigations and evaluation for management constant review and appraisal of the existing internal control measures.

3.7 Regulatory Frameworks of Internal Audit in Nigerian Public Service

Okolo (2001) notes that, the resources of any country belong to its citizens. Any government in power manages these resources on behalf of the citizens through the agencies of Government ministries, boards, corporations, parastatals and other extra-ministerial departments. The government renders account of its stewardship by way of annual accounts, and to assure the citizens that the various accounts are correctly and fairly reported, the Nigerian constitution provides for the audit of these accounts. The audit of the accounts of Government-owned organizations is therefore mandatory under the law.

Section 85 (1) of the Nigerian Constitution provides for the office of and appointment of an Auditor-General for the Federation for the audit of public accounts. Both the Nigerian Constitution and the audit Act of 1956 provide that the appointed Auditor General shall on behalf of the National Assembly inquire into and audit the accounts of all accounting officers in all the public sector organization and entrusted with the collection, receipts, custody, issue or payment of federal public money or with the receipt custody, sale, or other properly of government.

These powers of the Auditor-General are by extension cascaded down to the internal auditors of all government statutory corporations, commissions, authorities, agencies, including persons and bodies established by an Act of the National Assembly. It is on this basis that section 1701 of Financial Regulation provides that the Accounting Officer of a ministry or extra-ministerial office and other arms of government shall ensure that an internal audit unit is established to provide a complete and continuous audit of the accounts and records revenue and expenditure, assets, allocated and unallocated stores, where applicable.

3.8 Management Control in Public Sector

Woolf (1986) sees public sector as the part of the economic and administrative life that deals with delivery of goods and services by or for the government. Also, public sector can be referred to as that part of economy and administrative life which is owned and controlled by the public usually through government agencies that provide goods and services.

3.9 Roles of Internal Auditors in the Management of Nigerian Public Service

In the course of discharging the duties and responsibilities designated to the internal audit department internal auditor is by extension assists the management towards achieving the set objectives. He does this by performing his audit functions.

According to Abdullahi (2007), the functions of internal auditors among others include: engaging in a continuous and independent examination of the accounts and records of the organization; examining the system and procedures in force and the extent to which they are still relevant to the achievement of the organization's objectives; reporting to the top management on the completeness, accuracy, reliability, cost of maintenance and control procedures, attest to the efficiency and effectiveness with which then entity services on its operation; assures the management of the extent of compliance with laid down procedures and of the scope for taking remedial action, where necessary; state and review his schedules of duties in writing to the management periodically; ensure that accounts are prepared in accordance with the rules and regulations as they may from time to time be reviewed apply all possible tests to confirm that the account under review are correct and the information and certificates supplies can be relied upon; checks the arithmetical accuracy of the books of accounts.

Salisu (2007) suggested that internal auditors should functions. Ensure an independence, conducting special investigation as required by management, review of accounting system and related control checking the adequacy, compliance and cost effectiveness and agree the plan with the Accounting Officer prior to approval by the Audit Committee, report quarterly and requested to the audit Committee and to the accounting officer; develop and maintain a charter for the internal audit department which reflects the core responsibilities, authority and reporting relationships, develop and obtain proper approval for goals, audit work schedules staffing plans and financial budgets for the internal audit department. Maintain personal proficiency by obtaining an adequate amount of continuing education and to keep current on trends in accounting and auditing; as well as to conduct schedule and special audits and make recommendations for improvement.

Millichamp (2000), adds that internal auditors must verify the operations of the system by investigation, recording identification of controls and compliance testing of the controls and as provided by the Financial Regulations (2009) the internal auditor should make special reports in their opinion for the attention of Accounting Officer and the Directorate of Finance and Accounts of the organization need to report any irregularity in the accounting records, or weakness in the accounting procedure.

Financial Regulations (2009) section 1707 empowers the Internal Audit Head to maintain under his personal control a register to record the progress of audit. This is necessary to know and monitor the extent of audit task started so that an audit staff may not just dump a work along the way, and also to help the audit staff in terms of any challenge.

Internal auditors are meant to provide substantive leadership and technical inputs into the design, implementation and monitoring as well as evaluation of programs and projects to address the need for control and other management policies for development planning and evidence-based decision making n the management of the organization. They should ensure reasonable compliance with the organizational policies, procedures and plant by all the stakeholders of the organization. They should enforce value for money audit through enhancement of accountability, probity, transparency in procurement processes and create a reliable constantly and effectively monitored internal check, control and other management control measures. Internal Audit should ensure that the organization's business is being conducted in an orderly and efficient manner.

They should embark on promoting the most economic, efficient and effective use of resources in achieving the management's policies. The internal auditor showed secure the completeness and accuracy of the organization’s record, ensure compliance with statutory requirements, be able to evaluate audit evidence in terms of sufficiency, relevance and reliability; they must produce timely and comprehensive reports to management on a regular basis.

3.10 Internal Audit Quality

Audit effectiveness is a function of the internal audit quality. The Institute of Internal Auditors requires the internal auditor to plan and perform the work such that he or she would be able to arrive at useful audit findings and forward recommendations for improvement. The Internal Audit Department’s ability to properly plan, perform and communicate the results of audits is usually taken as a proxy for audit quality. Therefore, audit quality is arguably a function of extensive staff expertise, reasonableness of the scope of service; and effective planning, execution and communication of internal audits.

In addition, the auditing standards No (65) (AICPA, 1991) have highlighted some internal audit quality factors which include the following: Competence of the internal auditor as measured by the educational and professional qualifications. Objectivity factor which is measured by the parties that examined or assessed the internal audit report and parties responsible for his appointment. Quality of internal audit assignment measured by the level of accuracy and scope of audit.

The Institute of Internal Auditors (IIA, 2003) have added three other factors to include U2 the level of independence of the internal auditors, the objectivity and proficiency.

Thus, management of an enterprise as well the external auditors who normally determine the level of reliance to place on the work and report of internal auditor should carry out a quality assessment of the quality of internal control system in force in such enterprise.

Doing so will however require the evaluation of the internal audit function in the first place. Consequently, it is understandably assumed or required that the chief or director of internal audit should conduct a periodic review of internal audit function and a wider spectrum of internal control system. In this responds Eisa have (2008) advocated the use of both management and audit committee for the above exercise.

Al Matarneh (2011), study of the factors determining the internal audit quality of financial institutions observed that the Internal Audit of Jordanian banks consider such issues as: competence, objectivity and performance of internal auditors as important factors affecting the quality of internal audit. Other studies noted other factors. For instance, Faudziah, Hasnah and Muhamad (2005) observed that the management of internal audit department, professional proficiency, objectivity and necessary review, will significantly affect the quality of internal audit quality as well as risk assessment of internal control system. Similarly, Eisa (2008) observed that the factors of internal audit quality tend to equally improve the quality of corporate governance. Internal audit is essentially an integral component of corporate governance structure.

4. Empirical Literature

Several prior studies examined the impact of internal audit quality on public sector management. Some of these empirical studies are as follows:

According to Unegbu and Obi (2007), internal audit measures, annually and evaluates the efficiency and effectiveness of other controls established by management in other to ensure smooth administration, control cost minimization, ensures capacity utilization and maximum benefit derivation.

Sayer (1995) says internal auditor's jobs are not truly discharged until the identified defects are corrected and remain corrected too. Along the line Van Ganbeghe (2005) assets that internal audit effectiveness in the public sector should be evaluated by the degree to which it contributes to the delivery of effective and efficient service.

Van Ganbeghe (2005), however, identified perception and ownership; organization and governance framework, legislation, improved professionalism; conceptual framework; and also, resources as factors influencing internal audit effectiveness.

Dittenhofer (2001) further observed that if internal audit quality is maintained, it will invariably contribute to the appropriateness of procedures and operations of the auditor.

For instance, relying on the Agency theory, Xiangdong (1997), explained that the role internal audit plays in an economy and points out that internal audit has an advantage over external audit in obtaining information quickly and finding problems at an earlier stage adherence Spraakman (1997), applying the theory of transaction cost economics, demonstrated how internal audit recommendations are important to the management of government organizations.

Prior literature relating to internal audit effectiveness has either focused on the internal audit's ability to plan, execute and objectively communicate useful findings

(Tangdong, 1997, Spraak A., 1997, Dittenhofer, 2001). Taking a broader perspective would include factors that truly transcend the boundary of a single organization (Van Gansberghe, 2005). Therefore, this study attempts to introduce a different perspective for evaluation of internal audit quality by identifying factors within an organization that impact on audit quality. Internal audit quality is central to audit effectiveness and it is a function of the level of staff expertise, the scope of services provided and the extent to which audits are properly planned executed and communicated (Sawyer, 1995). Internal audit has to be evaluated and performance will continually improve through the service rendered (Ziegenfus, 2009).

All, Glocck, All, Ahmi, and Sahdan, (2007), in their studies used the correlation coefficients and multiple regression analysis to show that there is a relationship between the internal auditors' effectiveness due to his independent and the public service efficiency.

5. Theoretical Framework

The demand for internal audit services may be explained by several different theories. Therefore, this study is anchored on two theories:

5.1 The Agency Theory

Agency theory predicts and establishes a positive relationship between the principal and agent. The agency costs are higher for organisations with high level of debts in their capital structure due to the potential wealth transfer from debt holders to the stakeholders. Agency theory is defined as a relationship which exist as a contract under which one or more persons to perform or carry-out some service on their behalf and interest which involves delegating some decisions making rights and authority to the agent. (Gent and Mohammed, 2001). The agent therefore takes advantage of lack of clarity and fuzzy information of his actions to engage in activities or operations to enhance his personal goals and agenda. Formal contracts are thus negotiated and written as a way of addressing agent shareholder conflicts and struggle of who have more privileged information. In this research, internal audit quality and public sector management presents an excellent opportunity to apply agency theory, in the same or view and reliable communication to the market to minimize and maximized the value of the organization (Ng, 2002).

5.2 Lending Credibility Theory

This theory regards the primary function of auditing to be the addition of credibility to the financial statements. Audited financial statements are used by management (agent) in order to promote the principal's faith in the agent's stewardship and reduce the information asymmetry.

According to Porter (1990) concludes, that "*audited information does not form the primary basis for investors' investment decisions*". Another public perception is that the primary function of auditing is the addition of credibility to the financial statements. Be it those of the private or public sector entities. Audited financial statements are used by management to enhance the stakeholders' faith in management's stewardship. If stakeholders such as stockholders, government, or creditors have to make their judgments based on the information they received about government business as in the case of public sector entities, they must have that this is a fair representation of the economic value and performances of the organization. In audit research terms an audit reduces the "information asymmetry", management knows more than the stakeholders.

6. Methodology

6.1 Research Design

The research design for this study is the survey research design. The survey research design was used because it requires the use of primary data. The study adopted the use of qualitative data which include coded (scale) data from copies of questionnaire administered, while the categorical regression analysis and descriptive statistics were used to test the hypotheses

The population of the study comprises of all the internal audit in public sector entities in Ministries, Department, Agencies, Parastatals, Board and Commissions in Ondo State. However, resulting from the practical difficulties of accessing the population, a subset regarded as a sample was utilized.

6.2 Source of Data

In this study, both primary and secondary sources are used. Primary data was collected through survey questionnaire which was administered on respondents. The secondary sources of data comprise books, journals and other related materials.

6.3 Mode Specification

The model for the study is specified to examine the impact of internal audit quality on public sector management. For the public sector analysis, focus is essentially focus is essential on financial control, management control and effectiveness, evaluating, internal audit competence, internal audit objectivity, internal audit performance and internal audit challenges. The Models are specified below;

The following regression model is specified for the research study:

Model 1: Internal Audit quality and Management Control

MC= f{Comp, Objec, Perf, Chal}……………………………………………….(1)

$MC=\beta_0+\beta_1Comp+\beta_2Objec+\beta_3Perf+\beta_4Chal+\mu$……………..…………………….... (2)

Model 2: Internal Audit Quality and Financial Control

FC= f{Comp, Objec, Perf, Chal}…………………………….………………….(3)

$FC=\psi_0+\psi_1Comp+\psi_2Objec+\psi_3Perf+\psi_4Chal+\mu$…………………………………….(4)

Model 3: Internal Audit Quality and Public sector efficiency

PSE= f{Comp, Objec, Perf, Chal}……………………………………….………………(5)

PSE= $\lambda_0 + \lambda_1$Comp+λ_2Objec+λ_3Perf+λ_4Chal+μ…………………………………...(6)

Where:
Financial Control = FC,
Management Control =MC,
Public Sector Efficiency = PSE,
Internal Audit Competence = COMP,
Internal Audit Objectivity = OBJEC,
Internal Audit Challenges = CHAL,
Internal Audit Performances = PERF,
β, λ, ψ = slope coefficients,
μ = error term.

7. Data Analysis

The study employed the use of preliminary statistics such as the simple percentage and other measures of descriptive statistics. For the estimation of the models, the categorical regression analysis was employed. The categorical regression as the name implies is suitable for categorical variables which is the nature of the variables in this study.

7.1 Interpretation of Results

The objective of the test is to determine whether the **signs** and **sizes** of the results are in line with postulated theory. Thus, the postulate theory tells us that the coefficients are positively related to the dependent variable. If an increase in any of the explanatory variables lead to an increase in the dependent variable.

Table 1: Regression Analysis and Test of Hypotheses

Computation of General (Categorical) Least Square (GLS) for Model

Dependent Variable: Management Control (MC) Method: General Least Square Included Observations: 144				
Variable	**Coefficient**	**Standard Err**	**T-statistic**	**Probabilities**
Intercept	5.303	1.043	5.083	0.000
COMP	1.111	0.323	3.443	0.001
OBJEC	1.014	0.283	3.580	0.000
PERF	0.334	0.223	1.470	0.144
CHAL	0.037	0.132	0.281	0.779
R^2=0.566, R^2 bar= 0.542, F-stats(4, 139)= 9.303, D.W-stats., 1.277				

Source: SPSS Version 20.0

7.2 A-priori Expectation Criteria

The objective of the test is to determine whether the **signs** and **sizes** of the results are in line with what postulated theory. Thus, theory tells us that the coefficients are positively related to the dependent variable, if an increase in any of the explanatory variables leads to an increase in the dependent variable.

Therefore, the variable under consideration and their parameters exhibition of A-priori signs have been summarized in the table below. This table is guarded by these criteria:

- When **β**>0, Positive relationship.
- When **β**<0, Negative relationship.

Table 2: A-priori Expectation for Models

Variable(s)	Expected Sign	Estimate	Remarks
COMP	(+)	$\beta_1>0$	Conform
OBJEC	(+)	$\beta_2>0$	Conform
PERF	(+)	$\beta_3>0$	Conform
CHAL	(+)	$\beta_4>0$	Conform

Source: Author's Computation.

Model One

MC = 5.303 + 1.111COMP + 1.014OBJEC + 0.334PERF + 0.037CHA+ Ɛt

S.e	(1.014)	(0.323)	(0.283)	(0.223)	(0.132)
T-Stat	{5.083}	{3.442}	{3.580}	{1.470}	{0.281}

The intercept value shown was 5.303 which means, management control (MC) has 5.303 units when other variables are held constant. It implies that, management can still maintain control despite all the independents variables captured to influence. Internal audit competence (COMP) shows that 1 unit increase in internal auditor competence will bring about 1.111 unit increases on management control, this is considered substantial enough to justify the impact of management in control of an organisation, as t-critical value is less than t-calculated 1.658<3.443. Thus, it can be used for policy making by way of increasing number of competent auditors though induction method. Internal audit objectives (OBJEC) shows that 1 unit increases in management objectives will lead to 1.104 units increase in management control (MC) this was found to be statistically significant using rule of thumb and T-test statistic respectively. Thus, management objectivity is a way of promoting sound organisation programmes.

Internal audit performance (PERF) shows that 1unit increases in internal audit performance brings about 0.334 units increase in management control (MC) this was found to be statistically significant using rule of thumb and T-test statistic respectively. Thus, it can be used for policy making by way of auditors' performance.

Internal audit challenges (CHAL) shows that 1unit increases in internal audit challenges will bring about 0.037 unit increase on management control (MC) thus, it will be none statistically significant using rule of thumb and T-test statistic respectively. Thus, despite the challenges faced by the auditor in an organisation, they can still perform to the expectation of the organisation.

Model Two

$$FC = 0.330 + 0.681COMP + 0.090OBJEC + 0.122PERF + 0.121CHA + \mathcal{E}t$$

S.e	(1.014)	(0.323)	(0.283)	(0.223)	(0.132)
T-Stat	{0.112}	{7.559}	{1.140}	{1.917}	{3.282}

Table 3: A-priori Expectation for Models

Variable(s)	Expected Sign	Estimate	Remarks
COMP	(+)	$\beta_1>0$	Conform
OBJEC	(+)	$\beta_2>0$	Conform
PERF	(+)	$\beta_3>0$	Conform
CHAL	(+)	$\beta_4>0$	Conform

Source: Author's Computation.

The intercept value shown as 0.330 actually means that, financial control (FC) has 0.330 units when other variables are held constant. This means that financial ability can still be controlled despite all the independents variables captured to influence it. On the other hand, Internal audit competence (COMP) shows that 1 unit increases in internal auditor competence will lead to 0.681 unit increases on financial control and this is considered substantial enough to justify the impact of management in control of an organisation, because t-critical value is less than t-calculated 1.658<3.443. Thus, it can be used for policy making by way of increasing number of competent auditors though induction method. Internal audit objectives (OBJEC) shows that 1unit increases in management objectives will bring about 0.090 units increase in financial control (FC) and it is statistically significant using rule of thumb and T-test statistic respectively. Thus, management objectivity is a way of promoting sound organisation programmes.

Internal audit performance (PERF) shows that 1unit increases in internal audit performance will bring about 0.122 units increase in financial control (FC) and this is statistically significant using rule of thumb and T-test statistic respectively. Thus, it can be used for policy making by way of auditors' performance.

Internal audit challenges (CHAL) shows that 1unit increases in internal audit challenges will bring 0.121 unit increase on financial control (FC) and this is not statistically significant using rule of thumb and T-test statistic respectively. Thus, despite the challenges face by the auditor in an organisation, they can still perform to the expectation of the organisation.

Model Three

$$PSE = 0.330 + 0.681COMP + 0.090OBJEC + 0.122PERF + 0.121CHA + \mathcal{E}t$$

S.e	(0.288)	(0.089)	(0.078)	(0.063)	(0.036)
T-Stat	{1.355}	{2.629}	{1.377}	{14.466}	{1.043}

Table 4: A-priori Expectation for Models

Variable(s)	Expected Sign	Estimate	Remarks
COMP	(+)	$\beta_1>0$	Conform
OBJEC	(+)	$\beta_2>0$	Conform
PERF	(+)	$\beta_3>0$	Conform
CHAL	(+)	$\beta_4>0$	Conform

Source: Author's Computation.

The intercept value shown was 0.330 which means, public sector efficiency (PSE) has 0.330 units when other variables are held constant, and it implies that, management can still maintain control despite all the independents variables captured to influence. Public sector efficiency can still be improved despite all the independents variables captured to influence. Internal audit competence (COMP) shows that 1 unit increases in internal auditor competence will bring 0.681 unit increases on public sector efficiency and it is considered substantial enough to justifies the impact of public sector efficiency of all those organisations, because t-critical value is less than t-calculated 1.658<3.443, thus, it can be used for policy making by way of increasing number of competent auditors though induction method. Internal audit objectives (OBJEC) shows that 1 unit increases in management objectives will bring 0.090 units increase in public sector efficiency (PSE) and it is statistically significant using rule of thumb and T-test statistic respectively, thus, public sector objectivity is a way of promoting sound organisation programmes.

Internal audit performance (PERF) shows that 1unit increases in internal audit performance will bring 0.122 units increase in public sector efficiency (PSE) and it is considered statistically significant using rule of thumb and T-test statistic respectively. Thus, it can be used for policy making by way of auditors' performance.

Internal audit challenges (CHAL) shows that 1unit increases in internal audit challenges will bring 0.121 unit increase on public sector efficiency (PSE) and it is considered not statistically significant using rule of thumb and T-test statistic respectively. Thus, despite the challenges face by the auditor in an organisation, they can still perform to the expectation of the organisation.

7.3 Statistical Criteria {first order test}

7.3.1 Coefficient of Multiple Determinants {R^2}

R^2 shows the explanatory power of the model which can be seen as 0.566 (55.6%), means, 54.5% of changes in staff management control (MC) can be explained by all explanatory/exogenous variables or are due to exogenous variables change, while the R^2 adjusted is the predictive power to shows the predictive ability of the model and this can be seen as 0.546 (54.6%), means, 54.6% of change in management control (MC) can be predicted by explanatory variables in the model.

Lastly, the F-statistic shows the robustness of the model for goodness of fit by comparing F-calculated to F-critical in the table, in order to explain the impact of whole explanatory variables on dependent/explained variable, and this was shown by looking at it from the angle of 0.01 and 0.05 level of significance which are 3.32 and 2.37 and is less than 7.474, (3.9493 and 2.6802<6.895) calculated respectively.

7.4 Econometrics Criteria {second order test}

7.4.1 Test for Autocorrelation

One of the underlying assumptions of the Ordinary Least Square (OLS) Regression Technique is that the succession values of the random variables are temporarily independent. In the context of the series analysis, this means that an error term {U_t} is not correlated with one or more of previous errors {Ut-1}. The problem is usually dictated with Durbin-Watson {DW} statistics.

The Durbin-Watson's test compares the empirical d* and du in d-u tables to their transforms {4-dL} and {4-dU}.

7.4.2 Decision Rule

1) If d* < DL, then we reject the null hypothesis of no correlation and accept that there is positive autocorrelation of first order.
2) If d* > {4-dL}, we reject the null hypothesis and accept that there is negative autocorrelation of the first order.
3) If dU< d* < {4-dU}, we accept the null hypothesis of no autocorrelation.
4) If dL < d* < dU or if {4-dU} < {4-dL}, that test is inconclusive.

Where: dL = Lower limit, DU = Upper limit, D* = Durbin Watson.

From our regression result, we have; D* = 1.277, dL = 1.338, dU = 1.659, 4-dL = 2.662, 4-dU = 2.341.

8. Conclusion

Since d* < DL, therefore 1.277<1.338, then, reject the null hypothesis of no correlation and accept that there is positive autocorrelation of first order.

8.1 Hypothesis Testing

In chapter one, we formulated three principal testable hypotheses on the relationship between internal audit quality and public sector management, on which this study is anchored. In this section, we subject these prepositions to empirical testing drawing from the results of our descriptive and inferential statistics analyses. Our decision rule is based on the significances of the t-statistics which are represented by the T-statistics values tagged by statistical passages used.

8.2 Hypothesis One: null hypothesis

H_{01}: There is no relationship between the internal audit quality and effective financial controls in the selected public entities.

From the hypothesis result above, it is cleared that there is significant relationship between internal audit quality and effective financial controls in the selected public sector entities. Based on the analysis done above, internal audit quality is an integral part in the management of an organisations and the result of the analysis has shown that internal audit quality has a as significant impact on the effectiveness of financial system of selected public sector as captured by the performance of internal audit competence

(COMP), internal audit objectivity (OBJEC), internal audit challenges (CHAL), internal audit performances (PERF). Therefore, the null hypothesis (H_0) is there by rejected.

8.3 Hypothesis Two: null hypothesis

H_{02}: There is no relationship between the internal audit quality and effective management controls in the selected public entities.

From the hypothesis above, it is cleared that there is significant relationship between internal audit quality and effective management controls in the selected public sector entities. Based on the result of analysis done above, internal audit quality is an integral part in the management of an organisation and the result of the analysis has shown that internal audit quality makes a significant impact on the effectiveness of management system of selected public sector as captured by the selected variables namely; internal audit competence (COMP) and internal audit challenges (CHAL). We therefore reject the null hypothesis (H_{02}) and accept alternative hypothesis that internal audit quality has significant effect on management controls in the selected public entities.

8.4 Hypothesis Three: null hypothesis

(H_{03}): Internal audit roles not significantly affect efficiency of public sector service delivery.

From the computed results, this hypothesis above, it is cleared that there is significant relationship between internal audit quality and public sector service delivery in the selected public sector entities. Based on the analysis done above, internal audit quality is an integral part in the management service delivery in an organisation and the result of the analysis done above has shown that internal audit quality makes a significant impact on service delivery in management of selected public sector. This is based on the performance of the selected variables which captured internal audit quality like internal audit competence (COMP) and internal audit performance (PERF). We therefore reject the null hypothesis (H_0) and accept alternative hypothesis that internal audit does has impact on the efficiency of public service delivery in the selected public entities.

9. Summary of Findings

From the descriptive analysis, it was found that, on the average, the internal audit quality is present in all public sector entities in Nigeria.

From the regression result and testing of hypotheses, the following were discovered:

Internal audit quality such as internal audit competence (comp), internal objectivity (OBJEC), and internal audit challenges (CHAL), internal audit performance (PERF) had a positive and statistically significantly relationship with financial controls in the selected public entities in Nigeria. Internal audit quality such as internal audit competence (COMP), internal audit objectively (OBJEC), internal audit challenges (CHAL), internal audit performance (PERF) had a positive and a statistically significantly relationship with the effective management controls in the selected public entities in

Nigeria. Internal audit quality such as internal audit competence (COMP), internal audit objectively (OBJEC), internal audit challenges, internal audit performance (PERF) had a positive and statistically significant relationship with public sector service delivery in the selected public sector entities in Nigeria.

10. Conclusion

The role played by the internal auditors such as audit competence, objectivity and performance are qualities that promote public sector management. Public sector management is a big concern for the stakeholders; thus, auditors place great importance to struggle with the problem. In order to prevent the irregularities or fraud caused by government officials, accountants and auditors should depend solely on the objectivity, competence and performance to checkmate the public sector entities excesses.

The study shows that there is a relationship between internal audit quality and public sector management. Also, the study indicates that internal audit quality such as objectivity, competence and performance can help to control financial irregularities in the public sector entities.

Furthermore, the study conclude that a positive relationship exists between internal audit quality and public sector management. That is, a reasonably strong correlation exists between high internal audit quality and subsequent increase in the public sector management.

10.1 Recommendations

Based on the findings of this research, we therefore, make the following recommendations which will be useful to stakeholders:

Effort to improve public sector entities should focus on the internal audit competence, internal audit objective, internal audit challenges and internal audit performance since it is positively related to the future of public sector management

Both the internal audit and public sector management team should participate actively in the management of public sector entities. This will enhance overall managerial performance.

Steps should also be taken for mandatory compliance with internal auditing standards so as to give quality to the public sector entities financial statement.

Proponents of public sector entities management should promote public sector service delivery in connection with the internal audit role.

The public sector management team should place higher emphasis on management control, financial control and public sector service delivery so as to improve efficiency and effectiveness in public sector entities.

Conflict of Interest Statement

The authors declare no conflicts of interests.

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