

## THE EFFECTIVENESS OF INTERNAL CONTROL SYSTEM AND FINANCIAL ACCOUNTABILITY AT LOCAL GOVERNMENT LEVEL IN NIGERIA

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### ABSTRACT

Internal control system is the process by which an organization governs its activities for effective and efficient operation, reliability of financial accountability and compliance with applicable law and regulation. This study attempts to investigate a deep understanding of effective internal control system for good financial accountability at the local government council level in Nigeria. The study was carried out in some selected local government council area of Oyo State, Nigeria. Data obtained were coded and analysed using frequency table and percentage, moreso, non-parametric statistical test, Chi-square was used to test the formulated hypothesis using STATA 10 data analysis package. The result of the finding shows that internal control system is positively significant for the good financial accountability in the local government area council in Nigeria. The study therefore, recommends that local government authority should increase an effort to ensure proper and highly effective internal controls system is put in place within local government to enhance their financial accountability.

**KEYWORDS:** Internal Control, Financial Accountability, Transparency, Local Government, Nigeria

### INTRODUCTION

The recent global pressured on corruption control and management of public funds is the major factor that necessitate the implementation of good internal control system in every organization, both private and public sectors at federal, state down to the local government level, to ensure financial accountability and transparency in the management of fund at all levels. From the study of [5], accountability is a process whereby an organization are held responsible for the decisions and actions including the stewardship of funds, fairness and all aspect of performance.

New public management (NPM), an international public reform movement formulates significant improvement in the management of public treasures in many countries, to promote good management system that will work towards efficiency, effectiveness and proper accountability, which can only be realized through effective internal control system[2].However, Internal control system is a process, effected by entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of organizational objectives[1]According to [6], internal control system is a process designed andeffected by the board member, administration and staff of an organization to effectively and efficiently achieve operational financial and compliance objectives. Effective internal control system involves regular review of quality of financial and operating information, review of policies regarding the control of assets, employee's assessment and compliance with organizational policies, procedures, laws and regulations[7].

Internal control system plays a significant role in eradicating errors and omission to the bearestimum in an organization according to [3].

[10] Studied three major classifications of internal control systems; these are preventive, detective and corrective measures. According to the study, preventive controls forecast likely problem that may occur and make adjustment to prevent error, omission or malicious act from happening. Detective controls are employed to detect and report the occurrence of an omission, error or malicious act. While corrective controls help to minimize and identify the cause of a problem as well as to correct errors arising from such problem. Internal control system therefore, can provides an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for better revenue generation. [4] Correlates effective internal control system with the organization success in meeting its revenue target. [9] Proposed a principle that good governance in any organization is a function of effective system of internal control. According to [8], the study concludes that poor internal control leads to asset misappropriation, corruption, fraud in financial statements.

For the fact that local government authority derives its revenue from both internal and external sources, the internal source include fines, rates, taxes fees and so on, while the external source of revenue include majorly the monthly allocation from federal government treasury account. Therefore, it is the responsibility of local government governing bodies to ensure accountability in the disbursement of this revenue in providing infrastructure service to the community to foster economic development at the grass root level. In a nutshell, there is need for public officials to respond periodically to questions concerning their activities and to be held responsible for exercising the authority given to them. This process can only be effective through proper internal control systems. However, the main objective of this present study is to determine the relationship between the effective internal control system and financial accountability at the local government authority level in Nigeria. Specifically, this present study will answer the research question:

Does effective internal control have a positive impact on the financial accountability at the local government level?

### **Research Hypothesis**

Effective internal controls have no significant impact on the financial accountability of local government council in Nigeria.

## **METHODOLOGY**

**Research Design:** The study made use of cross-sectional survey design. The study area were five local government council authority in Ogbomoso and its environment of Oyo State, Nigeria. In this study, respondent population comprises of individual who can provide reliable information relating to the study. The respondent population based on this research was limited to civil servants within the local government who have direct relationship with local government internal control system. These are the officers who occupying strategic positions within the treasury department of the local government council, they include; Head of departments and their deputy, director of finance and its deputy, auditor, rate officer, accountants, cashier and payroll officers.

**Sampling Technique:** The sample size was made up of one hundred and fifty (150)populations within all the local government council involved. Random sampling of proportional stratification is adopted because it yields a sample

that represents the universe with respect to the proportion in each stratum in the population with greater accuracy and greater geographical concentration (Gupta, 2009).

**Data Collection:** The major instrument used to obtain data for this research work is questionnaire. The questionnaire consists of questions that are related to internal control system and the financial accountability performance as identified in the literature. Likert five point scales ranging from 1 – 5 (strongly agree=1, agree=2, neutral=3, disagree=4 and strongly disagree=5) were used as a basis of the questions. One hundred (100) questionnaires were found useful for the purpose of this research representing 83.3% of the total questionnaires distributed.

**Data Analysis:** For the purpose of analysing the data obtained from questionnaire that well administered, frequency table, percentage and mean score analysis were used. The non-parametric statistical test, Chi-square, was used to test the formulated hypothesis using STATA 10 data analysis package.

## RESULTS AND DISCUSSIONS

### Results

**Table I: Distribution of Responses on the Perception of Internal Control System and Financial Accountability**

Questions	S A		A		N		D		S D		Total	
	F	P	F	P	F	P	F	P	F	P	F	P
<b>A. Causes of Poor Financial Accountability</b>												
1. Ineffective internal control system	18	18	10	10	12	12	35	35	25	25	100	100
2. High level of corruption at top management level.	60	60	30	30	4	4	3	3	3	3	100	100
3. Lack of reward and incentives for good accountability.	8	8	10	10	2	2	50	50	30	30	100	100
4. Lack of punishment for financial misappropriation.	10	10	20	20	15	15	40	40	15	15	100	100
5. Poor transparency and bad financial disclose.	45	45	25	25	15	15	10	10	5	5	100	100
6. Lack of understanding of accounting policies and procedures among the staff.	40	40	35	35	12	12	10	10	3	3	100	100
7. Poor level of communication regarding the importance of internal control and good conduct to all staff.	6	6	8	8	4	4	42	42	38	38	100	100
<b>B. Control Mechanism used to Enhance Good Internal Control and Financial Accountability;</b>												
1. Adequate verification of vouchers and other financial documents.	60	60	20	20	5	5	8	8	7	7	100	100
2. Approval and confirmation of financial transaction.	35	35	31	31	9	9	11	11	14	14	100	100
3. Adequate control over cash and bank balances.	37	37	31	31	8	8	15	15	9	9	100	100
4. Severe punishment for erring officers.	40	40	30	30	8	8	12	12	10	10	100	100
<b>C. Mechanism to Achieve Effective Internal Control and Financial Accountability.</b>												
1. Staff commitment towards accountability.	33	33	41	41	7	7	11	11	8	8	100	100
2. Adequate compliance with accounting policies and procedures.	35	35	34	34	5	5	7	7	9	9	100	100
3. Provision of rewards for good conduct.	28	28	32	32	12	12	13	13	15	15	100	100

**NOTE:** Strongly Agree=SA, Agree=A, Neutral=N, Disagree=D And Strongly Disagree=SD, F=Frequency And P=Percentage.

**Table 2: Table II: Chi-Square Analysis Test**

Variable	Chi-Square ( $\chi^2$ )	Prob>Chi-Square ( $\chi^2$ )	Prob>F
A1	307.9106	0.000	0.000
A2	276.1612	0.000	0.000
A5	342.8780	0.000	0.000
A6	291.4480	0.000	0.000
B1	318.1055	0.000	0.000
B3	341.9691	0.000	0.000
C1	401.1615	0.000	0.000

## DISCUSSIONS

Table 1 and 2 present the computations and output of STATA10 based on Authors' field survey. Based on the data presented in the table 1, our finding indicates that majority of the respondents (more than 70%) perceived that causes of poor financial accountability at the local government level are due to high level of corruption at the top management level, poor transparency and bad financial disclose and lastly, lack of understanding of accounting policies and procedures among the staff. While majority number of respondents (70%) reported that ineffective internal control system, lack of rewards and incentives for good accountability, lack of punishment for financial misappropriation, and poor level of communication regarding the importance of internal control system and good conduct to all staff are not the actual causes of poor financial accountability in the local government area council.

It is also deduced from the table 1, that majority of the respondents (60%), strongly agree that adequate verification of vouchers and other financial documents is one of the major control mechanism could be used to enhance good internal control and financial accountability in the local government council. While just few respondents (15%) have weak belief that adequate verification of vouchers and other financial documents is a control mechanism used to ensure good internal control and financial accountability. It is also revealed from the table 1, that virtually all the respondents (more than 65%), agree that approval and confirmation of financial transaction, adequate control over cash and bank balances as well as severe punishment for erring officers are the keys control mechanism that can be used to ensure good internal control and financial accountability in the local government council. While less than 30% have weak belief on this as a control tool.

On mechanism for achieving effective internal control and financial accountability, it is shown in the table 1, based on our finding, more than 70% of the respondents in support that staff commitment towards accountability and adequate compliance with accounting policies and procedures are the important tools necessary in achieving effective internal control and financial accountability in the local government council. In the same manner, 60% of the respondents belief that provision of rewards for good conduct is an important factor for achieving internal control and financial accountability in the local government council. On the other hand, less than 30% of the respondents have weak perception to this tools.

### Test of Hypothesis

**H<sub>0</sub>:** Effective internal control have no significant impact on the financial accountability of local government council in Nigeria. Since the calculate Chi- square for all the variables greater than the prob>Chi- square = 0.000. Therefore, the null hypothesis stated earlier i.e effective internal control have no significant impact on the financial accountability of local government authority in Nigeria was rejected. Thus, the alternative hypothesis was accepted i.e

effective internal control have significant impact on the financial accountability of local government authority in Nigeria.

## CONCLUSIONS AND RECOMMENDATION

In conclusion, local government is one of the public sector saddled with responsibilities of spending public wealth in such a way that will benefit the people within community, delivering dividend of democracy to the people especially in the rural community to facilitate rural economic development. For the fact that substantial amount of this money are being embezzled and misappropriated by the officers in charge. This is an obvious factor that hindered rural development which eventually lead to high rural-urban migration particularly in Nigeria, resulted to high crime rate and over population in the cities. This social menace occurred as a result of bad internal control system in the local government area council. Therefore, a very good internal control structure is the only way to create transparency and accountability as well as checking frauds and irregularities in the allocation and disbursement of public fund at the local government level. It is revealed from this study that high level of corruption at the top management level, poor transparency and bad financial disclose and lack of understanding of accounting policies and procedures among the staff are the maincauses of poor financial accountability in the local government level. It is also obvious from the study that effective internal control system pave way to good accountability, therefore, the control mechanism, such as adequate verification of vouchers and other financial documents, approval and confirmation of financial transaction, adequate control over cash and bank balances and severe punishment for erring officers to enhance good internal control and financial accountability must always in place. It is also discover from the findings of this study that the major available mechanism tools to achieve effective internal control and financial accountability at local government level are staff commitment towards accountability, adequate compliance with accounting policies and procedures and provision of rewards for good conduct.

It is therefore recommended that local government authority should increase their effort to ensure proper and highly effective internal control system are in place within the local government to enhance financial accountability. Appropriate policy measures should be designed by local government commission to mandate compulsory implementation of internal control system at the local government level. Internal control system should be addressed with strong compliance of ethical conduct, therefore, any breach of this ethical conduct should be appropriately penalized.

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