

The Impact of Internal Audit on Financial Management of Katsina State Investment and Properties Development Company Limited

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Available online at: www.isroset.org

Received: 10/Nov/2019, Accepted: 21/Nov/ 2019, Online: 31/Dec/2019

Abstract- The study aims to evaluate the impact of Internal Audit on Financial Management of Katsina State Investment and Properties Development Company. The population of this study is Katsina State Investment and Properties Development Company which a period of seven (7) years was used from 2010-2016. The data generated from their annual report and account was analyzed by means of Regression analysis using E-views 8.0. The result of the analysis was tested at 0.05 (5%) level of significance. The findings of the study show that Internal Audit has significant impact on Expenditure Control, Prudence and Accountability. Therefore, the study recommends that, the management of Katsina State Investment and Properties Development Company should ensure that much attention is given to the Internal Audit department by ensuring that the necessary mechanisms that could enhance their effectiveness are put in place as will enhance expenditure control and Prudence. It is also recommended that the management of Katsina State Investment and Properties Development Company should ensure that auditors make report regularly to enhance effective accountability.

Keywords: Internal Audit, Internal Control, Investment and Properties Development Company

I. INTRODUCTION

Auditing is known and considered as one of the most important services rendered in any organization. The audit system therefore provides an avenue where managers are answerable to the shareholders and ensure that funds at their disposal are properly disbursed in the overall interest of the business. Katsina State Investment and Property Development Company and its agencies are entrusted with the collection and administration of the states resources for the purpose of investment. In managing the financial resources of the organization internal auditor play a vital role to ensure that resources are utilize for the purpose for which they are meant for thereby bringing maximum benefit to the State. An audit is a systematic independent process for obtaining audit evidence, records, statements of facts or other information which are relevant and verifiable and evaluating its objectively to determine the extent to which set of policies, procedures or requirements are fulfilled. Several audit methods may be employed to achieve the audit purpose. Financial Management means planning, organizing, directing and controlling the financial resources such as procurement and utilization of funds of the enterprise. It means applying general management principles to the management of financial resources of the enterprise.

Internal audit is an ongoing appraisal of a company's operation by its own employees.

Employees who carry out this function are called internal auditors. During an internal audit, internal auditors evaluate and monitor a company's risk management, reporting, and control practices and make suggestions for improvement. Internal auditing covers not only an organizations finance function, but all the operations and systems. The goal of internal audit on financial management is to add value and improve organizational operations and control structure .According to [1] internal audit can be define as an independent activity objectively, confirmatory and consultant determine to add value and improve the organizational operations and by helping them to achieve their objectives through a systematic and discipline method to evaluate and improve the effectiveness of risk management and control processes. Effective and efficient audit of accounts ensure the proper reporting of activities of an organization [2]. The Katsina State Property and Investment Company Limited is a financial institution own by Katsina State Government to assist in establishment and promotion of industrial development throughout the state in order to achieve the governmental objective of rapid industrial development. The duties of the internal auditor if carried out properly shall expose fraud, corruption, mismanagement, irregularities and non adherence to institution policies where they exist.

However, there has been laxity in implementation of internal audit findings and a times its performance is below expectations in some organizations which attribute to incompetency of audit personnel, inadequate staffing and under funding, while some are of the opinion that internal auditors being employees in the organization do not have the liberty to exercise their unbiased and independent examination required of an auditor. The accountant has the responsibility of developing accounting system to assist management in achieving the objectives of their organizations. It is a view of the foregoing; this study aims at evaluating the impact of internal audit on financial management of katsina State Investment and Property Development Company Limited.

Statement of the Problem

Internal audit is an integral part of internal control system of any organization with financial institutions included; this is evidence by the fact that all other departments are linked with internal audit department. The importance of internal audit system cannot be overemphasized, since organizations have internal audit function as a tool for ensuring effective working of the internal control system. Katsina State Property and Development Company Limited establish and maintain staff of internal audit who are charged with the responsibilities of evaluating the efficiency of operations and determining whether organizational policies are being followed consistently in all decisions of the organization and also their duties as internal auditors if properly carried out shall expose fraud, corruption, financial mismanagement, irregularities and non adherence to organizational policies where they exist. Internal audit will have impact on financial management of the company.

From the literatures reviewed, no any research was conducted on internal audit and financial management of Katsina State Investment and Properties Development Company Limited. This research seeks to fill the gap and to know to what extend is the internal audit carrying its functions as a means of control over financial management, and what is the level of professional competence of the audit personnel in discharging its duties.

Objective of the Study

The aim of the study is to evaluate the impact of internal audit on financial management with reference to Katsina State Investment and Property Development Company Limited. Specifically, the study seeks to achieve the following objectives.

- i. assess the impact of internal Audit on Expenditure Control in Katsina State Investment and Properties Development Company
- ii. determine the impact of Internal Audit on Prudence and Transparency in Katsina State Investment and Properties Development Company
- iii. assess the impact of Internal Audit on Accountability in Katsina State Investment and Properties Development Company.

Research Hypotheses:

The following hypotheses are formulated in null form to guide the study.

- i. Ho1: internal Audit does not have significant impact on Expenditure Control in Katsina State Investment and Properties Development Company
- ii. Ho2: Internal Audit does not have significant impact on Prudence and Transparency in Katsina State Investment and Properties Development Company
- iii. Ho3: Internal Audit does not have significant impact on Accountability in Katsina State Investment and Properties Development Company.

II. LITERATURE REVIEW

Historical Background of Katsina State Investment and Property Development Company limited.

Katsina State Investment and Property Development Company limited is a Development finance institution owned and control by Katsina State Government to assist in the establishment and promotion of industrial development throughout the state in order to achieve the government objective of rapid industrial development. The company was incorporated in 1988 with a share capital of 15 million naira and start business in April 1989. When Katsina state was created by federal government in September 1987 it was among the less developed states. However the state is blessed with abundant materials and agricultural resources. Therefore Katsina state development company will provide the leading role in harnessing and exploiting these resources for industrial and commercial development. From the year 1989 to 2017 there is an increase in the share capital from 15 million to 100 million naira within those years the number of staff increase and also the company has its own building situated in the state capital, stock trading is the main source of the company's income, Katsina State Property and Development Company limited involve in commodity trading and also consultancy services which include workshop to pensioner, training of personal assistance i.e internship training workshop and management of government projects which include Kankia metal works, Danja sugar factory, Katsina kaolin, Chama park Jibia.

The Concept of Internal Audit

It is very important to give a definition of internal Audit in order to understand its importance in the modern business and government environment. Indicative of its importance is the large amount of definition that is giving by many researchers according to [3]. The Internal control system and consecutively internal audit resemble the human nervous system which is separate throughout the business carrying others and reaction to and from the management.

[4] Sees internal Audit as an independent appraisal function within an organization for the review of system of control and quality of performance as a service to the organization. Consequently, [5] View internal Audit as part of internal control system put in place by management of organization in order to ensure adherence to stipulated work procedure as an aid to management for smooth administration, control cost management, ensure capacity utilization and maximum benefit derivation.

Internal Control

There are many definitions of internal control as it affects the various constituencies and stakeholders of an organization in various ways and at different levels of aggregation. According to International Organization of Supreme Audit Institution [6], internal control is an integral process that is effected by an entity's management and personnel and is designed to address risks and to provide a reasonable assurance that is in pursuit of the entity's mission, with the achievement of the objectives of executing orderly, ethical, economical, efficient and effective operations; Whereas [4] defines internal control as the whole system of controls, financial and other wise. 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 assets and secure as far as possible the completeness and accuracy of the records. The individual components of an internal control system are known as controls, or internal controls. To address these risks, management of organizations may implement specific internal controls. The effectiveness of internal control can be measured by how well the objectives are achieved and how effectively the risks are addressed more especially setting objectives, budgets, plans and other established criteria for control.

The Concept of Financial Management

Financial management is concern with the planning, organizing, procurement and utilization of government financial resources as well as the formulation of appreciates policies in order to achieve the aspirations of members of that society. [7] Sees public financial management as the link between the community's aspirations with resources, the present with future. It lies at the very heart of the operation and fiscal policy of management. The stages of public financial management include:

- i. Policy formulation: Policy formulation is one of the most important stages in a company's financial management structure. According to [7] the transformation of society appreciation into feasible policies with well organized financial management. Issues not addressed during policy formulation tend to grow in magnitude during implementation and may frequently contribute to major reversals in the pursuit of policies or major slippages that may lead to contrary results, public financial management should be designed to achieve certain micro and macroeconomic policies. It entails a clearly defined structured and articulated system that moves to promote cost consciousness in the use of resources. The government needs to have estimates of revenue and expenditure to achieve its policy objectives.
- ii. Budget Formulation: The budget formulation is the step that involves the allocation of resources before the submission to the legislature for review and final approval. According to [8], in Nigeria the budget formulation involves the articulation of the fiscal, monetary, political, economic, social and welfare objectives of the government by the president, governors and local government chairmen based on the following:
 - The department issues policies and guidelines which form the basis of the circular to ministries departments representing for inputs and their needs for ensuring fiscal periods.
 - The accounting officers of responsibility units are required to obtain and collate the needs of their units and accounting officers of ministries, in this case the permanent secretaries are required to collaborate with proposals which will be dependent by unit head before the supervising minister.
- iii. Budget structure: According to [9], the budget structure outraised the question of how the budget is or should be composed. In Nigeria, budgets have revenues and expenditure sides according to [4]; many governments are yet to put in place each management systems, which would have way for coordinating domestic management. The practice of limiting to collect revenues has exacerbated this problem the further argued that there is a massive under funding of programs and projects provided for in the budget.
- iv. Payment System: This involves the operations procedures for receiving monies for the company and for making payments to them. In Nigeria, governments make payments using a variety of procedures. These include book adjustments, issue of cheques, and payment authorities and electronic payment systems.
- v. Government Accounting and Financial Reporting: Government accounting and financial reporting is a very important component of the company financial management processing in Nigeria. As [8], noted that government accounting entails the recording, communicating, summarizing, analyzing and interpreting financial statement in aggregate and details. In the same vein, [4], argues that government accounting has dual purposes of meeting internal management requirements while

providing the public with a window or government operations. Government financial report should be prepared with the objective in mind of providing full disclosure on a timely basis of all materials facts relating to government financial report, on their own do not mean accountability but they are indispensable part of accountability.

- vi. Audit: one of the fundamental aspects of public sector financial management in Nigeria is issue of audit in government financial report. Audit is the process carried out by suitable, qualified auditors during the accounting records and the financial statement of enterprises as subject.

III. REVIEW OF EMPIRICAL STUDIES

Financial resources are considered as important resources to many institutions and establishment [11]. Effective financial management practice is essential in enhancing transparency, efficiency, accuracy and accountability which enables an organization to achieve its objectives [12].

Internal Audit and Financial Management

According to [13], examine the impact of effective internal audit functions in financial management and accountability in Edo state Nigeria. The study covered from March to July, the authors describe statistics and spare man ranking as a tool for analyzing the data obtained, and findings of the study reveal that there is significant relationship between effective internal audit of accounts and proper reporting of stewardship by accounting officers. In addition the study also shows that internal functions in most government offices at both federal and state levels in Nigeria has not been effective due to neglect and insincerity on the part of government.

The study notes that internal audit function is very important in public financial management and the internal auditors have the liberty to exercise the unbiased and independent attitude. This means that internal auditors should be independent and be objective in giving a quality and liable financial information in accordance with their level of integrity and professional competence. According to [10], when studying the role of financial control system in Sudan, found that internal audit and control system is paramount in ensuring accountability for public funds, and safeguarding the limited public resources against corruption and other misappropriations and unlawful practices. This means that effective financial management can be enhance through internal audit control systems.

IV. METHODOLOGY

For the purpose of this research, the non survey research design has been adopted which implies utilization of published document because the study would only involve the use of secondary data generated from annual report and accounts of Katsina State Investment and Properties Devolvment Company Limited. The population for this study is therefore the Katsina State Properties Investment and property Development Company Limited. The sample size covers the entire Katsina State Investment and Properties Development Company Limited for a period of seven years from 2010 to 2016. Therefore makes sampling unnecessary. The technique for data analysis used for this study is simple regression analysis.

Model specification and Measurement of Variables

Relationship between internal audit and expenditure controls, prudence and accountability

$$Y = a + bX + e$$

EXP.C= Expenditure Control

PR= Prudence

AC= Accountability

a= Intercept

b= Slope

IA= Internal Audit

e= Error Term

Independent Variable: Internal Audit

Dependent Variables: Expenditure Control, Prudence and Accountability.

Table 1 Measurement of Variables

Variables	Measurement
Expenditure Control	Overhead Expenses/ Total Revenue
Prudence	% Change in Expenses
Accountability	Timely Preparation of Accounts
Internal Audit	% Change in Overhead Expenses

V. RESULT AND DISCUSSION

Regression Results

Table 2 Internal Audit and Expenditure Control

Dependent Variable: EC

Method: Least Squares

Date: 01/25/18 Time: 00:40

Sample: 1 7

Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IA	-0.062196	0.299290	-0.207811	0.8546
AGE	-5.419166	2.750710	-1.970097	0.1876
TR	-2.31E-06	2.68E-07	-8.619690	0.0132
TINV_	-3.03E-07	1.21E-07	-2.510209	0.1288
C	473.4862	88.68721	5.338832	0.0333
R-squared	0.987427	Mean dependent var		112.5329
Adjusted R-squared	0.962280	S.D. dependent var		44.57069
S.E. of regression	8.656315	Akaike info criterion		7.330264
Sum squared resid	149.8636	Schwarz criterion		7.291628
Log likelihood	-20.65592	Hannan-Quinn criter.		6.852735
F-statistic	39.26710	Durbin-Watson stat		1.284756
Prob(F-statistic)	0.024988			

Source: Generated by the researcher from annual reports 2010-2016 of KSPDC using E-views version 8.0

Table 2 shows that IA has a negative relationship of -0.06 with EC and the p-value of IA shows insignificant relationship because the p-value is less than 0.05(5%) level of significance.

Hypothesis I

H₀₁: Internal Audit does not have significant impact on Expenditure control

Table 2 shows that the r-squared (r^2) and adjusted r-squared (r^2) are 0.987427 and 0.962280 respectively. This indicates that both figures represent a very high level of reliability of the model. They indicated over 90% level of reliability. The negative regression coefficient of IA i.e. (-0.062196) shows a negative relationship between Internal Audit and Expenditure Control. The t-statistic (-0.207811) with its associated p-value (0.8546) is insignificant at 5% level of significance. This implies that the null hypothesis which states that Internal Audit does not have significant impact on expenditure control is rejected while the alternate hypothesis which states that Internal Audit has a significant impact on expenditure control is accepted.

Table 3 Internal Audit and Prudence

Dependent Variable: PRD

Method: Least Squares

Date: 01/25/18 Time: 00:44

Sample: 1 7

Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IA	-0.598017	0.278428	-2.147830	0.1648
AGE	-4.747302	2.558970	-1.855161	0.2047
TINV_	-4.76E-08	1.12E-07	-0.423844	0.7129
TR	-4.11E-07	2.49E-07	-1.651118	0.2405
C	219.2905	82.50521	2.657898	0.1172

R-squared	0.891163	Mean dependent var	12.31714
Adjusted R-squared	0.673488	S.D. dependent var	14.09301
S.E. of regression	8.052921	Akaike info criterion	7.185755
Sum squared resid	129.6991	Schwarz criterion	7.147120
Log likelihood	-20.15014	Hannan-Quinn criter.	6.708226
F-statistic	4.094010	Durbin-Watson stat	1.280083
Prob(F-statistic)	0.205829		

Source: Generated by the researcher from annual reports of KSPDC 2012-2016 using E-views version 8.0

Table 3 shows that IA has a negative relationship of -0.598017 with Prudence and the p-value of IA shows a relationship of 0.1648 and the relationship is insignificant because the p-value is greater than 0.05(5%) level of significance.

Hypothesis II

H₀₂: Internal Audit does not have significant impact on Prudence.

Table 3 shows that the r-squared (r^2) and adjusted r-squared (r^2) produced the following figures 0.891163 and 0.673488 respectively. Both figures represent a very high level of reliability of the model. They indicated over 80% level of reliability. The negative regression coefficient of IA i.e. (-0.598017) shows a negative relationship between Internal Audit and Prudence. The t-statistic (-2.147830) with its associated p-value (0.1648) is insignificant at 5% level of significance. This implies that the null hypothesis which states that Internal Audit does not have significant impact on prudence is rejected while the alternate hypothesis which states that Internal Audit has a significant impact on prudence is accepted.

Table 4 Internal Audit and Accountability

Dependent Variable: AT

Method: Least Squares

Date: 01/25/18 Time: 14:36

Sample: 1 7

Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IA	-0.587828	0.251790	-2.334593	0.1447
TR	-4.08E-07	2.25E-07	-1.810335	0.2120
TINV	-4.98E-08	1.02E-07	-0.489630	0.6728
AGE	-4.713234	2.314146	-2.036706	0.1786
C	218.4455	74.61168	2.927765	0.0995

R-squared	0.906400	Mean dependent var	12.88857
Adjusted R-squared	0.719200	S.D. dependent var	13.74297
S.E. of regression	7.282473	Akaike info criterion	6.984626
Sum squared resid	106.0688	Schwarz criterion	6.945991
Log likelihood	-19.44619	Hannan-Quinn criter.	6.507098
F-statistic	4.841884	Durbin-Watson stat	1.279604
Prob(F-statistic)	0.178439		

Source: Generated by the researcher from annual reports of KSPDC 2012-2016 using E-views version 8.0

Table 4 shows that IA has a negative relationship of -0.587828 with AT and the p-value of IA shows a relationship of 0.1447 and the relationship is insignificant because the p-value is greater than 0.05(5%) level of significance.

Hypothesis III

H₀₂: Internal Audit does not have significant impact on Accountability

Table 4 shows that the r-squared (r^2) and adjusted r-squared (r^2) produced the following figures 0.906400 and 0.719200 respectively. Both figures represent a very high level of reliability of the model. They indicated over 90% level of reliability. The negative regression coefficient of IA i.e. (-0.587828) shows a negative relationship between Internal Audit and Prudence. The t-statistic (-2.334593) with its associated p-value (0.1447) is insignificant at 5% level of significance. This implies that the

null hypothesis which states that Internal Audit does not have significant impact on Accountability is rejected while the alternate hypothesis which state that Internal Audit has significant impact on Accountability is accepted.

VI. CONCLUSION

In this study, effort has been made to analyze the concept of Internal Audit, nature of Internal Audit, concept of financial management and Internal Control.

The following conclusions are drawn for the study in the light of the major findings:

- i. The study confirms that Internal Audit have Significant Impact on Expenditure Control. This means that an increase in the level of Internal Audit will increase the level of Expenditure Control.
- ii. The study also confirms that Internal Audit have Significant Impact on Prudence. This means that an increase in the level of Internal Audit will increase the level of Prudence.
- iii. The study also confirms that Internal Audit have Significant Impact on Accountability. This means that an increase in the level of Internal Audit will increase the level of Accountability.

VII. RECOMMENDATIONS

In the light of the findings the following recommendations are made:

1. The management of Katsina State Investment and Properties Development Company should ensure that much attention is given to the Internal Audit department by ensuring that the necessary mechanisms that could enhance their effectiveness are put in place.
2. The management of Katsina State Investment and Properties Development Company should ensure a good system of internal Audit with a view to enhancing prudence.
3. The management of Katsina State Investment and Properties Development Company should ensure regularly and effective internal audit with a view to enhancing accountability.

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