# INTERNAL AUDIT PRACTICES AND PUBLIC FINANCIAL MANAGEMENT IN RWANDA AND NIGERIA: BRIDGING THE TRANSPARENCY GAP IN PUBLIC SECTOR FINANCIAL REPORTING

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**Abstract**
*The citizens of a nation are entitled to a timely and transparent stewardship report of their country's financial and other activities through the officials saddled with such responsibility according to constitutional provisions. In some jurisdictions, this is very rare in practice. This paper examined the position of internal audit practices towards enhancing transparency in public financial management and reporting in Rwanda and Nigeria, as key components to agency and stewardship relationships between government and stakeholders. The desk/ analytical review design was adopted. It was discovered that the internal audit function would enhance transparency in public financial management and reporting if the unit is given full autonomy in terms of independence and well equipped with both human capital and relevant infrastructural facilities. In order to attain transparent financial management and reporting in public offices, there should be strict adherence to the nations' constitutional framework in terms of preparation and presentation of financial statements, submission and review as well as timely report of the Auditor-general to the National Assembly Public account committee. Also, the financial statements should be timely published for easy accessibility by the citizens.*

***Keywords:*** Internal audit practices, public financial management, transparency gap, public financial reporting.

## 1. Introduction

Globally, and especially in Africa, there are calls for governments to be accountable for the huge resources they hold on trust and manage for the people who gave them the political and administrative authority. The public sector represents a principal-agent relationship. The officials or administrators act as the agents while the citizens are the principals. In the words of Achua (2009), government spending is a very big business and the public demands to know whether the huge outlays of money are being spent wisely for public interest. Those in authorities assume fiduciary status with the attendant responsibilities requiring them to render accounts of their stewardship to the citizens for whom the authority is held in trust. Thus, the agents are expected to periodically render accounts of their stewardship to the principals for the use of resources and the extent to which the public's objectives have been accomplished. The citizens (the principals) have contributed resources through taxes and other duties to national budget for economic and social development. They need an independent third party to lend credibility to the stewardship accounts rendered by the agents, that is, the government. They rely upon the auditor to provide an independent, objective evaluation of the accuracy of the agent's accounting and to report on whether the agents have used the resources in accordance with the principal's wishes (Al-Matarneh, 2011 and Al-Shammari, 2010).

For a long time, internal audit was considered as an administrative unit aimed at checking documents, counting assets, and reporting on past events for management purpose. However, these days, many factors have led to an improvement in internal audit practices in private and public entities. Democracy requires government and its entities to be accountable in the use of public funds and in providing effective, efficient, and economical service delivery to its citizens (Arena, and Azzone, 2009). To achieve its objectives, government develops strategies that could help in effective management of public funds, and the internal audit function is one of those strategies (a governance tool) which helps it to effectively manage and achieve its objectives (Cohen & Sayag, 2010).

The tasks, functions and roles of internal auditing have expanded, changed and shifted more to management oriented matters than accounting matters; reporting lines have also been transformed and in many countries its structure has been transformed (Feizizadeh, 2012 and Hellman, 2011).

In Rwanda, the scope of internal audit changed after 1994 Rwandan Tutsis genocide. Following the requirement of Article 12 of the Organic Law No. 37/2006 on state finance and property in Rwanda, the new scope spans not only over the budget agencies (state organs, which are entitled to budget in the annual State Finances Law), which are defined under Article 2 of the Organic Law, but also any other entities which benefit in any way from State resources. In 2010 this unit was renamed the Office of the Government Chief Internal Auditor. In addition to the Office of the Government Chief Internal Auditor which has the authority to audit any government agency, Internal Audit Units are established in the districts and in other public and semi-public institutions.

The current trend in Rwanda is that each public institution reports annually to the Office of the Auditor General of Public Finance (OAG). The critical situation is that local public institutions in Rwanda are still challenged by improper management of public funds, lack fair financial reporting and yet they have the services of the internal audit. The office of Auditor-General reports to the parliament public finance commission every year that some public institutions do not comply with rules and regulations for public finance management (Biraro, 2016). The 2013 report clearly mentioned that local government entities do not have adequate mechanisms of enhancing public funds accountability, have persistent weaknesses in preparation and presentation of financial statements, breaking rules and regulations of funds management, existence of fraudulent cases, misappropriation of assets, etc. (Biraro, 2016).

In Nigeria and in accordance with Section 85(2-6) of the Constitution of the Federation Republic of Nigeria 1999, the Auditor-General or any person authorized by him is saddled with the responsibility of accessing all the books, records, returns and other documents relating to those accounts; empowered to conduct periodic checks on all Government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of the National Assembly and shall not be subject to the direction or control of any other authority or person but report directly to the National Assembly (Nigerian Consitution,1999). Thus, it is expected to be an independent body, well organised, adequately equipped with both human and infrastructural facilities to be able to effectively perform its functions (Mu'azu, 2012). But this appears to be far from reality as there are reports of lack of transparency in public sector financial reporting and public funds management.

This probably led to the introduction in 2015, of Treasury Single Account (TSA) in Nigeria. This may in a way slightly affect the scope of internal audit practice in individual public offices, since all government revenue and receipts with its disbursement have to go through a single account under the control of the Central Bank of Nigeria. However, much is still to be done by the internal audit function in ensuring transparency of financial reporting in the public sector.

Hence there is a need to assess if internal audit practices and public financial management contribute in bridging the transparency gap associated with financial reporting in public services. This study adds to the body of literature on internal audit practices and public financial management. The study argues that transparency in public sector financial reporting can be achieved through the best use of internal audit practices that are anchored on objectivity and independence as important ethical principles.

## 2.0. Methodology

This study is qualitative in nature, and adopted a desk review research approach. In conducting this study, a rigorous literature review of relevant materials, textbooks, government gazettes, journals, conference and research papers relating to audit practices and transparency in public fund management was carried out, in order to clarify the concepts of internal audit practices and public financial management and how internal audit practices can bridge the perceived transparency gap in public sector financial reporting. Also, detailed legal frameworks which govern the whole work of public sector audit and transparency in Rwanda and Nigeria contexts are accessed, scrutinized and reviewed on the basis of which we drew the conclusion and recommendations for policy formulation and implementation in public sector of these two countries.

## 3.0. Auditing and Financial Management

### 3.1. Auditing and Internal Audit Practices

Internal audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control systems (Soh and Bennie, 2011).

Effective audit practices in the public sector is very crucial as it protects the interests of the citizens, strengthens governance by significantly enhancing the citizens' ability to hold their public officers accountable. Auditors' duties are very important especially in the aspect of promoting credibility, equity, and appropriate behavior of public sector officials, while reducing the risk of public corruption. Audit practices entail but not limited to assurance and advisory services (ranging from financial attestation to performance and operational efficiency). Widened scope of the public sector audit practice's directives would influence the public entity's overall activities. Although the audit practices tend to differ across countries but generally, public sector audit activities entails: organizational independence, a formal mandate, unrestricted access, sufficient funding, competent leadership, objective staff, competent staff, stakeholder support and Professional audit standards (IIA, 2012).

According to MacRae & Gils (2014) internal audit practices or activities comprise of internal auditors' competence, roles and responsibilities, indepndepence and objectivity in carrying out their work and report effectively.

**3.2. Roles, responsibilities and functions of Internal Audit**

In public institutions internal auditors play the role of consultants and assurance providers. Consulting is a function of auditors in terms of providing activities that add value and improve the management of public organizations, its risks management and internal control systems without assuming the management responsibility (Badara and Saidin, 2012). This is explained in these dimensions namely (1) identification of obstacles and causes preventing the normal unfolding of processes, analyzing its consequences, and finding its effective solutions; (2) getting additional information to facilitate in-depth knowledge of the operation of the standard system or of regulatory stipulation by the relevant staff and (3) training and professional development aimed to increase skills and knowledge in management, risks assessment and monitoring and internal control systems. This is based on the fact that internal auditors should possess the professional and theoretical experience in the domain of the services to be audited (IIA, 2009). Internal auditors in public organizations should also provide assurance services to different stakeholders. This kind of assurance is in terms of identification of the risks in the processes and activities within the institutions related to management and internal control systems. Thus, the internal audit provides an opinion on the status of internal processes, systems or other management issues (Al Matarneh, 2011).

Internal audit performs three types of audits, namely; system audit, performance audit and compliance audit. System audit refers to an assessment of the management and internal controls in order to determine if they operate efficiently and effectively as they are designed and respond to current environment of the institutions. In evaluating the system, internal auditors are to find the deficiencies and provide remedial actions to be taken on time so that they may not affect the achievement of the set objectives. It should be noted that accountability and transparency in financial reporting, be it in the private sector or public sector, relies heavily on the adequacy and effectiveness of the control environment and the control systems. Performance audit deals with examining the set criteria of the implementation of the entity's activities compared to the level of achievement of objectives. Performance auditing distinguishes itself from other forms of auditing because it focuses on the performance of an organization, on the organizations´ projects or programmes and the systems and procedures they use to control the performance. Improving an organization's efficiency and effectiveness is one of the purposes of performance auditing (Hutchinson & Zain, 2009; Atu &Atu, 2010; Alzeban, and Gwilliam, 2012). In the words of UKura (2016), performance audit is the audit of economy, efficiency and effectiveness and these days extends even to environmental audit which assesses the impact of a government's environmental management programme. In conducting compliance audit, internal auditors show if the organizational activities are conducted in line with the standards, principles, policies, and procedures established in public spending.

Heightened pressure and accountability on corporate governance actors, due to greater emphasis on sound corporate governance (Soh and Bennie, 2011) have increased the prominence and reliance on the internal audit function. The internal audit function is a key component of a firm's corporate governance system (Cohen & Sayag, 2010 and Arena & Azzona, 2009) and a resource to a number of governance stakeholders, such as the audit committee, public governance council and external auditors (Kuta, 2008). The internal audit function provides such stakeholders with information on a range of important issues. It plays a vital role in monitoring the risk profile of an organization. Moreover, it identifies areas that will enhance the risk management procedures. An internal audit is helpful for entities in identifying and evaluating risks and putting the profession at the front line of risk management (Kwanbo, 2009).

The management and governance council of any public entity are responsible for the development of the process of internal control which provides effective assurance about the achievement of its objectives regarding financial reporting, operations and compliance with the regulations (Theofanis, Drogalas, & Giovanis, 2011; Ljubisavljević and Jovanovi, 2011). So the use of strong internal controls system evaluated by the internal audit is of value in public entities.

Internal audit function plays a role of managing control environment of the entity. This is because it is a reflection of the attitude and the policies of management with regard to the importance of internal audit in the economic unit (Pickett, 2005). Thus, organizational environment has influence over organization goals achievement (Feizizadeh, 2012). However, it is the foundation for the other components of internal control and provides the structure (Raghavan, 2011). Control environment assists toward reducing the level of fraudulent activities within organizational operation as the quality of an entity's internal controls system depend on the function and quality of their control environment (Al-Shetwi, Ramadili Chowdury & Sori, 2011). Therefore, providing a proper control environment for any public sector entity is very essential to the effectiveness of its operations and transparency in reporting.

It is the main component of work of internal auditors to assess the organizational risks. This is the identification and analysis of major risks associated with the achievement of the management objectives (Selim, Woodward and Allegrini, 2009). Similarly, Arena and Azzona (2009) view risk assessment as the process of identifying and analyzing management relevant risks to the preparation of financial statements that would be presented fairly in conformity with generally accepted accounting principle. In this situation, management must determine the level of risk carefully to be accepted, and should try to maintain such risk within determined levels.

Therefore, public sector entities, at whatever level - Federal, State or local government, - are required to frequently assess the level of risk they are experiencing in order to take necessary actions (Messier, Reynolds, Simon and Wood, 2011). It is the role and responsibility of internal auditors to ensure that organizational risks are assessed and managed as well as to ensure effective control of all organizational activities by monitoring and suggesting the effective policies, procedures and mechanisms that ensure management's directives are properly carried out towards the achievements of goals (Aikins, 2011; Vijayakumar & Nagaraja, 2012).

It is the role of internal auditors to identify, capture, and communicate all the relevant information in an appropriate manner and within timeframe in order to accomplish the financial reporting objectives of the organization (Abushaiba & Zainuddin, 2012; Soh, and Bennie, 2011). The internal audit function is one of the corporate governance mechanisms used to monitor behavior of the management (Smith, 2012; Aikins, 2011and Munro & Stewart, 2010).

Government auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are responsibly and effectively managed to achieve intended results, auditors help government organizations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders (Arena & Azzone, 2009 and Kuta, 2008). The internal auditor is in the unique position of having daily access to the internal culture, management, processes, and activities of the organization (Mihret et al. 2010; and Kuta, 2008).

### 3.3. Internal Auditors' Professionnal Skills and Competence

The IIA (2009) stated that auditors should use their professional skills, due care and prudence in every assignment. Sometimes, internal auditors are qualified engineers, production engineers, sales persons, management personnel and accountants, so they have the relevant knowledge and experience of the operations of the organization (Selim, Woodward and Allegrini, 2009). Arena and Azzona (2009) submitted that high qualification of internal auditors may be an excellent way to reduce the organization's performance gap. As in the private sector, public sector internal auditors should need high education to understand their responsibilities under the public sector finance, accounting and to perform high standard of work in such areas.

Adequate and competent internal auditors refer to capacity of internal auditors. The study of Akinbuli (2010) demonstrated that adequacy, quantity and competence of internal auditors determine the quality of their work in any given task within the organization. Previously, Kwanbo (2009) mentioned that the large size of internal auditors in an entity is an indicator of better resources that the audit department has within an organization. This may be used to enhance the quality of internal audit work as many audits can be planned to be done together, and a broader scope could be covered within reasonable timeline.

Furthermore, the effectiveness of internal audit requires that the staff be professionally educated, trained and experienced in the field or work. Beyond the formal education from universities and colleges of business, they have to get professional certificates from recognized professional bodies after which they have to get professional practical hands-on training from audit practice in order to acquire effective experience and continual development is key in such field (Seol et al, 2011; Stewart & Subramaniam, 2010 and Leung & Cooper, 2009). Some of the skills needed by internal auditors include communication skills (Seol, Sarkis and Lefley, 2011) such as listening, interpersonal, written and oral communication skills. These play a big role in the development of internal auditors and help them to get evidence from auditees and provide a reasonable assurance to users of their reports. Cohen and Sayag, (2010), Leung and Cooper (2009), Arena and Azzone (2009) demonstrate that internal audit quality measured in terms of competence of internal auditors is subject to academic formal education, working experience and continuous developmental programmes.

### 3.4. Internal Auditors' Independence

The Institute of Internal Auditors states that internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (IFAC, 2010 and IIA, 2009).

Independence of auditors either internal or external is mostly linked to freedom from dependence on, or influence or control by, another person, organization, or state (Appah, 2008). Internal auditors work for, and primarily report to higher levels of the audited entity, which in public institutions could be the governing council, boards of parastatals, ministries and departments, depending on the nomenclature of each jurisdiction. Badara and Saidin (2012) mentioned that the concept of independence should be defined clearly based on its related specific area or domain of its application. This is the level of freedom in conducting an independent work of reporting and checking the information in all departments of the public institution for which internal auditors work for and report the findings to its higher level without being influenced by immediate level of management of the audited entity (Al-Shetwi, Ramadili, Chowdury & Sori, 2011; Seol, Sarkis & Lefley, 2011; Leung & Cooper, 2009; Kwanbo, 2009 and Mihret &Woldeyohanes, 2008). The report of the qualitative study of Salawu & Agbeja (2007) revealed that absolute independence of the audit section of public services is an essential tool for effective audit examination which will result into transparency and accountability. Also, Zulkifli, Alagan & Mohd, (2014) found that absence of sufficient qualified, skilled and competent human capital; lack of indepenedence and objectivity hinders the effective internal audit practices in the public sectors thus resulting into poor accountability and transparent reports.

Independence of the auditor adds credibility to the audit report on which users of the financial information depend to make economic decisions about an entity. Thus, auditor independence is one of the basic requirements to keep public confidence in the reliability of the audit report. The independence of internal auditors demonstrates the quality of what they will report to decision makers and level of reporting reliability about the operations of public entity. If auditors are not independent, the users of their reports will lose confidence as the conclusions reached and opinion given by the auditor may be biased. Thus, internal auditors should be independent in mind (a state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment) and in appearance (in that third parties would reasonably conclude that the internal auditor's integrity, objectivity and professional skepticism had not been compromised). The internal auditors provide assurance about what is being done by management of their entity, either positively or negatively and has to report to higher level of administration of public entity's board of directors or to audit committees which may take responsibility to improve management processes and enhance internal control systems in order to help management achieve the objectives set (Messier, Reynolds, Simon and Wood, 2011). Modibbo (2015) in his study on selected local governemnts of Adamawa state suggested that establishing internal audit department as an independent body is key to its independence and effectiveness. This will enhance the internal auditor's ability to give fair judgement on all the financial dealings of the public office without prejudice, thus enhancing transparency and accountability at all local government levels in the State.

Independence of the internal audit function is key to transparency and accountability in public sector financial management and reporting, and this appears not to have been attained in Nigeria. For example, Office of the Auditor-General for the Federation (OAuGF) follows the same Budgetary process as other MDAs. Its annual estimates go to the National Assembly through the Ministry of Budget and National planning. Upon approval, the budget of OAuGF is controlled by the Minstry of Finance and funds are only released by the Accountant General when a warrant has been issued by the Budget Office. Thus, the Office of the Accountant General, one of the main offices subject to audit is able to exert significant influence over the funding of the OAuGF and has, in recent financial years, not released the full annual budget to the Office. Also, the OAuGF solely depends on Federal Civil Service Commission for the recruitment and assessment of its higher level human capital (grade levels 7 and above). It is glaring that this procesess is a great impediment to the independence and autonomy of the OAuGF (Ukura, 2016). The same budgetary process and funding are equally applicable in Rwanda, except that the Office of Auditor-General (OAG) does not experience any delays in the release of appropriated funds to it.

### 3.5. Internal Auditors' Objectivity

The internal auditor’s objectivity refers to unbiased mental attitude that allows internal auditors to perform engagements in a way that they demonstrate and apply honesty in conducting their assignments which enhances the quality of their report and opinion (Alzeban & Gwilliam, 2012 and IIA, 2009).

The internal auditor has to report objectively all the findings from the work he or she has done. Thus, the auditor must be in full awareness about the whole management process and overall objectives and then maintain objectivity in order to increase the reliability of information to be reported to decision makers or higher levels of the entity, such as audit committee and board of directors (IFAC, 2010). Abernathy, Barnes & Stefaniak (2013) demonstrated that the objectivity of the internal auditors enhances the management quality, moderates audit risks and helps auditors to issue a reasonable and credible audit opinion with supporting evidence (Al-Matarneh, 2011; Hellman, 2011; Stewart & Subramaniam, 2010 and Cohen & Sayag, 2010).

However, in public institutions it is very difficult for internal auditors to be objective in all matters regarding their work. This is based on the fact that leaders of public institutions are direct supervisors of internal auditors. These leaders may have employed the internal auditors or influenced their employment, pay their salaries, approve their leave, appraise them for promotion and generally contribute to their development. Therefore, it is evident that in most cases, these leaders exert over-bearing influence on the internal auditors who may be faced with self-interest and intimidation threats. In scenarios of this nature, it becomes difficult for internal auditors to be objective and work without any leadership influences from their managers (leaders) (Cohen & Sayag, 2010).

### 3.6. Public Financial Management

The functions of financial management are defined as planning, organizing, procurement and use of public financial resources and appropriate policies in order to satisfy the needs of stakeholders. Bou-Raad (2010) considers the public financial management as a way that public resources are used to achieve community expectation and answer to their aspirations. It lies at the very heart of the operations and fiscal policy of governments.

Effective public financial management promotes a system of accounting that shows the effective utilization of the financial resources of the country; provides a window to the public to ascertain the financial status of the government; and serves as a major instrument in the formulation and implementation of government policies. Public financial management includes cash management, which aims at achieving an efficient provision of the cash resources of a government while avoiding the immobilization of resources and minimizing the costs of borrowing; aid and debt management, which aims at strengthening the management of the acquisition, servicing and retirement of public debt as well as avoiding increasing debt stock; revenue management which ensures the promotion of a system of administration geared towards achieving greater tax payer compliance and convenience, and to increase the efficiency of revenue collection, reporting and forecasting, and audit and procurement (Hutchinson& Zain, 2009).

Public financial management should reduce government expenditure by ensuring that the services needed by the citizens especially the poor are actually delivered, maintained and worked on properly. It ensures accountability to citizens for the use of public resources. Public financial management is an attempt made by government to ensure that consistently the budget is either a balanced or a surplus budget (Scutaru, 2009). The key objectives of financial management are to create wealth for the government, generate cash and provide an adequate return on investment. These objectives are the basic elements of the process of public financial management (Sohand & Martinov-Bennie, 2011 and Aikins, 2011). It is for public entities to manage assets for the interests of the government and her citizens not for leaders' interests and it requires internal control systems which are effective and the application of the law of stewardship of public resources (Boone, & Kurtz, 2013; Feng, Li & McVay, 2009 and Block & Geoffrey, 2008).

### 3.7. Transparency Gap in the Public Sector Financial Management and Reporting

Financial reporting is the basis for providing information that is useful for decision making, increased transparency and accountability, and openness of management to stakeholders. Financial reporting is a veritable means of measurement of management performance and unit of measuring the public institutions' goals achievements (Akinbuli, 2010). Most of the public institutions are funded from the taxes collected from taxpayers, donors, and lenders in order to achieve the national goals. The public institutions are mostly accountable to these providers of funds and consumers of the services that they provide as their reason for existence. The main objective of financial reports is to provide and communicate financial and non-financial information to users and mostly citizens as beneficiaries of the public services (Atu and Atu, 2010).

According to Gupta (2005) financial reporting is the channel by which public institutions' managers/leaders account for their stewardship duties to the general public or citizens and other stakeholders involved in the nations' development. Leaders are to provide the information about the resources available and collected, and how they are used or managed towards the general public interests. Obazee (2008) emphasizes that financial reporting is a key way of communication of financial information. Appah (2008) posits that financial reporting concerns financial transparency in the way that it creates an environment where information on existing conditions, decisions and actions are made accessible, visible and understandable to all individual participants. Financial transparency refers to the process and methodology of providing the financial information and making policy decisions known through timely dissemination and openness (Maria, Inaand & Christoph, 2015). Financial transparency again refers to the need for all participants, including the authorities, to justify their actions and policies, and accept responsibility for their decisions and results especially for financial resources allocated to them.

Increase in cross-border financial flows which have brought in its trail increasing internationalization and interdependence, have put the transparency issue at the forefront of economic policy-making. National governments, increasingly recognize that transparency improves the predictability and hence, the efficiency of policy decisions. Transparency forces institutions to face the reality of a situation and makes officials more responsible, especially if they know they will have to justify their stewardship (Pilcher, 2011).

Appah (2008) and Akinbuli (2010) successively mentioned that public financial reporting is a weapon for managers of government institutions to show how they allocated scarce financial resources in most efficient manner towards government's objectives. Financial reporting shows the transparency of public organizations' management especially in communicating to stakeholders who contributed to the wealth creation to know the development achieved by government institutions through the best use of their contributions.

The main objective of public financial reporting is to provide useful information to decision makers who may use it for evaluating the use of resources, and achievement of performance contracts with principals. Public institutions provide financial reports that may help in determining the direction of the budget and its use towards achieving positive change in economic, social, educational, health and security programmes or improvement compared to the past(Egger, Eggert and Winner, 2010). It is through financial reporting that public organizations' managers express their stewardship of the resources entrusted to them.

An analysis of the literature on public financial reporting demonstrates that it is challenged by many transparency gaps such as the content of public entities financial reports and information needed by users (lack and/or poor disclosure), lack of financial accountability to external parties (lack of justification of use of donations and gifts), poor relationship between public entities' budgets and financial reports, and lack of corrections of budgets based on the deviations between budgeted amount and actual amounts. Thus, current global economic environment has created pressure on govenments in availing financial information which indicates a reasonable level of transparency. Public institutions' stakeholders are more interested in what these insitutions do and they demonstrate a high level of need of transparent financial reports from such entities. Disappointedly, most reports from government entities are incomplete, prepared and presented without timeliness and sometimes unreliable (Ibanuchuka & James, 2014; Izedonmi & Ibadin, 2013 and Jones & Luder 2011).

The key challenging issue in having a transparent financial reporting system in public sector lies on the basis of accounting used. Prior to the formulation, adoption and implementation of International Public Accounting Standards, financial statements of public services were usually prepared on cash basis of accounting which does not faithfully represent the transactions and events of government activities due to its inability to put into consideration the records of payables and receivables. To ensure transparency in the reporting system of public services, there is urgent need for full implementation of IPSAs. IPSASs are a globally recognized and accepted, high-quality financial reporting framework and set of standards they are expected to enhance high-quality preparation and presentation of governments' financial statements. It provides the bedrock upon which auditors can undertake their work effectively and efficiently (IFAC, 2012).

The absence of transparency is the output of the lack of accountability of the government; thus the need to improve the public financial management and decision-making of the government (Alshujairi, 2014). Introduction of IPSAs is assumed to result to more accurate information about government performance (Christiaens et al., 2013). Hughes (2013) argued that IPSAs adoption especially in developing countries will enable governments to provide relevant, faithfully represented, understandable, reliable, and comparable financial statements to its citizen and all stakeholders as the report of its stewardship thus improving public financial accountability and governance. It is observed that unified accounting system as achieved through IPSAs, an accrual accounting basis will give rise to greater transparency, efficiency and accountability in public services (PWC, 2013).

Eivani, Nazari and Emami (2012) asserted that attainment of proper accountability and transparency in public financial management, the accounting system (modified accrual basis of accounting) capable of keeping track of the levels and changes in assets, liabilities, revenues and expenditures or expenses, relative to budgeted amounts are of paramount importance. Also, public offices are saddled with the responsibility of improving the financial reporting system to make it relevant, faithfully represented, understandable, reliable and comparable. Transparency in the financial reporting would be achieved if all the relevant information required in the decision making process of the citizens and every stakeholder are prepared in accordance with well-structured standards and adequately presented as the stewardship reports of the government.

### 3.9. Underpinning Theories of Auditing, Financial Management and Transparency

Two theories served as the bedrock of this study, i.e. agency theory and legitimacy theory. Not all citizens can participate in the management of nations' resources thus the appointments of officials into public offices by the citizens to manage the public resources on their behalf. But due to information asymmetries between principals (citizens) and agents (public officials) and differing motives, principals may lack trust in their agents and may consequently need to put in place mechanisms to reinforce this trust. Agency theory viewed audit as one of the monitoring mechanism to curb management aberrant activities. It is assumed that an audit provides an independent check on the work of agents and of the information provided by an agent, which helps to maintain confidence and trust. The auditor's role is to assess whether the financial statements, prepared by the agent, are faithfully represented and are prepared in accordance with generally accepted accounting principles. The financial statement audit makes management accountable to shareholders for its stewardship of the organization (Akinbuli, 2010 and Hayes, Dassen, SChilder & Wallage 1999 and 2005).

Swinkels (2013) mentioned that legitimacy theory of audit is also applied in such a way that public institution is to serve the interest of the citizens, thus, internal auditors are considered as good assessors and reporters to the public of public sector managers' effectiveness and efficiency (Hayes, Dassen, Schilder, & Wallage, 1999 and 2005). The public institutions' officials and managers are to respond to the needs of the society in which their entities live and operate.
These two theories are relevant to this study for citizens need to monitor the operations of the public officers in the way they carry out their stewardship duties through audit practices.

## 4.0. Internal Audit Practices and Transparency in Public Financial Management

Transparency as earlier noted demands openness in reporting to all stakeholders the financial position and performance of the public sector and thus on timely basis. Section 85 of the Nigerian 1999 Constitution requires that the Accountant-General should furnish the Auditor-General with the country's financial statements and the latter should, within 90 days of receipt of the reports from the Accountant-General, submit his reports to The Public Accounts Committee (PAC), a committee of the National Assembly responsible for delibrations on the public accounts in accordance with sect 85 (5) of the Constitution. Each of the two houses of the National Assembly (the House of Representatives and the Senate) has its own Public Accounts Committee (PAC). These committees consider and review the annual government accounts and the reports of the Auditor- General on them. However, historically the accounts have not been submitted to the PAC promptly or regularly (Wynne, 2000 cited in Ukura 2016).

Article 166 of the Constitution of the Republic of Rwanda of June 2003 revised in 2015 stipulates that the Auditor General shall submit each year to each Chamber of Parliament, prior to the commencement of the session devoted to the examination of the budget of the following year, a complete report on the state financial statements for the previous year. A copy of the report is submitted to the President of the Republic, Cabinet, the President of Supreme Court, and the Prosecutor General. And the Parliament, after receiving the report of the Auditor General referred to in this Article shall examine it and take appropriate decisions within six (6) months, a fairly long period though.

These provisions define the level of premium which the extant laws and regulatory framework place on accountability and transparency in public financial management. As earlier noted, in an era of globalization, accountabibility and transparency on government financial reporting transcends beyond the relationship between the citizenry and the government at the domestic level. It has international dimension since the government has commercial transactions with foreign governmemts as well as receive aids and grants from international donor agencies and governments. Hence, accountability and transparency on the part of governments, in the words of Achua (2009), require investment in production of timely and reliable financial information with which all stakeholders can judge the performance of public servants and politicians in Africa. This calls for absolute independence and objectivity of the umpire (that is, the internal audit function) in reviewing and reporting on the faithful presentation of these financial information, for as Obazee (2006) submitted, the currently available financial reports of government are seriously deficient. They are not timely, little attention is paid to variance from plans and are largely unreliable.

In Nigeria, the audit and submission of the Annual Financial Statements(AFS) for 2006, 2007 and 2008 revealed the violations of these constitutional provisions and no penalties for violations were stated in the constitution. 2006 AFS was submitted by the Office of the Accountant-General of Federation(OAGF) to the Office of the Auditor-General for the Fedration(OAuGF) on September, 2007; the OAuGF submitted his first report to National Assembly on 9th July, 2008 and second report on 31st december, 2008. AFS for 2007 was first submitted by the OAGF to OAuGF on the 18th November, 2008 and re-submitted on the 6th of May, 2009; the OAuGF submitted his report to National Assembly on 15th May, 2009. Also, the OAuGF gave his report on the 2008 AFS on 22nd october, 2009( Achua, 2009). Incidentally, the 2008 report was the last Annual Reports of the auditor- General to be made public in Nigeria as at May 2016 (Ukura, 2016).

The practice in Rwanda presents a better picture. Much more premium is placed on transparency and timely reporting and both the OAG and the Parliament ensure compliance with the extant laws of the land. The country is up to date in its reporting to stakeholders. The last annual report submitted to Parliament and made public was the 2015 report. In terms of number of entities audited, the audits and report covered state consolidated financial statements and 159 public entities and projects (Biraro, 2016). This implies timeliness and transparency in public financial management and reporting, unlike the Nigerian case. However, this study notes that the period of 6 months given to the parliament to act on the financial statements appears to be fairly long

Many Nigerian studies had lamented the defects of the internal audit function vis-à-avis its role in enhancing transparency in public financial mangement and reporting. Donoja, Ajanya and Audu (2013) documented that the practical system of audit and accountability in Nigerian public services widely deviates from the statutory, professional and ethical requirements. The study concluded that having a good and functioning internal audit system in the public services will enhance transparency and good governance. Public sector auditing, when conducted in strict compliance with the statutory, professional and ethical requirements, strengthens public governance through the provision of good accountability and protection of the core values of the public services. It ensures conducting public’s business transparently, fairly, and honestly, as well as with equity and integrity (Goodson, Mory & Lapointe, 2012).

Onuorah and Appah (2012), had argued that for successful accountability of Nigerian public fund management, there is an urgent need for the improvement of public sector accounting and auditing standards as well as application of value for money audit in all the public offices. Value for money audit is an advocate of economy, efficiency and effectiveness in the use of public resources (Flavianus, 2016). Asaolu, Adedokun and Monday (2016) opined that lack of independence and professional competence inhibits the effective functioning of internal audit system in the public offices in Nigeria. They concluded that the effectiveness of internal audit functions in the Nigerian public services would enhance the quality of service delivery and management of resources in the public organisations; it is a key for promoting good governance.

Adequate funding of internal audit functions and establishment of mandated rule for all public offices to make its stewardship reports publicly available would, no doubt, enhance effectiveness of internal audit function and boost good governance and transparency in public sector organisations.

**5.0. Conclusion and Recommendations**

The review of scholars views has demonstrated that internal auditors within public entities should be qualified, skillful, objective and independent if they are to improve on the credibility and trust of financial reports prepared by public sector entities. Adoption of global best practices is essential in ensuring qualitative service delivery and the quality of service from the internal audit function determines the reliance users will place on financial information communicated by public institutions through their financial reports.

As has been estblished with the case of Rwanda, internal audit practices can play a key role in bridging the transparency gap in public financial management and reporting. This study therefore recommends the granting of full autonomy to OAuGF in Nigeria, in terms of funding and recruitment of appropriate personnel, adequate staffing and provision of relevant infrastructural facilities for the OAuGF; strict compliance to ethical and professional standards in internal audit practices with well-spelt penalties for violation; strict adherence to constitutional provisions relating to timely submission and issuance of reports by the OAGF, OAuGF and PAC. Also, implementation of high quality financial reporting practices and standards (IPSAs) will enhance the work of the internal auditors and even lessen their burden in carrying out their civic roles. There should be an Audit Act in place that should define the powers, scope and activities of the OAuGF. This is very urgent as the Nigerian 1956 Audit Ordinance was not consolidated into the laws of the Federation of Nigeria in 2004 and thus no longer forms part of our extant laws. Finally, for transparent public financial management and reporting, there should be speedy resolution of all audit queries, as well as timely and easy accessibility of AFS by the citizens in line with constitutional provisions.

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