

INTERNAL AUDITORS' ATTRIBUTES AND FRAUD CONTROL IN SOUTHERN SENATORIAL ZONE OF TARABA STATE

Dr. Susan Peter Teru CNA

*Department of Accounting, Taraba State University, Jalingo
Susan4dpt@gmail.com*

Joel Rimamkyaten CNA

*rimamkyatenj@gmail.com
Director of Finance, Office of the Accountant General, Taraba State.*

Bassey, Emmanuel Ude

*Department of Accounting, Taraba State University, Jalingo
emmanueludebassey@gmail.com*

Doka, Lenge Shaki

Department of Accounting, Taraba State University, Jalingo

Correspondence: Joel Rimamkyate, rimamkyatenj@gmail.com

Abstract

The study examined internal auditors' attributes measured as independence, competence and objectivity and fraud control mechanism in the southern senatorial zone of Taraba state. The study was hinged on the meta-model of fraud. The survey design was adopted for the study with a well-structured questionnaire issued to 153 out of 250 staff randomly selected from the five local government areas in Taraba state out of which only 140 questionnaires were filled and returned, 4 were discarded and 9 not returned. Linear regression analysis was used in testing the hypotheses. The findings of the study showed that internal auditors' independence with coefficient .070 and p-value .03 has a significant effect on fraud control among local governments in southern Taraba state. Internal auditors' competency further showed a significant effect on fraud control in the southern senatorial zone of Taraba state with a coefficient of .109 and p-value of .013. Finally, internal auditors' objectivity revealed a significant positive effect on fraud control in the southern senatorial zone of Taraba state. The local government chairman should widen the scope of internal Auditor's duties to ensure independence. This can be done by ensuring the audit unit operate independently of other units.

Keywords: Audit trait, fraud, auditor's attributes

Introduction

Fraud is not a new occurrence, as numerous well-publicized financial fraud examples from the last two centuries demonstrate. It can be traced back to the dawn of our world's history when men used tactics, manipulation, and deception to obtain money, land, goods, or trust, all with the goal of profit. In economic history, the development of accounting and auditing is linked to a desire, particularly on the side of state and local governments, to restrict and prevent theft and deception in their finances (Petrascu & Tieanu, 2014). With the rise of crime, fraudulent practices, and a general attitude of dishonesty in persons pervading every area of our lives, worldwide communities have seen a huge increase in unlawful and fraudulent commercial conduct (Repousis, Lois, & Veli, 2019).

Although the job of an internal auditor in the public sector is not new to local government, the status of internal auditing and the demand for it has changed dramatically since the early twentieth century (Barac, Coetzee & Standen 2016). Internal auditors who can support management at the strategic, system and operational levels within the public sector are now needed, according to numerous studies, to ensure continually improved and sustainable service delivery (PWC, 2012).

Internal auditing (IA) is a stand-alone activity used to add value to an organization's operations by providing a systematic and disciplined approach to the company's operations. To accomplish the organization's transparency aims, a rigorous and methodical approach to executing the IAF shows to be advantageous (Bekiaris, Efthymiou & Koutoupis, 2013; Leung, Cooper, & Perera 2011). Internal controls should aim to strengthen an organization's risk management systems, as well as the accounting system's application and the proper implementation of auditing standards, to assist executive directors and workers in carrying out their tasks. Furthermore, to assist in the evaluation of the work and to make suggestions for improvements in the control and governance processes, as well as in eliminating fraudulent financial reporting and reporting flaws in Internal Control (IC) systems (Prawitt, Sharp & Wood, 2012; El-Sayed Ebaid, 2011; Balaciu et al., 2014; Daniela, 2013).

Corruption, financial mismanagement, and phoney financial reports plague Nigeria's governmental sector. Political positions are seen as ways to amass wealth in whatever form is most advantageous to the system. Several ministries and parastatals have been held back as a result of this approach. Internal auditors are evaluated for characteristics that help them spot fraud red flags and prevent it from happening. As a result, this research looked at how internal auditors' characteristics affect fraud control in the public sector, with a focus on local governments in southern Taraba state.

Internal Auditors' Independence

Independent is a non-biased point of view made up of independent thought or facts, as well as independence in appearance. The state of mind that allows the auditor to audit without bias is known as an independent mind. The traditional terms of the truth of independent members are still reflected in the independent mind. The findings of independent interpretation of others appear to be independent in appearance (Arens, 2012). Furthermore, auditing independence is a critical norm since independent accountant judgments strive to improve the reliability of financial accounts given by management (Dityatama, 2015). The independence of the internal auditor of freedom of interest in the objectivity of both individuals and the ability of the internal audit activity in carrying out their responsibilities in a non-biased

manner, as well as in formulating and giving recommendations, can be concluded from the concept of independence discussed above.

Internal Auditors' Competence

Internal auditors must maintain a high level of proficiency through constant training and knowledge development due to rapid change and multiple internal and external pressures. Competence is defined as a set of abilities, knowledge, and behaviours (Jachi & Yona 2019). According to the profession's Code of Ethics, competence refers to an internal auditor's ability to apply the knowledge, skills, and experience required to deliver internal audit services (The IIA 2017). In the framework of professional rules, the total importance of competence required for fraud management has been examined in greater depth. Internal auditors must have extensive experience dealing with fraud risk, as demonstrated by the profession's guidelines. One of the most fundamental characteristics of IAFs has been identified as competence (Abbott et al., 2016).

Internal Auditors' Objectivity

Internal auditing services necessitate objectivity, which is a mental attitude of impartiality (Reding et al., 2013). When it comes to the IAF operating as an efficient governance instrument, the objectivity of internal auditors is even more important (Messier et al., 2011). Even though objectivity is enshrined in the definition of internal auditing, some circumstances, such as certain relationships with various stakeholders, may result in less objective IAFs.

Methodology

The survey design was adopted for the study. The population of the study consists of sixteen (16) local governments of Taraba state, out of the total population, purposive sampling was used which led to the emergence of five (5) local governments in the State, these local governments are; Ussa, Wukari, Takum, Ibi and Donga. A total of fifty (50) staff each was randomly selected from the five local government councils. This was used to obtain an objective and generalized response from the selected local government. The targeted respondents include the Directors and Deputy Directors of finance, Internal Auditors, Finance staff, Cashiers, Budget Officers and Payroll staff. Stratified sampling techniques were used to sample the local governments that participated in the study, random sampling technique was adopted in selecting the respondents from the Accounts department and Audit department. This is because these staffs are involved in the management decision making in the local government. Computing with Taro Yamane sampling formula, the sample size arrived at 153 staff. The primary data were sourced using the questionnaire instrument. The questionnaire was well structured to capture five Likert scales; strongly agree (SA), Agree (A), Disagree (D), Strongly disagree (SD) and Undecided (U). The questionnaire contains fifteen (15) questions. The questions were open-ended and close-ended where respondents are expected to give their opinion from any alternative. Descriptive statistics were used in presenting the responses of the respondents showing frequencies and percentages. Multiple linear regression was used in testing the formulated hypothesis. Statistical package for social sciences (SPSS 25) was employed in carrying out the analysis.

The Analysis was guided by the following regression model:

$$y = a + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n$$
$$y = f(\text{AI, AC, AO})$$

Where, $FC = \alpha + \beta_1 AI + \beta_2 AC + \beta_3 AO + \varepsilon$

Variables Definition

FC= Fraud control

AI= Auditor's independence

AC= Auditor's competence

AO= Auditor's objectivity

β_0 = constant/intercept

ε = stochastic error term

Data Analysis

Table1: Multiple linear regression

Dependent variable: FC

Variables	Coefficient	t	Sig.
C	4.567	6.831	.000
IAD	.070	.874	.038
IAC	.109	1.339	.013
IAO	.457	5.778	.000
R-Square	.212		
Adjusted R-square	.194		
F-Statistics	12.164		
Sig.	.000 ^b		
Durbin Watson	1.491		

Source: SPSS 25

The ideal summary R-value was 0.212 as shown by the R square, the model accounted for only 21.2% of the variance in fraud control in the southern senatorial zone of Taraba state. This hence signifies that other feature not researched in this investigation contribute 78.8% to fraud control mechanisms. Durbin-Watson digit is normally between 0 and 4; the value of 2 indicates no automatic connection among the independent variables. Values reaching 0 show positive auto-correlation and digits toward 4 show negative autocorrelation. Durbin-Watson statistic of 1.491 which is a value approaching 2 which means there was no autocorrelation among the predictors. In the examination of variance, the outcomes showed that the model was noteworthy because the p-value was .000^b which is less than 0.05 thus the ideal was statistically significant in forecasting how internal auditors characteristics influence fraud control in the southern senatorial zone of Taraba state.

The coefficient for auditors' independence .070 indicates a positive effect on fraud control. This implies that a unit increase in auditors' independence will cause a 7% improvement in fraud control in southern Taraba state. The p-value .038<.05 proves that the effect is significant. This further provides evidence to reject the null hypothesis that there is no significant relationship between internal auditors' independence and control of fraud in the southern senatorial zone of Taraba state.

Auditors' competency showed a coefficient of .109 which explains that a unit increase in the competence of internal auditors in the southern senatorial zone of Taraba state will instigate a positive increase in fraud control. The effect is proven significant by the p-value .013<.05. Thus, the null hypothesis is rejected that there is no significant relationship between Internal auditors' competence and fraud control in the southern senatorial zone of Taraba state.

The coefficient for auditors' objectivity .457 indicates that fraud control will increase by 45.7% with a unit increase in the objectivity of internal auditors in the southern senatorial zone of Taraba state. The p-value $.000 < .05$ proves that internal auditors' objective determines the level of fraud control this, therefore, provide evidence to reject the null hypothesis that there is no significant relationship between Internal auditors' objectivity and fraud control in the southern senatorial zone of Taraba state.

Test of Hypotheses

Table 2: Test of Hypotheses

Hypotheses	Statement	P-value	Decision
Ho ₁	There is no significant relationship between internal auditors' independence and control of fraud in the southern senatorial zone of Taraba state	$.038 < 0.05$	Rejected
Ho ₂	There is no significant relationship between Internal auditors' competence and fraud control in the southern senatorial zone of Taraba state	$.013 < 0.05$	Rejected
Ho ₃	There is no significant relationship between Internal auditors' objectivity and fraud control in the southern senatorial zone of Taraba state	$.000 < 0.05$	Rejected

Discussion of Findings

The finding showed that auditors' independence has a significant positive effect on the control of fraud in the southern senatorial zone of Taraba State. This implies internal auditors' possessing more independence in discharging audit duties within the local governments will improve the control of fraud-oriented activities among local governments in southern Taraba state.

Furthermore, the finding revealed that internal auditors' competency has a positive effect on the control of fraud in the southern senatorial zone of Taraba State. This means that increase in the competence of internal auditors in the local government will enhance the control of fraudulent activities in the local governments in southern Taraba state.

More also, the internal auditor's objectivity showed a positive and significant effect on the control of fraud in southern Taraba state. This implies that as internal auditors in the local governments become more objective, fraud control will be enhanced for every unit increase in objectivity.

Conclusion

The results of this study indicate that internal auditors' attributes are significant in the control of fraud. Furthermore, internal auditors' independence showed a positive and significant effect on fraud control in local governments in southern Taraba state. This concludes that internal auditors' independence significantly determines the level of control of fraud in the local governments.

More also, auditors' competence revealed a positive and significant effect on the control of fraud in southern Taraba state. This concludes that internal auditors' competence is a determining factor to fraud control among local governments in southern Taraba state. The qualification, years of experience, the complexity of work done can predict the mechanisms internal auditors initiate for the detection and prevention.

Internal auditors' objectivity also showed a positive and significant effect on fraud control among local governments in southern Taraba state. This concludes that how objective the internal auditor's actions will determine the successive control of fraud in the local governments.

Recommendations

- i. The local government chairman should widen independence as it will further enhance fraud control in the local government. This can be done by ensuring the audit unit operates independently of other units.
- ii. The local government chairman and the chief internal auditor should encourage internal auditors to undergo regular academic and professional training to enhance competence. This can be achieved by acquiring the professional qualification and attending symposiums.
- iii. Objectivity being an unbiased attitude required from auditors in carrying out their duties, local government internal auditors should ensure work done is carried out without bias.

References

- Arens, A.A. (2012). *Auditing and assurance services*. England: Education person limited.
- Balaciu, D. E., Bogdana, V., Feleaga, L., & Popa, A.-L. (2014). " Colorful" approach regarding creative accounting. An introspective study based. *Accounting and Management Information Systems*, 13(4), 643.
- Barac K., Coetzee P. & Standen, V. (2016). Convergence towards internal audit effectiveness in the BRICS countries. *Journal of economic and financial science*, 9 (2), 609-629
- Bekiaris, M., Efthymiou, T., & Koutoupis, A. G. (2013). Economic crisis impact on corporate governance and IA: the case of Greece. *Corporate Ownership and Control*, 11(1), 55-64.
- Bonrath, A. & Eulerich, M. (2021). *Internal Auditing's Role in Preventing and Detecting Fraud: An Empirical Analysis*.
<https://ssrn.com/abstract=3899753> or <http://dx.doi.org/10.2139/ssrn.3899753>
- Daniela, P., & Attila, T. (2013). *Internal audit versus internal control and coaching*. *Procedia Economics and Finance*, 6(1), 694-702.
- Dityatama, (2015). The influence of internal auditors' competency and independence to the internal auditors' due professional care and the implication to the internal audit quality. *Research journal of finance and accounting*, 6(6), 170-189
- El-Sayed Ebaid, I. (2011). IAF: an exploratory study from Egyptian listed firms. *International Journal of law and management*, 53(2), 108-128.
- Leung, P., Cooper, B. J., & Perera, L. (2011). Accountability structures and management relationships of IA: *An Australian study*. *Managerial Auditing Journal*, 26(9), 794-816.
- M Jachi, L Yona (2019). The impact of professional competence and staffing of internal audit function on transparency and accountability. Case of Zimbabwe local authorities. *Research Journal of Finance and Accounting*, 10, 149 – 164.
- Messier, W.F., Reynolds, J.K, Simon, C.A., & Wood, D.A. (2011). The effect of using the internal audit function as a management training ground on the external auditor's reliance decision. *The Accounting Review*, 86, 2131 – 2154.
- Petraşcu, D., & Tleanu, A. (2014). The role of internal audit in fraud prevention and detection. *Procedia Economics and Finance*, 16, 489-497.
- Prawitt, D. F., Sharp, N. Y., & Wood, D. A. (2012). Internal audit outsourcing and the risk of misleading or fraudulent financial reporting: Did Sarbanes- Oxley get it wrong. *Contemporary accounting research*, 29(4), 1109-1136.
- Reding, K.R., Sobel, P.J., Urton, A.L., Head, M.J., Ramamoorti, S., & Salamasick, M. (2013). *Internal auditing: Assurance & Advisory Services*.
- Repousis, S., Lois, P., & Veli, V. (2019). An investigation of the fraud risk and fraud scheme methods in Greek commercial banks. *Journal of Money Laundering Control*, 18(3), 145-156.