

**A MANUAL OF UNIFORM  
INTERNAL AUDIT  
FOR NIGERIAN UNIVERSITIES**

*A PUBLICATION OF*

**COMMITTEE OF HEADS INTERNAL AUDIT  
DEPARTMENTS IN NIGERIAN UNIVERSITIES**

**AT NIGER DELTA UNIVERSITY,  
WILBERFORCE ISLAND, BAYELSA STATE**

University of Port Harcourt Press  
University Post Office Box 50  
University of Port Harcourt  
Port Harcourt. [E-mail:uppltd@yahoo.com](mailto:uppltd@yahoo.com)

© Committee of Internal Audit Departments  
in Nigerian Universities.

Published in 2007 by the University of Port Harcourt Press

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ISBN: 978-978-48326-1-8

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Designed, **Printed and Bound by UPPL**

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## **Acknowledgment**

Members of this sub-committee for the development of a uniform Internal Audit Manual wish to place on record, the gratitude to then Executive Secretary, National Universities Commission, Prof. Munzali Jibril for setting up the initial committee that worked on the Standard Internal Audit Manual which formed the basis of our assignment.

Members wish to appreciate the efforts of Mr. Francis Okokuru, the Chairman CHIADINU 2006 for providing the enabling environment for which this sub-committee fulfilled its assignment on a record time.

Members remain very grateful to the NUC, the Committee of CHIADINU and Vice-Chancellors for giving us the opportunity to serve on the sub-committee.

## Foreword

The Uniform Internal Audit Manual for Nigerian Universities is divided into two major sections. Chapters 1 - 6 deal with issues of General Interest and supplies vital current information the Internal Auditor needs to have in order to cope with his duties in the system. Chapters 7 - 13 select the most important Financial and Resource Management functions in the system and discuss them

under the following Sub Headings:

- Introduction
- Internal Audit Objective in the area
- Management Internal Control Arrangements in the function
- Recommended Audit Programme for effective Internal Audit Coverage of the area.

These chapters therefore provide the Internal Auditor the help and guideline he needs to carry out his work effectively.

Chapter 14 presents the structure of the Internal Audit Department and tries to delineate functions for easy assignment to various grades of Internal Audit Personnel. Chapter 15 summarises the recommendations, which will assist the Internal Auditor in the performance of his duties. The Chapter on Appendices provides samples of forms, records of Audit findings format and ICQs which are now getting very popular especially as they provide a fast way for External Auditors to know whether to go for detailed work or not.

Finally, this is to welcome you to an informative and practical tool for the man on the job. It is hoped that if the Internal Auditors avail themselves of the Uniform Accounting Manual, the Financial regulations in the UAS as adjusted and approved by their University Council, and this Uniform Internal Audit Manual, they will have so equipped themselves as to be equal to the challenges of the task of their job.

# Chapter One

## 1.00 Introduction

With the introduction of the Uniform Accounting system for Nigerian Universities by the NUC in 1996, only time was needed for a strong case to be made for a standard Internal Audit set of procedures that will enable University Internal Auditors cope with the demands of the new system.

It was no surprise therefore that even as the Universities and the National Universities Commission were battling to accelerate the implementation of the new system, the Heads of Internal Audit Departments in Nigerian Universities made a strong case for the production of a Standard Internal Audit Manual to assist them cope with the new challenges. They also made a case for seminars and other forms of training for themselves and their subordinates, including provision of computer systems for their work. In response to these requests, the NUC swiftly set up a committee.

## 1.01 Membership of the Committee: The Committee is made up of two University Bursars

from the F. U. T. Owerri and the University of Abuja respectively. These Bursars incidentally were involved in the production of the Uniform Accounting System manual. From NUC came the Chief Internal Auditor, a Deputy Director, Systems Analysis from the Data Management Department of the NUC and a Secretary. Three Chief Internal Auditors from the Obafemi Awolowo University, Bayero University Kano and Usman Danfodiyo University Sokoto respectively completed the team of eight.

However, the above committee was not able to publish the manual for circulation to all Nigerian Universities because of the issue of University autonomy which a uniform Audit manual published by the NUC would tend to negate. Consequently, the committee of Heads of Internal Audit Departments in Nigerian Universities (CHIADINU) decided in its wisdom to build on the earlier work carried out by the NUC for guidance of its members.

Thus, at the CHIADINU AGM held at ABU, Zaria in 2005, a sub-committee was appointed with the following persons to see to the completion and circulation of the manual:

1. U. J. Ineme Esq.	- Unical	- Chairman
2. Mr. O. J. Digha	- Nigerian French Lang.	- Member
3. Mrs. J. A. Otubu	- Unijos	- Member
4. Mrs. E. F. Bini	Delta State University	- Member
5. Mrs. Maria F. Silas	- Nassarawa Uni, ersir.	- Member
6. Mr. L. C. Ofolete	- FUTO	- Member
7. Mrs. M. A. Bazuaye	- Uniben	- Member
8. Mr. B. 1. B. Woko	- Uniport	- Member

### **1.02 Terms of Reference for the Committee**

- To outline the case for and against a Standard Internal Audit Manual for Nigerian Universities
- To outline key areas of University Financial Management subject to Internal Audit.
- With the new Uniform accounting, system procedures for auditing the aspects identified above.
- Make a case for computerizing the audit procedures recommended.
- To consider any other issues relevant to the production of a Standard Audit Manual for use in Nigerian Universities.

**1.03 The Inauguration Ceremony** was followed by a four-hour meeting of members to get to know each other and to work out strategies for early action.

Members rose at 7pm that first outing having agreed that their ultimate aim was to produce an internal audit manual which will assist university internal auditors cope with the demands of the uniform accounting system. Members were given topics on the earlier write-ups for review for inclusion in the new manual. The topics are as listed below:

1. Introduction.
2. Framework for internal auditing in Nigerian Universities
3. The internal audit Environment in Nigerian Universities.
4. The internal auditor in fraud prevention and detection
5. The internal audit report.
6. Internal Auditing in a computer based environment.
7. The audit of University revenue and funds
8. Human Resources Management Audit.
9. Payroll Audit.



10. Loans and Advances Audit
11. Operating Expenses Audit
12. Capital Projects Management Audit.
13. Audit of the planning and budgetary control process.
14. Organizational structure of the Internal Audit Unit.
15. Appendices.

#### **1.04 Method of Work.**

Members agreed to take up assignments to produce researched papers on the topics in-between meetings. These papers were the subject of detailed consideration by all members in meeting sessions. The final versions after these close studies were then approved and adopted as sections of the new Manual. Members were not unmindful of the stake and interest of such bodies as the Auditor General's Office, the Ministries of Education and Finance. Contacts were also made with them and their contributions helped in no small way to sharpen the perspectives of the members of the Manual Drafting Committee.

**1.05 Standard Manual.** A manual is a handy reference book in which guidelines and procedures for specific action are codified. Standard Manual must therefore denote a manual considered a model against which other manuals may be measured or compared. The implications of this definition are that various manuals of various stages of completeness and relevance exist in our Universities. The Standard Internal Audit Manual Committee called for these and adopted what constituted their strength in its work.

The uniform Accounting System and its application software, the Tetra 2000, in the Nigerian University System is still evolving, the Standard Internal Audit Manual produced to enable University Internal Auditors cope with appraising its control implications cannot but be developing also. The Manual must therefore be viewed as a guide. It is not intended to stifle or eliminate initiative that may be required in special circumstances, to ensure security of the assets of our universities.

#### **1.06 Case for and against the use of the Standard Internal Audit Manual**

The same submission made for and against the Uniform Accounting System for Nigerian Universities could be made without any amendments for the Standard Internal Audit Manual (SIAM). It is true that many of the

Federal Universities are yet to change over to the UAS on Tetra 2000, however there is no doubt that they will embrace it sooner than later. The NUC and the Committee of Bursars of Nigerian Universities have put in so much money and effort

12. Capital Projects Management Audit.
13. Audit of the planning and budgetary control process.
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- It will make for ease of inter and intra university training and transferability of internal audit staff.
- It will provide assurance that the UAS and the Tetra 2000 as control instruments can be trusted to produce reliable and useful financial records and reports
- For the external auditor, the availability of the Standard Audit Manual and evidence that it has been used to carry out continuous checks on the financial records of the organization will provide comfort enough to cut down on his detailed checks and consequently cost of the audit work.

On the other hand, the introduction of the Standard Internal Audit Manual will to some extent eliminate individual styles. It may also stifle initiative to the detriment of the system in certain circumstances. It must be borne in mind that a new work like this may fail to lay enough emphasis in some areas that deserve such emphasis, thus making very rigid adherence to the provisions in the manual inadvisable. Rigid adherence to the procedures in the Manual may also provide opportunity for fraudulent practices deliberately conceived to beat the system and its internal audit strategies. The likelihood that fraud which has succeeded in one University that uses these accounting and auditing standards will be tried successfully in another is very high if standards of practice are allowed to develop operational weaknesses. Like accounting system, auditing procedures and techniques evolve over time at easily absorbable costs. This will not be so with the Standard Audit Manual project, which must carry all the stakeholders along as well as get produced within a short specified time. Very reasonable cost in time and money will surely be involved. It must also be realized, that the circumstances under which the Manual will be used will hardly change at the same pace. There is therefore the likelihood that the standard may not remain so for very long, considering how advances in Information Technology are changing the way information is created, preserved, processed and disseminated. It goes without saying therefore that constant review and monitoring must be an integral part of the operations of the Standard Internal Audit Manual.

## **Chapter Two**

# Framework for Internal Auditing in Nigerian Universities

## 2.00 Introduction

This manual looks at internal audit procedures and techniques, which may be applied to any system of University accounting and other controls, whether manual or computerized, but with specific reference to Uniform Accounting System for Nigerian Universities (UAS). The manual assumes that Internal Auditors are trained professionals who are conversant with generally accepted auditing standards, issued by the relevant statutory and authorized regulatory bodies.

Being, however, that internal auditing is yet to fully develop as a profession in Nigeria, and that no Nigerian professional internal auditing standards exist, the manual shall attempt to describe some of those areas, a thorough understanding of which is considered vital to a further discussion of applicable procedures and techniques. Therefore, to lay foundation for the rest of the chapters, this examines some of the basic issues necessary for an understanding of recommended procedures and techniques.

Nevertheless, it must be admitted frankly that it is not possible, in a work of this nature, to cover all aspects of internal auditing. It is therefore envisaged that regular guidelines and recommendations shall be issued from time to time, as specific issues are brought to the attention of the National Universities Commission, to supplement those identified here.

Accordingly, this chapter seeks to lead the reader to an understanding of the framework for internal auditing in Nigerian Universities, for the purpose of this manual, by:

- a) Examining assumptions underlying recommended internal Audit procedures and techniques
- b) Comparing internal with external audit
- c) looking at the different definitions of internal auditing
- d) examining the necessity for internal audit function in the universities
- e) Identifying some of the possible areas to which internal auditing may be applied in the universities
- f) Examining the place of auditing standards in internal auditing
- g) Analyzing the scope of authority of internal auditors

- h) Discussing the meaning of internal controls, and identifying the various types and sources of internal controls in relation to Nigerian Universities
- i) Looking at the application of the code of ethics and rules of professional conduct to internal auditing in the universities
- j) Examining internal audit planning, and place of audit evidence in internal auditing The chapter ends with references to a summary of selected internal audit standards in the United States of America given in the Appendices to the manual.

## 2.01 Auditors

Auditors are classified into two categories - internal auditors and external auditors

- (a) **External Auditors** are not employees of the organization being audited. The External Auditors perform on contract, annual audits of the financial records of an organization. Their emphasis is on the fairness of financial representations. By Nigerian law, external audits are normally carried out by appointed chartered accounting firms in public practice.
- (b) **Internal Auditors** are employees of the organization being audited. Emphasis is on assisting management in the proper discharge of their duties. To accomplish this, they focus on accountability, internal controls and on improving management efficiency. Although internal auditors are university employees, they are expected to operate within a framework of complete independence. In federally funded Universities, management establishes internal audit function as an integral element of the internal controls. Internal audit examines and evaluates the adequacy and effectiveness of these controls, especially administrative and accounting control. A major objective of internal auditing is to promote the establishment and maintenance effective internal controls at reasonable cost, to assist in ensuring compliance with established policies, and procedures set up by management for efficient management of the complex university structures of today.

This manual concerns itself with internal audit.

## 2.02 Internal Auditing

It is considered good practice in a work of this nature to put up as early as possible some definitions of key words to develop common platform of understanding between the reader and the writer.

There are many definitions of internal auditing. Internal auditing has been variously defined as:

1. An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
2. An independent appraisal function within an organization, for the review of activities as a service to all levels of management, a control that measures, evaluates and reports upon the effectiveness of internal control, financial and other controls, as a contribution to the efficient use of resources within the organization.
3. A review of operations and records undertaken sometimes continuously within an organisation by specially assigned staff to ensure the adequacy and effectiveness of operational controls in the protection of business assets.
4. An independent appraisal activity within an organization for the review of accounting, financial and other operations as a basis of service to management, a managerial control that functions by measuring and evaluating the effectiveness of other controls.
5. A watchdog function enabling management enforce internal control, safeguard assets from misuse and error, ensure reliability of accounting and other records, adherence to laid down managerial policies and procedures and orderly conduct of the business of the organization.
6. A systematic and objective appraisal by assigned staff of internal audit department of the operations and controls within an organization to determine whether, financial and operating information from the records are accurate and reliable, risks to the organization are identified and minimized, regulations, policies and procedures for running the organization are followed, resources are used efficiently and economically, objectives of the organization are being achieved.
7. An element of the **internal control** system set up by the

management of a university to examine, evaluate and report on accounting and other controls on operations. It exists either because of a management decision or in certain circumstances because of statutory requirement. It is an **independent appraisal function**, which examines and evaluates the, activities of an organization as a service to that organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed.

The import of these and other definitions are that internal auditing is indeed the responsibility of management, that its scope is generally understood through management may limit the scope, that the work is normally a continuous internal control quality assurance check, an exercise to verify actions and records with a view to sending a report to management calling for action to address any issues raised in the report. It goes without saying therefore, that the Internal Auditor must have a better knowledge of the system than those operating it to be able to properly appraise and report on the adequacy and operating effectiveness of the system.

### **2.03 Necessity for Internal Audit in Nigerian Universities**

The phenomenal growth of Nigerian Universities since the establishment of the University College, Ibadan, in 1948, has over the years led to complex administrative structures in the universities, requiring the application of new management techniques and ideas in the management of these universities. By 1972, the number of universities had increased to 6 with a manageable student population, but necessitating the establishment in 1974 of the National Universities Commission (NUC) as an autonomous statutory body, with responsibility to superintend, coordinate, and regulate the activities of universities. Today, the number of universities has increased to about 60, with student population exceeding 1,000,000 compared to 1,395 in 1960.

One of the consequences of this growth has been reduced resources to meet the needs of universities. Though there has been considerable debate both within and outside the university system as to what steps should be taken to bridge the financing gap between what government makes available and what the universities actually need there is no doubt that, in addition to other options, the universities must look inward and properly control and manage the little that they currently have.

Consequently, interest has, in recent times, been focused within the

university system on the need for Strategic Planning, improved Management Information System, the success of which is said to be dependent on reliable data bank, Uniform Accounting System, etc. From the preceding paragraphs, the need for an internal audit is self-evident.

Secondly, the fact that Internal Audit function has always existed in the universities, should serve as evidence of its necessity. However, the need for its enhancement is a natural consequence of the need for improved management of the increasingly complex university structures.

#### **2.04 Possible Areas to Which Internal Audit Functions may be applied in Nigerian Universities.**

The scope and objectives of internal audit vary widely and are dependent upon the responsibilities assigned to it by management, the size and structure of the university, and the skills and experience of the internal auditors. Accordingly, the views expressed hereunder are not judgemental, but an outline of a wide spectrum of opinions on the scope of internal audit.

There has been considerable debate as to what aspects of the auditors work constitute Internal Auditing.

#### **2.05 American Institute of Internal Auditors**

The following table compares the contents of internal auditing (as defined by the Standards for the Professional Practice of Internal Auditing issued by the American Institute of Internal Auditors) with other activities performed by internal auditors.

The comparison identifies areas to which internal auditing may be applied, and distinguishes between those areas which fall under internal auditing, and those, though not internal auditing, are valuable activities carried on by internal auditors.



## **Internal Auditing Under The Other Internal Audit Activities Standards**

- |   |   |
|---|---|
| a) A review of how managers plan, organise and direct operations  | 1. Financial statement auditing   |
| b) Conducted by members of the organization to form an opinion as to whether or not management has reasonable assurance that: | 2. Performance auditing   |
|   | 3. Compliance auditing  |
|   | 4. Voucher auditing   |
| 1. Business objectives are met  | 6. External auditing of other organizations or any management activity associated with the planning, organizing and directing of operation  |
| 2. Assets are safeguarded   |   |
| 3. Laws, rules, regulations, policies and procedures are complied with  | While all these are valuable activities that internal auditors perform, they do not meet the criteria of "Internal Auditing" described by the American Standards for the Professional Practice of Internal Auditing. Many, if not all, of these audit activities are governed by other professional auditing standards. |
| 4. Financial and management data is accurate and reliable   |   |
| 5. Operations are carried out efficiently and economically  |   |

Internal Auditing focuses on an evaluation of the system or framework of internal control

### **2.06 Aspects of Uniform Accounting System Subject to Internal Audit**

Regardless of the classification of internal audit function (see paragraph 2.05), this manual considers that all aspects of accounting identified in the UAS manual (from section 2) fall under those University functions that may be reviewed and reported on by internal auditors. Other areas of

internal auditing in the universities may include the following:

- a. testing compliance with National Universities Commission's approved financial ratios;
- b. testing compliance with applicable minimum academic standards;
- c. contributing to expenditure control effort by ensuring effective pre-payment audit and ensuring that competitive tendering is applied in all purchases wherever practicable.

## **2.07 Other Areas of Internal Auditing**

Going by the various definitions of internal audit given in paragraph 2.02, as well as generally held views within accountancy profession, internal audit may equally operate to include one or more of the following broad areas as well:

- a. examining and evaluating the adequacy and effectiveness of the systems of internal control, including those pertaining to the deterrence, detection, and investigation of fraudulent or illegal acts;
- b. reviewing the reliability and integrity of financial and operation information and the means used to identify, measure, classify, and report such information;
- c. reviewing the system established to ensure compliance with those policies, plans, procedures, laws, and regulations, which could have a significant impact on operations and reports, and determining whether the organization is in compliance;
- d. reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- e. appraising the economy and efficiency with which resources are employed and the quality of performance in carrying out assigned responsibilities;
- f. reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- g. co-ordinating internal auditing activities with the work of the independent external auditors and assisting the external auditors as required;
- h. special investigations;

As can be seen, though the above list is not exhaustive, internal auditing can be applied to many aspects of university administration and

management, depending on the extent of authority, which each university management is willing to grant to its internal auditors. However, expectedly, the attitude of management must be guided by, amongst other considerations, the education, training and competence of its internal auditors.

## **2.08 Auditing Standards**

Auditing theory and practice standards are useful for describing, explaining, and predicting various aspects of accounting and auditing practice. In some respects such theories describe what proper practice should be, and in other respects they describe what practices are really like. Accordingly, auditing theory mostly derives from observed practices. However, theory also contains ideal statements of what practice should be like. Theory exists to guide practice, and practice provides the basis for refinements of theory.

A concept is central organizing idea that helps a person to categorize and classify elements of the theory. An internal auditor who has a strong understanding concepts is in a position to reach meaningful solutions to difficult decision problems.

If he lacks a thorough understanding, such solutions may be had only by chance, which is a poor basis for informed decisions.

Going by this, recommended procedures and techniques are not gospel truths. They are to be applied with regard to specific internal audit objectives of the function under review while keeping in mind the relevant guiding concepts. University Internal Auditors must, therefore device, based upon the relevant guiding concepts additional tests to obtain satisfactory assurance of the reliability of their conclusions, as specific circumstances may require.

Auditing standards are criteria for the quality of audit performance. They are guides to action. Auditing standards are quite different from Auditing procedures, which are the Particular things auditors do on a specific audit engagement. Standards are the quality guides that remain the same through time and for all audits. Procedures, on the other hand, may vary depending upon the complexity of an accounting system, the type of organization, and other factors unique to a particular jobs.

In carrying out their work, internal auditors must conduct work in accordance with established procedures, which must however comply with auditing standards, as well as code of ethics, relevant to the performance of their work.

At the end of this chapter, appendices of Internal/Government Auditing standards and guidances are given. With suitable adaptation, Internal Auditors in Nigerian Universities will find them applicable to their work.

## **2.09 Authority**

Internal auditing is governed by policies established by management. The scope of internal auditing activities is subject to management review and approval, but shall not otherwise be restricted. The Vice-Chancellor is responsible for overseeing the internal audit function and for acting on all reports issued by the internal auditors. For internal auditing to be effective, it is essential that there be mutual co operation between the staff, management and the auditors, Internal auditors, with stringent regard for safekeeping and confidentiality, shall have access to all activities, records, property, and employees as may be necessary to carry out their assigned responsibilities in accordance an annual work plan. Internal auditors must have the right to interview, query, and receive orally or in writing any explanations that they may require, and as they may deem appropriate for the proper execution of their duties.

Internal auditing is a staff function. They must therefore have no authority over, or responsibility for, the activities they audit, since such responsibility may compromise their independence.

## **2.10 Internal Controls**

To carry out their work most effectively, internal auditors must have a thorough understanding of the concept of internal control system, the various components of internal control system and how these are Implemented in their various Universities.

The statute establishing each Nigerian university addresses most of the internal control problems of the university, by spelling out clearly the basic organization structure, and delegating authority to bodies/offices established under the statute to institute other internal control measures. The law also assigns responsibilities to organizational units relevant to university goals.

An internal control system has been defined as the whole system of controls, financial or otherwise, established by the management in order to carry on the business of the university 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 record. The individual components of an internal control system are known as

‘control’ or ‘internal control’, some of which are considered next.

## 2.11 Types of Internal Controls

### a) **Organization**

Enterprises should have a plan of their organization, defining and allocating responsibilities and identifying lines of reporting for all aspects of the enterprise's operations, including the controls. The delegation of authority and responsibility should be clearly specified.

The source of basic organization structure of Nigerian Universities is the statute establishing each University which spells out the organization structure of such University. The law delegates authority to bodies/offices established under the statute to establish, structure, and assign responsibilities to other organizational units relevant to University goals

### b) **Segregation of Duties**

One of the prime means of control is the separation of those responsibilities or duties which, if combined, enable one individual to record and process a complete transaction. Segregation of duties reduces the risk of intentional manipulation or errors and increases the element of cross checking. Functions that should be separated include those of authorization, execution, custody, and recording and, in the case of a computer-based accounting system, systems development and daily operations.

Segregation of duties between different bodies and offices in the universities is spelt out in the applicable, the respective enabling laws of each university. For example the Chancellor, the Pro-Chancellor, the Vice-Chancellor, the Registrar, the Bursar, Senate, the Council, the Congregation, etc. all have their functions and duties spelt out. Like in the case of organization structure, each body/office established by statute, has power to delegate and segregate some of the responsibilities assigned to them under the statute.

### c) **Physical**

These are concerned mainly with the custody of assets and involve procedures and security measures designed to ensure that access to assets is limited to authorized personnel. This includes both direct access and indirect access via documentation. These controls assume importance in the case of valuable, portable, exchangeable

or desirable assets. The sources of authorizations to have custody of assets are to be found in the enabling law, as well as various university rules and regulations, especially in the Manual of Accounting and Financial Instructions or any other similar document approved by council.

**d) Authorization and Approval**

All transactions should require authorization or approval by an appropriate responsible person. The limits for these authorizations should be specified. The sources of authorization limits are to be found in the enabling law, as well as various university rules and regulations, especially in the Manual of Accounting and Financial Instructions or any other similar document approved by council.

**e) Arithmetical and Accounting**

These are the controls within the recording function which check that the transactions to be recorded and processed have been authorized, that they are all included and that they are correctly recorded and accurately processed. Such controls include checking the arithmetical accuracy of the records, and maintenance and checking of totals, reconciliations, control accounts and trial balances, and for accounting for documents.

**f) Personnel**

There should be procedures to ensure that personnel have the capabilities commensurate with their responsibilities. Inevitably, the proper functioning of any system depends on the competence and integrity of those operating it. The qualification, selection and training as well as the innate personal characteristics of the personnel involved are important features to be considered in setting up any control system. Most of the rules and procedures relating to ensuring that personnel have the capabilities commensurate with their responsibilities are normally to be found in an Appointments and Promotions Guidelines approved by Council.

**g) Supervision**

Any system of internal control should include the supervision by responsible officials of day-to-day transactions and the recording thereof. This can partly be ensured by a properly designed organization structure, training, and assignment of responsibilities.

## **h) Management**

These are the controls exercised by management outside the day-to-day routine of the system. They include the overall supervisory controls exercised by management, the review of management accounts, and comparison thereof with budgets, the internal audit function and any other special review procedures.

## **2.12 Code of Ethics/Rules of Professional Conduct for University Internal Auditors**

Ethics have been referred to as principles or standards of human conduct, sometimes called morals, and the study of such principles, sometimes called moral philosophy. Ethical standards for members of the Accountancy profession are normally contained in their Code of Ethics or Rules of professional Conduct.

Generally, Internal Auditors are required to observe proper standards of professional conduct and specifically to refrain from conduct, which includes, but is not confined, to, any act or default likely to bring discredit to themselves. It is not possible to specify all those combinations of circumstances in which Internal Auditors may be said to have committed professional misconduct as defined above. Internal Auditors who are in doubt as to their correct course of action in particular cases may obtain further advice, usually through their professional body.

## **2.13 Rules of Professional Conduct**

Professional Accountancy bodies in different countries have issued different standards of recommended practice covering many aspects of rules of conducts in relation to different circumstances, which a member may face. Most of these standards have aimed at addressing situations, which members in practice may face. However, experience has shown that most of the standards can be adapted to guide Accountants and Internal Auditors in employment. For this reason, some of the standards are listed for further study by university internal auditors.

## **2. 14 Standards on Rules of Professional Conduct**

Incapacity or death of a sole partner

- a. Professional independence
- b. The professional duty of confidence
- c. Advertising publicity and obtaining professional work
- d. Descriptions
- e. Changes in professional appointments
- f. Ownership of books and papers
- g. Retention of books, files, working papers and other documents

## **2. 15 Code of Ethics**

Recognizing that ethics are an important consideration in the practice of internal auditing the Institute of Internal Auditors, Inc. (USA) issued a statement on the justification for Code of Ethics, the guiding principles for Code of Ethics, and the Articles of the Code of Ethics for Internal Auditors. These are now detailed in the tables that follow:



### **Justification for Code of Ethics**

- a. Internal Auditors represent the profession of internal auditing
- b. Management rely on internal auditing to

### **Guiding Principles of Code of Ethics**

Code of Ethics covers basic principles only. Internal Auditors are expected to realize that individual judgement is

### **Articles of Code of Ethics**

- a. Internal Auditors shall have an obligation to exercise honesty, objectivity, and diligence in the performance of their duties and responsibilities
- b. Members, in holding the trust of their employers, shall exhibit loyalty  
in all matters pertaining to the affairs of the employer or to whomever they may be rendering a service. However, Internal Auditors shall not knowingly be a party to any

## **2.16 Internal Audit Planning**

This section adapts and summarizes those aspects of the auditing standard on planning, control, and recording considered relevant to internal audit engagements in the Universities. The auditor'S operational standard states that: "The auditor should adequately plan, control and record his work". In order to ensure that an audit is carried out effectively and efficiently, the work needs to be planned, controlled and recorded at each stage of its progress. Planning, Controlling and recording are considered separately below although they are not mutually exclusive.

The need to plan, control and record audit work exists regardless of the size of the university concerned. Although all of the procedures described in this guideline need to be considered by the auditor, in the case of smaller universities the work involved in implementing them will be less.

## **2 . 17 Planning**

The form nature of the planning required for an audit will be affected by the size and complexity of the university, the environments in which it operates, the method of processing transactions and the reporting requirements to which it is subject. In this context the auditor should aim to provide an effective economic service within an appropriate time-scale.

### **Adequate Audit Planning**

- (a) Establishes the intended means of achieving the objectives of the audit;
- (b) Assists in the direction and control of the work;
- (c) Helps to ensure that attention is devoted to critical aspects of the audit; and
- (d) Helps to ensure that the work is completed expeditiously.

### **Procedures**

The auditor should consider the outline audit approach he proposes to adopt, including the extent to which he may wish to rely on internal controls and any aspects of the audit, which needs particular attention.

Preparatory procedures which the auditor should consider include the following:

- (a) Reviewing matters raised in a previous audit which have continuing relevance in the current audit
- (b) Assessing the effects of any changes in legislation, rules, regulations or accounting practice affecting the university

- (c) Identifying any significant changes in the university's accounting procedures such as a new computer-based system.

The auditor will need to determine the number of audit staff required, the experience and special skills they need to possess and the timing of their audit work. He will need to ensure that all audit staff are briefed regarding the assignment and the nature and scope of the work they are required to carry out. The preparation of a memorandum setting out the outline audit approach may be helpful.

## **1.18 Controlling**

Management structures of Internal Audit Department may vary between universities and this auditing guideline should be interpreted in the context of the particular structure within each university. The guideline has however been written on the basis that the audit is carried out by the Heads of the Department of Internal Audit and his staff.

The Head of the Internal Audit needs to be satisfied that on each audit the work is being performed to an acceptable standard. The most important elements of control of an audit are the direction and supervision of the audit staff and the review of the work they have done. The degree of supervision required depends on the complexity of the assignment and the experience and proficiency of the audit staff.

### **Procedures**

The nature of the procedures needed to control an audit and the extent to which they need to be formalized cannot be precisely specified as they depend on the organization of the audit department and the degree of delegation of the audit work.

The procedures established should be designed and applied to ensure the following:

- (a) Work is allocated to audit staff who have appropriate training, experience and proficiency.
- (b) Audit staff of all levels clearly understands their responsibilities and the objectives of the procedures which they are expected to perform. Audit staff should be informed of any matters identified during the planning stage that may affect the nature, extent or timing of the procedures they are to perform. They should be instructed to bring to the attention of those to whom they are responsible any significant auditing problems that they encounter.

- (c) The working papers provide an adequate record of the work that has been carried out and the conclusions that have been reached.
- (d) More senior persons in the audit department review the work performed by each member of the audit staff. This is necessary to ensure that the work was adequately performed and to confirm that the results obtained support the audit conclusions which have been reached.

The final stages of an audit require special attention. At this time, when pressures are greatest, control of the audit work is particularly required to ensure that mistakes and omissions do not occur. The use of an audit completion checklist, with sections to be filled in by the Head of Internal Audit and his staff, will help to provide such control. Where matters of principle or contentious matters arise which may affect the audit conclusions, the auditors should consider consulting another experienced accountant.

This accountant may be senior colleague inside or outside the University. If a colleague outside the University is consulted, confidentiality of the University's affairs must be maintained.

The auditor should also consider how the overall quality of the work carried out within the university could best be monitored and maintained.

## **2.19 Recording**

Reasons for preparing audit working papers include the following:

- (a) The Head Internal Audit needs to be able to satisfy himself that work delegated by him has been properly performed. The Head of Internal Audit can generally only do this by having available to him detailed working papers prepared by the audit staff who performed the work,
- (b) Working papers provide, for future reference, details of problems encountered, together with evidence of work performed and conclusions drawn therefrom in arriving at the audit opinion.
- (c) The preparation of working papers encourages the auditor to adopt a methodical approach.

## **Procedures**

## **Contents of working papers**

Audit working papers should always be sufficiently complete and detailed to enable an experienced auditor with no previous connections with the audit subsequently to ascertain from them what work was performed and to support the conclusions reached. Audit working papers should be prepared as the audit proceeds so that details and problems are not omitted.

Audit working papers should include a summary of all significant matters identified which may require the exercise of judgement together with the auditor's conclusions thereon. If difficult questions of principle or judgement arise, the auditor should record the relevant information received and summarize both management's and his conclusions. It is in such areas as these that the auditor's judgement may subsequently be questioned, particularly by a third party who has the benefit of hindsight. It is important to be able to tell what facts were known at the time the auditor reached his conclusion and to be able to demonstrate that, based on those facts, the conclusion was reasonable.

### **Audit working papers will typically contain:**

- a) Information which will be of continuing importance to the audit (e.g. a copy of the law establishing the university, Conditions of Service for Staff, financial rules, procedures, and regulations, etc.)
- b) Audit planning information
- c) An assessment of the university's accounting system and a review and evaluation of its internal controls;
- d) Details of the audit work carried out, notes of errors or exceptions found and action taken thereon, together with the conclusions drawn by the audit staff who performed the various sections of the work;
- e) Evidence that the work of the audit staff has been properly reviewed
- f) Records of relevant balances and other financial information, including analyses and summaries supporting the audit work;
- g) a summary of significant points affecting audit report, showing how these points were dealt with.

## **2.20 Standardization of Working Papers**

The use of standardized working papers may improve the efficiency with which they are prepared and reviewed. Used properly, they help to instruct audit staff and facilitate the delegation of work while providing a means to control its quality.

However, despite the advantages of standardizing the routine documentation of the audit (e.g. checklists, specimen letters, standard organization of the working papers), it is never appropriate to follow mechanically a "standard" approach to the conduct and documentation of the audit without regard to the need to exercise professional judgement.

## **2.21 Audit Evidence**

This section, like the preceding one, adapts and summarizes those aspects of the auditing standard on audit evidence considered relevant to internal audit engagements in the Universities.

The concept of evidence provides the theoretical basis for technical auditing decisions, as witnessed by the important role of evidence in the scientific decision making methodology. Evidence has been defined as consisting of "all those influences upon the mind of an auditor which ultimately guide his decision choices". Relevant evidence may be quantified or it may be qualitative; it may be objective or it may have subjective qualities; it may be absolutely compelling to a decision or it may be only mildly persuasive. The auditor'S task is to collect and evaluate sufficient competent evidence to afford a reasonable and logical basis for his or her decisions. Evidence has several important dimensions and features, and the process of gathering evidence is a principal feature of audit field work.

## **2 . 22 The Nature of Audit Evidence**

It has been said that audit evidence is information obtained by the auditor in arriving at the conclusions on which he bases his opinion. Sources of audit evidence include the accounting systems and underlying documentation of the university, its tangible assets, management and employees, its students, suppliers and other third parties who have dealings with, or knowledge of the university or its business. The sources and amount of evidence needed to achieve the required level of assurances are questions for the auditor to determine by exercising his judgement in the light of the opinion called for by the internal audit objectives in view. The materiality of the matter being examined will influence him, the relevance and reliability of evidence available from each source and the cost and time involved in Obtaining it. Often the auditor will obtain evidence from several sources which, together,

will provide him with the necessary assurance.

### **2.23 Sufficiency of Audit Evidence**

The Internal Auditor needs to obtain sufficient, relevant and reliable evidence to form a reasonable basis for his opinion thereon. His judgement as to what constitutes relevant and reliable audit evidence is influenced by such factors as:

- (a) his knowledge of the business of the university
- (b) the degree of risk of mis-statement through errors or irregularities.

Such risk may be affected by such factors as:

- (i) The nature and materiality of the items being considered;
- (ii) The auditor's experience as to the reliability of the staff and its records;
- (iii) The persuasiveness of the evidence.

### **2.24 Relevance of Audit Evidence**

The relevance of audit evidence should be considered in relation to the overall audit objective, of forming an opinion and reporting on the matter under review. To achieve these objectives, the auditor needs to obtain evidence to enable him to draw reasonable conclusions.

### **2.25 Reliability of Audit Evidence**

Although the reliability of audit evidence is dependent upon the particular circumstances, the following general presumptions may be found helpful:

- (a) Documentary evidence is more reliable than oral evidence;
- (b) Evidence obtained from independent sources outside the university is more reliable than that secured solely from within the university (e.g. information on government grants obtained from the National Universities Commission is more reliable than that from the Bursary);
- (c) Evidence originated by the auditor by such means as analysis and physical inspection is more reliable than evidence obtained from others.

The auditor should consider whether the conclusions drawn from differing types of evidence are consistent with one another. When audit evidence obtained from one source appears inconsistent with that obtained from another, the reliability of each remains in doubt

until further work has been done to resolve the inconsistency. However, when the individual items of evidence relating to a particular matter are all consistent, then the auditor may obtain a cumulative degree of assurance higher than that which he obtains from the individual items.

## **2.26 Obtaining Audit Evidence**

Audit evidence is obtained by carrying out audit tests which may be classified as substantive or compliance according to their primary purpose. Both such purposes are sometimes achieved concurrently.

Substantive tests are defined as those of transactions and balances, and other procedures such as analytical review, which seek to provide audit evidence as to the completeness, accuracy and validity of the information contained in the records. Compliance tests are defined as those tests that seek to provide audit evidence that internal control procedures are being applied as proscribed.

The auditor may rely on appropriate evidence obtained by substantive testing to form his opinion, provided that sufficient evidence is obtained. Alternatively, he may be able to obtain assurance from the presence of a reliable system of internal control, and thereby reduce the extent of substantive testing.

## **2.27 Techniques of Audit Evidence Gathering**

Techniques of audit evidence gathering fall into the following broad categories:

### **(a) Inspection**

Reviewing or examining records, documents or tangible assets. Inspection of records and documents provides evidence of varying degree of reliability depending upon their nature and source. Inspection of tangible assets provides the auditor with reliable evidence as to their existence, but not necessarily as to their ownership, cost or value.

### **(b) Observation**

Looking at an operation or procedure being performed by others with a view to determining the manner of its performance. Observation provides reliable evidence as to the manner of the performance at the time of observation, but not at any other time.

### **(c) Enquiry**



Seeking relevant information from knowledgeable persons inside or outside the university, whether formally or informally, orally or in writing. The degree of reliability that the auditor attaches to evidence obtained in this manner is dependent on his opinion of competence, experience, independence and integrity of the respondent.

(d) **Computation**

Checking the arithmetical accuracy of accounting records or performing independent calculations.

(e) Analytical review procedures

In addition to the above techniques, there are analytical review procedures. These procedures include studying significant ratios, trends and other statistics and investigating any unusual or unexpected variations. The precise nature of these procedures and the manner in which they are documented will depend on the circumstances of each audit. The comparisons that can be made will depend on nature, accessibility and relevance of the data available. Once the auditor has decided on the comparisons which he intends to make in performing his analytical review, he should determine what variations he expects to be disclosed by them. Unusual or unexpected variations, and expected variations which fail to occur, should be investigated. Explanations obtained should be verified and evaluated by the auditor to determine whether they are consistent with his understanding of the university and his general knowledge. Explanation may indicate a change in the method of operations of which the auditor was previously unaware in which case he should reconsider the adequacy of his audit approach. Alternatively they may indicate the possibility of misstatements; in the circumstances the auditor will need to extend his testing to determine whether the misstatements are material.

## 2.28 Summary

In this chapter, we attempted to establish a framework for internal auditing in Nigeria universities thus;

- (i) We examined assumptions underlying recommended internal audit procedures and techniques
- (ii) We compared internal with external audit
- (iii) We looked at the different definitions of internal auditing
- (iv) We examined the necessity for internal audit function in the

universities

- (v) We identified some of the possible areas to which internal auditing may be applied in the universities
- (vi) We examined the place of auditing standards in internal auditing
- (vii) We analysed the scope of authority of internal auditors
- (viii) We discussed the meaning of internal controls, and identified the various types and sources of internal controls in relation to Nigerian Universities
- (ix) We looked at the application of the code of ethics and rules of professional conduct to internal auditing in the universities
- (x) We examined internal audit planning, and place of audit evidence in internal auditing
- (xi) Appendices 1 to 5 summarise selected internal audit standards. (Pages 149 - 158).

## **Chapter Three**

### **Internal Audit Environment in Nigerian Universities**

#### **3.00 Introduction**

Internal Audit is an assigned function. Its effective performance is largely affected by the knowledge of the auditor about the environment in which he is to operate. This Chapter is therefore going to present to the Internal Auditor a brief description of the environment created by the uniform Accounting System and the application software with which the system is being computerized. This is the environment in which he will operate.

#### **3.01 The Uniform Accounting System, UAS**

The case for and against Uniform Accounting System (UAS) for Nigerian Universities was very strong made in section 1.02 of the UAS published by the National Universities Commission in 1996. The case rested mainly on the fact that;

- Improved training and transferability of University Accounting and Auditing personnel will be achieved, so also will be their efficiency on these duties.
- The Uniform coding format that is part of the package will make information storage, retrieval and comparison very easy among the Nigerian Universities.
- A very high level of identical and proper classification of financial transactions will be attained and this will also improve the quality of information available to users of University Financial Statements.

The system responded very significantly to requirements of the NUC for greater fund accounting practices in the University system. The uniform accounting system also identified eleven Major Funds in the system and assigned Fund Codes to them as follows:

1. Recurrent Expenses Fund
2. Research Expenses Fund
3. Capital Projects Fund
4. Teaching and Research Equipment Fund
5. Library Fund
6. Loan Fund

7. Agency Fund
8. Retirement Benefits Fund
9. Endowment Fund
10. Other Funds

The above assignment of Codes to the Funds provides for future creation of other codes within these major ones now identified and in use.

### 3.02 Definition of Fund

A fund has however been defined as a sum of money or other resources, segregated for the purpose of carrying on specific activities or of attaining certain objectives, in accordance with specific regulations, restrictions or limitations and constituting an independent fiscal and accounting entity, with a self balancing set of accounts, consisting of assets liabilities and a fund balance. Thus, separate accounts are maintained for each fund to ensure observance of the limitations and restrictions placed on the use of the resource. University Financial Statements will therefore be restructured to show the major funds, how they have been used, balances, as well as the grossed up effect of all of them on the traditional consolidated accounts of each of the various Universities. A total of 99 codes i.e. 01 - 99 have been allocated to cover the largest possible division of University money into special Funds.

### 3.03 Financial Management Codes

The UAS also provide a revolutionary **chart of accounts** comprising not only the Fund Codes discussed above but also these other codes for classifying other transactions that comprise the Financial Management activities in a University. These include:

Cost Center Codes	01 – 999	=	999 codes
Income Codes	1000 – 1999	=	1000 codes
Expenses Codes	2000 – 2999	=	1000 codes
Assets Codes	3000 – 3999	=	1000 codes
Liabilities Codes	4000 – 4999	=	1000 codes

This extensive coding chart clearly shows the level of details called for by the UAS in the recording of University Financial transactions and the amount of detailed reports that can be generated from the resultant data base of user institutions. It will surely be very difficult to realize the full benefits of the UAS if the system is run manually.

### 3.04 Cost Centre Codes

Cost centers are units or departments created to handle specific aspects of the services or values created and sold to students by the University. A University Degree would have made the best cost center for our Universities, but cost allocation would have been so difficult as to serve any useful purpose. In the UAS therefore, the Department, rather than the School or the Faculty was emphasized. This was also done because of the fact that different Universities placed different Departments in Faculties and Schools not native to them. Even then, the UAS chart considered the existing Faculty grouping of Departments in our Universities in the allocation of codes to the Departments. This can be seen in Section 3.01 of the UAS Manual, which is also reproduced below.

<u>Faculty/School/College</u>	<u>Range of Cost Center Codes</u>
Administrative & Bus Management	100 - 120
Agriculture & Agricultural Technology	121 - 150
Arts and Languages	151 - 170
Science	171 - 190
Education	191 - 220
Engineering & Engineering Technology	121 - 250
Environmental Studies	251 - 270
Law	271 - 290
Social Sciences	291 - 310
Medicine	311 - 360
Pharmacy & Pharmaceutical Science and Technology	361 - 380
Veterinary Medicine	381 - 400
Health Science and Technology	401 - 420
Post Graduate School	421 - 500

Other Cost Centers within the University System were grouped and assigned groups of codes as follows:

Teaching Support Units	501 - 530
Organized Research Units	531 - 560
Other Academic Units	561 - 570

Public Service Units	571 - 600
Central Administration	601 - 650
Services	651 - 680

General expenses, i.e Expenses that are not specific to particular const centers, but affecting the University as a whole were were grouped and assigned cost centers as follows. This is to enable the Application Software, Tetra 2000, assemble and accumulate costs relating to them them in a specified grouping format for ease of retrieval.

General Administration Expenses	701
Academic Expenses	711
Student Services	721
Maintenance	731
Financial Management Expenses	741

In the effort to install the system at one of the universities, it was also found necessary to assign additional cost center codes as follows:

<b>Revenue or Income</b>	<b>000</b>
Assets	002
Liabilities	003

This was to ensure that the general coding format of the UAS, which required a nine-digit code for every transaction, was observed. It must also be noted that for now, the UAS has not recommended the departmentalization of Revenue, Assets and Liabilities. The need for a Temporary Cost Center Code for these groups of transactions till perhaps a later date when the departmental codes will take over was recognized.

### 3.05 Object Codes

The UAS chart of accounts provided for object codes Liability accounts codes as follows:

	<b>Object Codes</b>	<b>Cost Center Codes</b>
1. Recurrent Revenue	1000-1999	000
2. Departmental Expenses	2000 - 2044	Department Code
3. General Admin. Expenses	2045 – 2084	701
4. General Academic Expenses	2085 – 2110	711
5. Student Services Costs	2111 - 2111	721
6. Maintenance	2121 -2140	731
7. Financial Management Expenses	2141-2999	741
8. Fixed Assets	3000-3020	002
9. Assetss from TRE	3021-3040	002
10. Assets from Endowment Fund	3041-3045	002
11. Assets from L. Fund	3046-3056	002
12. Assets from Recurrent Fund	3057-3077	002
13. Current Assets		
(a) Stock stores, Projects	3078-3097	002
(b) Advances & Loans	3098-3104	002
(c) Banks	3105-3199	002
14. Long Term Liabilities	4000-4026	003
15. Current & Other Liabilities	4027-4999	003

Thus, with the three components of the accounts code in place, the UAS recommends a **coding format** comprising:

- |                                |          |
|--------------------------------|----------|
| 1. Fund Code make up of        | 2 digits |
| 2. Cost Center Code made up of | 3 digits |
| 3. Accounts or Object Code     | 4 digits |
| Total =                        | 9 digits |

The following transactions and their codes will provide the needed demonstration of the coding practices under the UAS.

- (a) Payment of contract addition to a staff in chemistry department  
DR Code = 01 - 172 - 2003
- (b) Receipt of under graduate tuition fee

- DR Code = 01-000-1014
- (c) Purchase of drugs for the Staff Clinic  
DR Code = 01-701-2061
- (d) First payment to a contractor handling a building project  
DR Code = 21-002-3011
- (e) Repairs carried out on Staff Bus  
DR Code = 01-731-2127
- (f) Purchase of stationary for stores for re-issue to department on request  
DR Code = 01-002-3080
- (g) Donation to old peoples home  
DR Code = 01-701-2055
- (h) Printing of examination answer sheet for post graduate school  
DR Code = 01 - 421 - 2085
- (i) Receipt of post graduate tuition fee  
DR Code = 01 - 000 - 1002
- (j) Purchase of laboratory equipment from TRE Fund  
DR Code = 31 - 002 - 3021
- (k) Receipt of TRE Fund from NUC  
CR Code = 31- 003 - 4002

Apart from this very comprehensive chart of accounts and other codes, the UAS recommended an organization structure for the Bursary Department and discussed very exhaustively the operations of the constituent units. It also proposed financial regulations, which would complement the system and ensure a tight and effective internal control if duly adopted. While also proposing a number of standard Reports, it clearly pronounced on the need for an integrated accounting and budgeting codes, insisting that benefits from these recommendations will accrue more to those institutions who computerize the system as early as possible.

### **3.06 Efforts of the NUC to computerized the VAS**

The NUC, in its drive to improve Financial Management Services in our



Universities, not only funded the long and expensive drive to the production of the UAS Manual; but also purchased and delivered the required hardware and application software for computerizing the system. The hardware comprised a high capacity Compaq server, two workstations, a printer, a UPS and the required installation materials. The Hardware installation costs were borne by the NUC also. The NUC also commissioned synergy Systems Limited, a Lagos Software Company to install and customize at the 21 Federal Universities, the required UNIX Operating System and the Tetra 2002 application software through which the U AS was to be computerized.

The above has given an introductory idea of the two components of the financial system, which the university internal auditor has to contend with. It is left for him to work hard to have a thorough knowledge of these components of the financial environment to be able to carry out his internal audit assignments successfully.

## Chapter Four

### Internal Audit Role in Fraud Detection and Prevention

#### 4.00 Introduction

It is generally believed that the level of fraud and mismanagement in the university system is considerably lower than that in the other public sectors of the Nigerian economy. There are several reasons for this. The first is that stringent, regulated administrative and financial controls, some of which are statutorily imposed, exist in the system. Second, is that the existence of academic liberty, which permits criticism of management policies and style, serves as a fundamental check on the excesses of management. Third, of course, is peculiar to the universities. Third, the regulatory body, the National Universities Commission (NUC), spends most of its resources in monitoring the proper management and control of federal universities.

Nevertheless, it would be incorrect to assume that the universities are completely free of fraud or fraudulent practices.

The purpose of this chapter, therefore, is to provide guidance to internal auditors on the extent of their responsibilities for the prevention and detection of fraud, other irregularities and errors in the universities. The chapter will also guide internal auditors on the extent to which fraud, other irregularities and errors that have been detected should be reported to management, Government Council and, in certain circumstances, third parties. In doing these, the chapter shall

- a) Distinguish between "errors", and "fraud and other irregularities"
- b) List circumstances under which fraud may occur
- c) Establish that the Governing Council and university management are primarily responsible for fraud prevention and detection
- d) List the steps which Governing Council and university management take to discharge their responsibility for fraud prevention and detection
- e) Show that management establishes the internal audit function to assist management in preventing and detecting fraud, amongst other responsibilities
- g) Advise internal auditors on the actions they should take if fraud is suspected or detected
- h) Identify broadly those to whom internal auditors should report if they detect fraud

However, the chapter does not concern itself with the specific things an internal auditor

should do to discover errors, fraud or other irregularities. The specific things he does to discover errors, fraud or other irregularities should depend on the circumstances of each case.

#### **4.01 Errors, Fraud and other Irregularities Defined**

Fraud and other irregularities may broadly be classified into three main categories:

- a) Fraud, which involves the use of deception to obtain an unjust or illegal financial advantage;
- b) Intentional misstatements in, or omissions of amounts or disclosures from, an entity's accounting records or financial statements;
- c) Theft, as defined by statute, whether or not accompanied by misstatements of accounting records or financial statements

From these three broad categories, we derive the following elements, among others:

- i. Falsification of accounts
- ii. Misrepresentation of facts, figures or data
- iii. Embezzlement
- iv. Defalcation
- v. Misappropriation
- vi. Double payments
- vii. Over invoicing
- viii. Recording of transactions without substance
- ix. Misapplication of accounting policies

The reader must be warned that only the Courts can determine the lawfulness of act. For convenience, however, this manual uses the words fraud and other irregularities to refer to a suspected, rather than proven fraud or irregularity. An internal auditor should therefore not presume that he has substantiated a fraud, the proof of which lies within the jurisdiction of the courts.

The term error, on the other hand, refers to unintentional misstatements in, or omissions of amounts or disclosure from, an entity's records. If a material error which has been identified is not corrected it becomes an irregularity, i.e. an unintentional act is converted into an intentional one.

#### **4.02 Circumstances under Which Fraud May Occur**

This section lists some of the circumstances which may be indicative of

fraud and other irregularities. Generally speaking, 'where one or more of the following situations are present in a system, an internal auditor must plan his work with an eye for the possible presence of fraud and other irregularities:

- a) Evidence of management override of internal controls;
- b) Incompetent control personnel;
- c) Lack of segregation of duties;
- d) Weak internal controls; and
- e) Excessive authority vested in a senior older officer.

From these, several other situations may arise, which should put the internal auditor on inquiry, indicating the necessity for further tests:

**1. Unsatisfactory records/control breakdowns**

- a) Poor accounting records in general;
- b) Evidence of falsified documents; and
- c) Key controls not being operated.

**2. Unsatisfactory explanations for**

- a) Trends or results which do not accord with expectations;
- b) Unusual items or reconciliations or suspense accounts;
- c) The unusual investment of funds held in a fiduciary capacity; and
- d) Large or 'unusual transactions, particularly when close to a period end and especially with banks

**3. Payments**

- a) Substantial payments of fees to consultants or advisers for unspecified service;
- b) Commissions or fees which appear either excessive or unusually low in relation to the normal payments for similar work;
- c) Large payments in cash or by bankers' draft to numbered bank accounts;
- d) Payments made to government officials, including Ministers; and
- e) General lack of supporting evidence.

**4. Others**

- a) Correspondence between the university and the National Universities Commission concerning problems with procedures;
- b) Correspondence between the university and its solicitors, the substance of which is to advise against a particular course of action and which the university has ignored;
- c) Investigation by government department or the police;
- d) Evidence of unduly lavish life styles by officers and employees; and
- e) Minutes of Council concerning problems with procedures

Users of the manual are to note that the above lists cannot be exhaustive. They have been provided to assist internal auditors in the direction of their search.

#### **4.03 Responsibility of Management to Prevent and Detect Fraud**

The primary responsibility for the prevention and detection of fraud, other irregularities and errors rest with the Governing Council of each university. As part of its responsibilities, the Governing Council has the fiduciary role of safeguarding assets since it is regarded at common law as acting in stewardship capacity concerning the property under its control. This primary responsibility is equally statutory as the next section suggests.

#### **4.04 Statutory Provisions on the fiduciary Responsibility of Management in Nigerian Universities**

The statutes establishing each of the Federal universities are fashioned along similar lines. Statutory provisions relating to the property and finances of each university suggest that the Governing Council is responsible for prevention and detection of fraud and other irregularities, since matters related to property and finances fall under its statutory responsibility. Some of these provisions include that:

- a) " ... the Council shall be the governing body of the University and shall be charged with the general control and superintendence of the policy, finances and property of the University ... "
- b) "There shall be a committee of Council, to be known as the Finance and General Purposes Committee, which shall ... exercise control over the property and expenditure of the University ..."
- c) "The Council shall ensure that proper accounts of the University are

kept and that the accounts of the University are audited annually by an independent firm of auditors approved by Council...”

#### **4.05 How Governing Councils Discharge their Responsibility to Prevent and Detect Fraud**

Accordingly, in the exercise of control over the property and expenditure of each University, Governing Councils, either through the Vice-Chancellors or the Finance and General Purposes Committee, discharge their responsibility for the prevention and detection of fraud, other irregularities and errors by, amongst others:

- a) Installing an effective accounting system;
- b) Instituting an appropriate system of internal controls, in addition to those specified by law, and the proper operation of these controls to
  - i) Safeguard the assets and
  - ii) Secure as far as possible the completeness and accuracy of records;
- c) Ensuring that employees understand relevant codes of conduct;
- d) Monitoring relevant legal requirements and ensuring that operating procedures and conditions meet these requirements; and
- e) Establishing an independent internal audit function, as part of its internal control system, to serve as
  - i) A watchdog function enabling management to enforce internal control, safeguard assets from misuse and error
  - ii) A systematic and objective appraisal of operations and controls to determine whether financial and operating:
    - Information are accurate and reliable
    - Risks to the organization are identified and minimized

#### **4.06 Responsibility of Internal Auditors for Fraud Prevention and Detection**

Since management establishes internal audit function as part of its attempt at discharging its fiduciary role of safeguarding assets, the conclusion therefore is that secondary responsibility for the prevention and detection of fraud, other irregularities and errors in each university rests with its internal auditors.

Further, internal auditors in government departments, as a matter of routine, are normally expected to prevent and detect fraud, as part of their assigned functions. Accordingly, the

Federal Treasury Accounting Manual describes the functions of an Internal Audit Unit as "... a continuous examination of all accounting book and records ... with a view to checking or detecting fraud, defalcation..." (underlined for emphasis).

It is instructive for users of the manual to note that the conclusions of this section are true, whether in government departments or other sectors of the economy, but that they contradict the position of external auditors relating to their responsibility for fraud prevention and detection.

#### **4.07 Discharging the Internal Auditor's responsibility**

The preceding section concluded that secondary responsibility for the prevention and detection of fraud, other irregularities and errors in each university rests with its internal auditors. However, this responsibility is not absolute, but depend amongst others, on the scope and depth of authority granted by management to internal auditors. Some of the factors which may vitiate this responsibility are therefore examined below.

#### **4.08 Scope and Depth of Authority**

The scope of work of external auditors is normally set out in their letters of engagement, and/or by statute. The Internal audit function in Nigerian Universities, on the other hand, is governed by policies established by management. The scope of internal auditing activities is therefore subject to management review and approval. For internal auditing to be effective, however, it is essential that, in addition to mutual co-operation between the staff, management and internal auditors, internal auditors must have access to all activities, records, property, and employees as may be necessary to carry out their assigned responsibilities. Also, they must have the right to interview, query, and receive orally or in writing-any explanations that they may require, as they may deem appropriate for 'the proper execution of their duties.

Again, it would seem that for internal auditors to be held responsible for fraud prevention and detection there must exist a prior written description of their scope of duties, authority, and responsibilities, especially with regard to prevention and detection of fraud and other irregularities. If management requires a special examination for irregularities or fraud, then this should equally be specified in written form. This is necessary to avoid misunderstanding between internal auditors and other officers of the university, especially those specifically assigned with certain statutory responsibilities which may relate to internal auditors' assumed scope of work. It is equally necessary to do this by reason of the fact that

internal auditors' responsibilities in Nigerian universities are not specified in the various laws establishing the universities. Such responsibilities may however be implied under common law, in certain circumstances.

#### **4.09 Planning and Conduct of the Audit**

Where an internal auditor demonstrates that he adequately plans his work in line with the relevant auditing guidelines, and that he carries out his work in line with approved audit plans, his responsibility has been fulfilled.

In planning and controlling his audit, an internal auditor seeks to obtain - reasonable assurance that the areas to be examined do not contain a material misstatement. In reaching a decision as to the balances to be tested and the transactions to be examined, the internal auditor must consider information available from his knowledge of the university and prior experience in a work of similar nature, if applicable. More specifically, the procedures he adopts to provide a reasonable expectation of detecting material fraud, other irregularity or error will depend on his judgement as to:

- a) The risk that such fraud, other irregularities or errors can occur and remain undetected otherwise by the university; and
- b) The risk that a particular type of fraud, other irregularity or error could impair the corporate goals of the University; and
- c) The relative effectiveness of different audit test.

He should neither assume that management is dishonest nor assume unquestioned honesty when planning, performing and evaluating the results of his audit procedures. However, he should recognize that audit evidence needs to be evaluated objectively to determine whether the records before him are free of material misstatement. Because of the characteristics of fraud and other irregularities, particularly those involving forgery and collusion, a properly designed and executed internal audit may not necessarily detect a material fraud or other irregularity.

For example, audit procedures that will usually be effective for detecting a misstatement that is unintentional may be ineffective for a misstatement that is intentional and is concealed through collusion among management or members of staff. The internal auditors report is based on the concept of reasonable assurance, and does not constitute a guarantee that the area under examination is free of misstatement. Therefore, the subsequent discovery that a material misstatement exists is not necessarily evidence of inadequate planning, performance, or evaluation on the part of the internal auditor. The next section will examine, and make some recommendations on what an internal auditor should do where he



suspects, or discovers fraud, other irregularities or errors.

#### **4.10 Action to take on Discovering Fraud**

If during the course of his work the internal auditor identifies the possible existence of a fraud, other irregularity or error the following action should be taken.

- (i) He should endeavour to clarify whether a fraud, other irregularity or error has occurred. Where his suspicions are aroused, he should consider taking copies of any original records which give rise to his suspicions. Unless fraud by senior management is suspected, the auditor should inform senior management of his suspicions. The internal auditor should then perform such additional testing as is required in order to quantify the amount of the fraud, other irregularity or error analyzing and projecting the results of the tests as appropriate.
- (ii) Where a fraud, other irregularity or error has been identified, the auditor should consider its nature, cause and likely effect on the corporate goals of the university. Full notes or minutes of any conversations or meetings with affected officers on the subject should be made.
- (iii) When the auditor has determined that a fraud or other irregularity has or may have occurred, he should reconsider the reliability of any audit evidence which he may have obtained on that or any other matter. The action taken by the auditor will depend on the nature of the fraud or other irregularity, e.g. fraud by senior management would cast doubt on representations previously received from those suspected on having been involved.
- (iv) Where he suspects that a fraud or irregularity which may have material financial implications has occurred, he should first consider whether to take advice from the university's lawyers. Where it would not be appropriate to approach the university's lawyers, he should consider taking his own legal advice as to whether in fact a breach of the law is involved, the possible legal consequences and what further action, if any, he should take.

The next few paragraphs shall look at how an internal auditor should route his report where he discovers, or suspects, fraud, other irregularities and errors.

#### **4.11 The Internal Auditor's Responsibility for Reporting**

##### **4.11.1 Report to Management**

- a) The Internal Auditor should normally report to the Vice-Chancellor all fraud, other irregularities or material errors brought to light by the Audit. The Auditor may also make recommendations of good practice in order to assist in the prevention of further occurrences. Such recommendations should be included in his report
- b) In the case of errors, provided material errors are corrected, no further reporting action may be necessary unless there is a specific written requirement or in compliance with statute.
- c) In the case of fraud and other irregularities where the auditor suspects that management may be involved in, or that management may be condoning fraud or other irregularities, it is particularly important that he reports promptly to the Vice Chancellor (provided it is not the Vice-Chancellor himself who is involved), appropriate advice may be required if the auditor believes that senior management, including members of Governing Council, is involved, or if he believes that his report may not be acted upon, or if he is unsure as to the person to whom he should report. Also there may be exceptional occasions when it is necessary for the auditor to report direct to a third party without the knowledge or consent of management.

#### **4.11.2 Report to Third Parties**

- a) Confidentiality is an implied term in a contract of employment. The duty of confidence, however, is not absolute. In certain exceptional circumstances the internal auditor is not bound by his duty of confidence and can disclose matters to a proper authority in the interest of the university or for other specific reasons. He needs to weigh the interest of the university in maintaining confidential employer-employee relationships against interest of the university in disclosure to the proper authority. A determination of where the balance of interest of the university lies will require careful consideration, In many cases, an internal auditor whose suspicions have been aroused will have to decide on whether his misgivings justify his carrying the matter further or are too insubstantial to deserve report.
- b) Whilst interest of the university is a concept which may be recognized by the courts, no definition appears ever to have been given by the courts. The internal auditor has to decide whether he considers disclosure of the matter justified in [the Interest of the

university. Matters which should be considered when deciding on this may include the following:

- i) The extent to which the fraud or other irregularity is likely to result in a material gain or loss to any person or is likely to affect a large number of persons,
  - ii) The extent which the non-disclosure of fraud or other irregularity is likely to enable It to be repeated with impunity
  - iii) The gravity of the matter:
  - iv) Whether there is a general management ethos within the University Flouting the Law and regulations;
  - v) The weight of evidence and the internal auditor's assessment of the likelihood that a fraud or other irregularity has been committed.
- c) The internal auditor may need to take legal advice before deciding on whether the matter should be reported to a proper authority in the interest of the university.
- d) Where it is in the interest of the university to disclose and where information is disclosed to an appropriate body or person and there is no malice motivating the disclosure, the auditor is protected from the risk of breach of confidence or defamation. The internal auditor retains the protection of qualified privilege only if he reports matters to one who has a proper interest to receive information. Which body or person is the proper authority in a particular instance will depend on the nature of the fraud or other irregularity. In cases of doubt, the auditor should consult his professional association. The auditor also receives the same protection even if he only has a reasonable suspicion of a fraud or other irregularity. An auditor who can demonstrate to the court that he has acted reasonably and in good faith in informing the proper authority of a criminal offence which he thinks has been committed, would not be held in breach of duty to his employer even if, on investigation or prosecution having occurred. it were found that there had been no offence.
- e) Where the internal auditor becomes aware of a fraud or other irregularity which he considers ought to be reported to the proper authority in the interest of the university. he should take the following action.
- i) He should ensure that the matter is drawn to the attention of the Vice-Chancellor, requesting him reports to the proper authority He should subsequently obtain evidence to establish that the matter has been reported. In the absence of such evidence, or if the Vice-Chancellor refuses to inform the proper authority within the specified time, the auditor should report the matter direct to the

proper authority.

- ii) In circumstances where there has been an occurrence which causes the internal auditor to no longer have confidence in the integrity of the Governing Council, e.g. where he believes that a fraud or other irregularity has been committed or condoned by the Governing Council or he has evidence of the intention of the Governing Council to commit such a fraud or other irregularity, it may be inappropriate to discuss this matter with a more senior level of management such as the Chairman of Council. In such cases, where the auditor has decided that the matter should be disclosed in the interest of the university, he should report direct to the proper authority.
- iii) The internal auditor should satisfy himself that his decision to report will stand up to examination at a future date on the basis of the following considerations:
  - what he knew at the time;
  - what he should have known in the course of his audit;
  - what he should have concluded; and
  - what he should have done.
- iv) The internal auditor should also consider any possible consequences in the event of financial loss occasioned by fraud or other irregularity of which he is aware or should be aware but decides not to report. In certain other circumstances, he is not bound by his duty of confidentiality and has a legal obligation to disclose fraud or other irregularities. For example:
  - The auditor may be obliged to make disclosure of the commission of criminal offence, if ordered to do so by court or a government officer empowered to request such information.
  - He is obliged to disclose information to inspectors appointed under the Public Enterprises Regulatory Commission Decree of 1996, and other Similar enactments
- v) He may wish to consider taking legal advice in these and similar situations as to whether the particular circumstances lead him to having a legal obligation to disclose.
- vi) An auditor may disclose to the proper authority information concerning his employers, where the internal auditor's own

interests require disclosure of that information. This may become necessary, for example,

- to enable an internal auditor to defend himself of a criminal charge;
- clear himself of suspicion;
- to resist proceedings for a penalty in respect of an alleged offence; or
- to have information to the police regarding arrangements which are known or suspected to be designed to assist a person to retain or control the proceeds of drug trafficking.

Proper person or authority, as used in this section of the manual may be interpreted to include the Executive Secretary of the National Universities Commission, the Chancellor of the University, amongst others. A report could equally be made to the Visitor or his agents, which may include the Minister of Finance, the Minister of Education, the Auditor General of the Federation, and the Accountant General of the Federation.

#### **4.12 Concluding Summary**

In this chapter we

- a) distinguished between "errors" and "fraud and other irregularities"
- b) listed circumstances under which fraud may occur
- c) established that the Governing Council and university management are primarily responsible for fraud prevention and detection
- d) listed the steps which Governing Council and university management could take to discharge their responsibility
- e) showed that management establishes the internal audit function to prevent and detect fraud, amongst other responsibilities
- f) identified some of the factors which may extinguish internal auditors' responsibility for fraud prevention and detection
- g) advised internal auditors on the actions they should take if fraud is suspected or detected
- h) identified broadly those to whom internal auditors should report if they detect fraud.

### **Chapter Five**

## **The Internal Audit Report**

## **5.00 Introduction**

Standard manuals serve as guides which demonstrate procedural approach to a function. They do not replace formal training. Therefore, the chapter reminds readers of some of the approaches to internal audit reports. Some fundamental concepts relating to the theory of internal auditing which are relevant to good internal audit reports shall be discussed in an attempt to review selected internal audit reporting approaches. To do all these, the chapter shall

- a) Look at the importance of internal audit reports
- b) Discuss the nature of these reports
- c) Examine materiality concept, features of materiality, the process of materiality judgements in relation to internal audit reports
- d) Look at a suggested outline of internal audit reports
- e) Discuss the contents of internal audit reports, and suggest various options of presenting internal audit reports by listing some internal audit reporting standards which may be adapted for use by university internal auditors.
- f) The chapter shall end by giving a sample internal audit report to demonstrate the points raised in (a to e) above.

## **5.01 Importance of Internal Audit Reports**

Internal audit report is an important output of the Internal Audit Unit of any university. It keeps management informed of weaknesses in the system and suggests ways of strengthening the system. Findings and recommendation in summary form assist management in taking action necessary for the overall effectiveness of a university. For any report to make any impact on the intended users, it must be written for effective communication. Accordingly, communication skill is an essential tool for a sound internal audit report. The Internal Auditor must therefore be thoroughly conversant with effective communication principles. His reports must clearly identify his intentions, which must be objective.

## **5.02 Nature of Internal Audit Reports**

The reporting stage is the internal auditor's opportunity to capture management's undivided attention. To be effective, a report should not be unduly long, tedious, technical, or laden with minute details. It must be accurate, concise, clear and timely.

There is no standard form for internal audit reports and there will likely never be one; given the diversity of assignments and the diversity of

managers' abilities and interests.

Internal audit reports are not standardized as are external auditors' reports on financial statements. Each report is different because internal auditors need to communicate findings on a variety of assignments and audit objectives. Unlike external audit reports, internal audit reports are usually considered "open" until a formal written reply to the recommendations is received from the management of the audited unit or department. This reply, which would also go to the same people as the audit report would indicate whether recommendations were implemented or which were considered not acceptable. Only after the written response is received is the audit considered closed. Another procedure unique to internal audit reporting is that the criticisms and recommendations are usually reviewed with the audited management before they are included in the final report. The key criterion for such a report is its ability to communicate clearly and concisely.

### **5.03 Materiality of *Contents***

This manual considers materiality, in the context of internal audit reports, as the magnitude of an omission or misstatement of information that, in the light of surrounding circumstances, makes it probable that the judgement of management relying on the information would have been changed or influenced by the omission or misstatement. Implied in this definition is that for an item of information to be material, it must be of relevance. Relevance has been defined as the capacity of information to make a difference in a decision by helping managers to form reasonable opinion about the matter under consideration or to confirm or correct prior expectations.

### **5.04 Features of Materiality**

The main features of materiality include the following:

1. It relates specifically to judgements in internal auditing and reporting;
2. These judgements concern the minimization of distortions in reporting;
3. The judgemental process of minimizing report distortions is the responsibility of internal auditors;
4. The concept of materiality cannot be treated as a matter solely relating to accounting-it also impinges significantly on the work of the auditor;
5. Materiality is a topic common to all reporting of all entities;
6. The origins of materiality lie in the accounting and legal pursuit of more effective reporting; and

7. The concept of materiality IS related fundamentally to the specification of internal audit reporting objectives

### **5.05 Materiality Judgments**

Materiality decisions require a consideration of at least two distinct elements. These are:

1. The nature of the item and,
2. The financial value attributed to it.

An item's nature determines its relevance for disclosure purposes - in other words, if it is potentially relevant to the needs of management. However, the crucial point is whether it is relevant irrespective of the financial amount involved. This requires knowledge of the needs of management.

However, the usual care will involve items whose relevance must be regarded in terms of the materiality of the values attributed to them for reponing purposes and, in such situations, the most significant feature is the size of these values in relation to other connected matters. Not only do internal auditors need to know about management's expectations; they also have to make important judgements concerning the relationships of different data within the reporting context.

A number of factors need to be considered when making decisions concerning the materiality of an item.

1. The most fundamental intluences on materiality are the needs of management as well as internal auditors' knowledge and experience of the university and its operations.
2. Internal Auditors must distinguish between what it is usual and what is unusual within the context of their various universities. They must also be able to relate circumstances identified as unusual to the information needs of management;
3. The general condition of uncertainty has a considerable part to play in materiality decisions. The more uncertainty there is in an item under consideration, either in terms of their financial value, or their importance to management, the more sensitive the internal auditors will be in their judgment of materiality.
4. The nature of certain transactions may cause them to be regarded as less material for disclosure than those of a more relevant nature. Thus, the internal auditor must be in a position to judge whether a particular item is of a relevant nature or not. This will obviously depend on his knowledge and experience of the



university and its operations but, in many cases and despite these attributes, it may be exceedingly difficult to judge the relevance or otherwise of a transaction.

There are generally no definitive, quantitative guidelines on materiality concept. Some of the more common factors internal auditors' uses in making materiality judgements are:

- a) **Absolute Size:** An amount of potential misstatement may be important regardless of any other considerations. Not many internal auditors use absolute size alone as a criterion because a given amount may be appropriate in one case and too large or too small in another.
- b) **Relative Size:** The relation of potential misstatement to a relevant base number is often used. For example, potential misstatements in loan and advances to staff may be related to the trend of loan balances in the preceding financial years. The base may be gross revenue or contributions or some other important base.
- c) **Nature of the Item or Issue:** An important qualitative factor is the descriptive nature of the item or issue. An illegal payment is important primarily because of its nature as well as because of its absolute or relative amount. A misstatement in segment information may be small in relation to the total business but important for analysis of the segment. Generally, potential errors in the more liquid assets (cash, receivables, and inventory) are considered more important than potential errors in other accounts (such as fixed assets and deferred charges).
  - a) **Circumstances:** Internal auditors generally place extra emphasis on lesser permitted misstatement or weaknesses in Units/Department vital to the corporate survival of their universities. In such cases, internal auditors tend to exercise more care and use a more stringent materiality criterion.
  - b) **Uncertainty:** Matters surrounded by uncertainty about the outcome of future events usually come under more stringent materiality considerations.
  - c) **Cumulative Effects:** Internal auditors must evaluate the sum of known or potential misstatements. Considering five different ₦10,000 mistakes which all increase or decrease cash holdings as immaterial is inappropriate when the cash holdings materiality limit is ₦25,000.

Reporting should focus generally on information, which IS regarded as relevant, and specifically on that which is material.

### 5.06 An outline of Internal Audit Report

Some internal auditors use the following outline to guide their presentation of reports to management:

- (a) The use of cover, indexing to paragraphs
- (b) The cross-referencing of summaries to full report and the placing of recommendations next to related findings
- (c) The use of flowcharts and tables in order to present findings
- (d) The use of plain words and avoidance of emotive statements
- (e) The avoidance of lengthy descriptions of systems on which no comment is offered or required.

### 5.07 Contents of Internal Audit Reports

The scope of an internal audit report should embrace all areas being audited and findings must be thoroughly substantiated in accordance with established procedures.

Standardized terminology for accounts, jobs, etc. should be used.

The contents of a good audit report are as varied as internal audit objectives. The next few paragraphs shall attempt to survey some of the recommended options considered relevant to this work. However, the Internal Auditor must always assure himself that the option adopted suits the specific circumstances of each case.

### 5.08 Government/Internal Audit Reporting Standards

The US Government/Internal audit reporting standards, Reporting Standards for Economy and Efficiency Audits and Program Results Audits, lists the following reporting standards and guidelines. The standards and guidelines not only suggest the content and nature of internal audit reports that comply with them, but also give guidance on the routing/distribution of such reports, as well as on the other matters related thereto.

1. Written audit reports are to be prepared giving the results of each internal audit.
2. Written audit reports are to be submitted to the appropriate officials of the organization audited and to the appropriate officials of the organizations requiring or arranging for the audits unless legal restrictions or ethical considerations prevent it. Copies of the reports

should also be sent to other officials who may be responsible for taking action on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.

3. Reports are to be issued on or before the dates specified by law, regulation, or other special arrangement. Reports are to be issued promptly so as to make the information available for timely use by management and by legislative officials.
4. The report shall include:
  - a. A description of the scope and objectives of the audit.
  - b. A statement that the audit (economy and efficiency or program results) was made in accordance with generally accepted government auditing standards
  - c. A description of material weaknesses found in the internal control system (administrative controls).
  - d. A statement of positive assurance on those items of compliance tested and negative assurance on those items not tested. This should include significant instances of non-compliance and instances of or indications of fraud, abuse, or illegal acts found during or in connection with the audit. However, fraud, abuse, or illegal acts normally should be covered in a separate report, thus permitting the overall report to be released to the public.
  - e. Recommendations for actions to improve problem areas noted in the audit and to improve operations. The underlying causes of problems reported should be included to assist in implementing correction actions.
  - f. Pertinent views of responsible officials of the organization, program, activity, or function audited concerning the auditors' findings, conclusions, and
  - g. A description of noteworthy accomplishments, particularly when management improvements in one area may be applicable elsewhere.

h. A listing of any issues and questions needing further study and consideration

- i. A statement as to whether any pertinent information has been omitted because it is deemed privileged or confidential. The nature as such information should be described, and the law or

other basis under which it is withheld should be stated. If a separate report was issued containing this information, it should be indicated in the report.

5 . The report shall:

- a. Present factual data accurately and fairly. Include only information, findings, and conclusions that are adequately supported by sufficient evidence in the auditors' working papers to demonstrate or prove the bases for the matters reported and their correctness and reasonableness.
- b. Present findings and conclusions in a convincing manner.
- c. Be objective
- d. Be written in language as clear and simple as the subject matter permits.
- e. Be concise but at the same time clear enough to be understood by users.
- f. Present factual data completely to fully inform the users.
- g. Place Primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in a balanced perspective considering any unusual difficulties or circumstances faced by the operating officials concerned.

#### **5.09 American Institute of Certified Public Accountant's Government/Internal Audit Reporting Standard**

The American Institute of Certified Public Accountant' Statements on Auditing standards equally list the following internal audit reporting standards and guidelines.

Again, the standards and guidelines not only suggest the content and nature of internal audit reports that comply with them, but also give guidance on the routing/distribution of such reports, as well as on other matters related thereto.

- |   |  |
|---|--|
| <p>(l). Written audit reports are to be submitted to the appropriate officials of the organization audited and to the appropriate officials of the organization requiring or arranging for the audits unless legal restrictions or ethical considerations prevent it. Copies of the reports should also be sent to other officials who may be responsible for taking action and to others</p> |  |
|---|--|

authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.

- (2) A statement in the auditor's report that the examination was made in accordance with generally accepted government auditing standards for financial and compliance audits will be acceptable language to indicate that the audit was made in accordance with these standards.
- (3) Either the auditor's report on the entity's financial statements or a separate report shall contain a statement of positive assurance on those items of compliance tested and negative assurance on those items not tested. It shall also include material instances of non-compliance and instances or indications of fraud, abuse, or illegal acts found during or in connection with the audit.
- (4) The auditors shall report on their study and evaluation of internal accounting controls made as part of the financial and compliance audit. They shall identify as a minimum:
  - (a) the entity's significant internal accounting controls
  - (b) the controls identified that were evaluated.
  - (c) the controls identified that were not evaluated (the auditor may satisfy this requirement  
by identifying any significant classes of transactions and related assets not included in the study and evaluation), and
  - (d) the material weakness identified as a result of the evaluation
- (5) Either the auditor's report on the entity's financial statements or a separate report shall contain any other material deficiency findings identified during the audit not covered in (3) above.
- (6) If certain information is published from general disclosure, the report shall state the nature of the information omitted and the requirement that makes the omission necessary.

From the foregoing, one may summarize the standards as follows:

### **5.10 Summary of Reporting Guidelines**

- a) Give an opinion/recommendation/findings or suggestions borne out of the facts, data and information obtained in the course of audit
- b) List scope/extent of work done in the course of audit.
- c) Consider the degree of management interest
- d) The report must clearly and directly identify the problem
- e) The report must be able to persuade management to accept as valid or true, the situation described by or the information given in the

report

- f) The report must be timely. Timeliness is so important that report rendered after policy decisions become useless
- g) It must contain potentials for improvement of the status quo ante.
- h) Internal audit reports must and should come independent of disputes or controversies between audit personnel producing the report and repartee to whom the report is directed.
- i) An Internal audit reports normally shows:
  - (i) Scope, extent and character of the audit work done and;
  - (ii) The opinion of the Internal Auditor on item under examinations
- j) The opinion contains an informed judgement or belief of the Internal Auditor
- k) An Internal Auditor is required to express an opinion on various matters.

The above options should serve as guides to university Internal Auditors. But, as has been noted earlier, the option taken, whether included in this manual or not, should aid effective communication of findings and recommendations.

### **5.11 An Example of Internal Audit Report**

The next table demonstrates an example of a good internal audit report on the evaluation of transportation operation of the Works Department of a University. The report begins with a summary or overall conclusion that conveys the essential findings and captures the reader's attention.

## Internal Audit Report (Excerpts)

**UNIVERSITY OF XYZ**

### *Memorandum*

From: Director of Audit

To: Vice-Chancellor

Date: 18 February 1,2xxx

**Subject: A Regularly Scheduled Review of Transportation Operation of Works Department Audit Highlights**

Prior Audit: No deficiency findings

Audit Coverage: 1. Equipment maintenance and vehicle dispatching  
2. Fuel, parts and repair services.

Overall Opinion: In general, the operation was functioning in a reasonably Satisfactory manner. We found some control weaknesses. The most serious involved the lack of separation of duties in the procurement of parts and services. Steps are being taken to correct these weaknesses.

Executive Action

Required: None

### Summary

#### Report

Foreword:

This report covers the result of our regularly scheduled review of the activities of the Transportation Department. Our last review of the department's activities disclosed no deficiencies

The department's primary responsibilities are

- (1) to transport personnel and materials and
- (2) to maintain and repair automotive equipment

At the time of our review, about 50 employees were assigned to the department. Operating costs (excluding labour) for equipment rental, repair parts and services, and fuel and nil are projected to reach about N9,000,000 for 2XXX.

Mileage for the year will total about 10,000

During this review, we issued one progress report to bring to management's attention certain matters requiring prompt corrective action.

Purpose:

We have made an examination of the Transportation Department's principal activities to determine whether they were being controlled adequately and effectively. In performing our review, we examined the system of controls concerned with the following activities.

1. **Equipment maintenance and vehicle dispatching, including:** (a) Scheduling preventive maintenance inspections  
(b) Performing regular maintenance and repairs, and  
(c) Dispatching cars and buses.

2. **Ordering, receiving, and disbursing fuel and parts and obtaining automotive repair service Opinions and Findings:**

We formed the opinion that adequate controls had been provided over the activities we reviewed, except for lack of separation of duties in the procurement of parts and services. Some other matters of lesser significance likewise involved control weakness. We also formed the opinion that despite the control weaknesses we had discovered, the functions we reviewed were being performed in a generally satisfactory manner. Our conclusions and findings on each of the groups of activities covered in our examination are summarized in the following paragraphs,

Equipment Maintenance and vehicle Dispatching:

Adequate controls have been provided to make sure that,

- (1) ~~automotive equipment would receive inspection and preventive maintenance in accordance with manufactures' recommendations and;~~
- (2) truck and car dispatching would be accomplished in accordance with established procedures

We examined preventive maintenance reports and related control records and satisfied ourselves that maintenance was being properly scheduled, monitored, and performed. We also examined documentation supporting vehicle dispatching and observed the dispatching operations: we concluded that dispatching was being adequately controlled and performed.

**Ordering, Receiving, and Disbursing fuel and Parts, and Obtaining Vehicle Repair services**

Controls had been provided to make sure that fuel, parts, and outside repair services were.



- (1). Ordered when needed,
- (2). Recorded upon receipt, and
- (3). Properly approved for payment; and that the disbursement of fuel and parts was adequately documented.

We found however:

- (1) a lack of appropriate separation of duties in the procurement of parts and services, and
- (2) what we considered to be inadequate surveillance over the withdrawal of fuel and oil by vehicle operators, These matters are discussed more fully in the Supplement to this Summary Report.

We examined representative samples of:

- (1) reports, records, and blanket purchase orders covering the procurement and receipt of supplies and services, and the logs and records covering fuel withdrawals.

Despite the control weaknesses, we concluded on the basis of our tests that the functions were being performed in a reasonably satisfactory manner. We made an analysis of the fuel pump meter records and compared them with the amounts of fuel recorded by vehicle operators. The results showed little variance between the two, indicating that fuel withdrawals were being properly recorded.

The deficiency findings previously mentioned are discussed in Supplement which follows and are summarized at the end of the Supplement, along with the referrals for completion of corrective action.

(Signed);

Auditor in charge

Supervising Auditor

(Signed):

Director of Audit

## Supplement to Summary Report

Details of Deficiency findings:

1. There was no separation of functional authority in the procurement of parts and services, and effective administration of labour-hour agreements was beyond the Transportation department's resources.

Blanket Purchase Orders (BPOs) have been issued for the procurement of parts and

services.

The Bursary Department has assigned to the Transport Department all authority and responsibility for controlling (a) release of orders under the BPOs to suppliers, (b) receipt, inspection, and acceptance upon delivery; and (c) approvals of invoices for payment.

In practice, all of these functions are performed by the transport manager or by one or two people under his direct control and supervision. Thus, there is none of the protection normally afforded by the separation of such functions among personnel of independent, 12 departments, such as establishing requirements, ordering, receiving, inspection, and approving for payment.

Because of the lack of separation of duties, we made an extensive examination of the system and of transactions, but we found no basis for questioning any of the charges. Nevertheless; we recommend that management review this condition with a view toward implementing some reasonable control through assignment of some of the key' functions to the Bursary Department.

We discussed this matter with' transport manager and he informed us they intend to review the method used at other major departments of the university to determine whether any of their practices may warrant adoption.

2. Petrol and oil were being withdrawn by employees without adequate surveillance.

Since our last' examination, the department reassigned the service station attendant who had recorded petrol and oil disbursements on the form provided for that purpose.

Under present practice, the vehicle operator serves himself and records his own withdrawals of petrol and oil, without surveillance. There is no assurance, therefore, that the records are maintained accurately or that the information is always entered.

Hence, the dangers of misappropriations are increased. We estimate that the total yearly petrol withdrawal will approximate 100,000 litres at a cost of about ₦2,200,000.00.

We recognize that the benefits of control must be weighed against the costs of control.

Nevertheless, we recommend that management consider some means of surveillance even on a spot-check basis to provide minimum elements of control.

We discussed this matter with the transport manager and he indicated' that appropriate surveillance would be conducted over fuel 'pump operations.

Summary of Findings Requiring Corrective Action

The matters requiring corrective action are summarized as follows:

1. There was no separation of functional authority in the procurement of parts and services.
  2. Petrol and oil were being withdrawn by employees without adequate surveillance.
- Finding 1 is referred jointly to the management of the Bursary Department and the Transport Manager for corrective action. Finding 2 is referred to the Transport Manager for corrective action.

## **5.12 Distinction between Internal Audit Reports and Internal Audit Certificates**

- i) Internal Audit Reports have been discussed in the preceding paragraphs.
- ii) Certificate: - the term certificate is used where the Internal Auditor verifies certain exact facts. An Internal Auditor's Certificate confirms that he has verified certain precise figures and is in position to vouchsafe/confirm their accuracy as in line with an examination of related documents and books. In the Universities, most of the statement of expenses presented by Researchers, Cash Advances, and transaction for supplies to the Departments are of the nature where the Internal Auditor is required, either as a matter of routine or by Head of Departments and/or Management, to certify that the transactions have in fact been undertaken according to terms and specifications either of Local Purchase Orders or Orders.

## **5.13 The Auditor and Auditee**

It is important that there should always be a forum of understanding between the auditor and auditee, so that misunderstanding and mistrust are removed. The auditor should give the auditee every opportunity to defend and explain himself on any lapses observed before a report is prepared. All findings must be discussed with those being audited so that correct information is passed to management. The auditor should adopt a favourable behaviour in such a way as to portray himself as a servant rather than a boss so that reportees' cooperation is obtained to make reports trouble free in the eyes of management. Weaknesses should be corrected in consulting rather than policing attitude. The auditor should try to assure the reportee that both of them are at the service of the same organization whose main aim is betterment of conditions and attainment of intended objectives. It is important that Internal Auditors should understand human relations and maintain a satisfactory relationship with auditees.

## **5.14 Summery**

In this chapter we looked at the importance of internal audit reports; we discussed the nature of these reports: we examined materiality concept, features of

materiality, the process materiality judgements in relation to internal audit reports: suggested an outline on internal audit reports. We also discussed the contents of internal audit reports, and suggested various options for presenting internal audit reports by listing some internal audit reporting standards which may be use by university internal auditors. The chapter ended by giving a sample internal audit report to demonstrate the points raised therein.

## Chapter Six

### Internal Auditing in a Computer-Based Environment

#### 6.00 Using computers to assist in the functions of Internal Auditors

Auditors face a work environment that is growing increasingly complex. Resources are limited and schedules are tight, while the volume of information handled daily is vast. Yet, auditors are not only expected to perform in-depth analysis, but to add value to their organisations. These are no easy challenges. However, in today's fast-moving technological world, they can be surmounted, not with the sorting and summary capabilities of spreadsheets. **but with software designed specifically for internal audit.**

By providing increased effectiveness, greater efficiency, and better use of resources, internal audit applications are supporting and enhancing the role of internal auditors. Internal audit is moving from being a "watchdog" to a valuable management partner, enhancing its involvement and image within the organisation. Implementing an appropriate software will help position the Audit Unit even better for its role and will give auditors the tools they need to make recommendations for an improved and better managed organisation.

#### 6.01 Benefits of a Computer-Based Internal Audit system

Compelling reasons to use Computer-based technology include benefits from the automation of processes and the reduction of the workload. Computers can store data and analytical tools can be applied to turn the data into information that helps the Internal Auditor in taking decisions. Auditing software does not automate everything that an auditor does, but it helps the auditor to be more efficient by making accurate information readily available and making the job a whole lot easier. Benefits to be derived include:

##### a) **Improved Effectiveness**

Built-in functions in Internal Audit software for interactive and automated analysis of data allows for an audit methodology to be followed while investigating exceptions at any time, resulting in improved effectiveness.

##### b) **Greater Efficiency**

The diversity of data types and storage options has often meant using multiple tools for data access (database packages, spreadsheets ... ). With an appropriate and effective Internal Audit package a single tool would be used to access almost any type of data, which means:

- Lower acquisition, maintenance, and training costs
  - Higher productivity because auditors do not have to learn multiple software skill-sets
  - Greater consistency across the organisation with standard toolkits
  - More thorough investigations as discrepancies between file types or locations can be easily identified
- c) **Better Use of Resources** - Internal Audit application's easy to use features and built-in automation allow tasks once reserved for computer experts to be shared throughout the audit department. Simple English-language commands and a user-friendly interface allow users to focus on applying their expertise, rather than on learning how to use the tool. The result: lower costs, more consistency, increased confidence, and more effective audits.

## 6.02 A computerised Uniform Accounting System

The Uniform Accounting System was computerised using the Tetra 2000 accounting package. Tetra 2000 is developed within a Relational Database environment and operates across a number of operating systems including UNIX. This allows it to run on almost any hardware platform and ensures that the application keeps pace with the evolving Open Systems developments.

The ability to integrate with a number of third party databases means that Tetra 2000 can co exist with third party or in house software developments. Tetra 2000 is designed to operate across a wide range of configurations from 5 to 10 user systems through to large network environments supporting many hundreds of terminals. It can handle a large throughput of transactions in a multi user environment.

Tetra 2000 has a choice of comprehensive and integrated modules including:

- \* General Ledger
  - Basic General Ledger
  - Budgets
  - Accounts Schedules
  - Consolidation
  - Allocations
- \* Cash Manager

- Bank Account Management
- Cheque Writing
- Bank Reconciliation
- \* Sales & Receivables
  - Basic Receivables
  - Sales Invoicing
  - Sales Invoice Discounts
  - Customer/Item Discounts
  - Sales Order Management
- \* Purchases & Payables
  - Basic Payables
  - Purchase Invoicing
  - Purchase Invoice Discounts
  - Purchase Order Management
  - Requisition Management
- \* Inventory
  - Basic Inventory
  - Multiple Sales Prices
  - Alternative Vendors
  - Wide coverage
  - Multiple Currencies
  - Multiple Languages
- \* Fixed Assets
- \* System Manager
- \* Design

Report Designer

Form Designer

Table Designer

The Tetra 2000 software package was chosen because officials of the NUC were using it and were indeed very familiar with it. It can run on DOS, Novell and of course the UNIX Operating System, which was chosen by NUC to achieve an expandable multi user platform. The package consists of a suit of 8 modules, which can be integrated, to provide accounting solutions, for a variety of financial and resource management problems. The modules include, Payroll, Fixed Assets, Sales Ledger, Purchase Ledger, Cash Book, Stock Control, and Job Casting. Others are, the Nominal Ledger, Report Writer and Data Manager. Some of its notable features are that, it can operate multiple currency accounts: it allows you to define your accounting period and can also handle VAT deduction and accounting. It has a report generating facility in the Nominal Ledger module for the formatting and generation of reports as needed from the Nominal ledger database. The interface module in the package can be used to link accounting data to spreadsheets such as Lotus 123. The main complaint one can raise for now on this package is omission of context sensitive online help facility, which would assist users in the course of operations. The package is also keyboard intensive and so operators have to keep a lot of notes to enable them recall how current problems were tackled in the past.

Tetra 2000's modular approach to accounting means that OUI Universities need not install and run all the 13 modules or the 10 or 11 that were supplied to them at the same time.

They can start with the modules they have to take off with and as they get more familiar with the system, other modules can be added on the integrated. Integration is also one of the main features of Tetra 2000. This means that modules installed and integrated pass information from one another swiftly, automatically and accurately.

Thus in a single action, one can enter a Payment Voucher for Touring advance in the payables Module and at the same time update the paying Banks account, the nominal ledger control account for Touring Advances and the personal advances account of the staff concerned in the Payable Ledger.

Integration of Modules within Tetra 2000 is a major internal control facility but interfaces with spread sheets, databases and word processors, open up a wealth of opportunities for creating useful inquiries and reports to improve Management Information Service in our Universities. The



drop-down menus of the system provide an easy way around the modules; enabling one have easy access to any account one desires to view or extract information from: subject of course, to tight restrictions imposed by password facilities available at every menu finally. the University of Cambridge, and the University of Strathclyde and said to be using Tetra 2000 in their Financial Resources Information Management.

Apart from special reports that can always be generated by **the Report Writer Module**, various standard reports that include **the Audit Trail Report** are part of each Tetra 2000 Module. For those currently running Tetra .:W00 and replacing the old systems with it, but what presently JS cause for worry is the lack of back-up support to in a good working condition. This is a major problem. Even Universities that have not fully upgraded to the new environment due to lack of knowledge, are not getting due help and indeed do not know where to get it. The NUC should please consider a standing implementation group to fill in this gap.

The Internal Audit software will be interfaced with the Uniform Accounting software (Tetra 2000) i.e. data would have to be extracted from it. There are various methods of extracting Information from accounting systems:

Through report writing within the accounting software. This method usually generates reports quickly, although the formatting of the report can sometimes be very complicated the functionality and format is limited.

- a) Exporting the information to the Internal Audit package and then processing further. Most accounting packages will export a variety of data and information in format that can be read by the audit database. Once the data/information has been exported to the database it can be sorted, reformatted and audit procedures applied.
- b) Direct links to the Internal Audit application where the data can be utilised without the need for reformatting. Most accounting packages have (ODBC) Open Database Connectivity links, which can be directly linked to the audit database.

### **6.03 Implementation strategy**

An effective IT plan addresses applications systems, defining the skills and required of each application. The IT plan should also include the technical aspects of implementing a system, including software, hardware and communications programs. The technology chosen should be open, flexible and expandable. The IT plan should encompass a management component that takes account of the resources required and should include a financial plan showing a cost-benefit analysis of the IT system.

The computerisation plan must be closely coupled with the Internal Audit Unit's stated goals and consider the appropriate acquisition and implementation of the tools, controls and processes and techniques used to achieve the set objectives.

For the Internal Audit Unit computerisation plan to be effective. it should consist of:

- \* an application system plan;
- \* a technical plan;
- \* a management plan, and
- \* a financial plan.

If applied in a diligent manner, the plan will inevitably provide the guidance the Unit requires, especially with the use of sound fundamental principles, management tools and effective computer science techniques. Ultimately, each of the plans will require total commitment and enthusiastic support from top management for the overall computerisation plan to be successful.

### **Application Systems Plan**

The applications portfolio must identify, promote and prosecute the Internal Audit plan i.e. understanding of task, incorporating technology to achieve set goals, minimising consumption of resources (most importantly labour). An appropriate applications portfolio considers the following key issues in Internal Auditing:

The Audit Report;

- Cost control processes; Funds management; Internal Controls; Compliance audit,
- Human Resources Management Audit,
- Payroll Audit.
- Operating Expenses Audit,
- Capital Projects Management Audit.
- Fraud detection and prevention.

The application systems plan should also consider interfaces to external networks, alternative applications vendors and multi-vendor environments.

## **b) Technical Plan**

The technical plan includes hardware, software and communications to enable realisation of the application systems plan. The plan should:

- Permit externalised data management;
- Treat information as the corporate asset it is;
- Provide an open architecture;
- Be flexible and accepting to new technologies;
- Be practical, maintainable and not risky;
- Be independent of monolithic technologies and single vendors.

One of the most important requirements of a sound technical plan for the Internal Audit Unit is that developmental opportunities should not be limited by an inflexible technological environment. Technology must be supportive of the needs of the Unit.

## **c) Management Plan**

The management plan describes the resources required to implement the applications and technical environment. The management plan must consider the organisation structure, methods, facilities, schedules, standards and controls, qualitative and quantitative staffing requirements as well as anticipated outcomes. It should provide a feedback and monitoring structure so that the plan remains living an entity, adjusting to the needs of the Unit.

## **d) Financial Plan**

The Internal Audit computerised system must be an integral part of the university's total financial plan. The Internal Audit system must be subjected to the same analysis as other investments and must pass the return on investment test.

The four titans must be properly addressed, documented and executed.

## **6.04 Selecting an Appropriate It Systems For The Internal Audit Unit**

The system installed in the Internal Audit Unit should be off-the-shelf, readily available applications. The use of bespoke (custom-built) software must be avoided, while the patronising of small firms is much too risky, as the possibility (if their ceasing to track is unacceptably high.

The Internal Audit unit must avoid using traditional character-based system with proprietary file structures. Though these systems tend to have a lot of features more features with each release, they have a

reputation for being designed for transaction processing and producing non-value-added reports. That is, they are limited in their ability to provide management with up-to-date information of the state of affairs. Even worse, despite the flexibility they offer on initial set up, it can be hard to change processes response to policy changes. In addition, such systems can be very labour intensive, as users work around the shortcomings in information and integration, often re-keying information to and from other systems.

The present trend is a new generation of systems, written to take advantage of graphical user interfaces (GUI) and client/server architecture, Systems that offer object technology, integration, groupware and rich information

So, the choice is between a well established and, "oven traditional package, which meets all immediate requirements, but is static. Or the very latest software, with fewer features, but which will allow the Internal Audit Unit to add their own abilities.

Object technology is one of the most important new changes in technology, which enables functions to be added and modified. Applications are assembled from a set of self-contained software components (objects), so core functions can be easily extended by adding to or modifying these.

This in turn provides simple and powerful customisation facilities without locking users to a particular version of the package. Most importantly, objects can be modified quickly to reflect changes in policies etc. Object technology produces more stable, robust and easily maintainable applications. new Accounting as well as Internal Audit packages are being developed using object-oriented programming techniques.

### **6.05 Attributes of Effective Internal Audit Software:**

Critical questions that must be answered in selecting an application include the following:

- i) Does the software have the ability to extract relevant audit data (information) from files, analyse them and find exceptions or identify numeric inconsistencies?
- ii) Can data be pulled from a variety of sources like OLE (Object Linking and Embedding), imaging documents, E-mail etc? Is it able to analyse data from Paradox, dBase, Oracle, Clipper FoxPro files etc, as well as data from any ODBC (Open Database Connectivity) data source?

- iii) Is it capable of such features as database replication, easy linking of multiple types of documents and data, and the ability to type material directly into it? Or can it interact with flat files and relational databases and sort out discrepancies?
- iv) Does the application have functional multi-currency features for reconciling accounts in several different currencies?
- v) What is the minimal Hardware requirement? Is the application year 2000 compliant?
- vi) What is the level of Help facilities available? Does it have ToolTips or is the user expected to guess the function of each tool? How comprehensive is the Documentation? What is the level of support (Training, maintenance and upgrading)  
Is the application year 2000 compliant?
- vii) Database replication is also an important feature the application must possess since the documents have to be updated and shared. Information collected by Audit officers for instance would have to be seen, verified and certified by the Director of Audit or any of his designated assistants. If they find a problem, all they do is click on an icon, type in the problem, and replicate the information so everybody knows about it.
- viii) Any system installed must have some scheme for resource control:
  - There must be a way of authorising people to use the system and preventing its use by those who are not authorised.
  - There must be access control to the various levels of the Internal Audit application.

Presently, most platforms support password authorisation at login, coupled with basic mechanisms for directory and file access control. This access is primarily limited to read write, or execute privileges on files and directories at the operating system level.

At the database level, vendors provide access control security within the RDBMS itself while the granularity of access to objects and system privileges varies, most packages are comprehensive in scope if not in ease of use. Some of the newer releases offer system administrators the ability to group access privileges into roles and dramatically ease the job of assigning privileges to users.

Finally, in selecting an appropriate package, Internal Auditors must ensure that reliable reference sites are available to prove that the

solutions offered are deliverable and usable, as well as meeting performance requirements. An effective training program precedes the installation and commissioning and continues throughout the implementation stages other issues worth noting include:

Computer viruses are now an inescapable hazard of using information technology. There are certain procedures, which can greatly reduce the possibility of “infection” in the internal audit system. Guidelines must be drawn up, and followed, if the threat is to be minimized.

There are also issues concerned with software licences and software piracy that must be considered are certain procedure~ which can greatly

- a) **Back-ups** – Regular backups are crucial. If there is a power failure in the middle of entering a transaction, the database could be damaged. If the package does not self-repair or if the software supplier is unable to fix the internals, then there will be need to return to a backup, so it is vital that backup is an included utility.
- b) **On-screen help** – Most internal audit packages do the same basic job, although some have deeper functionality than others. The main issue is one of ease of use and functionality. On-screen help information is something that is particularly important that must be given careful consideration while picking an application.

When buying, Internal Auditors need to remember that functionality that is not needed immediately may become critical in the future.

There are also issues concerned with software licences and software piracy that must be considered.

## **Chapter Seven**

### **Audit of Universities Incomes and Revenue**

#### **7.0 Introduction**

Chapter 3 discussed in some detail the features of the Uniform Accounting system and the Tetra 2000 software package in use in Nigerian Universities at this time and the working environment created by then, in which the internal auditor will operate. It is the data base, created by these two control instruments that university internal auditors have to assess and report on, in order to assure university management that:

- \* Objectives for which funds were made available to the university are being met.
- \* Need to access NUC permitted letters.
- \* Rules, regulations, policies and procedures are being compiled with.
- \* Assets actually do exist and are preserved
- \* Financial and management data are accurate and reliable. Verification of computer print.
- \* The business of the university is carried effectively and economically.

#### **7.01 Internal Audit Objectives**

In this section of the work the issue of funds, i.e. university income or revenue will be discussed. The internal control provisions in the uniform accounting system and all the order control arrangements relating to the management of revenue will be discussed. An attempt will also be made to recommend an internal audit procedure, for effective audit of the data management system and the results obtained from its operation. This will enable the organisation attain these internal audit objectives among other things.

- Prevent loss of cash through fraud or theft;
- Provide adequate record of financial transactions
- Earn maximum income through efficient deployment of financial resources;
- Maintain minimum cash holdings to cope with needs and emergencies.

## 7.02 Internal Control Arrangements

Implementation of the uniform Accounting System and adoption of its major provisions constitute a major internal control arrangement which the internal audit must strive to see that his management fully attains sooner than later.

Provisions in the uniform accounting system for the handling of university funds can be found in the following sections of the uniform accounting manual and the internal auditor is

expected to ensure that they are complied with.

1.	Banks, banking, use and custody of	section	2.05
2.	Receiving and accounting for Univ.	section	2.06
3.	Funds and fund codes	section	3.02
4.	Income and revenue codes	section	3.04
5.	Illustration of the coding of receipts	section	3.09
6.	List of current fund codes recommended	appendix	3.00
7.	University income classification	appendix	3.03
8.	Revenue and other receipts	section	4.04 (a) 11
9.	Cash office records	section	6.01 (a)
10.	Management reports	section	7.05 (a)

The university internal auditors are expected to have copies of the U AS Manual. It would be an unnecessary waste of effort to copy these detailed provisions into this manual. The UAS did not recommend departmentalisation of receipts or incomes at this time.

It rather recommended grouping them into **funds**. All the funds with the exception of the recurrent fund are to be treated as Long term liabilities, i.e. they are not to expire in the financial year of receipt. The recurrent fund has codes 1000 to 1999 as object codes with 000 as the cost centre code. The other funds have codes 4000 to 4015 as their object codes with 003 as their cost centre code. The research fund has 4070 as its object code, also with 003 as its cost centre code. Many examples of coding are available in section 3.06 of this manual and in section 3.09 of the U AS manual. The U AS manual provides for a separate bank account for each fund, thus establishing a valuable fund equation to assist those whose duties include the confirmation that funds are duly segregated, and used only for the purposes for which they are created.

The equation is follows:            F       =       EX    +       NA    BB



where,

F represents the fund balance,

EX represents expenses,

NA represents net assets less liabilities acquired with the fund

BB represents the balance on the fund bank account

The ingredients for this equation in the UAS Chart of Accounting as it relates to the various funds are shown in section 7.07 below

### **7.03 Other Internal Control Arrangements By Management**

1. Management has the duty to use other sound and efficient internal control measures in the management of university revenue. In the fulfilment of this duty, they make the following arrangements among others;
  - Prepare an income budget so as to have a realistic revenue expectation based on past experience
  - Arrange printing, custody and methodical use of official receipts in the collection of all university revenue.
  - Select and ensure adequate training and motivation of those who will receive University revenue.
  - Arrange special offices for the revenue collectors in order to improve security.
  - Ensure that receipt books are used one after the other following their serial numbers and that a record capable of explaining what every receipt was used for is updated daily.
  - Arrange for supervisors to check and confirm agreement of total cash collected and the total of the receipts and ensure that the cash is banked daily.
  - Ensure that accounts copies of all receipts including the original copies of those cancelled for whatever reason are batched and sent to the accounts production unit on recorded despatch.
  - Arrange monthly reconciliation of bank account records with the cashbook.
  - Ensure that dependable records of all revenue transactions, namely receipts and receipt booklets, bank tellers, receipt analyses books, cash book records, bank reconciliation statements, and new and used receipt booklet have control records and are in secure custody.

## 7.04 Recommended Internal Audit Program

These recommended steps are not intended to be exhaustive. They can always be expanded to do justice to extenuating circumstances. They must be reviewed from time to time as operating systems and circumstances call for.

1. Confirm, who indents, who receives, who keeps custody of and who uses the various receipt journals available in the university
2. Confirm what records exist for the effective monitoring of indent, numbering, receipt, custody and storage of new and used receipt booklets, tellers and allied records
3. Confirm arrangements with the printers. to ensure uninterrupted supply, and to eliminate the unauthorised production and use of the series of receipts currently in use for genuine university transactions.
4. Examine the issue of receipts and their copies and confirm that all copies are written at the same time, through the use of carbon papers. Also trace the destination of all the copies especially the copy that goes to the accounts production unit.
5. Are receipts entered into the data base singly or in daily, monthly, or in serial number batches. Check to confirm that the arrangements for single posting or batch posting eliminates the omission of any receipt issued during the period. or the inclusion of a receipt that is foreign to the series currently in use.
6. Ascertain who checks and codes batches of receipts before they are posted, who makes the entries, who confirms the correctness of the entries, and who eventually posts up the ledger accounts. Is necessary division of labour observed. Are there records to confirm that each transaction has gone through these controls.
7. Ascertain that banking policies and practices in use are sound or are in accord with provisions of section 2.05 of the UAS manual.
8. Check out the routines in the use of bank tellers. Ensure that accounts copies are complete and batched bank by bank and entered/posted into the ledger as demanded by the facilities in the software.
9. Examine in detail some bank reconciliation statements to confirm that lodgements in banks did reflect in the bank statements promptly and completely.
10. Confirm that the following records exist and are being updated;

- Paper money register
  - Unclaimed wages register
  - Dishonoured cheques register
  - Investment income register
  - Receipts control register
  - Receipts analysis register
11. Review actual incomes for the period against budgets and probe in detail any significant variation
  12. Make your report to the chief executive with a copy to the Bursar or the head of the department whose department was the main focus of the audit.

## 7. 07 Fund Equation

Fund Code	* Recurrent	* Research	* Capital	* TRE	* Library	* Loan	* Agency	* R/Benefit	* Endow	* Other
*	* 01	* 11	* 21	* 31	* 41	* 51	* 61	* 71	* 81	* 91
* F =	* 1000 1999	* 4070	* 4000	* 4002	* 4005	* 4003- 4005	* 4069	* 4006	* 4007	*
* EX	* 2000- 2999	*	*	*	* 2000- 2088	*	*	* 2068	*	*
NA Asset-	* 3057- 3066	*	*3000- 3020	* 3021- 3040	*3046- 3056		*	*	* 3041- 3045	
*	* 3078- 3085	*	*	*	*	* 3100	*	*	*	*
*	* 3098- 3101	*	*	*	*	* 3102	*	*	*	*
*	* 3103- 3105	*	*	*	*	*	*	*	*	*
* Liab.	* 4016- 4019	*	* 4019	*	*	*	*	*	*	*
*	* 4027- 4050	*	*	*	*	*	*	*	*	*
*	* 4071- 4999	*	*	*	*	*	*	*	*	*
* BB	* 3106	* 3107	* 3108	* 3110	* 311	* 3112	* 3113	* 3114	* 3115	*
*	*	*	* F	* =EX +	* NA +	* BB	*	*	*	*

## **Chapter Eight**

### **Human Resources Management Audit**

#### **8.0 Introduction**

The Staff recruitment, deployment, training, use and disengagement process is a major cost factor in the university system, yet it was not treated as a significant issue during the production of the uniform accounting manual. This is because the emphasis in the uniform accounting system manual was on cost of staff and its associated records and reports. But in this case of an internal audit manual, the adequacy and effectiveness of controls within the process assume a serious position. In many Nigerian Universities, the issues, and all rules and regulations for conducting it, are usually the content of another handbook normally titled staff conditions of service manual. The manual is usually a product of long and difficult negotiation sessions with staff and their unions, recourse to government regulations and circulars on staff conditions of service. and the labor laws of the country. Nigerian universities, it must be realized are for now government owned, and so government control of the use of available resources is near total. Yet the need for sound internal controls a competent internal auditor to monitor and report on its effectiveness remains very essential.

#### **8.01 Internal Audit Objectives**

The production and use of the manual on staff conditions of service is an internal control effort which the management of Nigerian universities put in place in order to ensure that:

- Competent and suitably qualified persons serve in the universities
  - The process of recruiting, deploying, training, using and removing staff from service is fair, just and free of abuse.
  - The process itself goes on effectively at minimum resource input
  - Training and development of staff is continuous in response to changes impacting ceaselessly on the university system
  - Discipline is promoted and the reward to employees IS seen to be reasonably proportional to contribution made.
  - Government rules and regulations on staff, which apply to the universities, are duly enforced.
  - A programme of actions to be taken when certain events relating to staff occur exists. This saves time and accusations of bias on the part of those who take the decisions.

- Staff members have information on their allowances, entitlements, and sound employer/employee relations and also makes accurate provisions in the budgets possible.
- Staff members also know what is expected of them and in most cases the consequences of failure to meet these expectations.
- Uniform standards of practice in these matters continue to develop, speeding up improvement in personnel cost classification and control in the system.

## **8.02 Internal Control Arrangements**

The Management of Nigerian universities makes the following internal control arrangements not only to garner the advantages stated above but also to ensure that they are effectively, as well as comply as much as possible with section 4.04 (b) of the uniform accounting system. The arrangements constitute major aspects of the overall internal control strategies of the institutions and they include:

- Development of a personnel policy, that is fair and just to all and consistent with the country's labor laws as they relate to the universities
- Development of a list of the job positions. from the post of the Vice-Chancellor to that of the lowest paid member of staff of the university. This is to show entry qualifications required, a description of what the job involves, indicating, if possible, the known special problems associated with the function, and the reward package for each position.
- Production for use, a procedural guideline for the appointment of staff and the periodic appraisal of their performance on duty. with a view to promoting those who did and reprimanding those who failed to perform.
- Production for use, a code conduct handbook for staff with appropriate sanctions for the breach of any of the codes clearly stated
- Production for use, the guidelines for termination of appointments by staff or by the institution showing very clearly how employee benefits i.e. gratuities and pensions are calculated. The possession of this information by employee, will eliminate delays and arguments that bug the smooth and early release of retirement benefits to staff leaving service
- Because numbers are much easier to manipulate than names, especially in this computer age, management needs to implement a system of grouping personnel into their kinds, e.g, Senior and junior staff or Senior academic, senior administrative, and junior staff. Some universities use other groupings that bring out Senior technical staff and secretarial staff. The grouping into senior staff (SP) and junior staff (JP) is prevalent in the system. Two registers of staff therefore exist in most universities in which names and other particulars of staff are entered and the staff involved

assigned a distinctive number. The assigned number is used throughout the university to identify the particular staff. This number is also used as the account number for the staff in the staff Loans and Advances subsidiary accounts in Payables ledgers. The effective use of staff numbers is major aid to internal control strategy and to the internal audit unit.

- Develop and keep in a constant state of review. a staff training and development policy to promote the staying power of staff whose loyalty is already known Training on ttle job where possible IS cheap and If: many cases the skill developed is not readily transferable.
- Establish and run such non monetary incentives for employees as Bus service, staff children schools, staff canteens, staff sports clubs and staff clinics. These incentives promote comradeship amongst staff, paving the way for cooperation that can only result in improved productivity.

### **8 .03 Audit and Control Implications of the Above Arrangements**

Because of the negative effect failure to make these arrangements have on the smooth operation and health of the organization, the internal auditor who in many instances is a member of the management team, must clearly see his role. The first is to assist management to plan and to put in place these control measures. The second is to wear his auditor's toga and continuously review these arrangements to ensure their continued adequacy and effectiveness in operation.

### **8.04 Recommended Audit Program**

Below is a recommended internal audit program to be used by the internal auditor to enable him being in a position to make a useful report to management.

1. Ascertain if a personnel policy exists in the institution and verify its adherence Nigerian Labor laws and known practice within the industry. Take out a representative sample of staff in the department and carry out a detailed analysis to find out if the policy is being adhered to. Confirm how often the policy is reviewed
2. Confirm that a list of the job positions available in the institution exists. This list should show the job title, the content of the job, required entry qualification into the job, the special skills and or tools required for entry into the position and the current reward package for the position. Take out a large sample of persons employed during the audit period and verify compliance with the current policy.
3. Confirm the existence of the Appointment and Promotion Committee, and the policy guidelines under which the committee operates. Again check the recent appointment and promotions and assess the extent to which the appointments and promotions committee operated within those guidelines
4. Review the staff code of conduct statement, to assess its comprehensiveness. Then

check the staff Disciplinary Committee files to assess the extent to which the provisions of the code of conduct are being implemented.

5. Review the procedure for the award of gratuities and pensions, as well as the method of ascertaining individual staff entitlements Confirm by an extensive inquiry and examination of cases during the audit year [hat what was paid was fair and just and on the Issue were breached.
6. Confirm the existence and the process of updating the Registers of staff and the criteria in it for classifying staff. Check also the numbering scheme in use. Confirm that staff members given at Registry when the staff assumed duty for the first time, are the ones used in the Health Services unit, the Bursary and in all correspondences with the staff in his department, and indeed throughout the university, during and after he may have left the service.
7. Examine in detail the procedure leading to the placement and removal of staff from the payroll. Assess the extent to which these steps are consistent with best practice or in accord with the steps outlined manual.
8. Examine the staff development and training policies and practices in the institution, conform how these are responding to technological developments operations of the institution. It is also necessary to review the way members of staff who lose their jobs as a result of technical innovations are treated.
9. Consider in detail the activities of the university as they affect the social workers. In this respect review the support the university is providing for such issues as staff canteens, staff Buses, staff clinics, staff children schools and staff sports clubs. In the process of these reviews, assess staff response to the level of support the institution is providing for these causes.
10. Review available financial relief to staff of the university. In this respect, examine the conditions under which staff can have access to the following loans and the conditions under which staff can have access to the following loans and advances: Salary advances, Housing loan, Furniture loan, and Vehicle loan. Easy access to this relief has a major effect on morale throughout the system, The process of recovering the loans and advances should be humane, so that the gains of easy access, will not be wiped out by the pains of a stiff repayment plan
11. Check out the working environment and the safety precaution taken for benefit of the workers. Are they adequate and consistent with government approved industrial standards on safety in the work place? Conform scope and adequacy of Insurance policies taken out to provide funds for compensation to workers suffer injuries in the work place. Examine past cases, especially those that occurred during the audit period and adjudge whether their handling was fair and lust to the staff concerned.
12. Take out the structure of staff according to their grades, in a pyramidal format. This will enable the auditor assess the command structure and ability of the

institution to cope with sudden loss of key staff. It has been observed that the longer the base of this pyramid, the more stable the institution and indeed the less the overall Cost of this pyramid, the more stable the institution and indeed the less the overall cost of labor will be.

labor will be.

13. Confirm if the university has a way of relating with staff members who have left service. Such steps as retaining them on the mailing list for circulars, bulletins and order information channels of the institution have proved invaluable to those who have made the little investment called for in this case. The university alumni office manages relations with past students. The case of past members of staff proved too invaluable to ignore. The auditor should point out the cost/benefit to the institution for whatever line of action it chooses.

### **8.05 Conclusion**

As stated earlier, the personnel function is a very important function with the potential for huge financial waste if not well controlled and coordinated. It is our submission that the internal auditor must take its conduct and effective control, as a critical part of financial control. Faithful conclusion of the checks and examinations recommended above, will undoubtedly enable the internal auditor prepare and file his report showing where there is problem and pointing clearly in the direction of change for the better.



## **Chapter Nine**

### **Internal Audit of Pay Roll System**

#### **9.00 Introduction**

Payroll simply means the whole system in the University where a list of all employees whether on permanent or temporary appointment is compiled with a view to determining their salaries and wages in compliance with the terms under which each is remunerated. Each officer's letter of appointment indicates his/her entitlements prepared in accordance with his job title and strictly in conformity with the relevant labour laws.

The Salaries and Wages system in Nigerian Universities covers the policies and procedures for authorization, payment and accounting for salaries and wages paid to University employees. There are four categories of employees in the University system which is: Permanent, Temporary, Contract and Casual. The terms and duration of the last three groups are limited, and therefore care must be taken not to prolong their length of service without due authority.

Staff costs in our Universities constitute over sixty percent of the total costs of running the universities. The cost of staff includes, not just the cost associated with the personnel process, but also the salaries and wages, allowances and retirement benefits payable to staff when they retire. Effective control of the management of this cost should therefore occupy sixty percent of the time available to management. In the same manner, the internal auditor cannot afford to do less if he is to serve the purpose for which he is assigned. Presently, payroll processes in our universities vary from one university to another. Most of the processes remain manual or partly so. A good number have moved up to the computer. It need not be stated here that the choice of a Uniform Accounting System was to hasten the development of an appropriate financial database for the universities, and by so doing, improve the response of the universities to information demands.

#### **9.01 Internal Controls**

The Uniform Accounting System emphasizes the need to ensure that the University Bursar does not put any person on the Payroll unless he receives copy of that person's letter of Appointment and an appropriate report from the Registrar that the person has actually assume duties. Heads of Departments shall also assist in the procurement of these records by providing necessary information on staff recruited for their various Units and Departments.

The Uniform Accounting System is control instrument. It has made the following provisions for the effective operation of the payroll process to produce the actual staff costs for each of the various pay periods. Since internal auditors are expected to also have the UAS manual as their working tool, it is considered not necessary to state these provisions in details in this manual. The places to find these important provisions in the Uniform Accounting System Manual are as follows:

- |    |                                       |                          |
|----|---------------------------------------|--------------------------|
| .1 | Staff personal emoluments             | Section 2.07 (1) &(m)    |
| 2. | Coding of staff costs                 | Section 3.04             |
| 3. | Budget preparation & expo Control     | Section 4.02 (a)         |
| 4. | Salary & allowances and Ret. Benefits | Section 4.04 (d)         |
| 5. | Reports                               | Section 7.05 (a) &a (b)  |
| .6 | Appendix                              | Section 7.04 (Exhibit D) |

These provisions are intended to complement the other internal control arrangements that are usually made by management to ensure efficient and effective operation of the payroll process.

The following measures taken by Management also strengthen controls:

- (a) Salary variations are effected through letters written to the Bursar by authorized officials from Registry Department by either the Registrar himself or his designated subordinates like the Establishment Secretary or the Personnel officer as the case may be. Variations also occur in case of promotion to higher grades to deserving personnel in writing by the same officers with copies to the Bursar and other affected sections of the University for appropriate action.
- (b) Overtime claims are checked and recommended by supervisors before being approved by the Heads of Departments. Amounts considered too much for a particular period are counter signed by the Registrar or his representatives mentioned above.
- (c) Resignation, retirement and dismissal cases are all communicated in writing to the various organs of the University.
- d) A register for recording addition and subtraction of staff is maintained in the Registry with the help of which monthly pay sheets can be, verified before salaries are paid out.
- (e) Staff clearance forms are designed in such a way that any employee leaving the service gets cleared of any losses and other administrative

shortcomings before collecting his terminal benefits and any other entitlements.

- (l) Ensuring that prospective employees already enjoying pension in other organizations are only given contract appointment to avoid contravention of the labour law.
- (g) Establish a routine for placing staff on the Payroll and ensure that it works to exclude those who are not qualified or have ceased to qualify to be on it.
- (h) Make available to all payroll officers copies of the current Salary scales and allowances tables, ensuring also that the document authorizing entry into the payroll is clear on the salary and allowances payable to the particular staff member to which it relates.
- (i) Ensure effective division of labor throughout the payroll process, such that a group of officers assembles and verifies the periods variations, another group, which in many places includes the internal audit staff, checks the variations. The input clerks enter the period's variation into the computer, while another group, usually more senior in rank and experience checks the process outputs.
- (j) Organize the pay day activities, taking every opportunity to identify inflated pay packets and pay packets for non existent workers.
- (k) Ensure that payroll process printouts automatically throw out variances between current and previous periods as well as from the budgeted figure for the period. Checking out these variances normally throws up all the areas in which the process has problems.
- (l) Organize continuous training for payroll staff to keep them abreast of the ever-changing policies in the area of staff salaries and allowances.
- (m) Ensure that payroll process documents are preserved for future reference and internal audit post payment reviews.
- (n) With respect to retirement benefits payments, management is expected to ensure that the Form recommended in the Uniform Account System section 4.04 (d) is produced

## **9.02 Internal Audit Objectives**

The Internal Audit objectives on payroll are mainly to ensure that only validly recruited employees are paid salaries and wages at the right time. To do this, the following objectives, amongst others, must be kept in mind:

- a) Ensuring that authorized deductions from staff salaries are remitted to the beneficial third parties promptly:

- b) Ensuring that every staff member's emoluments agree with his/her grade level;
- c) Ensuring that all authorized deductions to be made from staff-salaries are effected without deliberate collusion to defer any e.g. loans and advances recovery and surcharges;
- d) Ensuring the return to University Accounts of any unclaimed wages. An appropriate Register should always be available for recording the transactions;
- e) Ensuring correct analysis and proper documentation of salaries;
- f) Ensuring that terminal benefits conform to the payroll records;
- g) Ensuring that all salary payments and deductions are properly authorized; and
- h) Ensuring that accurate and reliable records are maintained for such payments and deductions.

### **9.03 Internal Audit Program**

1. All the administrative organs of the University charged with the responsibility of hiring and remunerating personnel function in harmony. Appointment letters, assumption of duty notices, promotion letters as well as other issues related to staff welfare emanate from the Registrar's office duly signed by recognized officers.
2. Specimen signatures of the recognized officers with adequate authentication are obtained and kept in safe custody for verification purposes as the need arises.
3. Payroll salary vouchers accompanied by pay sheets (in case of manual system) and Bank listing schedules (in case of computerized system) are raised at the appropriate pay periods.
4. Departmental Payroll summary sheets are produced to allow each Head of Department know his staff cost and whether he keeps to the approved Budget at the end of any financial year or any reasonable period.
5. Vacation Input forms and Register and other print out of needed reports are produced and kept for verification purposes.
6. Monthly Grand totals are recorded and compared to observe abnormal increases in salaries with a view to ascertaining causes for immediate solution by management
7. Salaries and wages are properly documented through correct coding system and summary analysis at the end of every month so that each cost centre is accorded relevant appropriation.
8. Trace names on payroll sheets to personnel files and staff confirmation/clearance forms for authenticity.
9. Trace rates on Payroll sheets to salary and wages rate authorization in

personnel file, to salary and wages package, to condition of service of staff, or to some other reliable source.

10. Trace overtime payment on the payroll sheets to overtime forms for authority and correctness of computations.
11. Verifying extensions by re-computations.
12. Trace payroll amounts, gross pay, net pay, and deductions, into the books of original entry and the general ledger, scrutinizing entries for propriety.
13. Reconcile payroll bank account.
14. Trace salary variations on the pay sheets to variation input forms and Register to ensure authenticity.
15. Supervise distribution of payroll cheques to employees through appropriate banks and follow-up any unclaimed salary cheques.
16. Trace names on payroll sheets to pension reports to ensure that retired staffs are not earning salary unless they are re-employed on contract.
17. Comparison of previous payroll figures with the current amounts to ensure that difference, if any are as a result of authorized changes.
18. Ascertain that a definite routine exists for considering staff needs in the various units of the university, budgeting for them in the year's budget and for authorizing the personnel unit to fill the vacant positions.
19. Check out also the process that enables a qualified and suitable person to get onto the payroll of the university in response to a budgeted need.
20. Take out a large sample of new employees during the audit period and confirm if the process that brought them into the payroll is in accord with the established procedures.
21. Review how the job placing of employees relates to qualifications, experience and salary awards. Has fairness and consistency been maintained.
22. Examine the Salary Permanent Input Sheets and the Temporary Input Sheets. Confirm, that they are properly prepared from data correctly lifted from Arrival report Memos from the Personnel department, that they are duly checked by prepayment audit staff and that they are approved by authorized officers on a consistent basis.
23. Examine in detail the computer printout of the permanent inputs for a large sample of staff. Also, examine the preprocess printouts of variations introduced through the Temporary input sheets, in order to confirm that they are in agreement with the input sheets and constitute a fair basis for computing the salary of affected employees.

24. Review the operating policy on overtime work and pay. Verify that due process exists and is in use in authorizing overtime work, and that approved rates are used in calculating the workers entitlements to overtime pay. Since only very few employees may be entitled to overtime work and pay, and irregularly also, full, not sample check on overtime work and pay is recommended.
25. Examine the breakdown of the payroll process into units to be assigned to different groups of payroll staff and ensure that division of labor is significantly in evidence
26. The computerized payroll process has facilities for the production of a number of standard and other ad hoc reports, on which the internal auditor can rely, in the effort to vouch that the process is reliable and can be trusted to produce accurate information.
- (i) **Letters to Bank:** This report sorts the employee net pay into the banks they had earlier indicated as their pay points. The report, in addition to the net pay also contains the names and bank account numbers of the staff concerned. The total of the net pays in all the bank letters is equal to the total net pay on the salary summary sheet for the pay period under consideration. This checkpoint is of great assistance to the internal auditor.
  - (ii) **Pay Details report:** This printout may be done in cost center order or in staff number order. The benefit will accrue to the auditor as earlier discussed. A careful check on this report must constitute a significant part of the internal auditor's legwork.
  - (iii) **Allocation of Gross Pay to Cost Centers Report:** A careful study of this report by the internal auditor and a meticulous follow up of the significant variances thrown up, will surely put the internal auditor in a position to produce a report that his management will be very proud of.
  - (iv) **Analysis of Deductions Report:** The auditor must check III details the printout of the details of deductions from gross pay that resulted in net pay. Viewing these deductions alongside the figure for the previous period will throw up variances which the auditor must probe to great advantage.
  - (v) The internal auditor must not ignore the process by which pay advice reports are distributed to staff members. The process, whereby the pay slips, are dispatched in bulk to heads of departments to distribute, if possible personally, to only those who are actually working under them in the department; with a special request to them to return to the internal auditor any pay slips

belonging to unknown persons, or to persons who no longer work in the unit, has paid handsome dividend in the effort to eliminate dummy names on the payroll.

27. Check the treatment of unclaimed wages and salaries. Check to ensure that they are duly receipted and credited to the unclaimed wages account and also entered in the unclaimed wages register. Confirm that the register is up to date by inspecting or taking out a reconciliation of the entries in the register with the balance of the Nominal ledger account for unclaimed wages. Confirm that the register is up to date with the following information on each salary that was returned, namely, Date and number of the receipt that brought the money into the unclaimed wages account and register, the amount returned, and the name and staff number of the staff concerned. The register should also record the payment voucher number and the date the amount was finally released to the owner.
28. The internal auditor in charge of payroll audit may also need to keep a tag on the payroll circumstances of close associates of payroll staff. From time to time, he will need to examine the computation of the salaries of those associates, for unauthorized pay increases. or the suppression of recoveries that should have been made during the period.
29. With respect to the Gratuities and pensions, the internal auditor should ensure that the Retirement Benefits Claim Form, recommended in section 4.04(d) of the uniform accounting system is in use. This will assure him and other interested parties that a consistent way of ascertaining. Verifying and approving staff entitlement to pensions and gratuity is in operation.
30. The internal auditor will also be required to confirm that the procedure for managing the Pension Fund between the NICON Insurance, Federal Ministry of Education, the Universities and their Boards of Trustees, is such as will ensure the best deal for university staff.
31. In the process of carrying out these reviews and examinations, the internal auditor must keep adequate records of his findings. These will provide evidence if required to support the opinions and recommendations he will put up in his report to management. He may however choose the more modern approach of preparing and administering on selected members of the university Internal Control Questionnaires. On the basis of the replies given by the respondents, he may chose to form his opinion.

## **Chapter Ten**

### **Internal Audit of Staff Loans and Advances**

#### **10.00 Introduction**

The Council and its Finance and General Purpose Committee make rule' for the purpose of exercising control over the property and expenditure of its university. Pursuant to this, there exist in most universities, manuals of financial and/or administrative regulations approved by their Councils. These manuals include, but not limited to, the Accounts Manual, the Conditions of Service for Staff. The Governing Council of some universities have adopted the Manual of Uniform Accounting System for Nigerian Universities (National Universities Commission 1996) thereby making rIIe' other administrative regulations.

These manuals, together with minutes of Council meetings, accounting standards and guidelines auditing standards and guidelines, communications from the Federal Government and other regulatory agencies, provide rich sources of information on controls that regulate various aspects of financial and other transactions, including Loans and Advances to staff, in the universities.

Equally, since Nigerian Universities are categorized as a public service, statutes, such as public Enterprises regulatory Decree 35 of 1996, relating to the accounts and finances of the public service, equally regulate financial and other administrative transactions in the Universities, depending on how the relevant provisions are constructed.

As can be seen from the above, there can be as many systems of controls on loans and advances in the universities, as the number of universities as well as the number of loans and advances which members of staff can take. For emphasis, this is so because the Government Council of each university substantially makes its own rules in the exercise of its statutory responsibilities. In this circumstance, this manual takes the view that recommended audit programmes must be broad if they are to be internal auditors. Accordingly, the audit programmes recommended herein are to serve as a guide to university internal auditors in the design of internal audit programmes for their individual universities, to meet specific internal audit objectives.

#### **10.01 Internal Controls**

Internal controls on staff Loans and Advances must be as specified by management, which, as the preceding section indicates, are usually stated



in the relevant manuals approved by Council. Equally, internal auditors are obliged to take notice of statutory provisions, which may have a bearing on staff Loans and Advances, as well as best practices recommended by the profession. as contained in the relevant accounting and/or auditing standards and guidelines. They are equally to carefully scrutinize all minutes of Council meetings, loan agreements signed by staff, as well as other relevant documents and communications not bound into a reference manual With respect to Loans therefore management should make the following arrangements.

1. Seek out where funds to administer the scheme could be secured at the cheapest cost.
2. Work out suitable guidelines for granting loans and establish a Loans Committee with a broad-base representation of all grades of staff to process the Loan scheme.
3. Approve and publicise carefully worked out criteria for access to the Loan.
4. Produce and circulate in agreement format addressing such issues as:
  - (a) Borrower's name, address, Number of years of service and next of Kin.
  - (b) Principlal amount borrowed and the terms of repayment.
  - (c) Interest payable and mode of payment
  - (d) Particulars of acceptable surety who must be willing to take over repayment if principal Borrower can no longer pay.
5. Other matters aimed at security full compliance with the Loan agreements.
6. Ensure the creation of personal Loan accounts for all borrowers and a Loan control account in the Nominal Ledger, the balance in the particular loan ledger.
7. Ensure that when staffs leave service their outstanding loans are recovered in full from their gratuities and or pension entitlements and necessary journal entries to clear the accounts are raised and entered.

With respect to advances, management must take very stringent measures especially in the area of checking and approving the returns of those to whom advances have been given for travels, for purchases and for research work. The following measures are in common use:

1. Only members of staff may be granted advances and no other advance will be granted to a person who has not fully retired the earlier advance.
2. The purpose of the advance must be clearly stated in the application and must be seen to benefit directly or indirectly the smooth operations of the University.

3. A time frame, within which returns on the advance must come in, has to be enforced.
4. A designated senior accounting officer whose duty it is to check, accept and approve
  - a return before the officer who was granted an advance can say to have accounted for the advance must be seen to be carrying out his duties efficiently.
5. The accepted returns will become the supporting evidence for a journal Voucher which will be used to charge the expenses incurred to appropriate expenses accounts in the Ledger and to credit the staff Advances account in the accounts payable Ledger.
6. Management must ensure that the total of the balances of the Individual Staff accounts in the payables Ledger is always in agreement with the balance of Advances Control account in the Nominal Ledger.
7. Management must also ensure that members of staff who fail to account for advances given to them after a reasonable time are made to refund them through deductions from their monthly salaries.

### **10.02 Internal Audit Objective**

The objectives are to test compliance with applicable University rules and regulations on the loan and/or advances under examination

### **10.03 Internal Audit Programme**

1. Confirm the source of funding for Loans, as distinct from advances, from which
  - University staff may benefit. Also ascertain the cost of the funds, with respect to the interest charged by the supplier of the fund and the administrative cost incurred by the university in running the scheme.
2. Confirm the current policy on the recovery of the cost of the loan funds from staff beneficiaries. Ensure that the interest recovered monthly from members of staff, fully takes care of this cost or what is left of it after the level of subsidy approved by the university has been fully applied.
3. Check out the constitution and terms of reference of the various loans committees, and confirm that their guidelines for

recommending loans in favour of staff applicants are fair and are strictly applied.

4. Check the procedures from loan applicant, through consideration and approval, to payment of the money and confirm that preferential treatments are reduced to the barest minimum.
5. Working with a reasonably large sample, confirm that the process of bringing up information on loan recipients to the payroll unit, so that recoveries of the loan instalments can take off is working efficiently.
6. Also working with a reasonably large sample, verify that loan recoveries are not being interrupted without appropriate authority, and where this is done, that the omission is promptly remedied in the subsequent period.
7. Confirm that a memorandum record is kept updated for each loan debtor. This record will be used to cross check computer printouts from the payroll module and authenticate the balances on the printouts.
8. Check to confirm that the total monthly loan recoveries are promptly paid back to the bank to enable other applicants draw their own loans.
9. Review the rate at which the loans are being recovered from staff, with a view to recommending a higher rate that will not affect staff adversely and yet yield a large *sum* monthly to enable more staff benefit from the loans.
10. Verify that a procedure exists, for clearing the balances unpaid by members of staff who have left service. Ensure that these balances are fully recovered from the pensions and gratuities to which these officers are entitled.
11. Confirm that a valid agreement is signed for every loan and among other things dependable guarantors are secured to take over outstanding balances when the principal borrower defaults.

With respect to Advances, namely Purchase Advance, Touring Advance, Research Advance and Personal or Salary Advance, the internal auditor must take steps to:

1. Confirm that applications for these advances have the endorsement of the controller of the vote that will absorb the ultimate charge, and that the expenditure control unit of the Bursars Department has evidenced the availability of funds on that vote.
2. Confirm that those who approve the advances have valid authority to do so.

3. Confirm that the form for applying for these advances has provision for the following information: purpose of the advance, date the advance will be retired and the sanctions for default. Use a large sample to assess compliance.
4. Consider the status and competence of those who check and accept the returns on advances.' Their-ability to stand pressure from very senior officers who would insist that they ignore certain faults in their returns win depends on that.
5. Complete, verification and vouching of Advances adjustment journals and their supporting pieces of evidence of expenditure is strongly recommended. This can only be reduced safely if the checking officers .are adjudged very .competent. It must be realized that resources are not alienated at the point of granting the advance. This done as, soon as, evidence of expenditure is' accepted and adjustment journals raised and .approved. Failurejto challenge some of the .indefensible subrnissions will encourage other officers to cheat the institution by submitting doubtful vouchers in their advances returns.
6. Confirm the procedure for ensuring' that all payment vouchers, receipt vouchers and journal vouchers relating to advances are batched and sent for entry into the database through the payables module. Insist that the system prints out all the entries made before their posting into the ledgers. With this, printout, a check on what is going into the system can be made and necessary corrections effected before the ledgers are updated.
7. Confirm how regular members of staff are issued statements of their advances accounts. Examine a large sample 'or' the' responses from staff, arid the actions taken to address issues raised.
8. Check if the list of individual advances balances' is regularly produced and confirm that its' total agrees with the advances control account in the nominal ledger. Note long-standing balances, and systematically check them out in greater detail.
9. Ensure that all advances, except perhaps the salary advance, are retired at the end of the financial year. Where this is not possible, ensure that adequate provision is made for the- total outstanding advances before the institution finalizes its income and expenditure statement for the year.

## Chapter Eleven

### Internal Audit of Operating Expenses

#### 11.00 Introduction

The Departmental and General Expenses payment process addresses those payments, which are ultimately charged to, departmental operating codes 203 L. to 2039 and to general Expenses codes 2100 to 2999 as provided for in the chart of accounts of the TA5. This is an area in the financial management process in the universities, where there is a lot of loss of funds due to the following failures among others:

- Failure to use generally accepted purchasing and contract awarding procedures
- Failure to install and use an effective budgetary control procedure
- Failure to control cheque payment frauds

This process is the second component, staff emoluments being the first and larger, of the two main avenues through which the university spends its largest pool of fund, the recurrent fund. The expenses payment process goes through a great deal of estimating and budgetary control process and must therefore claim a reasonable chunk of the internal auditors' time.

#### 11.01 Internal Audit Objectives

The objective of the various internal audit efforts on this process is to ensure value for money spent, by eliminating fraudulent claims in their various forms. Other objectives include:

- Ensuring that all proved rules for the award of the various levels of contracts are followed.
- Ensuring that the approved procedures for handling goods and services supplied to the university are duly followed
- Ensuring that proper documentation and verification of the process leading to the production of the payment voucher is made an important issue in the Cheque payment process.
- Ensuring that the charge arising from the payments are allocated to the appropriate codes of accounts.

## 11.02 Internal Control, Arrangements

1. Drawing from previous experiences, and the assurance that a certain sum of money will be, available for running the university, during each financial year, management prepares a balanced budget which allocates to each expense vote, a sum of money that must not be overspent, except under some special circumstances. This is a major control effort, breach of which attracts sanctions.
2. Management implements the regulations on contract awards committees with clear working guidelines to ensure that awards of any value are not a one man show no matter how highly placed the man is.
3. Management establishes bulk purchase committees and the Central stores system: to ensure that the benefits of large scale sourcing of goods and services accrue to the University especially in such areas as stationery and cleaning materials, which are in high demand throughout the university.
4. Management ensures that purchases are delivered and received centrally at the central stores, by men who had no part in the earlier process, and who are required to issue a stores receipt for what was actually delivered as against what was ordered as shown in the copy of the original order which they had received earlier.
5. Management ensures that the original copy of the stores receipt is a necessary support document for any payment voucher raised to pay for the goods and services supplied.
6. Management ensures that the routine for drawing stores and supplies involves the authorization from the vote controller and confirmation from the expenditure control unit that enough funds exist in the vote to be charged.
7. Management provides and ensures adequate control and preservation of these important documents for evidencing contract awards:
  - Well drafted contract agreement forms
  - The local purchase order form and
  - The job order form.
1. Management ensures that the provisions of the uniform accounting standard are faithfully implemented. This will make available to the university the additional controls stated in the following sections of the UAS manual:

- Legal authority for the control measures Section 2.00
- Annual estimates of recurrent expenses Section 2.01
- Budgets and budgetary control Section 2.02
- Contract awards for supplies & services Section 2.03
- Bills from suppliers Section 2.04 (f)
- Payment of bill from suppliers Section 2.05 (d)
- Payments Section 2.07
- Stores control Section 2.08
- Expenses codes Section 3.003.023.04 3.05 3.10
- Budgetary control Section 4.02 4.03 4.04 4.06
- Expenditure control Section 5.01 5.025.04
- Reports Section 7.047.05

A thorough knowledge of these provisions by all management and audit personnel will go a long way towards the internal control goals of management.

### **11.03 Internal Audit Program.**

1. Confirm the existence of a sound estimate process that originates from the actual operators of the cost centers of the university, passes through all the various committees to the Finance and General Purposes Committee of the university Council for final approval as an input into the NUC estimate hearing process.
2. Check out the process that leads to the production of the approved university recurrent expenditure budget. Review and authenticate the criteria for allocating funds to votes. Ensure that the criteria are consistent with practice and cost trends induced by growth.
3. Review the contract awards procedures and ensure that they are sound, effective and in actual use for all contracts whether they are the major ones that involve written contract agreements or the minor ones which are evidenced by the issue of local purchase orders and job orders.
4. Examine the process of receipt and certification of work performed and goods and services supplied. Ensure that they are in accord with approved procedure
5. Check out the process of preparing and checking the payment voucher and the documents which support each of the various types of payment vouchers, and confirm that they are relevant to the

claim that they support, that they relate to the period under review, and that the charge is fair for the supplies and services provided.

6. Insist as far as possible that all payments are made by crossed cheque. Also ensure that a cheques register is maintained. The register should be able to provide the following information on every cheque leaf:
  - The cheque numbers serially entered,
  - The name of the payee,
  - The amount paid
  - The payment voucher number,
  - The signature of the person who collected the cheque and the date the cheque was collected,
7. Ensure that the procedure for preparing, checking and approving payment vouchers are in accord with the recommendations in the UAS.
8. Ensure that unclaimed and obsolete cheques are duly registered and in due course reversed back to the credit of the votes that were originally charged
9. Ensure that pre-payment audit of all payment vouchers is thorough and carefully done. In the audit examination of specific payments such as travel claims and mileage claims, the approved rates must be used as guide. For other payments, concentrate on contract award procedure, the approving authority and the fairness of the charge. Only original copies of supporting documents may be accepted. Audited vouchers should be specially marked to preclude their use to support subsequent payments.
10. Vouching is a major tool of internal audit work. In relation to payments, the aim of vouching is to ascertain actual cost and verify the authority for the payment. In the vouching of payments therefore, the auditor should take special note of the following:
  - The name of the party to whom the voucher is addressed.
  - The date of the invoice or bill to ensure that it relates to the period under consideration.
  - The nature of payment to confirm that the transaction is in respect of goods or
  - services relating to the normal business of the university.



- The account to which the item is posted to ensure that it has been correctly allocated.
- The accuracy of the documents as to extensions and totals.
- That the goods and services have actually been received as ordered by the stores or the department that ordered them.

## Chapter Twelve

### Internal Audit of Capital Projects Management

#### 12.00 Introduction

The main source of capital project funds for Federal universities is the Federal Government. Fund releases are based on an approved Capital Projects implementation plan. State Universities, on the other hand get their main capital funds from State Governments, through an approved budget for project development in the owner States. Private individuals, Local Governments, businesses, foreign donors also sponsor identified capital projects of interest in some of the Universities.

Since the amounts involved in capital project are large, in relation to the total annual income of each University, care must be exercised to see to the prudent management of these funds. Accordingly, both the Universities, and donors' of capital funds, including the various Governments, make rules and guidelines, of which Internal Auditors must be aware. These guidelines spell out how capital funds should be properly utilized. The Federal Government in particular, through the National Universities Commission monitors compliance with its guidelines on project implementation by Federal Universities, to ensure proper management of the project funds.

Funds used for Capital Projects are usually budgeted and controlled jointly by the Vice-Chancellor, the Bursar, the Director of Physical Planning and Development, and the Director of Works. The Bursar makes payments based on approved certificates of work done.

#### 12.01 Capital Projects Management

The National Universities Commission has, since 1977, produced a Standard Guide for Universities to assist them plan and implement the use of national resources of land, capital and technical expertise consistent with national need in the area of higher education. The guide sets out basic steps to be taken in the site selection, the physical master planning and the implementation of that plan for a University. It encourages the universities to determine priority capital projects during any funding year, stage of completion. On-going capital projects are to be justified in terms of need and cost, so that they are placed on the executive project list. In managing capital projects effectively, various organs of the Universities keep certain records in the form of books and

registers. These records include the Capital Grant Register, which records all capital grants received from the Government and other donors with dates; and the Contracts Register, which records details project contracts, including name of the project, that of the contractor, period of the contract, value of contract (variations if any), and details any authority for the award of the contract.

## **12.02 Audit Objectives**

The main audit objectives in capital project management are to ascertain that capital funds are used for the purpose of which they were granted, and that the use of such funds complies with guidelines made by both the donors, and University management respectively. Other objectives include the following:

- a) The assets derived from utilization are adequately protected.
- b) Due process of approval of the projects are followed right from planning to the execution stage and , all documentation in relation there to is adequate and prepared in accordance with Government guidelines
- c) Proper coding of expenditure pertaining to the classification of the project is done so that the final Account, figures represent fair reporting.
- d) Account is fully render on all grants and other funds from whichever sources.
- e) To ensure that payment is made in accordance with the terms of the contract agreement.
- f) To ensure that payment is made only for work done
- g) To ensure (where there is a variation conditions in the agreement) that the variations instructions etc. are properly documented and complied with and, are processed for approval through appropriate organs in the universities e.g. through the Project Implementation committee etc.
- h) To ensure that necessary deductions e.g. retentions, tax, mobilization refund etc are made
- i) To ensure that Advance payments or Down-payment are adequately insured by bond or covered by Bankers guarantee.
- j) To enforce non-fluctuation of contract unless provided for and approved by the appropriate organ of the university

### 12.03 Internal Controls

The Physical Planning Unit of each Universities is the primary organ responsible for the planning, budgeting of capital project as well as for supervising their execution by selected contractors up to the completion stage. University Management, and in some case through NUC directives, use Committees to handle project management as an internal control measure to ensure compliance with laid down rocedures and to ensure cost effectiveness. The need for rendering periodic returns on approved capital projects to the National Universities Commission, before subsequent disbursements are made to the Universities, adds to the control measures put in place for managing capital projects. Recording assets and their total cost in Fixed Assets register is also another vital area of Internal Control. Other control measures are:

- a) Project Monitoring Committees meet regularly with Contractors to iron out difficult area.
- b) Site Quantity Surveyors and architects are drafted to building site to monitor progress of work and give site instructions where necessary.
- c) Ensuring payment of approved certificates in favour of Contractors on time to avoid penalties.
- d) Verifying variations arising from site meetings and instructions by the site supervisors.
- e) Rendering return to the National Universities Commission on prescribed forms on schedule so that funds are released in accordance with the project profile.
- f) The file of each project should be thoroughly read so as to understand the terms and the conditions of the contract
- g) The letter of award of contract in the file should be examined so as to ascertain that the conditions stipulated had been strictly adhered to
- h) It must be ensured that contract agreements have been entered into and signed by an appropriate officer on behalf of the university
- i) The Bill of Quantities on the projects should be obtained
- j) Ensure that the mobilization fee where payable is paid only when there is evidence of commencement of work. Rate must be according to negotiated and approved sum stipulated in the terms or where a government directives exists, that the payment conforms to those directives.

- k) The certificate issued for payment to the contractor should be thoroughly examined to ascertain the correctness of the computations of the following:
- (i) Gross valuation figure - this should agree with the documents attached to certificate
  - (ii) Retention fee must be worked out and-deducted from gross valuation figure above.
  - (iii) Previously certified figures on the certificate should agree with the figure on the last certificate.
  - (iv) Amount due to sub-contractors stated on the details attached to the certificate issued for payment must be supported with certified documents.
  - (v) Accuracy of every detail of the documents attached to the certified must be ascertained.
  - (vi) The Revised Professional fee (rates) approved by Federal Government must be applied on all payments due to any consultant or for consultancy i.e. electrical, mechanical, Quantity surveyor, etc.
  - (vii) Nothing should be taken for granted in the process of pre-auditing the capital project vouchers. Ensure that you keep abreast of the system guiding the payment of contractors' bill.
  - (viii) Ensure that correct tax is deducted
  - (ix) Visit the site of the project to determine the extent of work done and compare with payments already made. (Value for money audit or auditing beyond the books)
  - (x) Record all transactions
  - (xi) Occasionally, crosscheck the records in the Audit Dept against the project card in the Capital Project Unit of the Bursary and Physical Planning Unit.

#### **12.04 Internal Audit Programme**

The Internal Auditor has to ensure compliance with the above stated audit objectives to enable him assist the University Management to strengthen its internal control measures. In performing his function he also needs to plan his audit programme for the day to day operation of his Unit by mapping out adequate strategies to observe and deal with the following:

- a) All contracts awarded to contractors are duly budgeted for and approved by appropriate authorities in compliance with due process requirements.
- b) Contract agreement signed.
- c) Contract details are recorded in the Contract Register indicating the contract sum, completion date, name of the contractor, special conditions spelt out if any.
- d) A performance bond from a Reputable Insurance Company or a Banker's guarantee is presented before an advance payment or down-payment is made.
- e) All payment certificates are prepared and signed by competent staff in the Physical Planning Unit and duly approved by the Vice-Chancellor. The certificates have to be numbered.
- f) The Auditor should physically inspect the project to determine the extent of work done.
- g) Retention monies deducted from the approved certificates should be credited to a suspense code out of which use is made to repair some observed defaults by the contractor within this liability period so that no extra burden is placed on the University for no just cause.
- h) The gross amount charged on the project has to be inclusive of the retention fee earlier deducted from the certificate in order to record the actual project cost in the final account.
- i) Variation where applicable, pass through the same approval process as the original contract.
- j) Equipment, bought for Teaching and Research should be identified by the Internal Auditor who will also ensure that they are recorded in the Fixed Assets Register and kept under proper custody.
- k) All staff that applied for and collect Research Grant for purposes that entail the use of capital items render proper accounts.
- l) Ensure that Library Development funds are exclusively used for Library personnel, books and journals as directed by NUC.
- m) Since normal release of funds in this sector from NUC depends on Returns submission the Internal Auditor owes it a duty to keep watch over this and remind those concerned the need to be up to date at all times to keep the projects going.
- n) Proper coding of Expenditure on the project should be ensured so that Final Account figure represent fair reporting.

### **12.05 Direct Labour Projects:**

These are projects, which in the opinion of the Vice-Chancellor are capable of being executed by staff of Physical Planning Unit and Division of Maintenance Services.

There are three ways of getting materials to prosecute these projects:

- a) Purchase through the Central Purchasing Unit or Central Stores
- b) Purchase through LPO
- c) Purchase through Cash Advance

### **12.06 Audit Objectives:**

The audit objectives are as stated earlier on, and should include the following:

- a) Ensure that the materials paid for are supplied and used for the project.
- b) To ensure that cash advance taken are spent for the purpose for which they are taken
- c) To ensure that the daily paid workers are properly employed and that they perform up to stated payments.

### **12.07 Recommended Internal Audit Programme:**

See programme for vouching payments, LPO, etc, as contained in the manual

### **12.08 Purchase Through Cash Advance**

- (i) Obtain a copy of the duly approved cash advance application form
- (ii) Inspect all items bought with the cash advance before they are used ..
- (iii) Vouch the spending profile with the accompanying documents.
- (iv) Ensure that the unspent balance is paid to the cash office

## Chapter Thirteen

### Internal Audit of Planning and Budgetary Control Process

#### 13.00 Introduction

Planning is an essential ingredient of success in every endeavour. Not to plan has been described as a plan to fail. This is why every major aspect of our University system is subjected to very rigorous planning, using the prevalent committee system to ensure that only the best plans are approved and used. At the root of all planning is the need to maximize value for resources available. Herein lies the correlation between the plan and the budget for implementing the plan. Clearly therefore the budget is a subset of the plan. The plan however good will fail if not supported by an adequate budget. A bad plan will only succeed in wasting scarce resources.

The major plans most of the Universities are obliged to make include;

- The master plan for Physical Development of the University
- The academic strategic plan aimed at situating the University in the position of a unique centre of excellence in the particular area of learning where it has the best capabilities to excel over all other universities in the country
- The staff development plan, especially academic staff development to ensure steady supply of competent teaching and research staff.
- The Estimate and Budget of the annual recurrent expenses of the institution.
- The Estimate and budget of the annual infrastructural and superstructural development costs;

The Estimate and budget of the annual expenditure on research and the teaching and research equipment.

For all these plans to emerge and serve the system well, a down to top approach has been found to command the greatest merit. The use of experts within the system has also been found to be very cost effective in the production and approval of the plans and budgets.

The other aspect of the planning and budgetary control process, is the use of the plans and budgets in the control of actual operations. This is the critical stage, which involves data collection, storage and processing, extracting needed information from, data for further control action, and



firmness in taking necessary action. Indeed, the cost of failure is so high that internal audit of this process has become crucial.

### **13.01 Internal Audit Objectives:**

Because planning is at the root of success, management control efforts may not be spared to ensure soundness and effectiveness of the major plans and budgets. Internal audit, which is a major component of management control, has every cause to be fully focused on the planning and budgetary control process. The internal audit objectives include:

- Confirming the existence of a planning process and competent planning apparatus for all major operations in the system
- Confirming that whatever plans are in use, are reviewed from time to time to ensure their relevance to changing circumstances.
- Confirming that budgets for implementing on-going plans constitute integral subsets of the plans and are adequate for full implementation of the plans.
  - Confirming that due care was taken in the production and costing of plans to ensure that the concept of utility and value for money had sway throughout the plan process.
  - Verifying that actual performance is within plan limits, that every possible effort was made to eliminate waste, and that every advantage was exploited to the fullest.
  - Ensuring that all budgetary control measures approved by management and the ones recommended in the Uniform Accounting System for Nigerian Universities
  - Manual are fully implemented.

### **13.02 Internal Control Arrangements.**

Management is expected to implement the recommendations of the Uniform Accounting Manual as it relates to the planning and budgetary control process. These are found in the following sections of the manual.

Role of Council and its finance and General Purposes Committee	Section	2.00
Annual estimates	Section	2.01
Budgets and budgetary control	Section	2.02
Contract awards for supplies and services	Section	2.03
Payments payment vouchers and the necessary checks	Section	2.07
Stock and stores controls	Section	2.08

Insurance	Section	2.09
Internal audit	Section	2.10
Expense codes and coding	Section	3.04

Management in addition makes the following other arrangement to ensure that plans are a product of consensus of the best brains around and that implementation is pursued to achieve optimum results.

- Establishes planning and budget preparation and review committees that have their membership drawn from across the University and which are reconstituted from time to time.
- Establishes and runs plans and budget implementation committees to review and consider progress reports on on-going projects with a view to ensuring that they are progressing according to plan.
- Establishes and runs a budgetary control apparatus in the estimates and Expenditure control unit of the bursary ~ to ensure that extra budgetary commitments are not funded unless extra budgetary revenue is assured.
- Establishes and runs a bills payment system, that ensures full division of labour, strict adherence to the rules and regulations of best practice, and ensures that payments are made only in respect of certified and duly receive values.
- Keeps and updates all such control records as Contract registers and contract files, Local and Oversees purchases orders registers, Job orders registers, and Work in-Progress registers from where information on the projects and cost plans can be extracted for further control action.

### **13.03 Recommended Internal Audit Programme**

- The Auditor must start by confirming that call letters for plans and estimates submissions are timely and contain all the information and guidelines required by Budget operators to make sound proposals into the plan and estimate process.
- The auditor must check and ensure that submissions are sent on time to schedule officers namely the Bursar for recurrent estimates and plans, the Director of academic planning for new and modifications of existing academic plans and briefs, the Director of Physical planning for infrastructural and superstructural development plans. The Auditor must ensure that these submissions are faithfully collated and presented to the appropriate committee for consideration and recommendation.

- Obtain a list of on-going projects and confirm that they went through the planning process and that all the rules for their passage were observed. e.g. Competitive tendering in all purchases through the Local Purchase Order system and other contract biddings that pass through the Expenditure Control Unit of the Bursary Department.
- Ensure that all contracts awarded for supplies, services and construction are reduced to writing on contract agreement enforceable at law against the defaulting party.
- Ensure that in the case of recurrent estimate proposal, submissions from departments/units comprising expenditure and income proposals, are collated by the Bursar, with assistance from the Director of academic planning: to ensure that cumulative proposals comply the NUC control ratios. A report should go to the Estimate Committee and the Finance and General Purposes Committee and even to Council so that necessary adjustments will be made.
- With respect to the operating recurrent budget, the auditor should ensure that an objective method of arriving at the departmental allocations was observed and that the budget was balanced
- The operation of the budget should encourage delegation of authority and also insist on strict accountability on the part of Heads of Departments/Units. The Auditor should check this out and report
- Ascertain the authority limits of committees and officers and by comprehensive vouching ensure that these limitations were strictly observed.
- Carry out a comprehensive examination of the Departmental Vote Expenditure Account
- CDVEA) cards or records especially those for votes on which no transactions have been recorded, those whose allocations have been fully committed early in the budget period, and revenue codes that are not performing and issue a report for corrective action.
- Ensure that the periodic reports to vote and project managers on the state of affairs are timely, factual and acted upon.

## Chapter Fourteen

### Organogram of the Internal Audit Department

#### 14.00 Introduction:

The ability of Internal Audit Department to achieve the objectives depends largely on the quality of the staff. Generally, suitable or well-trained Audit staff should have a mix of multi-disciplinary background and a very rich experience in systems review and appraisals. It has been observed that in almost all the Universities in Nigeria, there exists a need to improve the staffing position of the Internal Audit Department. Professionally qualified/Graduate Auditors where they exist at all are too few to enable Internal Audit Departments fulfill their professional roles. It is a matter for regret that Internal Audit Departments experience rapid turnover of professionally qualified staff because of lack of career incentives. The trend in the Universities now is to place academic staff in the Professional Faculties like-Law, Pharmacy, Technology and Health Sciences (Medicine) on salary Scales a bit higher than their colleagues elsewhere. In the same vein, non-teaching staff professional in Bursary and Audit Departments should be encouraged and be made to enjoy some special treatment in the university system.

This Committee knows that the position of the Head of Internal Audit Department is very important within the University system. His status, salary, placement etc. should be the same with those of Directors. The Post should also be so designated Director while the Internal Audit Department 'should be designated a Directorate in the Vice-Chancellor's Office.

#### 14.01 Internal Audit Objectives

The main purpose of Internal Auditing in the University system is to ensure that the University achieves the objectives of: Teaching, Research, undertake activities appropriate for a University etc. at minimum cost and in accordance with laid down rules of management; standard accounting practice and the laws of the country.

Internal Audit Department should, therefore, be in a position to review the various Internal control systems regularly and render exception report to management to enable them take corrective actions on areas of weaknesses, give useful and constructive advice to management, verifies and confirm the existence of University assets, appraise and report.

Unfortunately, owing to poor staffing, a look at the activities of the Internal Audit Units/Departments in our Universities, shows clearly that emphasis had been on Financial Auditing, to the neglect of cost and management auditing.

As a measure for continued improvement, it is recommended that regular In-house Training should always be undertaken. Consultants, within and outside the University, and should be invited from time to time to up-date and up skill internal audit staff for better results.

#### **14.02 Summary of Job-Definitions:**

##### **A. Director of Audit**

###### **Duties**

- i. Direct the manner in which the University Books and accounts are to be audited
- ii. Give instructions to Audit personnel/staff with regards to any matter relating to the performance of audit functions.
- iii. Participate in Committees - especially executive and Council Committees dealing with Finance and Resource Control.
- iv. Collaborate on issues affecting design of systems of Accounts, Internal Control, Manpower, Staff Remuneration/Wages, Personnel and Investment Portfolios.
- v. Examine/review from time to time, the University Procedures for write-offs, purchasing, valuation of stock and inventory pricing.
- vi. Conduct Special Audit or Additional Audit where he finds it necessary or when normal audit reveals gross irregularities or mismanagement.
- vii. Such other duties as may become necessary or as directed by the Vice-Chancellor, the University Management or the Governing Council.

##### **(B) Deputy Director of Audit**

###### **Duties**

- i. Shall assist the Director of Audit
- ii. Oversee the Audit Units in other campuses and business outfits of the university.
- iii. Receives and collate report for the Director of Audit's attention.

- iv. Perform any other duties but may be assigned by the Director of Audit.

**(c) Chief Internal Auditor**

**Duties**

- (i) Shall supervise and co-ordinate the activities of his own Division in the Audit Department
- (ii) Shall be responsible for the execution of Audit Work Plan - Long and Short-Range.
- (iii) Prepare report for Management - Annual, Quarterly etc other formal reports from his Division for action of the Director.
- (iv) Design standard audit programme and review from time to time.
- (v) Prepare memoranda on Audit Procedures.
- (vi) Perform other duties assigned by the Director, etc.

**(D) Principal Internal Auditor**

**Duties**

- (i) Shall assist the Chief Internal Auditor in charge of the Division.
- (ii) Shall train subordinate staff of his section.
- (iii) Shall head a section of his Division
- (iv) Shall be responsible to the Chief Internal Auditor in charge of his Division.
- (v) Shall lead Teams for Special; Audits and Investigations.

**14.03 Organizational Structure of the Internal Audit Department**

An Organization Chart showing the recommended Structure of the Internal Audit Departmental is attached.

The Internal Audit Department shall be headed by a Director of Audit

The Internal Audit Department shall have three working Divisions, namely:

1. Pre-Payment Division
2. Post-Payment Division and
3. Systems and Special Investigations Division

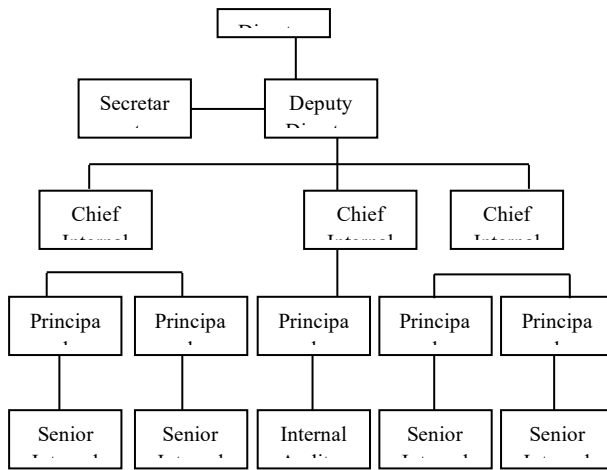
The three Divisions listed above are to be headed by Chief Internal Auditors and are to report directly to the Director of Audit. The Chief Internal Auditor, Systems and Special Investigation Divisions shall have

one Principal Internal Auditor under him while, the Chief Internal Auditor (pre-payment) is to have below him, Principal Internal Auditor (capital expenditure) and Principal Internal Auditor Recurrent Expenditure. The Chief Internal Auditor (Post-payment) on the other hand, is to have Principal Internal Auditor (General Ledger) and Principal Internal Auditor (Assets and stores). Immediately below the Principal Internal Auditors are various internal audit staff that are expected to assist in the execution of the internal auditing activities.

The pre-payment Division is responsible for the examination of all types of payment vouchers, both for recurrent and capital expenditure before payment is made. The recurrent expenditure items include salaries and wages, electricity, water, Nitel, and other operating expenses. Capital expenditure items, on the other hand, include capital purchases and rehabilitation of fixed assets. This category of expenditure include construction of offices, classrooms and residential houses, purchase of motor vehicles and other machines as well as the acquisition of landed property.

The Post-Payment Division, however, is responsible for the auditing of all accounting and financial records with a view to ensuring that all transactions are properly documented, up-dated and classified. The records include cashbooks, bank reconciliation's statements, ledger accounts, and other memorandum account books and registers. This section is also responsible for the verification of stores items and stock prices and ensures that they are acquired at competitive prices. The section is also to ensure that store materials are safe and free from vandalisation and theft. The section also undertakes physical inspection and counting of materials before they are received in the warehouses.

As for the special investigation, and systems audit Division, its responsibility has to do with constant and critical examination of internal control systems with the view to ensuring that they are adequate and working properly. This Division also undertakes assignments of investigative nature, aimed at uncovering reasons for poor performance of certain operational units or to find out individuals that may be connected to any fraud and/or mismanagement of resources.





## Chapter Fifteen

### Recommendations for Implementation

#### 15.00 Training

There is need for the intensification of training for the Internal Auditors on the use of computers and on the content of the Standard Internal Audit Manual. Your committee on the production of the Manual has worked very hard and made personal sacrifices to produce the manual in a record time. The opportunity, which this development offers for progress, must not be allowed to slip off. We therefore recommend that some assistance be given to the committee of Heads of Internal Audit Departments of Nigerian Universities to enable them organize seminars and workshops on the manual so that its contents will be understood and used for the good of the university system.

#### 15.01 Equipment.

Federal universities are currently groaning under the weight of unfunded staff cost increases arising from salary awards by government. As at now they seem unable to give due attention to skill development and training, as well as the re-tooling and re-equipping of the staff to enable them cope with developments in Information Technology in the 21st century. The NUC was kind in assisting the universities with Hardware, with which the UAS is being implemented in the universities. We urge the NUC to please see if it can do the same for the Internal auditors. This will enable them March in step with the accountants in the drive to improve accountability and probity in our universities.

#### 15.02 Audit software.

The need for internal auditors in Nigerian universities to upgrade their tools of trade to the computer has been stated. It is a global trend that cannot be ignored. Information available shows that the Computer Assisted Audit Tools market is a growth industry, due mainly to the dominant personal element in Internal Audit work. However Computer Assisted Audit Tools (CAATs), have continued to be developed and used with varying degree of success. We found out during our consultative meeting with the Heads of internal audit units of Nigerian universities that some of them were aware of the Software called Audit Command Language (ACL) , and did in fact recommend it. Further inquiries have

revealed that the audit software ACL is indeed the market Leader and is distributed by a reputable Lagos company, EDP Audit & Security Associates Ltd. with training offices in Lagos and Abuja. We recommend that the NVC Data Management Department call for demonstration of the capabilities of the software, especially its ability to interface with Tetra 2000. This will enable them support our view that the software be provided for our internal auditors.

### **15.03 Limitations and Need for early Review.**

The Standard Internal Audit Manual was intended to provide a guide for university internal auditors to operate in an environment created by the uniform accounting system and the Tetra 2000 accounting package. Presently however the very limited knowledge of the controls brought into the environment by computerization of accounting systems and particularly by Tetra 2000 accounting package has made it impossible for the manual to go into these in any detail. It is recommended that as knowledge of Tetra and its facilities grow, the manual will be reviewed to improve its value to university internal auditors of the future.

### **15.04 Monitoring Committee.**

We find the slow pace of implementation of the VAS and its computerization with the Tetra 2000 package unacceptable. This is despite all the help that the NVC has provided. We therefore recommend, the setting up of a monitoring implementation committee to coordinate the efforts of the Accounting Departments and the Audit units in the universities in the implementation of the V AS uniform accounting system, its computerization with the Tetra 2000 accounting package, the SIAM, standard internal audit manual and the upgrading of audit tools to the ACL, audit command language, which we have recommended.

# Appendix 1 - General and Specific Standards for the Professional Practice of Internal Auditing in the US

## Summary

### Independence

Internal auditors should be independent of the activities they audit.

### **110 Organisational Status**

The organizational status of the internal audit department should be sufficient to permit the accomplishment of its audit responsibilities.

### **120 Objectivity**

Internal auditors should be objective in performing audits.

### **200 Professional Proficiency**

Internal audits should be performed with proficiency and due professional care.

### The Internal Audit Department Staffing

The internal audit department should provide assurance that the technical proficiency and educational background of internal auditors are appropriate for the audits to be performed.

### **220 Knowledge, Skills, and Disciplines**

The internal audit department should possess or should obtain the knowledge, skills and disciplines needed to carry out its audit responsibilities.

### **230 Supervision**

The internal audit department should provide assurance that internal audits are properly supervised.

### **The Internal Auditor**

### **240 Compliance with Standards of Conduct**

Internal auditors should comply with professional standards of conduct

250 Knowledge, Skills, and Disciplines. Internal auditors should possess the knowledge, skills, and disciplines essential to the performance of internal audits.

260 Human Relations and Communications Internal auditors should be skilled in dealing with people and in communicating effectively.

**270 Continuing Education**

Internal auditors should maintain their technical competence through continuing education

**280 Due professional Care**

Internal auditors should exercise due professional care in performing internal audits

**300 Scope of Work**

~~The scope of the internal audit should~~ encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities

**310 Reliability and Integrity of Information**

Internal auditors should review the reliability and integrity of financial and operating Information and the means used to identify, measure, classify, and report such information.

## **Appendix 1 - General and Specific Standards for the Professional Practice of Internal Auditing in the US**

### **Summary**

#### **320 Compliance with Policies, Plans, Procedures, Laws and Regulations**

Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports and should determine whether the organization is in compliance.

#### **330 Safeguarding of Assets**

Internal auditors should review the means of safeguarding assets and, as appropriate, verify the existence of such assets.

#### **340 Economical and Efficient Use of Resources**

Internal auditors should appraise the economy and efficiency with which resources are employed.

#### **350 Accomplishment of Established Objectives and Goals for Operations or Programs**

Internal auditors should review operations or programs to ascertain whether results are consistent

with established objectives and goals and whether the operations or programs are being carried out as planned.

#### **400 Performance of Audit Work**

Audit work should include planning the audit, examining and evaluating information, communicating results, and following up

#### **410 Planning the Audit**

Internal auditors should plan each audit

#### **420 Examining and Evaluating Information**

Internal auditors should collect, analyze, interpret, and document information to support audit results.

#### **430 Communication Results**

Internal auditors should report the results of their audit work

440 Following Up-Internal auditors should follow up to ascertain that appropriate action is taken on reported audit findings

### **500 Management of the Internal Auditing Department**

The head of internal audit should properly manage the internal auditing department.

### **510 Purpose, Authority, and Responsibility**

The head of internal audit should have a statement of purpose, authority, and responsibility for the internal auditing department.

### **520 Planning**

The head of internal audit should establish plans to carry out the responsibilities of the internal auditing department policies and procedures

### **530 Policies and procedures**

~~The head of internal audit should provide~~ written policies and procedures to guide the audit staff.

### **540 Personnel Management and development**

The head of internal audit should establish a program for selecting and developing the human resources of the internal auditing department.

### **550 External Auditors**

The head of internal audit should coordinate internal and external audit efforts

### **560 Quality Assurance**

The head of internal audit should establish and maintain a quality assurance program to evaluate the operations of the internal auditing department.

**Appendix 2 - Standards for Audit of Governmental Organizations  
Programs, Activities, and Functions in the US**

**Summary of 1981 Revision**

**SCOPE OF AUDIT WORK**

The expanded scope of auditing a government organization, a program, an activity, or a function

Should include.

1. Financial and compliance - determines

- (a) whether the financial statements of an audited entity present fairly the financial position and the results of financial operations in accordance with generally accepted accounting principles and
- (b) whether the entity has complied with laws and regulations that may have a material effect on the financial statements

2. Economy and efficiency - determines

- (a) whether the entity is managing and utilizing its resources (such as personnel, property, space) economically and efficiently,
- (b) the causes of inefficiencies or uneconomical practices, and
- (c) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.

3. Program results - determines

- (a) whether the desired results or benefits established by the legislature or other authorizing body are being achieved and
- (b) Whether the agency has considered alternatives that might yield desired results at a lower cost.

In determining the scope for a particular audit, responsible audit and entity officials should consider the needs of potential users of audit findings.

**GENERAL STANDARDS**

1. Qualifications:

The auditors assigned to perform the audit must collectively possess adequate professional proficiency for the tasks required.

## 2. Independence

In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, must be free personal or external impairments to independence, must be organizationally independent, and shall maintain an independent attitude and appearance.

## 3. Due professional care

Due professional care is to be used in conducting the audit and in preparing related report

## 4. Scope impairments

When factors external to the audit organization and the auditor restrict the audit or interfere with the auditor's ability to form objective opinions and conclusions, the auditors should attempt to remove the limitation or, failing that, report the limitation.



**Appendix 3 - AICPA'S Standards examination, Evaluation and Reporting  
for Financial Compliance Audits**

**Summary**

American Institute of Certified Public Accountant's statements on Auditing Standards for fieldwork and reporting are adopted and incorporated in this statement for government financial and compliance audits. Future statements should be adopted and incorporated, unless Auditor General excludes them by formal announcement.

**Additional standards and requirements for government financial and compliance audits.**

a. Standards on examination and evaluation:

- (1) Planning shall include consideration of the requirements of all levels of government.
- (2) A review is to be made of compliance with applicable laws and regulations.
- (3) A written record of the auditors' work shall be retained in the form of working papers.
- (4) Auditors shall be alert to situations or transactions that could be indicative of fraud, abuse, and illegal expenditures and acts and if such evidence exists, extend audit steps and procedures to identify the effect on the entity's financial statements.

b. Standards on reporting

- (1) Written audit reports are to be submitted to the appropriate officials of the organization audited and to the appropriate' officials of the organization requiring or arranging for the audits unless legal restrictions of ethical considerations prevent it. Copies of the reports should also be sent to other officials who may be responsible for taking action and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection
- (2) A statement in the auditors report that the examination was made in accordance with generally accepted government auditing standards for financial and compliance audits will be acceptable language to indicate that the audit was made in accordance with these standards.

- (3) Either the auditor report on the entity's financial statements or a separate report shall contain a statement of positive assurance on those items of compliance tested and negative assurance on those items not tested. It shall also include material instances of non-compliance and instances or indications of fraud, abuse, or illegal acts found during or in connection with the audit
- (4) The auditors shall report on their study and evaluation of internal accounting controls made as part of the financial and compliance audit. They shall identify as a minimum.
- (a) the entity's significant internal accounting controls,
  - (b) the controls identified that were evaluated,
  - (c) the controls identified that were not evaluated (the auditor may satisfy this requirement by identifying any significant classes of transactions and related assets not included in the study and evaluation), and
  - (d) the material weaknesses identified as a result of the evaluation.
- (5) Either the auditors' report on the entity's financial statements or a separate report shall contain any other material deficiency findings identified during the audit not covered in (3) above.
- (6) If certain information is prohibited from general disclosure, the report shall state the nature of the information omitted and the requirement that makes the omission necessary.

**Appendix 4 - Examination and Evaluation Standard for Economic and Efficiency**

**Audits and program Results Audits**

**Summary**

1. Work is to be adequately planned
2. Assistants are to be properly supervised
3. Assistants are to be properly supervised.
4. During the audit, a study and evaluation shall be made of the internal control system (administrative controls) applicable to the organization, program, activity, or function under audit
5. When audits involve computer-based systems, the auditors shall:
  - (a) Review the general controls in data processing systems to determine whether (1) the controls have been designed according to management direction and known legal requirements and (2) the controls are operating effectively to provide reliability of, and security over, the data being processed.
  - (b) Review application controls of installed data processing applications on which the auditor is relying to assess their reliability in processing data in a timely, accurate, and complete manner.
6. Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditor' judgements and conclusions regarding the organization, program, activity, or function under audit. A written record of the auditor's work shall be retained in the form of working papers.
7. The auditors shall:
  - (a) Be alert to situations or transactions that could be indicative of fraud, abuse, and illegal acts.
  - (b) if such evidence exists, extend audit steps and procedures to identify the effect on the entity's operations and programs.

**Appendix 5 - Reporting Standards for Economy and Efficiency Audits  
and Program  
Results Audits**

**Summary**

1. Written audit reports are to be prepared giving the results of each government audit
2. Written audit reports are to be submitted to the appropriate officials of the organization audited and to the appropriate officials of the organizations requiring or arranging for the audits unless legal restrictions or ethical considerations prevent it. Copies of the reports should also be sent to other officials who may be responsible for taking action on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.
3. Reports are to be issued on or before the dates specified by law, regulation, or other special arrangement. Reports are to be issued promptly so as to make the information available for timely use by management and by legislative officials.
4. The report shall include:
  - a. A description of the scope and objectives of the audit.
  - b. A statement that the audit (economy and efficiency or program results) was made in accordance with generally accepted government auditing standards
  - c. A description of material weaknesses found in the internal control system (administrative controls).
  - d. A statement of positive assurance on those items of compliance tested and negative assurance on those items not tested. This should include significant instances of non-compliance and instances of or indications of fraud, abuse, or illegal acts found during or in connection with the audit. However, fraud, abuse, or illegal acts normally should be covered in a separate report, thus permitting the overall report to be released to the public
  - e. Recommendations for actions to improve problem areas noted in the audit and to improve operations. The underlying causes of problems reported should be included to assist in implementing correction actions.

- f. Pertinent views of responsible officials of the organization, program, activity, or function audited concerning the auditor's findings, conclusions, and recommendations. When possible, their views should be obtained in writing.
  - g. A description of noteworthy accomplishments, particularly when management improvements in one area may be applicable elsewhere.
  - h. A listing of any issues and questions needing further study and consideration
  - i. A statement as to whether any pertinent information has been omitted because it is deemed privileged or confidential. The nature of such information should be described, and the law or other basis under which it is withheld should be stated. If a separate report was issued containing this information, it should be indicated in the report.
5. The report shall:
- a. Present factual data accurately and fairly. Include only information, findings, and conclusions that are adequately supported by sufficient evidence in the auditors' working papers to demonstrate or prove the bases for the matters reported and their correctness and reasonableness
  - b. Present findings and conclusions in a convincing manner
  - c. Be objective
  - d. Be written in language as clear and simple as the subject matter permits.
  - e. Be concise, but at the same time clear enough to be understood by users
  - f. Present factual data completely to fully inform the users
  - g. Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in a balanced perspective considering any unusual difficulties or circumstances faced by the operating officials concerned

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