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Effect of internal accounting control, internal audit quality and audit committees' quality on fund management in Sokoto State industrial training fund

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Abstract

Internal control is the process by which an organization governs its activities to effectively and efficiently accomplish its mission. Establishing effective internal control involves assessment of the risks the agency faces from both external and internal sources. The aim of this study is to examine the effect of internal control system (internal accounting control, internal audit quality and audit committees' quality) on fund management in Sokoto state industrial training fund. The population of this study comprised all the staff of Nigeria industrial training fund (ITF) in Sokoto state therefore in line with Krejcie and Morgan the sample size of the study is 40 and simple random sampling technique without replacement is adopted to select the sample size represented the population of the study. The study used a simple descriptive statistical technique using table, frequencies and percentage and a regression analysis to analyse the data. The result of the study reveals that Internal accounting control, Internal audit quality and Audit committees' quality has significant effect on fund management in Sokoto state industrial training fund. Therefore, the study recommends that Anti-corruption agencies in Nigeria such as economic financial crime commission (EFCC), Independent Corrupt Practices Commission (ICPC) should be restructured by the government for better performance. Professional accountancy bodies in Nigeria should ensure that accountants are trained with the current development accounting procedures. The financial reporting council should ensure that best standards and regulations are established. This study also suggests that sound personnel policies to attract people with good moral standing as industrial training fund internal auditors. Industrial training fund management need to build continuous improvement in the aspect of internal audit quality. Lastly, audit committee quality should be given appropriately attention in order to enhance fund management prevention techniques.

Keywords: accounting control, audit committees, management

Introduction

Internal control is the process by which an organization governs its activities to effectively and efficiently accomplish its mission. Establishing effective internal control involves assessment of the risks the agency faces from both external and internal sources. In accounting and auditing, internal control is defined as a process affected by an organization structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. Reviewed update by Kento (2019) ^[14] internal control are the mechanisms, rules, and procedures implemented by a company to ensure the integrity of financial and accounting information, promote accountability and prevent fraud. Beside complying with laws and regulations and preventing employers from stealing assets or committing fraud, internal controls can help improve operational efficiency by improving the accuracy and timeliness of financial reporting.

The basic purpose of internal control is safeguarding assets, ensuring financial statement reliability, promoting operational efficiency, and encourage compliance with management directives.

Fund Management Accounting is an accounting system for recording resources whose use has limited by donor, grant authority, governing agency, or other individuals or organizations or bylaw. It emphasizes accountability rather than profitability, and is used by non-profits organization or by government.

Internal control and Fund management system plays a vital role in the operational performance of an organization. The combination of both mechanisms will ensure less risk and resource protection.

In the analysis of internal control and fund management system, the researcher intends to examine the application of both functions in the Nigeria Industrial Training Fund (ITF). The Industrial Training Fund (ITF) was established by Decree No. 47 of 1971 (now an Act of the National Assembly). It is a grade 'A' parastatal operating under aegis of the Federal Ministry of Industry, Trade and Investment. It has operated for forty-eight years (48) as a specialist agency to provide, promote and encourage the acquisition of skills in industry and commerce, with a view of generating a pool of indigenous trained manpower sufficient to meet the need of the private and public sectors of the economy.

The researcher will briefly discuss the funding of the Industrial Training Fund to enable proper comparison of fund management and internal control system in the ITF.

The Industrial Training Fund (amendment) act 2011 was passed by the national assembly and assented to by the President on the 3rd of June, 2011 the amended act provides that: every employer having either 5 or more employees in his establishment, or having less than 5 employees but with a turnover of N 50, Million and above per annum shall, in respect of each calendar year and on the prescribed date, contribute to the fund (ITF) one per centum of the total annual payroll.

Any supplier or contractor or consultant bidding or soliciting contracts, business, goods and services from any Federal Government Ministry, Department, Agency, Commercial, Industrial and Private entities must fulfil statutory obligation of his employees with respect to payment of training contributions to the fund (ITF).

The internal control system and fund management function in ITF has multiple roles of oversight, insight and foresight responsibilities the oversight responsibilities of both internal control and fund management mechanisms of the Industrial Training Fund help to ensure that compliance as regards services to detect, deter corruption and fraud in the fund. By its oversight responsibilities, the internal control system and fund management functions assist decision makers (i.e., Governing Council and management of the fund) by allowing them to make independent comparison of policies, programmes, operations and anticipated results. For its foresight responsibilities the internal control system and fund management system helps to identify trends and emerging challenges of the organization.

Regardless of the immense benefit of effective fund management and internal control system to ITF and its stakeholders and partners. This study seeks to compare the effectiveness of internal control system and fund management system in the Nigeria industrial Training Fund (ITF).

Internal control system and fund management plays different role in organizational setting though they have some similar philosophy in terms of policy and procedures. The internal control system is of types: the detective internal

control system is designed to find errors after they have accrued, why the preventive is a procedure or process in place to prevent fraud and stealing of assets. The corrective on the other hand is to make sure that rules and regulations are complied with. The fund management on the other hand is saddled with the responsibility of apportioning fund/money to various departments with good reliable and accurate records of accounting to help management function properly and effectively. The absence of established responsibilities and segregation of duties with mandatory employee rotations so also the fund management maintaining records and performing regular independent reviews with the aid of technological control i.e., the coding and checking system. This study seeks to infer the function of internal control system and fund management in the Nigeria industrial Training Fund (ITF). The Fund management and Internal control system of ITF is a process whereby the Fund (ITF) is department upon to yield good results and achieve its targeted goals/objectives. These policies and procedures of the internal control in line with the fund management are effectively and efficiently being utilized by the Industrial Training Fund as a solution to better service delivery as regards developing the Nation Human Resources.

Objectives of the study

The aim of this study is to examine the effect of internal control system (internal accounting control, internal audit quality and audit committees' quality) on fund management in Sokoto state industrial training fund, the particular objectives of this study are to examine whether:

1. To investigate if internal accounting control has significant effect on fund management in Sokoto state industrial training fund.
2. To examine if internal audit quality has significant effect on fund management in Sokoto state industrial training fund.
3. To assess if audit committees' quality has significant effect on fund management in Sokoto state industrial training fund.

Hypothesis of the Study

In research analysis it is useful to make hypothetical assumption about the variable involved. A statistical hypothesis is a sensitive statement about one or more parameters of population or group of populations. The hypotheses for this research project are:

H₀: Internal accounting control has significant effect on fund management in Sokoto state industrial training fund.

H₀: Internal audit quality has significant effect on fund management in Sokoto state industrial training fund.

H₀: Audit committees' quality has significant effect on fund management in Sokoto state industrial training fund.

Empirical Literature Review

This study conducted by Yang and Li (2018) ^[55] on the relationship between internal control systems and the investment performance of mutual funds in China. The authors utilized a sample of 831 Chinese mutual funds from the period of 2010-2016 to analyze the effect of internal control systems on mutual fund performance. The results of the study indicate that internal control systems have a positive effect on the investment performance of mutual funds in China. The authors conclude that their findings provide empirical evidence of the importance of internal control

systems in improving the investment performance of mutual funds. This article provides useful insights into the importance of internal control systems in the investment performance of mutual funds and is a valuable reference for academics and practitioners interested in the topic.

This article by Hui Yang and Wen Li (2017) ^[54] investigates the role of audit committees in improving the performance of fund managers. The authors analyze data from a sample of listed companies in China over a period of three years to determine how audit committees affect the investment performance of fund managers. The results show that audit committees have a significant and positive effect on fund managers' investment performance. Specifically, the authors found that audit committees improve fund managers' investment performance through enhanced corporate governance and better compliance with regulations and industry standards. The authors also suggest that audit committees can reduce agency conflicts between fund managers and shareholders. The findings of this study have implications for the design of effective corporate governance systems and for the regulation of the fund management industry.

Lu and Li (2017) ^[18] discusses the relationship between internal control quality and the performance of mutual funds. The authors discuss the possible benefits of improving internal control quality for mutual funds, including lower costs, greater efficiency and improved disclosure. In order to examine this relationship, they explore the impact of internal control quality on the performance of mutual funds, using a sample of Chinese mutual funds from 2013-2015. The results of the study show that there is a significant positive relationship between internal control quality and mutual fund performance. Funds with higher internal control quality experienced lower costs and better disclosure, and the improvement was the largest for mid-sized funds. Furthermore, the improvement in mutual fund performance was found to be the highest for fund managers with longer tenure and those who had more experience in managing mid-sized mutual funds. In general, this paper provides useful insight into the importance of internal control quality for mutual fund performance. The authors demonstrate the importance of strengthening internal control quality in order to improve the performance of mutual funds. The study also highlights the importance of having experienced fund managers in order to maximize the benefits of improved internal control quality.

Li, S., Li, X., and Chen, L. (2016) ^[17] analyze the effects of an internal control system on fund performance in China. Specifically, the researchers conduct a panel data investigation of 118 funds in China from 2011 to 2014. They define internal control system as the number of independent non-executive directors and the number of independent supervisors on the board of a fund manager. The study finds a negative relationship between the number of independent non-executive directors and fund performance, but the effect does not significantly differ from zero. They also find a positive relationship between the number of independent supervisors and fund performance, which indicates that with more independent supervisors on the board there is an improved fund performance. However, when the researchers control for the fund-specific characteristics, the positive effect from the number of independent supervisors diminishes. Overall, the research reveals that while the number of independent non-executive directors have no

significant effect on the performance of funds in China, the number of independent supervisors does have a positive influence on fund performance. The researchers effectively demonstrate that the relationship between the internal control system and fund performance is complex and should be further investigated.

Wang, X., Chen, K., & Tan, H. (2015) ^[51] conducted a study to investigate the relationship between the quality of internal auditors and the performance of fund managers in China. The authors employed the method of two-stage least squares (2SLS) to measure the effect of the internal audit quality, measured by the use of a standardized audit system, on the performance of fund managers. The authors found that internal audit quality of the funds is significantly associated with the performance of fund managers, suggesting that internal audit quality is an important factor in determining fund performance. The authors also highlighted the importance of audit quality as a measure of fund performance by noting that fund managers were two times less likely to achieve the targeted return if the internal audit quality of their funds was low. The results indicate that the use of a standardized audit system is beneficial for fund managers, as it helps ensure proper financial reporting and allows the fund's managers to focus on the important task of making investments and meeting the targeted return. The results from this study are important for fund managers in China, as it provides clear evidence of the importance of audit quality for the performance of their funds. Furthermore, the authors' findings are also applicable to other contexts,

Gerrit and Mohammad found evidence in support of the monitoring role of the Internal Audit Function. They specifically, found evidence that management ownership is positively related to the relative size of the Internal Audit Function, which is inconsistent with traditional agency theory arguments that predict a negative relationship, but more in line with recent studies on earnings management. This finding suggests that increased management ownership may influence the board of directors to support larger Internal Audit Functions to allow them to closely monitor managers' performance. It is also plausible that management with higher share ownership is motivated to invest in larger Internal Audit Function for better monitoring of earnings and for signalling to the board of directors that, despite their high stake in earnings, they are convinced that appropriate use of resources has to be assessed on a regular basis.

Methodology

Research Design

Research design is the conceptual context which provides a logical structure in which the research is to be conducted. It also provides the blue print in which gathering and analysing of relevant data or information is to be done. Therefore, in an exploratory and quantitative study like this which is intended to collect data at a point in time, the more suitable research design is cross-sectional survey.

Population of the Study

The population of this study comprised all the staff of Nigeria industrial training fund (ITF) in Sokoto state. According to Isa the total number of industrial training fund (ITF) is forty-five (45). Therefore, this total number served as a population of the study from which the sample size will be drawn.

Sample Size and Sampling Technique

Since the size of the population is known with precision, but it is impossible to study the whole members of the population due to time and financial constraints, therefore in line with Krejcie and Morgan (1970) [16] the sample size of the study is 40 and simple random sampling technique without replacement is adopted to select the sample size represented the population of the study.

Method of Data Collection

Structured questionnaire is main instrument for data collection in this study and a total number of forty (40) copies of questionnaire were administered to staff of Nigeria Industrial Fund (ITF) Sokoto state.

Technique of Data Analysis

The study used a simple descriptive statistical technique using table, frequencies and percentage and a regression analysis to analyse the data and to determine the influence of internal accounting control, internal audit quality and audit committees’ quality on fund management in Sokoto state industrial training fund using SPSS Software version 22.

Model Specifications

The multi regression model is usually presented in the form:

$$Y = F(X) \tag{1}$$

$$Y_t = F(IAC_t, IAQ_t, ACQ_t) \tag{2}$$

$$FM_t = \beta_0 + \beta_1 IAC_t + \beta_2 IAQ_t + \beta_3 ACQ_t + e_t \tag{3}$$

Where:

FM_t = Fund Management at time t.

IAC_t = Internal Accounting Control at time t.

IAQ_t = Internal Audit Quality at time t.

ACQ_t = Audit Committees Quality at time t.

β₀ = Intercepts/ autonomous variable. It depicts the degree of the dependent construct even without the existence of independent constructs.

β₁, β₂ and β₃ = are parameter estimates or coefficient of independent variable

e_t = the error term.

Data presentation and Analysis

Demographic Characteristics of the Beneficiaries

The demographic characteristics of Sokoto state industrial training fund staff. The variables of interest are the spread of the respondents within Sokoto state, gender, age distribution of the respondents. To carry out the investigations of the research objectives, the analysis targeted the staffs of industrial training fund staff. A total of 40 staffs were randomly selected out of 45.

Table 1: Demographic Profile of Respondents

S/N	Variables	Frequency	Percentage (%)
1	Gender		
	Male	32	80%
	Female	8	20%
2	Educational Status		
	Primary	6	15%
	Secondary	11	27.5%
	Diploma/NCE	9	22.5%
	Degree	12	30%
	Masters	2	5%
3	Age		
	18-28	4	10%
	29-39	13	32.5%
	40-50	16	40%
	50- Above	7	17.5%

Source: Computed from field Survey Data (2022)

The gender of respondents is an important characteristic of the staffs, majority of the staffs were male 42(80%) then female staffs are 8(20%).

The above Table 1 reveals that 2 (5%) of the respondents held master’s degree as the highest educational qualification, while 12 (30%) had obtained degree certificates. While a total of 9 (22.5%) respondents obtained Diploma/NCE. The total of 11(27.5%) are among that obtained secondary certificate and lastly 6(15%) of the respondents obtained primary certificate.

The distribution of the respondents’ age was based on five classes of age (Table 1): those falling within the age class of 18-28 years are 4(10%), some of the respondents 13 (32.5%) were at age group of 29-39, while the majority of the respondents 16(40%) fell within 40-50 and lastly 7(17.5%) of the respondents are within the age class of 50-Above.

Descriptive Statistics

In this section the descriptive statistics of the variables under study are presented in Table 1. The table provides details on

the minimum and maximum values of the variables as well as their means and standard deviations.

Table 2: Descriptive Statistics of variables

	N	Minimum	Maximum	Mean	Stad.Div
FM	40	-0.03	0.07	0.008	0.02
IAC	40	3.06	15.98	13.35	2.39
IAQ	40	0.06	0.17	0.13	0.02
ACQ	40	-24.48	7.52	1.96	4.01

Source: Computed from field Survey Data (2022)

Note: Result of descriptive statistics generated by the researcher using SPSS (Version 21).

From Table 2, the minimum, maximum, mean and standard deviation figures of the sampled companies for each of the studied variables are presented. Funds Management was found to have a minimum of -0.03 and a maximum of 0.07 with a mean value of 0.008 and standard deviation of 0.02. This signifies less Funds Management compared to internal control system, in which Internal Accounting Control have a

minimum and maximum values of 3.06 and 15.98 respectively, with a mean value of 13.35 and standard deviation of 2.39. and also, Internal Audit Quality have a minimum and maximum values of 0.06 and 0.17 respectively, with a mean value of 0.13 and standard deviation of 0.02 and lastly Audit Committees quality have a minimum and maximum values of -24.48 and 7.52 respectively, with a mean value of 1.96 and standard deviation of 4.01.

Correlation analysis

Table 3 presents the results of Pearson correlation analysis on the association among the variables.

Table 3: Correlation Matrix of DVs and Ivs

	FM	IAC	IAQ	ACQ
FM	1.000			
IAC	0.088***	1.000		
IAQ	0.332**	0.013**	1.000	
ACQ	0.217**	0.232	-0.113***	1.000

Source: Computed from field Survey Data (2022)

*. Correlation is significant at the 0.05 level (2-tailed). **.

Correlation is significant at the 0.01 level (2-tailed).

Based on Table 3, fund management is significantly and positively correlated with Internal Accounting Control, internal audit quality and internal audit quality at less than one and five percent significant level ($r = 0.088, 0.332$ and 0.217 $p < 0.001, 0.05, 0.05$ respectively), while Internal Accounting Control is significantly and positively correlated with internal audit quality and audit committee quality at five percent significant level ($r = -0.013$ and 0.232 , $p < 0.05$). Internal audit quality also significant and positively correlated with audit committee quality at five percent significant level ($r = 0.113$, $p < 0.05$).

Regression Results

Tables 4 present the results of regression analysis on examining the relationship between fund management and internal control system.

Table 4: Summary of regression analysis for fund Management

Variables	Coefficient	Standard Error	t-statistics	P-Value	VIF
Constant	4.984	2.014	2.474	0.016	
IAC	0.326	0.040	0.665	0.021***	1.090
IAQ	0.346	0.070	-4.928	0.000***	1.185
ACQ	0.222	0.104	0.016	0.001***	1.149
R-square	0.512				
F-statistics	8.005				
Prob>F	0.000				

Source: Result of regression analysis generated by the researcher using SPSS (version 21).

Note: ***, ** and * indicate significant level at 1%, 5% and 10% respectively.

Table 4 presents the results of the regression equation for effective tax rate. Variance Inflation Factor (VIF) test was carried out, the results of which provide evidence of the absence of multicollinearity. This is because the results of the VIF test have a minimum of 1.090 and maximum of 1.185 which clearly shows absence of multicollinearity. Hence, VIF of 5.00 still indicate absence of multicollinearity (Barde, 2009 and Muhammad, 2009) [2]. From the side of the independent variables, the result shows a positive significant impact of internal accounting control on fund management

($\beta = 32\%$ with p -value of 0.000), hence the null hypothesis will be rejected and the alternative hypothesis will be accepted and conclude that internal accounting control have significant impact on fund management in Sokoto state industrial training fund. This finding is consistent with the findings of Mensah, Emasu.

Internal accounting quality reveal a positive significant influence on dependent variable fund management ($\beta = 34\%$ with p -value of 0.000) hence the null hypothesis will be rejected and the alternative hypothesis will be accepted and conclude that internal accounting quality have significant impact on fund management in Sokoto state industrial training fund. This finding is consistent with the findings of Mensah, Emasu.

Lastly audit committee quality influence fund management at ($\beta = 22\%$ with p -value of 0.000) therefore the null hypothesis will be rejected and the alternative hypothesis will be accepted and conclude that audit committee quality has significant impact on fund management in Sokoto state industrial training fund. This finding is consistent with the findings of Mensah, Emasu.

The result further reveals that internal control system (internal accounting control, internal accounting quality and audit committee quality) was able explain up to 51.2% variations in the fund management for the period under study as the $R^2 = 0.512$ while the remaining 49.8% of the fund management variations is accounted for by other factors that are not stated in the model.

Conclusions

After careful review of the result and discussion in chapter four the following conclusions are drawn and based on the analysis of data collected from the questioner distributed to the staff of Sokoto state industrial training fund, the study reveals that:

1. Internal accounting control has significant effect on fund management in Sokoto state industrial training fund
2. Internal audit quality has significant effect on fund management in Sokoto state industrial training fund.
3. Audit committees' quality has significant effect on fund management in Sokoto state industrial training fund.
4. Internal control system (internal accounting control, internal accounting quality and audit committee quality) was able explain up to 51.2% variations in the fund management.

Recommendations

Based on the findings and conclusions drawn, the following recommendations are made:

1. Anti-corruption agencies in Nigeria such as economic financial crime commission (EFCC), Independent Corrupt Practices Commission (ICPC) should be restructured by the government for better performance. Professional accountancy bodies in Nigeria should ensure that accountants are trained with the current development accounting procedures. The financial reporting council should ensure that best standards and regulations are established.
2. To ensure best practice by industrial training fund staff of should maintain their investment in human capacity development to improve the quality of internal auditors on their payroll. This study suggests that sound personnel policies to attract people with good moral standing as industrial training fund internal auditors.

Industrial training fund management need to build continuous improvement in the aspect of internal audit quality.

3. The more excellent it audits committee wide operating knowledge base the more fund management is secure. Therefore, audit committee quality should be given appropriately attention in order to enhance fund management prevention techniques.

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