AUDITING AS A MANAGEMENT TOOL:

A STUDY OF NATIONAL ELECTRIC POWER AUTHORITY (NEPA)

BY

NDAGI SABA ABUBAKAR

DECEMBER 2000

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CERTIFICATION

This Project titled Auditing as a Management Tool: A study of National Electric Power Authority (NEPA) by Ndagi Saba Abubakar meets the regulation governing the award of Masters of Business Administration (MBA) of the Ahmad Bello University, Zaria and approved for its contribution to knowledge the literary presentation.

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DECLARATION

I declare that apart from casual references and consultations to books, journals, seminar papers and other related literature which have been indicated and acknowledged as references, all materials as contained in this write-up are the findings of the researcher and therefore bear full responsibility for interpretation made and all the opinions expressed.

Ndagi Saba Abubakar
December 2000

DEDICATION

This work is dedicated to my family especially my four little kids Sadiya N. Saba, Adama N. Saba, Amina N. Saba and Zainab N. Saba and all well-wishers who gave me the patience and encouragement required to enable me complete this programme.

ACKNOWLEDGEMENT

Thanks be to Allah, the Almighty for creating me and giving me the opportunity to undergo this programme.

My Unreserved and heartfelt appreciation to Alhaji Muhammad Sani Bello a lecturer with the Department of Business Administration presently doing his Doctorate Degree in Accounting I wish him the best of luck, Mr. Agbo J.C. Onu my Supervisor who took pain to go through my research work, I also wish him the best. Alhaji Hussaini Ahmed the Auditor General for Local Government Minna, Mallam Isa Kutigi, Abdulkadir Kaduna, Maishara Nma Alfa and Hajara F. Imam my wife and every body.

Ndagi Saba Abubakar
December 2000

ABSTRACT

He is your watch dog a chartered accountant. So well trained to examine the financial statement of your company to determine whether they are true or fair, whether applicable laws and regulation were followed, whether resources were employed in an efficient manner, and whether desired results were achieved.

The auditor works based on the information made available to him by the director of your company. He goes no further been bound by the company and allied matters decree of 1990.

The auditors work therefore is to form an opinion on the above matters; although the procedures employed in checking the books may enable him detect fraud. Where the auditor has a substantial prove of a fraud he will bark to raise an alarm. But he won't bite. Because he is only a WATCHDOG.

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CHAPTER ONE

INTRODUCTION

National Electric Power Authority (NEPA) is one of the parastatals established by the Government having legal independence and the powers to exist and supply electricity to the public. Created by the Federal Government Decree No. 24 of 1972 to maintain an efficient and co-ordinated economic system of supplying electricity to the populace and assist in the industrialization effort of the Governments. The Authority was established to assist in achieving economic growth, by adequate supply of electrical energy largely in the areas of irrigation (pumps sprinklers etc.). Storage and processing of agricultural products, it serves as the end use products of the oil sector by its way of increase demand for petroleum products and natural gas for the operation of NEPA's power generating plants; It is equally a major consumer of coal which has contributed immensely to development of the country. Other responsibilities of NEPA includes provision of electricity to the manufacturing sector or its performance in investments such as those in iron and steel, petrochemicals, nitrogenous fertilizers plants, machines tools, which yield benefits to the country. Provision of electricity for the provision of utilities water for pumping water from bore-holes or intakes works, transmission through pipelines to industries services and homes. Provision of electricity to operate Telephone exchanges, Earth Satellite Stations, Repeat or booster station for the microwave

links, lighting etc. The contribution of NEPA to transport sector cannot be overemphasised as it has facilitated growth in this areas by supplying adequate electricity for operating facilities like airport electrical equipment, like conveyor belts, lifts, large number of motors terminal and runaway lighting and operation of cranes lightings. The authority has also aided the realisation of Government programme of building and construction by provision of electricity among other items of infrastructure prior to development of housing estates. While Trading, hotels and restaurants, services have been made possible with adequate provision of electrical powers by NEPA. NEPA as a parastatal, therefore, is duty bound to conduct all its financial activities efficiently and effectively, thereby generating significant amount of contributions to the national economy.

All the above-mentioned responsibilities, duties and functions of National Electric Power Authority in terms of accountability and managerial control are impossible without proper auditing, though auditing remains one of the most neglected and mis-understood areas of management.

The need to institute both internal and external audit system within an organisation for efficient and effective financial monitoring, management and control was further necessitated by some prevalent economic pressure like recession in the general economy, commercialisation of the government owned organisation services, competition of business environment, the Structural

Adjustment Programme (SAP) and the renewed call by the government for financial prudence, action and accountability of governmental functions.

Auditing may be statutory or external as required by the law or internal as required by the company management for effective internal control purposes. Auditing is important as an effective means of ensuring the reliability of internal records for information and use.

In recent years, the complexity and nature of businesses has warranted increased attention to the various methods and significance of both internal and external audit as a control tool. Auditing increases the efficiency of the organisation and safeguards it against errors and fraud. It is also an effective accounting, management and financial control tool.

Effective internal control is necessary to be able to determine whether all transactions have been reflected within the accounting record. It is important therefore for an auditor to concern himself with internal control of the organisation and not merely with the account department alone. He ought to understand the business of the organisation, and evaluate the whole system of control operation within the organisation.

Internal audit control overall operations, means ensuring that plans, policy objectives, standard or budget are achieved, variations noted and necessary correction made accordingly. The internal audit must be timely;

otherwise the whole exercise will be futile. Therefore, the internal auditor helps management to achieve the organisational objectives effectively through his report, which is an expression of independent professional opinion.

The internal Audit system is used for effective control of activities of National Electric Power Authority, including the financial system by maintaining an efficient and effective system of internal controls. Internal control is thus, effective on finance, materials, procedure and information flow reviewer and updating management with current operation.

1.1 HISTORICAL BACKGROUND

History and Growth

Electricity was first established in Nigeria in 1986 when two 30 kilowatt generating unit were installed to serve the city of Lagos. Subsequently, service was extended to other centres such that in 1951, when the then electricity corporation of Nigeria came into being a total of 16 cities and communities were receiving electrical supply.

The Lagos City undertaking was operated by the Public Works Department until 1946 and from 1946 to 1951 by the Nigerian government electrical undertaking. Other undertakings were established and operated during this time by locally constituted supply authorities. Under the electricity corporation of Nigeria ordinance which took effect in April, 1951. The newly

constituted electricity corporation of Nigeria assumed control and a management of the 16 local undertakings then in existence.

Until 1962, each of the undertakings operated by the corporation were isolated and received service from local sources of generation. In 1962, the corporation constructed a 132kv inter connection from Ijora Power Station in Lagos to the Ibadan Power Station in Ibadan. This inter connection was subsequently extended from Ibadan to Erinle and Akure. In addition, inter connections were constructed between Benin and Ughelli in the Midwest between Oji and Afam in the East and between Kaduna, Zaria and Kano in the North.

The first hydroelectric station in Nigeria was constructed by a private tin mining interest in 1952 on a tributary of the Kaduna River at Kwali falls 17miles east of Jos with an installed capacity of two mega watts. A second station of four mega-watts capacity was constructed in 1929 by the Nigerian Electricity supply corporation limited on a tributary of Benue River at Kurra falls approximately 37 miles south west of Jos.

The largest and first major hydroelectric station to be built in Nigeria formed part of the Kanji multi-purpose project commissioned in 1969 by the Niger Dams Authority. The hydroelectric features of the project include a power plant with an initial installed capacity of 320 megawatts which was later built up to 760 mega watts. In addition, the project comprise of a high voltage transmission network operating a 330kv from Kanji to Lagos in the West,

Kaduna in the North, and eventually to Benin in the Midwest and Aba in the East. The facilities described above, together with the network facilities of the corporation with which they were interconnected, effectively provided a single supply network for the greater part of Nigeria. Subsequently, various undertakings isolated were interconnected with the network and the system of the Nigeria Electricity Supply Corporation at Jos. In 1970, the Federal Government Commissioned show mount (Canada) under a financing by the Canadian International Development Agency (CIDA) to study the power supply industry, analyse its problems and make recommendations on a possible merger of ECN AND NDA as well as on improving management.

In 1971, show out submitted a report recommending a new Government Authority with a decentralized organisational structure.

The Federal Government Decree No. 24 of 1972 consequently created the National Electric Power Authority (NEPA).

1.2 STATEMENT OF THE PROBLEM

A problem represents an unhealthy organizational atmosphere or a puzzle about a phenomenon, event or happening. It is an intellectual stimulus calling for an answer in the form of scientific enquiry. Having defined a problem, an insight is given as to the major problems that could be said to bedevil the auditing and control systems in the National Electric Power Authority (NEPA).

As traditional with Government Parastatal and Organizations, NEPA has some of its problems as follows:-

1. Lack of a good system of financial monitoring and control.
2. Misconceptions of the auditor's position and the audit function or purpose by staff.
3. Insensitivity to audit inspection reports and quèries.
4. Lack of sufficient audit staff and other professional services to aid in effective audit control.
5. Lack of sufficient transport, financing and audit accommodation.
6. None issuance of internal audit reports prior to statutory audit thus increasing the audit fees and cost.
7. Neglect by the internal audit unit of areas of paramount importance e.g. auditing the books of accounts and concentration of their activities on physical inspection of contract. Supply materials and non-financial management activities.
8. Loss of funds through misappropriation by accounts staff.
9. Incompetence of auditors in discharging their duties.
10. Lack of appropriate managerial control necessary for application of Auditing conce,
11. Non- adherence to the concept of Auditing in NEPA
12. Negative effect on corporate performance for non-adoption of the concept of Auditing.

1.3 HYPOTHESIS

On the basis of the problems identifies, the researcher has developed the following hypothesis.

Ho Auditing is sufficient as a managerial tool

Hi Auditing is not sufficient as a managerial tool

Ho Audit principles and procedures are adequate

Hi Audit principles and procedures are not adequate

Ho Audit desired impact are felt in NEPA

Hi Audit desired impact are not felt in NEPA

These assumptions would be tested in chapter four.

1.4 OBJECTIVES OF THE STUDY

With the mentioned of the basic problem of NEPA and other problems yet unmentioned, bedevilling the internal control system of the organisation, it will be unfair if no step is taken to look at them, such a step should examine the causes and suggest possible solutions that could improve the situation for the organisations continued effective existence.

In case of auditing, the subject matter of this work, the problems so enumerated are so serious and therefore warrant studying them and finding a lasting solution, otherwise the unit may soon be paralysed and authority's financial position will suffer grossly for lack of necessary tool to effectively control the financial activities of the organisation.

The objectives of this study are:

1. To find ways through which the activities of the organisation can closely be observed and analysed with a view of finding the causes and prescribing possible short term and long term solutions to the problems thereby paving the way for efficient operations in the organisation in order to help it achieve the purposes for its existence. Auditing in this case ought to be used for enhancing an effective financial control in the organisation especially with the present dispensation of commercialisation.

2. To contribute in bringing to the limelight the significance and indispensability of auditing and auditors to government organisation to extinguish the illusions of the public that auditors connive to defraud.

3. To highlight and to show that detection of errors and funds are secondary functions of auditing.

4. To equally highlight in the study that the prevention of errors and fraud is a significant managerial tool in the organisation of our study.

1.5 SIGNIFICANCE OF THE STUDY

KASHIM IBRAHIM DIBRA...

The need for financial accountability and control in any organisation, be it social or economic, or any nation cannot be overemphasised.

The wealth of any nation is entrusted into the care of a group people serving the interest of the greater populace, as a result, there is need, according

to Okolo (1987) to satisfy the beneficial owner of the fund that their funds are being honesty and prudently managed.

Thus, this study seeks to ensure, that the problems militating against prudent financial management of NEPA are identified and possible solutions are proffered.

There have been views and cries over poor financial management on the public sector over the years - unabated. The need to audit public accounts therefore became necessary and also stressed.

To stress the significance of auditing, NEPA has the internal audit, which ensures complete and continuous audits of accounts and records of revenue and expenditure.

1.6 SCOPE OF THE STUDY

The study is limited to the activities of NEPA, its financial and operational dealings and the internal audit system in use, especially on how they relate to the management of its financial operation.

The scope is so designed in other to give the researcher a reasonable breadth that will allow thorough study of the subject matter as required academically. NEPA was selected, as a sample to be studied among other similar organisation for it is likely to offer free access to relevant information and documents required for the purpose of the study. However, the research centres largely on internal and audit activities in the NEPA Headquarter in

Kaduna and Abuja. The unit functions as per responsibilities assigned to it by the management which is mainly to operate within the broad areas of reviewing of accounting systems, and other related internal controls, examination of financial and operating information for management, review economic efficiency and effectiveness of operation and implementation of organisation policies, plans and procedures.

The external audit concerns itself with making necessary information available with express opinion to outside users or third parties.

1.7 LIMITATIONS OF THE STUDY

As normal with researches involving case study of Government organizations in Nigeria, the issue of confidentiality is particular to this authority as it is of general ethic that a professional auditor should respect the confidentiality of the firm and should not reveal or disclose security information of his clients unless the court orders in the contrary or when it is in the interest of his firm to protect the colleagues. Inherent fear in some quarter's really hindered the flow of necessary relevant and adequate information for this write up. The Chief Internal Auditor of one of the Zone visited, also the Head of Audit disclosed to me that adequate information can only be made available where an official letter from the management of NEPA direct them to do so otherwise only brief discussion can be granted. He also stresses that an official letter should be produced from Ahmadu Bello University Authority before

audience could be granted to me. He later told me that all information shall be discussed orally and that no written document shall be released for the purpose of this study. Contrary to my request, I was tactically referred to textbooks and Government journal, which discussed Auditing and NEPA. I had to rely therefore on the materials obtained in my personal capacity as a principal Auditor with office of the Auditor General for Local Government, Minna. Some information could not be verified in the light of stiff resistance met by the researcher, from the Zonal Auditor in Kaduna on the excuse that it is against the rule of confidentiality of Auditing. Very important to mention as part of the limitation of this study is problem of finance faced by the researcher to enable the researcher visit other zones of National Electric Power Authority, the Zones visited are Abuja, Kanu, Ilorin, Ibadan, Benin and Lagos, the Audit staff were not around to assist the researcher in the discussion on the subject matter and a return journey could not be undertaken because of the distance.

1.8 DEFINITION OF TERMS

AUDITING

The American Accounting Association Committee defines auditing in their publication of a statement basic auditing concept as "a systematic process of objectively obtaining and evaluating evidence regarding assertion about economic actions and events to ascertain the degree of correspondence between

those assertions established criteria and communicating the result to interest users''

MANAGEMENT

Management is "the process by which the executives of an organisation combine scarce resources in achieving given ends".

TOOL

A person use to carry out the designs of others of another according to Webster Comprehensive Dictionary.

FOOTNOTES FOR CHAPTER ONE

1. General Manager NEPA (1985-1988) NEPA'A Force In Social And Industrial Development In Nigeria. Public lectures Federal Civil Service 1985-1988 (Page 237)

2. General Manager NEPA - Ibid

3. General Manager NEPA - Ibid

4. P. Defliese Montgomery Auditing Tenth Edition Revise College Version (Page 4)

5. D.E. Mcfarlan Management Principles and Practices The Macmillan Company New York (Page 11)

6. Webster Comprehensive Dictionary Int. Edition (Page 1323)

CHAPTER TWO

2.0 LITERATURE REVIEW

Historical Evolution Of Auditing

Historians believe that the origins of record keeping dated back to 4000BC, when ancient civilizations in the near East begin to establish organized Governments and Businesses, which were then concerned with accounting receipts and disbursements and tax collection which involved establishing control including audits to minimize errors and frauds on the part of incompetent or dishonest officials. Governments that heavily utilized such controls were the exchequer of England and Scotland, which dated back to1130 A.D. In the 16th Century, auditors or listeners used to listen or (audire) from latin (meaning to listen) to the accounts of Governments and private Businesses read to them by the treasurers and book keeper (now accountants) at the end of which reports were submitted by the auditors as having listened or heard and made corrections where necessary. Such reports were annotated with such phrases as "heard by the undersigned auditors etc". Another type of auditing involved detailed examination of the accounts maintained by financial officers of large firms followed by a declaration of audit that is an oral report made to manor council. An auditor was typically a member of manorial council, which thus was a precursor of modern internal auditor. Audits in those days related to examination of funds for accountability only, but later evolved into close

examination of written records and testing of supporting evidence following the economic changes which brought a long concept of profits and losses.

The Nigerian system of auditing took off from the exchequer or English system accordingly. Nigerian accountants got trained abroad to qualify as auditors prior to the establishment of the Institute of Chartered Accountants of Nigeria (ICAN) and later training centres for all accountants. An audit unit established by the colonial master (Britain) to oversee and monitor the financial activities of the protectorates as was then known and called thus Northern, Southern and Lagos reported directly to the colonial office, any findings, or reports. In 1958, a general office was established along with regional offices for the same objective as above under the Audit law of 1958 up-till 1963 when it was revises and replaced by he 1963 Nigerian Audit law. Now the activities of both internal and external auditors in Government and private enterprises cannot be overemphasized. The growing recognition of the benefit of good internal control and the complexities of an adequate system of internal control in an organisation has led to the development of internal auditing as a form of control necessary for effective operations. The emergence of the internal auditor as a specialist in internal control is as a result of such a recognition. Internal auditing however appeared much later on the scheme, following the extended span of control faced by managements of large concern employing thousands of hand and with widespread activities making proper control impossible; especially the maintenance of proper books of accounts and financially

accountability. The solution was of course to provided the needed assistance through audit service on an internal basis, which was further encouraged by the fact that one or more persons can easily specialize in such auditing service and can also devote their time fully to the needs of a single organization, thus becoming better acquitted with the intricacies involved and the problems and procedures of carrying on auditing services on a continuous basis as against the services of an external auditor whose service is utilized periodically, who may not be very conversant with the procedures obtained in the organisation. For the purposes of effective internal controls generally involving financial and other operations of Government and private enterprises, the services of an internal auditor became pertinent.

2.1 THE CONCEPT OF AUDITING

Different types of audits and the purposes of audits have evolved over many years and this trend or process of evolution is still taking place. Accordingly, auditing should be defined broadly enough to encompass the various types and purposes, thus many writers and professional bodies and associations have attempted to define auditing in accordance with situations involved at the time of definition.

The American Accounting Association (AAA) Committee therefore defined auditing in their publication of a statement of Basic Auditing concepts as follows:- "Auditing is a systematic process of objectively obtaining and

evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertion's established criteria and communicating the results to interested users". [1]

This broad definition appears quite relevant to the audit of financial statements of business organisations when the key phrases therein are considered thus:-

i) Assertions about economic actions and event; the assertions of organizational management that are embodied in a set of financial statements are the subject matter of an audit of those statements. These assertions are normally made by those who prepare such statements for use by the readers of such statements, while the auditors assertion are contained in the audit report. Such assertions about economic (financial) events must necessarily be quantifiable to be auditable. Only quantifiable information can be verified and therefore auditable. Information involving materials, stock, building, inventory and similar items can be quantified, but issues like morale of employee cannot be quantified and thus not subject to verification. Information is verifiable if it "provides result that would be substantially duplicated by independent measures using the same measurement method".[2]

ii) Degree of correspondence between assertions and established criteria; The primary objective of any audit exercise is to form an opinion about the subject matter or the statements that are audited, which should specify the extent

to which the assertions contained therein conform to established criteria or standards, for example in the case of financial audits, the Generally Accepted Accounting Principles are the established criteria against which the assertion is measured.

iii) Objectively obtaining and evaluating evidence; this also varies from audit to audit, this consists of the underlying accounting data (such as journals and ledgers) and corroborating (such as invoices, cheques, information obtained by inquiry, physical examination of assets etc). Evidence obtained ought to be interpreted and evaluated before a final opinion is made by an auditor and therefore an auditor must be knowledgeable of the accounting principle, methods and procedures obtained in an organisation.

iv) Systematic process; the word systematic implies a lot – that planning the audit and formulating the audit strategy are important parts of the audit process, that the audit plan and strategy should relate the selection and evaluation of evidence to specific audit objectives, that such objectives and the evidence to achieve them are interrelated and that the interrelationships require the auditor to make many decisions in the course of planning and performing an audit.

v) Communicating the results to interested users; the end and aim of an audit is a report that informs the interested party about the conformity of the assertions to standards or criteria as is unique to the specific type of an audit undertaken.

Other people like Leslie define auditing as:

"An audit maybe described as an examination by an auditor of the evidence from which final revenue accounts and balance sheet of an organization have been prepared in order to ascertain that they present a true and fair view of the summarized transactions for the period under review and of the financial state of organisation at the end dated, thus enabling the auditor to report thereon".(3)

Examining this definition also, it tells us that the auditor examines the evidence that is mainly the books, ledgers, accounts and vouchers of the establishment, but in certain circumstances it may be necessary for the auditor to go even further in his examination, for example to examine actual physical assets held.

The Definition also refer to the ascertainment of the true and fair view of the profit an loss for the period, which appears restrictive since many organizations such as those of non-trading bodies or charitable organisation do not use such term as profit and loss but rather an excess of income over expenditure or vice versa. Further, not only are the end figures of a revenue account important in themselves but the constituent parts of the revenue account must also give a true and fair view of the transactions, they represent, since the examination must be such as to enable the auditor to report on.

Oshisami and Dean define audit as "an independent appraisal process, often governed by statute, for examination, i estigating and verifying the

financial statements of any organisation or entity by a qualified person appointed to do the job who seeks to establish an opinion concerning the truth, accuracy, validity reliability and fairness of the statement's and of the records on which the statements are based, and concerning the compliance with any statutory or other requirements, and who makes a report to users of the financial statements giving his opinion concerning their truth, accuracy etc"[4]

This definition is all embracing and more encompassing. The reference to General Accounting in Oshisami and Dean, financial and compliance auditing attempt to determine.

1. Whether financial operations are properly conducted
2. Whether the financial report of an audited organization is presented fairly.
3. Whether the organization has complied with applicable laws and regulations.

2.2 FEATURES OF AUDITING

The followings could be identifies as salient features of auditing.

a. To make critical review of the system of internal controls, procedural, administrative and financial controls

b. To make such tests and enquires as the auditor considers necessary to form an opinion as to the reliability of the records as a basis for the preparation of accounts.

c. To compare the revenue account and balance sheet with the underlying records in order to see whether they are in accordance therewith.

d. To carry out a critical review of the revenue account and the balance sheet in order that a report may be made to the members (proprietors) stating in their opinion as auditors, whether the account are presented and the items are described in such a way that they show not only a true, but a fair view and give him the prescribed manner, the information required by the relevant Act, Decree or Edict.

2.3 TYPES AND CLASSIFICATION OF AUDITING.

It is necessary to distinguish particular types of audit by reference to the extent of the work performed and/or the manner of its execution. Thus, audits may be generally grouped under the headings of

i) Complete audit

ii) Partial audit

iii) Interim audit

iv) Procedural audit

v) Balance Sheet audit

vi) Management audit

vii) Continuous and final audit

i) Complete Audit

A complete audit is consequently best described as one in which the auditor is given, or entitled to, unrestricted scope as to the work which he is to perform, and in which he uses his own discretion as to the extent of the detailed

work. The auditor may be held liable for any losses arising through his neglect in any such case, or through failure to exercise reasonable skill and care in his work.

ii) **Partial Audit**

This is where the auditor is instructed to carry out particular work only, or is restricted in any way as to his powers of enquiry or examination.

In the case of a partnership, any limitative instruction as to the work to be performed would be a variation of the partnership agreement under 5.19, partnership Act, 1890, and the auditor should request that, such limitations should be notified to him in writing signed by all partners.

In the case of partial audit, the auditor cannot be held liable for any loss arising, which could only have been discovered by reference to the particular books, accounts or documents which the limitations on his instructions prevent him from examining, but it is advisable, as a safeguard, that the auditor should set out clearly the facts of the case in reporting on accounts which have been subjected only to a partial audit

iii) **Interim Audit**

An Interim audit is such when conducted to cover a certain time or up to a certain date within a financial period. For example it may be undertaken to

cover a month or a quarter as requested by the client and will fall within the area of the complete audit is to be carried out later.

Precautions have to be taken to ensue that work audited on the interim audit is not in any wise altered without full knowledge of the auditor.

iv) **Procedural Audit**

A Procedural audit is an examination and review of the internal procedures and records of an organization in order to ascertain their reliability, primarily as a basis for the compilation of the final accounts and balance sheet, but also to ensure that the procedures involved are the most effective and economical that may be applied in the business. The increased size and complexity of modern business units has created the necessity for the objective review of the system and internal controls operated within organisations, and this may be carried out by the application of procedural audit. It can be conducted separately but may form most usually part of the whole audit.

Attention is given particularly to such matter as:

1 Assessing the adequacy of the Internal Control System

2. Ensuring that that procedures laid down by management are being followed.

3. Checking to see that no change has been made in the internal control system of which the auditors have not been notified.

4. Establishing whether the records are sufficiently reliable for the preparation of final accounts.

v) **The Balance Sheet Audit**

A Balance Sheet audit falls essentially into the "partial" audit class, since it aims at dealing with the balance sheet items only in the main, and not with the general transactions of the period since the last balance sheet. The audit consists of the complete verification of every item in the balance sheet; where appropriate, e.g. in the case of fixed assets and liabilities and the like, the balances are "linked up" with the corresponding balances at the previous date, by a full consideration of the transaction giving rise to any change in the amounts, such as capital expenditure, sales of assets, depreciation of assets and issue of capital.

The auditor does not confine himself to verifications entirely, in that he will examine the accounts in the general ledger covering revenue and expenditure; in doing this he will note any unusual items, or those which might affect the balance, e.g. as pointing to assets or liabilities omitted. He will also examine the profit and loss account to see that income indicated as receivable by reference to the assets (e.g. dividends on investment) and expenditure appropriate to liabilities (e.g. interest on debentures) have been properly dealt with.

vi) **Management audit**

An investigation of a business from the highest level downwards in order to ascertain whether soun. nagement prevails throughout, thus facilitating

the most effective relationship with the outside world and the most efficient organisation and smooth running internally.

Though it facilitates the most effective relationship with the outside world and the internal efficiency of the businesses. But this presupposes that the report when issued by the auditors will be acted upon; Furthermore, being in the nature of an audit it must necessarily deal with historical facts, but it will normally be so revealing as to encourage action of a prospective nature that will put into effect the objects for which it was originally demanded.

vii) **Continuous and Final Audit**

In the case of the continuous audit' the auditor attends at a regular or irregular intervals during the accounting period. In the case of continuous audit the audit work may be carried to any date, and it is not usual to take out a trial balance of the books at each attendance, although important totals may be noted.

A "Final audit" is carried out only in connection with the accounts as prepared for the accounting period, and the whole of the work is done after the end of such a period. The term "completed audit" is sometimes used in this connection.

A recent British Government publication also categorized auditing for financial control as follows:

i) Financial and Regulatory audit

ii) Value for money audit

iii) Effectiveness audit

a. **Financial and Regulatory Audit**

A financial audit is to ensure that systems of accounting and financial control are efficient and operating accordingly and the financial transactions have been correctly authorized and accounted for, while regulatory audit is that which verifies that expenditures have been incurred on approved services and in accordance with statutory and other regulations and authorities governing them.

b. **Value for Money Audit**

This consists of an examination of the economy and efficiency to highlight areas of wasteful, extravagant or unrewarding expenditures, failure to maximize receipts or financial arrangements detrimental to the Exchequer (in Nig it is the treasury), and weakness leading to them.

c. **Effectiveness audit**

An examination to assess whether programmes of projects undertaken to meet established policy goals or objectives have met those aims connotes an effectiveness audit.

CLASSIFICATION

Generally, auditing can be classified into two broad categories – thus internal and external, while various types of audits can be undertaken under the above classes.

As earlier indicated, an internal audit is performed for the purposes of internal control within a system by an officer designated – the internal auditor,

while an external audit is undertaken by a party external to the organisation – an independent person usually not appointed by the management of an organization. While the internal auditor is an employee of the organization within which he carries out his auditing functions, an external auditor is not. Another area of difference in the classification lays with the body on whose behalf the audit exercise in being conducted. In an external audit, a report is made at the end an audit exercise to persons external to the audited organizations and its management for their private use – thus the share – holders or investors of an organization, creditors financiers and the Government. In Nigeria, it is statutory or legal requirement by Government for the accounts of all Government parastatals and private enterprises to be audited at least once a year and a report forwarded to the Government. In the case of private enterprises, such a report is useful to the Government in the area of assessing the enterprises for tax purposes and other business considerations while is the case of Government parastatals, it is for the purposes of assessing public servants stewardships and accountability for public funds under their organization.

An internal audit report is however directed to the management of the organisation whose accounts or activities that are audited and mainly for the purpose of internal control of financial operation and administrative activities.

The institute of internal audit has thus defined internal auditing as:

> "an independent appraisal function established within an organization to examine and evaluate it's activities as a

service to the organisation. The objective of it being to assist members of the organisation in the effective discharge of their responsibilities ... ... The internal auditing department is an integral part of the organization and functions under the policies established by management and Board of Directors"[5]

Another nomenclature not commonly used in Nigeria but which is in constant service is the Government Auditor. These according to Montegomary are employed by agencies of the Federal, State and Local Governments. They act as internal and external auditors depending on whose accounts or activities they are auditing at the given time thus - "when the audit is of the Government agency or Department that employs them, they function as internal auditors; when they audit recipients of Government funds (including other Government agencies), they act as external auditors. Government auditors generally perform operational audit of economy and efficiency and programmed results although their works may sometimes involve compliance service." [6]

SIMILARITIES BETWEEN INTERNAL AND EXTERNAL AUDIT CLASSIFICATION

Both the external and internal auditors work with the same tools mainly the books of accounts, the financial statement of an entity, assets and materials. Both submit a report at the end of an audit exercise in a similar format as designed for professional use. To be an auditor either internal or external, a

person must necessarily be a qualified accountant, must be knowledgeable and conversant with audit procedures, ethics and general rules governing the conduct of an audit. While conducting an audit, they must be independent, objective and fair. They must not jump to conclusions and should express any interest in the area on which they are conducting an audit exercise. Both are allowed access to books and materials required for their Businesses. The records of both internal and external auditors comprises of:

- "The audit report
- Audit manual and programmes
- Audit working papers and files
- Systems narratives and flow charts". [7]

It is to be noted however that, many as they may seem the similarities are between internal and external auditors, the work of one is not substitute for the other. They could only be complementary to an extent as far as their scope overlap, most often to avoid duplication of work and mainly for economic reason.

In the area of independence, the internal auditors independence is derived from the organisational status, and the level of management to whom he reports. For the external auditor, independence is derived from the absence of any obligation or financial interest in their client, its managements or its owners.

2.4 OBJECTIVES AND PURPOSE OF AUDITING

While the immediate objective of an audit is "to ascertain the reliability of the financial statements, the long range objective should be to serve as a guide to management" future decision, in all financial matters such as control, forecasting, analysing and reporting the general purpose of which is the improvement and control of performances. Other objectives are:-

a. To report independently on financial matters, condition and operations.

b. For the auditor to act as advisor to and representative of the owners and management and

c. To discover errors and irregularities".[8]

An audit entails the examination by an auditor of a balance sheet and profit and loss account or the income and expenditure statements prepared by others, records, documents, physical assts etc so as to be able to express an opinion that such records have been properly drawn up to show a true and fair of view of the state of affairs and of the results of the particular concern or organization and in compliance with the relevant statues.

Further, the purpose of an audit according to the companies' act of 1967 are for an auditor to form opinion:

a. "Whether proper books of accounts have been kept by the company and proper return adequate for audit have been received from branches not visited by them and …

b. Whether the company's balance sheet ... ... profit and loss account are in agreement with the books of account and returns". [9]

Others are for the auditor to state any limitation he is faced with during the course of his exercise in his report.

Generally, the detection of fraud and or irregularity is considered as a major or irregularity is considered as major functions of an auditor by employers of auditors, but modern professional opinion would rather regard its discovery merely as a by-product of the proper application of the audit procedures necessary to enable the expression of an opinion on them.

The detection of irregularities though remains a management responsibility; it is at the same time an area where the auditor can provide constructive advice or assistance.

The report on internal control is also one of the purposes of auditing. When an audit is conducted the report of the auditor addresses the effectiveness and efficiency of internal control which include (i) protecting its resource against waste, fraud and it efficiency (ii) ensuring accuracy and reliability in accounting and operating data (iii) security compliance with company policies and (iv) evaluating the level of performance in all divisions of the company.

The report of the audit tries to show whether the internal control in existence is effective or weak hence the purpose of auditing.

Protect the interest of users/boost confidence of users of account. When an audit is undertaken fraud, irregularities and embezzlement are detected which

tends to protect the interest of the owners and users of the account, the confidence that accompanied the business after the audit tends to increase the interest of outsiders on a business.

Further training is also a purpose of auditing. Where audit is completed some areas of weakness are discovered and advice is given to send staff on further training to enable the management address areas of weakness discovered by the audit.

2.5 DUTIES AND POWERS OF AUDITORS

a. Generally: - He (Auditor) will generally report on the statement of accounts examined by him, and say whether in his opinion such accounts represent a true and fair view of the state of affair, but he will still be required to exercise care, skill and diligence in the exercise of his profession. His instruction should be in writing, otherwise, he might be held to have failed in his duty where malpractice takes place if certain matters are not expressly excluded.

b. Reports on Account of Sole Traders and Partnership: The Auditors duties in respect of sole traders and partnerships will be governed by the instructions of each client defining the scope of the work.

The I.C.A. have issued Recommendation S.19 where they emphasise the importance of avoiding any misunderstanding of responsibility accepted by members for accounts prepared and audited for sole traders and partnership.

The possibility of misunderstanding will be lessened if there is uniformity among the members in the way they associate their names with such accounts.

Member should ensure that a report is always appended to the accounts which they have prepared or audited and the report should state clearly their duties, where members accepts for account which they prepared and give opinion on account which they audited.

Where members are instructed to prepare accounts but not to audit them, their report should be headed "Accountant Report" and should be worded so that the association of their names with accounts cannot be misunderstood.

c) Auditors' Report Under Companies Acts:

1) The Companies Acts states that the auditor is expected to make a report to members on the accounts examined by them, and on every balance sheet, every profit and loss account and all group accounts laid before the company in general meeting during their tenure of office.

2) The auditors report shall be read before the company in general meeting and shall be open to inspection by any member.

3) The report shall state whether in the auditor's opinion the company's balance sheet and profit and loss account and the group account have been properly prepared in accordance with the provisions of the Principal Act and whether in their opinion a true and fair view is given.

4) The auditors are to investigate to enable them form an opinion as to the following matters:

a. Whether proper books of account have been kept and proper returns adequate for their audit have been received.

b. Whether the company's balance sheet and profit and loss account are in agreement with the books of account and returns; and if the auditors are of contrary opinion the auditors shall state that facts in their report.

5) Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, and shall be entitled to require from the officers of the company such information and explanation as he thinks necessary for the performance of the duties of the auditors.

6) If the auditors fail to obtain all the information and explanations, which, to the best of their knowledge and belief, are necessary for the purposes of their audit, they shall state that fact in their report.

7) The auditors of a company shall be entitled to attend any general meeting and receive all notice of, and other communication relating to and be heard at any general meeting which they attend.

d. **Auditors Reports Forms And Qualifications. Circumstances In Which Qualification Is Necessary:**

a. If auditors are unable to obtain all the information and explanations they consider necessary for the purpose of their audit, e.g. existence or ownership of material assets, validity of payments, improper record due to lost of evidence or destruction of evidence.

b. If in the opinion of the auditors' proper books of account have not been kept in accordance with section 147 of companies act, 1948 proper returns not received.

c. If the accountant fail to give the information required by the Act.

d. If the account fail to disclose a true and fair view in the opinion of the auditors.

e. If the group accounts have not been properly prepared in accordance with provision of the Act to give a true & fair view.

Where there are certain matters which the auditor cannot feel free to ignore, he mention it in his report, thereby making it into a so-called qualified report.

e) **The Interpretation Of "Material'' In Relation To Accounts: -** "Material'' here means "of relative importance'' a mater is material if its non-disclosure, mis-statement or omission would be likely to distort the view given by the accounts or other statement under review.

The interpretation of what is material is considered to be a matter for the exercise of professional judgement on experience, and the requirement to set out a true and fair view as a duty of the auditor.

f) The Statutory Report Under The Companies Act 1948.

The auditor is required to certify the "Statutory report'' containing numerous details relating to the capital of the company, its offices which will be presented in the meeting recommended by section 130, companies Act, 1948 which requires every public company to hold a general meeting of the company termed the "Statutory Meeting" not less than one month or more than three months after the company is entitled to commence business.

RIGHTS (OR POWER)

Section 155 of the Companies Act 1968 deals with rights (or powers) of the auditor. It provides that:

a. Every auditor shall have a right of access at all times to the books and accounts and voucher of the company, and shall be entitled to require from officers such information and explanation as he thinks necessary for the performance of the duties of the auditors.

b. The auditors of a company shall be entitled to attend any general meeting of the company and to receive all notices of and other communications relating to any general meeting which any member of the company is entitled to

received and to be heard at any general meeting which they attend on any part of the business of the meeting which concerns them as auditors.

The auditor also has the following right:

1) Right associated with a proposal to replace him or remove him from office.

2) Right to require subsidiaries and their auditor to provide such information and explanation as may be needed in the course of his duties.

2.6 AUDITING AS A MANAGERIAL TOOL

"Without audit, no accountability" without accountability no control, and if there is no control, where is the seat of power?

E.L Normanton [10]

Hence the trade of the auditor, private or public, covers a continuous spectrum; at the one end, routine checks of "regularity" in the presentation of vouchers, at the other extreme a check upon the effectiveness of an instrument in relation to the job for which it has been designed. The humble process of "tick and turn over" has little meaning except as the basis for a wider assessment of the honesty and efficiency of government agencies; that continuing assessment is one of the things we mean by public accountability, under any form of government. Yet great issues after come to light only because of scrupulous verification of detail.

Auditing is the independent examination of and expression of opinion on, the financial statement of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation.

Auditing as a management tool can simply be refer to as using auditing to find ways through which the activities of organisation can closely be observed and analysed with a view of finding the causes and prescribing possible short term and long term solution to the problems thereby paving the way for efficient operation in the organisation in order to help it achieve the purposes for its existence.

Auditing can be used as a managerial tool when it is used for enhancing an effective financial control in the organisation.

Auditing which is the independent verification of the actual financial conditions and earnings of the undertaking for the proprietor and the executive.

The detection of errors and fraud in the course of auditing is an efficient and effective managerial tool.

The prevention of errors and fraud in the course of auditing is seen as a managerial tool.

The fact that would be haphazard or dishonest employees know that their work is to be independently checked, for the purpose of the detection of errors or fraud on their part, tends to make them more careful, or to deter them from contemplated fraud, as the case may be.

The fact of the books having been audited makes the accounts prepare therefore more to be relied upon and is advantage to the businessman for the purpose of income tax assessment; claims for compensation following loss by fire, etc, proposed sale, incorporation or other charge; borrowing or otherwise

obtaining additional capital; agreeing the share of a deceased partner makes auditing a managerial tool.

Auditing tends to keep the work up to date, bring to light the causes of fluctuations in profit or expenses, and is a great preventative of disputes, e. g between partners, on the valuation of goodwill, etc. In as much as the average businessman has a tendency to overrate his assets and to take a too optimistic view of his liabilities, an audit is a great aid towards continued solvency, hence it is a management tool.

Auditing constitute a constructive force in the conduct of business, and emphasis is laid on the interpretation of figures much more than hitherto; this is particularly so today when an independent form of accounts is conducting in the first instance an investigation into the system of internal control and its relevant internal check. Weaknesses are immediately revealed and any corrective action recommended to the business is an advantage and a managerial tool in an organisation.

Auditing can be use as managerial tool when major changes are contemplated, particularly in respect of financial policies the services of an auditor, as a consultant is required because of his knowledge of the operation of a concern.

The qualities, essential features and nature of auditing make it an appropriate and a handy tool for management and thus, management resort

to it as a solace for obtaining an effective means of controlling all activities of organisation.

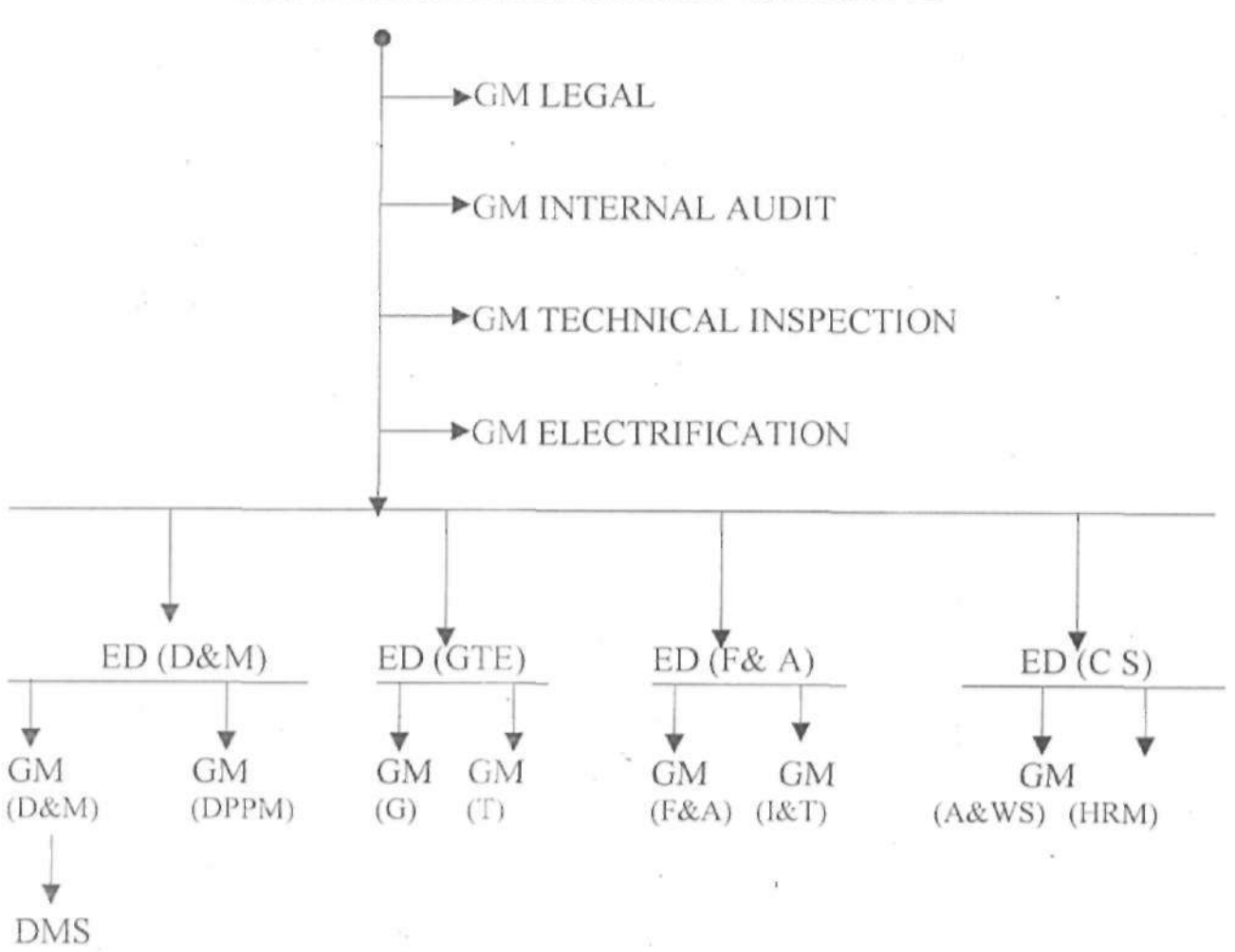
Auditing is seen as a managerial tool in our case study NEPA as it has saved the organisation from the embarrassment of huge losses and had contributed on controlling the activities of the staff in the way and manner they conduct their official assignment.

2.7 AUDITING IN NEPA
ORGANISATIONAL STRUCTURE AND AN EXAMINATION OF INTERNAL AUDIT PROCEDURES IN NEPA

ORGANISATIONAL STRUCTURE:

NEPA's organisation structure can be said to be the authority's hierarchical structure with the flow of delegation of authority from one level of grouped activity to another, and the relationship among these various levels vertically and horizontally.

The organisational structure in NEPA is displayed thus:-



Key:

GM	=	General Manager
ED	=	Executive Director
D&M	=	Distribution and Marketing
GTE	=	Generation, Transmission and Engineering
F&A	=	Financial and Accounts
CS	=	Corporate Affairs
G.	=	Generation
T	=	Transmission
I&T	=	Investment and Treasury
A&WS	=	Administrative and Works Service
HRM	=	Human Resources Management
DMC	=	District Manager

SOURCE: From record of DM's Office.

At the apex of NEPA Organisational Structure is the Managing Director, who is also the Chief Executive Officer of the Authority. He is assisted by various general managers {GMS} and executive director (ED'S) who are directly responsible to the managing director (MD).

The four (4) executive director (ED'S) are responsible to man the four (4) major sectors of the thority viz;

(a). Generation, transmission and engineering secto

(b). Distribution and marketing sector

(c) Corporate service sector

(d) Finance and account sector

Accordingly, each sector executive director is assisted by a number of general manager (GM) who are at the helm of affair at the zonal level, they are also assisted by a number of assistant general manager (AGM's).

The district manager (DM) is at the helm of affair at the district level. He is also the chief executive accounting officer who is responsible for:

(a) The proper rendition of all the returns from the station to the headquarters.

(b) Ensuring that all returns are correct and factual, where abnormal figures or undue fluctuation from the district accountant before making his comment for the attention of the AGM (account)

(c) Ensure that all necessary supporting documents are attached to the returns going to the headquarters.

(d) Ensure certain account are checked particularly for their correctness and are reasonable. For instance, the gross operating revenue and operating expenditure.

(e) The signing of returns and certifying their correctness.

(f) Investigating any other expenditure.

However, the District Manager (DM) is assisted by various numbers of officials. So continuously goes the line of authority and responsibility from the top most level of the general work force.

AN EXAMINATION OF INTERNAL AUDIT PROCEDURES IN NEPA

The internal audit department in National Electric Power Authority (NEPA) is headed by the General Manager (audit), each zone of NEPA (Kaduna, Kano, Jos, Ilorin, Ibadan, Ijora, Benin, and Enugu zones) is headed by a field Zonal Auditor.

The auditing procedures carried out in NEPA are classified into the

i. **Audit Inspectorate:**

This is connected with projects such as construction, extension of new lines, and it cover either the northern or the southern part of the country.

ii. **General Auditing:**

This is solely involved with expenditure, mostly recurrent expenditure and it cover zones or regions.

In NEPA, post-phase or post-expenditure audit is carried out, this means that vouching after payment have been made. This is different from pre-expenditure audit, which is vouching before payment has been made.

There are two account section that are kept in NEPA depending on the division, if it is generating and transmission, the imprest account is kept and if it is distribution division, two account are kept, and these are the imprest and the remittance accounts.

A. IMPREST ACCOUNT;

The internal audit department carries out auditing in the following areas:

i) **Vouching:** - The auditor's role, which is mainly for disbursement (that is payment of salaries and wages contracts) is mainly vouching, he keeps the payment cash book which will be used for vouching procedures which include finding the authority of the voucher (to avoid paying unauthorised payment to a contractor or employee) and the approval of the payment. If he suspects an irregularity, he invites the beneficiary for explanation and if he is not satisfied, the beneficiary will be asked to refund the money; but if the accountant was found to have manipulated payment, explanation will equally be sought from the accountant. If the auditor is not satisfied with his explanation he may refer the case to the management. The management may on its part institute an ad-hoc committee to investigate the transaction and other appropriate recommendation will be made.

ii) **Payroll**: - In the auditing of payroll, the auditor will obtain a comprehensive staff list from the personnel section, which will be used to audit the pay sheet to ensure that ghost worker is not paid. The auditor also makes sure that a staff is not over paid at any level. If he is over paid he will be asked to reduce the balance in the next payment. If it is discover that a ghost worker is included in the payroll which is a very serious crime the audit will demand for an explanation from the accountant in writing. If the auditor is not satisfied, he will refer the case to the management for further investigation and appropriate action to be taken. However, there is a system of Internal con' l in the payment.

of salaries and wages such that the person who prepares the pay sheet is different from the person who checks it who is different from the person who approves it and who is different from the person who does the payment. This is attempt to control fraud.

iii. **Invoicing;** - In respect of the contractor, the auditor will ensure that an item being paid for by the management is physically supplied to the store, this is evidence by the invoice being accompanied by store received advice (SRA) and the invoice has to be stamped and signed by relevant parties to ensure that the job being paid for is actually performed. The idea of this is to prevent the management from paying money to a fake contractor

B. REMITTANCE ACCOUNT.

The revenue section on its part keeps the remittance account. The remittance account is one of the most important accounts in NEPA and by investigation, the most delicate. This is because all monies collected from payment of bills are lodge in that account and a withdrawal cannot be made on it until it is instructed by the head office.

Monies that are accrue are remitted on the last day of the month (to the head office in Abuja), so that in the next month the account is nil.

To ensure that fraud is not committed in operation of that account, the followings should be ensured:

a. That the senior cashier, clears all the cashiers at the end of the day. In clearing the cashiers, the senior cashier will ensure that after clearing, the total in the audit-roll agrees with the physical cash collected on that day.

b. That the senior cashier enters the necessary bank tellers and makes sure money is lodged.

c. On return from bank, the teller is submitted to the cash control officer who compares the amount banked with total in audit roll. After ensuring correctness, the necessary account books are entered. This is done on a daily basis.

These are the methods and procedure the internal auditor has to adopt in carrying out his assignment.

The cashier at times manipulate the machine by pressing zero ('o') the internal auditor in his attempt to prevent fraud, during his regular, questions the manager (Revenue) and senior cashier, this will in turn fall on the cashier on duty who is to explain the reason behind it in writing and if the auditor is not satisfied, he will refer the case to the management. The management in turn will set up ad-hoc committee to investigate. Action will then be taken based on the recommendation of the committee.

The cashier ensure that the stub of the receipt are printed and if there is any reason of being printed and the other not printed (may be due to power failures) the whole receipt is concealed, this is because of several occasions, the cashier have been found to have printed the customer's receipt with the actual amount and reducing the account on the stub by hand writing. These are the areas where the auditor has to be vigilant in his task.

FOOT NOTE FOR CHAPTER TWO

1.	P. Defliese	Montgomery Auditing Tenth Edition Revised College Version Page 4
2.	P. Defliese	Ibid Page 6
3.	Leslie R. Howard	Principle Of Auditing Twenty-first Edition Page 2
4.	Oshisami and Ndean (1984)	Finance Management In Nigeria Public Sector London: Pitman, 1984 Page 28.
5.	P. Defliese	Montgomery Auditing Tenth Edition Revised College Version Page 32.
6.	P. Defliese	Ibid Page 39
7.	Richard Bamfo Esq	INTERNAL AUDITORS RELATION SHIP WITH EXTERNAL AUDITORS Page 5.
8.	Arther W. Homes	Auditing Principles And Procedures Page 72.
9.	F. C. De Paula	Auditing Principles and Procedures Seventeen Edition, page 72.
10.	E. L. Normanton	Accountability And Audit Of Government A Comparative Study Manchester University Press, Page 1

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

This chapter examines the techniques used in the course of obtaining data for the research topic in question, that is "Auditing as a managerial tool. A study of NEPA".

The methodology of a research undertaking is the procedure that specified approaches to the study. The design to carry out the study is normally specified in the methodology. The concept of research itself is the process of arriving at dependable solution to problem through a planned and systematic collection, analysis and interpretation of data. It is design to discuss facts and relationship between variable.

A great deal of fact finding is required in this work, and with this in mind, the researcher collected data from both primary and secondary sources made up of both quantitative and qualitative data.

3.1 RESEARCH DESIGN

Research is the most important test for advancing knowledge, promoting progress and enabling man to his environment to accomplish his objective and resolve conflicts. Thus, it is indispensable in the search for knowledge.

Based on this presumption, the project is designed based on information available from the various department of the organisation under study (NEPA.)

and various publications on the subject matter. Some of the data were collected from textbooks, analysis of records, Journals for some accounting information. Hence the descriptive approach of research design was adopted.

3.2 SOURCES OF DATA

There are principally two sources through which data for a research work can be obtained, namely:

A) THE PRIMARY SOURCE.

Primary data are data expressly collected for a specific purpose. The collection of facts and figures relating to the population in the census provides primary data. The main advantages of obtaining such data is that exact information wanted is obtained. Term are carefully define so that as far as it is humanly possible, misunderstanding is avoided.

The primary sources of data are personal interviewed and observation sources. Hence some staff in the organisation (NEPA) were interviewed, this provide useful information and data. Among those interviewed principally were senior staff in the internal audit department. Thus we interviewed the Zonal Auditor and discuss with Zonal Accountant.

B) THE SECONDARY SOURCE.

This relates to materials and information done by others in the field under study (Internal audit). It is sometimes referred to as library research. The researcher in the course of this research employed this sources, as documents

were surveyed and available literatures and texts on auditing were also consulted.

This was informed by the demand of the research work especially that of extensive and comprehensive review.

3.3 METHOD OF DATA COLLECTION.

The out come of any research does not depend solely on the data collected, the way and manner of collection is equally important.

Therefore, to collect and to understand the significance of any data, appropriate selection of the data collection method is a key consideration for the researcher.

Principally in this research, the data collection methods used are:

i) **Oral Interview Method**: These are interviews conducted to obtain information that cannot be well reflected in the questionnaires. It is face – me, I face –you affairs, whereby, the researcher asks usually unstructured questions from the respondents. This form of interview allows for clarification of ambiguous statements. Personal comment of the interviewee, made access possible to useful information, which are not revealed by the other methods of data collection. It however, has its limitations; it is time consuming, both on the part of the interviewer and interviewee.

ii) **Review Of Related Documents**: This method is used in collecting both primary and secondary data relating to this project work. The research gathered data through publication, books, documentary report, journals, bulleting, magazines and documents, which are related to this work. This documents were very useful in the data collection to be presented in the next chapter.

The study of related document and literatures enable the researcher to have a good background knowledge of the research topic i.e. Auditing As a Managerial Tool. A study of NEPA. It also provides immediate answers to questions relating to the problem at hand.

(iii) **Observation:** This method entails recording what actually happened while it is happening. The researcher was able to gather data through this medium by practically going round some of the activities of internal Audit department of NEPA. This was however, done with a great restriction from the part of the officers in this department. But it still serve as a very reliable method.

Another available method of data collection but which was not used by the researcher is the questionnaire method which is method whereby a list of question pertaining to a fact finding exercise will be administered to respondents. This was not used because usually the responses of the respondents don't normally represents the true picture of happenings.

3.4 POPULATION

Research population is the totality of all elements, subject or members that possess a specified set of one or more common features. A population could be finite and infinites. A classical example of a finite population is the number of students in a class while that of infinite population is the number of females in the universe.

The population covered in this study consists of the Zonal Audit offices Kaduna and Abuja both with approximate number of eight (8) personnel from four (4) Zonal offices in the country. Four (4) officers from both zones were interviewed making up my sample.

3.5 SAMPLE SIZE

Sampling here means a small representative subject of the process of taking any portion of a population or universe. The major objective is to gain an understanding about some features of the whole research population based on common characteristics of the sampler without bias and at a realistic cost.

Our sample size covered is this study are the Internal Audit department of Zonal Audit office in both Kaduna and Abuja.

3.6 TECHNIQUES FOR DATA ANALYSIS

The analysis and interpretation of the raw data of an investigation are the means by which the research problem is answered and the stated hypothesis are

tested. Techniques of research and the breaking down of data into constituents parts are statistical calculation performed with raw data to provide answer to the question initiating the research. There are various prominent methods of data analysis. These methods include narrative, charts, decision table, and statistical method.

CHAPTER FOUR

4.0 DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

It is often said that the nature of the business undertaken by an enterprise and its circumstances do affects the auditor's approach to his work and may affect the type and extent of work performed. The auditor's appraisal of the risk that a material error or irregularity could occur should therefore take into account operations of the enterprise itself. In addition the auditor's attention should be drown to the internal control system of the enterprise due to its influential values and ability to facilitate errors and irregularities when not followed in an appropriate manner.

In the light of this, the researcher in this chapter is presenting the analysis and evaluation of the data collected from NEPA under the study. In trying to do this effort would be intensified to examine the Internal Control System as it affects or aids managerial control in NEPA.

Furthermore, test of hypothesis would be carried out and discussion on the findings would be done to enhance probable solutions to the research questions.

4.2 PRESENTATION OF DATA

Data collected is hereby presented as they were sourced and obtained from the operational system of National Electric Power Authority and would further be analysed based on its relativity to the research requirement.

Below are data collected in respect of the four departments involved in current operational activities of NEPA.

Table 1

CURRENT OPERATIONAL ACTIVITIES OF NEPA

PERFORMANCE OF DEPARTMENT S IN NEPA

Name of Zone	Department	Operational Activities/Functions	Percentageof Perf.	
Kaduna & Abuja	Generation	(1a) Using of Thermal Power Station by the use of system b) Using of Hydro Power Station by the use of water channel through turbine of the hydro plant.	Kaduna	Abuja
		2) Generation of light to adequately supply light to meet power demand in the zone.		
		3) To avoid load shading which is as a result of generation deficiency,	40%	45%.
	Transmission	(1) Use of Towers and Cables (*transmission lines*)		
		(2) Transmitting Power (electricity) from NCC to sub-station	60%	60%
	Distribution	(1) Staff service consumer premises lines and clear faults.		
		(2) Made up of planning and constructio section.		

		(3) Transmit electricity from sub-station to various transformers and thereafter to houses of final consumers.	35%	40%.
	Marketing	(1) Sale of electricity to members of the public by meter readers.		
		Collection of bills from consumers.	30%	30%

SOURCE: **NEPA Quarterly Magazine June 1993.**

TABLE 2.

LIST OF FACILITATORS OF INTERNAL CONTROL MEASURES AND VARIOUS INTERNAL CONTROL MEASURES THAT CAN BE EMPLOYED

Facilitator	**Rank**
Managing Director	Chief Facilitator or Head of Internal Control.
General Manager Legal	Assistant Chief Facilitator
" " Audit	" " "
" " Technical Inspection	" " "
" " Electrification	" " "

Internal Control Measures	**Operation**
Supervision of financial Operation	In use
Non financial activities (Supervision)	" "
Internal Audit revelation of facts of value	" "
Reports on finding	" "

SOURCE: Internal Control Chart in NEPA ABUJA ZONE.

TABLE 3.

DIFFERENT RESPONSES TO CONTROL MEASURES IN NEPA

Types Of Control Measures		Responses	Remark
(1)	Audit queries	1) Lack of interest 2)Frowning at by Mgt	Poor Implementation
(2)	Audit Reports	1) Delay in answering 2) Not taken with seriousness 3) Dumped and hidden	" " "
(3)	Audit Recommendation	1) Indifference in Implementation	"
(4)	Disciplinary Measures	1) Not meted	"

SOURCE: NEPA Internal Audit Report File, Abuja Zone

DATA ON INTERVIEW

	Structured Questions From Interviewer	***Responses of the Interviewee***
(1)	What is the Structure of Audit Organization in NEPA?	Formal in nature
(2)	How Relevant is the Structure for the Organization?	Relevance cannot be overemphasised
(3)	How many Zonal Audit Officers are Available in NEPA?	Four
(4)	Are External Auditors Available in NEPA?	Yes
(5)	What are the Problems of Auditing in NEPA	Many

(6)	What is the Relationship Between Auditors and Auditee in NEPA?	Cordial
(7)	What is the Work Load of the Auditors?	Much
(8)	How Freely do Auditees Take Recommendations?	Not taken easily
(9)	How Frequent do they Respond to Queries?	Not frequent
(10)	How Serious do Top Management Consider Internal Audit Reports?	Not taken with Seriousness
(11)	Are Disciplinary Measure Meted on Culprits?	No
(12)	What are the Level of Audit Coverage?	
(12)	Do they meet up Their Coverage?	No
(13)	How is Training Procedure?	Encouraging
(14)	Are Auditor Trained?	Yes
(15)	How Competent do Auditors Handle their Job?	ompetently
(16)	How Frequent are Training Programme Organised:	Often
(17)	Is it Necessary to have Audit Programme?	Yes
(8)	Are Audit Programme Followed?	Yes
(19)	Are Audit Principles Adhered to?	No

4.3 DATA ANALYSIS

(i) CURRENT OPERATIONAL ACTIVITIES OF NEPA

The National Electric Power Authority (NEPA) from its inception is to supply electricity, which is the Engine room of any National Economy the

adequacy of which generate growth and development while poor performance is not only decreed but also has direct effects on the nation.

In order to carry out its services (Power Supply) NEPA engages in the activities of generation transmission, distribution and marketing.

A) GENERATION

This is a process by which power (light) is being generated in the system. Generation tries to ensure adequate supply to meet the nation's power demand. This is done in order to avoid load shedding which is as a result of generation deficiency to meet adequate capacity, NEPA uses Hydro and Thermal as its sources of power generation.

In Thermal Power Stations, power is generated using steam. Gas is used as fuel to boil water into steam. When steam dries at high pressure high temperature rotates the blades of the turbine which then generate electricity.

In hydro power stations, the fuel is just water. Water falling from high level is channelled into the blades of the turbine of the hydro – plant. It pinches on the blades and rotates which in turn rotates the generators in the hydro – station and produce electricity. This, dry steam is used in the thermal station, while in the hydro stations, ordinary water is use.

However, all the power generated from the different thermal and hydro stations are directed to a centre called National Control Centre (NCC) at Oshogbo. Thus, it is apparent that they operate in a ring system.

B) TRANSMISSION:

The transmission department is responsible to transmit power (electricity) from NCC to the various sub-station using towers and cables (transmission line). The capacity transmitted to the various sub-station differs. This depend on electricity usage of the area. The work of the transmission department ends where that of distribution starts.

C) DISTRIBUTION

The department is responsible for transmitting electricity from the sub-station to the various transformer and thereafter house(s) of the final consumer.

The major work of this department is to distribute electricity system. The staff here service consumer premises lines, clear faults, it is made up of two (2) sections: planning and construction, and the first mentioned section plans and constructs new lines needed to be added to the electric distribution system.

The operation and maintenance section sees to the day today running of the distribution network. The section detects and clears faults, as well as maintain the system in the district.

D) MARKETING:

This is in charge of sale of electricity to members of the public. It is made up of Majority of NEPA salesmen (otherwise known as "Meter Readers") who takes readings of electricity consumption at various premises. They collect bills from consumers.

(i) Internal Control System In **NEPA**

The auditor need to ascertain and record the Internal Control System of an organisation in order to make a preliminary evaluation of the effectiveness of its component controls and to decide the extent of his reliance thereon.

Internal Control is defined by the institute of Chartered Accounts as "The whole system of controls, financial and otherwise established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of records"..

In NEPA the Managing Director who is also the Chief Executive is the chief facilitator of Internal Control System in other words he is the head of the Internal Control Team assisted by various General Managers and Executive Directors. Since it is difficult for top management to have a direct supervision on the financial operation and non financial activities of the organisation the Internal Audit Department bridged the gap, by serving as an independent check on the financial and other systems of the organisation.

To make the system working and effective, the management must rely on the Internal audit which bring to management many facts of value which cannot be secured from any other sources.

All the reports supplied by the Internal audit department to the management on its findings during their course of testing and certification serve

as a control device in all aspects of the organisations activities. With this procedures put in place a strong and reliable Internal Control System is attained in NEPA.

(ii) The General Control Operation

There are well defined control mechanisms in the organisation, from the supervising ministry and the management to guide operations and to serves as check and balances against any undesirable occurrences that are counter productive.

However, the control mechanisms are constantly monitored through routine audit report and queries. Even though experience has shown that top functionaries occupying managerial positions exhibit lack of interest in audit queries and also display indifference in the implementation of the audit recommendations. Likewise, other senior officers occupying management position equally frown at audit queries.

As such all the audit efforts directed at improving the management ability and financial management of the organisation are rendered totally ineffective against irregularities perpetrated by the management or inherent in the control system. So in effect audit department does not get the necessary cooperation as required to ensure that public funds are effectively managed and controlled to such extent as is desired by the department.

It is observed that audit queries are not responded to or even where response was considered it is generally poorly done and not of much use for

corrective purpose. Discouraged by such attitudes where the auditor have to solicit for cooperation and support to enable them perform their duties accordingly and effectively.

This uncooperative attitude is caused by so many factors as revealed by the research, some of which are:

1) The mis-apprehension of the significant of the audit by management.
2) Not taking of concrete disciplinary action against those who exhibit such negative attitudes to audits.
3) General laxity and lack of qualification on the part of auditors.
4) Failure of the audit personnel to take firm decisions which may not be unconnected with some fear displayed by the audit managers.

THE CONTROL AREAS

The control areas covered include:

(i) **General Ledger Control:** All necessary control procedure that has to do with the general ledger seems to be in existence in the accounting manual of NEPA and are in line with the checklist.

In the area of miscellaneous receivable however, the research, showed that necessary regular audit review is not undertaken and even when this is done no serious step are taken to come up with the meaningful solution to the basic ledger problems.

(ii) **Payroll wages and Salaries Control:** In NEPA payment of salaries and wages are done monthly, these payroll are sent to audit for verification and have opportunity to safeguard against any possible occurrence of malpractice. Salaries of all the officers and staff of the organisations are paid to their respective banks to avoid the risk of carrying cash, but with occasional table or normal cash payment. Sometimes the audit department participates in the payment directly in order to check and detect or present possible connivance by the accounts staff and bank officials to defraud the organisation and also to discover any genuine or innocent mistake.

In situation where cash payment is done, the audit organize a pay centre parade, the use of identity cards, attendance registers, checking of previous payment vouchers, all geared forwards prevention of possible fraudulent activities.

The system of Internal Control on the payroll activities have been sufficient, but the system of returns of unclaimed salaries leaves much to be desired. Monies despatched to the banks cannot be returned even if the worker is no longer with the organisation. Here it was observed that even when the staff's appointment is terminated, retired or dismissed, his salary can be sent to his bank in connivance with the accounts staff. It can only occur due to lack of proper supervision which the internal audit ought to look into.

(iii) **Investment Control:** NEPA has invested so much money in Federal Loan Stocks with central bank of Nigeria, other private investment.

Interviews and observation techniques used in the research proved that there is no much control over the investment as all or most of the audit managers know nothing about the investments.

(iv) **Fixed Assets Control:** This is an area where auditors need to have a serious control to safeguard the organisations assets. Most of the relevant books about the fixed assets are kept in order and the auditors are making effort to see that these records and documents are kept under control.

The Internal Control of fixed assets does not seem to yield much result and several factors militating against the audit department successful operation.

Some of the hitches are: -

a) Uncooperative attitude of the officers in position to assist the department.

b) Lack of sufficient and qualified auditors to undertake such exercise.

c) Unwillingness of the auditing staff to carry out actual physical inspection of assets located in various places.

d) Lack of commitment to pursue it with zeal by the organisation.

(v) **Cash and Bank Control:** In NEPA cash imprest and petty cash system, consisting of cheque exchange float and the contingency funds are in operation which calls for proper control procedures and compliance by concerned staff. Thus the internal audit department is supposed to carry out compliance tests regularly to prevent any conspiracy of unnecessary mishandling of cash by

those who handle cash on behalf of the organisations. The control systems or procedures are there and the account staff and cashiers have shown great effort in observing such procedures. However, auditors carry out monthly and annual cash count (a physical calculation of cash balances).

In NEPA rules and regulation are stated concerning receipts and lodgements of all cash into the account, copies of bank tellers, and/or the receipt issued to their customer. A copy of each is sat to the audit for daily checking. Upon all this control system, it is difficult for any auditor to detect fraud particularly when it is cleverly planned and executed.

This being the case, an auditor always aims at preventing it rather than striving to detect it.

(vi) **Store and Stock Control:** Necessary stores procedures as stated by NEPA for control purpose is being followed. The audit undertake, continues stock taking evaluation and verification of stores from time to time. From the responses received or gathered proper control procedures are to be adhered to, problem of commission or omission in the store is to duc to lack of close supervision.

(vii) **Payment of NEPA Bills:** All payments were in accordance with the Internal Control System, the Internal audit undertake both pre-payment and post-payment auditing to ensure that internal control were observed.

(viii) **Tests of Compliance:** Compliance tests are performed to obtain reasonable assurance in the area where control are expected to be relied on, are in use and operating as planned. Such tests answer the following question: -

a) How were the control performed?

b) Were the prescribed control procedure performed?

c) By whom were the prescribed control procedures performed?

Lack of compliance indicated that there might be error in the records kept.

Generally where the innocent errors have result to some loss of funds or materials, the situation have been investigated and remedied through litigations with the help of auditors.

From all indication audit department of NEPA has been greatly relied upon to operate an adequate and reliable audit control system efficient enough to protect NEPA against the activities of adventures and fraudulent officers.

4.4 TEST OF HYPOTHESIS

On the basis of the analysis and data interpreted, it is now possible to test the various hypothesis upon which the research work was based with a view to validation/acceptance or rejection.

HYPOTHESIS 1

Auditing is Sufficient as Managerial Tool.

In testing this hypothesis, oral interview the researcher had with the Zonal Auditor in Kaduna and Abuja District Offices would be considered and tendered to buttress the conclusion reached. From the interview had separately from the Zonal Auditors in Abuja and Kaduna, they opined that if the rules and regulation as stipulated by auditing is adhered to areas of weaknesses raised in audit reports, audit queries taken with seriousness, management acceptance of audit and auditors etc. Auditing would be a sufficient tool for management control.

HYPOTHESIS 2

Auditing is not Sufficient as a Management Tool.

In testing this hypothesis, test of compliance conducted revealed, if Auditing rules and procedures are been manned by wrong procedures, or not performed at all and where wrong hands neglect audit procedures and regulation, the Zonal Auditors opined that the hypothesis would stand valid and accepted.

HYPOTHESIS 3

Audit Principles and Procedures are Adequate

In an attempt to test this hypothesis, the researcher discovered that, in principle the procedures and principles are adequately provided for in literatures and text. However, in the organisation of our study (NEPA) it appears that the auditing principles and procedures are not adequately utilized, this is because in operations of NEPA some procedures are often avoided and neglected by staff of the account department hence the rejection of the hypothesis outlined.

HYPOTHESIS 4

Audit Principles and Procedures are not Adequate

The test of this hypothesis shows that the organisation is responsible for making the principles and procedures in adequate hence the hypothesis was accepted.

HYPOTHESIS 5

Audit Desired Impact are Felt in NEPA

In also testing this hypothesis, the researcher found out that from interview with Zonal Accountant in both Abuja and Kaduna that where Audit principles procedures, rules and regulations, audit report etc are considered and taken with seriousness the impact of audit has gone a long way in improving the internal control system in NEPA hence the audit impact is felt and hypothesis is accepted.

HYPOTHESIS 6

Audit Desired Impact are not Felt in NEPA

In testing this, the interview and discussion had with zonal accountant and audit staff, the hypothesis was rejected because the whole staff affirm that the impact has help the organization.

4.5 FINDINGS

In the course of carrying out this research work, it was discovered that:

i. The Internal Audit plays a vital role in maintaining good standards in the organisation, if it is effectively and efficiently performed.

ii. The Internal Audit staff of the organization do not audit vouchers before payment.

iii. The persons who prepare the payroll are not independent of those who are responsible for the salaries payment.

iv. The Internal Auditors designed the audit programme, which help them to determine the reliability of the records.

v. The inspectorate audit and the general audit were mainly use in the organisation. Thus, detail checking were conducted on such items as ledgers, vouchers, book register, revenue receipt impress book and the remittance book.

vi. The post phase or post expenditure type of auditing is hardly reviewed.

vii. Some staff of the internal audit department need more training to keep abreast of modern technology, for example the use of computer recording.

viii. Also there is need for more qualified staff in the organisation.

ix. The type of audit carried in NEPA is the post expenditure audit.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

Chapter one of this research work begins by tracing the origin of NEPA and enumerating the responsibilities, duties and functions of NEPA such as maintenance an efficient and co-ordinated economic system of supplying electricity to the populace and assist in the industrialization effort of the government which can be easily achieved through proper auditing put in place in response to government renewed call for financial prudence and accountability by the management of its parastatals. The chapter continues to enumerate how internal control is effective on finance, materials, procedures, information flow, review and updating management with current operation. The chapter shows how in 1971, shawmont commission recommended a government authority with a decentralized organisational structure which consequently led to Federal Government decree No.24 of 1972 establishing NEPA. Problems statement stated in this chapter were lack of appropriate managerial control necessary for application of auditing concept. This chapter developed hypothesis which states auditing as sufficient or not sufficient managerial tool. The chapter states clearly the objective of the research which is how auditing ought to be use for enhancing an effective financial control. The chapter tries to disclose that the overall significance of the study surrounds

the fact that the need for financial accountability and control in any organisation can be over emphasised. The scope of the study which covers the activities of NEPA, its financial and operational dealings and Internal Audits System in use in both Kaduna and Abuja were discussed in the chapter. The greatest limitation of this studies discuss in this chapter was the issue of confidentiality of security information of the auditee, poses a great impediments in the process of the research work. In the chapter the researcher intended using the American Accounting Association Committee definition of Auditing which defines Auditing as a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions established criteria and communicating the result to interest user.

Chapter two begins by tracing the evolution of Auditing to controls by exchequer of England and Scotland dated back to 1130 A. D. where auditors listen (audire) to accounts of governments or private businesses read to them by treasurers or book keepers at the end of which report is issued. The Nigerian System of Auditing took off from this same exchequer system. The chapter discusses the recognition of the benefit of good internal control in organisation and the complexities of an adequate system of Internal Control have led to development of internal auditing as a form of control necessary for effective operation. The chapter also discusses or states the concept of auditing as been opined by American Accounting Association sees auditing from the point of

view of economic actions and events, degree of correspondence between assertions and established criteria, objectively obtaining and evaluating the event systematic process and communicating result to interested users. The chapter brings out the features of auditing as reviewing of revenue account and balance sheet with a report to proprietors stating opinion of true or fair as required by relevant Act Decree or edict. The chapter continues to discuss the different types of audit and its classification bringing out similarities between internal and external audit classification. The main objective of Auditing which is to ascertain the reliability of financial statement and to serve as guide to management futures decision in all financial matters is contained in this chapter. Duties and powers of auditor were also discussed in this chapter as defined by the relevant laws. Auditing as a Managerial Tool was fully discussed in this chapter depicting that auditing can be use as a tool to find ways through which the activities of organisation can closely be observed and analysed with a view of finding the causes and prescribing possible short term and long term solution to problems so as to achieve the aim of establishing such organisation. The organisational structure illustrated and examination of Internal audit procedures tells us how auditing in NEPA is done.

Chapter three describes the research methodology adopted including the research design, sources of data, method of data collection, population, sample size and techniques for data collection.

Chapter four explains the data presentation and analyses. Where the raw data collected from the field were presented and were analysed in relation to research requirements. The hypothesis developed in chapter one were put to various test with the aim of validation. They were either accepted or rejected in this chapter. Finding at the end of this research work were outlined with a view of guiding the researcher in his recommendation.

5.2 CONCLUSION.

Finally, it is my opinion that the finding outlined in chapter four should be observed carefully and tackled boldly which will further enhance auditing and internal control system of NEPA, considerable for effective management control through efficient and effective audit exercise.

The responsibility for the prevention of fraud, workers systematic soldering and error avoidance rest with management and this responsibility is fulfilled mainly through the implementation and continued operation of an adequate system of internal control.

5.3 RECOMMENDATION

For auditing to gain and maintain its prominence in the financial management of the organisation as well as for the auditors to be performing their role as a managerial tools, the following recommendations may be considered: -

1. Further training of staff and officers of the department of internal audit in all relevant field.
2. General education or re-awakening of all staff and officers of the organisation on what are the duties of internal auditor, what constitute accountability and the necessity for enhancing it.
3. There is basically serious need for the auditor to get support and co-operation from all staff and officers and the management.
4. There should be adequate supervisor with regular and relevant flow of information.
5. Promotion and up grading of audit personnel to fill the existing vacant post now available will make them to have a sense of belonging.
6. Remuneration of audit staff should be equal to their colleague, in the private sector to check their possible collusion with other to perpetrate frauds.
7. The management should define the scope of the audit and state in clear terms, its function so as to achieve the desire internal control.
8. There should be a complete change of attitude of the audittees towards auditor and auditing as a managerial tool.
9. Audit queries, audit report and audit recommendation should be given the necessary attention it deserves.
10. Culprits involved and indicted by audit report in fraud and miss management should be punished according to relevant laws.

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