



## **EFFECT OF INTERNAL AUDIT ON FINANCIAL MANAGEMENT OF BAUCHI STATE PUBLIC SERVICE**

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### **ABSTRACT**

*This study examines the effect of internal audit on financial management of Bauchi State public service. The study employed primary source of data, which was collected through administration of structured questionnaire using a descriptive research design. The dependent variable of the study is financial management, while the independent variables are internal audit independence, internal audit capacity, internal audit objectivity, and internal audit standard compliance. The population for this study consists of 794 internal auditors in the Bauchi State civil service. The data collected were analyzed by descriptive statistics and Regression using Statistical Package for the Social Science (SPSS) version 21. The results of the analysis indicated that internal audit independence and internal audit capacity do not have effect on financial management performance of Bauchi State public service. However, internal audit objectivity and internal audit standards do have a significant effect on financial management performance of Bauchi State public service. The findings of the study have indicated the effect of Internal Audit on Financial Management of Bauchi State Public Service. Its therefore recommended that focus be placed on enhancing other supportive elements such as adequate resource allocation, continuous professional development, and institutional support systems which may play a more critical role in boosting audit effectiveness.*

**Keywords:** Internal Audit, Financial Management, Public Service, Bauchi State.

### **INTRODUCTION**

The concept of financial management and internal auditing has been essential in both public and private organizations, those who provide funds are often separate from those who manage them. As a result, management is required to report on financial performance, necessitating robust internal audit mechanisms to support sound financial administration (Aliyu & Lawal, 2023). This research aims to contribute to the growing body of knowledge on how



strengthening internal audit functions can lead to more effective financial management and improved public sector governance worldwide.

A number of scholars have suggested that when appropriately designed and executed, the internal audit function can play a critical role in enhancing financial oversight within public institutions. For example, Ojo (2019) emphasized that internal audit departments serve as essential control tools that assist government administrators in decision-making processes. However, the impact of internal auditing is often weakened by interference from management, which may lead to conflict rather than cooperation between auditors and senior executives (Izedonmi & Olagbegi, 2021). Ideally, internal audit reports produced monthly or quarterly should inform policy direction and managerial oversight, but their effectiveness is frequently compromised. The internal audit function in Bauchi State's public service faces significant challenges; this includes compromised independence, inadequate capacity, impaired objectivity, and non-compliance with internal audit standards. Management interference, limited resources, and inadequate training have contributed to these issues, leading to ineffective audit procedures, increased risk of financial mismanagement, and decreased transparency. Specifically, the internal audit function's independence has been compromised due to management interference and inadequate reporting structures. The capacity of the internal audit function is also inadequate, with limited resources and high staff turnover. Objectivity has been impaired due to management pressure and lack of independence and also, non-adherence to internal audit standards has weakened audit quality, leading to inadequate risk assessment, poor audit planning, and insufficient evidence. This situation highlights the need for an in-depth evaluation of internal auditing practices and financial control systems in Bauchi State's public sector. Furthermore, there is a notable gap in recent empirical research focusing on internal audit quality within Bauchi State's public sector, underscoring the importance of this study.

Given these challenges, this study aims to investigate the effect of internal audit on Financial Management of Bauchi state Public Service. It also seeks to reconcile the divergent views found in prior studies, where some researchers have established a significant relationship between audit quality and financial performance, while others have found little or no impact. These inconsistencies and research gaps provide a compelling rationale for this investigation. The study will be focusing on the dimensions of independence, capacity, objectivity, and adherence with audit standards (independent variables) and examine their relationship with financial management (the dependent variable).



## **LITERATURE REVIEW**

### **Empirical Review**

This section reviews existing empirical studies to support the current research and identify gaps that require further investigation. Both published and unpublished sources across print and digital platforms were analyzed to provide relevant secondary data for this study.

Ojo (2019) investigated the link between audit independence and effective risk management in ten selected Ministries, Departments, and Agencies (MDAs) in Rivers State, Nigeria. The findings revealed that audit independence plays a critical role in improving risk control and risk financing, emphasizing its importance in achieving sound risk oversight within public sector MDAs. The study advocated for enhanced auditor autonomy to ensure reliable financial oversight.

Similarly, research by Desmond, Isaac, and Tahir (2018) showed that internal auditors operating under clearly defined professional audit standards in Nigerian universities reported a high level of performance, with 59% of respondents confirming this. The study emphasized that factors such as professional qualifications, relevant work experience, and auditor independence are key to ensuring effective financial management within academic institutions.

In a comparative study of Rwanda and Nigeria, Olagunju (2023) examined how internal audit practices promote transparency in public financial management. Their findings suggested that internal auditing significantly supports accountability particularly when the function is afforded full independence.

Ogbodo et al. (2018) discovered that while firm size influences return on assets, audit committee independence directly affects return on equity in Nigeria's banking sector. Similarly, Alhassan (2018) confirmed that auditor independence has a statistically significant influence on financial management effectiveness.

Appolos et al. (2023), in their assessment of audit effectiveness within local government authorities in Tanzania, highlighted that internal auditor lacked operational independence particularly in audit program planning and reporting. The study attributed these limitations to weak managerial support, high operational expenses, and poor internal communication.

Furthermore, Kayode and Bello (2021) reported that Nigerian internal auditors often face inadequate staffing, low morale due to poor remuneration, and insufficient professional development all of which compromise their independence and reduce their capacity to detect fraud.

Badara and Saidin (2012) identified major challenges confronting internal auditing in Nigeria, including limited auditor independence, weak staffing levels, fragile internal control systems, and non-compliance with auditing



standards factors that collectively hinder audit performance. Ojo (2019) emphasized the necessity for internal audit to possess the appropriate skills and competencies to contribute meaningfully to risk management processes. The study recommended that unqualified audits should not be assigned to conduct risk-based audits.

Alhassan (2018) explored the relationship between audit capacity and financial performance at the Cape Coast Metropolitan Assembly. The study established a strong correlation, noting that a well-capacitated internal audit team significantly enhances financial outcomes.

Suleiman and Haruna (2023) analyzed the impact of organizational structure on internal audit functions, noting that ineffective communication systems and limited management support hinder capacity development. The study advocated for greater autonomy and resource allocation to strengthen auditor competencies.

Similarly, Olagunju (2023) reaffirmed that building the capacity of internal audit teams is essential for achieving transparency and effective financial oversight in public sector financial management.

Ojo (2019) reiterated that high audit objectivity is essential to ensure trustworthy risk management reviews within Nigerian public sector MDAs.

Echoing this view, Olagunju (2023) argued that objectivity alongside qualifications and technical skills is crucial in enhancing the credibility and accuracy of public sector financial reporting.

Several empirical studies have examined the influence of internal audit objectivity on the effectiveness of financial management across different contexts. Internal audit objectivity refers to the auditor's independence from management influence and bias in judgment, which ensures transparency and credibility in financial reporting and control processes (Alzeban & Gwilliam, 2014). Effective financial management depends on reliable internal control and unbiased auditing practices that enhance accountability and the proper use of financial resources (Arena & Azzone, 2009).

In Nigeria, Olowookere and Olayinka (2020) investigated the relationship between internal audit independence and public financial management efficiency among federal ministries. Their study revealed that when internal auditors operate independently of executive influence, there is a significant improvement in compliance with financial regulations and prudent budget utilization. Similarly, Eze and Adam (2024) found that objectivity in internal auditing significantly reduces misappropriation of public funds and strengthens the quality of financial reporting among state government agencies.

A study by Ijeoma and Oghoghomeh (2021) focusing on listed manufacturing firms in Nigeria confirmed that internal auditors' objectivity and professional ethics positively affect financial decision-making, budgeting accuracy, and



overall financial performance. These findings support the notion that when auditors maintain neutrality, organizations experience stronger fiscal discipline and reporting transparency.

Globally, Cohen and Sayag (2010) examined internal audit effectiveness in Israel and found that auditor independence and objectivity are among the strongest determinants of sound financial management systems. Sarens and De Beelde (2006), in their study of Belgian companies, emphasized that management interference weakens audit objectivity, leading to distorted financial information and poor financial decisions.

In the public sector, Alzeban and Sawan (2013) analyzed government entities in Saudi Arabia and discovered that internal audit objectivity directly enhances financial accountability and reduces corruption tendencies. Similarly, Mihret and Yismaw (2007), studying Ethiopian public organizations, established that the level of internal audit objectivity correlates positively with improved internal control and fiscal discipline.

Recent studies also highlight the moderating role of organizational culture and audit committee effectiveness. Bananuka et al. (2018), studying Ugandan financial institutions, concluded that internal audit objectivity contributes significantly to financial management effectiveness, particularly when supported by an active audit committee and management's commitment to transparency.

## **Theoretical Framework**

### **Agency Theory**

Originating from economic principles, Agency Theory was introduced by Alchian and Demsetz (1972) and later developed by Jensen and Meckling (1976). It describes a relationship in which the principal such as the Head of Service delegates duties to the agent, typically employees within the public sector. These agents are responsible for delivering specific outputs or services in return for compensation. The theory primarily addresses the separation between ownership and control. Holmstrom and Milgrom (1994) argued that agents tend to prioritize high-return tasks when incentivized with fixed wages, yet this does not necessarily prevent unethical practices or corporate misbehavior.

## **METHODOLOGY**

This study employed a survey research design. A survey research design involves gathering data from a sample of individuals chosen to reflect a specific target population. It focuses on obtaining information that describes and quantifies social phenomena particularly prevailing issues, conditions, or problems within a society at a specific point in time. This design was adopted to evaluate the effectiveness of internal audit in the financial management of the Bauchi State public sector.



The target population for this research comprises 794 personnel, including accounting, administrative, and internal audit staff within the Bauchi State Ministry of Finance. This figure was obtained through a specific inquiry conducted to support the study Israel (2009). These categories of staff were selected due to their expertise, professional experience, and familiarity with the impact of an effective internal audit on financial management within the Bauchi State public service and questionnaires were administered to respondents.

The sample size for this study was calculated using the Taro Yamane formula as referenced by Israel (2009), based on the assumption that the sample would accurately reflect the characteristics of the overall population.

**Sample size formula:**

$$n = N / (1 + N(e)^2)$$

Where:

$n$  = sample size

$N$  = population size (794)

$e$  = margin of error or level of significance (5%)

1 = constant

Substituting into the formula:

$$n = \frac{794}{1 + 794(0.05)^2}$$
$$n \approx 266$$

To ensure fair representation of the entire population, the study adopted a simple random technique. This method was chosen because it gives every individual in the population an equal probability of being selected. The respondents comprised accounting, administrative, and internal audit staff within the Bauchi State Ministry of Finance.

The study utilized a structured, self-administered questionnaire that covered all the variables relevant to the research. As such, the questionnaire items were carefully designed with clarity and simplicity to effectively capture the dimensions used to measure the constructs. It is important to note that the questionnaire items were derived, adapted, or adopted based on conceptual discussions from existing literature.

The questionnaires were distributed to the selected staff members for completion, with the option to remain anonymous. The instrument was structured to gather adequate and pertinent information from respondents. Each questionnaire included specific statements, and respondents were required to indicate their level of agreement or opinion by ticking the appropriate box provided.

This study employed both descriptive and inferential statistical techniques for data analysis. Descriptive statistics such as mean and standard deviation were



used to summarize the responses regarding the variables under investigation namely, internal auditor independence, capacity, objectivity, and adherence to internal audit standards as well as the performance of internal audit functions within the Bauchi State Ministry of Finance.

## **RESULTS AND DISCUSSION**

The findings of the study indicate that the internal audit independence and Internal Audit Capacity does not have significant influence on financial management within the Bauchi State public service. From the lens of agency theory, a persistent conflict of interest exists between principals (such as the government or stakeholders) and agents (such as internal auditors). In this context, the lack of a significant relationship could imply that the challenges in financial management are not primarily due to audit independence, but may be linked to issues like poor accountability structures or ineffective communication channels. This result aligns with the argument that public sector institutions often characterized by covered oversight and intricate governance systems may not depend solely on internal audit independence to achieve sound financial management (Eze & Nwankwo, 2023 and Oladipo & Adeyemi, 2024).

Moreover, the hierarchical nature of public institutions may reduce the influence of audit independence, as internal auditors often report to superior officers whose influence may compromise their objectivity (Ahmed & Yusuf, 2022). This observation reflects agency theory's assertion that agents may act in favor of their immediate supervisors rather than the broader organization, thereby limiting the autonomy required for effective auditing. These findings contradict those of Desmond, Isaac, and Tahir (2022), who identified a significant positive effect of audit independence on financial management in the university system.

The second key finding shows that the capacity of the internal audit units has significantly impact financial management in Bauchi State's public service. According to agent theory, an individual's motivation depends on their belief in their capabilities and the value they place on the expected outcomes. If capacity development is not valued within public institutions, it may lead to insufficient investment in internal audit personnel, thus weakening their potential contribution (Mohammed & Bawa, 2023). This suggests that elements such as adequate resources, ongoing professional development, and organizational support may play a more substantial role than capacity alone. However, this result contrasts with Alhassan (2021), whose study found that internal audit capacity significantly enhanced financial management in the Cape Coast.

In addition, the study found a significant relationship between the objectivity of internal auditors and financial management practices in Bauchi State. In the



public sector, internal audit’ objectivity might not be perceived as a core determinant of financial management performance if other factors such as policy directives or budget execution carry more weight in maintaining legitimacy (Abubakar& Musa, 2024). This finding implies that internal audit objectivity may not substantially contribute to perceived financial credibility compared to broader issues like transparency and stakeholder confidence.

Finally, the analysis revealed that compliance with internal audit standards has significantly affect financial management outcomes in the Bauchi State public sector. Although adherence to standards is expected to reduce the information gap between agents and principals, this benefit may be undermined by issues such as political interference or limited operational resources (Ibrahim & Suleiman, 2025). Contrasting evidence was presented by Desmond, Isaac, and Tahir (2022), who found that compliance with internal audit standards improved financial performance in university settings. They observed that professional qualifications and experience among auditors contributed positively to outcomes. Nevertheless, such conclusions may not universally apply, particularly in differing institutional and sectoral environments.

**Table 1: Descriptive Statistics of Latent Variables**

| Variables | N   | Min | Max | Mean | Std. Deviation |
|-----------|-----|-----|-----|------|----------------|
| IIA       | 266 | 1   | 5   | 3.25 | 0.997          |
| CIA       | 266 | 1   | 5   | 3.10 | 0.884          |
| OIA       | 266 | 1   | 5   | 3.34 | 0.980          |
| IAS       | 266 | 1   | 5   | 3.41 | 0.969          |
| FM        | 266 | 2   | 5   | 4.19 | 0.327          |

**Note:** IIA = Independence of the Internal Audit, CIA = Capacity of the Internal Audit, OIA = Objectivity of the Internal Audit, IAS = Compliance with Internal Audit Standard, FM = performance on Financial Management.

**Table 2: Cronbach’s Alpha Value for each construct**

| Construct   | FM    | IIA   | CIA   | OIA   | IAS   |
|-------------|-------|-------|-------|-------|-------|
| Alpha value | 0.765 | 0.835 | 0.752 | 0.817 | 0.805 |

As presented on the Table above, all constructs recorded Cronbach’s Alpha values exceeding the acceptable threshold of 0.70. Notably, the Independence of the Internal Audit construct achieved the highest reliability score at 0.835, followed by Objectivity of the Internal Audit (0.817), Compliance with Internal Audit Standards (0.805), Financial Management performance (0.765), and Capacity of the Internal Audit (0.752).



**Table 2 Regression Summary**

| Model | Coeff | Std. Err | T     | Sig.   | VIF   |
|-------|-------|----------|-------|--------|-------|
| 1     | Cons  | 3.991    |       | 44.824 |       |
| IIA   | .033  | .025     | 1.309 | .192   | 1.621 |
| CIA   | -.039 | .028     | -     | .169   | 1.596 |
| OIA   | .045  | .033     | 1.378 | .179   | 2.734 |
| IAS   | .017  | .029     | 1.349 | .556   | 1.984 |

R Square = 0.040 (Model explains 4% of variation)

- a. Dependent Variable: FM = performance on Financial Management
- b. Independent Variables: IIA = Independence of the Internal Audit, CIA = Capacity of the Internal Audit, OIA = Objectivity of the Internal Audit, IAS = Compliance with Internal Audit Standard.

### Hypothesis-by-Hypothesis Interpretation

**HO<sub>1</sub>:** Internal audit independence (IIA) has no significant effect on financial management. The p-value is 0.192, which is greater than 0.05. Therefore, H<sub>01</sub> is not rejected. This implies that internal audit independence has no significant effect on financial management (Rejected).

**HO<sub>2</sub>:** internal audit capacity (IAC) has no significant effect on financial management. The p-value is 0.169, which is greater than 0.05. Therefore, H<sub>02</sub> is not rejected. This indicates that the competence of internal auditors does not significantly affect financial management (Rejected).

**HO<sub>3</sub>:** Internal Audit Objectivity (IAO) is statistically significant, indicating that while internal Audit Objectivity is important it does not have a direct measurable effect in this sample significant effect on financial management. Been that the p-value is 0.033, which is less than 0.05. Therefore, H<sub>03</sub> is not accepted. This shows that the objectivity of internal audit has significant impact on financial management (failed to reject).

**HO<sub>4</sub>:** Internal audit standards (IAS) is statistically significant, indicating that while internal audit standards are important, they do not have a direct measurable effect in this sample or on financial management. The p-value is 0.46, which is less than 0.05. Therefore, H<sub>04</sub> is not accepted. This means that adherence to internal audit standards has significantly affect financial management (failed to reject).

### CONCLUSION AND RECOMMENDATION

The purpose of this study was to evaluate the effect of internal audit in the financial management of Bauchi State public service. Specifically, the study examined the independence of internal auditors in executing their responsibilities, the capacity of the internal audit function, the objectivity of internal auditors, and adherence to internal audit standards, all in relation to



their influence on financial management practices in the public sector of Bauchi State. The study revealed that the independence of internal audit does not significantly impact financial management in the Bauchi State public service. It is therefore recommended that if internal audit independence is not a key determinant, attention should be redirected toward addressing other potential issues such as accountability frameworks and communication mechanisms that may be more influential. Since the study found that the capacity of internal auditors does not significantly influence financial management in the public sector, it is recommended that focus be placed on enhancing other supportive elements such as adequate resource allocation, continuous professional development, and institutional support systems which may play a more critical role in boosting audit effectiveness.

Given there is a significant relationship between internal audit objectivity and financial management in Bauchi State's public service, it is suggested that stakeholders (including citizens and government authorities) may consider placing greater emphasis on them will make a stronger effect on financial outcomes. The study also showed that adherence with internal audit standards has significantly affect financial management in the Bauchi State public service.

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