

## THE RELATIONSHIP BETWEEN INSTITUTIONAL ENVIRONMENT, INTERNAL AUDIT AND PERFORMANCE OF LOCAL GOVERNMENTS IN NIGERIA

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### Abstract

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This study aimed at examining the relationship between institutional environment, internal audit and local government performance in Nigeria. The quality of internal audit, effective internal controls, and institutional context factors were specifically examined for the purpose of establishing the nature of relationships existing among the variables. The study adopted the mixed methodology approach. Specifically, the explanatory sequential design was used which entailed an earlier survey followed by semi structured interviews on key participants to provide more insights on the survey results. A total of 301 heads of internal audit in the local government from the six geopolitical zones of the country participated in the survey. Furthermore, interviews were conducted on eight key participants to clarify the results of the survey. The maximum variation sampling technique was used in selecting the participants. Results gave new insights into the challenges of institutional environment and its relationship with local government performance in Nigeria. Particularly, the participants outlined reasons for the negative relationship between internal and external audit collaboration and performance to include external auditor political interest, unethical practices, uncooperative attitude, external auditor preference, and external auditor overriding of internal auditor's queries. Also, the non-significant relationship between internal audit relationship with management and performance was a result of poor attitude of management, auditor compromise, funding issues, and reporting relationship. Hence, the outcome of the study demonstrated that the contribution of internal audit quality and internal controls to performance are constantly influenced by the institutional environment and this determines how both would contribute to performance.

**Keywords:** Institutional environment, Local government performance, Internal control, Internal audit, Public sector

### INTRODUCTION

The performance of Nigerian local governments has come under searchlight as stakeholders have been questioning the internal audit role and the place of internal controls in performance. Since the return to democracy in 1999, little improvements have been witnessed in the management and development local governments in Nigeria. Some authors have tagged this third tier of government "the most ineffective and inefficient". For example, literature is replete with issues bothering on the poor performance of local governments in Nigeria. According to IFAD (2012) report, 80 percent of rural dwellers live below the poverty line and there is limited infrastructure and social services. Other studies have reported issues such as inadequate resources, mismanagement, reckless spending, and

corruption (Oviasuyi, Idada, & Isiraojie, 2010; Lawal & Oladunjoye, 2010). Also, there is a worsening overdependence of local government on revenue from the Federation Account (Olusola, 2011). Given the pivotal role local governments play in the developmental process of a country and the need to effectively manage limited resources at their disposal, local government performance has become the focus of intense debate in many parts of the globe including Nigeria (Adeyemi, 2012; Akbar, Pilcher, & Perrin, 2012). One notable consequence of poor performance of local government councils in Nigeria is the wide spread poverty in rural areas. Others include inadequate service delivery in health, rural water supply, access roads, underdevelopment of primary education and general apathy in participatory community development including restiveness among youths (Achimugu, Stephen, & Agboni, 2013).

Studies seem divided over issues bothering on the performance failures of local governments in Nigeria. Some have cited meager financial resources (Oviasuyi et al., 2010; Olusola, 2011) while others argued that mismanagement of resources through reckless spending accounts for poor performance in the local government (Lawal & Oladunjoye, 2010). On the whole, there seems to be inadequate safeguard of local government resources. Although many studies have been conducted on performance and its antecedence in some developing countries, very few studies have examined the subject in the public sector of developing countries like Nigeria. With respect to performance, some researchers have theorized that organizations can improve their performance by strengthening control mechanisms like internal audit, internal controls and by addressing other contextual factors (Baltaci & Yilmaz, 2006; Asare, 2009). The internal audit and internal controls are regarded as potent tools capable of contributing to the performance of an organization (Ege, 2015). The value-adding ability of internal audit is demonstrated in the function's role in governance, risk management and control. In essence, an active internal audit role in these areas can lead to more performance in an organization. This, in effect shows that the internal audit function is a very important and indispensable aspect of a progressive organization. However, to be effective, the institutional environment where the function operates is equally relevant as internal audit and the controls it oversees do not operate in a vacuum. The presumption of internal audit's value-adding role is under the premise that the function is well supported and equipped to operate in an environment that promotes a culture of ethics (Cahill, 2006). Baltaci and Yilmaz (2006) assert that internal controls and the internal audit function standing alone may not result in good performance of an organization. They suggest that other governance factors within the institutional environment are important in shaping outcomes.

The institutional environment here captures variables that should enhance the functions effectiveness. Some institutional variables in the public sector include government regulations, internal audit relationships, internal and external audit collaboration, planning, mission statements, political interference, management commitment, and corporate ethical culture. The presence of these institutional variables will either enhance or limit internal audit function's contribution to performance.

Quality internal audit and effective internal controls have been acknowledged as potent tools for curbing management and corruption and enhance efficiency of operations (Asare, 2009) but evidence suggests otherwise. Interestingly, all government agencies in Nigeria are required to establish an internal audit department and internal controls are well prescribed in the various regulatory framework of the public sector to ensure accountability and transparency in government transactions. However, with the wide spread performance and accountability failures, it seems the internal audit function and internal controls may not be effective in providing the needed assurance to stakeholders (Baltaci &

Yilmaz, Davidson, Goodwin-Stewart, & Kent, 2005). A lot of researches on internal audit have focused on effectiveness of the function (Cohen & Sayag, 2010). Others have linked its effectiveness and value adding role to performance (Aikins, 2011; Mihret, 2010; Carmeli & Tishler, 2004). However, there is limited research on the institutional environment where the function operates especially in the public sector. Given that the public sector is governed by rules and regulations, some of which emanate from government seeking legitimacy from stakeholders, it is important to examine the environment where internal audit operates as this could give insight on why the function seems not to be adding value in the Nigerian local government. Hence, this study examines the institutional environment, quality of internal audit, effective internal controls and their contribution to performance of local governments in Nigeria. The rest of the paper consists of literature review, methodology, results and discussion, and conclusion.

## LITERATURE REVIEW

Given the ambiguous nature of goals in the public sector, numerous perspectives exist in measuring performance of public sector agencies. Hence, performance should be assessed taking into account the institutional setting especially because the public sector is guided by rules and regulations which have implications on how performance is measured and internalized (Hoque, Arends, & Alexander, 2004; Bevir, Rhodes, & Weller, 2003). These rules and regulations exert coercive influences on the organization. Also, the diverse stakeholders' groups in the public sector create divergent goals which are sometimes conflicting. Therefore, assessing local government performance depends on whose perspective is being studied and the dimensions to be examined. Generally, public sector performance is associated with financial performance, quality of services provided, responsiveness, fiscal strength, accountability, citizen satisfaction, and financial autonomy (Carmeli & Tishler, 2004; Walker & Boyne, 2006; Boyne & Law, 1991). However, Boyne and Law (1991) suggest accountability should be the focus of performance in the public sector. In addition, Selden and Sowa (2004) assert that given the ambiguous nature of goals in the public sector, performance should focus on the fiscal health, satisfaction of most important stakeholders and the ability to mobilize and retain resources. Also, Dess and Robinson (1984) suggest performance should incorporate other dimensions such as employee, environment, society and community. Furthermore, Kaplan and Norton (2000) also suggest public sector performance should include non-financial aspects. Thus, in this study, both financial and non-financial aspects were incorporated into the measures of local government performance. Financial performance refers to an organization's ability to ensure future services are provided without disruption. It also depicts the ability of an organization to meet the demands of creditors and stakeholders while still attaining objectives. Aspects of financial performance include cash solvency, budgetary solvency (Maher & Deller, 2011; Rivenbark & Roenigk, 2011). Non-financial aspect of performance includes efficiency and effectiveness of service performance. This was adapted from the study of Brewer (2006). A meta-analysis of 65 studies on sources of performance in the public sector found management, resources, organization, markets and regulation as sources of performance (Boyne, 2003). Furthermore, the study revealed resources and management were main sources of improvement in performance in the public sector. However, an earlier study by Nadler and Tushman (1980) found environment, history, strategy and resources as drivers of financial performance in an organization. Taken together, performance can be enhanced when the above sources are exploited. For example, the environmental factor consists of influences outside the organization such as

regulatory bodies, various stakeholders, and interest groups. These influence performance outcomes in the public sector. Therefore, this study examines further the influence of the institutional environment on performance in the local government by relying on the institutional theory and resource based view. The internal audit, internal controls, corporate ethical culture, planning, mission statement, commitment by management and internal audit relationship with management are regarded as resources. This is supported by the view that resources both tangible and intangible can generate better performance (Barney, 1991; Bryson, Ackermann, & Eden, 2007; Teece, Pisano, & Shuen, 1997). This is also in line with Boyne (2003) study of sources of public sector performance. In addition, corporate ethical culture, planning, mission statement, commitment by management and internal audit relationship with management are regarded as emanating from the institutional environment. Furthermore, other institutional environment variables include regulation, political interference and external and internal audit collaboration. This study also relies on the institutional theory to provide explanation on the relationships examined here. Similar studies have relied on the institutional theory and resource-based view for explanation (for example, Mihret, 2010; Carmeli & Tishler, 2004).

### *Internal Controls*

Internal controls promote attainment of goals in an organization, for example, internal controls mitigate errors and fraud (Rae & Subramaniam, 2008); assist in auditor's fraud risk assessment (Mohd-Sanusi, Mohamed, Omar, & Mohd-Nassir, 2015), and serve as guide to processes within the organization. Internal controls pervade every part of an organization's operations and contribute to organizational goals (INTOSAI, 2004). Internal controls refer to a system put in place by management to ensure adherence to policies and procedures and the attainment of goals of an organization (COSO, 2013). Internal controls consist of aspects such as control environment, control activities, risk management, monitoring, information and communication. Internal controls are dynamic and so the need for continuous monitoring to ensure the system is effective. Internal auditors assist management in ensuring controls are regularly updated.

Relatively few studies have examined the relationship between internal controls and performance. Some studies have related internal controls to various aspects of firm's operations (Haron, Ibrahim, Jeyaraman, & Chye, 2010; Hermanson, Smith, & Stephens, 2012). Haron et al. (2010) argued that boards can increase the value of shareholders through a combination of resources and processes of which internal control is part. Thus, effective internal controls can translate to quality service delivery and safeguard the fiscal health of public sector organizations. In a study of six local governments in six countries, Baltaci and Yilmaz (2006) identified inadequate internal control as a major factor accounting for the widespread performance failures in local governments. They advocated effective internal controls and audit as tools to promote local government efficiency and effectiveness. Relatively few studies have examined the relationship between internal controls and performance (Aikins, 2011; Alic & Rusjan, 2010; Feng, Li, McVay, & Skaife, 2015; Haron et al., 2010) and Baltaci and Yilmaz (2006) acknowledged the paucity of studies in public sector of developing countries. In Nigeria, few studies have been conducted and results and measures of internal controls are largely insufficient as results are merely descriptive (see Adeyemi, 2012; Babatunde, 2013). Hence, the need to examine this construct in the Nigerian context.

### *Internal Audit Quality*

The support to the audit committees and more responsiveness in risk management is made possible through high quality internal audit (Zaman & Sarens, 2013). Also, the quality of internal audit is associated with low earnings management (Prawitt, Sharp, & Wood, 2009). This suggests internal audit's ability to checkmate opportunistic behaviours aimed at reducing financial reporting quality. This evidence is supported by Ege (2015) and Lin, Pizzini, Vargus, & Bardhan, (2011). In addition, previous studies suggest a positive relation between internal audit quality and performance of an organization. Hutchinson and Zain (2009) reported a positive and significant relationship between internal audit quality and firm performance (ROA). Also, internal audit quality has been linked to reduction in management excesses, performance improvements, timely reporting and enhanced organizational operations (Baltaci & Yilmaz, 2006; Hutchinson & Zain, 2009). Thus, the quality of internal audit is a vital factor for performance of an organization. Internal audit quality consists of competence, objectivity and independence, and internal audit work performance (Ege, 2015; Haron et al., 2004; Hutchinson & Zain, 2009; Prawitt et al., 2009). Previous studies on the relationship between the quality of internal audit and performance showed inconsistent results. For example, Aikins (2011) in a US study reported significant relations between continuous audit by internal audit and financial performance of 178 local governments. Similar findings were reported by Carmeli and Tishler (2004). However, some studies found non-significant results between internal audit and performance (Mihret, 2010; Kiabel, 2012; Ejoh & Ejom, 2014; Muchiri & Jagongo, 2017). Also, most of the studies attributed the non-significant results to small sample sizes. Furthermore, these studies ignored the institutional environment where internal audit operates as this can also shape the quality of internal audit and its contribution to performance.

### *Internal and External Audit Collaboration*

Collaboration between internal and external audit reduces audit fees, external audit circle and duplication of audit effort (Prawitt et al., 2011). This collaboration can assist in easy detection of material weaknesses in the financial statements (Lin et al., 2011). Also, internal audit and external audit cooperation contributes to financial statement audit quality and enhances confidence on either party's quality of work (Wood, 2004). It follows therefore that when collaboration is strong, audit recommendations and follow up are easily pursued to obtain management action and so enhance performance. Empirical studies linking this collaboration and performance are limited. Most studies only focused on external audit reliance on the work of internal audit. Besides, statutorily, the external audit is a source of coercive influence on the work of internal audit as the external audit function plays a supervisory role on the internal audit in performing audits and to ensure government regulations and laid down procedures are followed. Considering the paucity of studies, it is important to examine the relationship between internal and external collaboration and the performance of local government.

### *Internal Audit Relationship with Management and Auditees*

The relationship between internal audit and auditees within the organization affects the function's ability to contribute to performance. This hinges on the ability of internal audit to communicate effectively and secure the cooperation of auditees (Al-Twajjry, Brierley, & Gwilliam, 2003; Mihret & Yismaw, 2007). Support for the internal audit function is clearly seen in the way management implements audit observations and the tone in the organization (Mihret & Woldeyohannis, 2008).

Internal audit relationship with management and auditees reflects how members of other functional departments within the organization see the internal audit. It includes both support and implementation of the audit findings. Also, it includes unhindered access to all parts of the organization (Mihret & Yismaw, 2007). Hence, to succeed, relationship skills are very important for the internal auditor. This is necessary in order to create trust and minimize resistance from auditees (Chambers & McDonald, 2013). It underscores the necessity of ensuring a friendly environment that reduces suspicion and minimizes the perception of the internal auditor as a fault finder. In a multiple case studies of the relationship between senior management and internal audit in Belgium, Sarens and De Beelde (2006) found that senior management only supported internal audit when the latter meets its expectations. In another study, high correlations were reported between senior management support and effectiveness of internal audit using a survey of 108 internal auditors and managers in both private and public sectors (Cohen & Sayag, 2010). Studies relating internal audit relationship with management and performance are limited. However, available evidence suggests that when the relationship is cordial, internal audit would be in better position to operate effectively and consequently improve performance.

### *Corporate Ethical Culture*

An early study by Verschoor (1998) indicated that management commitment to ethics was a significant factor in improving financial performance of companies. Also, Donker, Poff, and Zahir (2007) revealed that corporate values were significantly related to company performance. Similarly, organizations who promote an ethical environment perform better than those who do not (Hosmer, 1994). In addition, Boyne and Walker (2010) assert that the prevailing culture within an organization can promote performance. In essence, an ethical environment stimulates the alignment of goals within an organization and consequently performance. Corporate ethical culture refers to the attitude, values, beliefs held by members of an organization. The corporate ethical value of an organization influences interactions within the organization even where no specific mode of behaviour has been prescribed. The prevailing ethical culture emanates from the environment where internal audit and internal controls operate. Where the right ethical environment exists, internal audit and controls would operate effectively and performance is sure. Kaptein (2008) developed a Corporate Ethical Virtues Model (CEV) to assess ethical virtues in an organisation. The virtues reflect how an organization is able to induce ethical conduct amongst employees. The ethical virtue contains aspects such as sanctionability, feasibility, transparency, supportability, discussability, congruency and clarity. The right ethical tone in an organization has been associated with external auditor reliance on the work of the internal auditor, enhanced performance, and financial reporting quality (Verschoor, 1998; Prawitt et al., 2010). It is therefore important to examine the ethical culture in local governments with a view to gaining insight on its relationship with performance. This would provide clues why internal audit and internal controls seem not to be having any impact on local government performance in Nigeria.

### *Strategic Planning*

Strategic planning is a means of attaining goals and serves as a guide on an organization's chosen objective (Boyne & Walker, 2010; Mintzberg, 1994). Strategic planning benefits an organization through improved management process, vision congruence, quality decisions making, and goal attainment (Boyne & Gould-Williams, 2003). More specifically, strategic planning promotes performance through enabling managers to clarify goals and objectives, and generate proactive

responses to external influences and promote congruence in actions. Studies on relationship between strategic planning and performance are limited and results are mixed (Andrews, Boyne, Law, & Walker, 2009; Boyne & Gould-Williams, 2003). Boyne and Gould-William (2003) found a positive relationship between attitude towards planning and performance but a negative relationship between performance and other set targets. Their results generally show small positive effect of planning on performance and concluded that the positive effects of planning more than offset the negative effects of setting targets. Similarly, Ugboro, Obeng, & Spann (2011) demonstrated positive relations between strategic planning dimensions and strategic planning effectiveness. However, Andrews et al. (2009) found no relationship between rational planning and performance in 47 Welsh service departments. Although their study made some contribution, other factors that affect public sector performance were ignored. Besides, the internal audit function assists management in ensuring policies, plans and procedures are adhered to in order to bring about tangible performance in the local government.

### *Government Regulations*

Regulation involves the use of persuasion and directives by regulatory bodies in order to enforce compliance and effect changes in standards related to use of resources (James, 2000). The rationale for regulation of public sector organizations is that regulation brings about better performance, ensures accountability and better positions the public sector for more quality service delivery (Andrews, Boyne, Law, & Walker, 2008). Hence, regulation exists to enable government achieve its basic objective of serving and ensuring the wellbeing of citizens and communities and also serve as restraint on opportunistic behaviours that hinder progress. In spite of the pervasive influence of regulation, limited studies have examined its impact on organizational performance (Andrews et al., 2008). Accounting and reporting practices in Ghana were found to be influenced by legal, political and institutional factors (Assenso-Okofu, Ali, & Ahmed, 2011). Also, government regulations influenced the development of internal audit practice in Saudi Arabia, Italy, and Ethiopia (Al-Twaijry et al., 2003).

Although regulatory influences have been acknowledged to impact internal audit practice, financial reporting and other accounting related issues, only few studies have explored the link with organizational performance. For example, Andrews et al. (2008) examined the relationship between external regulation and performance of services in 51 departments of local authorities in Wales. The findings of their study were mixed as the two proxies of external regulation (level of support and extent of regulation) showed positive and no relationship with service performance respectively. Furthermore, Wilbanks (2005) suggests that regulation in itself does not translate to improve performance but oversight to ensure compliance does and monitoring of top management ethical tone together can pave way for better performance. This suggests that mere existence of a regulation cannot bring about much needed performance unless mechanisms exist to ensure compliance. One of such mechanisms is the internal audit. Where regulations are adhered to, it may result in better processes for the local government. Within the Nigerian context, few studies have been conducted with limited statistical evidence as most of the studies are mere descriptive. Little is also known on how regulation shapes the internal audit practice. Also, some researchers have argued that the need for legitimacy before stakeholders is what drives regulation in the public sector and that those regulations are rarely applied in practice (Rahaman, 2009). Thus, where regulations exist only for cosmetic reasons, the work of internal audit and effectiveness of controls would be limited and performance hindered.

### *Management Commitment*

Commitment from individuals at the helm of an organization's affairs is essential for attainment of goals and objectives. As examples for others to follow, top management dictates the tone for the organization. It is also worthy of note that management commitment is perceived throughout the organization and employees would follow the leadership of management. Therefore, top management commitment is more than mere pronouncement or support; it is an emotional attachment to see desired results. Hoffman and Hegarty (1993) linked top management commitment to achieving strategic changes, improvement in service quality, development of new products and services, and innovation in an organization. Also, top management commitment has been linked to service recovery performance and effective leadership (Turner, 2008). Conversely, the failure of some government programmes and reforms were associated with a lack of commitment on the part of elected representatives. For example, lack of political will was identified as the root cause of wide spread reform failures in Swaziland's civil service (McCourt, 2003). Similarly, Gonçalves (2014) found participation of both service beneficiaries and elected leaders in the budgeting process lead to more efficient distribution of resources. In essence, to gain the participation of others, top management commitment serves as an example for others to follow through goal achievement. Thus, performance in the local government can be attained through the commitment of both bureaucrats and elected representatives. Such commitment can be assessed within the institutional environment as employees generally perceive lack of commitment on the part of management. As it relates to internal audit and internal controls, a perceived lack of commitment on the part of management can have detrimental effects on how the organization responds to observations and queries by the internal audit. This, in effect, can either promote or restrain performance.

### *Political Interference*

Previous studies differ on the subject of political interference in an organization. For example, Shleifer (1998) suggested that political interference can result in employment generation, foster economic development and the development of policies for public interest. However, others argued that political interference could be exploited by politicians for personal gain at the detriment of stakeholders and the organization (Chang & Wong, 2002). Political interference refers to influences emanating from organizations and individuals saddled with the responsibility of overseeing the affairs of an institution it seeks to control. Empirical studies on the effect of political interference on organizational performance merely involved comparing between government enterprises and privately owned ventures (Shirley & Walsh, 2000). Shleifer and Vishny (1994) found government enterprises performed poorly due to political interference compared to privately owned ventures. Also, local administrative initiative and focus can be diverted through political interference as De Visser (2010) found excessive political interference in South African municipalities limited their abilities to improve on services to communities. Political interference was found to influence scientific findings of the environmental protection agency in the US (UCS, 2008). The study also reported that the sources of interference are both internal and external to the organization and scientific findings were hindered or modified, thus hindering correct disclosure of findings.

In a related study of project implementation in Nigeria, Rogger (2013) found that project completion and quality rates reduced by 42 and 69 percent respectively. Furthermore, political interference is

detrimental to financial condition of local government. Asaju (2010) found that state governments in Nigeria often compelled local governments to embark on projects that have no bearing on the needs of communities. Also, Salawu and Agbeja (2007) found political interference to severely impact internal controls, accountability and audit procedures. Hence, such interference could put a strain on local government financial resources and deprive communities of having their salient needs met. Thus, there is a need to examine the relationship between political interference and performance in the local government.

### *Strategic Mission*

Alavi and Karami (2009) noted that formulating an appropriate mission statement is an important step towards developing strategic plans for an organization. Mission statements capture the future plans and vision of an organization. It serves as a differentiating factor between organization (David & David, 2003). Mission statement has been documented to result in goal congruence within an organization, linked to motivation of employees towards organizational performance, generates a positive attitude towards the organization and has also been linked to efficient allocation and use of resources as there is a clear focus for the organization (Bart & Baetz, 1998).

In terms of performance, a comprehensive and accepted mission statement by members of an organization has potentials of increasing certain financial performance measures by 30 percent (David & David, 2003). However, Sufi and Lyons (2003) found no significant relationship between mission statement and return on equity. Although results are inconclusive and may vary across sector and context, mission statement is equally important for local government's performance.

### *Theoretical Framework*

In developing literature for this study, specific variables that influence outcomes in the public sector were examined. This study relied on the Resource-based theory and the institutional theory. Resources comprise "all assets, capabilities, organizational processes, firm attributes, information, and knowledge controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness" (Barney, 1991 p. 101). These resources are assets that drive the attainment of goals (Bryson et al., 2007). Also, resources include capabilities such as intangible skills and knowledge acquired through organizational processes (Teece et al., 1997). Capabilities generate the needed skill to direct efficient use of resources. Both resources and capabilities provide firm-wide competitive advantage (Grant, 1991). Institutional theory posits that institutional environment exerts more influence on the development of structures and practices in an organization than market forces. Simply put, organizations within a particular context are pressured to conform to certain norms, rules, schemes, routines and processes in order to appear legitimate in the institutional environment (DiMaggio & Powell, 1983). The main sources of influence include government, values and norms in the wider society now internalized by the organization and professional bodies (Collier & Woods, 2011). In essence, institutional theory enquires into how structures are "created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse" (Scott, 2004 p. 408). Mihret (2010) referred to the terms "decline and disuse" as decoupling which connotes a situation where an institution appears to be acting along laid down principles in order to look legitimate but in practice, doing the opposite. Similar studies examining performance and internal audit in the public sector have relied on these theories in the explanation of variables being studied (see Cohen & Sayag, 2010; Carmeli & Tishler, 2004; Al-Twajry et al., 2003).

## METHODOLOGY

The study employed the mix method particularly, the explanatory sequential design where survey was conducted followed by interviews of participants in order to clarify the results of the survey. Heads of internal audit were the target sample for the survey. These were selected to respond on behalf of their local governments because of their positions as heads of internal audit and would be more positioned to provide credible responses to the survey. A five point Likert scale was used for the survey. There are 774 local governments and six geopolitical zones in Nigeria. Each local government has one head of the internal audit unit, giving a total of 774 heads of internal audit. Each of them was required to respond to the survey on behalf of their local governments. Each geopolitical zone was regarded a stratum from which a proportionate sample was determined. Based on Krejcie and Morgan (1970) sample size table, a minimum sample size of 260 was derived. From the 260 sample size, proportionate sampling was used to apportion the sample size according to the geopolitical zone. This is shown on Table 3.1.

Table 3.1: Local Government Sampling

Geopolitical Zone	Number of Local Government (Population)	Sample Size (Proportionate Sampling)
North-West	187	62
North-East	111	37
North-Centrals (FCT included)	121	41
South-West	139	47
South-East	95	32
South-South	121	41
<b>Total</b>	<b>774</b>	<b>260</b>

Source: Field survey

However, in order to ensure a response rate of at least 50% and to reduce the problem of non-response, the initial sample was increased to 600, indicating the number of questionnaires to be distributed (see Table 3.2). Previous studies have shown that the response rate lies between 45% - 79.9% or an average of 50% (Adomi, Ayo, & Nakpodia, 2013). Besides, larger sample sizes are more acceptable for the purpose of generalization (Hair, Black, Babin, & Anderson 2010). Thereafter, simple random sampling was used for selecting respondents to the survey.

Table 3.2: Local Government Sampling

Geopolitical Zone	Number of Local Government (Population)	Sample Size (Proportionate Sampling)
North-West	187	144
North-East	111	86
North-Centrals (FCT included)	121	94
South-West	139	108
South-East	95	74
South-South	121	94
<b>Total</b>	<b>774</b>	<b>600</b>

Source: Field survey

600 questionnaires were mailed out to heads of internal audit, out of which 322 were received giving a response rate of 53.8%. Twenty one questionnaires were excluded from the 322 questionnaires received for excessive missing data and only 301 were retained for analysis. Thereafter, semi-structured interviews were conducted based on the results of the survey on eight key participants. The survey took a period of six months in 2015 while the interviews were conducted within two months in the later part of 2016.

The maximal variation sampling technique was used in selecting participants for the interviews because of the need to present multiple perspectives on issues being addressed. Maximal variation sampling is a purposeful sampling technique in which the researcher samples individuals that differ on some basic characteristic (Creswell, 2014). The main goal is to provide multiple perspectives of individuals to represent the issue being studied. Hence, participants included public sector external auditors, internal auditors, treasurers of local government and directors in the local government. In terms of the sample size, it is typical in qualitative research to study a few individuals. According to Creswell (2014), cases can range from 1 or 2 to 30 or 40. Thus, 8 cases were considered adequate for this study because of the need for in-depth perspectives. STATA 12 software was used for analyzing the survey data while interviews were manually transcribed and analyzed. Results from the survey showed no threat of non-response bias and data were normal as skewness and kurtosis lie within acceptable limits of  $\pm 2.58$  (Hair et al., 2013). Other multivariate assumptions were met. Thereafter, multiple regression analyses were performed.

### *Model Specification*

Based on the conceptual framework as discussed in the literature review, the following model is put forward:

$$LGP = \alpha + \beta_1 IAQ + \beta_2 ICS + \beta_3 IAMA + \beta_4 IAEA + \beta_5 CC + \beta_6 SP + \beta_7 REG + \beta_8 MC + \beta_9 PI + \beta_{10} SM + \epsilon \quad (i)$$

Where:

- LGP = local government performance
- IAQ = quality of internal audit
- ICS = Effective internal controls
- IAMA = internal audit relationship with management
- IAEA = internal and external audit collaboration
- CC = ethical culture
- SP = planning
- GR = Government regulation
- MC = Management commitment
- PI = political interference
- SM = mission statement
- $\epsilon$  = error term
- $\alpha$  = intercept
- $\beta_1, \beta_2, \dots, \beta_{10}$  = Parameters

All variables were measured on a five point Likert scale.

## RESULTS AND DISCUSSION

### *Respondents Profile*

In terms of gender, 82% (246) were male while 18% (55) were female. Also, with respect to work experience, 13% (39) had up to five years work experience, 20% (60) had between 5 and 10 years' experience while 65% had above 10 years' experience and 2% of the respondents did not supply any information on their work experience. Furthermore, in terms of professional certification, 11% (33) had ACA, 34% (103) had the CNA, 17.6% (53) had other forms of certification while 27% (82) had no certifications. Finally, for size of internal audit unit, 19% (57) had less than 5 staff, 65% (196) had between 5 to 10 staff, 9% (28) had between 10 and 15 staff, while 2% (7) had 15 staff and above. Finally, 18.9 % (57) of respondents came from the North Central, 11.3% (34) from the North-East, 20.3% (61) from the North-West, 13.6% (41) from the South-East, 19.6% (59) from the South-West, and 16.3% (49) from the South-South geopolitical zones. The respondents' profile for the survey is shown in Table 4.1. The participants for the interviews were vast in local government affairs. They include 2 external auditors (Directors of Audit) of local governments, one Director of Finance and Supply, and 5 Heads of internal auditor unit in the local government.

Table 4.1: Respondents' Profile

S/No	Item	Frequency	Percentage (%)
1	Gender		
	Male	246	82
	Female	55	18
	<b>Total</b>	<b>301</b>	<b>100</b>
2	Experience		
	1-5 years	39	13
	5-10 years	60	19.9
	10 years and above	196	65.1
	Missing	6	2
<b>Total</b>	<b>301</b>	<b>100</b>	
3	Professional Certification		
	ACA	33	11
	CNA	103	34.2
	Others	53	17.6
	None	82	27.2
	Missing	30	10
<b>Total</b>	<b>301</b>	<b>100</b>	
4	Number of Internal Audit Unit staff		
	< 5 staff	57	18.9
	5-10 staff	196	65.1
	10-15 staff	28	9.3
	15 staff and above	7	2.3
	Missing	13	4.3
<b>Total</b>	<b>301</b>	<b>100</b>	
5	Geopolitical Zone		
	North-Central	57	18.9
	North-East	34	11.3
	North-West	61	20.3
	South-East	41	13.6
	South-West	59	19.6
	South-South	49	16.3
<b>Total</b>	<b>301</b>	<b>100</b>	

*Descriptive Statistics*

The mean ranges from 2.78 to 3.87 with regulations being the highest ( $\mu=3.87$ ). Also, standard deviation ranges from 0.61 to 0.87; showing small acceptable variance from the mean and acceptable variability in the data set. This is shown in Table 4.2.

Table 4.2: Descriptive Statistics of Variables

Variable	No of Items	Mean	Std. Deviation
Local Government Performance	8	2.78	.74
Internal Audit Quality	17	3.51	.61
Effective Internal Controls	4	3.62	.75
Internal Audit Relations with Management and Auditees	4	3.68	.82
Internal Audit and External Audit Collaboration	5	3.76	.86
Corporate Ethical Culture	4	3.60	.80
Strategic Planning	5	3.75	.71
Government Regulations	4	3.87	.79
Management Commitment	5	3.52	.87
Political Interference	5	3.28	.76
Strategic Mission	3	3.53	.77

*Factor Analysis and Reliability Test*

Table 4.3 shows the summary of factor and reliability analyses performed on the variables. According to Hair et al. (2010), Cronbach Alpha above 0.7 is acceptable. The results indicated that the measures of the variables are both valid and reliable. The results are shown in Table 4.3.

Table 4.3: Factor Analysis and Reliability Test

S/No	Variables	KMO	Bartlett's Test of Sphericity	Eigen-value	Variance Explained (Percent)	Cronbach's Alpha
1	Performance	.789	Significant	5.234	65.440	.840
2	IA Quality	.835	Significant	11.166	65.690	.874
3	Effective internal controls	.765	Significant	2.543	63.590	.808
4	Internal audit relations with management	.800	Significant	2.619	65.550	.824
5	Internal and external audit collaboration	.803	Significant	3.153	63.060	.853

Table 4.3 (continued)

6	Corporate ethical culture	.735	Significant	2.505	62.610	.799
7	Strategic planning	.847	Significant	3.034	60.690	.837
8	Government Regulations	.804	Significant	2.685	67.130	.837
9	Management commitment	.824	Significant	3.154	63.080	.851
10	Political interference	.738	Significant	3.863	64.380	.776
11	Strategic mission	.688	Significant	2.009	66.995	.753

### Correlation Test

Correlation shows the degree of association between two variables in order to assess the strength of relationship between them. From Table 4.4, the correlations meet a benchmark of <1. Hence, there was no problem of multicollinearity.

Table 4.4: Correlations among variables

	PERF	IAQ	ICS	IAMA	IAEA	CC	SP	GR	MC	PI	SM
LGP	1										
IAQ	.381*	1									
ICS	.384*	.635*	1								
IAMA	.321*	.671*	.656*	1							
IAEA	.119*	.504*	.374*	.454*	1						
CC	.298*	.587*	.576*	.595*	.545*	1					
SP	.379*	.659*	.564*	.552*	.537*	.713*	1				
GR	.186*	.452*	.426*	.388*	.412*	.565*	.508*	1			
MC	.402*	.659*	.573*	.569*	.426*	.654*	.715*	.489*	1		
PI	-.161*	.088	-.049	.023	.108*	-.120*	-.052	.209*	-.042	1	
SM	.217*	.540	.428*	.451*	.492*	.616*	.651*	.495*	.546*	-.013	1

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

In addition to correlation analysis, multicollinearity amongst variables was examined using tolerance and variance inflation factor. Both revealed there were no issues with multicollinearity. The results are shown in Table 4.5.

Table 4.5: Collinearity Statistics

Variable	Variance Inflation Factor (VIF)	Tolerance (1/VIF)
Internal Audit Quality	2.75	.363
Effective Internal Controls	2.19	.457
Internal audit relations with Management and Auditees	2.34	.427
Internal audit and external audit Collaboration	1.67	.597
Corporate Ethical Culture	3.03	.330
Strategic Planning	3.14	.318
Regulations	1.80	.556
Top Management commitment	2.58	.388
Political interference	1.22	.818
Strategic Mission	2.02	.496
<b>Mean VIF</b>	<b>2.27</b>	

a. Dependent variable: Local Government Performance. Source:

### Regression Results

In order to examine the relationships among the variables, multiple regression was performed. The results are shown in Table 4.6

Table 4.6: Multiple Regression Results

Variable	Unstandardized Coefficients	Beta Coefficient	Std. Errors	t-Statistic	Prob.
C	1.463666	-	0.2673885	5.47	<b>0.000</b>
IAQ	0.2145787	.1785352	0.1013164	2.12	<b>0.035</b>
EICS	0.1255909	.1528668	0.0617084	2.04	<b>0.043</b>
IAMA	0.026264	.0309845	0.0658604	0.40	0.690
IAEA	-0.110329	-.1324194	0.0547604	-2.01	<b>0.045</b>
CC	-0.0574559	-.066394	0.0764638	-0.75	0.453
SP	0.1800475	.185358	0.0874504	2.06	<b>0.040</b>
REG	0.0098806	.0106993	0.0629078	0.16	0.875
TMC	0.1504483	.1747318	0.07019	2.14	<b>0.033</b>
PI	-0.1221498	-.1482612	0.0462837	-2.64	<b>0.009</b>
SM	-0.0619111	-.0725944	0.0615117	-1.01	0.315
<i>R-Squared</i>	0.252				
<i>Adjusted R-Squared</i>	0.226				
<i>Prob (F-statistic)</i>	0.000				
<i>Root MSE</i>	0.657				

From the results, the R-Squared was 0.252 indicating that the model accounts for 25.2% of the variance in local government performance in Nigeria. Also, the F value ( $R^2 = .252$ ,  $F = 9.76$ ,  $p < .001$ ) showed the variables reliably predict local government performance. Furthermore, internal audit quality (IAQ), effective internal control (ICS), top management commitment (MC), and strategic planning (SP) contributed both positively and significantly to the model while internal and external audit collaboration (IAEA) and political interference (PI) contributed negatively and significantly to the model. The remaining variables had no significant effect on performance of local government.

The results indicated that internal audit quality had a positive and significant relationship with local government performance. This result is consistent with previous studies that examined certain aspects of internal audit quality and some measures of performance (see Aikins, 2011; Carmeli & Tishler, 2004; Hutchinson & Zain, 2009; Roussy & Brivot, 2016). Consistent with the results, interview participants affirmed the results. However, they also pointed out other aspects of internal audit that can enable performance. They linked the ability to check management excesses, pre and post payment audit and timely reporting to performance.

Effective internal controls had a positive and significant relationship with performance. This also corroborates previous findings of Aikins (2011). Although limited research has explored the relationship between internal controls and performance in the public sector, the private sector has had researches into the relationship between internal controls and firm performance (see Haron et al., 2010). Interview participants affirmed the results but they quickly cautioned that internal controls may not be always effective due to low internal audit capacity, threat of violations, intimidation from management and staff shortages. Furthermore, the participants acknowledged that the laws establishing internal controls in the local government are adequate. According to one participant, "...the laws regarding internal controls are perfect but the issue is that some circumvent the law to do the contrary".

The relationship between internal audit and management showed a non-significant relationship with performance. Similar findings were reported by Ahmad, Othman, Othman, and Jusoff (2009) that a poor relationship existed between management and internal audit and this had detrimental effects on

service delivery in the public sector in Malaysia. Hence, this non-significant relationship could be due to lack of cooperation on the part of management and auditees. Furthermore, interview participants provided more insights into reasons for the results. On the nature of the relationship between internal audit and management, participants described it as summarized below.

Table 4.7: Nature of Relationship Between IA and Management and Auditees

Participants	Nature of relationship	Challenges
P1	Not always cordial	- IA seen as part of management - IA fear of management - IA an employee of management
P2	Not always cordial	- Management ignores IA recommendations - Management preference for EA reports - Compromise of EA - Starving IA of funds as punishment - Poor relationship skills
P3	Not cordial	- IA not independent - IA seen as part of management - Reporting relationship as prescribed by the law - IA reports still required to be endorsed by the CEO
P4	Not at loggerheads	- IA overshadowed by management - Management resists IA recommendations
P5 & P8	Not smooth all the time	- Management not carrying IA along - Impaired independence - Lack of objectivity by IA
P6 & P7	Depends on management	- Attitude of management team - Management feels IA wants to override them

It is clear that the relationship between internal audit and management is not functional and largely full of conflict. These challenges are capable of limiting the internal audit's ability to contribute to performance. Theoretically, both formal and informal relationships are part of an organization's capital resource (Husso & Nybakk, 2010; Barney, 1991) but the results here do not support the resource-based view. A look at the challenges enumerated by participants showed that these emanate from the institutional environment. The implication is that internal audit would not be effective at carrying out its duties and this greatly hampers overall performance of the local government.

Also, internal and external audit collaboration had a negative and significant relationship with local government performance. This result is unexpected compared to previous researches which found some positive link between collaboration between internal and external audit and performance (see Lin et al., 2011) in the private sector. This result could mean there is less collaboration taking place in the local government between internal and external auditors. However, a look at what the external auditor considers in relying on the work of the internal auditor could provide answers. External auditors often consider quality of internal audit, competence, independence, quality of work but where these are lacking as seen from the opinions of interview participants, very little collaboration may take place. Participants affirmed the results but differentiated between positive and negative collaboration. Reasons offered for the negative results are summarized in Table 4.8.

Table 4.8: Reasons for Negative Impact of IAEA on Local Government Performance

Participant	Reasons
P2	<ul style="list-style-type: none"> <li>- EA seeks gratification from council management to tamper reports</li> <li>- Management high regard for EA than IA</li> <li>- EA takes advantage of their influence to undermine IA</li> </ul>
P3	<ul style="list-style-type: none"> <li>- Many IA are not sound and require training</li> <li>- Connivance on the part of IA</li> <li>- IA and EA connivance to extort management</li> </ul>
P4 & P8	<ul style="list-style-type: none"> <li>- EA seeks gratification to tamper reports</li> <li>- IA and EA work together to dig areas of weaknesses in order to exploit management</li> </ul>
P5 & P6	<ul style="list-style-type: none"> <li>- EA uncooperative attitude to issues</li> <li>- Overriding interest of EA</li> <li>- EA overrides IA queries on management</li> <li>- EA political interest</li> </ul>

From the reason given in Table 4.8, it is obvious that these emanate from the institutional environment and there can be no meaningful contribution to performance. Again, the issues outlined above emanate from the institutional environment. The findings affirm the postulation of institutional theory that institutions sometimes “decouple” (Meyer & Rowan, 1997; Dimaggio & Powell, 1983). In essence, institutional environment influences the value-adding role of internal audit and invariably, performance.

Corporate ethical culture had a negative but non-significant relationship with local government performance. This indicates that the prevailing culture in the local government does not foster performance. Although, there is limited evidence of this relationship in the public sector, it is fairly established in the private sector. For example, Verschoor (1998) found management commitment to ethics to be significantly related to company performance in the US. Also, corporate values have been linked to performance of listed firms on the Canadian stock exchange (Donker et al., 2007). This finding may be a result of how internal auditors perceive the environment where they operate as unethical. Similar studies on local governments allude to wide spread unethical practices in the public sector (Adeyemi, 2012; Oviasuyi et al., 2010). Under such conditions performance may not result. In addition, participants affirmed the results but one participant added that corporate ethical culture at any time depends on management. A number of phrases were used to describe the ethical environment including “most primitive tier, immaturity, behave locally, moral decay, and not well cultured”. Some reasons include political recruitment, poor attitude to change, inadequate exposure, and inadequate training. Under this situation, the work of internal audit becomes even more difficult.

The relationship between strategic planning and local government performance was positive and significant. This provides empirical support for previous studies where certain aspects of planning were found to be significantly related to performance. However, others found non-significant results and concluded that the relationship between strategic planning and performance depends on the context (Andrews et al., 2009; Boyne and Gould-Williams, 2003). Participants also affirmed the results but added that planning could result in more performance if executives carry on plans for the benefit of the people. Some issues raised by participants include inadequate funding, poor motivation of staff, unrealistic revenue targets, faulty implementation, corruption, mismanagement and excessive political interference. These issues are contextual in nature and their presence in the institutional environment makes the job of the internal auditor burdensome. This also affirms Hendrick's (2010)

assertion that contextual factors including the political context determine planning effectiveness.

Government regulation had a positive but non-significant relationship with performance. This indicates that the impact of regulation is not enough to generate performance. Regulations are products of cohesive forces within the institutional environment particularly from higher government agencies to ensure conformity with laid down rules to foster better service delivery. The finding agrees with those of Ibietan and Joshua (2013) who found that laws that compel performance were not enforced in the Nigerian public sector. Some participants felt regulations were often ignored and neglected by politicians. As one participant puts it "...politicians do not take time to study regulations and laws relating to running government". Similarly, Participant 5 asserts that "... the political terrain in Nigeria is so sensitive that even the executive does not follow the law, the judiciary does not follow the law... all agencies of government are doing the way they like". Hence when regulations are not fully understood, violations become eminent and objectives and goals remain unattainable. Thus, internal auditor saddled with ensuring adherence to policies and procedures becomes frustrated as laws are not followed.

Top management commitment had a significant and positive relationship with performance. Although limited studies examined this relationship in the public sector, the results are largely consistent with those of Goncalves (2014) who found commitment on the part of elected representatives lead to efficient distribution of resources. Also, top management commitment was found to be crucial to improvement in programmes reforms and organizational processes (McCourt, 2003). Interviewees differed in their opinions as some felt top management was not committed while others felt there was some commitment on the part of management staff who are not politicians. They also suggest top management commitment was the main instrument for shaping outcomes in the local government. Furthermore, they opined that performance would have been more but for motivational issues like unpaid salaries, delayed promotions, lack of cohesion among staff, gender inequality, self-seeking attitudes, adequate training and political interference.

The relationship between political interference and performance was negative and significant indicating that the more interference the less performance in the local government. Some authors have argued that political interference is necessary to ensure government programmes are carried out while other assert the detrimental effects (Chang & Wong, 2002; Shleifer & Vishny, 1994). However, this study supports those of Rogger (2013) who found political interference in project implementation reduced completion dates and quality by 47% and 69% respectively. Similarly, De Visser (2010) found excessive political interference reduced the capabilities of municipalities in South Africa to provide improved service delivery. Furthermore, interviews suggest political interference is a major hindrance to performance of local government in Nigeria. Evidence and reasons for the negative results are shown in Table 4.9.

Table 4.9: Evidence and Reasons for the Negative results

Participant	Evidence and Reasons
P1	-Funding not released directly to local governments -Too many political aides and attendant cost -Diversion of funds
P2	-Excessive interference in funding of local government by states -Award of contracts without consideration for merit and due process

Table 4.9 (continued)

P3	-Appointments of politicians irrespective of merit -Award of contracts and siting projects based on political patronage -Disregard for external audit reports -Appropriation of council's assets -Godfather syndrome and influence of higher politicians -Political office seen as share of national cake
P4 & P8	-Appointments and employments not based on merit -No prompt sanctions for wrong doing -Problem of godfather syndrome
P5	-Award of contracts without due process -Phony completion of contracts on paper -Disregard for rules and regulation in running government
P6 & P7	-Political interest in awarding revenue contracts -Withheld/taking over of internally-generated revenue and allocations by state governments -Political settlement

Strategic mission had a negative and non-significant relationship with performance. Although limited research has examined this relationship in the public sector, the results contradict prior studies in the private sector (see Green & Medlin, 2003). There are possible reasons why this relationship was negative. Firstly, David and David (2003) opined that organizations rarely paid attention to their mission statements. Also, local governments face competing demands and an all-encompassing mission statement may be unrealistic. Interviewees' opinions differed as some assert that mission statements were none existent while others felt the mission statement were too broad and general. Others affirmed the existence of mission statements of where they are headed but this depends on the local government chairman. Also, participant 4 opined that mission statements were not well defined. Some also opined that poor motivation, policy inconsistency, interruption of tenures, frequent political changes, and lack of cooperation among heads of units account for the negative results.

## CONCLUSION AND RECOMMENDATIONS

The study has both theoretical and practical implications. Firstly, this study relied on both institutional theory and resource-based theory in explaining the relationships examined. Particularly, people-based skills which include training, intelligence, experience, internal relationships judgment and management are recognized as part of an organization's intangible resource (Carmeli & Tishler, 2004; Galbreath, 2005). Thus, in this study, strategic planning, strategic mission, top management commitment, corporate ethical culture, effective controls, internal audit relationship with management and auditees and internal audit quality were regarded as intangible resources which could enhance performance.

The findings revealed positive and significant relationships between effective internal controls, strategic planning, internal audit quality, management commitment and performance. Thus, upholding the resource based theory. On the other hand, institutional theory was upheld in providing explanations for the institutional context factors that did not provide support for better performance.

On the whole, the study presents some practical and policy issues local government administrators and those with oversight functions should consider. Despite the positive and significant relationships found between some variables and local government performance, results of interviews suggest a lot needs to be improved upon. Participants acknowledged the shortage of skilled internal audit staff, funding problems and management support issues limit the contribution of internal controls and the value-adding role of internal audit to performance. Therefore, there is need for local government service commission to seek and recruit skilled internal audit staff or provide avenues to training that would increase their capacity to contribute to performance. Furthermore, the institutional environment has a pervasive influence on how performance is shaped. Most issues raised by interviewees emanate from the institutional environment and falls within the responsibilities of local government policy makers. Policy makers should ensure the stability of leadership in the local government and the current funding pattern of local governments through the State Joint Local Government Account System is not promoting the fiscal health of local government. Instead of being a source of exercising oversight of local governments, it has become a source of excessive political interference. Policy makers should consider this law and reduce the overbearing influence of states in local government affairs.

This study demonstrates the Nigerian situation with respect to the socio-cultural, economic and political differences with developed countries. Given the peculiar characteristics of Nigeria where issues bothering on corruption, poor enforcement of laws, excessive political interference trail the public agencies, the study demonstrated the effect of institutional environment on performance. Also, it is evident that internal audit and internal controls do not work in isolation. Both are constantly shaped by the institutional environment and to an extent determine how much both contribute to performance. Future studies may consider replicating this study in the private sector for comparison in order to ascertain whether there is a difference in the influence of the institutional environment on performance.

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