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EXTENT OF MANAGERS' COMPLIANCE WITH INTERNAL AUDIT GUIDELINES FOR PAYROLL AND EXPENSES IN PUBLIC AND PRIVATE COLLEGES OF EDUCATION IN SOUTH EAST, NIGERIA

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ABSTRACT

The purpose of this study was to investigate the extent managers in public and private colleges of education in South East, Nigeria complied with internal audit guidelines for payroll and expenses. This study was carried out in South East States of Nigeria using all public and private colleges of education in the area. The study adopted descriptive survey research design. The population for this study comprised 952 financial managers in public and private colleges of education in South East, Nigeria. The sample for the study comprised 540 respondents made up of 331 financial managers in public colleges of education and 209 financial managers in private colleges of education selected from three out of the five States in the South East, Nigeria. The data for the study were collected using a self-structured questionnaire entitled "Managers' Compliance with Internal Audit Guidelines Questionnaire" (MCIAGQ). The researcher validated the instrument by consulting three experts. Two of them are from Department of Educational Management and Policy and one from Department of Educational Foundations, all in Nnamdi Azikiwe University, Awka. To establish the internal consistency of the instrument, the researcher conducted a pilot test by administering 20 copies of the instrument which were administered to 20 financial mangers comprising 14 from public colleges of education and 6 from private colleges of education in South-South, Nigeria. Cronbach Alpha was used in the data analysis which yielded coefficient values of 0.81, 0.83, 0.79, 0.80 and 0.82 for the five clusters and an overall reliability value of 0.81. Copies of the data collection instrument were administered on the respondents in the institutions personally by the researcher with the help of two research assistants who are lecturers in the colleges of education. The data generated through the structured questionnaire were analysed using simple percentages and aggregate scores. The hypotheses were tested at 0.05 level of significance using t-test statistics. Findings indicated that greater number of managers in public and private colleges of education in South East of Nigeria do not comply highly with internal audit guidelines for payroll and expenses. Among others, it was recommended that the appointment of provosts and other members of the college management should be based on merit and proven character that could be trusted.

Keywords: Managers; Internal Audit Guidelines; Payroll; Expenses.



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Introduction

Guidelines are rules or instructions that are given by an official in an organization telling a staff or an employee how to do something especially something difficult. According to the Federal Ministry of Finance (FMF, 2011), auditing guidelines are the principles and standards guiding the practice of auditing in school organizations. The main objective of the audit guideline is to ensure compliance with audit best practices. The FMF further stated that it is mandatory for all auditors to adhere to the guidelines in the manual in order to ensure consistency and coherence of the auditing process rather than relying on personal interpretation and opinion. It is premised on this that the regulatory authority which is the National Commission for Colleges of Education (NCCE) provided standard accounting and auditing manual explaining the determined guidelines, strategies and process of audit guidelines such as audit guideline for revenue collection and bank transactions, guideline for payroll and expenses, audit guideline for staff advances and staff debtors, audit guideline for fixed assets, audit guideline for disposal of fixed assets and many others (NCCE Audit Manual, 2006).

The NCCE Audit manual is made available for internal audit in public tertiary educational institutions to have a uniform standard of auditing practices. The essence of this is to make sure that the accounting officers are cleaned up of corrupt practices, misappropriation and mismanagement of fund in public colleges of education. This in turn translate to enabling financial management milieu, generation of job openings, adequate fund for teaching facilities and research, safety of the assets of the institutions and so on. In their view points, Nwaigburu and Mark (2014) observed that the following are the account officers in colleges of education: Bursars, Directors, Senior Accountants, Auditors, Accounts and store officers. According the studies carried out by Adetoso, Oladejo and Akesinro (2013) and Whawo (2015), there are consistent flaws in the internal control system leading to several occurrences of fraud and other irregularities in fund management system which no doubt have untold hardship on the progress and structure of the colleges of education not only in South East but entire the Nigerian higher educational institutions.

According to Agabi (2014), a public college is that which is owned by the state or receives significant public funds through a national or sub-national government as opposed to a private which is funded and owned by the private individual. Public colleges of education are therefore those colleges of education owned by the state or significantly funded with the public fund through appropriate government agency. The private colleges of education are those owned and managed by individuals or cooperate bodies. Every aspect of the organization setting and functioning rely solely on the monetary capacity of that organization. To be honest, it is the institutions purchasing power that determines the quality and quantity of facilities provision.

Payroll and expenses involve the process through which the personnel receive their salaries and wages. It is also an avenue through which the personnel remits income tax and pension contributions accordingly. Payroll system also checkmates fraud obtainable in the payment of salaries. Staff advance is the process of lending money to the staff temporary with the view to boost their financial strength when the need arises.

Payroll refers to that aspect of accounting needed to determine the accurate records of salaries and wages paid to workers. Naturally, tertiary institutions are required by law to keep accurate payroll records. Apart from being needed to compute the accurate amount of employees' salaries and wages, payroll accounting is needed to establish the various expenses related to salaries and wages (Okoye in Bahati, 2014). Payroll usually represents the largest proportion of an organization's expenditure, and is an area where good controls are essential to prevent fraud and corruption. Payroll systems usually incorporate payments that are made direct from employees' payroll such as personnel income tax and pension contributions. The accuracy of these payments is therefore covered by internal audit work on payroll systems. The system objective with respect to payroll and expenses is to ensure that current employees are paid accurately and promptly.

The most important controls in a payroll system are to ensure the segregation of duties between the personnel functions (responsible for hiring new staff and setting salary rates) and to ensure that prompt and accurate budget reports are distributed to all budget holders showing the payroll costs charged to their budge. Payroll is an area where computer-based control checks and computer-based audit techniques can usefully be employed. The overall audit objectives with respect to an organization's payroll and expense systems are to test the completeness, occurrence, measurement/evaluation, regularity and disclosure of all payments for employees. According to Ruhland (2014), conducting periodic audits at least once or twice per year helps one maintains compliance and strengthen an institution's financial controls. Steps to be followed when performing a periodic audit of payroll according to Ferguson (2017) include:

1. Verify duties of all workers in the payroll department and ensure their payroll system access is restricted to the type of work they do.
2. Generate a payroll report that identifies active employees and confirm that these employees actually work for the company. Run a report to identify terminated employees and ensure that they are not getting paid. This helps an auditor recognize ghost or phantom employees which is a type of payroll fraud. The ghost employees may be terminated employees who have not been taken out of the payroll system or fictitious employees who do not work for the company.
3. Compare regular and overtime wages with employees' timekeeping data which should be approved by their respective supervisors or managers.

Verify salaries, pay increase and supplemental wage payments such as commissions and bonuses.

4. Confirm that mandatory deductions such as payroll taxes and wages garnishments if applicable are being withheld from employees' wages. Generate a report that shows the institutions' employment tax liabilities and verify that the employees' withholding and portion of taxes are paid and reported to the appropriate government.
5. Evaluate employee benefits such as health insurance and retirement benefits and balance payments made to vendors. Review fringe benefits including expense reimbursements and vacation and leave procedures.
6. Reconcile amounts paid to employees via live cheques and direct deposit and amounts paid to third parties with the amounts posted in one's institution's financial statements. Ensure accurate coding.
7. Confirm that all wage and hours laws that pertain to an institution are being met. These include fair labour standards act policies for classifying and paying non-exempt and exempt employees and related state and local policies.
8. Assess record keeping procedures to ensure compliance with federal and state record keeping laws. Ensure that payroll records are stored in secure areas.
9. Review internal payroll policies such as confidentiality causes and policies relating to termination, timekeeping, pay-check distribution and security breaches.
10. Create a written evaluation of findings and suggestions for improving internal controls.

From the steps presented, one can easily carry out periodic audit of payroll. Invariably, the audit enables institutions to verify that payroll records are correct and to spot and fix issues that could have led to an external audit.

The critical reasons for conducting a payroll audit according to Rhland (2014) include:

1. Confirm that payroll information is accurate and up-to-date: One of the most common errors that can occur with the payroll process is when an employee is paid at a higher or lower-than-normal rate of pay. Regular internal audits allow one to verify the rate of pay on each employee's pay distribution against the rate of pay in the payroll ledger. If applicable one can use the audit process to verify the pay rates against each employee's employment contract or most recent review.
2. Ensure that proper payments and employee contributions are being made: An internal payroll audit ensure that hourly employees have recorded the actual hours they were paid for the period being audited. One can verify time cards, one's own payroll reporting system and the paychecks that are given. In addition, audit allows one to confirm that sick time and vacation pay was accurate

and that the employees receiving it are eligible for that pay.

3. Establish on-going compliance for accounting and record-keeping: while most institutions maintain accurate records as required by law, errors in accounting and inefficiencies with record-keeping can and do occur. Most countries particularly the underdeveloped ones lack good personnel information systems to accurately record and regularly update the payroll databases.
4. Review and reconcile banking activities: whether one is still cutting and distributing paper paychecks or making use of a paperless payroll process, regularly reviewing and reconciling and institution's banking activity is crucial. While this may be done in a separate process strictly for accounting purposes, it can also be included as a critical component of internal payroll audit process. Intuitions should confirm that all cancelled cheques are accurate and match exactly with what was issued to each employee. In addition, institutions should reconcile bank statements to match activities in the bank account against the payments and transactions in the payroll ledgers.
5. Verify current employment status of employees; in most institutions, employees that are no longer employed by the institutions can still be receiving paycheques. More often, the employment status may have changed if an employee is on disability or on some form of employment leave. Though not likely, it can happen if the proper procedures are not followed or overlooked.

It is not yet clear whether the managers in colleges of education in Nigeria and South East in particular are aware of this reasons. If this is confirmed in this study, this study will be a key reference in that regard.

The following are the internal audit guidelines for payroll and expenses;

a. Verify the name and department of the staff
b. Verify the cadre and the step the staff should be in the salary schedule
c. Verify the basic pay and other allowances due to the staff.
d. Ascertain the gross pay and identify any variation therein.
e. Where any variation exists, ascertain the reason for the variation and the amount involved.
f. Verify the various deductions made
g. Ascertain the net pay due.

All these internal audit guidelines are essential in ensuring effective payroll and expenses management. The view is that the managers in colleges of education can rely on the guidelines for proper fund management in the colleges.

In the light of the above, Edem (2018), Adedigba (2018) and Todo (2018) reported that the minister of education suspended the Provost of the Federal College of Education, Obudu, Cross River State "over an alleged theft of N125 million from the Government integrated financial Management information

system (GIFMIS) salary account of the college". According to Adedigba, the suspension was based on the recommendation by the Governing Council and in line with section 5.5.7 of the condition of service for Federal Colleges of Education which empowers only the minister of Education to Suspend Provosts of Federal Colleges of Education in Nigeria.

In a related development, Sahara Reporters (2020) stated that the Provost of Delta State College of Education, Warri used N36 million allocated to the College by TETFund, to build two toilets in the institution. The report further stated that the Provost spent another N2, 593,459 on consultancy. The funds were part of the N75 million intervention fund allocated to the college by TETFund in 2017. Throwing more light on this fraud, the report stated that "the arrangement to build two toilets for N17, 135,871 each and N2,593,459 consultancy was made between the Provost and the two Contractors she brought" into the scandal.

In 2016, the daily post reported that the staff of Federal College of Land Resources Technology, FECOLAT, Kuru, Jos accursed the Provost of the College of embezzlement of staff salary. According to the report, the embezzled fund was salary arrears of staff for 2009 to 2013 amounting to N 79 million. This money was approved and released in December 2015 by the Federal Government for the College to pay the salary arrears but the Provost diverted it to pay salaries of new staff the Provost recruited without the approved of the Federal Government. The Provost was also accused of spitting the salary budget for 2016 to cover the new staff he recruited since the new staff were not captured in the 2016 salary budget (*Dailypost*- 2016). This means that the amount budgeted for the college salary for the fiscal year could be exhausted by the middle of the year. Based on these challenges, this study investigated the extent managers in public and private colleges of education in South East, Nigeria complied with internal audit guidelines for payroll and expenses.

Research Question: To what extent do managers in public and private colleges of education in South East, Nigeria comply with internal audit guidelines for payroll and expenses?

Research Hypothesis: There is no significant difference between the mean ratings of the managers of the public and private colleges of education on the extent of compliance with internal audit guidelines for payroll and expenses in South East, Nigeria.

Research Method

This study was carried out in South East States of Nigeria using all public and private colleges of education in the area. The study adopted descriptive survey research design. The population for this study comprised 952 financial managers in public and private colleges of education in South East, Nigeria. The sample for the study comprised 540 respondents made up of 331 financial managers in public colleges of education and 209 financial managers in private colleges of education selected from three out of the five States in the South East, Nigeria. The data for

the study were collected using a self-structured questionnaire entitled "Managers' Compliance with Internal Audit Guidelines Questionnaire" (MCIAGQ). The researcher validated the instrument by consulting three experts. Two of them are from Department of Educational Management and Policy and one from Department of Educational Foundations, all in Nnamdi Azikiwe University, Awka. To establish the internal consistency of the instrument, the researcher conducted a pilot test by administering 20 copies of the instrument which were administered to 20 financial mangers comprising 14 from public colleges of education and 6 from private colleges of education in South-South, Nigeria. Cronbach Alpha was used in the data analysis which yielded coefficient values of 0.81, 0.83, 0.79, 0.80 and 0.82 for the five clusters and an overall reliability value of 0.81. Copies of the data collection instrument were administered on the respondents in the institutions personally by the researcher with the help of two research assistants who are lecturers in the colleges of education. The data generated through the structured questionnaire were analysed using simple percentages and aggregate scores. The hypotheses were tested at 0.05 level of significance using t-test statistics.

Research Question: To what extent do managers in public and private colleges of education in South East, Nigeria comply with internal audit guidelines for payroll and expenses?

Table 1: Range of scores on extent managers in public and private colleges of education in South East, Nigeria comply with internal audit guidelines for payroll and expenses. N=540

Range of Scores	N	%	Remarks
9.00 – 13.41	450	69.1	VLC
13.50 – 22.41	68	27.82	L C
22. 50 – 31.41	-	0	HC
31.50 – 40.41	22	5.34	VHC

Data analysis in Table 1 shows that, with scores ranging from 31.50 to 40.41, a total of 22 (5.34%) out of 540 managers in public and private colleges of education in South East, Nigeria showed very high compliance with internal audit guidelines for payroll and expenses. None of the managers showed high compliance with the internal audit guidelines for payroll and expenses. A total of 68 (27.82%) managers showed low compliance with the internal audit guidelines for payroll and expenses. Furthermore, a total of 450 (69.1%) managers in public and private colleges of education in South East, Nigeria showed very low compliance with the internal audit guidelines for payroll and expenses. This shows that greater number of managers in public and private colleges of education in South East of Nigeria did not comply highly with internal audit guidelines for payroll and expenses.

Hypothesis: There is no significant difference between the mean ratings of the

managers of the public and private colleges of education on the extent of compliance with internal audit guidelines for payroll and expenses in South East, Nigeria.

Table 2: t-test on the mean ratings of the managers of the public and private colleges of education on the extent of compliance with internal audit guidelines for payroll and expenses in South East, Nigeria. N=540

Source of variation	N	X	Sd	Df	P-value	∞	Remarks
Managers in Public College of Education	331	27.17	2.49				
				538	2.37	0.05	
Managers in Private College of Education	209	26.73	3.29				

As shown in Table 2, the p-value of 2.37 is greater than the significant value of 0.05 at 538 degree of freedom. The second null hypothesis is therefore not rejected. Then, there is no significant difference between the mean ratings of the managers of the public and private colleges of education on the extent of compliance with internal audit guidelines for payroll and expenses in South East, Nigeria.

Discussion of Findings

Research question two and null hypothesis two focused on the extent managers comply with internal audit guidelines for payroll and expenses in public and private colleges of education in South East, Nigeria. Data analysis for research question two revealed that greater number of managers in public and private colleges of education in South East, Nigeria did not comply highly with the internal audit guidelines for payroll and expenses.

Data analysis for the second null hypothesis indicated that managers in public and private colleges of education in South East, Nigeria did not differ in their mean ratings on the extent they complied with the internal audit guideline for payroll and expenses.

Normally, it is expected that money or college funds must pass through payroll unit or department before they are released for any expenses. The essence is to ensure proper documentation of expenses or financial transactions in the college. This process is also a financial control measure against fund misappropriation or mismanagement. In situations where official financial guidelines are not complied with, financial frauds are encouraged. Most of the managers did not comply with the guidelines probably because, they have the intention to defraud the college. Not only that researchers (Adedigba 2018; Todo 2018) reported cases of financial frauds among some provosts of college of education in Nigeria, Adong (213) found that payroll and expenses in most institutions were not carried out according to the laid down auditing procedure. Again, Mbaru (2013) found that majority of his respondents did not comply with audit

guidelines in managing funds in their institutions. Mbaru further found that there was no uniformity in the compliance with audit guidelines for payroll and expenses among the respondents studied.

On the null hypothesis, the practice and procedure for payroll and expenses in public and private colleges of education in South East, Nigeria seem to be the same and this gave rise to no significant different in the mean ratings. The researcher had earlier thought that there would be significant difference in the mean ratings, but the data analysis is on the contrary, that is, it proved otherwise. What could account for this finding is that both public and private colleges of education in Nigeria and South East in particular are under the umbrella of the National Commission for colleges of education (NCCE). The commission approves and sets standards for all colleges of education in the country, whether public or private. One is therefore not too surprised about this because the internal audit guidelines were provided for both the public and private colleges of education in Nigeria.

Summary of findings

Based on the data analysis, the following findings were made:

1. Greater number of managers in public and private colleges of education in South East of Nigeria do not comply highly with internal audit guidelines for payroll and expenses.
2. There is no significant difference between the mean ratings of the managers of the public and private colleges of education on the extent of compliance with internal audit guidelines for payroll and expenses in South East, Nigeria.

Conclusion

Based on the findings of the study, it is concluded that managers in public and private colleges of education in South East, Nigeria did not comply with the internal audit guidelines for payroll and expense. They did not differ in their mean ratings on the extent they complied with the internal guidelines for fund management in the colleges of education.

Recommendations

Based on the findings of this study, the following recommendations were made:

1. The National Commission for Colleges of Education (NCCE) should not only enforce the implementation of the guidelines in the colleges of education, there should be workshops and seminars for fund managers in college of education on how the internal audit guidelines can be fully complied with in the colleges of education.
2. The anti-graft commission should arrest and prosecute any head or provost of college of education who fails to comply with the NCCE internal audit guidelines for fund management in the colleges of education.
3. The appointment of provosts and other members of the college management should be based on

merit and proven character that could be trusted.

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