

FAITH INTEGRATION IN INTERNAL AUDIT AND COMPLIANCE FUNCTIONS OF PRIVATE UNIVERSITIES IN NIGERIA: THE CASE OF BABCOCK UNIVERSITY

By

Samuel Uche Amanze, PhD
Director, Audit, Risk and Compliance, Babcock University
Ilishan Remo, Ogun State, Nigeria

Phone no: 0803 722 3459
E-mail: amanzas@babcock.edu.ng

Abstract

This paper discusses the integration of faith in performing internal audit and compliance functions in private universities in Nigeria with special reference to Babcock University and the impact of this synchronization on the quality of services provided by auditors. To ensure the integrity and soundness of operations, organizations employ the services of internal auditors. Integration is a process of connecting knowledge with knowledge – connecting facts, ideas, and other information together in a way that unifies them. Christian faith is a type of that knowledge based on Biblical authority which gives the Christian internal auditor an air of consistency and objectivity while performing his duties. Faith integration becomes that ingredient that transforms mundane codified function of auditing and compliance into active evangelistic ministry that transforms the lives of the auditor, the audited, and the organization. The paper notes that faith integration in professional services appears new and rarely practiced in most private universities in Nigeria; and where an attempt is so made it is not obvious and openly demonstrated. The paper is purely exploratory and relies mainly on relevant published works while drawing insight from the Bible. It is recommended that faith integration in professional service of internal auditing and compliance should be encouraged because of its impact to enhance auditors' performance and bring about transparency, accountability and integrity in the services provided to private universities in Nigeria. Institutions should encourage their professional staff to further develop themselves in faith integration through workshops and seminars on integration of faith and service.

Key words: Faith integration, internal audit, compliance, accountability

Introduction

Stakeholders wish to evaluate the effectiveness of control procedures and processes over the activities and programs of their institutions. Internal audit, as a consulting activity of management, provides professional services to their institutions based on established codes of conduct, in such areas as auditing, risk assessment, governance processes, compliance processes and reporting. Auditing as a social practice is primarily concerned with investigations, examination and assessment of objective evidence. Within the context of public and private universities, auditing is more specifically related to the carrying out of activities by experts and professionals on the basis of explicit and codified procedures about the conduct of organizations and individuals (Power, 1999). The concept of auditing and compliance is not new. Compliance forms part of the audit engagement and the auditor is expected to issue both audit and compliance reports at the end of the audit. Happenings in the financial world in the last two decades have however led to greater emphasis on compliance function as part of governance process. Compliance function examines the level of compliance with laws, regulations, policies and actions of government, its agencies and administrative decisions (Aston, Asquer and Flynn, 2016; Gillis, 2013).

Internal Audit is an independent appraisal function to examine and evaluate university activities as a service to management and the Board of Trustees. The mission of Internal Audit is to support members of the university in the effective discharge of their responsibilities. To this end, Internal Audit furnishes them with analyses, recommendations, counsel, and information concerning the activities examined. Internal audit function is more regular and comprehensive while external audits are basically an assessment of the fair presentation of the financial statement balances (IIA, 2005).

Every act of learning becomes a process of integration that compares new knowledge claims with already accepted knowledge and attempts to fit the two together into a consistent and coherent whole. Christian internal auditors perform the same kind of audit and compliance functions as all other auditors but with the crucial addition of Christian knowledge, based on Biblical authority, that is part and ultimate test and validation of all other knowledge. Christian faith is a type of knowledge that gives the Christian auditor an air of consistency and objectivity in his duties. Questions have been asked on how a professional auditor could integrate faith into his functions and still operate within the professional and ethical standards expected of him since audit and compliance functions follow prescribed procedures and processes. The paper therefore aims to demonstrate how an effective and sincere integration of faith into audit and compliance functions could foster a more effective and efficient discharge of audit function that enhances institutional internal control mechanism and bring about transparency, accountability and integrity in the financial transactions of private universities in Nigeria. The paper is purely exploratory and will draw from relevant published works and the Bible.

Faith Integration

Faith integration is concerned with integral relationship between faith and knowledge, the relationships which inherently exist between the content of the faith and the subject-matter of that discipline. According to Biola University integration brings together things which are found to be apart. Professionalism ordinarily is expected to stand on its own – apart. Faith on the other hand is seen by many as an abstract expected to be on its own. Integration assumes that these things which were found apart actually belong together. When these things are brought together into proper relationship they will be better understood and more likely to fulfill their real purpose. Integration creates order and health out of disorder and chaos. It makes the world a

better place. It removes racial and tribal prejudices and injustices making people of different ethnic groups and cultures able to live and work together in harmony (*ibid*).

Internal Audit Conceptual Framework

As institutions and organization strive to achieve their missions and goals and provide accountability for their operations, they need to continually assess and evaluate their internal control structure in order to provide assurance that it is well designed, operated and appropriately updated to meet changing conditions, and provides reasonable assurance that the objectives of the institution are being achieved. Specifically, administrators need to examine internal control structure to determine how well it is performing, how it may be improved, and the degree to which it helps identify and address major areas of risk for fraud, waste, abuse, and mismanagement.

Internal controls are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. These systems are not only related to accounting and reporting but also relate to the organization's communication processes, internally and externally, and include procedures for (1) handling funds received and expended by the organization, (2) preparing appropriate and timely financial reporting to board members and officers, (3) conducting the annual audit of the organization's financial statements, (4) evaluating staff and programs, (5) maintaining inventory records of real and personal property and their whereabouts and (6) implementing personnel and conflicts of interest policies (Cuomo 2005).

Internal audit has developed gradually on the basis of social and economic development and the inherent needs of enterprise management (Wang, 1997). Recent years have witnessed an explosion in the academic literature of auditing history throughout the world. Internal control has

been defined in many international studies and these definitions show great similarities. The author presents a definition based on the COSO Framework (1992) and The Turnbull Report (1999). The system of internal control comprises those elements of an organization that support people in the achievement of the organization's objectives. They facilitate the effective and efficient operation of companies by enabling them to respond appropriately to significant business, operational, financial, compliance and other risks. This includes safeguarding assets from inappropriate use or from loss and fraud, and ensuring that liabilities are identified and managed.

Standards of Conduct for Auditors and Biblical Perspectives

The Standards of Conduct adopted by the Institute of Internal Auditors also apply to internal auditors at Babcock University. For instance the standard provides that internal auditors shall exercise honesty, objectivity, and diligence in the performance of their duties and responsibilities. There are Biblical supports for the standards.

The Audit Process

The internal audit function in a Christian institution as Babcock University has biblical support for its activities. All internal audit activities follow a process – internal audit process. These are sequential activities the auditor usually follows during each audit engagement. There are four major steps – preliminary review, field work, audit report and audit follow-up. Each of these major steps has other sub-steps to be performed. The Bible requires that all things be done decently and in order. (1 Corinthians 14:40). Auditors also follow procedures to ensure that their tasks are performed decently and in order which enhances the credibility of the internal audit function.

Competence – An internal auditor is expected to have acquired some relevant competencies and training by acquiring university degree(s), professional certification and/or on the job training. The auditor must demonstrate the acquisition of these competencies in the performance of his job. In 2Timothy 2:15 – Apostle Paul admonished Timothy to study to show himself approved unto God (and man), a workman that needs not be afraid of his profession. Paul was stressing to Timothy and his other readers the importance of training, skill acquisition and being able to demonstrate these skills in his job. Solomon, in Proverbs 22:29, stated it in another perspective – Seest thou a man diligent in his duties, he would stand before kings and not before ordinary men. An auditor is expected to demonstrate a very high level of professionalism in the discharge of his duties. Such demonstration of professionalism will make the auditor stand tall among his peers, his clients and the organization he represents. Training and personal development are highly emphasized in the internal audit profession.

Objectivity/Conduct – Objectivity is one of the key ethical principles guiding the functions of an internal auditor. This principle is anchored on two Biblical premises - “do unto others as you would want them do unto you Matthew 7:12 and Colossians 3:17 & 23 What so ever you do in words or deed do all in the name of Jesus Christ, heartily and as unto the Lord and not unto men. This is a call on the internal auditor to perform his auditing function with all sense of objectivity. Objectivity is seen as a central philosophical concept, related to reality. According to Wikipedia, objectivity means a state or quality of being true even outside of a subject’s individual biases, interpretations, feelings, and imagining. It involves judging fairly, without partiality or external influence. It is also associated with neutrality. The Business Dictionary states that objectivity is striving (as far as possible or practicable) to reduce or eliminate biases, prejudices, or subjective evaluations by relying on verifiable data.

Independence – the debate on the independence of an internal auditor is not the focus of this paper. An auditor has to be independent and must be seen as such. Independence aids the credibility of the auditor’s findings and report. Much as the internal auditor is expected to be independent from management and his clients, the auditor cannot be independent from God – in whom all wisdom reside. According to King Solomon in Proverbs 9:10 – The fear of the Lord is the beginning of wisdom. James 1:5 advises that anyone lacking wisdom should ask from the Lord who gives and does not hold back and in James 3:17 the writer concludes that the wisdom from God is pure, peaceable, gentle and easy to be entreated, it is full of mercy and not partial and without hypocrisy. Internal auditors need the wisdom from God to be able to do their work creditably.

Reporting – No audit assignment is considered complete until a report has been written. Audit reports give a summary of the findings of the audit engagement, implications of the findings and recommendations. To the Christian auditor integrating faith in his professional service, Exodus 23:1 comes handy – you shall not raise a false report. Some auditors have been caught in the web of presenting reports contrary to what they observed or other evidential matter. According to Exodus 23:1, the auditor’s report must be accurate, verifiable, and must be objective. The Bible also makes it clear that as auditors we are laborers in God’s vine yard – Jesus Himself is the True Vine and as auditors we are the branches – and without him we can do nothing. This fact becomes more evident when the auditor realizes that he can only audit what has been presented and revealed. Fraud is neither presented nor documented. It is only the wisdom of God, through the Holy Spirit, that reveals the “hidden things” to the auditor (John 15:1-5).

In carrying out his duties the auditor must be conscious of the fact that God will one day bring everything into judgment – whether they are good or evil (Luke 16:1-2). He declares that “I

know your works” (Revelation 2:2,9,13,19; 3:1,8,15). Consequently, the auditor must do his work with all diligence (Ecclesiastics 9:10) while adding value to the institution that engaged his services (Matthew 25:14-30).

Auditing and Compliance

An audit could be internal or external. Generally an audit is an evaluation of a person, organization, systems, process, enterprise, project or product. According to Bacik, (2011) audits are performed to ascertain the validity and reliability of information; also to provide an assessment of an organization’s internal control. The goal of an audit is to express an opinion on a person, organization, systems, enterprise or product under evaluation based on work done on a test basis. It is the independent, objective assessment of the fairness of management’s representations on performance or the assessment of management’s systems and practices, against criteria, reported to governing body or others with similar responsibilities (Canadian Comprehensive Audit Foundation, 1991 as cited by the IIA, 2005).

According to Wikipedia an audit is a systematic and independent examination of books, accounts, statutory records, documents and vouchers of an organization to ascertain how far the financial statements as well as non-financial disclosures present a true and fair view of the concern. Investopedia defined an audit as an objective examination and evaluation of the financial statements of an organization to make sure that the records are a fair and accurate representation of the transactions they claim to represent. It can be done by employees of the organization, or externally by an outside firm. Business Dictionary relates it to accounting and defines an audit as a systematic examination and verification of a firm’s books of account, transaction records, other relevant documents, and physical inspection of inventory by qualified accountant (auditors).

Basel Committee (2005) stated that compliance should be part of the culture of an organization and not just the responsibility of specialist compliance personnel. Scholars differ over the combination of audit and compliance function – especially internal auditing. Henry (2011) citing a 2009 study report stressed the fact that such a combination jeopardizes the expected auditor independence and objectivity and weakens the effectiveness of compliance and ethics. She therefore concludes that whatever advantage the combination of the two functions might hold to the organization, the dangers to the long term interest of the organization and its stakeholders make such a combination ill advised. Keller (2009) on her part argued that internal audit function is a natural driver for development of institution-wide function in universities. She noted that internal audit is uniquely positioned to gather, analyze and share information across the institution and therefore well positioned to also handle the compliance function.

An editorial of the *New Perspective* (2006) noted that the collaboration between audit and compliance is critical as there are shared roles and responsibilities between the two functions. On his part Bowdler (2013) pointed out that while compliance function is concerned with regulatory risk only internal audit is concerned with all risks to the organization. He noted that if internal audit is able to manage the issue of independence appropriately, then it can combine the compliance function. Compliance must be audited. Gillis (2013) opined that both audit and compliance take direction directly from the same master – the Board and serve the same purpose of ensuring that the institution fulfills its objectives in an effective and efficient manner, The paper also takes the position that the two functions are inter-related and should be performed by the internal audit. Many organizations today combine the performance of audit and compliance function to the internal audit and the combination has been found to be effective.

Auditing, Compliance and Accountability

Professional auditors within public and private universities are typically expected to act according to the terms of stewardship, accountability and capacity to deliver public services at the quality that is commensurate with the level of government or organization's budget. "The need for financial accountability has existed ever since it became necessary for one individual to entrust the care of his possessions or business to another" – (Wilson Committee, 1980). Audits serve a vital purpose and play an important role in serving the public interest to strengthen accountability and reinforce trust and confidence in financial reporting. Audits therefore help enhance economic prosperity, expanding the variety, number and value of transaction that people are prepared to enter into (ICAEW, 2005). The principal-agent- relationship, is an important element in understanding the development of auditing. The principal who has entrusted his investment to the agent would wish to be assured that the agent is accurately accounting for his stewardship. That brought the need of a third party – the "external" auditor to attest to the accuracy and fairness with which the agent has presented his stewardship report.

The Webster's Dictionary defines 'accountability' as the quality or state of being accountable, an obligation or willingness to accept responsibility for one's actions. It refers to financial prudence and accounting in accordance with regulations and instructions (Lindberg 2009). Accountability has to do with account-giving and holding those responsible accountable to present reports of their stewardship to management and other concerned stakeholders; the readiness or preparedness to give an explanation or justification to relevant stakeholders for one's judgments, intentions, acts, and omissions when appropriately called to do so (Hunt, 1999). As noted by Pollit, 2003 in Bovens (2004) accountability is a social responsibility in which an actor feels an obligation to explain and justify his conduct to another or group. According to Dandago (2008),

in Akintoye (2017) “those holding positions of authority are expected to provide explanations and reasons to interested parties (the public in general) on how they have discharged the responsibilities entrusted in them”. Provision of such accountability reports help in the provision of accurate and reliable financial information and give the assurance that resources have been allocated in an efficient manner toward the achievement of organizational goals. This will be realized by developing, maintaining an effective internal control mechanism and making available reliable and relevant financial and non-financial information by means of accurate disclosure of information in timely manner to all stakeholders. Such information could also be non-financial and may relate to the economy, efficiency and effectiveness of policies and operations (performance information), and to internal control and its effectiveness (Ibid).

Audit and Compliance Function at Babcock University

Babcock University is a Seventh-day Adventist institution of higher learning licensed in 1999 by the federal government of Nigeria as a private university to award degrees to deserving students at the completion of prescribed course of study. The Department of Audit, Risk and Compliance at Babcock University is relatively small and new. The department has, within the few years of its existence, established itself as a formidable consulting department of the University administration and has continued to provide professional services to the administration toward the achievement of its goals and objectives. The department does this by ensuring the smooth operation of the university approved system of internal controls that, among others, guarantees that transactions are carried out in the most transparent and efficient manner and those entrusted with responsibilities are held accountable. We achieve our goals through -

- Program commitment and constant reminder of our roles as auditors
- Weekly briefing and prayer meetings by members of audit team

- Cooperation among team members
- Team member behavior as representatives of God and the university administration
- Exhibition of servant leadership roles by audit team members
- Assurance of unalloyed support by the university administration
- Organizational learning and constant development

Just as the integration of faith and learning expresses the desires of a Christian college or university to have the Christian faith permeate every aspect of the curriculum, integration of faith in professional service expresses the desire of a Christian professional to have the Christian faith permeate every aspect of his service. Integrating faith and service resists a common tendency to compartmentalize religious faith and rejects a Christian faith that is limited to religious activities. It rather demands a faith which is integrated into the entirety of human endeavor and life.

Internal Control

A system of internal control refers to the process by which organizations maintain environments that encourage incorruptibility and deter fraudulent activities by management and employees (James, 2016). According to COSO (2013) internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. An organization's components of internal control are evaluated during the planning phase of an independent financial statement audit. Ingram (2009) opined that internal controls are policies and procedures put in place to ensure continued reliability of accounting systems. Basic internal control features include:

Segregation of duties - Segregation of duties is critical to effective internal control because it reduces the risk of mistakes and inappropriate actions. An effective system of internal control

separates authoritative, accounting and custodial functions. No one individual should perform a function from beginning to the end.

Maintenance of adequate and accurate financial records - Maintaining appropriate records ensures that proper documentation exists for each business transaction. Records management involves storing, safeguarding and retrieval – records could be stored in hard or soft copies. Appropriate back-up deters an employee or management from creating phantom transactions in the underlying accounting records. A good records management program reduces operating costs, improves efficiency and minimizes the risk of litigation.

Safeguard of assets and records - Safeguarding assets is one essential characteristic of an effective system of internal control. Safeguards prevent unauthorized personnel from accessing valuable institutional assets. Safeguards are physical, such as locks on doors, or intangible, such as computer software passwords. Regardless of the methods, safeguards are a necessary feature of an organization's internal control system (Amanze, 2016; James, 2016). Implementation of these internal control procedures will be expected to promote operational efficiency and encourage adherence to prescribed managerial policies

Conclusion

In the cause of getting materials for this paper I realized there are organizations that are already practicing integrations of faith in professional service. These institutions claimed they were motivated by the successes witnessed with integration of faith and learning. It is possible and beneficial to integrate faith in professional services. There are ample Biblical supports and injunctions for such integration. Institutions and /or departments with institutions that have ventured into such integrations have harvested loads of positive testimonies of the transforming effects it has with the institution and its service delivery.

Recommendations

Integrating faith in all professional services within Adventist institutions should be encouraged – while emphasizing that it is Biblical faith that gives value and meaning to all our services here on earth.

All Christian owned colleges and universities should be encouraged to embrace faith integration in professional services. This conference should come up with a comprehensive communiqué that will highlight the merits of faith integration and post same on its web site and other means of getting the material/document to as many institutions as possible the world over.

The crusade of faith integration into professional services should be carried to other institutions that are owned by private organizations or individuals. The merits of faith integration cannot be hidden any longer.

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