



Political Interference and Local Government Performance in Nigeria: The Moderating role of Internal Audit Quality

Obal Usang Edet Usang¹ --- Basariah Salim²

^{1,2}Universiti Utara Malaysia, Kedah Malaysia

Abstract

Local governments in Nigeria experience varying levels of interference from politicians and state governments and there have been contending views on whether interference is desirable or not considering the poor performance of local governments. Hence, political interference influences local government performance and the quality of internal audit is equally important. It is against this backdrop that this study investigated the relationship between political interference and local government performance and the moderating role of internal audit quality. Data were sourced from 278 internal auditors from local governments in Nigeria using questionnaires. The SPSS was used to analyse the data and test the formulated hypotheses. The results show that there was a negative, statistically significant relationship between political interference and local government performance in Nigeria. Also, internal audit quality moderated the relationship between political interference and local government performance. It was therefore concluded that although political interference is negatively related to local government performance, its effect on local government performance can be reduced if the internal audit quality is high.

Keywords: Internal audit quality, Local government performance, Political interference, Local government.

Contribution of Study

This study is the first to empirically examine the relationship between political interference and local government performance in Nigeria and the moderating role of internal audit quality. Thus, the study contributes to literature in highlighting the pervasiveness of political interference in local governments in Nigeria and how internal audit quality is a valuable tool to ameliorate the situation. Furthermore, it will enable local government administrators pay close attention to the value adding role of internal audit and its impact on the performance of their local government.

1. Introduction

The importance of local government to the growth and development of a nation cannot be overemphasized. Various roles are played by the local government such as providing sanitation services, education, health care, security and other community improvement projects that impact the lives of its communities. The provision of these services fosters development and local governments are effectively positioned to undertake such better than other tiers of government (Lawal and Oladunjoye, 2010). In Nigeria, local governments occupy the third tier of government and are established to ensure rapid development of communities. This is achieved through effective gathering of feedback on service delivery with a view to proffering solutions to areas where attention is needed. Hence, local governments ensure joint identification of community needs and ways of meeting them. Also, effective governance is enhanced through providing an atmosphere for citizen participation in leadership (Achimugu *et al.*, 2013). However, the pivotal roles of the local governments are not without challenges. Since the economic recession of 2008, many local governments have been struggling with issues bothering on fiscal stress, political pressures, increasing demand for services by communities and insider threats (Levine and Scorson, 2011; Hilvert and Swindell, 2013; Luby, 2014). Local governments in Nigeria have also been exposed to similar issues including increasing rural poverty of about 80% as reported by International Fund for Agriculture (IFAD) (IFAD, 2012).

Consequently, there is wide spread performance failures by local governments in Nigeria. Achimugu *et al.* (2013) documents deterioration in health care delivery, poor access roads, inadequate rural water supply, lack of community participation and

restiveness among youths as evidence of local government failure. In response to these performance failures, upper tier of government have often interfered in the administration of local governments in Nigeria, as they have a responsibility to ensure the proper functioning of the latter. Thus, interference in local government affairs has reached an alarming rate as state governments control the finances and electoral processes of local governments (Asaju, 2010). Currently, local governments are perceived as "appendages" of the various state governments in Nigeria (Oviasuyi *et al.*, 2010). Some scholars have argued that interference of higher government is important for policy direction while others view it purely on self interest of higher government (Shleifer and Vishny, 1994; Chang and Wong, 2002). Furthermore, political interference thrives more where there exist evidence of poor performance and there is a need to restore policy direction to safeguard community development. However, in restoring policy direction, the value adding role of internal audit has been ignored. Internal audit quality is important in providing first-level assurance on the state of affairs of the local government. Although all local governments in Nigeria are statutorily required to have internal audit units, little is known on the internal audit role in the political interference-performance relationship. Mere setting up an internal audit function may not translate to better processes where key characteristics that strengthen the function are missing. Thus, the quality of the function can provide assurance on the activities of local governments and thus limit interference while enhancing performance.

Very few studies have been conducted to examine the relationship between political interference and performance in the public sector. This study is the first to empirically examine the relationship between political interference and local government performance in Nigeria and the moderating role of internal audit quality. Thus, the study contributes to literature in highlighting the pervasiveness of political interference in local governments in Nigeria and how internal audit quality is a valuable tool to ameliorate the situation. Furthermore, it will enable local government administrators pay close attention to the value adding role of internal audit and its impact on the performance of local governments.

In view of the above, this study's objectives include: to determine whether political interference is significantly related to performance of local governments Nigeria; and to determine whether internal audit quality moderates the relationship between political interference and local government performance. The remaining part of this paper includes a review of related literature on political interference, internal audit quality, and local government performance. Also, we discuss the method adopted in the study and the results of analysis carried out. Finally, the findings and implications of the study are discussed.

2. Literature Review and Hypotheses Development

2.1. Political Interference and Local Government Performance

Rainey and Steinbauer (1999) defined performance as an organization's ability to attain set goals and how set standards were applied to ensure attainment these goals. Performance results from the joint efforts all members of an organization towards attainment of set goals. Also, Etzioni (1964) sees goals of an organization as an ideal state of affairs an organization strives to attain, it is the main reason of its existence. Thus, an organization's performance is assessed based on the level of attainment of this ideal state of affairs. Evaluating performance in the public sector is complex because public sector goals are not geared towards profits but on citizen's satisfaction. Issues regarding economy, efficiency and effectiveness drive these goals. Furthermore, public sector goals are often ambiguous and are intended to serve a varied number of stakeholders with competing demands (Boschken, 1994) and hence, comparison is difficult. However, the institutional setting should be considered when evaluating public sector performance (Bevir *et al.*, 2003). For example, public sector organizations are governed by rules and regulations which affect how performance is internalized and measured within the system (Hoque *et al.*, 2004; Modell, 2005). These rules and regulations differ across public sector organizations. These rules and regulations exert coercive pressures on the organization for it to survive in the institutional context (DiMaggio and Powell, 1983). In view of the diverse groups of stakeholders with diverse interest being served by the public sector, assessing performance would depend on the goals, perspectives and dimensions of performance being studied (Connolly *et al.*, 1980; Walker *et al.*, 2011). Performance in the public sector has been associated with concepts such as accountability, efficiency, effectiveness, fiscal health, financial soundness, revenue autonomy, consumer satisfaction, fiscal strength, responsiveness, quality of service, financial outcome, and financial performance (Carmeli and Tishler, 2004; Coffe and Geys, 2005; Walker and Boyne, 2006; Amirkhanyan *et al.*, 2008; Bratton, 2010; Gomes *et al.*, 2013; Park and Cho, 2014). Each of these concepts of performance represents how public sector performance can be mirrored. Public sector performance should incorporate both financial and non-financial aspects.

Political interference refers to influences exerted by higher tier of government or politicians on the administration of local governments. Although state governments have a supervisory role in ensuring the proper functioning of the local governments, their influences have become overwhelming (Asaju, 2010). Very few empirical studies have examined the relationship between political interference and local government

performance. Also, there are inconsistent measures of the construct in these studies. For example, [Shen and Lin \(2012\)](#) operationalized political interference as the replacement of a government bank official within 12 months after the country's elections. Also, in a study of political interference on project implementation in Nigeria, respondents were asked to rate the influence of legislators on the success of projects. Political interference measured on a categorical scale where significant influence was scored one (1) and no influence was scored zero (0). In terms of political interference-performance relationship, [Rogger \(2013\)](#) found that engagement of politicians decreased both the rate of completing projects and quality of projects by 47 and 67 percents respectively. This finding supports [Schwartz \(2003\)](#) skeptical approach to accountability in the public sector which posits politicians and higher government officials pursue personal interest to the detriment of the common good of citizens. Also, by reducing project completion rates and quality, valuable resources are lost and this leaves the organization worse off since goals and objectives are not attained. A study on the quality of local governments in South Africa found excessive political interference on municipalities limits their capabilities to provide quality services to communities ([De Visser, 2010](#)). In essence, political interference limits local administrative initiative and focus and generates suboptimal decisions that affect overall performance.

Furthermore, the Union of Concerned Scientists (UCS) studied policy-makers influences on US Environment Protection Agency (EPA) scientific findings and found 60 percent of respondents alluded to experiencing political interference ([UCS, 2008](#)). Also, the study found sources of political interference to emanate both from within and outside the organization. This suggests that politically connected members of the organization can be conduits for political influence. On the whole, political interference may not translate to more performance, depending on what it is meant to influence.

Furthermore, political interference has detrimental effects on service delivery of local governments in Nigeria. [Asaju \(2010\)](#) found that local governments were often compelled to undertake projects that have no bearing on the needs of local communities. This leads to waste of valuable resources and effort. Also, [Salawu and Agbeja \(2007\)](#) found political interference negatively impacted internal controls, accountability and audit procedures. Hence, interference can strain local government's financial resources and deprive community development. Therefore, this study posits that political interference negatively influences performance of local government in Nigeria. In view of the above discussion, the following hypothesis is put forward:

H₁: There is a negative relationship between political interference and local government performance.

2.2. Moderating Role of Internal Audit Quality

The [Institute of Internal Auditors \(2012\)](#) defines internal audit quality based on characteristics and features such as competence, objectivity, independence and integrity, and work performance. These features play a significant influence on internal audit (IA) role in governance, control and risk management. Features of internal audit quality have striking similarities with measures of internal audit effectiveness. For example, IA quality is defined as percentage of audit plan completed within a financial year ([Zaman and Sarens, 2013](#)) the existence of IA quality assurance and improvement program ([Elliott et al., 2007](#)) compliance with standards for professional practice of internal auditing ([Abdalmohammadi, 2009](#)) exposure to external assessment ([IIA, 2011](#)) and experience and professional certification ([Hutchinson and Zain, 2009](#)). [Prawitt et al. \(2009\)](#) used a composite measures of internal audit quality in their study of earnings management in 218 public companies. Their composite measure were based on external auditing standards which specify what features an external auditor should seek in relying on the work of the internal audit. Specifically, their composite measure includes average experience of internal auditors, professional certification, time spent on training, focus on financial aspect of the firm, reporting level the chief audit executive and the size of the internal audit function in relation to the industry. Similar measures of internal audit quality were used by other researchers (see ([Lin et al., 2011](#); [Ege, 2015](#))).

The internal audit quality is important in assessing its role in governance, control and risk management. A number of studies in the private sector found significant relationship between internal audit quality and earnings management. For example, [Prawitt et al. \(2009\)](#) found significant negative relationship between internal audit quality and abnormal accruals. Their study suggests that internal audit quality is important in limiting management opportunistic behaviour which affects financial reporting quality. Also, [Lin et al. \(2011\)](#) found measures of internal audit quality not to be significantly related to the disclosure of material weaknesses. According to them, internal audit quality enables the resolving of material weakness issues before they become public, thus providing credibility on financial information of the business. Similarly, internal audit quality can improve financial reporting, performance and curb the ability of administrators to window dress the affairs of local governments. [Ege \(2015\)](#) studied how internal audit quality can debar misleading financial reporting, bribery and other unethical practices using responses from chief audit executives of 617 firms in the US. The study found a negative relationship between quality of internal audit and management misconduct. This suggests that a high

quality internal audit is capable of deterring acts that negatively influence the performance of an organization. Similarly, internal audit quality can influence performance of local governments by curbing unethical practices that promote waste. Also, internal audit quality can enhance the transparency of local government administration through the mechanism of monitoring. Thus, even where political interference exists, its negative influence on performance is largely minimized.

The mere existence of an internal audit function may not deter management from engaging in acts that are detrimental to the performance of an organization. The quality of the function is more important to position it as value adding to an organization. According to [Schwartz \(2003\)](#) policy-makers exploit control mechanisms in order to hide their self interest seeking behaviours. To maintain legitimacy and acceptance, elected officials and administrators paint a favourable image of existing control mechanisms while at the same time, they subtly undermine it to limit the exposure of deficiencies in their organizations. Thus, political interference can continue unabated. For example, [Schwartz \(2003\)](#) noted that internal audit function in the public sector is highly influenced by management and political administrators through the limiting of resources and scope of the function. These resources are required by IA to enable it attain quality. This is supported by [Ege \(2015\)](#) who suggests that when internal audit quality is restricted through containment of resources to the function, unethical practices can go unabated. Thus, internal audit can limit the negative influences of political interference on the performance of local governments. Strengthening the internal audit quality remains an important way of addressing the performance dilemma in local government in Nigeria. In view of the above discussion, we posit that:

H₂: Internal audit quality moderates the relationship between political interference and local government performance in Nigeria.

3. Methods

The survey method was used where questionnaires were mailed to internal auditors of local governments in Nigeria. This method was considered appropriate considering the wide geographical spread of local governments in Nigeria ([Sekaran and Bougie, 2013](#)). The survey questionnaire solicited information from internal auditors on the extent of political interference, internal audit quality and performance of their local government. Six items measuring political interference were derived from the works of [De Visser \(2010\)](#); [Matheson et al. \(2007\)](#) and [UCS \(2008\)](#) on a 5-point scale, ranging from "strongly disagree (1) to strongly agree (5)".

Also, items measuring internal audit quality were adapted from [Cohen and Sayag \(2010\)](#) and [Ahmad \(2013\)](#). Twenty-one items measured internal audit quality and the responses were elicited on a 5-point scale, ranging from '1' strongly disagree to '5' strongly agree. The responses to eight items measuring local government performance were elicited on a 5-point scale, ranging from "very low (1) and very high (5)". Items measuring Local government performance were adapted from [Brewer \(2006\)](#) and [Maher and Deller \(2011\)](#).

4. Results

A total of 600 questionnaires were mailed out to internal auditors of local government in Nigeria. Follow up mails were also sent to enhance response rate. In all, 323 questionnaires were returned and 301 useable questionnaires were selected for analysis. Statistical Packages Social Science (SPSS) version 20 was used to treat the data. Results show no threat due to non-response bias. From the valid questionnaires 246 (81.7 percent) were male respondents while 55 (18.3 percent) were female.

A total of 237 (78.2 percent) of the respondents fell within the 31 to 50 years age group. Also, 196 (65 percent) respondents had work experience above 10 years. In terms of educational qualification, 194 (64.4 percent) had first degree, 90 (29.9 percent) had master's degree, 9 (3 percent) had doctorate degree and majority 223 (74.1 percent) had accounting and auditing as academic major. In terms of professional certification, 189 (62.8 percent) of the respondents had professional qualifications (Table 1).

Table-1. Demographic Characteristics of Respondents

S/No	Item	Frequency	Percentage (%)
1	Gender		
	Male	246	81.7
	Female	55	18.3
	Total	301	100
2	Age		
	21-30 years	17	5.6
	31-40 years	86	28.6
	41-50 years	151	50.2
	Above 51 years	45	15
	Missing	2	.7
	Total	301	100
			<i>Continue</i>

3	Work Experience		
	1-5 years	39	13
	5-10 years	60	19.9
	10 years and above	196	65.1
	Missing	6	2.0
	Total	301	100
4	Highest Educational Qualification		
	Doctorate	9	3
	Master Degree	90	29.9
	First Degree	194	64.4
	Diploma/NCE	3	1.0
	Others	3	1.0
	Missing	2	.7
Total	301	100	
5	Professional Certification		
	ACA, CNA, CPA, CIA and others	189	62.8
	None	82	27.2
	Missing	30	10
	Total	301	100

However, 28 cases of outliers were deleted from the data set to enable further analysis. The Mahalanobis distance was used in determining the threshold for deletion. Thus, further analysis was based on 278 respondents.

4.1. Political Interference

The principal component factor analysis was used to assess validity and reliability was measured using the Cronbach alpha. Results showed a two-factor solution with total eigenvalues of 3.863 and the total variance explained of 64.374 percent. The Kaiser-Meyer-Olkin value (KMO) was 0.738 which shows intercorrelations among the items. The Bartlett's test of sphericity was acceptable ($\chi^2_{15} = 451.831$, $p < 0.01$). The individual item loadings were greater than 0.50. For reliability, one item was dropped to achieve Cronbach value of 0.776.

4.2. Internal Audit Quality

The principal component factor analysis was used to assess validity and reliability was measured using the Cronbach alpha. Four items were dropped and further analysis showed a Five-factor solution with total eigenvalues of 11.167 and the total variance explained of 65.693 percent. The Kaiser-Meyer-Olkin value (KMO) was 0.853 which shows intercorrelations among the items. The Bartlett's test of sphericity was acceptable ($\chi^2_{136} = 1976.366$, $p < 0.01$). The individual item loadings were greater than 0.50. Reliability was achieved as Cronbach alpha showed a value of 0.874.

4.3. Local Government Performance

The principal component factor analysis was used to assess validity and reliability was measured using the Cronbach alpha. Factor analysis showed a two-factor solution with total eigenvalues of 5.235 and the total variance explained of 65.442 percent. The Kaiser-Meyer-Olkin value (KMO) was 0.853 which shows intercorrelations among the items. The Bartlett's test of sphericity was acceptable ($\chi^2_{28} = 1057.015$, $p < 0.01$). The individual item loadings were greater than 0.50. Reliability was achieved after dropping one item to achieve a Cronbach value of 0.840.

4.4. Related Analysis

Table 2 shows that the correlation coefficients of political interference, internal audit quality and local government performance are statistically significant ($p < 0.01$). Internal audit quality is positively correlated to local government performance while political interference shows a negative correlation with local government performance. Internal audit quality and political interference showed no significant correlation.

Table-2. Correlation analysis of the study's variables

	Performance	Internal audit quality	Political interference
Performance	1		
Internal audit quality	0.368**	1	
Political interference	-0.211**	.045	1

**Correlation is significant $p < 0.001$

4.5. Multiple Regression Analysis

A hierarchical multiple regression analysis was carried out to examine the moderating effect of internal audit quality on the relationship between political interference and local government performance. Firstly, political interference was regressed against local government performance. The result was significant, $R^2 = 0.044$, $F(1, 276) = 12.832$,

$p < .001$. In the second model, internal audit quality was added to the model and the results was also significant, $R^2 = 0.187$, $F(1, 275) = 48.197$, $p < 0.001$. In order to reduce the risk of multicollinearity, the centered interaction term of the variables was used (Aiken *et al.*, 1991). Thus, in the third model, the centered interaction term between political interference and internal audit quality was added to the model. The result was significant, $R^2 = 0.243$, $F(1, 274) = 20.193$, $p = 0.000$. Overall there was an improvement in R^2 from 0.044 to 0.243. Tables 3 and 4 show the regression results. The results provide support for the hypothesis of the study confirming the moderating effect of internal audit quality on the relationship between political interference and local government performance in Nigeria.

Table-3. Moderating effect of internal audit quality on political interference - local government performance relationship

Model	R	R ²	Adj.R ²	Std. error of the estimate	R ² change	F change	df1	df2	Sig F change
1	0.211 ^a	0.044	0.041	.11677	0.044	12.832	1	276	0.000
2	0.432 ^b	0.187	0.181	.10791	0.142	48.197	1	275	0.000
3	0.493 ^c	0.243	0.234	.10433	0.056	20.193	1	274	0.000

a. Predictors: (constant), Political interference

b. Predictors: (constant), Political interference, internal audit quality

c. Predictors: (constant), Political interference, internal audit quality, political interference*internal audit quality

d. Dependent variable: local government performance

Table-4. Coefficients of political interference, internal audit quality, and political interference*internal audit quality in the Hierarchical Regression Model

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. error			
1 (Constant)	0.428	0.007		61.108	0.000
PI	-0.005	0.001	-0.211	-3.582	0.000
2 (Constant)	0.428	0.006		66.127	0.000
PI	-0.005	0.001	-0.228	-4.187	0.000
IAQ	0.011	0.002	0.378	6.942	0.000
3 (Constant)	0.427	0.006		68.164	0.000
PI	-0.005	0.001	-0.221	-4.197	0.000
IAQ	0.013	0.002	0.438	8.064	0.000
PI*IAQ	0.001	0.000	0.244	4.494	0.000

Dependent variable: Local government performance, PI = political interference, IAQ = internal audit quality

5. Discussion and Limitations

Although little has been written on the relationship between political interference and performance, the moderating role of internal audit quality has received less attention. The results from the analysis suggest that although there is a negative relationship between political interference and local government performance, the relationship is also moderated by internal audit quality. The implication of these findings to management of local governments in Nigeria centers on the value adding role of internal audit. Although political interference is detrimental to local government performance as suggested by findings from this study, strengthening the quality of internal audit can provide the needed buffer to guide against unnecessary interference from politicians and higher government. Political interference most times emanate from the perception of the local governments as inefficient. Strengthening the quality of internal audit by way of giving the function an enabling environment for enhanced competence, quality of work, career and development, independence and support can minimize the negative effects of political interference in the local government. As a value adding function to the organization, internal audit quality is a valuable tool to ameliorate the situation. Furthermore, local government administrators should pay close attention to the value adding role of internal audit and its impact on the performance of their local governments. However, these findings should be interpreted with caution as this represents the views of the heads of internal audit in the sampled local governments. It would be necessary to replicate the study using a different population to examine the perspectives examined here.

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