

Auditing system and achievement of financial accountability in local governments: the moderating role of institutional quality

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Abstract

Purpose: This study evaluates the impact of auditing systems – measured by internal audit efficiency, external audit effectiveness, and audit findings implementation – on the financial accountability (financial reporting quality and transparency) of Local Government Areas (LGAs) and Local Council Development Areas (LCDAs) in Southwest Nigeria. It also examines the moderating role of institutional quality in this relationship.

Methodology: Anchored on Agency Theory, the study adopted a pragmatic mixed-methods research design. Primary data was gathered from selected local governments using structured questionnaires for a quantitative sample of 320 financial professionals, alongside semi-structured interviews with 18 key respondents and a financial expert. Quantitative data was analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM), while qualitative data was evaluated via NVIVO thematic analysis.

Results and Conclusion: Results showed moderate to low baseline perceptions of financial accountability (item means falling below 3.00), alongside significant variation in auditing system effectiveness. Internal audit efficiency, external oversight, and rigorous implementation of recommendations significantly affect financial stewardship. The study concludes that institutional quality acts as a vital moderator to prevent political interference and enforcement failures.

Implication of findings: Sub-national policymakers must strictly safeguard the structural and political independence of audit offices, establish legal mandates for the timely implementation and public disclosure of audit findings, and systematically upgrade institutional enforcement frameworks to curb corrupt practices.

Keywords: Auditing System, Financial Accountability, Institutional Quality, Local Government, PLS-SEM

1. Introduction

Public sector accountability has been adjudged as a significant contributor to the performance of governments either at central, state or local levels. However, financial accountability ensures that officials entrusted with managing government resources are made to account for how the resources are utilized. Financial accountability is seen globally as being critical for national development, transparency and good governance (Alade, et al, 2020).

Achieving effective financial accountability relies on strong financial management practices, policies and institutions and the auditing system is a vital component of financial management practices in the public sector (CIPFA, 2021). It is a monitoring and oversight tool that plays a key role in promoting financial accountability (OECD, 2022). It detects and prevents fraud, deters corrupt tendencies of public officials, enhances decision-making and strengthens compliance with laws and regulations, thereby enhancing public trust and contributing to the credibility of government institutions. While proper auditing system checkmates the activities of managers of public sector organizations by ensuring that impropriety, wastages, corruption and misuse of funds are prevented or identified promptly, institutional quality is expected to enhance it such that when properly applied, it will ensure that public funds are used in line with established rules and for the purposes intended.

Local governments worldwide have been identified as the most effective system of governance at the grassroots (Obisanya & Hassan, 2022). This is due to the fact that this system of governance has been recognized globally as the first point of contact for citizens seeking services. However, the ability of the authorities of this system of governance to efficiently manage finances is fundamental to achieving sustainable development and enhancing the quality of life for local communities worldwide. It is significant to note that financial accountability at the local government level ensures that the authorities operate transparently and provides citizens with insights into how public funds are utilized. This openness builds trust between governments and the public.

Nigerians have been inundated with evidence of poor financial accountability at the local government level and this brings to question the efficacy of the auditing system and the moderating role of quality institutions. It has been reported that huge amounts of financial and non-financial resources have been invested in the local government sector in Nigeria while achieving financial accountability in the sector has always been a mirage (Appah, et al 2021). It is regrettable to observe that misappropriation, misallocation, pervasive corruption and embezzlement of public funds are still rearing their ugly heads in Nigeria local governments in the presence of auditing system and institutions put in place to checkmate abuses in the system.

The failure of auditing and oversight mechanisms may affect the achievement of financial accountability especially where the internal and external audit functions, which are designed to ensure compliance with financial rules and detecting irregularities are severely compromised by the absence of auditors' independence, political pressures, resource constraints and lack of technical expertise. Where internal auditors are undertrained, under-resourced and subject to undue influence from political actors and senior officials, they will be ineffective in identifying and addressing financial misconduct. Also, where external audit agencies, such as the Office of the Auditor General for Local Governments face obstacles through delayed submissions of financial reports, inadequate enforcement powers and lack of independence from political actors (Wechie, et al., 2024) their monitoring and oversight activities will be curtailed.

A report shows that in Rivers state, corruption has made the implementation of the local government law 2018 ineffective and the resultant effect is the Auditor General for Local Government's inability to present to the state house of assembly Public Account Committee the audited accounts of the local governments and the auditor's report. In addition, audit findings, observations and recommendations may not be acted upon by local government officials, thereby allowing mismanagement to flourish while public confidence in the local government system is being eroded.

Despite the fact that there are empirical studies focusing on auditing system and the achievement of financial accountability, there remains a significant gap in the literature in regard to the interplay between auditing system and financial accountability and how quality institutions moderate this relationship especially in the local government context. It is on the basis of this that the study investigates the extent to which the achievement of financial accountability by local governments in Southwest Nigeria has been hindered by auditing system and also ascertains the moderating role of institutional quality in the relationship.

2. Literature review

2.1 Theoretical Framework

This study is underpinned by Agency theory. The theory sees government officials that perform the tasks assigned as agents while the citizens who delegate the tasks are perceived as principals. It also assumes

that there is asymmetry of information between the principal and the agent whereby the agent has more information than the principal. There is also divergence of goals between the parties. Kulick (2005) believes that in agency relationships both principal and agents pursue self interests. The principal (members of the public) installs the financial management practices (i. e. auditing system) for the purpose of achieving accountability, transparency and quality service delivery in the local governments while the local government council implements the controls to achieve stated objectives. The principal, in addition, employ experts as monitors (i.e. auditors) and systems (i.e. internal control) to ensure that the objects of the principal-agent relationship is not jeopardized (Jussi & Petri, 2004).

In scenario like this, Alm and McClellan (2012) posit that auditing system, being a monitoring device, will constrain the agents' opportunistic tendencies so that corruption, wasteful spending and inefficiencies can be avoided in the management of public resources. Adjei-Bamfo, et al., (2022) show the reduction of corruption and mismanagement of resources in Ghanaian local authorities through the influence of strong audit institutions and this enhance the effectiveness of financial accountability.

To protect their interests, citizens (principal) rely on experts and monitoring tools (auditing systems and internal controls) to constrain the opportunistic tendencies of agents. Strong audit institutions reduce the information gap and check the actions of officials directly leading to enhanced financial accountability. In this regard, it is hypothesized that auditing system has no significant effect on the financial accountability of local governments in Southwest Nigeria.

2.3 Empirical Review

Review of previous studies emphasizes the vital role of effective auditing in promoting accountability, although challenges remain, particularly in developing countries contexts. In developed nations, the emphasis is on the positive impact of both internal and performance audits.

According to the International Federation of Accountants (IFAC, 2020), audit findings pinpoint operational inefficiencies, wasteful spending, non-compliance, and errors that management must address through corrective actions. To maximize utility, auditors must communicate these findings promptly; delaying or withholding this information defeats the purpose of the audit and can negatively impact the organization (ACCA, 2021). A core element of these findings is the actionable recommendations provided to the client. Consistently following up on these recommendations ultimately strengthens the client's internal governance, regulatory compliance, and operational efficiency (ACCA, 2021).

While Fonseca, et al., (2020) highlighted that implementing internal audit recommendations directly fosters accountability, Altamimi (2022) found that effective performance auditing also significantly enhances accountability. Developing countries show similar trends, with a strong focus on the importance of audit recommendations, independence of auditors and audit report observations follow-up. Kamau, et al., (2018) and Salim and Oluoch (2018) noted that external audit recommendations and their enforcement directly influence the financial accountability of county governments and hence, their performance. Korje (2016) pointed out that inadequate implementation of audit recommendations is a major hindrance to accountability. Abdullah et al. (2022) equally showed that audit findings follow-up positively affects the financial accountability of local governments. Just as Zeyn (2018) and Bananuka et al. (2018) concluded that internal audit quality positively affects financial accountability, Jachi and Yona (2019) and Selemani and Tlegray (2022) emphasized that internal audit independence promote accountability. In the same vein, Msindwana and Ngwakwe (2022) highlighted that internal auditing is highly effective in reducing wasteful and fruitless expenditure thereby promoting financial accountability.

In the Nigerian context, reviewed literature shows the potential for auditing to enhance accountability. Omolaye (2015) emphasizes the need to monitor public stewards to ensure resources are not misused, falsified, or diverted from their intended objectives. Expanding on the benefits of this oversight, Obisanya and Hassan (2022) note that robust financial accountability directly improves local council service delivery, ultimately fostering greater operational and functional independence. Both Anisere-Hammed, et. Al., (2020), Shehu (2020) and Appah, et. Al., (2021) confirmed that internal auditing has a significant effect on public sector accountability and transparency, though their success is often threatened by inadequate institutional equipment and poor staffing. Usang and Salim (2015) equally suggested that the quality of the internal audit function can lessen the effect of political interference on local government performance thereby boosting accountability. However, just as Egobueze and Iyalla (2020) confirmed that accountability is difficult to achieve because the Auditor-General for Local Governments (AGLG) lacks independence, Wechie, et al., (2024) emphasize that corruption has rendered the auditing system ineffective in local governments, underscoring a major barrier to financial accountability despite existing frameworks. Abdullah et al. (2022) utilize path analysis to show that a high level of follow-up on auditors' observations directly improves financial reporting quality and limits budget fraud. Iredele and Olanrewaju (2025) confirm that regular financial, performance, and compliance audits significantly improve public accountability and safeguard assets. However, they introduce a critical caveat: this capacity is heavily restricted by a "post-audit deficit," characterized by institutional inertia, audit fatigue, and management's frequent failure to execute previous audit recommendations. They conclude that a structural audit pipeline alone does not guarantee performance; strict institutional mandates forcing the immediate implementation of findings are required to turn audits into actual public transparency and efficiency.

The moderating role of institutional quality is supported by studies showing how external systemic health, corruption controls, and political environments condition the effectiveness of auditing systems. When institutional quality is low, audit controls become ineffective. Castro et al. (2025) provide evidence from Italian municipalities showing that low institutional quality manifesting as poor application of the rule of law and weak corruption controls undermines cost efficiency and makes accountability impossible. In South Africa, Sibanda et al. (2020) reveal that systemic flaws like political interference in contract awards, corruption, and bid-rigging act as barriers that prevent municipal officials from using internal audit metrics to track irregular expenditures. The broader governance climate defines the capability of local accounting tools. Alhassan and Kilishi (2019) find that weak economic institutions across Africa are a direct consequence of low political institutional quality. Montes et al. (2018) and Waheduzzaman and Khandaker (2022) note that cross-country data confirms that macro-institutional transparency and anti-corruption campaigns are necessary to convert administrative tools into functional public accountability.

In Nigeria, the Institutional Quality moderating dynamic explains why perfectly designed audit frameworks fail when deployed into weak legal environments. Asiedu and Deffor (2017) note that public-sector audit laws only control administrative corruption when backed by institutional frameworks that protect the independence of the auditing function. This institutional failure is further detailed by Saidu (2019), who notes that Taraba State local governments fail to achieve full financial accountability due to incomplete compliance with the statutory Financial Memoranda. Similarly, Egobueze and Iyalla (2020) highlight this vulnerability in their 12-year study of Rivers State local governments. They found that the Auditor-General for Local Government (AGLG) could not secure accountability because the office lacked institutional independence, was underfunded, and possessed zero institutional enforcement capacity to punish or prosecute financial corruption. This gap is directly

explained by Mohammed, Buba, and Ahmed (2023), who study Nigerian public organizations and conclude that while strict compliance with internal audit reviews prevents losses, public sector accountability is still lacking because of an entrenched culture of non-compliance and a distinct failure to enforce sanctions when breaches occur. In bridging the gap between auditing practices and public accountability, Obafemi and Adeola (2022) establish that clear operational policies and procedures are the vital link required to achieve financial accountability in Nigerian.

The effectiveness of institutional quality varies wildly by tier of government. Okeke and Agu (2016) conducted a comparative analysis and discovered a structural paradox in Nigeria: while accountability mechanisms are formally institutionalized on paper, these formal institutions are completely ineffective because the larger societal and political sub-systems are broken. They conclude that for local governments to convert these systems into real accountability, institutional quality must be enhanced by establishing deep judicial and enforcement frameworks at the local council level. However, Kadir and Sanni (2024) explicitly address this dynamic within the Nigerian public sector. Utilizing Structural Equation Modeling (SEM), they provided evidences that institutional quality significantly moderates the relationship between digital accounting practices and organizational accountability in public Ministries, Departments, and Agencies (MDAs). This provides direct empirical validation for the study framework, showing that the success of a financial practice relies on the quality of the institutional environment surrounding it. Sunusi (2026) demonstrates that institutional quality acts as a vital moderator for public financial systems. His findings reveal that weak institutional environments and pervasive corruption severely undermine public accounting performance, allowing internal controls to be bypassed and financial data to be manipulated. Ultimately, the study concludes that low institutional quality paralyzes oversight, rendering even the most advanced auditing tools ineffective unless protected by strong anti-corruption frameworks.

Based on review of literature, a noticeable gap has been revealed in the sense that none of the empirical studies specifically confirmed the moderating role of institutional quality on the effectiveness of auditing system in enhancing financial accountability in the public sector. Although study of Pirvuț and Ciuhureanu (2020) discovered that poor institutional frameworks are responsible for low tax collection efficiency in Romania while Kadir and Sanni (2024) found institutional quality to significantly moderates the relationship between digital accounting practices and accountability in Nigeria MDAs, empirical studies on how institutional quality moderates the relationship between auditing system and the achievement of financial accountability in local governments is scarce or non-existent. As a result, there is a need to carry out this study to fill the gap created in the literature.

The following null hypotheses were therefore formulated for this study:

Internal auditing system does not have a significant effect on the financial accountability of local governments in Southwest Nigeria;

External audits has no significant effect on financial accountability of local governments in Southwest Nigeria;

Implementation of audit findings recommendations has no significant effect on financial accountability of local governments in Southwest Nigeria;

Institutional quality does not significantly moderates the relationship between auditing system and the achievement of financial accountability in local governments, Southwest Nigeria

3. Methodology

The philosophical position adopted in this study is the pragmatic world view that is routed in ensuring that the researcher uses all available methods to address the research problem with the aim of developing new knowledge (Creswell, 2013). The pragmatic research paradigm that was employed in this study made use of the mixed method approach by combining both quantitative and qualitative methods to provide a comprehensive understanding of how revenue mobilization and institutional quality interact to influence financial accountability in local governments, Southwest Nigeria. The quantitative component examines the relationships between the variables using survey, while the qualitative component offer deeper insights into the mechanisms at play through interviews.

3.2 Source and Methods of Data Collection

Data for the study was collected by using primary method of data collection. The research instrument used for collecting quantitative data was the structured questionnaire while semi-structured interview was used for collecting qualitative data.

Both quantitative and qualitative data were collected. The Krejcie and Morgan (1970) sample size determination table was used to determine the sample size of 320 respondents based on a population of 1,896 for quantitative data while for qualitative data, a sample of 18 respondents and one financial management expert was used.

Both descriptive and inferential statistical analytical methods were employed for the analysis of quantitative data collected. Preliminary diagnostic tests of normality, linearity and multi-collinearity were also carried out on the data. The inferential statistics employed for analyzing quantitative data is the Partial Least Square-Structural Equation Model (PLS-SEM). The qualitative data collected was analyzed by using thematic-NVIVO analytical method.

3.3 Model Specification

The model for this study is as stated below:

$$FAC = \beta_0 + \beta_1 IAE_i + \beta_2 EAE_i + \beta_3 AFI_i + \varepsilon_i \dots\dots\dots (1)$$

The moderating effect of Institutional Quality on auditing system and Financial Accountability was tested with the following model:

$$FAC = \beta_0 + \beta_1 AS_i + (AS_i * IQ_i) + \varepsilon_i \dots\dots\dots(2)$$

Where:

FAC = Financial Accountability

IAE_i = Internal Audit Efficiency in Preventing Fraud, Corruption, and Misuse of Funds

EAE_i = External Audit Effectiveness in Strengthening Regulatory Compliance and Achieving Performance Targets

AFI_i = Audit Findings Disclosure and Implementation

AS_i = Auditing System for Local Government i.

AS_i * IQ_i = Interaction of AS with IQ

β₁, β₂, β₃ = Parameters to be Estimated

ε_i = Error Term

4. Results and discussion

Demographic data from 320 respondents in financial and institutional roles within Southwest Nigerian local governments revealed a predominantly male workforce (62.3%). The participants were highly educated, with over 91% possessing at least a university degree (47.1% graduate, 44.8% postgraduate). Professionally, the respondents displayed diverse and relevant backgrounds, including members of the Institute of Chartered Accountants of Nigeria (ICAN) (31.8%), Association of National Accountants of Nigeria (ANAN) (27.6%), and Chartered Institute of Taxation of Nigeria (CITN) (20.1%). A significant portion (42.9%) held senior or middle-level officer positions, indicating their active involvement in decision-making and operational functions, aligning with the study's focus. The duration of service further enriched the data, showcasing a well-balanced mix of early-career and seasoned professionals, with more half having more than 10 years of experience, ensuring informed perspectives.

4.1 Descriptive Statistics

4.1.1 Financial Accountability

The respondents' views on financial accountability are shown in Table 1 based on the questions from FAC-1 to FAC-8.

Table 1 Descriptive Statistics for Financial Accountability

Item	N	Minimum	Maximum	Mean	Std. Dev.
FAC-1	320	1	5	2.85	0.92
FAC-2	320	1	5	3.12	0.87
FAC-3	320	1	5	2.67	0.95
FAC-4	320	1	5	2.91	0.89
FAC-5	320	1	5	2.43	1.01
FAC-6	320	1	5	2.35	0.98
FAC-7	320	1	5	2.58	0.93
FAC-8	320	1	5	2.21	1.04

Source: Author's Computation, 2026

Table 1 details descriptive statistics for the eight financial accountability items (FAC-1 to FAC-8), rated on a 1 to 5 scale, revealing varied perceptions among respondents in Southwest Nigeria. All items utilized the full response scale, with FAC-2 exhibiting the highest mean score of 3.12 (standard deviation: 0.87), indicating strong agreement and consistency. FAC-4 (mean: 2.91) and FAC-1 (mean: 2.85) also showed favorable perceptions. Conversely, FAC-8 had the lowest mean score of 2.21 and the highest standard deviation of 1.04, reflecting lower agreement and dispersed opinions. FAC-5 (mean: 2.43) and FAC-6 (mean: 2.35) also indicated weaker perceptions. Most items had mean scores below 3.00, suggesting moderate to low perceptions of financial accountability, with standard deviations ranging from 0.87 to 1.04, implying moderate response spread and highlighting potential implementation gaps in local governments.

4.2. Auditing System

The respondents' views on Auditing System are shown in Table 2 based on the questions from AS-1_1 to AS-3_3. The mean score for Auditing System ranges from 2.41 to 3.64, with standard deviations of 0.97 and 1.24, respectively.

Table 2 Descriptive Statistics for Auditing System

Item	N	Minimum	Maximum	Mean	Std. Dev.
AS-1_1	320	1	5	3.21	1.12
AS-1_2	320	1	5	2.78	1.18
AS-1_3	320	1	5	2.95	1.09
AS-2_1	320	1	5	3.64	0.97
AS-2_2	320	1	5	3.02	1.07
AS-2_3	320	1	5	3.18	1.04
AS-3_1	320	1	5	3.27	1.05
AS-3_2	320	1	5	2.69	1.21
AS-3_3	320	1	5	2.41	1.24

Source: Author's Computation, 2026

Table 2 provides the descriptive statistics for nine items (AS-1_1 to AS-3_3) measuring perceptions of the auditing system in local governments, using a five-point Likert scale. The items all recorded a minimum of 1 and a maximum of 5, indicating that respondents utilized the full range of responses to reflect varying opinions on audit-related processes. Among all the items, AS-2_1 received the highest mean score of 3.64 with a relatively low standard deviation of 0.97, suggesting that respondents generally agreed on the effectiveness of this aspect of the auditing system and their responses are relatively consistent. This was followed by AS-3_1 and AS-1_1, which had mean scores of 3.27 and 3.21 respectively, indicating moderately positive perceptions of those items. In contrast, AS-3_3 recorded the lowest mean score of 2.41 and the highest standard deviation of 1.24, implying that this item was viewed less favorably and responses varied significantly among the participants. Similarly, AS-3_2 and AS-1_2 had relatively low mean scores of 2.69 and 2.78 respectively, which suggest that those aspects of the auditing system are perceived as weak or inconsistently applied across local governments.

The rest of the items, including AS-1_3, AS-2_2, and AS-2_3, had mean scores ranging between 2.95 and 3.18, showing moderate levels of agreement and standard deviations between 1.04 and 1.09, which indicate a fair amount of variation in perception but not as widely dispersed as the lowest-scoring items. Finally, the mean scores ranged from 2.41 to 3.64, suggesting that while some components of the auditing system are viewed positively, others are perceived with skepticism or concern. The standard deviations, spanning 0.97 to 1.24, reflect moderate to high variability in how respondents experienced or perceived auditing system. This highlights areas of both strength and inconsistency in the internal and external auditing system of local governments in Southwest Nigeria.

4.3. Normality Test

This test is typically used to determine whether the data collected for the study is normally distributed; thus, in this regard, the researcher used Skewness and Kurtosis statistics. As shown in Table 3, all Skewness and Kurtosis values for each research variable are within Kline's (1998) recommended range of -3 to +3. The scores on each variable are assumed to be normally distributed in many parametric statistics (in example, follow the shape of the normal curve). This investigation's findings as shown in Table 3 show that results are fairly normally distributed.

Table 3 Test of Normality

Construct	N	Skewness	Std. Error	Kurtosis	Std. Error
Auditing System (AS)	320	-0.38	0.139	-0.65	0.277
Financial Accountability (FA)	320	-0.21	0.139	-0.32	0.277

Source: *Author's Computation, 2026*

The normality of data is assessed using skewness and kurtosis values along with their respective standard errors. Starting with skewness, Auditing System (AS) exhibited negative skewness values -0.38 while Financial Accountability (FA) showed a nearly symmetrical distribution with a skewness of -0.21, indicating only a slight leftward tilt. With regard to kurtosis, Auditing System as well as Financial Accountability had negative kurtosis values of -0.65 and -0.32 respectively, which implies platykurtic distributions that are flatter and more spread out.

Based on this, the skewness and kurtosis values for the constructs lie within the generally acceptable range of ± 2 for large samples. Therefore, the data can be considered approximately normal, which supports the appropriateness of applying parametric statistical methods such as regression, correlation and structural equation modeling in subsequent analyses.

4.4 Test of Multicollinearity

Table 4 showed the correlation assessment for multicollinearity and indicates low collinearity among the variables.

Table 4 Correlation among the Variables

Variable	AS	FA
AS	1	
Sig.	-	
N	320	
FA	.592**	1
Sig.	.000	-
N	320	320

Source: *Author's Computation, 2026*

Table 4 presents the Pearson correlation coefficients that describe the relationships among the independent variable, auditing system and its association with the dependent variable, Financial Accountability (FA). The results show that Auditing System correlates significantly with Financial Accountability ($r = .592, p < 0.01$), meaning that robust auditing processes are aligned with stronger financial accountability.

4.5 Assessment of the Measurement Model

The study ensured the reliability and validity of its measurement model by confirming that the item indicators' outer loadings were above the recommended 0.708 (Hair et al., 2019). Composite Reliability (CR), a more suitable measure for PLS-SEM than Cronbach's Alpha was satisfactory for the constructs, with values exceeding 0.7. Convergent validity was established through Average Variance Extracted (AVE) values, all of which surpassed the 0.5 threshold, indicating that the latent variables explain over half of their indicator's variance (Hair et al., 2019). Following a satisfactory measurement model, the structural model was assessed based on five key criteria Crucially, collinearity was not an issue for the constructs since the Variance Inflation Factors (VIF) was below the 3.3 threshold (Hair et al., 2019), as shown in Table 5.

Table 5 Summary of the Construct Loadings, Convergent Validity and Reliability

Construct	Item	Factor Loading	(CR)	(AVE)
Financial Accountability	FAC-1	0.82	0.941	0.624
	FAC-2	0.79		
	FAC-3	0.85		
	FAC-4	0.88		
	FAC-5	0.76		
	FAC-6	0.83		
	FAC-7	0.91		
	FAC-8	0.72*		
Auditing System	AS-1_1	0.88	0.926	0.683
	AS-1_2	0.85		
	AS-1_3	0.82		
	AS-2_1	0.91	0.942	0.761
	AS-2_2	0.89		
	AS-2_3	0.87		
	AS-3_1	0.83	0.901	0.642
	AS-3_2	0.79		
	AS-3_3	0.81		

Source: Author's Computation, 2026

4.5 Structural Model: Path Coefficients Result

Table 6 Moderated Regression Analyses

Predictor	B	SE	t-value	p-value	95% CI Lower	95% CI Upper
Direct Effects						
IAE	0.238***	0.037	6.43	<0.001	0.165	0.311
EAE	0.341***	0.042	8.12	<0.001	0.258	0.424
AFI	0.195**	0.039	5.00	<0.001	0.118	0.272
IQ	0.277***	0.032	8.66	<0.001	0.214	0.340
Interaction Terms						
IAE × IQ	0.091*	0.029	3.14	0.002	0.034	0.148
EAE × IQ	0.128**	0.034	3.76	<0.001	0.061	0.195
AFI × IQ	0.042	0.027	1.56	0.120	-0.011	0.095
Model Diagnostics						
R ²	0.647					
Adjusted R ²	0.636					
ΔR ² (Interaction)	0.039*					
F-statistic	58.47***					
Durbin-Watson	1.96					

Source: Author's Computation, 2026

The results presented in Table 6 demonstrate that the auditing system significantly influences financial accountability, and this effect is enhanced with the moderation of institutional quality. The model explains a substantial portion of the variance in financial accountability, as indicated by an R² of 0.647 and an adjusted R² of 0.636, while the F-statistic of 58.47 (p < 0.001) confirms the overall model's statistical significance. Furthermore, the Durbin-Watson value of 1.96 indicates that the residuals are free from autocorrelation, thereby validating the model's reliability. The inclusion of interaction terms contributed

an additional ΔR^2 of 0.039, which signifies that institutional quality adds meaningful explanatory power to the relationship between auditing system and financial accountability.

When interpreting the direct effects, it is evident that internal audit efficiency (IAE) exerts a positive and statistically significant influence on financial accountability with a β coefficient of 0.238, and this suggests that local governments with robust internal controls and fraud prevention mechanisms tend to be more accountable. In addition, external audit effectiveness (EAE) has the strongest effect among the auditing components ($\beta = 0.341$), and this means that effective oversight and compliance enforcement from external audits substantially enhance financial integrity. Moreover, audit findings disclosure and implementation (AFI) also contributes positively and significantly ($\beta = 0.195$), implying that transparency and action on audit results reinforce trust and responsible governance. Alongside these auditing components, institutional quality (IQ) independently predicts financial accountability with a β of 0.277, confirming that strong institutions characterized by integrity, capacity, and adherence to the rule of law provide the necessary foundation for fiscal discipline.

In terms of interaction effects, the model shows that institutional quality significantly moderate the relationship between IAE and financial accountability ($\beta = 0.091$, $p = 0.002$), indicating that internal audit mechanisms become more effective in fostering accountability when institutions are well-established. Likewise, EAE's effect is further strengthened by IQ ($\beta = 0.128$, $p < 0.001$), suggesting that the presence of good institutional frameworks amplifies the impact of external audits. However, the interaction between AFI and IQ is not significant ($\beta = 0.042$, $p = 0.120$), which means that institutional quality does not significantly change how audit findings disclosure and implementation affect accountability.

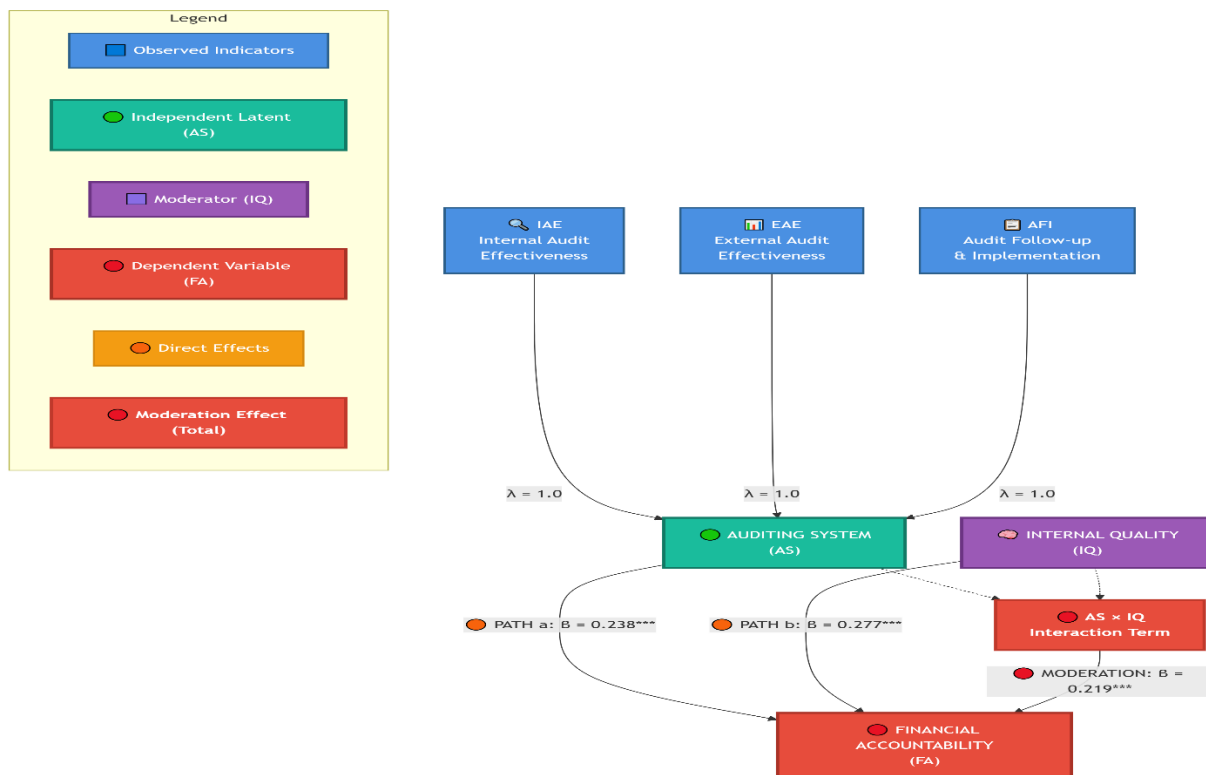


Figure 1 Structural Path Model for Auditing System

Source: Author's Computation, 2026

The Figure 1 depicted a structural path diagram illustrating the direct and moderated effects of the Auditing System components: IAE (Internal Audit Efficiency), EAE (External Audit Effectiveness), and AFI (Audit Findings Implementation) on Financial Accountability (FA), with Institutional Quality (IQ) acting as a moderator in the relationship. This visual emphasizes that institutional quality enhances the impact of internal and external audits more than it does for audit disclosure and implementation.

4.6 Discussions and Implications of Findings

The study predicts that Internal Audit Efficiency, External Audit Effectiveness and Audit Findings Disclosure and Implementation will not have significant effect on financial accountability of local governments in Southwest Nigeria. However, the responses obtained showed that these variables significantly influence financial accountability and this effect is enhanced with the intervention of institutional quality. As a result, the hypotheses are rejected.

Empirical works that justify these findings include Zeyn (2018), Jachi and Yona (2019) and Fonseca, e al., (2020) who found that effectiveness and independence of internal audit contribute to accountability, while Kamau, et. al., (2018) and Abdullah, et.al. (2022) found that external audit outcomes implementation positively affected financial performance and consequently financial accountability.

Qualitative findings regarding Auditing System reveal that internal audit is reactive rather than preventive, Auditor General for Local Government (AGLG) powers are constrained by politics and audit findings recommendations are not systematically implemented. This is supported by findings of Korje (2016) and Salim and Oluoch (2018) that inadequate implementations of audit recommendations affect accountability outcomes.

Theoretical support for these findings can be found in Agency Theory. The theory postulates that information asymmetry and self interest are the primary reasons why principals would put in place monitoring activities such as audit and performance-based incentives to align their own interest with that of the agent. In the local government context, auditing system, being a monitoring device, is needed to constrain management and staffs' opportunistic tendencies so that corruption, wasteful spending and inefficiencies can be avoided in the management of public resources.

The findings imply that quality institutions enhance both external audit effectiveness and internal audit efficiency. This shows that the quality of governance has a very strong influence on financial accountability. As a result, priority should be given to external oversight through the strengthening of the Office of the Auditor General for Local Governments by allowing the office operational independence, shielding it from political interference and ensuring prompt and transparent implementation of audit findings recommendations. The reactive rather than preventive internal audit implies that the internal audit function is not properly structured. As such, it should be re-organized to focus on high risk areas so as to constrain the opportunistic tendencies of local government staff in line with the dictates of agency theory.

5. Conclusion

This study provides significant insights into the interplay between auditing system and financial accountability in Southwest Nigeria local governments, and the extent to which institutional quality can moderate the relationship. All variables associated with the study were conceptualized. At the same time, the study employed the mixed method (quantitative and qualitative) approach to provide evidence that formed the basis of the findings of the study. Findings of the study indicate that enforcement of revenue rules and efficient collection practices positively and significantly predict financial accountability,

although government allocations do not. The study also revealed the crucial intervening role of institutional quality, which strengthens the positive effects of regulatory compliance and collection efficiency on accountability with the exception of allocations from the federal or state governments.

Findings based on the analysis of quantitative data collected showed that auditing system affect the achievement of financial accountability in local governments, Southwest Nigeria. Institutional quality was also found to significantly moderate the relationship by promoting proper auditing system and the achievement of effective financial accountability in local governments, Southwest Nigeria. The qualitative data equally revealed that auditing system is fraught with reactive rather than preventive internal audits, non-implementation of audit finding recommendations and the power of the Auditor General for Local Government (AGLG) to sanction officials found guilty of financial malpractices being constrained legally and politically. Based on the findings, the study concludes that this monitoring and control activity affects the achievement of financial accountability. In the light of this conclusion, internal audit efficiency, external audit effectiveness and audit findings disclosure and implementation are very significant aspects of the auditing system which should be accorded special recognition.

On the basis of these findings, it is recommended that reforms that guarantee auditor independence should be embarked upon; also, local government authorities should establish dedicated audit implementation units and ensure that appropriate sanctions are put in place for non implementation of audit findings. It is also recommended that the office of the auditor general for local governments should be empowered with enforcement authority to checkmate violation of rules and regulation guiding financial matters in local governments.

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