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Internal Audit Function and Business Performance in Quoted Manufacturing Companies in Nigeria

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Abstract:

The business failure syndrome and ailing state of the Nigerian manufacturing sector prompted this investigation, which empirically assessed the influence of internal audit function and business performance in manufacturing companies in Nigeria. The study sampled thirty two (32) quoted manufacturing companies. Data collection was by means of questionnaire and personal interviews. The quantitative, research data generated were analysed using Pearson's Product Moment Correlation aided by the statistical package for social sciences, while the qualitative data analysis was aided by GSR-NVIVO software. Concurrent methodological paradigm triangulation was adopted. It was found that internal audit function have positive and significant influence on business performance. From the study conclusion drawn was internal audit function very significantly enhances performance and growth of manufacturing firms. Therefore, we recommend that conscious improvement of internal audit mechanism will ultimately result to effective performance of operations in manufacturing.

Keywords: Internal audit function, business performance, manufacturing companies

1. Introduction

In recent times, high business performance is not an accident. It is the result of continuous sustained effort at improvement. Companies today are being called upon to do more with less. Intense economic pressure demand that companies constantly reinvent the way business is done to meet the challenges of a rapidly changing market place and business environment. Auditors can contribute to this improvement process by integrating performance improvement audit into the audit approach.

Agwor and Ndukwe (2010) in the discussion of Network of Internal audit function as a managerial analytical tool argued that Internal audit represents one of the functions of modern management. The aims of which is to detect operational short comings on time and help in the preparations of proposals for the improvement of management systems.

Contemporary internal audit doesn't only imply the audit of financial and accounting subsystem, it covers the audit of all activities of an organization. That is the internal control system is comprised of all policies and actions that were established by management to support management goals, including adhering to management policies, maintaining the integrity of assets, preventing and discovery of criminal acts and mistakes, accurateness and completeness of accounting records and timely presentation of reliable financial information.

According to internal audit standard, with the aim of assessing the risk and internal control, the system of internal control covers all activities accepted by the management in order to achieve the set goals.

Agwor and Ndukwe (2010), while presenting systemic analysis of internal audit function and business performance advanced that, The inconsistencies occasioned by the existence of inadequate internal control measure in business organization often manifest in poor performance, inefficient allocation and utilization of material resources and human capital. These in-turn hamper performance of business, which result from ineffective operational exigencies of the company.

The internal audit function can adapt to a new style of value driven activity with improvement audit geared towards helping the company perform at its peak level and in a way consistent with the core objectives and business environment of the organization. The ultimate goal bordering on improvement audit does not terminate only at rooting out inefficient processes and procedures, it also includes recommendation of avenues that can encourage or fast tract improvement of business practices and performance. Although, challenges abound when organization gears effort toward performance improvement thereby causing skepticism on the part of management and business process drives about internal audit's role in business performance improvement.

This paper is predicated on the investigation of the influence of internal audit function on business performance in quoted manufacturing companies.

2. Literature Review

The proposition made by Perrow(2001) that the key phenomenon in existence today are organizations, tend to be very relevant, when viewed from the perspective of all major achievement in organizations. The focus of an average business entrepreneur is generally to make profit and as far as possible maximize such within an organizational capacity. Though, a lot of non-profit making organizations also institutionalize internal audit practices, in the case of public corporations, the taxpayers or investors know through audit what is being accomplished. Nevertheless, there are difficulties and complications in trying to satisfy stakeholders in business organization on the basis of sound performance in their operation (Wynne 2007).

Internal audit practice is often relegated to the background in Nigeria, despite the fact that it objectively examines, evaluates and reports on the adequacy of internal control, as a contribution to proper economic, efficient, effective use of resources, risk management and corporate governance processes. The performance of businesses with its associated complexities, compels the owners or shareholders to position operational management assistants and subordinates in the performance of exigent functions required for the organisation's effectiveness (Oluyemi, 2004).

The consequences of the ailing state of publicly owned manufacturing companies in Nigeria and the seemingly unreliable state of auditor's report, are quite obfuscating to all stakeholders, particularly banks and other investors.

In the same regard, Adebayo (2006) argued that most business organisations do not have audit function and internal audit units or departments. This has the tendency to create some doubt on the relevance of auditing in business operations. This view appears to have disregarded the fact that the non-establishment of audit units does not imply that business organisations should not have control and fraud prevention functions performed by some designated staff.

The favourable measurement of effectiveness and efficiency are attributes of business performance. These measures appear to be born out of the desire efforts by management of business organizations to (in addition to the traditional management functions of Planning, Organising, controlling, directing and co-ordination), create internal audit unit, so as to achieve standard business performance. The intended result of auditing is the achievement of organizational goals and objective through conformity with laid down rules and work procedures, which also enhances sustainable performance of organizations (Russel 2007). Thus, it appears from Sawyer, (1923) that the same reason that has enhanced the evolution of the full audit function, such as industrial performance and stock market crash, have been principally responsible for the performance and development of internal audit practices.

Damagun (2003) argued that, management establishes a system of internal control to help it, meet its own goals. Certainly, two important goals of all organizations are efficiency and effectiveness. The following six concerns were identified as essential to a good system of internal control: Reliability of accounting records; Safeguarding of assets; Profitability; Prevention and detection of fraud and error; Timely preparation of reliable financial information; Discharge of statutory responsibilities.

These six points are also internal auditing concerns. For instance, reliable cost accounting information is important to management in deciding such matters as which products to continue and what billing price to set for products. Failure to discharge a statutory responsibility, such as remitting income tax deductions on time, may result in the payment of a large fine or penalty.

According to Sanusi(2007), for any business to attain substantial growth, the need for high ethical standard on the part of internal auditors and good corporate governance should be emphasized by management. Similarly Odozi (2002) a former deputy governor, central bank of Nigeria argues that the incidence of corporate distress, has been linked to failure of internal control. They could have possibly resulted from inadequate systems or where they existed, they were fundamentally compromised and breached. Thus, those who were expected to be the game keepers became game poachers, while those who were expected to be watch dogs became lap dogs. In the same regard, Akpata (2001) argued that "An effective internal audit service can, in particular, help to reduce overhead, identify ways to improve efficiency and minimize exposure to possible losses, from inadequate safeguards, all of which can have significant effect on the bottom line".

From the forgoing our theoretical focus is directed at the interrelationship between the measures of the predictor variable and those of the criterion variable which gave rise to possible hypothesization deduced from review of literature, thus:

H_{A1}: internal audit function has a significant relationship with business performance.

3. Methodology

The study is a cross sectional survey. The study sample were made up of 32 quoted firms listed on the Nigeria stock exchange (NSE). The study makes use of questionnaire designed on a 5-point Likert scale. The instrument was tested for validity and reliability. Pearson products movement correlation (PPMC) analysis was carried out to establish the strength and direction of the relationship between the two variables under study. This was done with the aid of SPSS version 20. Qualitative analysis was carried out using QSR NVIVO statistical software package. The results and findings were presented in the next section.

		INTERNAL AUDIT FUNCTION	BUSINESS PERFORMANCE
INTERNAL AUDIT FUNCTION	Pearson Correlation	1	.473**
	Sig. (2-tailed)		.006
	N	32	32
BUSINESS PERFORMANCE	Pearson Correlation	.473**	1
	Sig. (2-tailed)	.006	
	N	32	32

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

Table 1: Correlation Analysis of Internal Audit Function and Business Performance

A correlation value of 0.473** shows that a significant relationship exist between the major independent variable, Internal Audit function and the major dependent variable, Business performance at 99% confidence level or 0.01 level of significance. In buttressing this fact, therefore the relationship between internal audit function and business performance is significant. The correlation value of $r = 0.473^{**}$ shows a relatively strong relationship. The positive sign of the correlation coefficient implies that increase in internal audit function increased business performance. The correlation is however statistically significant at 0.01 level ($Pv = 0.006$). It is flagged significant by the SPSS output indicating that it satisfies the SPSS explanatory scheme, having identified a significant positive relationship.

4. Discussion

In this section, the discussed findings were drawn from interpretations of the results. This discussion is imperative to link our findings with the body of knowledge from which the theoretical knowledge was based. In this discussion sub-titles have been formulated, and have apparently been considered one after the other, to serve as direction or guide to the research findings discussion.

4.1. Appreciable Attention on Internal Audit Function

The univariate analysis on internal audit function is expected to act as a guide to determine, the extent of the existence of its dimensions, process control, assets safeguard and fraud prevention, in the firms studied. On that premise, this research investigation revealed that, the companies gave appreciable attention on internal audit function mechanism. This finding was drawn from our univariate analysis on the extent to which internal audit function is carried out in the firms we studied. Our finding on the existence of appreciable internal audit function is shown in the high score on the “strongly agree” and “agree” response options on process control, assets safeguard, and fraud prevention. The responses (higher frequencies) are more skewed to the left where “strongly agree” and “agree” are placed. The large scale or massive positive response on the existence of internal audit function in quoted manufacturing companies, supports Williamson's argument in Pfeffer (1982) that organizations are efficiency seeking systems. Following this line of thought, it implies that manufacturing organisations seek to achieve efficiency through such activities as process control, assets safeguard, and fraud prevention. The wholesome approach that manifest in this efficiency consciousness of the firm is internal audit function. The view of Pfeffer (1982) corroborates that of Stettler (1977) who argued that the internal audit function in organizations are means of reviewing the efficiency of operations.

However, given the wholesome positive response on the existence of internal audit function in our respondent organisations, we conclude that quoted manufacturing companies are audit conscious and therefore, efficiency driven.

4.2. Progressive Business Performance

The essence of our univariate analysis on the criterion variable was to examine and ascertain the extent of the existence of its measures, profitability, business effectiveness and efficiency, in the companies studied. Therefore, on interpretation of the results of univariate analysis on business performance, we found that quoted manufacturing companies are experiencing progressive business performance. This finding resulted from the high frequency responses on such measures as: profitability, effectiveness and efficiency. The reliance on such measure found support in Cattaneo (1988), Penrose (1959), Mintzberg (1979), Steers (1977), Katz and Kahn (1999) and Williamson (2001). In all, there is a general view that business performance is indicated in such measures as profitability, efficiency, and effectiveness.

Therefore, in our effort to ascertain the level of existence of business performance in our organizations, we have correspondingly evaluated the extent of profitability, efficiency and effectiveness of these manufacturing companies in this evaluation, there are high frequency responses on “strongly agree” and “agree”, indicating positive response on the wholesomely high value on profitability, efficiency and effectiveness. Given the high positive scores of the business performance measures, we conclude that our organizations business performance is enhanced.

5. Conclusion

Driving from the findings of this study, indications are that internal audit plays a critical role in business performance by monitoring organizational risks and ensuring that organizational processes are efficient and effectively controlled. Therefore, internal audit function can adapt to a new style of value driven activity with improvement audit geared toward helping the business perform at its peak level and in a way consistent with the core objectives of the organization.

The quoted manufacturing companies in Nigeria show laudable internal audit function performance. Manufacturing organizations have enhanced business performance trend. The more sophisticated and audit oriented the manufacturing firms' technology tends to be the more internal audit function tends to positively impact on business performance.

6. References

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