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Internal Auditor: A Management Decision Maker in Quoted Manufacturing Firms in Nigeria

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Abstract:

This research is designed to ascertain the perspective of internal auditing and strategy implementation, considering the standpoint of the internal auditor as a management decision maker. Thus, determining the outcome of internal auditing on strategy implementation in quoted manufacturing firms in Nigeria. In achieving this, questionnaire and personal interviews were used while data were analyzed using the simple percentage and frequency distribution methods. However, it was found that the internal audit personnel reviews and evaluates implemented business strategies; and that, successful implementation of strategies (policy) which leads to performance depends largely on the integrity and competence of the internal audit personnel because the internal auditor is involved in determining the executive functions such as strategy (policy) implementation. Therefore, we conclude that, the internal auditor is a 'management decision maker (strategist)' in quoted manufacturing firms in Nigeria.

Keywords: Internal auditor, management, decision-maker, strategist, policy, and implementation

1. Introduction

The practice of auditing in recent time is so complex as a result of its professional task. Auditing carries heavy responsibilities and calls for proportionate ability to make opinion. Conjoining to this complexity of the art of auditing is the up-to-date need for strategy implementation which serve to highlight its essential nature in relation to action orientation, comprehensive in scope and demand for varied skill. Action orientation is regarded as the first essential nature of strategy implementation because it entails action (Digman, 1996). To actualize the putting of strategies into action, the managers will have to apply knowledge and techniques of the management processes. With regard to the foregoing, implementation which is the action phase enables every business organization to monitor its scarce resources in order to obtain the ultimate aim of wealth increase. A sure and better way of actualizing the action phase of a strategy is by establishing an effective internal audit unit.

The Institute of Internal Auditors (IIA) in Whittington and Pany (2001, p.776), defined internal auditing as 'an independent objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'. From the foregoing, it is clear that internal audit plays an indispensable role in ensuring that the records, documents and accounts of a business organization is properly controlled and maintained in such a way that the results of operations and financial position show genuine attestation (Mautz, 1972) in Ukpai, Kellyyi and Hamilton (2006).

Howbeit, another aspect of the characteristics of strategy implementation which serve to highlight its essential nature is seen in relation to wide ranging involvement and integrated process (Fred, 1995). Wide ranging involvement as opposed to strategy formulation is primarily a top management responsibility, strategy implementation necessitates the participation of middle level managers which the internal auditor is involved in the integrated process. He further described such integrated process and said, strategy implementation has to act in a holistic manner because each task or activity performed is related to another, creating an interconnected network, the hub of which to be the strategic plan. Nevertheless, the practice of auditing and strategy implementation is an important professional task carrying heavy responsibility and calling for commensurate skills and judgment. Auditors who are decision makers (strategist) must decide for themselves the nature and extent of work which is necessary to enable them to discharge the responsibility they have undertaken (Hubbard, Ellison and Strawer, 1995). However, among other branches of accounting and business policy, internal auditing and strategy implementation are most misunderstood. Many, particularly those that could have

found favour or benefit from the loopholes in the control system are mostly affected by the activities of auditing and strategy implementation. Based on the above, this research is designed to ascertain the perspective of internal auditing and strategy implementation, considering the standpoint of the internal auditor as a management decision maker (strategist). Thus, determining the outcome of internal auditing on strategy implementation is quoted manufacturing firms in Nigeria. The following research questions guided the conduct of this research:

- To what extent does the internal audit personnel review and evaluate implemented business strategies (policy) in a firm.
- To what extent does the internal auditor involved in determining the executive functions such as the strategy (policy) implementation in a firm.
- To what extent does top management appreciate the internal auditor reports regarding profit maximized and other aspect of his work in a firm.

2. Literature Review

2.1. Theoretical Foundation

Ahiauзу (2007) observed, it is impossible that researchers address their mind to four important posers while developing their concept. He noted that, these posers to be addressed should include: (i) What is the baseline social theory on which my study concepts are founded? (ii) What is the general statement of the theory? (iii) What is the underlying assumption behind it? and (iv) What are the implications for the theoretical foundation of my study? With regard to the foregoing, the theoretical formulations which divulge internal auditing and strategy implementation in quoted manufacturing firms in their transformation point could be to such baseline social/organizational theories such as: resource dependency theory and upper echelon theories.

2.2. Resource Dependency Theory

As Pfeffer and Gerald (1982) in Ajetunmobi (2016) observed, resource dependency theory clarifies the extent to which organizations depend upon sources from an external resource; which impact its corporate governance framework in regards to the calculated management of external relationship along with applying control over such organization.

2.3. Upper Echelon Theory

Ibama (2016) noted that, every existing firm is classified into groups of persons on the basis of their functions and decision levels within the organization. Howbeit, the theoretical standpoint of internal auditing and strategy implementation regarding the upper echelon theory is that internal auditing craft or designs the strategic plans and decisions like corporate social responsibility strategy or policy made at this upper echelon of the organization.

2.4. Conceptual Review

The conceptual review of this research is discussed under the following headings:

- Perspective of Internal Auditing and Strategy Implementation.
- The Standpoint of the Internal Auditor in Business Organizations.

2.4.1. The Perspective of Internal Auditing and Strategy Implementation

The characteristics of auditing and strategy implementation varies from one business organization to another but a general characteristic in any business organization is concerned with the proper recording, classifying, analyzing, controlling and reporting of information to the management and advising the management on the system currently in operations in the business (Whittington and Pany, 2001). More so, Millichamp (2002) described other advantages derived from internal audit efficiency and implementation which are seen as the traditional functions in control of business organization as: (i) Assurance that financial and other systems are secure to prevent significant loss. (ii) Improved efficiency and risk reduction both from recommendation which are implemented and from the deterrent effect of auditing and strategy implementation presence and (iii) Service in advice on process control. That is, business advice on improving implementation techniques and objective appraisals.

2.4.2. The Standpoint of Internal Auditor in Business Organization

As Whittington and Pany (2001) observed, internal auditing is concerned with the aim of implementing social responsibility adopted by those at the level of top management and review of implementation in corporate policies, plans and procedures. This implies that, corporate social responsibility policy or strategy is the decision of the top management which is domiciled at the apex level but vested upon the internal auditor to make an objective opinion to management (Ibama, 2016). Also, Mautz (1972) in Ukpai et al., (2006) observed, internal audit performs a valuable function in strategy implementation in order to carry out the trade of the organization by ensuring compliance with legal requirement and organizational rules. With regard to the foregoing, one is bound to believe that the effectiveness of business organizations and its strategic issues rest much on the internal auditor because he presents the moving force that propels the top management in the business organization.

2.5. Empirical Review

This section of the review of related literature examines other relevant studies as it proportionately or disproportionately relates to the internal auditor being a management decision maker (strategist). The work of Agwor (2011) set out to study 'internal audit function and business performance in quoted manufacturing companies in Nigeria'. The problem which necessitated the study focused on how internal audit affects business performance given an organizations corporate culture, size and technology. The purpose was to empirically access the influence of internal audit function on business performance in Nigerian quoted manufacturing companies. However, the study revealed that process control and assets safeguard have positive and significant influence on profitability, business effectiveness and efficiency.

With respect to the above facts, the work of Agwor (2011), is different from this research because this research discussed the perspective of internal auditing and strategy implementation by hinging on and/or conjoining the 'standpoint' of the 'internal auditor' as a 'management decision maker (strategist)' in quoted manufacturing firms in Nigeria.

3. Methodology

In order to determine an effective result for this study, 41 structured questionnaires were designed and administered on the top management level, internal auditors and staff of the internal audit and strategy implementation unit of quoted manufacturing firms in Nigeria. These firms are in different productive circles. Out of the 41-questionnaire distributed, 40 were returned and used for data analysis. The descriptive statistical tool which involves frequency distribution, average and simple percentage was employed for data analysis. However, the key below is a guide for clarity and understanding of the symbols used in the frequency tables in the result section.

KEY/SCALED POINT(S)

GE= Great Extent=4

CE= Considerable Extent=3

ME= Moderate Extent=2

SE= Slight Extent=1

NNU= Not at all/Neutral/Unsure=0

Weighted Score= Points*Responses

4. Data Analysis and Results

4.1. Effectiveness of the Internal Audit Personnel

This section of the study examines how effective and important the internal audit personnel (auditor) is in quoted manufacturing firms in Nigeria. Thus, the internal auditor becomes a management decision maker (strategist). Questions in our structured questionnaire sought respondent's opinion regarding these issues. Our findings from the various questions asked are presented in table 1.

Items	Questions	Option Points	GE 4	CE 3	ME 2	SE 1	N/U 0	Total
Q1	The internal audit personnel in my firm review and evaluate implemented business strategies (policy).		11 (27.5%) 44	23 (57.5%) 69	4 (10.0%) 8	2 (5.0%) 2		40 123
Q2	Successful implementation of strategies (policy) that leads to performance in my firm depends largely on the integrity and competence of the internal audit personnel.		25 (62.5%) 100	15 (37.5%) 45				40 145
Q3	The internal auditor in my firm is involved in determining the executive functions such as the strategy (policy) implementation.		34 (85.0%) 136	4 (10.0%) 12		2 (5.0%) 2		40 150
Q4	Resource deployment is a major audit activity that enables strategic action to be effective in my firm.		11 (27.5%) 44	27 (67.5%) 81	2 (5.0%) 4			40 129
Q5	Top management often appreciates the internal auditor reports as a result of the profit maximized as well as other aspect of his work in my firm.		17 (42.5%) 68	21 (52.5%) 63	2 (5.0%) 4			40 135

Table 1: Effectiveness of the Internal Audit Personnel

Source: Survey Data, 2020

From the responses distribution shown on table 1, item denoted Q1, 23(57.5percent) responses and Q5, 21(52.5percent) responses in each case with frequency weighted score of 69 and 63 respectively said 'considerable extent' that, the internal audit personnel in their firm review and evaluate implemented business strategies (policy); and that, top management often appreciate the internal auditor's report as a result of the profit maximized as well as other aspect of the auditor's work in their firms. Also, the item denoted Q2, 25(62.5percent) responses with frequency (weighted) score of 100 out of 145 total weighted score said 'great extent' that, successful implementation of strategies (policy) which leads to performance in their firms depends largely on the integrity and competence of the internal audit personnel. More so, the item denoted Q3 representing 34(85.0percent) responses with frequency (weighted) score of 136 out of 150 total weighted score said 'great extent' that, the internal auditor in their firm is involved in determining the executive functions such as the strategy (policy) implementation but only 2(5.0percent) responses in the item denoted Q3 stressed to a 'slight extent' to the question asked. With respect to the responses of 34(85.0percent) as mentioned, it is obvious that the internal auditor in these firms is involved in determining the executive's functions such as the strategy (policy) implementation. Nevertheless, in the item denoted Q4, 27(67.5percent) responses with frequency weighted score of 81 out of 129 total weighted score said 'considerable extent' while 11(27.5percent) responses with frequency weighted score of 68 out of 129 total weighted score said 'great extent' and 2(5.0percent) responses said 'moderate extent'. From the analysis on the item denoted Q4, one is bound to believe that resource deployment is a major audit activity that enables strategic action to be effective in the respondent's firms because 27(67.5percent) and 11(27.5percent) responses in each case said 'considerable extent' and 'great extent' respectively to the question asked.

5. Discussions of Findings

As Mautz (1972) in Ukpai et al., (2006) observed, internal audit performs a valuable function in strategy implementation in order to carry out the trade of the organization by ensuring compliance with legal requirement and organizational rules.

Our result confirms this observation and shows among other things that:

- 57.5 percent of our respondents are in support that the internal audit personnel reviews and evaluates implemented business strategies (policy) of a firm.
- 62.5 percent of our respondents are of the opinion that, successful implementation of strategies (policy) which leads to performance depends largely on the integrity and competence of the internal audit personnel of a firm.
- 85.0 percent of our respondents believe that the internal auditor is involved in determining the executive functions such as strategies (policy) implementation.
- 67.5 percent of our respondents think that resource deployment is a major audit activity that enables strategic action to be effective in a firm.
- 52.5 percent of our respondents also believe that, top management often appreciate the internal auditor reports as a result of the profit maximized as well as other aspect of the auditor's work in a firm.

The overwhelming positive response on the empirical reality of the perspective of internal auditing and strategy implementation, considering the standpoint of the internal auditor in quoted manufacturing firms in Nigeria supports Ibama (2016) argument that, corporate social responsibility policy or strategy is the decision of the top management which is domiciled at the apex level but vested upon the internal auditor to make an objective opinion to management.

6. Conclusion

We conclude this research work by determining that, the internal auditor is a 'management decision maker (strategist)' in quoted manufacturing firms in Nigeria because he is involved in determining the executive functions such as the strategy (policy) implementation.

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