Global Scientific JOURNALS

GSJ: Volume 11, Issue 11, November 2023, Online: ISSN 2320-9186

www.globalscientificjournal.com

Effect of Internal Audit on the Performance of Business Organization in Ekiti, State, Nigeria

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Abstract

Internal audit has become a vital process in the smooth and fair running of an organization as it entails a systematic and independent investigation of records, financial statements and business operations and performances. In this study, the effect of internal audit on the business organization performance in Ekiti State, Nigeria is examined. The specific objectives are to assess the independence of internal audit department and examine their level of competence. Also, the effect of size of internal audit department on the performance of business organization was evaluated. Probabilistic sampling technique was adopted and one hundred and twenty (120) copies of close-ended questionnaire were self-distributed to respondents that are either business owners or business employers in Ekiti State. Data collected were analyzed using mainly frequency counts and mean score while the stated hypotheses were tested using simple regression statistical tool via SPSS version 20.0 at 5% level of significance. The result from the study carried out showed that 83% of the total questionnaires distributed were analyzed and the analysis revealed that a positive relationship between the independent variables and the dependent variable. This mean that the internal audit process has positive effect on the performance of business organization in the study area which is statistically significant at $P < 0.05$. It is therefore recommended that business in the study area and beyond should ensure uncompromising engagement of internal audit process in their businesses in order to improve their performances and organization.

Keywords: Internal audit; Business operation; Frequency analysis; simple regression; Ekiti State

Introduction

Auditing has become a household term in modern era and it encompasses a wide range of activities with numerous objectives. Generally, it has acted as a check and balance to give the government's business representatives or departments (internal audit) and established legislature (external audit) the assurance and trust that public funds are received and used in accordance with the necessary relevant and established laws and regulations, and that the government's or private business financial performance reports are accurate and truthful and they are generated from the underlying financial records and position of the organization (Akeem et al., 2019; Asika et al., 2020). Moreover, the role of internal audit in business is to ensure the proper conduct of it by paying attention to assets safeguarding, fraud and error prevention and detection, thoroughness of account records, policy management and so on (Nyakundi et al., 2014; Shahnawaz, 2016). The need for businesses to exist stems from the desire of suppliers, employees, and investors to make their money work for them. Barlow et al. (1995) state that internal auditing assists unit managers at all organizational levels in resolving performance issues. By doing this, their performance is enhanced, which in turn enhances the performance of the organization. According to Chambers and Rand (1997), it is extremely uncommon to find a business of any size without an internal auditing department. Internal auditing is now frequently the management's go-to resource for guidance on economy, effectiveness, and efficiency, surpassing other management services in many circumstances (Abbott et al., 2016; Akeem et al., 2019).

An essential component of a successful auditing process is the internal auditor. This person aids in safeguarding company assets and is expected to provide a consistent account of how the assets have been used. They also enable ongoing evaluation of whether the criticism satisfies open goals and desires and whether these are generally adjusted to lessen the risks inherent in the central operator relationship (Testa et al., 2018). Concerns about how successfully internal evaluation fulfills this role have been more prominent than before as it has grown in significance within the broader condition of administration and control (Sunyoto et al., 2017). While there have been notable instances where internal audit has been perceived as at least partially successful, the current global financial crisis has forced us to examine how effective internal audit is, both in its more traditional role of verifying budgetary fidelity and internal control consistency and its later, and somewhat self-announced role as an essential component of the risk management culture inside extensive financial elements, whether in the private or public domains. In comparison to the attention directed toward external audit, there have typically been relatively few studies conducted to determine the feasibility of internal audits and its effect on business performance (Dahir and Omar, 2016; Chen et al., 2017).

Research on internal audit function and its performance on business organization has primarily been conducted in most parts of the world, with very little research conducted on it in Nigeria. Ziniyel et al. (2018) came to the conclusion that good internal audit methods are essential for impacting Ghana's financial performance. In their study, Bunu and Omwenga (2017) came to the conclusion that Lamu County has an efficient internal audit function that monitors and assesses organizational activities. This function is capable of detecting fraud, but it is unable to stop or manage it. According to Abeer (2015), internal auditing has a positive impact on the commercial banks in Jordan's financial performance. Ejoh and Ejom (2014) carried out research at the Cross River State College of Education in Akamkpa, Nigeria. The investigation discovered that the College's internal audit department lacks adequate staffing and does not carry out its responsibilities with a higher level of autonomy and independence from management. Additionally, additional their research showed that the Cross River State College of Education's financial performance is not significantly impacted by the internal audit function. This outcome of the latter study revealed the need for more internal audit study in the Nigeria business sector in order to curb various irregularities and inconsistencies that may affect the performance of business organization.

Hence, this study aims at examining the effect of internal audit on the performance of business organization in Eki State, Nigeria and these will be achieved via the following objectives: (i) To examine the independence of internal audit department on the performance of business organization in Ekiti State (ii) To investigate the effect of the size of internal audit department on the performance of business organization and (iii) To examine the level of competence of internal audit department on the performance of business organization in Ekiti State.

Research Methodology

Research design and study area

In the study, the survey research design approach was adopted. The design was considered suitable for the study because it involves gathering data from members of a population in order to determine the current status of the topic under consideration as it relates to one or more variables. The sample population consist of all business organization in Ekiti State, Nigeria. Ekiti State is located in South

Western part of Nigeria between longitudes 40°51′ and 50°451′ East of the Greenwich meridian and latitudes 70°151′ and 80°51′ north of the Equator. It has a total land area of 5887.890 km^2 and a total of 16 Local Government area. By the 2006 population census coordinated by the National Population Commission, Ekiti State population was recorded as approximately 2,384,212 people. However, by future projection using 2.6% annual population change, the estimated population by 2022 is 3,592,200. Although, greater percentage of workforce in Ekiti State are Civil Servants working for government or public organizations, a reasonable percentage operate various private organizations.

Sample size and data collection methods

Probabilistic sampling technique was used. The element of the population consists of different business owners/entrepreneurs or business managers which range from private to public organizations. Data will be collected using both primary and secondary sources; the secondary sources consist of journals, newspapers, magazines and online databases via internet. The primary sources are questionnaire and direct interviews. One hundred and twenty (120) copies of questionnaire were distributed to respondents and they were self-administered in order to minimized bias and improve response rates. In addition, the researchers selected this number of respondents for easy accessibility. All the structured questions are close-ended with four choices provided to the respondents to select their most perceived option. These choices are Strongly Agree (SA), Agree (A), Disagree (D) and Strongly Disagree (SD). The respondents were given three weeks to give their opinion and the questionnaires distributed were retrieved at the completion of the date.

Method of data analysis

Quantitative data received were coded manually, organized, and analyzed using percentages, frequencies and Chi Square method. The results were presented in tabulated form for easy interpretation. From the interviews, data were sifted through sorted and coded. Qualitative data generated from the question asked were organized into themes, categories and patterns pertinent to the study. This help to identify information relevant to the research questions and objectives. Statistical Package for the Social Science (SPSS) 22 version was used to analyze the data and hypotheses were tested using simple regression tool at 5% level of significance.

Results and Discussion

The demography analysis of the respondents was initially presented before the analysis of the research questions obtained from them were outlined. Out of the 120 copies of questionnaires distributed, 106 questionnaires were retrieved. However, only 100 copies of the retrieved questionnaires are eligible for analysis as the data of the remaining 6 are either incomplete or inconsistent. The number of analyzed questionnaires represents 83% of the total distributed questionnaires. Firstly, three important personal characteristics of the respondents consisting of the sex, age and education qualification were analyzed and presented in Table 1. Thereafter, analyses and interpretation of the questions relating to the effect of internal audit on the performance of business organization in Ekiti State are presented.

Table 1. Personal Characteristics of Respondents

Respondent Characteristics		**Respondents**	**Percentage (%)**
Sex	Male	67	67%
	Female	33	33%
	Total	100	100%
Age	20-30	23	23%
	30-40	43	43%
	40-50	25	25%
	50 and above	9	9%
	Total	100	100%
Educational Qualification	SSCE	0	0%
	OND/NCE	14	14%
	HND/BSC	69	69%
	Masters and above	17	17%
	Total	100	100%

Table 1 shows that out of the 100 respondents, 67 were male representing 67% of the total number of respondents, while 33 respondents representing 33% were female. This implies that more of the respondents who are business and organization owners are males compare to their female counterparts. This is because men generally have the tendencies to run organizations than women especially in the study area. Also, 43% of the respondents are between the age range of 30 – 40 thus claiming the top spot while respondents between age 20 – 30 and 40 – 50 constituted 23% and 25%, respectively. Only 9% of the respondents are between the ages of 50 and above. This result implies that most of the respondents involved in business in the study area are in their prime and active years. Regarding education qualifications, 69% of the respondents have bagged either their Higher National Diploma (HND) or Bachelor's degree, while 17% of the respondents are Masters and above holders. The remaining 14% of the respondents are either Ordinary National Diploma (OND) or National Certification of Education (NCE) holders. None of the respondents are Senior School Certificate Examination (SSCE) holders. This implies that a large percentage of the respondents are well-educated which will positively affect the outcome of the analysis.

The frequency computation and analysis of the effect of internal audit on the performance of business organization in Ekiti State based on the respondent choices are showcased under three categories as follows. A total of fifteen research questions were asked and their percentage frequency were discussed accordingly.

In category A, the effect of financial efficiency on financial accountability in the study area were examined and the respondents were asked to select their most perceived option. Their selection with the frequency estimation is shown in Table 2.

Table 2. The Effect of Financial Efficiency on Financial Accountability in the Study Area

S/N	ITEMS	F	SA	A	D	SD	TOTAL
1.	There is accountability of public funds in Ekiti State public sectors.	*No. of respondents*	42	58	0	0	100
		Freq (%)	42	58	0	0	
2.	There is professional base of accountants in terms of number and quality to support management of public expenditure in Ekiti State.	*No. of respondents*	18	56	14	12	100
		Freq (%)	18	56	14	12	
3.	There is lack of accountability which is caused by inefficient record keeping.	*No. of respondents*	34	46	20	0	100
		Freq (%)	34	46	20	0	
4.	To ensure accountability in the public sector, the State external auditing must be involved.	*No. of respondents*	44	56	0	0	100
		Freq (%)	44	56	0	0	
5.	The steps in (4) above reveals errors and any form of fraud.	*No. of respondents*	30	54	16	0	100
		Freq (%)	30	54	16	0	

The above frequency analysis shows that 42 (42%) of the respondents strongly agree there is accountability of public funds in the state public sector while the remaining 58 (58%) of the respondents just agreed to the statement. None of the respondents either disagreed or strongly disagree to the statement. The analysis further shows that 18 (18%) of the respondents strongly agreed that there is professional base of Accountants in terms of number and quality to support management of public expenditure in Ekiti State. Meanwhile, 56 (56%) agreed, 14 (14%) disagreed while 12 (12%) strongly disagreed to the statement. Asking further if lack of accountability is caused by inefficient record keeping, the frequency analysis indicates that 34 (34%) of the respondents strongly agreed to the statement while 46 (46%) agreed. Only 20 (20%) of the respondents disagreed with no respondent who strongly disagreed with the statement. The analysis also shows that 44 (44%) of the respondents strongly agreed that to ensure accountability in the public sector, the Ekiti State external auditing must be involved while 56 (56%) of the respondents simply agreed to the statement. None of the respondents either disagreed or strongly disagreed to the statement. On the latter question asked if the action reveals errors and any form of fraud, only 30 (30%) of the respondents strongly agreed, 54 (34%) agreed and 16 (16%) disagreed to the statement. None of the respondent strongly disagreed to the statement.

In category B, the effect of financial effectiveness on financial account in the study area were examined and the respondents were asked to select their most perceived option. Their selection with the frequency estimation is shown in Table 3.

Table 3. The Effect of Financial Effectiveness on Financial Account in the Study Area

S/N	ITEMS	F	SA	A	D	SD	TOTAL
1.	It provides necessary and needed information for planning and decision making.	*No. of respondents*	43	57	0	0	100
		Freq (%)	43	57	0	0	
2.	It reveals the huge sum of money that Ekiti State government has lost due to lack of accountability.	*No. of respondents*	29	30	21	20	100
		Freq (%)	29	30	21	20	
3.	Accountability level in Ekiti State public sector correlates directly with existing accounting infrastructure.	*No. of respondents*	17	20	45	18	100
		Freq (%)	17	20	45	18	
4.	It makes the financial statement assessable to the public for performance evaluation.	*No. of respondents*	18	56	14	12	100
		Freq (%)	18	56	14	12	
5.	It reveals the ineffective accountability in the Ekiti State public sector is caused by poor accounting infrastructure.	*No. of respondents*	42	50	8	0	100
		Freq (%)	42	50	8	0	

Table 3 shows that 43 (43%) of the respondents strongly agree to the statement that necessary and needed information for planning and decision making is provided while the remaining 57 (57%) simply agreed to the statement. None of the respondents either disagree or strongly disagree to the statement. Asking further, the results shows that 29 (29%) of the respondents strongly agreed to that huge sum of money that Ekiti State government has lost due to lack of accountability is revealed while 30 (30%) simply agreed. Only 21 (21%) and 20 (20%) of the respondent disagree and strongly disagreed to the statement, respectively. Also, the result reveals that 17 (17%) of the respondents strongly agreed to the statement that accountability level in Ekiti State public sector correlates directly with existing accounting infrastructure while 20 (20%) agreed. Only 45 (45%) of the respondents disagreed while the remaining 18 (18%) strongly disagreed to the statement. The result further shows that 18 (18%) of the respondents strongly agreed that it makes the financial assessable to the public for performance evaluation while 56 (56%) simply agreed to the statement. 14 (14%) and 12 (12%) of the respondents simply disagree and strongly disagreed, respectively, to the statement. Lastly on the statement provided, the result shows that 42 (42%) of the respondents strongly agreed that the ineffective accountability in the Ekiti State public sector is caused by poor accounting infrastructure while 50 (50%) simply agreed to the statement. On the other hand, 8 (8%) of the respondents disagreed while none strongly disagreed to the statement.

In category C, the effect of financial economy on financial accountability in the study area were examined and the respondents were asked to select their most perceived option. Their selection with the frequency estimation is shown in Table 4.

Table 4. The Effect of Financial Economy on Financial Accountability in the Study Area

S/N	ITEMS	F	SA	A	D	SD	TOTAL
1.	It reveals the economic resources of the study area.	*No. of respondents*	32	34	18	16	100
		Freq (%)	32	34	18	16	
2.	It gives the details of income and expenditure.	*No. of respondents*	41	59	0	0	100
		Freq (%)	41	59	0	0	
3.	It helps in developing Ekiti State Economy due to financial discipline systems.	*No. of respondents*	28	30	22	20	100
		Freq (%)	28	30	22	20	
4.	Electorate is satisfied with the state of public infrastructure and services compared with the amount of resources investment in the study area	*No. of respondents*	16	20	46	18	100
		Freq (%)	16	20	46	18	
5.	Transparency is encouraged.	*No. of respondents*	42	50	8	0	100

		Freq (%)	42	50	8	0	

Table 4 above revealed that 32 (32%) of the respondents strongly agree that the effect of financial economy on financial accountability reveals the economic resource in the study area while 34 (34%) of the respondents simply agreed to the statement. The remaining 18 (18%) and 16 (16%) of the respondents disagreed and strongly disagree to the statement, respectively. Furthermore, 49 (49%) of the respondents strongly agreed that it gives the details of income and expenditure while the remaining 51 (51%) of the respondents simply agreed. None of the respondents disagreed or strongly disagree to the statement. The table also shows that 28 (28%) of the respondents strongly agreed to the statement that it helps in developing Ekiti State economy due to financial discipline system. Meanwhile, 30 (30%) of the respondents agreed. Only 22 (22%) and 20 (20%) of the respondents disagreed and strongly disagreed to the statement, respectively. It was also observed that only 16 (16%) of the respondents strongly agreed that electorate is satisfied with the state of public infrastructure and services compared with the amount of resources investment in the country while 20 (20%) agreed to the statement. On the other side, 46 (46%) of the respondents simply disagreed while 18 (18%) strongly disagreed to the statement. For the statement on the "encouraged transparency", the result shows that 42 (42%) strongly agreed while 50 (50%) agreed to the statement. Meanwhile, 8 (8%) of the respondents disagreed while none strongly disagreed to the statement.

Test of Hypotheses

Ho: Independence of internal audit department has no significant effect on the performance of business organization in Ekiti State.

Ho: The size of internal audit department does not have any significant effect on the performance of business organization.

Ho: The level of competence of internal audit department does not have any impact on the performance of business organization.

H1: Financial efficiency has significant effect on financial accountability in Ekiti State.

H2: Financial effectiveness has significant effect on financial accountability in Ekiti State.

H3: Financial economy has significant effect on financial accountability in Ekiti State.

The hypotheses were tested using simple linear regression (SPSS) and the results is shown as follows:

Regression analysis: **Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.742[a]	.550	.536	.29433

a. Predictors: (Constant), FEF, FIE, FEO

b. Dependent variable: FIA

The above table shows the model summary and the value of R is .742 which shows that there is strong correlation between independent and dependent variable.

The value of adjusted R^2 is .536 which shows that the model is good fit.

Therefore, all our alternative hypothesis is accepted with the significance value less than 0.05 which shows that all independent variables have great influence on dependent variable Financial Accountability (FIA).

ANOVA[b]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	10.169	3	3.390	39.128	.000[a]
Residual	8.316	96	.087		
Total	18.485	99			

a. Predictors: (Constant), FEF, FIE, FEO

b. Dependent Variable: FIA

The above table shows that F significance is 0.000 which is less than 0.05. This shows all the independent variables did good job in explaining the dependent variable.

Therefore, the tested hypotheses are explained as follows:

Hypothesis 1: The findings of the study reveal that financial efficiency has significant effect on financial accountability in Ekiti State as F significance is 0.000, which is less than 0.05.

Hypothesis 2: Financial effectiveness has significant effect on financial accountability in Ekiti State as F significance is 0.000, which is less than 0.05.

Hypothesis 3: Financial economy has significant effect on financial accountability in Ekiti State as F significance is 0.000, which is less than 0.05.

Conclusion

This study has focused on the effect of internal audit on the performance of business in Ekiti State in Nigeria. Specifically, three research objectives were raised through which research questions were raised and hypotheses were formulated. In line with the specific variables of the study, several and relevant literatures were reviewed to aid the attainment of the stated objectives. The study adopted descriptive research survey for collecting information about people's opinions via simple random technique and the population of the study covered all the business enterprises in Ekiti State. The study was primary-based hence, a close ended questionnaire was used to elicit needed information from the sampled respondents. To ensure that the items on the questionnaire were appropriate and relevant to the questions raised, validity and reliability of the instrument were done and it was determined that the items on the questionnaire were appropriate. Descriptive statistics such a frequencies and percentages were used to analyzed the data generated from socio-demographic variables of the respondents. To achieve the objectives, Chi-square was used to test the hypotheses and it was discovered that internal audit has effect on the performance of business organization. As owners of the business organization are separated from the management, this has necessitated the need for auditing. Usually, internal auditing in the public sector serves as a simple administrative procedure comprised mainly of checking accuracy of transactions, pre-payment verification and control, counting assets and reporting on past events to various types of management. Conclusively and evidently the study revealed that independence of internal audit department has significant effect on the performance of business organization in the study area. Meanwhile, the size of internal audit department and the level of competence of internal audit department does not have any significant effect or impact on the performance of business organization.

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