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Impact of internal auditing on the effective performance of an organization for sustainable development in Nigeria

by

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Abstract

For an organization to be efficient and effective in the discharge of its duty and achievement of its set goals, it needs to have amongst others, good leadership, competent man power, adequate resources and good measures of internal control and internal control is seen as the integrate collection of control mechanism used to achieve a desired result, among which is the internal audit which is an essential element of internal control thus, this paper centres on the impact of internal auditing on the effective performance of an organization. The main objective of this study is aimed at evaluating the role internal audit play in the effective performance of an organization for sustainable development in Nigeria. The research uses both primary and secondary sources of data collection. The survey design was adopted in conducting the study so as to give an insight into the topic understudy. The population of the study comprises of 55 staff of a Local Government area in Kogi State, Nigeria. Taro Yamane formula was used to selecting 48 staff of the LGA as sample size because the nature of financial misappropriation committed in all the local government areas in Nigeria appears to be the same. The analytical tool used in analyzing the data collected for this study is descriptive statistical tools. The descriptive statistical tools used were simple percentages and tables. Analysis of Variance (ANOVA) was used in testing the hypothesis formulated. On testing the hypothesis it was discovered that internal audit has significant influence on the effective performance of an organization for sustainable development. A lot of useful recommendations were made based on the findings of this study among which are appropriate measure should be put in place to checkmate staff who will violate laid down rules, regulation and procedure and adequate orientation should be put in place to orientate staff who sees auditor as people that witch-hunt them or that find faults but that auditors are fact finders.

Keywords: internal control, internal auditing, effective performance, *Detecting*

1 Introduction

Internal auditing has traditionally been thought of as a self-imposed internal check and audit that entailed going around notifying individuals about their failures within the firm. It is also thought to have limited itself to verifying that accounting and allied records were correctly

preserved, that an asset management system was in place to secure assets, and that policies and procedures were in place and being followed. (Lawal,2016) Internal auditing, however, has evolved with the changing times and business environment, and modern approaches suggest that it should not be limited to financial issues alone, but should also include issues such as cost benefit, resource utilization and deployment, matters of propriety, management effectiveness, and so on. Internal auditing is an impartial and objective assessment service provided by an organization (Musa, Ifurueze and Bernard 2013). As a result, good leadership, competent manpower, adequate resources, and good measures of inter control are required for an organization to be efficient and effective in the discharge of its duties and achievement of its set goals (Musa, Success and Ifurueze 2013). Internal control is defined as an integrated collection of control mechanisms used to achieve a desired result, among other things, internal auditing is an important part of internal control (onday, 2017)Connor (2016) opined that internal control is considered important in an organization because today's economic environment requires that management of every organization be it private or public should take adequate steps considered necessary to establish and sustain an effective internal control system with a view to ensuring effectiveness, efficiency and economical operations. It also ensures the accuracy and the completeness of accounting information as well as compliance with the Internal control is important in an organization, according to Connor (2016), because today's economic environment necessitates that management of every organization, private or public, take the steps necessary to establish and maintain an effective internal control system in order to ensure effectiveness, efficiency, and cost-effective operations. It also guarantees that accounting data is accurate and full, as well as that laws and procedures are followed. The organization lacks a structure for effective monitoring of activities and operations, making it difficult to meet corporate objectives. (Adeniji et al., 2004)Despite the existence of an internal control system, loopholes may exist in a business; as a result, steps should be put in place to curtail the activities of fraudulent inclines persons within the firm, necessitating the necessity for internal audit. The establishment of an internal audit unit within a company not only serves as a deterrent to fraudsters, but also as a managerial control instrument that measures and evaluates the efficiency of other controls (Dandago, 2012). The primary responsibility of an organization's internal audit unit is to ensure the accuracy and reliability of accounting records, as well as to review the soundness in principle and effectiveness in the operation of accounting and other financial procedures and controls, in order to determine the extent of compliance with established policies, plans, and procedures (Musa, Success and Nwaorgu 2015).It is also mentioned that the internal auditor's responsibility is to give management with a periodic report on the operation that compares actual performance to estimates, allowing management to take corrective action as needed (Biggs 2018). On this point, the topic of this paper, which is internal audit and an organization's effective performance, will be discussed. This was chosen in order to explain to an organization's management the role of internal auditing in diverse organizations and how it affects the organization's effective performance.

Research Objectives

The main objective of this write up is aimed at evaluating the relationship between internal auditing and effective performance of an organization for sustainable development and to examine the role plays by internal audit in the organization in order to enhance effective performance. Other objective include.

- i. To find out factors that hinder effective internal auditing in an organization and
- ii. To examine how effective the internal audit unit is in organizing the activities of various units in order to achieve the organization's set goals and objectives.

2. Conceptual Issues

Internal auditing is described as "an impartial, objective, assurance and consulting activity aimed to add value and improve an organization's operations," according to the Institute of Internal Auditors of the United Kingdom and Ireland. It assists a company in achieving its goals by implementing a systematic, disciplined approach to evaluating and improving the efficacy of risk management, control, and governance systems (Dorathy, 2015)It is also defined by the Institute of Internal Auditors in New York as "an independent evaluation activity within an organization

for the review of accounting financial statements and other activities on the basis of service to the organization." It's a type of managerial control that measures and evaluates the effectiveness of other controls." These two (2) definitions of internal auditing demand that an internal audit function within an organization be autonomous, with a greater emphasis on internal auditing objectivity, (Queen, 2017) An independent focused internal audit function also brings to light its findings and recommendations, which serve as a tool for officers in a department to take appropriate corrective action and assist in plugging loopholes that would otherwise go undiscovered for a long time (Musa, Success and Iyaji 2014). The aforesaid description also emphasized two (2) characteristics of internal audit: assurance and consulting. Internal audit must stay independent of the project while performing both functions. The management of the project is their job, and they should make the decisions, but internal audit serves as a facilitator in this process. The project's management should identify the project's risks and decide how to address them internal auditing, serving as a risk and control consultant (Amina, 2016) Internal audit, according to Mark (2018), is "an independent appraisal role within an organization for the review of systems of control and performance quality as a service to the company." Internal audit, according to this definition, is an examination of operations and records, sometimes ongoing, carried out within a business by assigning people with the goal of ensuring that the system of operations is rigorously followed. Internal audit is defined by Okolo (2011) as "the independent assessment or appraisal of accounting, financial, and other operations within an organization as a basis for protective and constructive assistance to management." Internal audit is defined as a review of an organization's financial report in order to ensure the accuracy and reliability of the accounting records. This definition also indicates that an internal auditor's job entails checking inventories to ensure that they are available at a lower price and inquiring if there is any new avenue for obtaining those inventories. Internal audit is a managerial tool used to check operations within an organization, according to the definition.

Sawyer (2003) defines internal auditing "as a systematic, objective appraisal by internal auditors of the diverse operations and control within an organization to determine whether:

- i. Financial and operating information is accurate and reliable
- ii. Risk to the enterprise are identifies and minimized
- iii. External regulations and acceptable internal policies and procedures are followed
- iv. Satisfactory operating criteria are met
- v. The organization's objectives are effectively achieved. All for the purpose of consulting with management and for assisting members of the organization in the effective discharge of their governance responsibilities". (Karagiorgos, et al, 2010)

From Sawyer's definition above, it is deduced that a sound and effective internal audit system provides reasonable, though not absolute assurance that a company will not be hindered in the achievement of its business objectives by circumstances which may be reasonably foreseen. (Theofanis, George and Panagiotis)

Who is an Internal Auditor?

An internal auditor is a company employee hired by management to assess the company's numerous operations and activities to ensure that they comply with the company's internal control procedures. The scope of their responsibilities is normally set by management and varies widely from one business to the next.

An auditor must have certain skills and talents, as well as the support of upper management, in order to properly carry out his or her duties. The following are some of the attributes that an internal auditor must possess:

- i. Accounting and Auditing ability
- ii. An appreciation of the objectives of the business
- iii. Analytical ability
- iv. Constructive ability
- v. Intellectual ability, etc.

Job Ethics for an Internal Auditor in an Organization

The golden principles guiding the code of ethic of an internal auditor are as follows:

- i. Integrity: It is one of the basic expectations of an internal audit work. Internal auditors are to express the principle of honesty and fairness that is his report should bring with it an iota of truth, reliance and fairness.
- ii. Objectivity: Professionalism and fact assessment with utmost care is a prerequisite for a good internal auditor. An internal auditor should not make a reckless and irresponsible statement without evidence.
- iii. Competence: it is expected of an internal auditor to apply appropriate skills and knowledge in carrying out his responsibility. He should avoid works that are beyond his skills and competence.
- iv. Confidentiality: Internal auditor should safeguard all information given to him as most of them could be confidential in nature. There should be no spillout of information
- v. Independence: as imply in the definitions above, internal auditor need to be independent, even though may still be influence by the fact that it is within the organization, internal auditor should be able to report on material facts and figures, uninfluenced by any favour or frown.

Role of an Internal Auditor

The International Professional Practices Framework (IPPF) of the Institute of Internal Auditors (IIA) includes mandatory guidelines for internal auditors in the form of the International Standards for the Practice of Internal Auditing (IIA 2009a). Several other standards define the responsibility of the internal auditor in recognizing, preventing, and monitoring fraud risks, as well as resolving those risks during audits and investigations (IIA 2009c). The following are some of the roles:

Proficiency and due Professional Care – This requires that internal auditors have sufficient knowledge to evaluate the risk of fraud in the organization

Reporting to senior management and the Board – It include that internal auditors are to report all abnormality detected during their investigation to the top management level.

Engagement Objectives – which states that when internal auditors are developing engagement objectives, the probability of fraud must be considered? (Martha and Brigitte, *Journal of Forensic and Investigative Accounting*, Vol. 3, issue 1)

3. Methodology

The study collected data from both primary and secondary sources. The survey design was used to conduct the study in order to gain insight into the understudied area. The study's participants are 55 employees from a local government district in Nigeria's Kogi State. Because the nature of money theft perpetrated in all local government areas in Nigeria appears to be the same, the Taro Yamane formula was used to select 48 LGA personnel as sample size. The descriptive statistical methods were utilized to analyze the data acquired for this study as an analytical tool. Simple percentages and tables were employed as descriptive statistical tools. The findings were produced using a 5-point Likert Scale (SA, A, U, D, SD) and results from the tables were explained using a 5-point Likert Scale (SA, A, U, D, SD), and the research hypothesis was tested using Analysis of Variance (ANOVA)

4. Data Presentation and Analysis

The responses to the questions that will help in testing the hypothesis are presented and analysed in table 1 below.

S/N	Questions	SA	A	U	SD	D
1.	Internal Auditor enjoy autonomy of operation/high level of independence	15	25	5	0	3
2.	Internal Auditor submit his/her reports to the management	28	15	5	0	0
3.	Management Respond positively to the lapses identified by the internal auditors in order to enhance effective performance	13	20	2	3	0
4.	Internal auditing has an impact on the Effective Performance of an organization	10	30	-	3	5
5.	Effective Execution of relevant acts help in detection and prevention of frauds	13	25	5	-	5

Source: Field Survey, 2015

Test of Hypothesis

H₀: Internal Auditing has no significant impact on effective performance of an organization.

In testing this hypothesis, question 3, 4 and 5 in table (1) was used

Using ANOVA at $\alpha = 0.05$

$$SS_B = r \sum (x_{ij} - \bar{x})^2$$

$$SS_W = \sum (x_{ij} - \bar{x})^2$$

Table 2

Q	SA	A	U	D	SD
Q3	13	20	2	3	0
Q4	10	30	-	3	5
Q5	13	25	5	-	5
X	12	25	2.33	2	3.33
X	8.932				

Source: Question 3, 4, 5 in table 1 above

Table 3

Sources	SS	Df	Ms	Fcal	Decision
SS _B	1171.84	c-1 = 5-1= 4	292.96	32.07	Reject
SS _W	91.34	N-c= 15-5=10	9.134		

Sources: Adopted from Questionnaire (2015)

DECISION

The above table shows that t_{cal} value is 32.07 while the t-critical value is 3.48 at 0.05 level of significance which means that t_{cal} is greater than the t-critical value, the null hypothesis is therefore rejected and alternative hypothesis which says Internal Auditing has significant impact on effective performance of an organization accepted.

Discussion of Findings

After presenting, analyzing, and interpreting the responses to the questionnaire, it was discovered that effective internal audit can actually increase profitability and accountability within the organization, thereby enhancing the organization's effective performance. Internal auditing has also been proven to promote adherence to organizational rules and regulations within the organization.

5. Conclusion

From the discussion of findings above, this study conclude that:

Internal auditing units raise an organization's profitability while also enhancing its high level of accountability. It also serves as a tool for discovering internal errors, frauds, irregularities, and other sorts of misappropriation. Internal auditing unit ensures 100% conformity to established norms, policies, and standards, which will boost effective performance, according to this study. This study made the following recommendations after identifying the impact of internal auditing on an organization's effective performance:

First, the internal auditor should be able to report directly to the Director of Local Government Audit, who is responsible to the State Auditor General. This would ensure that the internal auditor's reports and suggestions are followed up on.

Also, appropriate measure should be put in place to checkmate staff who will violate laid down rules, regulation and procedure.

Lastly, adequate orientation should be put in place to orientate staff who sees auditor as people that witch-hunt them or that find faults but that auditors are fact finders.

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