

IMPACT OF INTERNAL AUDIT FUNCTION AND EFFICIENCY ON ORGNISATIONAL PERFORMANCE

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ABSTRACT

This study examined the impact of internal audit function and efficiency on organizational performance. The study employed the use of primary data analyzed with the use of Simple Regression. The study showed that internal audit function and internal audit efficiency have positive and significant relationship on organizational performance with t-value of 2.516 and 2.902. The study concluded that efficacy of the control for detection and checkmating of fraudulent activities in an organization be it public or private which is the function of its internal audit unit contributes to both the financial and non-financial performance of such entity. The study recommended that management of organization should ensure the recruitment of professionally and academically qualified personnel to be in charge of their internal audit unit, so as to minimize the occurrence of fraudulent activities and regular review of internal control system should be inculcated, so as to checkmate the lapses of the control system.

KEYWORDS: Audit function, Audit efficiency, Internal audit, Organisational performance

1. INTRODUCTION

Financial accountability in both public and private institution started since the distinction between the providers of economic resources and management of such resources. Based on this assertion Audu (2013) stated that greater attention has always being to improvement of government institutions, because government constitutes the largest single entity which its expenditure through its agencies, parastatals and commission stimulates the economy. Parameters are being taken gradually towards the improvement in the accounting standards for audit practice in the public sector and the movement from the historically function of the internal audit department that is confined on the management of assets due to various incidence of accountings scandals that led to the defunct of government institutions such as Power Holding Company of Nigeria Plc (PHCN), Nigeria Postal Services (NIPOST). This has made internal control compliance, transparency in financial management and accountability to come under sharp scrutiny by the public in order to ensure efficiency in internal audit in public sector (Babatunde, 2013).

In the same vein Prawitt, Smith and Wood (2009) opine that in other to forestall continued increase in accounting scandals in recent years internal audit function has received impressive attention due to its important role in ensuring effective and efficient corporate governance and financial reporting. This is based on the fact that high quality internal audit function focused on improving financial reporting through ensuring compliance with standards. Okoya (2002) affirmed that internal auditing furnishes authorities with analysis, appraisals, recommendations and information concerning all activities reviewed. Internal audit unit is also vested with the power of independent checks, in order to

assess compliance with established rules and regulation laid down by the organization. Badara (2012) stated that internal auditing is based on the examination of the system and procedure in place so as to ensure their conformity with the regulations as the case may be.

The measure for performance evaluation in the public sector has been a debate for decades, due to the pluralistic of the sector and may lead to dissatisfaction (Carter, Rudolf and Patricia, 1992). Public sector organizations are putting considerable energy into measuring performance, the effectiveness of the measure adopted varies considerably (Hyland, Fernery Santa and Bretherter, 2008). In Nigeria, the discounted performance of government institutions had been blamed on diverse reasons such as bureaucratic poor auditing system, redtapism high incidence of Fraud, parliamentary control financial indiscipline and lethargy of the civil service which is still intact in the management and operations of the government (Makoju, 1991; The Federal Ministry of Finance Incorporated, 2006). Also, Salawu and Agbeja (2007) states that the reason for ineffective public sector is as a result of ineffective internal control systems and political interference. Based on the above, this study tends to evaluate the significance of internal audit function and efficiency on organizational performance.

2. LITERATURE REVIEW

2.1 Internal audit and internal auditing system

Milichamp (1993) (cited in Olaoye, Olaoye, Olaoye and Iwarere, 2010) opined that internal audit is an independent appraisal function established by the management of an organization for the review of the internal control system as a service to the organization. The area of internal audit activity entails: reviewing accounting system and internal control, examining financial and operating information for management including detail testing of transactions; reviewing the economy, efficiency and effectiveness of operations and of the functioning controls, special investigations; enforcing management controls in the organization (Olaoye et al, 2010). Internal audit is a part of internal control system put in place by management of an organization to ensure that the financial operations are correctly carried out according to the law and also in accordance with the wishes of the management (Adeniji, 2011). Millichamp (2002) stated that internal auditing system is a system designed and established by management directly or through the engagement of external consultants in order to carry on the business of the enterprise in orderly and efficient manner, ensure adherence to management policies, safeguard its assets and secure as far as possible the completeness and accuracy of records.

2.2 Components of effective internal audit system

Based on the submission of Rezaee (1995), Konrath (1996), Yang and Guan (2004), COSO (1994) effective internal audit system entails the following components : Control Environment which are factors such as integrity, ethical values, competence of the workers and the philosophy of the management in the organization, it provide the premise needed for the other components to build on the internal audit system; Risk Assessment which involves careful scrutiny of factors that affect the possibility of achieving the organizational objectives by identifying and analyzing possible risks internally and externally; Control Activities entails range of activities such as approval, authorization, verifications, reconciliations and review of operating performance, security of asset and segregation of duties ,which are designed to ensure that management directives are fulfilled; Information and Communication system which enables the identification, capturing and communication of pertinent information in a form and timeframe in other ensure effective and efficient discharge of individual responsibilities within an organization.

2.3 Empirical Clarification

Karagiorgos, Drogalas, Gotzamanis and Tampakoudis (2010) using empirical review, revealed that internal auditing plays a vital role in effective corporate governance in Greece. Alzeban and Gwillian (2013) revealed that managerial perception and internal auditors are positively related to perceived internal audit effectiveness in Saudi with the use of empirical analysis, conventional regression and path analysis. Turlea and Stefanescu (2009) showed that entities can achieve their objectives and improve their performance through the integration of internal audit and risk management in Romania. Nkuah, Tanyeh and Asante (2013) adopted frequency count and percentages. They revealed that there was strict compliance with the procurement laws in Ghana Public Sector. Al-matari, Al-Swidi and Fadzil (2014) with the use of ordinary least square, indicated that the size of internal audit unit improved companies' performance in Malaysia. In their study, Rosa, Morote and Colomina (2013) using contingency table, showed that the existence of consensus regarding the

design and implementation of internal control mechanisms assured reliable and useful information on performance and results in Spain.

Enofe, Mgbame, Osa-Erhabor, Ehiorobo (2013) using z-test statistical tool stated that internal audit effectiveness ensures effective management in the public sector, but does not have significant effect in Nigerian public sector. Onoja, Ajanya and Audu (2013) with the use of cross tabulation and chi-square, revealed that internal audit can effectively check fraud and fraudulent activities in the public sector. In their work, Badara and Saidin (2013) adopted empirical review and indicated that Audit committee is effective in managing the local government. Badara (2012) using simple percentages and showed that internal control system is very weak towards financial and other controls and also there is non-adherence by the auditors on general auditing standard. Onatuyeh and Aniefor (2013) with the use of descriptive statistics and spearman Rank order correlation coefficient, the study found that effective internal auditing ensures proper stewardship reporting.

2.4 Theoretical Review

Agency Theory: This theory was established based on the distinct between the providers of economic resources and management of such resources, which led to the existence of audit committees, statutory auditors and internal auditor in other to eliminate conflict of interest among parties involved directly or indirectly in the operation of the organization which can affect its financial accountability. Internal auditors as agents in the organization for a variety of internal audit users to ensure a minimal agency problem (Peurseem and Pumphrey, 2005).

3. METHODOLOGY

This study adopted the use of cross sectional survey research design as its research strategy, because of its ability to view comprehensively the major questions raised in the study and supported by Denscombe (2003). The population of the study comprised all members of staff of: Bursary unit, accountants of facilities and members of staff of internal Audit section of Ekiti State University, College of Education and Federal Polytechnic all in Ekiti- State. This selected due to the fact that the institutions is a public Institution and the three groups in the population were those relevant to provide answers to questions raised in the study. The purposive sampling technique was employed in this study and sample size of three hundred (300) respondents was selected. Closed ended and Likert scale ranked well-structured questionnaires was designed to capture the demographic details of respondents and their opinion with respect to the research question, Five variables of Strongly Agreed (SA), Agreed (A), Strongly Disagreed (SD), Disagreed (D), and Indifference (ID) were adopted with linker scales of 5,4,3,2 and 1 respectively for the variables. The responses were coded and later analyze with the use of descriptive and inferential statistics.

4. RESULTS AND ANALYSIS

According to the model summary in table 01, the R (correlation Coefficient) gives a positive value of 1.346; this indicates that there is a positive correlation between internal audit function and organizational performance. The R^2 is a portion of the total variation in the dependent variable which explained by the variation in the independent variables. From the results obtained, R square is equal to 0.863, this implies that there is a linear relationship between internal audit function and organizational performance using three different tertiary institutions as proxy. That is, the model can only account for 86.3% behaviour of internal audit function, this is further proven by the adjusted R square which gives a value of 0.769, implying that when all errors are corrected and adjustments are made the model can only account for 76.9% behaviour of organizational performance while the remaining 23.1% can be account for by stochastic variables or error terms. The model summary of this study can be said to be capable of explaining the relationship between the explanatory variables and the explained variable.

Table 01: Model summary

R	R square	Adjusted R square	Std error of the estimate	Durbin Watson
1.346	0.863	0.769	0.712112	2.41213

A). Predictors: (constant), Internal Audit Function (IAF), Internal Audit Efficiency (IAE) B). Dependent variable: Organisational Performance (OGP)
Source: Author's Computation, 2018

The result in table 02 explains the relationship between two or more variables i.e. explanatory variables and explained variable. From the above table, the constant coefficient gives a positive value of 0.087 implies that if all explanatory variables are held constant, the organizational performance will increase by 0.087 units. The beta coefficient of internal audit function (IAF) variable in the model gives a positive value of 0.162 implies that a unit increase Internal Audit Function(IAF) will result in 0.162 units increase in Organizational Performance(OGP) while the beta coefficient of Internal Audit Efficiency (IAE) shows a positive value of 0.148, indicates that a unit increase in the variable Internal Audit Efficiency (IAE) will result into 0.148 units increase in dependent variable Organizational Performance (OGP). The two explanatory variables are significant related to the explained variable.

Table 02: Regression Analysis of Internal Audit function and Efficiency and Organisational Performance

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	0.087	0.14		0.732	0.466
IAF	0.162	0.08	0.247	2.516	0.001
IAE	0.148	0.075	0.262	2.902	0.001

Dependent Variable: Organizational Performance
Source: Author's Computation, 2018

5. SUMMARY OF RESULTS, CONCLUSION AND RECOMMENDATION

From the results of the data analysis interpreted above it is quite obvious that the level of independent variables have different significant impact on organizational performance which explained as follows; Each independent variable were hereby ranked according to the magnitude of their significant level from the top to the least so as to determine which variable of internal audit function and internal audit efficiency have the most significant impact on organizational performance. The three examined public tertiary institutions in Ekiti State is said to be more significant with independent variable internal audit efficiency as its T-calculated shows the highest value of 2.902 units while internal audit function with T-calculated of 2.516 units which is also significant in determining the level of behavior in organizational performance. The R^2 gives 0.863 which is approximately 86.3% and indicates that the explanatory variables (IAF and IAE) can account for 86.3% of the behavior of dependent variable (Organisational Performance) in the short-run. Based on the above findings and empirical results, it is concluded that efficacy of the control for the detection and checkmating of fraudulent activities in an organization, be it public or private which is the function of its internal audit unit contributes to both the financial and non-financial performance of such entity. The management of organization should ensure the recruitment of professionally and academically qualified personnel to be in charge of their internal audit unit, so as to minimize the occurrence of fraudulent activities. Also, regular review of internal control system should be inculcated, so as to checkmate the lapses of the control system.

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