**THE ROLE OF INTERNAL AUDIT AS A MANAGEMENT TOOL FOR ENHANCING ORGANIZATIONAL FINANCIAL PERFORMANCE**

**ABSTRACT**

The relevance of internal audit as a management tool cannot be over-emphasised. This paper on internal audit as a management tool extends the literature of internal auditing, and its originality and the argument is on the agency theory. The descriptive survey method is employed with carefully drafted questionnaires. Two hypotheses were posited and tested with the chi-square. 200 staff of Access Bank were administered the questionnaires. Data obtained were analysed using frequencies and percentages. After careful analysis of the data, conclusion and recommendations were made in chapter five of this work.

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**CHAPTER ONE**

**INTRODUCTION**

* 1. **BACKGROUND OF THE STUDY**

The selection of the research topic indicates the researcher's intention to investigate the efficiency and effectiveness of internal audits in various corporate organisations, including banks, manufacturing companies, and government parastatals. Through the findings of this study, the researcher aims to contribute to the development of established policies and procedures, ultimately enhancing the integrity and dependability of internal control systems. According to Oladipupo (2005:96), internal audit is a managerial instrument that operates by scrutinising, assessing, and communicating on the sufficiency of internal control as a means to facilitate the appropriate, efficient, and effective utilisation of resources inside an organisation. According to Nwabueze (2000: 278), internal audit is a mechanism that assesses, appraises, and communicates the efficiency of internal control systems, both financial and non-financial, with the aim of optimising resource utilisation within an organisation. According to the Companies and All Matter Act (CAMA) 1990, it is mandatory for management to maintain and preserve accounts that accurately reflect the financial status of the organisation. These accounts must be verified by an external auditor's report to ensure their reliability and fairness. In order to ensure effective implementation of policies and programmes, management establishes its own set of policies that all operational and service units within the organisation must adhere to. To further ensure proper implementation, management also establishes a range of internal control systems, one of which is the internal audit. The internal audit function is an autonomous division inside an organisation that conducts evaluations of financial and non-financial activities. Its primary objective is to provide management with valuable and supportive services aimed at safeguarding and enhancing operations. The effective functioning of any organisation is contingent upon its management, which is responsible for efficiently and judiciously allocating the organization's limited resources. This is achieved through the implementation of appropriate planning controls, which aim to assure the attainment of the organization's overall goals and objectives. The implementation of an internal audit function is not legally mandated, but rather a strategic decision made by management to effectively meet its stewardship responsibilities. The internal audit unit has been recognised as both a component of management and a valuable instrument utilised by management to fulfil its responsibilities.

This study will contribute significantly to enhancing the efficiency and effectiveness of the internal audit function, consequently establishing a robust and dependable control system. The expansion and intricacy of numerous organisations have led to a commensurate rise in the demand for internal audit. Consequently, internal audit has become a significant determinant of an organization's internal control system and its progression.

* 1. **STATEMENT OF THE PROBLEM**

The rationale for choice of the subject matter is the inability of management in ensuring a proper internal audit system coupled with the absence of a sound and reliable internal control system. Ojaide (200 6) pointed out that the role of an internal audit department is to assist management in ensuring that the system of accounting, internal control and internal check are operating effectively and efficiency.

* 1. **OBJECTIVE OF THE STUDY**

1. To ascertain if accounting records are accurate and reliable.

2. Serving as a training unit on internal control matter.

3. Review of operational performance and reporting on variance.

4. To ascertain whether the internal check and the accounting system.

5. To ascertain the independence of the internal audit department.

6. To find out whether periodic report on operation of the organization are made to management.

7. To look at the performance of the different departments, branches and assess the impact on the overall performance of the academic institution or organization.

8. To find out whether the internal control system is sound in principle and effective in operation.

9. To find out whether periodic reports on operation of the organization are made to management.

* 1. **RESEARCH HYPOTHESES**

**HYPOTHESE ONE**

**Ho:** There are significant differences in the method of establishing policies and plans.

**Hi:** There are no significant differences in the method of establishing policies and plans.

**HYPOTHESES TWO**

**Ho:** The periodic report made every year are not the same.

**Hi:** The periodic report made every year are the same.

**1.5 SIGNIFICANCE OF THE STUDY**

This study will be of immense benefit to the management, as good quality of work rendered by the internal auditor to management will improve the quality of services rendered by the units, thus ensuring the realization of corporate objectives.

It would highlight defects and problems in the system and suggest ways of rectifying them, thereby ensuring improvement in the quality of work of the internal audit department and hence increase the confidence imposed on them by the management.

Furthermore, the study will throw more light on the importance of efficiency and effectiveness of internal audit in the organization.

An insight into the extent of efficiency and effectiveness of internal audit of the organization will help not only in sensitizing management of the organization on the needs for an established policies and procedures but also contribute towards evolving a sound and reliable control system.

 **1.6 SCOPE AND LIMITATION OF THE STUDY**

This study is primary concerned with internal audit as a management tool. This study/project work covers the internal audit department or unit of Access Bank. The researcher encountered some constraints, which limited the scope of the study. These constraints include but are not limited to the following

**a) AVAILABILITY OF RESEARCH MATERIAL:** The research material available to the researcher is insufficient, thereby limiting the study

**b) TIME:** The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

**1.7 DEFINITION OF TERMS**

**Internal Audit**: This is an independent appraisal activity within an organization for the review of operation as a service to management; it is a management control which functions by measuring and evaluating the effectiveness of other controls.

**Management:** These are the group of people who engage in performing routine and strategic duties so as to ensure the realization of corporate objectives.

**Investigation:** An investigation is the examination of records and accounts of an organization for a special purpose.

**Audit Report:** It is the statutory final product of audit process.

**Auditing:** This is an independent examination of, and expression of opinion on the financial statement of an enterprise, organization by an appointed auditor in pursuance of that appointment and in compliance with any relevant law and regulation.

**Internal Control**: This is not only about internal audit or internal check but the whole system of control established by management to ensure that the organization is run in an orderly and efficient manner. This can be achieved by ensuring adherence to management policies, safe guarding of asset and securing as far as possible the accuracy and completeness of records.

**Internal Check:** This is the segregation of duty such that no one person is responsible for the processing and recording of a particular transaction.

**True and Fair:** This is a term common in auditing which can be likened to mean a fact which conforms to standard that is, it is free from bias and meats users expectation.

**Appraisal:** This is assessing the value of quality of work done by management.

 **1.8 ORGANIZATION OF THE STUDY**

This research work is organized in five chapters, for easy understanding, as follows

Chapter one is concerned with the introduction, which consist of the (overview, of the study), historical background, statement of problem, objectives of the study, research hypotheses, significance of the study, scope and limitation of the study, definition of terms and historical background of the study. Chapter two highlights the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.1 INTRODUCTION**

This chapter reviews the literature on internal audit as a managerial tool. It discusses issues arising from the topic of discuss as viewed from different perspectives, with a view of giving a theoretical and empirical foundation to the study.

**2.2 LITERATURE REVIEW**

Al-Twaijry et al. (2003) examined internal auditing in the Saudi Arabian corporate sector using the institutional theory. The data were collected by a mixed method based on a 78 usable questionnaire were collected from directors of internal auditing and 15 interviews were conducted.

In addition, a shorter questionnaire was collected from 10 partners and 23 managers of audit firms, and 13 interviews were conducted with some of them, to ascertain their perceptions of internal auditing. Their study included the following independent variables: (1) internal audit independence, (2) professional proficiency of internal auditing, (3) scope of internal auditing, and (4)) management of the internal auditing. Their findings showed that internal auditing in the Saudi Arabian corporate sector is not well developed. Where internal auditing was mainly concentrated on compliance audit rather than performance audit, shortage of resource and qualified staff, have restrictions on their degree of independence. The study’s results also highlighted that managers sometimes do not implement the recommendations of internal auditing. Furthermore, the authors suggest that further research is necessary to evaluate internal effectiveness accurately because factors used in this study may have acted to reduce the value of internal auditing.

Goodwin (2004) conducted a comparison between the role of internal auditing in the public and private sectors, in Australia and New Zealand. The data collection was done using a survey questionnaire, and taking a sample of 120 chief audit executive. These questionnaires were classified as 85 from Australia and 35 from New Zealand whereas, according to type of sector were classified as 32 private sector organizations entities in Australia and 16 from New Zealand, giving a total of 48 private sector organizations while public sector organizations totaled 72, with 53 Australia and 19 New Zealand. The comparison included: (1) organizational status, (2) size of internal audit and percentage outsourced, (3) nature of internal audit activities, and (4) relationship with external auditors.

The author highlights that the internal auditing in the public sector has a higher status than in the private sector. Although, the two sectors often outsource internal audit work, public sector organizations are more likely to use an external auditor for these services. Furthermore, there is no significant difference between internal auditors in the two sectors in terms of their interaction with external auditors. Mihret and Yismaw (2007) identified some factors that could have a significant impact on the internal audit effectiveness, based on a public sector higher educational institution in Ethiopia as case-study using a model developed for the analysis. These factors include: 1) internal audit quality; 2) management support; 3) the organizational setting; and 4) auditees' attributes. Their findings indicate that both the internal audit quality and management support have a strong influence on internal audit effectiveness. The researchers also suggest a need for future research to understand the internal audit effectiveness by using other variables. Yee et al. (2008) examined the perception of Singaporean managers about the role and the effectiveness of internal auditing. The data were collected using an interview format from a sample of 25 different organizations. Managers in these interviews were classified into four generic categories, based on seniority, experience, and decision-making autonomy. These categories: 18 directors, 22 financial controllers, 20 mid-level managers, and 23 general executives (who work below the mid-level managers), giving a total of 83 interviews. The findings of the study indicate that the senior managers (the directors and financial controllers) to be generally satisfied with the professionalism and effectiveness of the internal auditors, and appreciate the presence of an internal auditing in the organization. The authors recommend the need to explore the role and effectiveness of internal auditing. Arena and Azzone (2009), attempted to understand the organizational drivers of internal audit effectiveness in the light of recent changes in the ‘mission’ of internal auditing and its central role in corporate governance using a questionnaire survey, and took a sample of 153 Italian companies. The independent variables were: 1) the characteristics of the internal audit team, 2) the audit processes and activities of internal audit and 3) the organizational links. Their findings indicate that the internal audit effectiveness increases when: a) the ratio between the number of internal auditors and employees grows the chief audit executive is affiliated to the IIA; b) the company adopts control risk self-assessment techniques, and c) the audit committee is involved in internal audit activities. Moreover, the authors highlight the need for more detailed analysis to understand the impact of internal auditors’ competencies on internal audit effectiveness. In a related study, Ahmad et al., (2009) attempted to explore the significance of internal auditing in the Malaysian public sector. Their findings based on a questionnaire distributed to 99 participants including directors of internal audit and internal auditors indicate that; 1) inadequate support from top management; 2) lack of knowledge and appropriate training on effective auditing approaches for internal auditors; and 3) the level of acceptance and appreciation to internal audit by management has a significant impact on the internal audit recommendations implemented, and the existence of negative perception to internal audit leads to nullify its contribution in organizational goal achievement. The researchers suggest a need for future research in both public and private sectors in Malaysia by field survey method. Without a doubt, the findings of the studies above opened up a whole new area for research, and recommended the need for more research on the internal audit effectiveness especially in developing countries where more attention should be given (Al-Twaijry et al., 2003; Mihret & Yismaw, 2007; Yee et al., 2008; Arena & Azzone, 2009; Ahmad et al., 2009). Furthermore, these studies have used different approaches to investigate the internal audit effectiveness. For example, Twaijry et al., (2003) adopted ISPPIA as a guideline to investigate and determine internal audit effectiveness, while Mihret and Yismaw (2007), Arena and Azzone (2009) and Ahmad et al. (2009) developed their own models to determine internal audit effectiveness. However, the few following lines will discuss some points that relate to it. In Mihret and Yismaw’s (2007) study, as in all case studies, the generalization of the conclusions was limited. In both studies Arena and Azzone (2009) and Ahmad et al. (2009), the management support has been considered as an independent variable. Arena and Azzone’s (2009) findings indicate that the effectiveness enhances when the audit committee is involved in internal auditors’ activities while Mihret and Yismaw (2007) consider the effective communication.

**2.3 THEORETICAL FRAMEWORK**

**Agency Theory**

Agency relationship could be defined as a contract among the organization owner(s) and its top management. Managers work with the organization as agents to perform some service on behalf of owners who delegate some decision making authorities to managers. These authorities could be misused by managers to meet their own personal interests. Therefore, the existence of the audit committees and the external and internal auditors will help the organization in enhancing their performance, and also will ensure that the management carries out its plans according to procedures (Adams, 1994). Peursem and Pumphrey (2005) considered internal auditors as agents and monitors for a variety of the internal audit users that include the board, audit committee and senior management. Agency problems could occur when the board or its audit committee is inefficient, and hence, the senior management is likely to be a powerful influence over the internal audit. This complex web creates an inherent dilemma for the internal audit: how can it carry out their monitoring role over management if it is ineffective itself? Internal auditors often are employed by senior management, but at the same time, they are also agents of the board and audit committee who trust in the internal auditors’ ability to evaluate senior management’s works. However, internal auditors may have varying motives to act against the board of directors’ interests and its audit committee and these motives include financial rewards from managers, personal relationships with them, and the power of senior management in shaping the future position of internal auditors and their salaries. In such a work environment, internal auditors as agents may have an incentive to be bias of information flows, which leads to new concerns of the board and audit committee about their trust on the internal auditors’ objectivity, and preventing such threats of objectivity becomes necessary for the board and its audit committee. Internal auditors as agents must perform audit processes at the professional level requiring education and professional certifications, experience, and other competencies needed to perform their responsibilities perfectly. Having internal auditors with such requirements and the existence of training programs for internal auditors, would increase the confidence level of the board and audit committee in the internal auditor competence. At the same time, internal auditors, by proving their duties in accordance with the professional level, can refute charges of neglecting their duties. The internal audit department works are achieved under supervision of the chief audit executive who is the main responsible individual for putting the internal audit plan, reporting internal audit findings and following-up internal audit recommendations. The organization members are required to evaluate the internal control system (SOX, Section 404, 2002), and in order to achieve this requirement they depend on the internal audit department. During this evaluation, internal auditors should collect sufficient and reliable evidences that will support their assessment of the internal control system. The existence of such evidences will increase the confidence level of organization members on the works performed by the internal audit. Hence, internal audit department performance is a crucial requirement for organization members to consider internal auditors as agents. Internal auditors, as agents of the organization members, need their support. The existence of an effective audit committee in the organization enhances internal audit independence and also, reduces senior management interferences either in internal audit scope or its performance. For example, the problem related to the ability of senior management’s influence over the future employment and salaries of internal auditors will be resolved by having an audit committee as the absolute authority for appointment and removal of the chief audit executive. Another clear example of organization members’ support occurs when senior management asks all departments to accomplish the internal audit recommendations. Based on the above discussion, it can be seen clearly that the agency theory is a useful theory which can explain the relationship between some variables of the study, and it is relevant to be embedded in the development of this research conceptual framework.

**2.4 INTERNAL AUDIT**

Definition In 1999 Institute of Internal Auditors (IIA) (Na.theiia.org, 2017) has 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.” Another definition of internal auditing is presented by Soltani. It states that internal audit is “an appraisal activity established within a company as a service. Its functions include examining, evaluating and monitoring the adequacy and effectiveness of the accounting and internal control systems” (Soltani, 2007, p. 621). ASQ (American Society for Quality) describes internal auditing as a “first party audit”. It “is performed within an organization to measure its strengths and weaknesses against its own procedures or methods and/or against external standards adopted by (voluntary) or imposed on (mandatory) the organization. A first-party audit is an internal audit conducted by auditors who are employed by the organization being audited but who have no vested interest in the audit results of the area being audited” (Russell, 2013, p.5).

**2.5 THE HISTORY OF INTERNAL AUDIT**

History of Internal Audit „The profession of auditing in general, and internal auditing, in particular, is ancient” (Pickett, 2010, p.8) It was „father of modern internal auditing” Lawrence Sawyer who said that word auditing comes from ancient Rome. Ancient officials were performing public and oral verification of records that was called „hearing of accounts”. This event was later described by the term „audit”. It derived from Latin „auditus” which means „a hearing”. (Pickett, 2010, p. 8) The roots of internal auditing are long and profound, traced to centuries B.C. However, the birth of modern day internal auditing is perceived by many to happen with the formation of The Institute of Internal Auditors (IIA). It was established in 1941 in the United States, with first 24 members. (Reding et al., 2013) IIA’s fast growth, worldwide expansion, continuous research, and development fueled growth in internal audit profession. Internal audit function started mainly as protection against fraud and asset loss. Organizations grew in size and complexity which led to their decentralization. Management needed to internally evaluate accounting information that was used for making decisions. They also needed to control efficiency of work and to ensure that no deceitful actions took place. (Ramamoorti, 2003, p.3) First companies that realized the potential of internal auditing beyond audit of financial statements were railroad, defense, and retail industries. Quickly, internal auditing became a mean to verify all transactions and to summarize business and its activities. In this way internal audit provided further insights and ensured integrity and objectivity. (Ramamoorti, 2003, p.3) Therefore internal audit’s role changed from typical clerical function to a management practice. It described internal audit as „the activity which independently applies consistent procedures and inspection standards in order to assess the relevance and performance of all or part of the actions within the organization, in reference to standards” (Autissier, 1998, p.3). Establishment of IIA confirms this transformation in the internal audit function. One of the first IIA charter members Robert B. Milne describes the reason behind the establishment of The Institute of Internal Auditors as follows: “The Institute is the outgrowth of the belief on the part of internal auditors that an organization was needed in the structure of American business to develop the true professional status of internal auditing. Although its roots are in accountancy, its key purpose lies in the area of management control. It comprises a complete intra-company financial and operational review” (Ramamoorti, 2003, p.4). Even though, in the early years after the establishment of IIA, internal auditing was still connected with external audit. Internal auditors have still been assisting in the review of the financial statements, but the profession was developing. It can be said that it was finally established as serious and fully equipped profession in 70’s. In 1974 first Certified Internal Auditor exam was held. (Theiia.org, 2013) Since 1978 all American listed companies are required to have auditing boards with three to five independent members. (Autissier, 1998, p.4) By that time internal audit function has also grown to include “operational” orientation that is “control which functions by examining and evaluating the adequacy and effectiveness of other controls” (Ramamoorti, 2003, p.6). Additionally, internal audit’s importance in organizational hierarchy rose as its success was depending on the relationship between the audit committee and those in charge of the organization. (Ramamoorti, 2003, p.7) By 1990’s internal auditors have been performing financial, operational, management and compliance audit with risk and control based approach. Moreover, internal auditing function has become “industry based” with internal auditors working within the industry that they specialize in. In 1999, to include all these changes and expanding roles and obligations, The Institute of Internal Auditors implemented a new definition of internal auditing in the form that is known today (Na.theiia.org, 2017): “Internal auditing is 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.” Through 2000’s and the beginning of 2010’s internal auditing evolved around tightened regulations and increased need for regulatory compliance. It was focusing more on risk management, improvement of business operations and IT and battle with corruption. This was mainly due to global economic downturn and many corporate scandals that resulted in new laws and regulations. Continuous and rapid development of internal auditing over the years has been fueled by globalization, technological development, e-commerce and growing complexity of organizational structures. (Reding et al., 2013) In the same time, The Institute of Internal Auditors expanded into 170 countries and territories with over 180 000 members worldwide (Na.theiia.org, 2016 b). It continuously conducts research and develops practices that allow internal audit to adjust and respond to ever-changing needs of organizations.

**2.6 THE ROLE OF INTENAL AUDIT AS A MANAGEMENT TOOL**

Internal audit is designed to help the organization to reach its objectives. Fulfillment of organizational objectives defines the company’s achieved success. Business objectives are organizational goals and what the company wants to achieve. If they are coherent and can be measured, they are in fact evaluation criteria of the organization’s success. The organization states its objectives in a mission and vision statements. Mission statement conveys what the organization is and what it wants to achieve today. Vision statement communicates aspirations to what it intends to achieve in the future. (Reding et.al, 2013) Business objectives’ categorization is a matter of discussion and believes. COSO (Committee of Sponsoring Organizations of the Treadway Commission) categorizes them as follows (Reding et.al, 2013): • Strategic objectives are about what managements do and plan (strategy) in order to create value for the organization’s stakeholders • Operations objectives focuses on organization’s operations in order to increase effectiveness and efficiency • Reporting objectives are about reporting internal and external information and the level of its reliability • Compliance objectives concentrate on existing laws and regulations and their implementation in the organization

According to Reding et.al (2013), business objectives are measures of success for the organization, but for an internal auditor, they provide foundations for engagement objectives. Engagement objectives are goals of an internal auditor that are to be achieved within the organization. Internal auditor’s mission is to help the organization to achieve its objectives. Therefore, the proper and thorough definition of engagement objectives within given organization is vital. Another vital point for the fulfillment of organizational objectives and sustainable success is effective risk management, control and governance process. The role of the internal auditor is to evaluate and improve those processes (Reding et.al, 2013): • Governance process is an achievement of the organization’s objectives by authorization, directions and overseeing management by the board of directors • Risk management is a process of understanding and dealing with uncertainties by the management of the organization. Uncertainties are all risks and opportunities that could affect (negatively or positively) organization’s ability to achieve its objectives • Control is a process of mitigating risk to the level that can be accepted by the management of the organization Overall, the board of directors conducts (lead and guide) the governance process, while management conducts risk management and control processes. The board of directors and management’s cooperation is essential to efficient implementation of all processes. Internal auditor’s role is to evaluate, improve and guide through those processes. Therefore, internal auditing is also a vital point of the equation. (Reding et.al, 2013) According to Pickett (2005, p.8), Internal auditors are able to assist top management with the following: • Monitoring activities that top management cannot monitor itself • Identifying opportunities and minimizing risks of failure • Validating reports to senior management • Protecting senior management in technical analysis that is beyond their knowledge

Providing information for the decision-making process • Reviewing for the future as well as for the past • Helping line managers manage by pointing to violation of procedures and management principles The main role of internal auditing is to add value to the organization by performing assurance and consulting activities. They need to be operational, tactical, strategic and improve operations. However, the interpretation of this role is wide. Primary duties of assistance with risk management, control, and governance processes will add a different value to the organization. In reality, it is depending on the specific needs of organizations and the sector they are operating. (Reding et.al, 2013) Pickett (2010, p. 335) notes that examples may be following: for organizations in the scandal-ridden industry value adding auditing service will be compliance reviews. For organizations in quickly growing sectors, value adding will be consulting advice on programs and projects. For organizations in developing countries it may be building controls and preventing fraud or corruption. For global organizations it may be management of the risks and logistics of coordinating information with the head office and so on. Pitt (2014, p.5) provides yet another categorization of internal audit’s role based on the type of organization (public or corporate sector) rather than organization’s environment as Pickett suggested it. For public sector, internal audit’s role will be focused on “efficient and effective expenditure of public money” (Pitt, 2014, p.5). In the corporate setting, internal audit’s role will be measured by and will be focused on his ability to satisfy stakeholders and ensure profit. To decide the scope and to interpret the role of auditing needed, the auditor will refer to audit charter. The internal auditor will also need professional standards, mission, vision and success criteria. They should be based on the sector in which the company is operating. Determining value adding auditing services should be based on the definition of internal auditing by The Institute of Internal Auditors. It should also answer the questions suggested by Pickett (2010, p. 337): „How can we (auditors ref. Pickett) best contribute to risk management, control, and governance services through both our assurance and consulting roles?”. Additionally, it is suggested by Pitt (2014, p. 13) that understanding strategic priorities will give insight to the internal auditor of where value can be added. Moreover, the internal auditor should “strive to meet stakeholder expectations by embedding performance measurement processes focused on the most efficient and effective use of limited resources” (Pitt, 2014, p.13). As Guidance Task Force points out, most audits provide value to the organization already when they facilitate communication with management about control structure and its effectiveness. (Reding et.al, 2013) However, the most important function of internal audit is to be independent. The subservient internal audit is a source of significant risk to the company. It may result in fraud, monetary loss, devastate reputation and brand or result in the company’s collapse. Therefore, it is “essential for the internal audit function to have independent authority and reporting lines and have adequate access to the audit committee. Internal audit functions should be well funded, staffed, and trained, with appropriate specialized skills depending on the nature, size, and complexity of the operating environment of an organization.” (Ohja, 2012) Internal auditing services provide value altogether if they are maintained in the high quality. Compliance with professional standards of internal auditing is a way to provide it.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

* 1. **Research design**

The researcher used descriptive research survey design in building up this project work the choice of this research design was considered appropriate because of its advantages of identifying attributes of a large population from a group of individuals. The design was suitable for the study as the study sought to a critical analysis of internal audit as a management tool.

* 1. **Sources of data collection**

Data were collected from two main sources namely:

(i)Primary source and

(ii)Secondary source

**Primary source:**

These are materials of statistical investigation which were collected by the research for a particular purpose. They can be obtained through a survey, observation questionnaire or as experiment; the researcher has adopted the questionnaire method for this study.

**Secondary source:**

These are data from textbook Journal handset etc. they arise as byproducts of the same other purposes. Example administration, various other unpublished works and write ups were also used.

* 1. **Population of the study**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information a critical analysis of internal audit as a management tool 200 staff of Diamond Bank were selected randomly by the researcher as the population of the study.

* 1. **Sample and sampling procedure**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

 1+N (e) 2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.5 Instrument for data collection**

The major research instrument used is the questionnaires. This was appropriately moderated. The respondents were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer. The questionnaires contained structured questions which were divided into sections A and B.

* 1. **Validation of the research instrument**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **Method of data analysis**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion. The simple percentage method is believed to be straight forward easy to interpret and understand method.

The researcher therefore chooses the simple percentage as the method to use.

The formula for percentage is shown as.

% = f/N x 100/1

Where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item

Contained in questions

**CHAPTER FOUR**

**PRESENTATION ANALYSIS INTERPRETATION OF DATA**

**4.1 Introduction**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 133(one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1

Gender distribution of the respondents.

TABLE I

|  |
| --- |
| **Gender distribution of the respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

Question 2

The positions held by respondents

TABLE II

|  |
| --- |
| **The positions held by respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| **Valid** | accountants  | 37 | 27 .8 | 27.8 | 27.8 |
| Auditors  | 50 | 37.6 | 37.6 | 65.4 |
| Administrative staff  | 23 | 17.3 | 17.3 | 82.7 |
| Other staff  | 23 | 17.3 | 17.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

The above tables shown that 37 respondents which represents27.8% of the respondents are accountants 50 respondents which represents 37.6 % are Auditors 23 respondents which represents 17.3% of the respondents are Administrative staff, while 23 respondents which represent 17.3% of the respondents are other staff

**TEST OF HYPOTHESES**

**Ho:** There are no significant differences in the method of establishing policies and plans.

**Hi:** There are significant differences in the method of establishing policies and plans.

**Table III**

|  |
| --- |
|  **There are significant differences in the method of establishing policies and plans.** |
| Response  | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | **There are significant differences in the method of establishing policies and plans.** |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. |

Decision rule:

The researcher therefore rejects the null hypotheses which state that, there are no significant differences in the method of establishing policies and plans, as the calculated value of 19.331 is greater than the critical value of 7.82 Therefore the alternate hypotheses is accepted that**,** there are significant differences in the method of establishing policies and plans.

**TEST OF HYPOTHESIS TWO**

**Ho:** The periodic report made every year are not the same.

**Hi:** The periodic report made every year are the same.

 Table V

|  |
| --- |
| **The periodic report made every year are not the same.** |
| Response  | Observed N | Expected N | Residual |
| Yes | 73 | 44.3 | 28.7 |
| No | 33 | 44.3 | -11.3 |
| Undecided | 27 | 44.3 | -17.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | **The periodic report made every year are not the same.)**   |
| Chi-Square | 28.211a |
| Df | 2 |
| Asymp. Sig. |  .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3. |

Decision rule:

The researcher therefore rejects the alternate hypotheses which states that, the periodic report made every year are the same, as the calculated value of 19.331 is greater than the critical value of 7.82 Therefore the null hypotheses is accepted thatThe periodic report made every year are not the same.

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

It is important to ascertain that the objective of this study was to ascertain a critical analysis of internal audit as a management tool.

In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations are made, which in the opinion of the researcher will be of benefit in addressing the challenges of internal Auditing.

**5.2 Summary**

This study aimed at having a critical analysis of internal audit as a management tool. Some objectives were raised to serve as a guide to this study.

**5.3 Conclusion**

Based on the above findings pertaining to the objectives of the study the following conclusions are drawn.

Internal audit is a tool every organisation must employ to achieve organisational aim. Both the internal audit quality and management support have a strong influence on internal audit effectiveness. Effective internal audit can not only provide assurance over a company’s risk controls and governance processes, it can make sure that everyone is working effectively to that end with little waste or duplication. In addition, it can give comfort to directors and board committees that the decisions they make are based on sound assumptions and risk assessments and can advise on how to improve the effectiveness of information flowing to the board.

**5.4 Recommendation**

Every financial organistaion should employ the internal auditing tool in order to improve organisational efficiency

Internal audit recommendations should be implemented by the organistaion

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**QUESTIONNAIRE**

**INSTRUCTION**

Please tick or fill in where necessary as the case may be.

Section A

1. Gender of respondent

A male { }

B female { }

1. Age distribution of respondents
2. 15-20 { }
3. 21-30 { }
4. 31-40 { }
5. 41-50 { }
6. 51 and above { }
7. Marital status of respondents?
8. married [ ]
9. single [ ]
10. divorce [ ]
11. Educational qualification off respondents
12. SSCE/OND { }
13. HND/BSC { }
14. PGD/MSC { }
15. PHD { }
16. Others……………………………….
17. How long have you been in Access Bank?
18. 0-2 years { }
19. 3-5 years { }
20. 6-11 years { }
21. 11 years and above……….
22. Position held by the respondent
23. accountant { }
24. Administrative staff { }
25. auditor { }
26. Other staff { }
27. How long have you held the position
28. 0-2 years { }
29. 3-5 years { }
30. 6-11 years { }
31. 11 years and above……….

SECTION B

1. Internal audit is a great tool for managers
2. Agrees { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Every financial institution needs an Auditor

(a) Agrees { }

(b) Strongly agreed { }

(c) Disagreed { }

(d) Strongly disagreed { }

1. Occasional Auditing of accounts enhances accountability
2. Agreed { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Internal auditing improves efficiency
7. Agreed { }
8. Strongly agreed { }
9. Disagreed { }
10. Strongly disagreed { }
11. Internal auditing recommendations are followed in Access bank
12. Agreed { }
13. Strongly agreed { }
14. Disagreed { }
15. Strongly disagreed { }
16. Internal Auditing encourages team organisation
17. Agreed { }
18. Strongly agreed { }
19. Disagreed { }
20. Strongly disagreed { }
21. There is a relationship between internal audit and effectiveness
22. Agreed { }
23. Strongly agreed { }
24. Disagreed { }
25. Strongly disagreed { }
26. Every management needs Auditoria support
27. Agreed { }
28. Strongly agreed { }
29. Disagreed { }
30. Strongly disagreed { }