

INTERNAL AUDIT FUNCTION AND FINANCIAL PERFORMANCE OF TELECOMMUNICATION FIRMS IN NIGERIA

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ABSTRACT

This study sought to analyze internal audit function and financial performance of telecommunication firms in Nigeria. The methodology adopted was survey method to collect primary data using a structured questionnaire. A total of 213 copies of questionnaire were distributed with 152 answered correctly and fully retrieved. Data was analyzed using percentage, tables and spearman rank order correlation techniques and with statistical package for social science (SPSS) was used to test the hypotheses. The findings revealed that, internal audit function has positive relationship between financial performance of telecommunication firms in Nigeria. It was therefore concluded that, telecommunication firms should expand their network coverage and improve the quality of service they offer because this is a major factor that affect their financial performance.

Keywords: Internal Audit Function, Financial Performance

INTRODUCTION

In today's environment, where competition is very high amongst various businesses regardless of demographical boundaries, it becomes a challenge for the businesses to get and then maintain a distinguished position in the industry.

The basic reason for an organization's existence is to satisfy the needs of the customers through repeat patronage which will open the avenue for increased of profit making. One of the factors affecting the performance of an organization is Internal audit functions, which is the main focus of study. Internal audit is a function with interest in the entire company operations, or improvement of operations. By auditing all company processes and activities, internal auditors provide assurance of their effectiveness and quality, and, then, as professional, objective, and independent entities, provide managers with information and suggestions for improvement.

Thus, today, the largest number of managers at all management levels in their everyday business increasingly rely on information provided by internal audit, which makes their business decisions more reliable, safer, and faster. This is because internal audit provides invaluable support to management in key areas ensuring long-term business sustainability and success: strengthening control mechanisms, establishing programs to minimize risk, and continuous improvement of business processes. internal audit determines the reliability, reality, and integrity of financial and operational information that comes from different organizational units, on which appropriate business decisions at all levels of management are based. Successful implementation of internal audit tasks means that it must be independent, i.e., company management should in no way influenced by its work, information, conclusions, and evaluations. In this way the internal audit report becomes a means of communication between internal audit and management, and an important guideline for the successful management of the company (Ljubisavljević & Jovanovi, 2011).

Howbeit, in the Nigeria Telecommunication sector no empirical study has been conducted to show the relationship between Internal Audit Function and Financial Performance of Telecommunication Firms. Therefore, this study aims to evaluate the Internal Audit Function and Financial Performance of telecommunication firms in Nigeria. With regards to the foregoing, the following research question guided the conduct of the study.

1. To what extent does Process control affect Financial Performance with respect to return on investment in telecommunication industry in Port Harcourt?
2. To what extent does Assets safeguard influence Financial Performance with respect to return on investment in telecommunication industry in Port Harcourt?

Thus, the following hypotheses of this study is stated as follows:

- Ho₁:** There is no significant relationship between Process Control and Return on Investment in telecommunication industry in Port Harcourt.
- Ho₂:** There is no significant relationship between Assets safeguard and Return on Investment in telecommunication industry in Port Harcourt.

LITERATURE REVIEW

Theoretical Foundation

Ahiauazu (2006) observed, it is impossible that researchers address their mind to four important posers while developing their concept. He noted that, these posers to be addressed should include: (i) What is the baseline social theory on which my study concepts are founded? (ii) What is the general statement of the theory? (iii) What is the underlying assumption behind it? and (iv) What are the implications for the theoretical foundation of my study? With regard to the foregoing, the theoretical formulations which divulge the internal audit function and financial performance of telecommunication firms in their transformation point could be to such baseline social/organizational theories such as: Agency theory.

Agency Theory

Donaldson and Davis (1994) observed, agency theory gives a useful theoretical framework for the study of internal auditing function. They maintained that agency theory is widely used in the accounting literature to explain and predict the appointment and performance of external auditors and financial consultants. They added, agency theory proposes, predicts and explains how the internal audit function might be affected by organizational change. That is, it provides a basis for rich research, which can benefit both the academic community and internal auditing profession. Donaldson and Davis statement points directly to the fact that, agency theory describes firms as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behaviour of agents. In order to harmonize the interest of the agent and the principal, a comprehensive contract is written to address the interest of both the agent and the principal; they further explain that the relationship is further strengthened by the principal employing an expert to monitor the agent.

Conceptual Review

The conceptual review of this study is discussed under the following headings: (i) internal audit function, (ii) Process Control, (iii) Asset Safeguard, (iv) Financial Performance, and (v) Return on Investment.

Internal Audit Function

Internal audit makes a large contribution to the achievement of company goals, and the implementation of strategies for their achievement (Ljubisavljevic & Jovanovi, 2011). In addition, the internal audit function is responsible for reinforcing management and audit committee by providing an independent and objective assurance and consulting service that is designed to add value and improve the organization's operations which are geared towards helping the organisation accomplish its objectives by bringing about a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance (Hutchinson & Zain, 2009). However, they mentioned many factors of internal audit functions which includes:

1. The internal control systems and arithmetic evaluations in an attempt to; ensure that the accounting system and internal controls systems are appropriate, ensure that the systems are suitable for the facility and proposed system enhancements.
2. Assessing plans and procedures to determine weaknesses or defects in the systems and procedures used by the company and to propose modifications and enhancements needed, and to provide authority to the internal auditor for the examination of the aspects of establishment activity.
3. Taking into consideration the staff Assets safeguard to the company policies and procedures and therefore, internal auditor has to monitor these policies and procedures implementation and to clarify them to the employees.
4. Safeguarding established funds as the development and implementation of systems is an attempt to make sure that the facility safeguards assets and funds against manipulation and fraud, to detect fraud and minimize losses stemming from neglect/abuse (e.g. loss of proper storage). Internal audit needs to understand the expectations of its primary stakeholders (senior management and the audit committee) and align its activities accordingly. This alignment ensures that the internal audit function and

key stakeholders share the same priorities when it comes to applying internal audit resources to risk management and control.

Process Control

Process control is used in order to maximize production while maintaining a desired level of product quality and safety and making the process more economical. Process Control is the active changing of the process based on the results of process monitoring. Once the process monitoring tools have detected an out-of-control situation, the person responsible for the process makes a change to bring the process back into control (Gramling., Maletta., Schneider., and Church, 2004).

Assets Safeguard

Assets safeguard as defined by the Committee of Sponsoring Organizations (Coso) in Ibama, (2016) noted that, these are policies and procedures that provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements. This definition as contained in "Coso" is consistent with the definition provided in the Treadway Commission's Addendum, Reporting to External Parties, which provides the following definition of internal control over safeguarding of assets:

Internal control over safeguarding of assets against unauthorized acquisition, use or disposition is a process, effected by an entity's board of directors, management and other personnel, designed provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements. Such internal control can be judged effective if the board of directors and management have reasonable assurance that unauthorized acquisition, use or disposition of the entity's assets that could have a material effect on the financial statements is being prevented or detected on a timely basis.

Financial Performance

Performance is defined as the attained outcome of actions with the skills of employees who perform in some situation (Gramling *et al.* 2004). He argued that, performance is a concept used to assess the level at which an organization has succeeded in its line of business. It varies from one organization to the other

depending on the nature of activity. He maintained that, performance is the umbrella term of manufacturing excellence and includes profitability as well as non-cost factors such as quality, speed, delivery and flexibility. More so, performance is a dynamic concept and is the indicator of financial and nonfinancial factors which help to identify on which level of objectives and results are achieved.

Return on Investment

Return on investment (ROI) is a ratio between the net profit and cost of investment resulting from an investment of some resources. A high ROI means the investment's gains favourably to its cost (Puncet and Parmil, 2012). As a performance measure, ROI is used to evaluate the efficiency of an investment or to compare the efficiencies of several different investments. Thus, it is one way of relating profits to capital invested. They added, return on investment is a performance measure used by businesses to identify the efficiency of an investment or number of different investments. Return on investment (ROI) is a financial ratio used to calculate the benefit an investor will receive in relation to their investment cost. It is most commonly measured as net income divided by the original capital cost of the investment. The higher the ratio, the greater the benefit earned. ROI deals with the money you invest in the company and the return you realize on that money based on the net profit of the business. Profit, on the other hand, measures the performance of the business.

Empirical Review

The works of Eighme and Cashell (2002), test the internal auditor's role in overcoming financial reporting crisis in Malaysian companies using a regression analysis approach. The study findings pointed to a positive relationship between internal audit quality and irregular accruals inferring that some internal audit qualities have an important part in the financial reporting process. Though the study is a contribution to regulatory reforms with Board of directors moderating the observed relationship, the study considered the quality of financial reports and not the levels of firm financial performance as influenced by internal audit quality. Cohen and Sayag (2010) set out to study the efficacy of internal audit using descriptive analysis design by researching on the following variables: industry of the firm; expertise of internal auditors; worth of audit work; independence; training and top management support. Top administration support was seen to be the major determinant of internal audit effectiveness for enhancing performance of hotels in Israel.

METHODOLOGY

In order to determine the outcomes for this research, 213 copies of a structured questionnaire were administered to the telecommunication firms in Rivers State. Out of the 213 copies of the questionnaire distributed, 152 were returned and used for data analysis. The descriptive statistical tool which involves frequency distribution, average and simple percentage was employed for data analysis through the use of statistical package for social sciences (SPSS). However, the key below is a guide for clarity and understanding of the symbols used in the frequency tables in the result section.

KEY:

SA	=	Strongly Agree	=	5point
A	=	Agree	=	4point
N/U	=	Strongly Agree	=	3point
D	=	Disagree	=	2point
SD	=	Strongly Disagree	=	1point

DATA ANALYSIS AND RESULTS

This section focuses on the univariate analysis of the data on the dimensions of the independent variable (Internal Audit Function) as well as the measures of the dependent variable (Business Performance).

Table 1 Process Control as a Dimension of Internal Audit Function

S/N	Question	SA	A	N	D	SD	Mean	Std
1	In our organization Process control is one of the functions provided by accounting firms	61	33	22	18	18	3.66	1.409
2	Process Control exist to add credibility to the implied assertion by an organization's management	51	54	18	12	17	3.72	1.308
3	Process Control is conducted to provide an opinion whether "financial statement" (the information being verified) are stated in accordance with	80	33	16	9	14	4.03	1.307

Source: Research Survey Data, 2019 (SPSS output version 21.0)

Table 1 illustrates the response rates and frequency for Process control measured on a 3-item instrument and scaled on a 5-point scale. Table 1 shows that all the items in the table indicates a mean scores of 3.66, 3.72 and 4.03 respectively. The response or the respondents shows that Process control is one of functions provided by accounting firms.

Table 2: Assets Safeguard as a Dimension of Internal Audit Function

S/N	Question	SA	A	N	D	SD	Mean	Std
1	The reporting system on organizational structures spells out all the responsibilities of each section	52	71	21	4	4	4.07	.907
2	All employees understand the concept and importance of internal controls including the division of responsibility	42	69	15	15	11	3.76	1.172
3	Performing audit work according to internal auditing standards contributes significantly influence the effectiveness of auditing	43	43	15	26	25	3.35	1.461

Source: Research Survey Data, 2019 (SPSS output version 21.0)

Table 2 illustrates the response rates and frequency for Assets safeguard measured on a 3-item instrument and scaled on a 5-point Likert scale. Table 2 indicated that all the items in the table indicates a positive response with mean scores of 4.07, 3.76 and 3.35 respectively. The response of the respondents shows that employees understand the concept importance or internal controls including division of responsibility.

Table 3 Descriptive Statistics for Internal Audit Function

S/N	N	Minimum	Maximum	Mean	Std. Deviation
Process Control	152	1.00	5	3.8048	1.24157
Assets Safeguard	152	1.67	5	3.7281	0.96474
Valid N (List)	152				

Source: Research Survey Data, 2019 (SPSS output version 21.0)

Table 3 illustrates the descriptive statistics for Internal Audit Function which is Process Control and Assets Safeguard with mean scores of 3.8048 and 3.7281 respectively.

Table 4 Return on Investment as a measure of Business Performance

S/N	Question	SA	A	N	D	SD	Mean	Std
1	In my organization rate of turnover has been improving	77	45	16	4	10	4.15	1.138
2	In my organization operating expenses has been growing slower than growth in sales	85	34	11	18	4	4.17	1.150
3	In my organization net profit have been improved	43	76	5	25	3	3.86	1.068

Source: Research Survey Data, 2019 (SPSS output version 21.0)

Table 4 illustrates the response rates and frequency for Return on measured on a

a-item instrument and scaled on a 5-point scale. Table 4 Indicated that all the items in the table indicates a positive response with mean scores of 4.15, 4.17 and 3.86 respectively. The response of the respondents revealed that organization rate of turnover has been improving.

Table 5 Descriptive Statistics for Business Performance

S/N	N	Minimum	Maximum	Mean	Std. Deviation
Return on Investment	152	1.33	5	4.0614	0.98586

Source: Research Survey Data, 2019 (SPSS output version 21.0)

Table 5 illustrates the descriptive statistics for Business performance which are Return on Investment and Return on Assets mean scores of 4.0614 and 3.9101.

Table 6 Descriptive Statistics for Internal Audit Function and Business Performance

S/N	N	Minimum	Maximum	Mean	Std. Deviation
Internal Audit Function	152	1.33	5	4.0614	0.98586
Business Performance	152	1.67	5	3.9101	1.03363
Valid N (List)	152				

Source: Research Survey Data, 2019 (SPSS output version 21.0)

The data in Table 6 illustrates the descriptive statistics summary are Internal Audit Function (Independent variable) and Business Performance (dependent variable).

Test of Research Hypotheses (Bivariate Analysis)

The hypotheses formulated are tested in this section using the decision rule (p -value < 0.05) for accepting or rejecting any of the hypotheses, through the help of statistical package for social sciences (**SPSS**) 21.0 version.

Test of Hypotheses One

Table 7: Relationship between Process Control and Business Performance

			Process Control	Return on Investment	Return on Asset
Spearman's rho	Process Control	Correlation Coefficient	1.000	-.506**	-.905**
		Sig (2 tailed)	.	.000	.000
		N	152	152	152
	Return on Investment	Correlation Coefficient	-.506**	1.000	.593**
		Sig (2 tailed)	.000	.	.000
		N	152	152	152

H₀₁: There is no significant relationship between Process control and Return on Investment

From the result in Table 7, the correlation coefficient (ρ) shows negative relationship between Process control and Return on Investment. The ρ value magnitude and strength of this relationship and it is significant at $0.000 < 0.05$. The correlation coefficient represents a moderate correlation indicating a moderate relationship. Therefore, based on empirical findings the null hypothesis earlier stated is hereby rejected and the alternate upheld. Thus, there is a significant relationship between Process Control and Return on Investment of Telecommunication firms.

Test of Hypotheses Two

Table 8 Relationship between Asset Safeguard and Business Performance

		Assets Safeguard	Return on Investment	Return on Asset
Spearman's rho	Assets Safeguard	Correlation	1.000	-.764**
		Coefficient		-.553**
		Sig (2 tailed)	.000	.000
		N	152	152
	Return on Investment	Correlation	-.764**	1.000
		Coefficient		.593**
	Sig (2 tailed)	.000	.000	
	N	152	152	

Source: Research Survey Data, 2019 (SPSS output version 21.0)

Table 8 illustrates the test for the second previously postulated hypothetical statements. The results show that for:

Ho2: There is no significant relationship between Assets Safeguard and Return on Investment

From the result in Table 8, the correlation coefficient (rho) shows that there is a significant and negative relationship between Assets Safeguard and Return on Investment. The rho value -0.764 confirms the magnitude and strength of this relationship and it is significant at $p\ 0.000 < 0.05$. The correlation coefficient represents a high correlation indicating a strong relationship. Therefore, based on empirical findings the null hypothesis earlier stated is hereby rejected and the alternate upheld. Thus, there is a significant relationship between Assets safeguard and Return on Investment of Telecommunication firms.

DISCUSSION OF FINDINGS

This study using descriptive and inferential statistical methods investigated the relationship between Internal Audit Function and Business Performance of Telecommunication firms. The findings revealed a significant and negative relationship between Internal Audit Function and Business Performance of Telecommunication firms using the Spearman's rank order correlation tool and at a 93% confidence interval. Data for the study reveals negative correlation the dimensions of the independent variable (Internal Audit Function) which are Process control, Assets Safeguard and the measure of the dependent.

Process Control and Business Performance

Process Control test was first conducted to verify the internal consistency of each construct. The results indicated that all the constructs are internally consistent and reliable. Preliminary test conducted using correlation analysis indicated a significantly positive relationship between various Internal Audit Function variables and Business Performance. Based on the study findings, it is in line with Gramling *et al.* (2004) that, Process control shows the service provider's ability to perform services in a dependable and accurate manner.

Assets Safeguard and Business Performance

Based on the study findings Assets Safeguard is the willingness or readiness of employees to provide service and there is a link between Assets Safeguard and Business Performance. This is in line with (Coso) in Ibama (2016), who stated that Assets Safeguard involves timeliness of services, understanding needs and wants of the customers, convenient operating hours, individual attention given by the staff, attention to problems and customers safety in their transaction.

CONCLUSION

We therefore conclude that, Internal Audit Function is necessary for the survival of any business and its product, especially in the highly competitive Nigerian telecommunication industry. The internal audit department is very important in a firm where the internal audit is regarded as the key element in the application of accounting systems and this in turn, helps in evaluating the work of the department because the internal audit is considered as the backbone of the business accounting; as it is the section that records all businesses related to the sector. However, telecommunication firms should expand their network coverage and improve the quality of service they offer because this is a major factor that affect their financial performance.

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