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THE IMPACT OF INTERNAL AUDIT ON FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT: *The main aim of this seminar paper is to investigate the impact of internal audit on financial performance of money deposit banks in Nigeria. The population of this study was 22 commercial license banks in Nigeria in which 16 money deposit banks were sampled using judgmental sampling technique and hypergeometric formula. Primary data with respect to questionnaires were used to collect data. 15 questionnaires were distributed to each sampled bank but in all the 360 questionnaires distributed, 334 questionnaires were correctly retrieved and found usable. The research tools used were Ordinary Linear Regression (OLS) with correlation, Adjusted R Square and Standard Error using IBM SPSS Statistics 20 software. The result(r=28.9%) showed that there was a relationship between internal audit and the profitability of money deposit banks in Nigeria. Also, internal audit reporting channels have a positive effect (r=25.5%) on financial performance of money deposit banks in Nigeria. The study concluded that there was a positive relationship between internal audit and the financial performance of money deposit banks in Nigeria. Likewise, internal audit reporting channels have an effect on financial performance of banks in Nigeria. The study recommended that money deposit banks in Nigeria should strengthen their internal audit and their internal auditing reporting channels as they were both important to their financial performance.*

KEYWORDS: Internal Audit, Financial Performance, Profitability, Reporting Channel.

JEL Classification: M41, M42, M49, P47

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INTRODUCTION

In the last months of 2018, two Nigerian deposit money banks changed their names in a four-month period. Despite the fact that capital concerns impacted bank shares, the Central Bank of Nigeria (CBN) stated that all Nigerian banks are in good shape (Tijani,2018). Internal audit and its reporting channel could be the cause of these changes, according to some audit specialists. Internal auditing is a cornerstone of effective financial management in public institutions, and it is critical to ensure effective and efficient operations as well as the proper application of controls extracted from audits (Ziniyel, Otoo & Audzie 2018). Al-Matari, and Al-Swidi & Fadzil (2014), the internal audit role is very significant within a firm, and it is seen as a key aspect in the use of accounting systems, which assists in evaluating the department's work.

In the current climate, there have been worries regarding audit quality, as evidenced by the Enron crisis in 2001, Parmalat in 2003, Cadbury Nigeria Plc in 2006, and Afribank Nigeria Plc in 2009. (Ajani, 2012; Miettinen, 2011). The perceived dependability of audit financial information has diminished, according to Jim McFie (Jim McFie 2015). Internal auditing could help you regain public trust.

According to Ali (2018), the part of duty for independent inspections and providing confirmation on various foundation operations has continually gone toward better hierarchical execution, as may be expected by firms' internal auditors. This enables a company to achieve its operational goals by assessing and improving how best to manage risk, establish effective controls, and improve management. The Nigerian government regulates the banking sector through the Central Bank of Nigeria, making it one of the most regulated industries in the country. Deposit money banks offer a variety of services in addition to safekeeping money and other valuables and making them readily available to the owners who need them, among other things. Despite these enormous responsibilities, the sector has been plagued by issues such as financial irregularities, a lack of objective internal audit control, internal auditor independence in relation to reporting channels, insider dealings, and excessive loan losses as they relate to the financial performance of Nigeria's commercial banks.

The primary goal of this study was to look into the impact of internal audit on the financial performance of Nigerian money deposit banks. As a result, the following precise objectives established were raised:

(i) to determine the relationship between the internal audit and profitability of money deposit banks in Nigeria.

(ii) to investigate the effect of internal audit reporting channels on financial performance of money deposit banks in Nigeria.

The following research questions were raised with a view to meeting the objectives of the study:

i. Is there any relationship between internal audit and profitability of money deposit banks in Nigeria.

ii. does internal audit reporting channels have an effect on financial performance of money deposit banks in Nigeria.

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The following null hypotheses were developed with a view to achieving the research objectives:

Ho1: the internal audit is not related to profitability of money deposit banks in Nigeria.

Ho2: the internal audit reporting channels do not have an effect on financial performance of money deposit banks in Nigeria.

LITERATURE REVIEW

Conceptual Review

Internal Audit

The international audit and assurance standard board (IAASB), a subcommittee of the International Federation of Accountants (IFAC), defined audit as "*an independent examination and expression of opinion on the financial statements of a business enterprise by an appointed auditor in accordance with his terms of appointment and in compliance with relevant statutory and performance requirements*". The audit report is the final output of an audit assignment, and it expresses the auditor's opinion on the truthful and fair perspective of an enterprise financial statement to its client company.

Although the terms audit and auditing are sometimes used interchangeably, they are arguably distinct. According to Nwabueze (1997), auditing is an operation that is carried out in order to provide evidence to statements issued by corporate directors (who are not the actual providers of capital) for use by the organization's owners (shareholders), creditors, and other stakeholders. Auditing, on the other hand, is described as an appointed auditor's independent examination and expression of opinion on an organization's financial statements in accordance with that appointment and any applicable statutory framework.

Internal auditing is a process that is carried out to provide evidence for reporting to a company's management. Internal auditing, according to Ejoh & Enom (2014), aims to improve organizational efficiency and effectiveness through constructive criticism. The establishment of an internal audit department is momentous since it is seen as a key component in the implementation of an accounting system, which aids in the evaluation of the department's work. Internal audit is regarded as the heart of business accounting because it is the division in charge of keeping track of all businesses in the industry.

Internal audit efficiency aids in the development of the company's work because financial reports reflect the quality of the internal audit department. Furthermore, internal audit is an important part of cooperative governance in an organization because it encompasses the activities of oversight conducted by the board of directors and audit committees to ensure credible financial reporting (Public Oversight Board 1994). Internal auditing is a constant evaluation of a company's operations and records carried out by specially appointed workers. "The independent appraisal of activities within an organization for the review of accounting, financial, and other business procedures as a protective and constructive arm of management," according to the Internal Audit definition. It's a form of control that works by assessing and

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comparing the effectiveness of other controls. As a result, it is apparent that internal auditing encompasses not just accounting but also financial and other problems.

Internal audit's goals include verifying the accuracy of financial accounting and statistical records submitted to management, commenting on the effectiveness of the current internal control and internal check systems, and suggesting ways to enhance them. to aid in the early detection and prevention of frauds, to ensure that the organization's standard accounting practices are strictly followed, to confirm that liabilities have been incurred by the organization in connection with its legitimate activities, to examine the protection provided to assets and the uses to which they are put, to ensure that the organization's standard accounting practices are strictly followed, to ensure that the organization's standard accounting practices are strictly followed, to ensure that the organization's standard accounting practices are strictly followed, to ensure that the organization's standard accounting practices are met, to conduct a particular inquiry for management and identify the authorities in charge of purchasing assets and other items, as well as asset disposal.

Internal audit contributes significantly to statutory auditing. When it comes to the accuracy of the accounting, both the internal auditor and the statutory auditor have a mutual interest. Internal auditing, on the other hand, relieves the statutory auditor of detailed scrutiny. The internal auditor examines the operations and conducts functions such as assessment, compliance, and verification, as well as ensuring that the business's policies, procedures, regulations, and other types of controls are implemented effectively.

In the area of auditing books of accounts, he is of assistance to the statutory auditor. In most cases, the statutory auditor accepts some of the internal auditor's extensive checks. However, the scope of collaboration between the internal auditor and the statutory auditor is limited because the statutory auditor is accountable to a variety of agencies, but the internal auditor is only accountable to management. The statutory auditor must carry out his responsibilities in accordance with normal accounting and auditing standards as well as the organization's governing laws.

The statutory auditor must conduct such test checks as are necessary to determine the effectiveness of internal audit before accepting the internal auditor's checking of accounts and other documents.

Both the internal auditor and the statutory auditor examine records and papers, as well as do physical and other verifications. Despite their similarities, internal auditors and statutory auditors have different roles, responsibilities, approaches, and scopes of work. The proper and comprehensive capturing and reporting of transactions is ensured by the effective use of internal audit reports, which improves openness, transparency, and maybe accountability in banks.

Financial Performance

The performance of money deposit institutions can be examined in a variety of ways. According to Muga (2012), bank profitability is important at both the micro and macro levels of the economy. Profit is the most important criterion for a competitive financial organization and the cheapest source of money at the micro level. Return on assets (ROA), return on total equity (ROE), and return on investment (ROI) are three accounting-based performance indicators stated by (Marr and Schiuma 2003). There are other financial performance metrics

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among which are absolute profit (AP), returns on property plant and equipment (ROPPE) (returns of fixed assets (ROFA)), returns of turnover (ROT) etc.

Theoretical Review

Agency theory, contingency theory, lending credibility theory, and capture theory were among the theories that influenced this research. These are the ones that will be mentioned farther down as follows:

Agency Theory

According to the agency theory, a firm's primary goal is to increase the wealth of its investors. The theory states that the company is made up of principals who own the financial assets and agents who supervise the company's assets (Gensen & Meckling, 1976; Jussi & Petri, 2004; Tuan 2015 and Al-Matari etal, 2014). The principals don't usually participate in the destination and may on event represent to promote their own particular advantages at the expense of the investors (Gensen & Meckling, 1976; Jussi & Petri, 2004; Tuan 2015). One of the academic frameworks that informed this investigation was Adams' (1994) agency theory as it relates to internal audit.

Agency theory is concerned with the problems that might occur in agency relationships, especially between owners (such as equity holders) and their agents (for example, company managers). This theory, however, has been used in a number of empirical studies to explain why some organizations outsource internal audit services (Caplan & Kirschenheiter, 2000); to demystify the moral hazard faced by management in organizations (Evans 2003; Ekanayake 2004); to define the varying nature of internal audit functions and their relationship with management (Van peursem, 2005); and to justify why some organizations outsource internal audit services (Van peursem, 2005). (Al-Matari, etal.,2014).

According to Morris, J. J. (2011), software providers who sell enterprise resource planning (ERP) systems have capitalized on the growing focus on internal controls by highlighting that one of the primary features of ERP systems is the built-in controls that reflect a firm's architecture. In their marketing brochure, they emphasized these features, claiming that these solutions will help companies increase the effectiveness of their controls, as required by the Sarbanes-Oxley Act.

Contingency Theory

There is no one-size-fits-all method to leading, controlling, and managing businesses, according to the contingency theory of leadership management. Organizations and their actions are influenced by a variety of external and internal factors. "Contingency means that one thing depends on another, and Contingency theory means that it depends," Daft (2012) writes in his book. Auditing functions that are task-oriented might be loosely structured.

Theory of Lending Credibility

The lending theory postulated that an unqualified and audited financial statement could boost owners' confidence and trust in directors' stewardship stated according to Volosin (2007), the lending credibility hypothesis is similar to the agency theory. The company would be made up of numerous groups that are affected by or participate in financial reporting regulations.

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Empirical Review

In their examination of the link between quality and quantity, Hazaea, Tabash, Kahtib, Zhu & Al-Kuhabi (2020) found that Internal auditing and financial performance relied on primary data gathered via a questionnaire. The study included fifty (50) questionnaires, of which forty-two (42) were retrieved and determined to be useful during the analysis. For the verification of the research hypotheses, they used empirical analysis, descriptive analysis, and the T-test. Internal auditing standards, internal auditor independence, and quality governance have a considerable impact on banks' financial performance, according to the findings, however the size of internal audit committees, as well as their meetings, have a minor impact on the financial performance of banks.

Internal audit and financial performance of micro finance institutions in Nigeria were investigated by Arzizeh & Oti (2019). Their investigation was conducted after the incident, and the data was analyzed using the ordinary least square approach. Their findings revealed that using the value of fraud as an internal audit proxy had a positive impact on the linked variables Return on Asset, Profit Margin, and Return on Equity. The study also found a strong link between the value of fraud and the dependent variables of Return on Asset, Profit Margin, and Return on Equity, concluding that for successful fraud prevention and control in microfinance institutions, bank management should guarantee that internal controls are in place.

Ziniyel, Otoo, and Audzie (2018) conducted a study in Ghana that yielded conflicting results on many of the issues addressed, owing to the fact that responses from audit staff, account officers, and leaders of various institutions can vary. However, the majority of respondents' opinions are taken into account. Internal auditing methods at the university are in compliance with government regulations. This indicates that they are performing their needed duties and that the necessary conditions for their performance have been met on a technical level.

Internal auditing has no impact on Kenya's profitability and return on investment, according to Muchiri and Jagongo (2017). Despite this, the conclusions of their investigation contradict the study's goal. The study discovered that the existence of an internal audit function at the Kenya Meat Commission had no bearing on financial performance. This suggests that the existence of internal auditing has no bearing on a company's profitability.

Didier (2016) found a link between internal audit and commercial bank financial performance in a Rwandan study. Internal audit aided in the restoration of assets, the detection of fraud, and the growth of the company, according to the study. The research was done in a descriptive manner. Internal audit's position and image in banking institutions will be enhanced as a result of this study, making it more effective and professional.

According to Ejoh & Ejom (2014), the College's top administration initiates all of the college's activities. In terms of internal audit effectiveness, the study discovered that the College's internal audit department is understaffed and does not conduct its duties with a greater degree of autonomy and independence from management. In addition, the investigation discovered a fault in the College's audit model. The internal audit function has no substantial impact on the financial performance of Cross River State College of Education, according to the study.

Kabiru and Abdullahi (2014) investigated the quality of audited financial statements of deposit money banks in Nigeria, using both primary and secondary data, and selected a sample of five banks from a population of 21 publicly traded banks in Nigeria: Access Bank, First Bank,

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Union Bank, United Bank for Africa, and Zenith Bank. It was discovered that auditor independence improves the quality of audited financial statements of Nigerian money deposit banks significantly, and that compliance with auditing guidelines has a positive and significant impact on the quality of audited financial statements of Nigerian money deposit banks.

METHODOLOGY

The main aim of this study was to investigate the impact of internal audit on financial performance of money deposit banks in Nigeria. Descriptive survey research design was adopted. The population of this study were the 22 money deposit banks in Nigeria in which 16 quoted money deposit banks were sampled using judgmental sampling technique and hypergeometric distribution formula. All the sampled banks were licensed money deposit banks by the Central Bank of Nigeria (CBN) and all quoted by Nigeria Stock Exchange (NSE). The banks were categorized into international, national and regional. Primary data with respect to structured questionnaires were used to collect data. 25 questionnaires were distributed to each sampled bank but in all the 400 questionnaires distributed, 369 questionnaires were correctly retrieved and found usable. This represented a 92.25% retrieval rate. The research tools used were ordinary linear regression (OLS) with correlation, adjusted R square and standard error using IBM SPSS Statistics 20 software. Evaluating the research instrument reliability, the Cronbach alpha U was applied and the result was 0.78, which paved the way that the instrument used was reliable. While a result using a Cronbach alpha value of 0.5 (that is 50%) and more is reliable and any values range between 0.7 and 0.9 is considered very reliable.

RESULTS AND DISCUSSION OF FINDINGS

Data Presentation

Driven by a careful analysis of the responses obtained from the respondents through questionnaires administered, the hypotheses formulated were tested using IBM SPSS Statistics 20 software.

Inferential Statistics and results

Hypothesis 1

Ho1: The internal audit is not related to the financial performance of banks in Nigeria.

Table 4.2.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.289[a]	.083	.043	.48901

a. Predictors: (Constant), Internal audit unit is independent unit in Nigerian banks

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Table 4.2.2: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.550	.261		5.937	.000
	Internal audit unit is independent unit in Nigerian banks	.250	.173	.289	1.446	.162

a. Dependent Variable: The profit of banks has improved tremendously
Sources: SPSS Output 2021

From **Table 4.2.1,** it could be deduced that a positive change in internal audit would lead to a positive change in profit of banks in Nigeria as revealed by Beta factor of (0.289). Also, R-Square (83%) is the measure of deterministic factor of the equation. 83% change in internal audit would result to a change in profit of banks while the remaining 17% was as a result of other factors outside the scope of the study. The correlation coefficient of R which is 0.289 shows that there is a positive relationship between internal audit and profit of banks in Nigeria. At an asymptotic significant value of 0.162 at 0.05% significance level, the study therefore rejected the null hypothesis which says internal audit is not related to the financial performance of banks in Nigeria.

Hypothesis 2

Ho2: The internal audit reporting channels do not have an effect on financial performance of banks in Nigeria.

Table 4.2.2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.255[a]	.065	.024	.49392

a. Predictors: (Constant), Anonymous Internal audit reporting channel is a good reporting tool

Table 4.2.2: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.000	.187		5.357	.000
	Anonymous Internal audit reporting channel is a good reporting tool	.139	.110	.255	1.263	.219

a. Dependent Variable: The profit of banks has improved tremendously
Sources: SPSS Output 2021

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From **Table 4.2.2,** it could be deduced that the beta factor of 0.255 showed that with one unit change in independent variable would lead to 25.5% unit change in dependent variable i.e a change in audit reporting channels would lead to a change in profit of banks. R Square was the measure of deterministic factor of the equation therefore 24% change in dependent variable is brought about by independent variable while 76% change is as a result of other factors outside the scope of the study. Also, the correlation coefficient R measures the relationship between dependent variable and independent variable, in this study our R which is 0.255 means there is positive but low relationship between internal audit and profit of banks in Nigeria. In testing our hypothesis, the study used an asymptotic significant value of 0.219 at 0.05% significance level. The study therefore accepted H_2 which was the alternative hypothesis that internal audit reporting channels have effect on the financial performance of banks in Nigeria and rejected H_0 i.e null hypothesis which says internal audit does not have effect on the financial performance of banks in Nigeria.

DISCUSSION OF FINDINGS

It was found out that there was a relationship between internal audit and the profits of banks in Nigeria. The result of this study was in agreement with Hazaea, et al. (2020) found out that sticking to standards internal audit, internal auditors' independence and quality governance have significant impact on banks' financial performance Also, internal audit reporting channels have effect on financial performance of banks in Nigeria. Arzizeh & Oti (2019) result was also in consensus that internal audit proxy by value of fraud favorably impacts the related variables Return on Asset, Profit Margin and Return on Equity. Also, Didier (2016) resulted in agreement with this where the study revealed that internal audit aided on return of assets, detecting fraud and led to growth.

CONCLUSION

This study investigated the effect of internal audit on financial performance of deposit money banks in Nigeria using 16 quoted money deposit banks in Nigeria. Literatures were reviewed. For analysis, structured questionnaires were distributed and analysed. It was concluded that there was a relationship between internal audit and the profits of banks in Nigeria. Also, internal audit reporting channels have an effect on financial performance of banks in Nigeria. It was recommended that commercial banks management and board should give internal audit a better concentration in order to drive their financial performance in Nigeria. Also regulatory agencies such as Central Bank on Nigeria (CBN), Asset Management Corporation of Nigeria (AMCON), Nigerian Deposit Insurance Corporation (NDIC), Federal Ministry of Finance, Financial Services Co-ordinating Committee (FSCC) and other relevant regulatory agencies should ensure strict and improved audit compliance for all money deposit banks and other financial institutions in Nigeria. Also, internal audit reporting channels should be transparent and independent. If need be, regulatory authorities should take over the internal control and audit of all banks in Nigeria,

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