

## **Internal Audit: A Process Control Mechanism in Quoted Manufacturing Firms in Nigeria**

**Ibama, Kellyiyi Chika Kelly., Ph.D, Ibama, Tamunonimim Kellyiyi,**

*Department of Accountancy/Rivers State University, Port Harcourt Rivers State, Nigeria*

*Department of Accountancy/Rivers State University, Port Harcourt Rivers State, Nigeria*

---

### **Abstract**

*This research is designed to investigate how internal audit is seen as an end means to process control; thereby, ascertaining the overall profit plan and decision making of the firm. In sourcing for data, questionnaire and personal interviews were used while data were analyzed using the simple percentage and frequency distribution methods. We found that, the efficiency of internal audits sets the stage for the control process of a firm; and that, the overall profit plans of the firm is determined by the internal audit unit because the internal audit report provides the day to day information that is used as a guide for manufacturing decision making; thereby, setting out work outcomes with set standards.*

**Keyword:** *Internal Audit, Process Control, Decision Making, efficiency and Profit Plan*

---

Date of Submission: 03-10-2020

Date of Acceptance: 17-10-2020

---

### **I. Introduction:**

The involution of Internal Audit Process Control hereafter called "IAPC" has created a lot of contest in business firms, as many business research scholars and trade explorers have failed to recognize that the existence of IAPC in a business venture sets forth a platform for profit planning and decision making in strategy implementation; and that, the legality of IAPC in a business venture enables management to chart its course of action in advance. However, understanding the nature of internal audit process control (IAPC) cannot be hinge on a single factor as the efficiency of internal audit requires process control which eventually ascertains the profit plan and decision making of the business firms. In order to determine the effectiveness and efficiency of internal audit in its natural scope, process control has to be established. With regard to the foregoing, process entails actions which are exerted in a sector in the bid of achieving objectives and goal; while control is the power to make all the important decisions about the way the system is to be run. Therefore, process control entails powerful actions which are exerted in an organization in the bid of making profit and important decisions about the way the system runs to achieve objectives and goals (Ibama, 2016).

As Oluyemi (1998) argued, the efficiency of internal audit entails process control which management of organizations adopt. Thus, it is the means employed for the achievement of management goal. In manufacturing firms, the internal audit unit in these firms needs to analyze auditor's response to process control and strategy implementation. The unit must be in agreement to do what the management wants or the act of accepting what the management does, even though the employees are not in support of it. Therefore, the unit compels an individual or group of persons in a firm to conform to a plan of action through the strategies implemented as a follow-up to the entire control in the system. In view of the above, this research is designed to investigate how internal audit is seen as an end means to process control; thereby, ascertaining the overall profit plan and decision making of the firm, with respect to strategy implementation in quoted manufacturing firms in Nigeria. The following research questions guided the conduct of this research.

- i. To what extent does the efficiency of internal audit determine the control process in a firm?
- ii. To what extent does the internal audit unit ascertain the profit plans in a firm?
- iii. To what extent does the internal audit report provide the required information in decision making in a firm?

### **II. Literature Review**

#### ***Theoretical Review/Foundation***

Pfeffer (1982) in Agwor (2011) noted, every nascent intention in social philosophy is fixed to some ground laying principles or theories; the knowledge which enables their analysis and categorizations easier. With regard to the foregoing, the theoretical formulations and/or foundations which relate internal audit process control (IAPC) in ascertaining the profit plan and decision making in a firm with respect to strategy implementation in quoted manufacturing firms in their operating umbworld (environment) could be to such baseline social/organizational theories such as; resource base theory and upper echelon theories.

---

### **Resource Base Theory**

Barney and Arikian (2001) observed, resources are the tangible and intangible assets firms use to conceive of and implement their strategies. They are the firms specifics and can be specified as all assets, capabilities, organizational processes, information knowledge, attribute for resources utilization etc, controlled by the firms that enable the firms to conceive and implement strategies that improve its efficiency and effectiveness.

### **Upper Echelon Theory**

Ahiazu (2007) observed, the central thesis of the upper echelon theory is that the strategic apex of the organization has the chief responsibility of visioning and is thus charged with ensuring that the organization serves its mission in an effective way. Howbeit, the theoretical premise which relates internal audit process control (IAPC) to the upper echelon theory is that internal auditing is concerned with the aim of implementing social responsibility adopted by those at the level of pinnacle management and review of implementation in corporate policies, plans and procedures (Whittington and Pany, 2001). This implies that, the profit plans of the firm and corporate social responsibility policy taken for decision-making or strategy is the decision of pinnacle management which is domiciled in the upper echelon in organizational management.

### **Conceptual Review**

The following headings depicts the conceptual review of this study: (i) internal audit: A determining factor in achieving process control (ii) IAPC ascertaining the profit plans of the firm and (iii) IAPC) a platform in decision-making

### ***Internal Audit as a Determining Factor in Achieving Process Control.***

It is an accepted norm in business circle that the institution of internal controls in the administration of an organization is a recipe for proper conduct of business. This saying is self-evident especially if the control that is in place is well designed, articulated, understood, workable and command popular support. As Ibama (2016) noted, the relevance of the efficacy of internal control to the organization is not too difficult to comprehend; for it provides a platform whereby activities and behaviors are regulated, kept in order or directed positively for the achievement of set goals. However, the auditing standard and guidelines No.24 in Govindarajan and Anthony (1995) explains that, internal control embraces all the regulatory measures designed and operated by a business organization to facilitate its activities, safeguard its assets and improve its efficiency and productivity. It is to be noted that “internal control” entails “internal checks” and “internal audit” that encompasses the components which relate to the overall system of control in the organization. Such checks cannot be said by any stretch of interpretation to mean accounting or financial matter. This in no doubt, may have led to the reason why Govindarajan & Anthony (1995) said, process control recognizes that management control system which goes beyond matters relating to financial department function, appears relevant in every organization. The existence of such measures encourages promotion of operational efficiency, adherence to prescribed management policies, and by extension ensures that actual performance is consistent with plans.

From the above, one is bound to believe that the internal audit unit (department) guarantees the process control that entails checking or monitoring of the allocation of resources especially money (revenue), measuring performance against set standards, obtaining feedback on results, evaluation of constraints and plan in light of the actions taken and correcting deviation from set standards. Thus, the choice and implementation of these measures may enhance the effectiveness of the corrective action taken and the feedback of information to the process of administrative control. More so, Ibama (2017) noted, when standards for functional policy implementation are in place; the execution of business tends to be active and successful. Therefore, management establishes the internal audit and successful. Therefore, management establishes the internal audit unit (department) to act as a mechanism for implementation of basic strategies which entails the essential features (elements) of process control.

### ***Internal Audit Process Control (IAPC) Ascertaining the Profit Plan of the Firm.***

Pandey (1995) argued that in implementation of strategies, performance is obtained through profit planning. He maintained that, profit planning is an integral part of management; and that, the managers would be particularly interested in profit planning, since it helps to regulate flow of funds which is his primary concern within and outside the organization. This may have led to the reason why Perreault & McCarthy (2002) argued that, developing a potentially profitable plan does not ensure either satisfied customers or profit for the firm. Achieving the outcomes envisioned in the profit plan requires that the whole management process work well. Perreault’s & McCarthy’s statement points directly to the fact that the ongoing success and performance of the firm is often dependent on control which entails the feedback process that helps the sales manager to learn how the ongoing plan and implementation are working and how to plan for the future so as to ascertain profit. In

order words, feedback improves the sales management process and implementation puts the plans in operation (action) and control provides feedback. Therefore, the researcher is of the opinion that in achieving the outcomes envisioned in the profit plan, there must be an effective management performance within and outside the organization.

#### ***Internal Audit Process Control (IAPC) a Platform in Decision-Making.***

As Oluyemi (1998) noted, it appears undisputable that process control helps in ensuring that the overall direction is consistent with short, intermediate and long-range plans. The monitoring of executed activities (decision-making) that leads to performance, placed alongside plans with comparison over the passage of time or operational period is facilitated by process control. In this regard, it appears that the action objective and performance accomplishment at various levels and among various units (department) in an organization by means of control are made consistent with one another. Therefore, process control is necessary because it tends to ensure compliance with basic organizational rules, policies and respect for others. Pandey (1995) observed, it is well recognized that an enterprise should be managed effectively and efficiently. Such process in managing is easier if management charts its course of action in advance. He added, the function of management also includes implementation of decision-making which is facilitated by various managerial techniques and procedures.

#### ***Empirical Review***

This section of the review of related literature examines other relevant studies as it directly or indirectly relates to internal audit process control (IAPC) being a determining factor in ascertaining the profit plan and providing the required information in decision-making in a firm.

“Auditing: A Strategy Evaluation Emphasis” was studied by Ukpai, Kellyiyi and Hamilton (2006). The work set out to know if auditing can be useful in evaluation of strategies in the control process of organizations in Nigeria. The study covered twenty-six (26) business organizations, while data were collected by means of questionnaire and personal interviews. However, it was revealed that operative internal audit contributes in the evaluation of strategies and maintain control in organizations; and that, achievement in internal audit is essential to management in evaluating and controlling business strategies in organizations.

In view of the above, the works of Ukpai et al., (2006) relates to this research because it talks about how auditing can be useful in evaluation of strategies in the control process of organizations in Nigeria and this is pertinent to this research because this study hinge on and/or conjoins internal audit as a process control mechanism in quoted manufacturing firms in Nigeria.

### **III. Methodology:**

In order to ascertain an effective result for this study, 41 structured questionnaires were designed and administered on the top management, internal auditors and staff of the internal auditing/strategy implementation units of quoted manufacturing firms in Nigeria. These firms were grouped into different sectors. Out of the 41-questionnaire distributed, 40 were returned and used for data analysis. The descriptive statistical tool which involves frequency distribution, average and simple percentage were used for data analysis. Nevertheless, the key below is a guide for clarity and understanding of the symbols used in the option column of frequency tables in the result section.

KEY/SCALED POINT(S)

SA= Strongly Agree

A= Agree

U= Unsure

D= Disagree

SD= Strongly Disagree

Weighted Score= Response Frequency \* Scaled Point

### **IV. Data Analysis And Results:**

This Section of The Research Examines The Extent To Which The Efficiency Of Internal Audit Determines The Control Process of The Quoted Manufacturing Firms In Nigeria And How The Unit Ascertains Its Profit Plans Through The Reports Which Provides The Required Information In Decision Making. Questions in Our Sized Structured Questionnaire Sought Respondent’s Opinion Regarding These Issues. Our Findings from The Various Questions Asked Are Presented In Table 1.

**Table 1: Efficiency of Internal Audit in Process Control**

Items	Questions	Options Points	SA 5	A 4	U 3	D 2	SD 1	Total
Q1	The efficiency of internal audit determines the control process in my firm?		6 (15.0%)	34 (85.0%)	-	-	-	<b>40</b>
Q2	Internal audit repeatedly forestalls corrective measures towards work discrepancies in my firm?		25 (62.5%)	10 (25.0%)	2 (5.0%)	3 (7.5%)	-	<b>40</b>
Q3	The maximization of profit plans is ascertained by the internal audit unit in my firm?		125 (67.5%)	40 (30.0%)	6	6 (2.5%)	-	<b>177</b>
Q4	The internal audit unit is involved in determining the overall profit plans in my firm?		13 (32.5%)	24 (60.0%)	3 (7.5%)	9	-	<b>40</b>
Q5	The internal audit report provides the day-to-day information that is used as a guide for manufacturing decision making in my firm?		65 (80.0%)	96 (20.0%)	8	-	-	<b>170</b>
Q6	The internal audit report sets out work outcomes with set standards in my firm?		32 (75.0%)	8 (17.5%)	1 (2.5%)	2 (5.0%)	-	<b>40</b>
			150	28	3	4		185

**Source:** Survey Data, 2020.

From table 1, the item denoted Q1, 34(85.0percent) responses and Q4, 24(60.0percent) responses in each case with frequency (weighted) score of 136 and 96 respectively said “agree” that, the efficiency of internal audit determines the control process in their firm; and that, the internal audit unit is involved in determining the overall profit plans in their firm. While 6(15.0percent) responses and 13(32.5percent) responses of the item denoted Q1 and Q4 in each case with frequency weighted score of 30 and 65 respectively said “strongly agree” to the question asked. This affirms and supports the earlier responses of the item denoted Q1 and Q4 in each case as mentioned above. With respect to these facts, it is obvious that the efficiency of internal audit determines the control process and overall profit plans of the firm.

However, the item denoted Q2, 25(62.5percent) responses; Q3, 27(67.5percent) responses; Q5, 32(80.0percent) responses and Q6, 30(75.0percent) responses in each case with frequency weighted score of 125, 135, 160 and 150 out of a total frequency weighted score of 177, 185, 192 and 185 respectively said “strongly agree” that, internal audit repeatedly forestalls corrective measures towards work discrepancies in their firm; and that, the maximization of profit plans is ascertained by the internal audit unit because the internal audit report provides the day-to-day information that is used as a guide for manufacturing decision making thereby, setting out work outcomes with set standards.

### V. Discussion Of Findings:

The Auditing Standard and Guideline No. 24 in Govindarajan and Anthony (1995) noted that, control embraces all the regulatory measures designed and operated by a business organization to facilitate its activities, safeguard its assets and improve its efficiency and productivity.

Our results are in line with these observations as mentioned above and shows among other things that;

- 85.0percent of our respondents believe that, the efficiency of internal audit determines the control process of their firm.
- 62.5percent of our respondents are in support that internal audit repeatedly forestalls corrective measure towards work discrepancies in their firm.
- 67.5percent of our respondents are of the opinion that, the maximization of profit plans is ascertained by the internal audit unit in their firm.
- 60.0percent of our respondents are of the view that, the internal audit unit is involved in determining the overall profit plans in their firm.
- 80.0percent of our respondents maintained that, the internal audit report provides the day-to-day information that is used as a guide for manufacturing decision making in their firm.
- 75.0percent of our respondents are also in support of the fact that, internal audit report sets out work outcomes with set standards in their firm.

The engulfing sure reaction on the empirical reality of internal audit efficiency as a process control mechanism supports Oluyemi (1998) argument that, the efficiency of internal audit entails process control which management of organizations adopt. Thus, it is the means employed for the achievement of management goal. Also, our result is in line with Govindarajan and Anthony (1995) argument that, control system which goes beyond matters relating to financial department function, appears relevant in every organization. In order words,

the existence of such measures encourage promotion of operational efficiency, adherence to prescribed management policies and by extension ensures that actual performance is consistent with plans.

## VI. Conclusion:

We conclude this research work by ascertaining that, the efficiency of internal audit is a process control mechanism in quoted manufacturing firms in Nigeria; and that, internal audit repeatedly forestalls corrective measures towards work discrepancies because the internal audit report provides the day-to-day information that is used as a guide to manufacturing decision making thereby, setting out work outcomes with set standards.

## Reference

- [1]. Agwor, T. G. (2011). *Internal Audit Function and Business Performance in Quoted Manufacturing Companies in Nigeria*. A Ph.D dissertation of Rivers State University of Science and Technology, Port Harcourt.
- [2]. Ahiauzu, A. I. (2007). *Advanced Social Research Methods: A Baseline Theories for Social and Organizational Analysis*. An Unpublished Seminar Paper. CIMRAT, Port Harcourt. 13-15 February
- [3]. Barney, J., & Arian, C. (2001). Organizational culture; can it be a Source of Competitive Advantage? *Academy of Management review*, 11, 656-665
- [4]. Govindarajan, V., & Anthony, R. (1995). *Management Control Systems*. New York: McGraw-Hill Inc.
- [5]. Ibama, K.C.K., & Ibanichuka E.A.I. (2015). Internal Audit Efficiency: Strategy Implementation Emphasis in Quoted Manufacturing Firms in Nigeria. *West African Journal of Business and Management Sciences*, 4(3), 308-317.
- [6]. Ibama, K.C.K. (2016). *Internal Audit Efficiency and Strategy Implementation Emphasis in Quoted Manufacturing Firms in Nigeria (2000-2014)*. A Ph.D Thesis of the University of Port Harcourt.
- [7]. Ibama, K.C.K., & Ibama, T.K., (2017). Period Cost and Corporate Resources Utilization (CRU) in Strategy Implementation: Examination of Quoted Manufacturing Firms in Nigeria. *Reiko International Journal of Business and Finance*, 9(2), 16-22
- [8]. Ibama, K.C.K., & Ibama, T.K., (2017). Revenue: A Pillar to Organizations Structural Policy with respect to Strategy Implementation. *Reiko International Journal of Social and Economic Research*, 12(1), 73-79
- [9]. I. A. (2009). *The Role of Internal Auditing in Enterprises-wide Risk Management (ERM)*. A Position Paper Published August,
- [10]. Jerome, W. T. (1995). Internal Auditing as an Aid to Management. *Harvard Business Review [Control I]*, 3(5), 81-89.
- [11]. Millichamp, A. H. (2002). *Auditing*. Hampshire: D. P. Publications Ltd.
- [12]. Nwanyawu, L. A. (2002). The Role of Internal Auditors in Public Sector Administration in Nigeria. *International Journal for Development*, 4(2), 43-47.
- [13]. Oluyemi, S. A. (2004). Supplementary Budgeting in Nigeria: Impact and Problems. *The National Accountant*, 3(2), 69-72.
- [14]. Owolabi, S. A., Olotu, A. & Owolabi, T. J. (2013). Strengthening corporate governance; the role of internal Audit. *Research Journal of Accounting, Auditing, Economics and Finance*, 1(4), 43-48.
- [15]. Pandey, I. M. (1995). *Financial Management*. New Delhi: Vikas Publishing.
- [16]. Pearce, J. A., & Robinson, R. B. (2004). *Formulation, Implementation and Control of Competitive Strategy*. New York: McGraw-Hill Company Inc.
- [17]. Perreault Jr, W. D., & McCarthy, E. J. (2002). *Basic Marketing: A Global-Managerial Approach*. New-York: McGraw-Hill Companies Inc.
- [18]. Sandelands, E. (1994). All Talk and No Action Perish the Thought. *Management Decisions*, 32(5), 10-11.
- [19]. Ukpai, N. A., Kellyyi, K. I., & Hamilton, D. I. (2006). Auditing: A Strategy Evaluation Emphasis. *Sophia: Journal of African Philosophy*, 8(2), 109-117.
- [20]. Whittington, R. O., & Pany, K. J. (2001). *Principles of Auditing*. New York: McGraw-Hill Company Inc.

Ibama, Kellyyi Chika Kelly, et. al. "Internal Audit: A Process Control Mechanism in Quoted Manufacturing Firms in Nigeria." *IOSR Journal of Business and Management (IOSR-JBM)*, 22(10), 2020, pp. 27-31.