The Impact of Internal Auditing as a Veritable Tool towards Organizational Growth. Institute of Management and Technology (IMT) Enugu

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***Abstract*—** Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. The internal auditing is efficiency assists in developing the company's work because the financial reports present the internal audit department's quality. In addition, an internal audit is a crucial part of corporate governance structure in an organization and corporate governance (CG) which covers the activities of oversight conducted by the board of directors and audit committees to ensure credible financial reporting process. Internal auditor has a positive effect on activities in relation to accountability and transparency in a given organization. This invariably calls for a case by case of a well refined implementation towards growth of every organization whereby projecting ends in auditory evaluation. This should not be only narrative but has been the case in most evaluations rather it should include audited financial statement to be signed by the internal auditor. Recently, most of the internal audit reports in some organizations are not utilised to bring about compliance, therefore the recommendations of the internal auditors are not enforced by management. The paper portrays that the Internal Auditors should not be hired by management of organization even by the Board of Directors or Donors so the internal auditors will report to the Board or the donor or funding agency and not management of organizations. Beneficiary communities and stakeholders should be educated to demand full disclosure of the entire package of support or intervention such that they can hold organizations by implementing the projects ends within their community accountable if they refused to render the agreed support package.

***Keywords*—** Internal audit, Management, Audit planning, Audit report.

I. Introduction

A company's accounting control practices (such as internal auditing) is widely believed to be crucial to the success of an enterprise as it acts as a powerful brake on the possible deviations from the predetermined objectives and policies. This means that an organization that put in place an appropriate and adequate system of accounting controls is likely to perform better (in financial terms) than those that do not. As Okezie (2004) puts it, "an enterprise's internal audit function can significantly affect the operations of the enterprise and may have an impact on the ability of the entity to remain a going-concern. According to Hermanson and Rittenberg (2003) the existence of an effective internal audit function is associated with superior organizational performance. Although prior research (for example, Mak, 1989 and Simons, 1987) suggest a link between accounting control practices and financial performance, majority of prior studies had concentrated mostly on the budgeting aspect of accounting controls. This aside, the available studies so far had dealt exclusively with large privately-owned companies especially in the advanced countries.

However, every ministry, agency, parastatal, state and local government is expected to establish an internal audit unit in Nigeria. The internal audit unit is responsible for the audit of all financial transactions carry out in such organizations. The units do so by carrying out a continuous examination of all accounting books and records maintained in the local government with a view to checks or detect fraud and correct errors. It is concerned with the examination of the system and procedure in place so as to ensure their conformity with the set down regulations, as the case may be, that the system of internal control is adequate and that it is continuously operating in accordance with government financial regulations. It is the job of internal auditor to ensure that all financial transactions are in accordance with the approved regulations and that adequate system of security exists in the establishment (Millichamp, 2004).

Internal auditor should be independent and directly responsible to the chairman of the local government. The internal audit unit should be properly organized, adequately staffed and equipped to be able to effectively perform its functions. Adeniyi, (2010) & Dandago, (2011) are of the view that internal audit should include periodic surprise cash survey in all sections of the local government, checking of revenue collectors" receipts, cash books, receipt books and bank tellers, as well as, inventory verification of the store and maintenance of assets register and ledgers for the purpose of easy location and identification of the assets of the organization. To achieve sanity in government business, the federal government of Nigeria introduced the new civil service rules to ensure that civil servants including local government

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staff are professional, productive and responsive to the socio-economic needs of Nigeria, this will in turn revamped and restructure the local government administration to enable it perform its role of promoting, coordinating and implementing community services, enhances grassroots participation in governance and maximizing the use of local resources.

Most internal audit professionals argue that an effective internal audit function correlates with improved financial performance. According to Bejide (2006), an effective internal audit service can, in particular, help reduce overhead, identify ways to improve efficiency and maximize exposure to possible losses from inadequately safeguarded company assets all of which can have a significant effect on the bottom line. Similarly, Venables and Impey (1991) had stated that internal audit is an "invaluable tool of management for improving performance". Fadzil et al (2005) had also noted that internal auditors help run a company more efficiently and effectively to increase shareholders' value". And Hermanson and Rittenberg (2003) had argued that the existence of an effective internal audit function is associated with superior organizational performance.

At the empirical level, a survey conducted by KPMG (1999) found that the internal audit function in organizations where it exists, contributes substantially to performance improvement and assist in identifying profit evidence in corporate disasters, particularly financial fraud consistently documents an association between weak governance (e.g. less independent boards or the absence of an internal audit function) and the incidence of problems (e.g Dechow, et al 1996; Beasley , 1996, Beasley et al 2000; Abott et al 2000). Thus, internal audit by acting as a watchdog could save the organization from malpractices and irregularities thus enabling the organization to achieve its objectives of ensuring high level of productivity and profit.

II. Literature Review

Internal auditing is defined by different institutions and scholars in many ways and perspectives. Internal auditing is defined by the institute of internal auditors (2008), as: an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic discipline approach to evaluate and improve the effectiveness of management, control and governance processes. Therefore, in any organization where there is effective functioning of internal Audit the organizational internal control system would be improved and it will leads to additional value to the organisation. As cited in Davies (2001), the Auditing Practices Board's auditing guidelines define internal auditing as an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the efficient and effective economic resources utilization.

This study adds that if internal auditors are appointed by the management and made to operate on the management`s policies and report to the management then, it is likely for the auditors to be dependent on the management. John (1996), defines Internal Audit as an independent appraisal functioning within an organization for the purpose of guiding the activities of the institutions as a service to all levels of management within the organization. It is a control which measures, evaluates and reports upon the effectiveness of Internal Control system, financial and otherwise, as a contribution to the efficient use of resources within an organization. The objective of Internal Auditing is to help members of the organization in the effective discharge of their responsibilities. In view of the above, internal audit furnishes the management with analysis, appraisal, recommendations, counselling and provision of information concerning the activities of the organisation for proper decision making.

Internal auditing which is often seen as constituting a large and significant aspect of an organization's financial control system is a vehicle to success and survival. According to Rittenberg and Schwieger (1997) "internal auditing is taking on increased importance in many of today's global organizations by assisting management in evaluating controls and operations and thereby providing an Important element of global control". Venables and lmpey (1991) also recognized the control role of internal auditing when they stated: It is generally recognized that the proper organization, staffing and methodology of internal audit presents the board with the best means of focusing on its obligation to ensure proper controls in the business However, the need for an internal audit function will vary depending on company specific factors including the scale, diversity and complexity of the company's activities and the number of employees as well as cost/benefit considerations (ICAEW, 1999). Moreover, Venables and Impey (1991) had argued that for an internal audit function to be effective to enable an organization realize its full benefits, the function must have clearly defined objectives, authority, independence and appropriate resources.

III. Types Of Internal Auditing

Types of Internal Audit Adeniyi [2010] stated that internal audit have been categorized in to Five [5] types.

A. Social Audit

The idea of this audit portray the fact that company does not exists in isolation, the relationship extend to the company shareholders, employees, customers, community and the general public. Matters within the scope of social audit includes staff incentives, staff bonuses, staff welfare package, recreation facilities and staff retirements arrangements, pricing policy, products safety and quality control etc.

B. Value for Money Audit

This audit has become common and fashionable in the recent years. It is a type of internal audit in the public sector such as the work of local governments, state and federal government and departments. The purpose of conducting VFM audit by the organization is to investigate the operating system in the organization and evaluates whether the objectives of the system is being achieved and ensure the resources of the organization is being utilized efficiently and economically and if there is unnecessary spending to be checked.

C. System Audit

This is an audit of internal control, it is designed to evaluate the internal control system of an organization to ensure that the resources are being managed effectively and efficiently and that information provided is accurate. System audit examines the effectiveness and application of the two most important test namely compliance and substantive test to the organization.

D. Transactions Audit

This audit is sometimes refers to probity or financial audit. It is mainly apply to ensure that the financial assets of the organization are safeguarded. Example by physical inspection of stock and cash in hand.

E. Management Audit CIMA [2015]

define management audit as an objective and independent appraisal of the effectiveness of managers and the effectiveness of corporate structure in the achievement of the company objectives and policies. Herbert L. [2014] emphasized that the function of management audit is to identify existing and potential management weaknesses within an organization and recommend possible ways of rectifying the problems.

IV. Auditing in Management

Management (or managing) is the administration of an organization, whether it is a business, a not-for-profit organization, or government body. Management includes the activities of setting the strategy of an organization and coordinating the efforts of its employees (or of volunteers) to accomplish its objectives through the application of available resources, such as financial, natural, technological, and human resources. The term "management" may also refer to those people who manage an organization. It also consists of the interlocking functions of creating corporate policy and organizing, planning, controlling, and directing an organization's resources in order to achieve the objectives of that policy.

Dinapoli (2007), provide that, the internal control system is the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization would achieve its objectives and mission. This contribution is a unique one because it does not see the senior managers as the only personnel’s responsible for internal control but all the staff in the organization. Employees tend to go extra miles in seeing that they place organizational objectives above their personal objectives provided their effort is seen and appreciated as instrumental towards the survival of the organization. It is a well-known fact that, timely and reliable financial data guides management in the formulation of appropriate policies in a given organisation.

V. Fact in Audit Planning

Audit planning is a vital area of the audit primarily conducted at the beginning of audit process to ensure that appropriate attention is devoted to important areas, potential problems are promptly identified, work is completed expeditiously and work is properly coordinated. "Audit planning" means developing a general strategy and a detailed approach for the expected nature, timing and extent of the audit. The auditor plans to perform the audit in an efficient and timely manner.

An Audit plan is the specific guideline to be followed when conducting an audit. it helps the auditor obtain sufficient appropriate evidence for the circumstances, helps keep audit costs at a reasonable level, and helps avoid misunderstandings with the client.

VI. Benefits of Audit plan

- It helps the auditor obtain sufficient appropriate evidence for the circumstances
- It helps to keep audit costs at a reasonable level.
- It helps to avoid misunderstandings with the client.
- It helps to ensure that potential problems are promptly identified
- It helps to know the scope of audit program by an Auditor.
- Understating the client

VII. Process of Audit Planning

It includes following procedures

- Knowledge of client's business
- Development of audit strategies or overall plan (who, when and how)
- Preparation of audit programme

Finally, it is defined as the process in which the strategy is designed to conduct the expected result which also defines the scope of audit inside the company. The size, nature and the time for the audit plan may vary. It depends on the size of the business. If the business is spread to the large scale, the strategy making and its implementation will take more time and also the overall scope of Audit plan may also increase. It’s basically the step by step methodology where the audit in control reviews the financial process and the internal environment along with the engagement preparation.

We can also say the audit plan as the designing of processes which will help to review the financial events. The aim of doing audit planning primarily to make the financial statement error free and secondly the time for reviewing or cross checking the financial events should be done in less time. Planning in audit facilitates the overall business and the most hectic job for rectifying the accounts will now be done in lesser time.

The auditor's report is a disclaimer thereof, issued by either an internal auditoror an independent external auditor as a result of an internal or external audit, as an assurance service in order for the user to make decisions based on the results of the audit.

An auditor's report is considered an essential tool when reporting financial information to users, particularly in business. Since many third-party users prefer, or even require financial information to be certified by an independent external auditor, many auditees rely on auditor reports to certify their information in order to attract investors, obtain loans, and improve public appearance. Some have even stated that financial information without an auditor's report is "essentially worthless" for investing purposes. It is important to note that auditor reports on financial statements are neither evaluations nor any other similar determination used to evaluate entities in order to make a decision. The report is only an opinion on whether the information presented is correct and free from material misstatements, whereas all other determinations are left for the user to decide.

VIII. Conclusion And Recommendation

The absence of a relationship arose from possible under emphasis on internal auditing by these enterprises. Clearly, it can impact positively on financial performance. Consequently, we strongly recommend the creation of an Internal Audit Department in most organizations where there is none. Existing Departments then should be strengthened by according them the necessary professional independence and employing adequate number of experienced and qualified staff to enable the Department extends coverage of the audit to all. The functions of internal audit is effective and would benefit on the organization growth in plugging out loopholes that may be present in the futures' activities with resultant positive effects on financial performance.

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