EFFECTS OF INTERNAL AUDIT PRACTICE ON CORPORATE POLICY: A STUDY OF SELECTED PRIVATE ENTERPRISES IN NIGERIA

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Abstract
The paper assessed the effects of internal audit practice on corporate policy implementation in Nigeria (A study of selected private enterprises in Nigeria) The population of the study was obtained through stratified random sampling. Questionnaires were distributed to top managerial staff of the selected companies. Analyses of the data was done using chi-square distribution. Results of the analysis showed a significant relationship between internal audit practice and corporate policy implementation in Nigeria. Also, irregularities and fraud resulting from poor internal audit practices were responsible for the gap between internal audit practice and corporate policy implementation in Nigeria. It was agreed in this study that internal audit practices affects corporate policy implementation to a great extent. From the above, conclusions, recommendations were drawn and it include that private enterprises should practice internal auditing to enhance management efficiency. Business organization should adopt effective internal audit practice to reduce irregularities and fraud. That internal audit department should be independent of managerial influence. Finally, it was recommended that there should be adherence and compliance to internal audit standards and procedures in corporate organization.

Keywords: internal audit, Enterprises, irregularities

Introduction
Attaining an effective and efficient internal audit practice along side corporate policy can hardly be overemphasized. An effective and efficient internal audit practice results in good internal control thereby minimizing fraud and defalcations, it enhances effective corporate policy implementation and effective management while lack of effective and efficient internal audit practice leads to irregularities, lack of true and fair representation of the financial statement, lack of accountability and hence poor corporate policy implementations.

The history of auditing is almost as old as civilization. The whole idea behind auditing was to ensure that clerical errors and fraud in the record kept by stewards of wealthy estates were avoided.

Auditing according to Whittington and Meigs (2004) is "an examination of books, account vouchers of a business which enable, the auditor to satisfy himself that the balance sheet is properly drawn up so as to give a true and fair view of the state of affairs of the business". Solomon and
Walter (2002) also say that "auditing is involved with the investigation and examination of the transactions that underlie an organization's financial report".

Although some auditors, such as Lobbecks (2001) accepted the definitions; this does' not mean that the whole duty of the auditor is to compare the balance sheet and accounts. The auditor must exercise reasonable skills and diligence, independence, of the transactions. For the purpose of this research, the researcher will concentrate on internal audit practice which is a division of auditing.

The term, internal audit is defined by the Institution of Internal Auditors (IIA) USA as "an independent and objective assurance and consulting activity designed to add 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 process. Traditionally, internal audit is primarily concerned with questions like whether the assets of the organization were adequately safeguarded and properly accounted for, whether the accounting and other allied records are reliable, and whether the organizational procedures and policies are complied with.

Corporate polices on the other hand, are pattern of major objectives, purposes or goals, standards set by enterprises and plans for achieving those goals. They are carefully drafted sets of directions and hopes that must be translated into real actions to achieve specific results.

**Objectives of the Study**

The main objective of this study is to investigate and assess the effects of internal audit practice on corporate policy implementation in Nigeria.

Specific objective of the study are:
- To ascertain the causes of the gaps between internal audit practices and corporate policy implementations in Nigeria.
- To ascertain whether there is a relationship between internal audit practice and corporate policy implementations

**Scope of the Study**

The scope of the study “the effects of internal audit practice on corporate policy implementations has been restricted to some selected private enterprise (companies) in Nigeria with emphasis on management staff and accounting personnel.

**Meaning of Internal Auditing**

In explaining what internal auditing is, it would be appropriate to study the definition in the "statement of responsibility" published by the institute of internal auditors, UK in standard of guidelines for the professional practice of internal auditing, 2004 as amended in 2008. Internal auditing is an independent appraisal function established within an organization to evaluate its activities as a service to the organization". With the above in view, one can safely define internal audit, as a review of operations and accounting records and sometimes undertaken within a business by specially assigned staff (Brink and Herbert, 2002). Its aim is to see that laid down procedures for operations are adhered to. Whittington and Meigs (2004) highlighted some of the primary objectives of the internal audit department as;

1. To reassure management that there arrangements for internal control have been adequate, economical, and have operated satisfactorily.
2. To identify and draw the attention of managements of weaknesses in control measures which are commercially or otherwise unsound.
3. To make suggestions for improved performance and prevention of future shortcomings. It follows therefore, that for an internal auditor to be able to achieve the outlined objectives, he needs facts, ability and have an interest to communicate with all levels of staff.

Internal audit is also an independent appraisal of activities within an organization for the review of accounting, financial and other operations as a basis of service to management (Bradly and Ritterbury, 2002). This is the underlying concept, which several people ion business have not been able to appreciate. Some industrialist see internal audit as unnecessary. Others see it as an administrative bottleneck. This research work is hopefully expected to make stakeholders to realize exactly what it is all about. Furthermore, the definition offered by the institution of internal auditors could be made more meaningful by focusing more directly on the key terms that have been used. The term auditing itself suggest a variety of ideas. It can be viewed as checking of arithmetical accuracy or existence of assets or a thoughtful review and appraisal of management controls and checks. The term "Internal" means that, auditing work is carried out by the staff of the organization. Listed below are important key dimensions of internal audit work.

i. **Independence:** This means that the audit work is free of restrictions that could significantly limit the scope and effectiveness of the review.

ii. **Apprised:** This confirms the evaluation trust of internal auditors as they develop their opinion.

iii. **Established:** It is the fact of the definition created by the organization of the internal auditing role.

iv. **Evaluate:** This describes the action role of internal auditors as fact-finding inquiries and judgments.

v. **To the organization:** This confirms the total service scope as pertaining to the entire organization.

**Literature Review**

**The Concept of Internal Auditing**

A survey carried out by some scholar's show that the most desirable form of audit is not to have a continuous audit performed by one auditor and supplemented with a final audit performed by another. Many large establishments by means of an internal audit staff implement this task. Internal auditing involves control and internal checks. AAS 6 defines internal control as "all the policies and procedure and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention of the accounting records, and the timely preparation of reliable financial information.

According to Makern et al (2001), internal control is best regarded as indicating the whole system of control while internal checks imply the checks in the day to day transactions which operate continuously as part of the routine-system whereby the work of one person is proved to be independent or complementary to the work of another. Here the work of one auditor is reviewed by another auditor. The objective of internal check is to detect and prevent fraud.

Information system and the system approach considers it as a set of inter-related process involving accumulation and review of accounting data, processing analysis and reporting to interested parties within and outside the organization for decision making. The auditors further enumerated the functions of an audit system. According to them, auditing system are methods used
by a business to monitor financial activities, and to summarize these activities in periodic report. Among other things, an auditing system, the authors maintained include:
1. The creation of systematic review of the daily business activity in terms, of money and events.
2. The classification into compact and useable form of information
3. Summarizing the classification information into reports designed to meet the information needs of the decision makers.

**Nature of Internal Audit**

The auditor is a watchdog not a blood bound; this celebrated quotation from an auditing case is pertinent to internal auditors as to statutory auditors. Nevertheless, an image of the internal auditor as a blood bound persists. It portrays the auditor as unnecessarily raking over the past and pouncing in every minor mistake to uncover fraud.

that many people particularly those who could benefit immensely from the activities of the internal auditors, think of auditing as a checking function carried on as a clerical routine operation meant to identify inadequacies or shortcomings alone.

A meaningful approach meant to dispel such misconceptions is to emphasize on the functions of internal auditors which is referred to as management internal control and what the department is not supposed to perform vis:
1. The internal auditor does not exist to count the petty cash, to stop the dormant workers and to detect frauds.
2. The admirable function termed "pre-audit of payments" is not an internal audit function.
3. The internal auditor is not a fault finder, but by virtue of being an employee of an organization, he does not totally lack the independence and objectivity attributes of the statutory auditor (Barret, 1996).

**The Concept of Corporate Policy**

The term "policy" means various things to different authors and scholars having' varying opinions on its definition. But when correctly applied, policy is such as important asset that well managed companies continue to develop and promulgate policy statements to their employees and other interested parties. Imaga (2006) defines policy as "a course of action that has been generally agreed upon and accepted by those in authority in a given enterprise. He further said that policy is a constitution, the art of governance, a system of administration guided more by interest than by principles".

Davies (2003) further defines policy as "a principle or group of related principles with their consequent rules of action, than condition, and govern the successful achievement of the business objectives to which they are directed"

Corporate objectives of any type of organization cannot be decided in isolation, their achievements rest on the performance of various sections or departments. Therefore, it is important that there should be departmental objectives as there should be corporate ones.

Once an organization has established corporate objective, it then identifies ways of achieving them. Cole (1996) opines that "policy statement are made to indicate to those concerned first what the organization will and will not do in pursuance of its overall purpose and objectives. Such statement is an expression of the organizations culture and belief systems". Policies are not the same as objective and plans even though they are frequently confused with each other. Objectives state an aim or goal; that is, they are end, plans provide a framework within which actions can take place to attain objectives, that is they are means policies on the other hand are neither ends or means, they are statements of conduct.
Characteristics of Sound Corporate Policies

For policies to be deemed effective, they must have certain characteristics. This is the measure by which any decisive and coordinated management should evaluate and assess the nature of policies put in place.

Thompson et al (1998) highlight some of the characteristic of corporate policies as:

1. They should be based on objectives of the firm to which they are applied.
2. They should conform to ethical standards.
3. They should be in simple and comprehensive terms.
4. They should be in complementary and supplementary.

Advantages of Internal Audit

1. **Ensure reliability and integrity of financial and operation information**: Internal auditors review the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information by ascertaining whether;
   - Financial and operating records and reports certain accurate, reliable timely, complete and useful information.
   - Controls over record-keeping and reporting are adequate and effective.
2. **Safeguarding of assets**: Internal audit department help to safeguard the assets. The systems of safeguarding asst are evaluated to asses the risk of losses from theft, fire, improper activities and exposure to elements of nature.

Policy Implementation and the Enterprises

The private sector is one of the most important economic components of the economy. A careful study of some of these firms in Imo state revealed and identify of policy practices drawn from a pool of control guidelines provided by specific regulatory bodies. It laws been discovered that private firms have both centralized as well as departmental polices guiding the conduct of their activities. Private firms have their owner’s attitude as a major factor affecting the mode of policy implementations as it has been discovered that shareholders view to reflect a narrow range of polices than stake holders views. Secondly, polices in private firms are also affected by the attitudes of the environment in which they operate.

Problems of Corporate Policy Implementation

According to Cole (1996), the problem of policy implementations in private sectors are drawn from internal factors such as management attitude, employee attitude, external factors such as government legislation, community relations, local customs and economic factors.

A. **Internal Factors**:

1. **Management Attitude**: Management has major roles to play towards implementing polices in firms. The problem here is that management in most cases does not thoroughly supervise the activities of employees towards ensuring policy implementations in corporate entities in Nigeria.
2. **Employee Attitude**: Once management is seen to be lacking in implementing policies, employees, seen very comfortable and therefore relax in their implantation efforts. In most cases, those polices are brought to focus as a “show case” of the organizations guiding rules meant to satisfy the interest of the public.

B. **External factors**

1. **Government legislations**: Government makes laws and change existing laws which affects the activities of firms. This in turn determines how corporate bodies respond to
these in connection with their policies. Some well known governmental policies that presently affect firm’s policies are.

a. Federal government policy on importation of finished goods.
b. Exercise duty on new material importation
c. Federal government ban on some goods classified as “prohibited goods”
d. Legislation on export free zone.

2. Local customs: according to Cole (1006), local customs are rules set by traditional authorities (institutions), that must be complied with by firms operating in the areas. It is a very important factor affecting corporate policy implementations. Our studies have shown that private enterprises had often revised some existing policies to conform with customary laws in their areas of operations.

While Eyo (1998) sums of the problem facing internal audit practice towards implementing corporate policies as; excessive management interference can the duties of internal auditors and editors personnel in enterprise; inadequate orientation on the importance of internal audit practices in business organization, poor motivation of auditing staff, inadequate training and retraining of audit staff engagement of in qualified and inexperienced internal audit personnel in business organizations and was implementations of internal involving guideline, procedures and practice in enterprises.

Contributing to this Adan (1994) in his own opinion says that when policies on internal auditing are made without the inputs of auditors, there is always a friction between its formulation and implementations.

Research Question
1. To what extent does gaps exist between internal audit practices and corporate policy implementation in Nigeria?
2. To what extent does a relationship exist between internal audit practice and corporate policy implementations in Nigeria?
3. To what extent does internal audit practice affect corporate policy implementation in Nigeria.

Hypotheses
Ho1: There is no gap between internal audit practice and corporate policy implementation in Nigeria.
Ho2: There is no relationship between internal audit practices and corporate policy implementation in Nigeria.
Ho3: Internal audit practice does not affect corporate policy implementation in Nigeria.

Testing of Hypothesis 1
H0: There is no gap between internal audit practice and corporate policy implementation in Nigeria.
H1: There is a gap between internal audit practice and corporate policy implementation in Nigeria.

Is there any gap between internal audit practice and corporate policy implementation in Nigeria.

Table 1:

<table>
<thead>
<tr>
<th>Response</th>
<th>No of Respondent</th>
<th>Percentage (%)</th>
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<tr>
<td>Total</td>
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Source: Field Study (2015)

Computation of chi-square

Table 2:

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<th>Oi</th>
<th>Ei</th>
<th>Oi-Ei</th>
<th>(Oi-Ei)²</th>
<th>(Oi-Ei)²/Ei</th>
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</tbody>
</table>

Degree of freedom (df)

Df = (C-1) (R-1)
= (2-1) (2-1)
= 1

The level of significant = 5% (0.05) Calculated value of X² = 30.00
Total value of X² i.e. 0.05 = 3.841

Decision
Reject Ho: Since the calculated value of X² is greater than the table value i.e. 30.00 is > 3.841.

Testing of Hypothesis II
There is no relationship between internal audit practice and corporate policy implementation in Nigeria.

Question 2 Is there any relationship between internal audit practice and corporate policy implementation in Nigeria.

<table>
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<td>-</td>
</tr>
<tr>
<td>Total</td>
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<td>100</td>
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</table>

Source: Field Study (2015)

Using of chi-Square analytical tool to analyze

<table>
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<tr>
<th>Responses</th>
<th>Oi</th>
<th>Ei</th>
<th>Oi-Ei</th>
<th>(Oi-Ei)²</th>
<th>(Oi-Ei)²/Ei</th>
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</table>

Degree of freedom (df)

Df = (C-1) (R-1)
= (2-1) (2-1) = 1

The degree of freedom is at 5% (0.05) Calculated value of X² = 30.00
Total value of X² i.e. 0.05 = 3.841

Decision: Reject Ho because the calculated value of X² is greater than the table value ie 30 > 3.841 therefore, there is a relationship between internal audit practice and corporate policy implementation in Nigeria.

Testing hypothesis III
H0: Internal audit practice does not affect corporate policy implementation in Nigeria.
H1: Internal audit practice does affect corporate policy implementation in Nigeria. Does internal audit practice affect corporate policy implementation in Nigeria?

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<th>Percentage (%)</th>
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<tr>
<td>Total</td>
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<td>100</td>
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</table>

Source: Field Study (2015)

Analytical tool. Using chi-Square

<table>
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<tr>
<th>Responses</th>
<th>Oi</th>
<th>Ei</th>
<th>Oi-E</th>
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<th>(Oi-E)²/Ei</th>
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<tr>
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<td>0</td>
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<tr>
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<td>0</td>
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<td>20</td>
</tr>
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</table>

Degree of freedom (df)

Df = (R- 1) (R-1)
= (2 – 1) (3-1) =1
Level of significance = 5% (0.05)

Decision Rule

Reject Null hypothesis Ho if calculated value of X² is greater than the table value otherwise accept (Ho) Calculated chi-square (X²) = 20.000

Total value chi-square = (X²) = 5.991. Therefore internal audit practice affects corporate policy implementations to a great extent in Nigeria.

Findings

(i) There is a gap between internal audit practice and corporate policy implementation in Nigeria.
(ii) There is a significant relationship between internal audit practice and corporate policy implementation in Nigeria
(iii) Internal audit practice affects corporate policy implementations to a great extent in Nigeria.

Discussion of Findings

Irregularities and fraud resulting from poor internal audit practice could cause a gap between internal audit practice and corporate policy implementation. Enhancing effective and efficient internal audit practice will help to strengthen corporate policy implementation.

Conclusion

Excessive management interference on the duties of internal auditors and other auditors personnel in on enterprise is not encouraging. Inadequate orientation on the importance of internal audit practices in a business organization is harmful and should be avoided. Business organizations in Nigeria should therefore engage qualified and experienced internal audit personals in order to maintain professionalism in the audit report and ultimately promote growth of their business enterprises.

Recommendations

1. Business organization should adopt effective internal audit practice to reduce the level of mismanagement, irregularities and fraud in such organization.
2. Corporate organization should implement internal audit policies to straighten management efficiency.
3. Internal audit department in any business enterprise should be fully independent of managerial influence.
4. There should be strict adherence and compliance to internal audit standards procedures and practices in corporate organization.

References