

# **THE ROLE OF INTERNAL AUDIT MGT IN SELECTED MANUFACTURING FIRM IN PORT HARCOURT**

## **ABSTRACT**

Some manufacturing firms managers have failed to recognize the effort of auditors in auditing manufacturing firms financial performance, and as a result, it has led them to poor planning, control and decision making hence the aim of the study is to analyse the role of internal audit management in manufacturing firms in Port Harcourt . Insurance Theory, Monitoring Theory, Agency Theory and Information Asymmetries were all used to guide the study theoretically. The study was conducted using a combination of Research designs mainly Surveys, relationship and Case study. Two manufacturing firms (Oasis Preforms Synergy Limited and SC Industrial Gas Manufacturers Ltd) were randomly selected for the purpose of this study. Data was collected using both primary and secondary data collection techniques. The collected Data was feed into computer programs (using particularly the Statistical Package for Social Scientist with the help of an Expert) for easy analysis and explanation of results. The interviews revealed that respondents generally recognized the role of the Internal Auditor in supporting internal control systems. They highlighted the Internal Auditor's contributions in providing advice to management, ensuring the effectiveness of control measures, and overseeing critical areas such as budgeting, policy enforcement, asset protection, and staff management. The study therefore concludes that strategic management of the internal audit function, coupled with appropriate resources and independence, is vital for driving organizational success and resilience in manufacturing firms. The study recommends that firms should ensure independence of internal audit function and also Organizations should establish and maintain the independence of the internal audit function from management

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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the study

In today's dynamic and fiercely competitive business environment, companies must constantly adapt to changes, meet organizational goals, and effectively manage risks to succeed. The business landscape evolves rapidly, requiring companies to stay agile and responsive. As noted by Leech (2017), prominent manufacturing companies such as Kodak, Blackberry, Sears, and Macy's have experienced significant declines in value and industry standing, highlighting the impact of failing to adapt. Industries like transportation, travel, and retail have undergone substantial transformations due to disruptive forces like Uber and Amazon. Alongside strategic risks, companies also face a spectrum of financial and reputational risks, as emphasized by Alma (2016).

Auditing has been introduced for a years in different forms of development following the progression of accounting. When the records were permitted after the reading of public, When government's officials precise with their honesty. When the ownership of the companies started his business from different units from different management, then owner required more protection of their investments increasing the use of the auditors. Auditors always searching the fraud of errors in accounts, in management, in internal control of the companies and then determine the actual condition of financial statements and the earning of the enterprise, entity, companies etc. However the acceptance of auditing is an practical regulation is not oldest and after the development of similar concepts and techniques with in the audit form such as the use

of sampling, the study of the internal control environment, use of the internal control environment and the risk assessment, is when more focus to the hypothetical and conceptual framework of auditing it is been constant.

Internal auditing is a self-determining, idea assurance and consulting activity designed to include value and get better an organization's operations (Institute of Internal auditors (IIA), 2019). The scope of internal audit should be to cover the systematic review, and appraising and reporting on satisfactoriness of systems of managerial, financial, operational and budgetary controls and their reliability in practice.

At the beginning of 2010's major corporate and accounting scandals resulted in collapses of companies like Enron, WorldCom, Ahold and Parmalat (Lakis and Giriunas, 2012, p. 146). They shook investors' confidence and resulted in the tightened law in the form of Sarbanes-Oxley Act of 2002 and many other regulations, recommendations, and legislation around the world. However, tightened regulations are not impermeable as the recent fraud cases such as following proves: ABB in South Korea of \$100 million; Konecranes in one of its subsidiaries of 17 million € in 2015; alleged bribery cases of Caverion in Germany and of Shindler in China or internal audit scandal of Toshiba. (Revill, 2017 & Business Insurance, 2015 & Caverion.com, 2016 & France-Presse, 2015 & Bhattacharyya, 2015) Such cases result in damaged reputation, financial losses and loss of trust for the management of the company. In order to assure shareholders and to manage those risks, companies increased their interest in internal control and internal audit. "Internal Audit's objectivity, perspective, and skills can assist stakeholders and provide valuable insight". (McDonnell, Kinsella and Healy, 2017, p.1) "Internal control is recognized as a key corporate governance mechanism and disclosure of information about internal control systems is

viewed as a significant component in the process of restoring public trust in corporate probity in the wake of financial scandal.“ (Spira & Gowthorpe, 2018, p.5).

Internal audit is a profession that has constantly been redefined in time, as a request to address the continuous changing needs of companies. Focused in the beginning of accounting aspects with respect to the accountants certification activity, the objectives of the internal audit shifted to the identification of company’s main risks, to the assessment of the internal control of these accounts and increase of their efficiency. (Morariu and AmuzaConabie 2016, p30).

Manufacturing firms in Port Harcourt play a significant role in the economic landscape of Nigeria, particularly in the oil and gas sector. These firms encompass a wide range of industries such as petroleum refining, petrochemicals, pharmaceuticals, food processing, textiles, and construction materials. The city's strategic location near major oil reserves and its access to transportation infrastructure make it a hub for manufacturing activities. Internal control within manufacturing firms in Port Harcourt is crucial for maintaining operational efficiency, financial integrity, regulatory compliance, and risk management. manufacturing firms in Port Harcourt rely on robust internal control systems to drive operational excellence, maintain financial transparency, comply with regulations, manage risks effectively, leverage technology advancements, conduct internal audits, and foster a culture of integrity and accountability across the organization. Hence this study is sought to analyse the role of audit management in manufacturing firms in Port Harcourt, Rivers State.

## **1.2 Statement of the Problem**

Some manufacturing firms managers have failed to recognize the effort of auditors in auditing manufacturing firms financial performance, and as a result, it has led them to poor planning,

control and decision making. It is a well-known fact that managers of manufacturing firms are entrusted with the management of both material and human resources of the Manufacturing firms and in most cases, these managers are not brought under thorough control or questioning; the ultimate consequence of this is that much of the resources are indiscriminately mismanaged.

Equally, manufacturing firms and key personnel in some manufacturing firms do not resist the temptation of teaming up with other workers to embezzle the manufacturing firms funds to the detriment of the shareholders/owners and account owners of the manufacturing firms.

Also some manufacturing firms do not seem to have efficient audit unit/department, or where such a unit/department exist in the manufacturing firms, they allow it exist only as mere compliance to the statutory requirement in manufacturing , but engage the services of an external auditor. An audit department of such standard will not make or have any impact as regards to internal control.

This state of affairs from investigation is usually a deliberate attempt by management to execute its exploitation plans without any hindrances. Another aspect of this is a lack of adequate regulatory standards in Nigeria regarding the duties, rights, responsibilities, and qualification of auditors.

### **1.3. Aim and Objective of the Study**

The aim of the study is to analyse the role of internal audit management in manufacturing firms in Port Harcourt

The researcher focuses on;

1. To explore and analyze the managerial roles of internal audit in manufacturing firms in Port Harcourt, Rivers State.



2. To examine the relationship between internal audit management practices and the financial performance of manufacturing firms in Port Harcourt, Rivers State.
3. To assess the extent to which audit exercises impact the internal control systems of manufacturing firms in Port Harcourt, Rivers State.

#### **1.4 Research Questions:**

1. What are the specific managerial roles performed by the internal audit function in manufacturing firms in Port Harcourt?
2. How does the management of internal audit practices correlate with the financial performance indicators of manufacturing firms in Port Harcourt?
3. To what degree do audit exercises influence the internal control mechanisms within manufacturing firms in Port Harcourt?

#### **1.5 Research Hypotheses:**

1. H1: The managerial roles of internal audit significantly contribute to enhancing operational efficiency and risk management in manufacturing firms.
2. H2: There is a positive relationship between effective internal audit management and improved financial performance metrics such as profitability and liquidity in manufacturing firms.
3. H3: The implementation of audit exercises has a significant impact on strengthening the internal control systems of manufacturing firms, leading to better risk mitigation and compliance management.

#### **1.6 Significance of the Study**

##### **Practical Significance:**

**Operational Improvement:** Understanding the role of internal audit management can lead to practical improvements in operational processes within manufacturing firms. This includes identifying areas for efficiency gains, streamlining internal controls, and optimizing resource allocation.

**Risk Management Enhancement:** Insights from the study can help enhance risk management practices by identifying and mitigating potential risks more effectively. This can lead to better protection of assets, improved decision-making, and reduced exposure to financial and operational risks.

**Compliance and Governance:** The study's findings can contribute to strengthening compliance with regulatory requirements and enhancing corporate governance practices. This is crucial for maintaining stakeholders' trust, avoiding legal issues, and sustaining long-term business success.

**Academic Significance:**

**Contribution to Literature:** The study adds to the academic literature on internal audit management, particularly in the context of manufacturing firms. It provides empirical data, insights, and analysis that contribute to a deeper understanding of internal audit roles, challenges, and best practices.

**Research Methodology:** The study's methodology, such as the use of surveys, interviews, or case studies, can contribute to academic discussions on research methodologies in the field of organizational management and auditing.

**Theoretical Framework:** The study will contribute to theoretical frameworks related to internal audit, risk management, corporate governance, and organizational behavior. It can help refine

existing theories and develop new concepts relevant to internal audit management in manufacturing firms.

### **Theoretical Significance:**

Agency Theory: The study will provide insights into how internal audit functions align with agency theory principles, particularly regarding monitoring, information asymmetry, and incentive alignment between management and shareholders.

Resource Dependence Theory: Understanding the role of internal audit management can be viewed through the lens of resource dependence theory, examining how internal audit resources and capabilities contribute to organizational resilience, adaptability, and competitive advantage.

Control Theory: The study's findings can contribute to control theory by exploring how internal controls, including those related to internal audit, influence organizational behavior, decision-making processes, and performance outcomes.

Overall, studying the role of internal audit management in selected manufacturing firms in Port Harcourt holds practical, academic, and theoretical significance by informing operational improvements, contributing to academic literature, and advancing theoretical frameworks in organizational management and auditing

## **1.7 Scope of the Study**

Content Scope: this includes examining the roles, responsibilities, and activities of internal audit departments within manufacturing firms. It covers aspects such as risk assessment, control evaluation, compliance monitoring, fraud detection, and internal reporting.

**Geographical Scope: Port Harcourt, Nigeria:** The study focuses specifically on manufacturing firms located in Port Harcourt, Nigeria. This geographical scope is chosen due to the city's prominence as an industrial hub, particularly in sectors such as oil and gas, pharmaceuticals, food processing, textiles, and construction materials.

**Selected Manufacturing Firms:** Within Port Harcourt, the research targets a selected number of manufacturing firms representing different industries or sectors. These firms are chosen based on criteria such as size, market influence, operational complexity, and willingness to participate in the study.

**Unit of Analysis Scope:** the primary unit of analysis is the internal audit departments within the selected manufacturing firms. This includes audit managers, auditors, audit committees, and related personnel involved in internal audit activities.

## **1.9 Definition of Terms**

**Internal Audit Management:** Refers to the process of planning, organizing, directing, and controlling internal audit activities within an organization. It includes overseeing the internal audit function, setting audit objectives, conducting risk assessments, performing audits, and reporting findings to management and stakeholders.

**Manufacturing Firms:** These are organizations engaged in the production of goods through various processes such as assembling, machining, refining, or fabricating raw materials or components. Manufacturing firms in Port Harcourt encompass industries such as oil and gas, pharmaceuticals, food processing, textiles, and construction materials.

**Port Harcourt:** A city located in southern Nigeria, known for its industrial activities, particularly in the oil and gas sector. Port Harcourt serves as a major hub for manufacturing, trade, and commerce in the region.

**Internal Control:** Refers to the processes, policies, and procedures implemented by an organization to ensure the reliability of financial reporting, compliance with laws and regulations, safeguarding of assets, and effectiveness and efficiency of operations. Internal control systems help mitigate risks and enhance operational and financial integrity.

**Risk Management:** The process of identifying, assessing, prioritizing, and mitigating risks that could impact an organization's objectives. Risk management involves implementing strategies and controls to minimize the likelihood and impact of negative events or uncertainties.

**Compliance:** Refers to adhering to laws, regulations, industry standards, and internal policies and procedures. Compliance activities ensure that an organization operates within legal and ethical boundaries, avoiding penalties, legal liabilities, and reputational damage.

**Governance:** The system of policies, processes, and structures established to ensure accountability, transparency, and ethical behavior within an organization. Corporate governance frameworks define roles and responsibilities of management, the board of directors, and other stakeholders in decision-making and oversight.

**Operational Efficiency:** The ability of an organization to maximize productivity, minimize waste, and achieve optimal performance in its operational processes. Operational efficiency is often measured by factors such as production output, resource utilization, cost effectiveness, and quality standards.

**Audit:** A systematic examination and evaluation of an organization's processes, controls, and financial records to ensure accuracy, compliance, and effectiveness. Audits can be internal (conducted by internal auditors within the organization) or external (conducted by independent auditors or regulatory bodies).

**Risk Assessment:** The process of identifying and evaluating potential risks that could affect an organization's objectives. Risk assessment involves analyzing the likelihood and impact of risks and prioritizing them based on their significance and potential consequences.