

## **Internal Audit Practices and Financial Performance of Construction Companies in Nigeria**

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**ABSTRACT:** *This study was carried out with the aim to examine internal audit practices and financial performance of construction companies in Nigeria. In order to actualize the objectives of the study, various literature and theoretical issues was discussed. The instrument used for the purpose of this research was gathered through primary source. The researcher administered a total of two hundred (200) questionnaires to respondents, out of which one hundred and eighty-eight (188) was retrieved and was used for the presentation and analyses. The hypotheses were tested using Ordinary Least Square (OLS) regression technique. The findings from analysis revealed among other things that there is a positive and significant relationship between size of the internal audit, experience of the internal audit, qualification of the internal audit and Financial Performance. The study also revealed that there is a positive and insignificant relationship between independence of internal audit and Financial Performance. In line with the findings, we recommend that the internal auditor should have maximum independence from the industry they work in. The internal audit activities must be positioned in such a way that it may obtain cooperation from industry that is being audited that have free, unrestricted access to all functions, records, property and personnel including those charged with governance.*

**KEYWORDS:** Nigeria, internal audit practices, financial performance, construction, companies,

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### **INTRODUCTION**

Internal auditor is charged with the responsibility of safeguarding the assets and liabilities of an organization and other constructive services that will enhance the efficiency and

effectiveness of the operations of the organization, through the review of accounting systems, internal control systems, implementation of the corporate policies, and carrying out special investigations assigned by the management (Salihu, 2015). Internal audit has become an unavoidable control mechanism in both public and private sectors (Cohen & Sayag, 2010). Therefore it is the right time to seriously consider the issue of internal audit, particularly in the manufacturing sector (because of the importance of the sector to the economy) in order to contribute toward their improvement (Mu'azu & Siti, 2013)

Ebrahim, Abdullah and Faudziah (2014) opine that internal audit department is very important in every firm and it is regarded as the key element in the application of accounting systems which in turn, helps in evaluating the work of the department. The internal audit is considered as the backbone of the business accounting as it is the section that checks all business processes. Efficiency of internal audit helps develop a company because the financial reports reflect the internal audit department's quality.

According to Ejoh and Ejom (2014), the aim of internal auditing is to improve organizational efficiency and performance through constructive criticism. They added that, internal auditing has four main components: viz.; verification of written records, analysis of policy, evaluation of the logic and completeness of procedures, internal services and staffing to assure they are efficient and appropriate for the organization's policies; and reporting recommendations for improvements to management.

Atu, Adeghe and Atu (2014) contend that the recent corporate scandals which shook the business world involving Enron, Parmalat, Cadbury Nigeria and other notable companies have fixed a spotlight on accounting failures and pointed out the need for substantial improvement in corporate governance and accounting information which provides critical decision influencing/facilitating information for control. Bad corporate governance in Nigeria has caused the downfall of most firms; these underscore the importance of effective corporate governance procedures to the survival of the micro economy. This means that even strong economies, lacking transparent control, responsible corporate boards, and shareholders right can collapse quite quickly as investor's confidence collapse.

In the light of the above discussion, this study intends to examine the Internal Audit Practices and Financial Performance of Construction Companies in Nigeria.

### **Statement of the Research Problem**

The need for studies on the relationship between internal audit quality and Financial Performance is important in a country like Nigeria where organizations are striving to gain credibility among local and global investors. The major problem of this study is that studies conducted on audit quality and Financial Performance in both developed and developing countries so far focused on the impact of external auditor and Financial Performance. It is the claim of the researcher that the findings of the studies so far conducted examining the determinants of internal audit quality are not without inconsistencies, for example, Ejoh & Ejom (2014); Atu, Adeghe & Atu, (2014); Cohen & Sayag (2010) & Ebrahim, Abdullah & Faudziah (2014). This worrisome development motivated the researcher to examine the

internal audit practices and financial performance of construction companies in Nigeria with the aim of boosting the empirical studies in Nigeria.

The researcher has proposed to answer the following research questions;

1. To what extent does internal audit quality influence financial performance?
2. What is the relationship between size of the internal audit (number of staff) and financial performance?
3. What is the relationship between experience of the internal audit and financial performance?
4. What is the relationship between qualification of the internal audit and financial performance?
5. What is the relationship between independence of internal audit and financial performance?

### **Objectives of the Study**

The broad objective of this study is to examine the internal audit practices and financial performance of construction companies in Nigeria.

The specific objectives are to:

1. determine the extent to which internal audit quality influence financial performance.
2. examine the relationship between size of the internal audit (number of staff) and financial performance.
3. ascertain the relationship between experience of the internal audit and financial performance.
4. find out the relationship between qualification of the internal audit and financial performance.
5. determine the relationship between independence of internal audit and financial performance.

### **Research Hypotheses**

In pursuance of the set objectives of this study, the following null hypotheses were drawn for testing:

- H<sub>01</sub>: Internal audit quality does not influence financial performance.  
H<sub>02</sub>: There is no significant relationship between size of the internal audit and financial performance.  
H<sub>03</sub>: There is no significant relationship between experience of the internal audit and financial performance.  
H<sub>04</sub>: There is no significant relationship between the qualification of the internal audit and financial performance.  
H<sub>05</sub>: There is no significant relationship between independence of internal audit and financial performance.

### **Conceptual Review**

#### **Internal Audit**

Internal audit is a critical appraisal of functioning of various operations of an enterprise including the functioning of the system of internal check (Mustafa, Fatima, Saleem & Ul-Ain,

2016). Internal audit quality has been defined variously by researchers. According to Ziaee (2015), internal audit is an independent, objective assurance and consulting activity designed to add and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Thus, the Internal Audit Function (IAF) is the mechanism through which the operation of the quality management system is formally monitored and in accordance with the documented quality system is assured (George, Theofanis & Konstantinos, 2015).

Internal audit quality is the ability to discover and report the irregularities and/or breaches (Haxhiraj, 2015). It entails the mechanism through which information about the effectiveness of the quality system is gathered by auditors selected from within the company but, who are independence of the area, function or procedures being audited. Or the Internal Audit Function (IAF) is the mechanism through which the operation of the quality management system is formally monitored and in accordance with the documented quality system is assured (George, Theofanis & Konstantinos, 2015).

There is not a common definition for audit quality term in internal or external (independent) auditing literature. However, there has been extracted from the prior researches a two dimensional definition which has been stressing independency and objectivity as the main contributors to the audit quality. According to this definition, regardless of internal or external, the audit quality has been defined as the ability to discover and report the irregularities and/or breaches; the latter is the most prominent indicator of audit quality (Haxhiraj, 2015).

The degree of the quality in discovering and reporting irregularities and breaches depends on proficiency, independency and objectivity (Alaswad & Stanisic, 2016). On the other hand, expectations from the proper internal audit function encompass: controlling of effectiveness and efficiency of operations, degree of the success of compliance in regulations and internal procedures, reliability of financial reporting and safeguarding of assets (Farouk & Hassan, 2014).

According to the Institute of Internal Auditors (2012), measures of internal audit quality includes competence, objectivity, independence and integrity, and work performance. It has also been argued that a high quality internal audit in organizations provides more support to the audit committee and is more responsive in risk management. These measures are important factors in internal audit playing a significant role in governance, control and risk management.

A comparison of the above components of internal audit quality with the internal audit effectiveness measures shows striking similarities in the measurement of the variables. For example, internal audit quality is seen as percentage of completed audit plan within a financial year, the existence of internal audit quality assurance and improvement program, internal audit compliance with standards for professional practice of internal auditing, external assessment of internal audit, certification and experience Institute of Internal Auditors, 2011. These measures are in line with the process, output, and outcome measures that have been used by various researchers and they are also in line with Institute of Internal Auditors (2009) internal

audit performance measures. Thus, the concept of quality has been used differently depending on researchers' focus.

Based on these definitions, the major scope of the internal auditors are making assurance to the organization and giving consultant services to the overall managements of the corporate governance (Farouk & Hassan, 2014). By providing the independent opinion and conclusions regarding the operation, function, system and wellbeing of the organization the IA can provide assurance services; and by giving the advisory service based on the specified requests of an engagement client the internal auditor can give the consulting service to the organization (Usang & Salim, 2015).

### **Financial Performance**

In general, the concept of financial performance is based upon the idea that an organization is the voluntary association of productive assets, including human, physical, and capital resources, for the purpose of achieving a shared purpose. Those providing the assets will only commit them to the organization so long as they are satisfied with the value they receive in exchange, relative to alternative uses of the assets. As a consequence, the essence of performance is the creation of value. So long as the value created by the use of the contributed assets is equal to or greater than the value expected by those contributing the assets, the assets will continue to be made available to the organization and the organization will continue to exist. Therefore, value creation, as defined by the resource provider, is the essential overall performance criteria for any organization. How that value is created is the essence of most empirical research in management. Conversely, how that value is measured is the essence of this research (Dahir & Omar, 2016).

Alaswad and Stanišić (2016) stated that there are three accounting based performance indicators: return on assets, the return equity and return on investment as they are frequently used to evaluate the Financial Performance, including financial firms. Financial analysts use return on assets and return on equity to measure Financial Performance and predict future trends in firm's value as well as use as input in statistical models to predict firm future position i.e. failure or success etc (Khrawish, 2011). These indicators are also used for several other purposes such as measuring profitability. As firm size is an important moderator in governance and control researches and combines in the variable of ROA as the denominator is the total assets hence it is important to take the measure of Financial Performance by ROA.

### **Relationship between Dependent and Independent Variables**

#### **Internal Audit Quality and Financial Performance**

Audit quality plays an important role in maintaining an efficient market environment; an independent quality audit underpins confidence in the credibility and integrity of financial statements which is essential for well functioning markets and enhanced organizational performance. Internal audits performed in accordance with high quality auditing standards can promote the implementation of accounting standards by reporting entities and help ensure that their financial statements are reliable, transparent and useful (Dahir & Omar, 2016).

Sound audits can help reinforce strong corporate governance, risk management and internal control at firms, thus contributing to organizational performance. Management can improve organizational performance of their firms by increasing the quality of internal audit. Although, this might seem like a profit reducing decision in the short run, the benefits that will accrue to the firm far outweighs the cost. This will help ensure that all financial transactions are in order; give the users of the financial statements more trust and confidence in terms of the quality of audited reports (Farouk & Hassan, 2014).

### **Size of the Internal Audit (Number of Staff) and Financial Performance**

The size of internal audit is measured by the number of number of staff of the internal audit department. The role of size in the committee is explained in light of different theories. First of all, Jensen's (1993) study seems consistent with Lipton and Lorsch (1992) who suggested the suitable number of board members to be seven to eight. Also, Firsteberg and Malkiel (1994) claimed that a board with eight to fewer members encourages greater concentration, participation and authentic interactions and discussion. Consistent with the above, Shaver (2005) argued that larger boards are often characterized by responsibility diffusion, which leads to social loafing, it encourages group fractionalization and minimizes group commitment to modifying strategy.

From the perspective of resource dependence theory, it postulates that larger board size would result in superior corporate performance owing to the various skills, knowledge, and expertise contributed into the boardroom debate. In addition, large boards could also offer the diversity that would assist companies to obtain critical resources and minimize environmental risks (Ebrahim, Abdullah & Faudziah, 2014).

In another related study, Hutchinson and Zain (2009) explored the association between internal (audit experience and accounting qualification) audit and Financial Performance in light of growth opportunities and audit committee independence in Malaysia. The sample was selected by two methods namely the questionnaire and secondary data from the annual report. It comprised of 60 firms listed on Malaysia Bursa during 2003. This study used multiple regressions to test the association between internal audit and Financial Performance. They recommended studying new factors of internal audit with Financial Performance. Due to their recommendation, the current study considers testing the size of the internal audit with Financial Performance.

### **Experience of the Internal Audit and Financial Performance**

When a person has many years of experience, he/she can make a right decision, decide fast and deal with any situation. Consistent with the resource dependence theory and its proponents, expert individuals help infirm growth because they have a clear insight about how to deal with process and accomplish their tasks with superior quality. And when the firm provides a board with high experts, they help to understand external environment and as a result, will improve performance of companies (Ebrahim, Abdullah & Faudziah, 2014).

There are few studies that examined the relationship between the experience of internal audit and Financial Performance in both developed countries and developing countries. There is also

lack of studies among the developing emerging markets. Few studies are discussed below in light of this association.

Hutchinson and Zain (2009) explored the association between internal (audit experience and accounting qualification) audit and Financial Performance (ROA) with growth opportunities and audit committee independence in Malaysia. The sample was selected by two methods namely questionnaire and secondary data from the annual reports. It involved 60 firms which were listed on Malaysia Bursain 2003. This study used multiple regression analysis to test the association between internal audit and Financial Performance and found a significant relationship between experience of internal audit quality and Financial Performance.

Additionally, Prawitt, Smith and Wood (2009) examined the association between internal audit quality (experience and qualification) and earnings management. This study obtained sufficient data to estimate abnormal accrual models for 528 firm-year observations (218 unique companies) for the fiscal years 2000 to 2005. It used OLS regression to test the association between independent variables and dependent variable. The finding shows that a relationship between experience of internal audit and earning management.

As mentioned above, there is a lack of studies examining the relationship between the experience of internal audit and Financial Performance. Moreover, Al-Matari, Al-Swidi, Faudziah and Al-Matari, (2012) recommended the re-examination of the relationship between the experience of internal audit and Financial Performance.

### **Qualification of the Internal Audit and Financial Performance**

The member of internal audit who has high qualification can deal with any issue inside the department of internal audit. Hence, the present study attempts to measure the qualification of internal audit by questionnaire. Consistent to agency theory and resource dependence theory and their proponents, qualified persons help to improve Financial Performance because they have a clear insight about how to deal with operation and achieve their work with high quality. It is notable that there are only few studies that examined the association between the qualification of internal audit and Financial Performance both in developed countries and developing countries. There is also lack of studies among the developing emerging markets. Among the few studies of this caliber, Hutchinson and Zain (2009) explored the association between internal (audit experience and accounting qualification) audit and Financial Performance (ROA) with growth opportunities and audit committee independence in Malaysia. The sample was selected by two methods namely questionnaire and secondary data from the annual report. It comprised of 60 firms which were listed on Malaysia Bursa in 2003. They used multiple regression analysis to test the connection between internal audit and Financial Performance. The findings revealed a significant association between qualification of internal audit quality and Financial Performance.

In another study, Prawitt *et al.* (2009) examined the association between internal audit quality (experience and qualification) and earning management. This study obtained sufficient data to estimate our abnormal accrual models for 528 firm-year observations (218 unique companies) for fiscal years 2000 to 2005. It used OLS regression to test the association between independent variables and dependent variable. The finding shows an association between

qualification of internal audit and earning management. As stated above, there is a lack of studies that examined the relationship between the experience of internal audit and Financial Performance and as evidenced by Al-Matari *et al.* (2012).

### **Independence of Internal Audit and Financial Performance**

Independence is the freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels. Auditor independence and objectivity are the cornerstones of the profession. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance (Dahir & Omar, 2016). In more recent years, there has been heightened interest in issues associated with the independence and objectivity of internal audit. The motivation for research growth in the area is related to the evolving and expanding role of internal audit as a key corporate governance mechanism as well as an internal consultancy service and also performance of organizations. In this regard, internal auditors are in a unique situation as providers of both assurance services within the organization and consultancy services to managers (Stewart & Subramaniam, 2008).

Without independence, internal audit simply becomes a part of the management team, losing its ability to offer a fresh perspective (Yee et al., 2008). Independence of internal audit is considered by Zhang et al. (2007) as a determinant of Financial Performance. Cohen and Sayag (2010) also argue that organizational independence of internal audit affects Financial Performance. Examining effectiveness of internal audit in Saudi Arabia Alzeban & Gwilliam (2014) argue that independence of internal audit (along with “competence of internal audit department”, “size of internal audit department”, “relationship between internal and external auditors”, “management support”) is positively associated with internal audit effectiveness. However it is worth to mention that in the above study, independence of internal audit is positively related with internal audit effectiveness in lower significance than the other four factors.

### **Theoretical Frameworks**

According to Carmichael (2005), the need for theory in auditing, as with any other discipline, is associated with the willingness of the interested parties (shareholders, managers, bankers, auditors, analysts and so on) to form a solid basis for making financial decisions. Each of these parties is considered as an economic actor seeking to maximize its wealth and in doing so; they want to know all the possible ways to achieve this goal. To acquire the necessary knowledge about these options requires a thorough understanding of the economic variables and of the relationship between them. This can only be done through the use of a theoretical framework, which provides sufficient explanation and reasoning of the variables, their association with each other and the environment in which the economic action is taking place.

### **Theory of Inspired Confidence (Theory of Rational Expectations)**

In 1926 Professor Theodore Limperg of the University of Amsterdam developed a theory, known as the Theory of Inspired Confidence (Theory of Rational Expectations), which, eventually, became known as the Theory of Rational Expectations. The theory holds that the

value of the auditor's report derives from the expert nature of the auditor as an independent, competent professional. Broadly, this is a dynamic theory which holds that as the business community changes so the expectations it has of the auditors' function also changes. Limperg held that the work carried out by the auditor should be governed by the rational expectations of those who use their reports so auditors should not disappoint those expectations. Further, auditors should not seek to raise those expectations by any more than the work they do justifies, (Millichamp & Taylor, 2012).

## **METHODOLOGY**

### **Research Design**

For the purpose of this study, survey research design was adopted. The survey research design involves the use of questionnaire which was personally administered to the respondents by the researcher. The survey research design was adopted in this study over other methods because of its originality. It is employed when the researcher is concerned about observing and as such it is used extensively to collect information on various topics of research. The justification for this choice of design is because the study is concerned with the analysis of qualitative issue which involves surveying responses from a sample of the population without any control on the elements of the sample.

### **Population of the Study**

Population in this context refers to the total number of subjects or people the researcher intends to study. Thus, the population of this study constitutes the entire internal audit staff of selected construction companies in Rivers State.

### **Sample Size**

The sample size for this study is restricted to two hundred (200) respondents conveniently selected from internal audit department of the selected firms in Benin City, Edo State from which empirical findings and conclusion will be drawn or made.

### **Sources of Data**

Primary data was used for the purpose of this research. Basically, primary data sources are those collected or sourced directly by the researcher in the course of the research. Copies of the questionnaire were distributed to respondents to elicit the necessary information.

### **The Research Instrument**

This research work employ the use of structured questionnaire in eliciting the required information (data) needed to test the formulated hypotheses. The questionnaire structure will be developed using the five (5) point Likert scale. The likert scale has been identified as having the following advantages; (a) the scale easily transforms or provides a means of assigning numerical values to qualitative factors which makes them amenable for statistical analysis and hypothesis testing. (b) It is flexible and can be utilized in measuring the degree of intensity of feelings, perceptions and attitude (Carifio, 2007).

### Operationalization and Measurement of Variables

The variables in the study were measured through the questionnaires. Nominal values (numbering 5 to 1) were assigned to each of the responses across the variables. Thus, the study used the summative score technique for the questions in each factor for each participant. This is because Likert scale is the common summative scores (Balnaves & Caputi, 2001). This study was focused on five independent (internal audit quality) variables that might have an impact on the Financial Performance (the dependent variable). The dependent variable used by the study (Financial Performance) has been identified and measured by the five factor items. The independent variables represent the internal audit quality. Similar to the dependent variable item, all of the independent variables items were measured on a five point Likert-scale where the lowest scale represents strongly disagree and the highest scale represents strongly agree in line with Likert (1932). Seventy different factor-items were constructed to identify each of the independent variables as modified from Shewamene (2014).

### Model Specification

The functional form of the model is stated as:

$$FPER = \beta_0 + \beta_1 SINTAUD + \beta_2 EINAUD + \beta_3 QUAINAUD + \beta_4 INDINAUD + U_t$$

#### Where:

FPER	=	Financial Performance
SINTAUD	=	Size of the internal audit
EINAUD	=	Experience of the internal audit
QUAINAUD	=	Qualification of the internal audit
INDINAUD	=	Independence of internal audit
$U_t$	=	Stochastic error term
$\beta_0$	=	Intercept
$\beta_1 - \beta_5$	=	Parametersto be estimated

### Method of Data Analysis

The data collected were tabulated in a manner for any comparison, manipulation, interpretation and conclusion. The study employed the Ordinary Least Square (OLS) regression technique which from all indications best suit as a result of the fact that Ordinary Least Square (OLS) regression technique deals with the methodology of modeling non-stationary time series variable, enabling the estimation of coefficients to show the long run relationship between a dependent variable and the independent variables. This is what obtains in the research work and that is why the Ordinary Least Square (OLS) regression techniques were adopted.

### Data Presentation and Analyses

This section presents the analysis of the data extracted from the responses during the course of the study through questionnaire administration. The responses were analyzed using frequency counts and descriptive statistics while the hypotheses were tested using the Ordinary least square (OLS) regression technique. This was achieved through the use of Statistical Package for Social Sciences (SPSS) version 24 and Excel 2010 computer software. The presentation of the results is as follows; firstly, the descriptive statistics result is presented. Secondly, the correlation result and analysis is also presented. Next, the ordinary least squares regression result is presented and analyzed.

### Data Presentation

A total of two hundred (200) copies of structured likert-type questionnaire were administered to the management and non-management staff of selected construction companies in Rivers State. Of the two hundred (200) copies of questionnaire administered, one hundred and eighty-eight (188) properly filled copies were retrieved. The response rate was considered adequate for the purpose of this study. The demographic characteristics of the sampled respondents are presented in the table below:

**Table 1: Socio-Economic Characteristics of the Respondents**

Characteristic	Categories	Frequency	Percent (%)
<b>SEX</b>	MALE	100	53.2
	FEMALE	88	46.8
	<b>Total</b>	<b>188</b>	<b>100</b>
<b>EDUCATIONAL QUALIFICATION</b>	OND/DIPLOMA	67	35.6
	HND/BSC	89	47.3
	MBA/MSC	17	9.0
	Ph.D	15	8.0
	<b>Total</b>	<b>188</b>	<b>100</b>
<b>WORK EXPERIENCE</b>	0 – 5 YEARS	107	56.9
	6 - 10YRS	47	25.0
	11 - 15YRS	19	10.1
	16 – 20YRS	7	3.7
	21YRS AND ABOVE	8	4.3
	<b>Total</b>	<b>188</b>	<b>100.0</b>
<b>MARITAL STATUS</b>	SINGLE	115	61.2
	MARRIED	63	33.5
	DIVORCED	7	3.7
	WIDOWED	3	1.6
	<b>Total</b>	<b>188</b>	<b>100.0</b>
<b>POSITION IN ORGANIZATION</b>	Management	73	38.8
	Non-management	115	61.2
	<b>Total</b>	<b>188</b>	<b>100.0</b>

*Source: Field Survey, (2021)*

From Table 1, in terms of gender, there were 100 males and 88 female respondents representing 53.2% and 46.8% respectively. Also, 67(35.6%) respondents had OND/Diploma as the highest certificate, 89(47.3%) possess HND/BSC, 17(9.0%) had MBA/MSC, while 15(8.0%) of the respondents are PhD holders. One hundred and seven (107) respondents fell into 0 – 5 years work experience making 56.9% of samples, 47 respondents are in active service year category of between 6 – 10 years making 25.0% of the sample, 19 respondents are in active service year category of between 11 – 15 years making 10.1% of the sample, 7 respondents fall into the active service years category of between 16 – 20 years making 3.7% of the samples, while only

eight (8) respondents are of the service year category above 21 years making 4.3% of the sample. As regards marital status, 115 (61.2%) of the respondents are single, 63 (33.5%) are married; 7(3.7) of the respondents are divorcees, only 3 of the respondents indicated they were widowed representing 1.6%. Regarding respondents position in organization, 73 (38.8%) of the study sample are management staff, while 115 (61.2%) of the respondents are respondents' non-management staff.

### Reliability Test

In this study, we structured questionnaires across the variables (Financial Performance; Size of the internal audit; Experience of the internal audit; Qualification of the internal audit and Independence of internal audit). In analyzing our data, we conducted reliability test using Cronbach Alpha test to test the reliability of the structured questions. The result is presented in the table below.

**Table 2: Reliability Test**

Variable	Cronbach Alpha	N of Items
Financial Performance	0.520	5
Size of the internal audit	0.774	5
Experience of the internal audit	0.590	5
Qualification of the internal audit	0.733	5
Independence of internal audit	0.736	5

*Source: Author's Computation, 2021*

The table above revealed that the Cronbach's Alpha values of the given variables were all above the benchmark of 0.50 (Financial Performance; Size of the internal audit; Experience of the internal audit; Qualification of the internal audit and Independence of internal audit). In the measurement of the reliability of the Internal Audit Practices and Financial Performance of Construction Companies in Nigeria, all the five (5) questions structured were reliable for the measurement of the internal consistency of the variable. These justified a good reliability of the questions set in measuring the variables.

### Multiple Regression Result

In order to test the individual significance of the variables, multiple regression techniques was adopted and the result is presented in Table 3 below;

**Table 3: Multiple Regression Result**

Variables	Coefficient	t-test	Prob.
Constant	0.79	1.94	0.055
SINTAUD	0.20	2.29	0.024
EINAUD	0.22	3.34	0.001
QUAINAUD	0.45	5.46	0.000
INDINAUD	0.05	0.77	0.442
R <sup>2</sup> = 0.976 $\bar{R}^2$ = 0.966		F = 671.870 DW Statistic = 2.55	

*Source: Author's computation 2021.*

The result of the estimated OLS regression for the model is reported in table 4.3 above. In the result, the goodness of fit statistics is quite impressive. The R-squared value of 0.967 is high and it reveals that over 96 percent of the systematic variations in Financial Performance (FPER) are captured by the estimated model. The adjusted R-squared value of 0.966 percent is also very moderate and it implies that the model has a high predictive ability. The overall significance of the model is determined by observing the F-statistic value. In the model, the F-value of 671.870 is sufficiently high and easily passes the significance test at the 1 percent level. Hence, we cannot reject the hypothesis of a significant linear relationship between Financial Performance (FPER) and all the independent variables combined. It indicates that Size of Internal Audit (SINTAUD), Experience of Internal Audit (EINAUD), Qualification of the Internal Audit (QUAINAUD), Independence of Internal Audit (INDINAUD) combined effectively to affect Financial Performance (FPER) in the Nigerian manufacturing companies over time.

The relevance of each of the explanatory variables in the behaviour of Financial Performance (FPER) is determined by observing the coefficients of the variables in terms of their signs and significance.

On the explanatory ability of the variables, we observed the following from the results:

In the case of Size of Internal Audit (SINTAUD), the variable had a significant positive influence on Financial Performance (FPER) at 5% level of significance. This means that Size of Internal Audit (SINTAUD) positively influences Financial Performance (FPER) and was statistically significant. The significance of the variable was because it passed the individual test of significance at 5% level of significance.

Experience of the Internal Audit (EINAUD) exhibit a significant positive influence on Financial Performance (FPER), this therefore means that the issue of Experience of the Internal Audit (EINAUD) has been seen as an important component influencing Financial Performance (FPER) and it was statistically significant. The significance of the variable was because it passed the individual test of significance even 5% level of significance.

Qualification of the Internal Audit (QUAINAUD) exhibit a significant positive influence on Financial Performance (FPER), this therefore means that the issue of Qualification of the Internal Audit (QUAINAUD) has also been seen as an important component influencing Financial Performance (FPER) and it was statistically significant. The significance of the variable was because it passed the individual test of significance at 1% level of significance.

Lastly, Independence of Internal Audit (INDINAUD) had an insignificant positive influence on Financial Performance (FPER) even at 10% level of significance. This means that Independence of Internal Audit (INDINAUD) negatively influence Financial Performance (FPER). The insignificance of the variable was because it failed the individual test of significance at 1%, 5% and even 10% level of significance.

The overall results obtained from the model estimation are effectively acceptable because the D.W. statistic value of 2.551 and it implies that there is no autocorrelation in the model. Thus, the results are applicable for structural analysis as well as policy directions.

## **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

### **Summary of Findings**

Some of the findings obtained from this study are:

- i. There is a positive and significant relationship between size of the internal audit and Financial Performance.
- ii. There is a positive and significant relationship between experience of the internal audit and Financial Performance.
- iii. There is a positive and significant relationship between the qualification of the internal audit and Financial Performance.
- iv. There is a positive and insignificant relationship between independence of internal audit and Financial Performance.

### **Conclusion**

Considering the documented importance of quality internal auditing in the overall management system of organizations and in ensuring sound corporate governance practices, the study examine the internal audit practices and financial performance of construction companies in Nigeria. The study conclude that a healthy constructed internal audit function can play a vital role in the governance and accountability process of an organization which in turn enhance the performance of that particular organization.

### **Recommendations**

Internal auditors, as custodian of public trust, and being independent and professional, are in a good position to help the industries spend wisely. It can be seen that internal auditors plays an important role in industrial sector. However, the dilemmas internal auditors are facing must be solved to ensure effectiveness in industrial sector internal auditing.

1. The first recommendation is on the independence of internal auditor in the industrial sector. The internal auditor should have maximum independence from the industry they work in. The internal audit activities must be positioned in such a way that it may obtain cooperation from industry that being audited that have free, unrestricted access to all functions, records, property and personnel including those charged with governance.
2. Management must ensure that the right controls are in place to monitor and measure business practices and behaviour, that the right management team is put together, and the culture includes an enterprise wide commitment to understanding and embracing corporate values. Good governance starts and ends in the boardroom and senior managers' offices. It does not start or end in a statute. The internal auditors should not be randomly moved in and out of the industries but the movement should be based on their work performance and skills.
3. As for the competencies, the internal audit staffs need to collectively possess or develop their knowledge or skills through appropriate professional training and development program such as obtaining Chartered Internal Auditor (CIA) qualifications. Besides that, training and development program should be improved and be updated according to the latest development in internal auditing.
4. In order to improve the relationship between internal auditor and auditee, internal auditor should engage with auditee on a periodic basis from the beginning till the end of the audit process to discuss audit objectives, audit plan, audit findings and audit

conclusions. The discussion should go beyond the audit process to discuss potential solutions to the business issues observed from an operational perspective as well as their impact on risk and compliance.

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## APPENDIX

### Descriptive Statistics

	Mean	Std. Deviation	N
FPER	2.82	.527	188
SINTAUD	2.62	.663	188
EINAUD	2.40	.659	188
QUAINAUD	2.61	.689	188
INDINAUD	2.49	.756	188

### Correlations

		FPER	SINTAUD	EINAUD	QUAINAUD	INDINAUD
Pearson Correlation	FPER	1.000	-.120	.119	-.050	-.005
	SINTAUD	-.120	1.000	.058	.071	.072
	EINAUD	.119	.058	1.000	-.001	.019
	QUAINAUD	-.050	.071	-.001	1.000	.279
	INDINAUD	-.005	.072	.019	.279	1.000
Sig. (1-tailed)	FPER	.	.050	.051	.249	.474
	SINTAUD	.050	.	.216	.167	.163
	EINAUD	.051	.216	.	.495	.396
	QUAINAUD	.249	.167	.495	.	.000
	INDINAUD	.474	.163	.396	.000	.
N	FPER	188	188	188	188	188
	SINTAUD	188	188	188	188	188
	EINAUD	188	188	188	188	188
	QUAINAUD	188	188	188	188	188
	INDINAUD	188	188	188	188	188

**Variables Entered/Removed<sup>a</sup>**

Model	Variables Entered	Variables Removed	Method
1	INDINAUD, SINTAUD, EINAUD, QUAINAUD <sup>b</sup>		Enter

a. Dependent Variable: FPER

b. All requested variables entered.

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.983 <sup>a</sup>	.967	.966	.628	2.551

a. Predictors: (Constant), INDINAUD, SINTAUD, EINAUD, QUAINAUD

b. Dependent Variable: FPER

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1058.643	4	264.661	671.870	.000 <sup>b</sup>
	Residual	35.846	91	.394		
	Total	1094.490	95			

a. Dependent Variable: FPER

b. Predictors: (Constant), INDINAUD, SINTAUD, EINAUD, QUAINAUD

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.791	.406		1.946	.055
	SINTAUD	.202	.088	.195	2.297	.024
	EINAUD	.220	.066	.259	3.340	.001
	QUAINAUD	.457	.084	.482	5.461	.000
	INDINAUD	.053	.069	.061	.772	.442

a. Dependent Variable: FPER

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	4.74	20.54	15.93	3.338	188
Residual	-1.086	1.269	.000	.614	188
Std. Predicted Value	-3.351	1.383	.000	1.000	188
Std. Residual	-1.730	2.022	.000	.979	188

a. Dependent Variable: FPER