Evaluation of Internal Audit and Control System as a Prerequisite for Qualitative External Audit Report

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ABSTRACT: The quality of the audit report in corporate organization around the world and Nigeria has been of great concern considering the contribution of internal auditors as the overseer of daily accounting entries in an organization. Considering this issue, the study focused on evaluation of internal audit and control system as a prerequisite for the qualitative external audit report. Survey research design was adopted in the conduct of the study. The population of the study includes 93 internal and external auditors randomly selected amongst organizations in Nigeria. Three research questions and three hypotheses, all stated in its null form guided the study. Questionnaire instrument was adopted in the conduct of the study, which was rated on a five-point scale with an acceptable rating of 3. Hypotheses that guided the study was tested using one sample test statistics at .05 level of significance. Findings from the study shows that, internal auditors in corporate organizations are not significantly independent in the discharge of their duties. It was also discovered that internal audit and control system of corporate organizations in Nigeria are significantly relied on as audit evidence/basis for financial report. Final findings showed that, internal audit and control systems do not significantly aid qualitative external audit report of corporate organizations in Nigeria. The findings imply that the quality of the external audit report is determined by the quality of its internal audit and control team. Based on this, the researcher recommends amongst others that, regulation and training should be provided to enhancing independence of internal auditors and that external auditors should endeavor to carryout more comprehensive sampling during audit exercise.

KEYWORDS: Internal Audit, Internal Control System, External Audit, Quality Audit Report

INTRODUCTION

Internal audit has been central in the debate on regulating financial reporting. Its activities play an important part in the effective governance, risk and control framework in any organization. Internal audit is an independent appraisal function established by management for the review of its operations. Internal auditors are also saddled with the responsibility of objectively examine, evaluates and reports on the adequacy of internal controls within the organization. The increased attention and importance of internal audit functions in organizations generates opportunities for external auditors to rely on internal audit control system for reliable financial records (Mihret, 2014; Munro and Stewart, 2011). According to International Standard of Auditing (ISA) 610 which states that the work of the internal auditors can be used by external auditors to obtain audit evidence. It further states that internal auditors can be used to provide direct assistance when working under an external auditor’s direction, supervision and review (ISA 610, 2013). Since the work of external auditors and internal auditors overlaps to some degree, they have some interests in common and both can potentially benefit from successful cooperation (Brody 2012; Suwaidan and Qasim, 2010). External auditors’ reliance on and use the work of internal auditors may gain efficiency by reducing the amount of audit work they need to carryout. The internal audit with adequate competence, objectivity and work performance can contribute to an effective external audit process (Al-Twajjry, Brierley, & Gwilliam, 2004).

However, cooperation between external auditors and internal auditors has been assumed to be something of a double-edged sword. On one hand, external auditors’ reliance on and use of internal auditors’ work can lead to efficiency improvements by eliminating the duplication of work, thus improving time efficiency in completion of the audit assignment so as to meet the expected time frame for end need users of the report (Morrill and Morrill 2003; Suwaidan and Qasim, 2010). Close cooperation between external auditors and internal auditors can also influence the quality of the external audit (Pizzini, Lin, & Ziegenfuss 2015). Internal auditors as deemed by external auditors are not sufficiently professional and independent which might discourage cooperation due to external auditors’ perception of potential threats to the external audit quality (Al-Twajjry et al.)
Independence is a key factor in audit assignment. Auditors’ independence is a call for objectivity. CIPFA (2006) and Rahmatika (2014) posited that there is need for identification of independence as a key element of internal audit. It is expected that an auditor should have no relationship to the party being audited. The audit report will be biased free, if no relationship is formed between auditor and the organization under audit review. In a real corporate settings, total objectivity is difficult to achieve because relationships are formed when a company employ an auditor or establishes a contract to purchase audit services either internal or external audit services. As internal auditors are direct hires or contract employees of a company, they are bound to keep management happy in order to get paid. The engagement process of internal auditors has led to the threat of independence of internal auditors’ in guaranteeing objectivity in their assignments. Auditing in an organization in which the auditor feels aligned introduces a conflict of interest that can call the audit findings into questioning. Internal auditors cannot audit their own work or processes, functions or groups for which they have or have recently held responsibility. Institute of Internal Auditors (IIA) (2013) posited that the independence can only be achieved by allowing the internal audit department to perform its responsibilities free from interference, avoiding conflict of interests, having direct contact with the board and senior management, having unrestricted access to records, employees and departments, and the appointment and removal of the heads of internal audit should not be under the direct control of managing director/executive management. This will aid independence of responsibility of internal auditor to go a long way in the level of reliance of internal auditors report by external auditors.

An external auditors’ decision to rely on and use the work of the internal auditors can produce potential economic consequences and implications for external audit report quality (Glover, Prawitt, & Wood, 2008; Pizzini, et al., 2015). In deciding whether or not to rely on and use the work of internal auditors, external auditors are faced with a number of complex decisions (Brody, 2012). They need to keep in mind the purpose of the external audit, that is, to give an honest/professional opinion on the true and fair view of financial reports prepared by an organization timely and accurately to the stakeholders and the society overall, while responding to pressures to cooperate more with the internal audit (Duska, 2005; Tagesson and Eriksson, 2011). In the light of this, the Public Companies Accounting Oversight Board (PCAOB) recommended a reduction of audit costs through the external auditors relying on the work of internal auditors (Brody 2012; Chen, et al., 2017).

Consequent upon the need for external auditors to rely on internal audit, such reliance is also considered as area where internal audit adds value to external audit to aid cost savings (Morrill and Morrill, 2003; Mihret, James & Mula, 2010). Such a cost-saving opportunity arguably engenders interest of the other two components of corporate governance (i.e., boards of directors and management) to promote internal and external audit cooperation. The intention to enhance timely and efficient audit report motivates external auditors’ decisions to rely on internal auditors work (Morrill & Morrill, 2003). Also, internal auditors’ have a closer knowledge of their organizations and could provide external auditors with a possibility to reduce audit risk. Thus, evaluating internal-external audit linkages in organizations would yield useful knowledge into academic and professional value for audit practice. For instance, where external auditors’ services are highly competitive, external auditors’ extent of reliance on internal auditors’ work could exceed those in less competitive ones. Considering reliance on internal audits by external auditors shows need to evaluate contribution capability and its effect on qualitative external audit reports.

RESEARCH PROBLEM

There have been numerous echoing of swindle, fabrication and intentional exaggeration of organizational financial records and additional professional inappropriateness around the world most especially in Nigeria, it has been a source of concern to investors, financial organization, creditors, debtors, as well as the accounting professionals amongst others. Experience from the Nigerian banking industry since 2007 shows a deepening banking and financial crisis. The caseof banks that failed the Central Bank of Nigeria (CBN) stress test in 2009 which include Afri- bank, Fin Bank, Union Bank, Intercontinental bank and Oceanic bank (Nigerian Tribune, 8 December 2009 and This Day, 12 December 2009 in Otusanya & Uadiale, 2014). Observations show that the banks had one thing in common after they were certified distressed by CBN barely few months after their auditors had given them a clean bill of health. Another audit concern is the failure associated with the Cadbury (Nig.) Plc. accounting scandal in 2006 which has since been euphemistically dubbed equivalent to the Enron scandals, 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 amongst others (Revill, 2017 & Business Insurance, 2015 & Caverion.com, 2016 & France-Presses, 2015 & Bhattacharyya, 2015). These problems have been attributed to the unethical practices of corporate managers and to the inability of auditors to expose such anti-social practices during audits (Sikka, 2009). In Cadbury accounting scandal case, Okaro and Okafor (2013) findings showed that the provision of non-accounting services to the organization is amongst the cause of the
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audit failure without considering the role played by the internal audit which is saddled with the responsibilities of the controls within the organization. It is noted that some external auditors may have failed to comply with expected standards, if a company fails shortly after being audited, the auditors may be blamed for conducting an inferior audit (Dopuch in Otusanya & Lauwo, 2010).

Whenever there is a financial scandal and audit failure, the external auditors’ professionalism is always questioned not considering the time frame limit available in conduct of the assignment which has many external audit firms to partly rely on the internal audit of the organizations for some audit evidence. Issues that run in the mind of the researcher which is expected to have been considered are the roles and responsibility of internal auditors who are always the first point of call for financial and accounting control in every organization. Do they have roles in external audit? Are they independent in discharge of the duties? Do their duties have any effect on the external audit report? Considering this burning issue, the researcher deemed it necessary to carry out this research work titled evaluation of internal audit and control system as a prerequisite for qualitative external audit report. Considering this focus, the researcher is limited to:

1. determine whether internal auditors in corporate organizations in Nigeria are independent in discharge of their duties.
2. determine whether internal audit and control system of corporate organizations in Nigeria are relied upon by external auditor as audit evidence/basis for financial report.
3. ascertain whether internal audit and control systems aid qualitative external audit report of corporate organizations in Nigeria.

RESEARCH QUESTIONS

The following research questions are structured to guide in achieving the objectives that guided the study:

1. Are internal auditors in corporate organizations in Nigeria independent, in discharge of their duties?
2. Do external auditors rely on the internal audit and control system of corporate organizations in Nigeria as audit evidence/basis for financial report?
3. Has internal audit and control systems aid qualitative external audit report of corporate organizations in Nigeria?

HYPOTHESES

Hypotheses structured to guide the study

H01: Internal auditors in corporate organizations in Nigeria are not significantly independent in discharge of their duties.

H02: Internal audit and control system of corporate organizations in Nigeria are not significantly relied on as audit evidence/basis for financial report.

H03: Internal audit and control systems do not significantly aid qualitative external audit report of corporate organizations in Nigeria.

Review of Related Literature Internal Audit and Control System

Internal audit function primary role is to provide a view of how well a company’s resources are being utilized (Sarens & Abdulmohammadi, 2011). Internal auditing practices appraise the effectiveness of internal control systems, which includes an appraisal of the actions by management to correct situations, which are at variance with planned outcomes. Organizational management and the audit committee normally expect that the auditors will perform sufficient audit work and gather information during the year so as to form an opinion about the adequacy and effectiveness of the organizational internal control. It is expected that the auditors should communicate the overall position about the organisation’s control system to the management and the audit committee. This is important because the internal auditors play an intermediary role in aiding the discharge of the oversight function of the audit committee.

Internal control systems have an important role to play in the internal auditing practices due to the nature of the work scope of internal auditors as management control. Puttick and Van Esch (2007) posited that internal controls are an arrangement of hierarchical strategies and sanction internal processes (internal controls) created by organizations to apparently accomplish management essential target of guaranteeing that the business works faultless. Internal control systems is an integral component of the management processes of an organization which for this study is to aid in providing reasonable assurance that the financial report are carried out transparently and accountably.

The Relationship between Internal and External Audit

The coordination of internal audit activity in line with the external audit activity is very important from both points of view. From external auditor’s point of view, external auditors are saddled with the responsibility for raising the efficiency of financial statement audit. Considering the relevance of internal audit’s aids the need for coordination and assuring the internal audit a
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plus of essential information in the assessment of risk control (Dobroteanu & Dobroteanu, 2002).

The importance of the relationship of internal audit and external audit is reflected also by International Standards on Auditing (610— “Considering the Work of Internal Audit”), which foresees, among others:

i. The role of internal auditing is determined by management, and its objectives differ from those of the external auditor who is appointed to report independently on the financial statements. The internal audit function’s objectives vary in line with management requirements.

ii. The external auditor should obtain a sufficient understanding of internal activities to identify and assess the risks of material misstatement of the financial statements and to design and perform further audit procedures.

iii. The external auditor should perform an assessment of the internal audit function, when internal auditing is relevant to the external auditor’s risk assessments.

iv. The external auditor would ordinarily inform the internal auditor of any significant matters which may affect internal auditing.

Mautz in Satka (2017) observed that from internal audit’s point of view, the relationship with external audit is only ostensibly a very good one. Haron, Chambers, Ramsi, and Ismail’s (2004) also discovery showed that technical competence and work performed are the two most important criteria that external auditors to consider in their reliance on internal auditors. Ciuhureanu (2016) in a study on the need to organize the internal control and auditing of the accounting information from the perspective of the need to certify the accounting information for a responsible reporting which was conducted on a sample of 301 companies in the Central Region of Romania. Findings of the study shows that organizing the internal control and audit, through their objectives, contributes to the accountability for providing accounting information and increases users’ confidence.

Qualitative Audit Report

Auditor’s report is the basis for making balanced decisions by shareholders, banks, insurance companies and others, so the importance of auditor’s opinion about financial statements imposes a great responsibility on the auditors. The auditor’s report is a key result of the audit and its information content corresponding to the requirements of the users as the main way to improve the quality of audit. The purpose of the audit is sufficiently clear that its results can be communicated clearly. So if the auditor’s opinion in auditor’s report cannot be communicated effectively then inevitably the value of the audit will be diminished.

However, in the opinion of the researchers, the development of the formats and structure of auditor’s reports should be the selection of high-quality characteristics and principles for the preparation of final documents. Considering this, the qualitative characteristics of accounting and financial reporting are disclosed in regulatory documents as well as in the professional literature. Conceptual Framework for Financial Reporting issued by the International Accounting Standards Board (2010); Statement of Financial Accounting Concepts No. 8 “Conceptual Framework for Financial Reporting”, issued by Financial Accounting Standards Board of Financial Accounting Foundation (2010); The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, issued by the International Public Sector Accounting Standards Board (2013); shows that audit report should possess the following characteristics: relevance, faithful representation, comparability, verifiability, timeliness, understandability. Materiality is also another distinguished characteristic which provides relevance; the characteristics which provides faithful representation includes completeness, neutrality and absence of errors.

Argento, Umans, Håkansson, and Johansson (2018) on qualitative audit report explore how external auditors experience their decision to rely on internal auditors’ work. Qualitative and quantitative methods consisting of semi-structured interviews and questionnaires were administered to external auditors in Sweden. Semi-structured interviews were conducted by external auditors who are working in Big 4 audit firms in Sweden and have engagements with internal audit functions. Findings from the study indicated that external auditors use the work of internal auditors as they gain efficiency in performing their work. It was also discovered that external auditors may compromise their independence and professionalism through closer involvement with internal auditors, which may lead to uncritical evaluation and use of the reports prepared by internal auditors. Study further discovered that when relying on the internal auditors’ reports, external auditors appear to be conscious of the consequences of the audit quality they deliver. Finally, the dilemma faced by external auditors was noted in their cooperative work with internal auditors and the balance/imbalance in their opinions concerning efficiency gains, independence, professionalism and audit quality.

Considering the literatures, it can be observed that researchers have been beaming light on role internal audits in external audit report quality. Considering this observation and the need to address issues affecting audit report amongst organization in Nigeria.
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METHOD

Survey research design was adopted in conduct of the study. Survey according to Pinsonneault and Kraemer in Glasow (2005) defined a survey as a “means for gathering information about the characteristics, actions, or opinions of a large group of people” (p. 77). Considering the focus of the study, the design will aid in collecting opinions to evaluate internal audit and control of corporate organizations in Nigeria as it affects the quality of external audit report. Population of the study includes both internal auditors and external auditors of corporate organization in Nigeria. Since there is no composite records on registered and active corporate organization in Nigeria in any single government or other agencies document the researcher decided to draw a sample that cuts across auditors of various classes of organizations in Nigeria. In achieving this, the researcher adopted the use of stratified and purpose sampling technique in the selection of respondents. Stratification sampling technique aids the researcher to classify the organization into three classes of big, medium and small sized organizations considering the turnover and employee. Among the big sized company, auditors of 40 organizations were selected since they are dominant amongst corporate organizations, while 30 each were selected amongst big and small sized organizations (See Appendix B). In selecting the auditors, we discovered amongst organizations selected some audit firms were dominant, which made us select give chances for employees with over 5 years of audit experience for both internal and external auditors. Internal auditors are expected to respond to the first section of the instrument while cluster 2 and 3 is responded by the external auditors of the selected organizations.

Questionnaire instrument was adopted titled WAS was adopted to in conduct of the study. The questionnaire instrument was structured in three (3) clusters with each cluster elucidating data on each research questions that guided the study. The questionnaire response was scaled on a five point scale. One sample test of Mean was adopted in testing the hypotheses that guided the study. The hypotheses were also adopted in testing the hypotheses that guided the study. The hypotheses were testing at 0.05 level of significance. Decision rule for the hypotheses states that, Reject the null hypothesis if t-cal is > t-tab, if otherwise, accept the null hypothesis.

RESULTS

RQ1: Do you agree that internal auditors in corporate organizations in Nigeria are independent in discharge of their duties?

Table 1a: Showing one-sample test for independence of internal auditors of corporate organization

<table>
<thead>
<tr>
<th>Independence of Internal Auditors of Corporate Organization</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error of Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>930</td>
<td>2.9409</td>
<td>1.09974</td>
<td>33158</td>
</tr>
</tbody>
</table>

Source: SPSS 22 Output

Findings on table 1a above reflecting the one sample test of responses in appendix 1: Cluster 1 below indicated that the respondents disagreed that internal auditors in corporate organizations in Nigeria are independent in discharge of their duties considering the mean rating of 2.9409 which is below the acceptance region of 3.

HYPOTHESES TESTING

H01: Internal auditors in corporate organizations in Nigeria are not significantly independent in discharge of their duties.

Table 1b: Showing One-Sample Test on Independence of Internal Auditors of Corporate Organization

<table>
<thead>
<tr>
<th>Test Value = 3</th>
<th>t-cal</th>
<th>t-tab</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
<th>Mean Difference</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence of Internal Auditors of Corporate Organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Auditors of Corporate Organization</th>
<th>1.78</th>
<th>1.646</th>
<th>.929</th>
<th>.862</th>
<th>.05909</th>
<th>.7979</th>
<th>.6797</th>
</tr>
</thead>
</table>

Source: SPSS 22 Output

Table 1b above showing the one sample test on internal auditors’ independence also indicated with a calculated t-statistics of -1.78 which lower than the t-tabulated value of 1.646 at 0.05 level of significance. Considering the decision rule of which states that the null hypothesis should be rejected if t-cal is > t-tab, if otherwise, accept the null hypothesis. Considering this position, the null hypothesis is accepted to indicate that internal auditors in corporate organizations are not significantly independent in discharge of their duties.

RQ 2: Do external auditors rely on the internal audit and control system of corporate organizations in Nigeria as audit evidence/basis for financial report?

Table 2a: Showing One-Sample statistics on External Auditors Reliance on Internal Audit and Control as External Audit Evidence in Corporate Organization

<table>
<thead>
<tr>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>930</td>
<td>3.6790</td>
<td>0.86052</td>
<td>0.27212</td>
</tr>
</tbody>
</table>

Source: SPSS 22 Output

Findings on table 2a above show a mean score of 3.6790 which is above the average mean rating of 3 indicated that the external auditors have been relying on internal audit and control for external audit report in corporate organizations in Nigeria.

TEST OF HYPOTHESES

H02: Internal audit and control system of corporate organizations in Nigeria are not significantly relied on as audit evidence/basis for financial report.

Table 2b. Showing One-Sample Test on Internal Audit and Control Reliance as External Audit Evidence in Corporate Organization

<table>
<thead>
<tr>
<th>t-cal</th>
<th>t-tab</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
<th>Mean Difference</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.495</td>
<td>1.646</td>
<td>929</td>
<td>.034</td>
<td>6790</td>
<td>.0634 to 1.2946</td>
</tr>
</tbody>
</table>

Source: SPSS 22 Output

Table 2b above showing the one sample test on internal auditor and control reliability as external audit evidence in corporate organizations indicated with a calculated t-statistics of 2.495 which is greater than the t-tabulated value of 1.646 at 0.05 level of significance. Considering the decision rule guide hypothesis acceptance and rejection, the null hypothesis is therefore rejected while the alternate hypothesis is accepted to indicate that internal audit and control system of corporate organizations in Nigeria are significantly relied on as audit evidence/basis for financial report.

RQ 3: How has the internal audit and control systems aid qualitative external audit report of corporate organizations in Nigeria?

Table 3a. Showing One-Sample Statistics on Internal Audit and Control effect on Qualitative Audit Report of Corporate Organization

<table>
<thead>
<tr>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>930</td>
<td>2.6670</td>
<td>1.07526</td>
<td>0.34003</td>
</tr>
</tbody>
</table>

Source: SPSS 22 Output
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Findings on table 3a above reflecting the one sample test of responses in appendix 1: Cluster3 below indicated that the respondents disagreed that internal audit and control has effect on qualitative audit report in corporate organizations in Nigeria considering the mean rating of 2.667 which is below the acceptance region of 3.

TEST OF HYPOTHESES

H03: Internal audit and control systems do not significantly aid qualitative external audit report of corporate organizations in Nigeria.

Table 3b. Showing One-Sample Test on Internal Audit and Control effect on Qualitative Audit Report of Corporate Organization

<table>
<thead>
<tr>
<th>Test Value = 3</th>
<th>t-cal</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
<th>Mean Difference</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Audit and Control effect on Qualitative Audit Report</td>
<td>-1.979</td>
<td>1.646</td>
<td>929</td>
<td>.353</td>
<td>-3300</td>
</tr>
</tbody>
</table>

Source: SPSS 22 Output

Table 3b above showing the one sample test on internal auditors’ independence also indicated with a calculated t-statistics of -1.78 which lower than the t-tabulated value of 1.646 at 0.05 level of significance. Considering the decision rule, the null hypothesis is accepted to the effect that internal audit and control systems do not significantly aid qualitative external audit report of corporate organizations in Nigeria.

SUMMARY OF FINDINGS

The findings of the study show that internal auditors in corporate organizations in Nigeria are not significantly independent in discharge of their duties. The independent of auditors determines the quality of the audit report. This finding also justifies the recruitment status of internal auditors which are placed under the supervision of those they are to oversee. In a practical setting without liability attached to job role most especially when it comes to internal auditor’s guaranteeing independence is always difficult to achieve. CIPFA (2006) and Rahmatika (2014) also supported the independence position of internal auditors. Non-independence of internal auditors in the discharge of their duties cast a doubt on the quality of audit assignment carried out with its consequence in influencing the quality of the external audit report which relies on internal audit for audit evidence.

Other findings also indicate that internal audit and control system of corporate organizations in Nigeria are significantly relied on as audit evidence/basis for financial report. This finding justifies the observation of Mautz in Satka (2017) that from the internal audit’s point of view, the relationship with external audit is ostensibly a very good one. Findings also justify discovery of Argento, Umans, Håkansson, and Johansson (2018) which indicated that external auditors use the work of internal auditors as they gain efficiency in performing their work. Considering the findings, the quality of the audit and internal control which is being relied on by external auditors will definitely have an effect on the report been prepared by the external auditors.

Final findings of the study which shows that internal audit and control systems do not significantly aid qualitative external audit report of corporate organizations in Nigeria. The findings is inline with Argento, Umans, Håkansson, and Johansson (2018) that external auditors may compromise their independence and professionalism through closer involvement with internal auditors, which may lead to uncritical evaluation and use of the reports prepared by internal auditors as relying on the internal auditors’ reports by external auditors appear to be conscious of the consequences for the audit quality they deliver. Considering these findings, the position of internal audit in corporate organization looks not to have met the standard expected of an auditor. As an auditor it is expected that due care and diligence is expected to be followed. Although the job an internal auditor can be threatened as there is no legal backing retaining such auditor on the job when the employer bid are rejected and such employee relieved of his/her employment.

CONCLUSION AND RECOMMENDATIONS

This study sheds light on the role played by internal audit and control of corporate organizations in Nigeria in a qualitative audit report. Based on the findings of the study, it was concluded that, internal auditors in corporate organizations in Nigeria are not
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significantly independent in the discharge of their duties. It was also concluded that internal audit and control system of corporate organizations in Nigeria are significantly relied on as audit evidence/basis for financial report. It was finally concluded that internal audit and control systems do not significantly aid qualitative external audit report of corporate organizations in Nigeria. From the position of this study it can be concluded that non-independence of internal auditors calls into questioning the quality of a report which might be biased to favour the employers in other to keep their employment. This biasedness in the report of internal auditors can be detrimental to external auditors who rely on report of internal auditors of corporate organizations in Nigeria as a basis for preparation of the account. Considering the position, it can be noted that external auditors who report output with any reliance on report of internal auditors might be deficient in quality which will be detrimental to expected users of the financial report. Considering this position we have partly said that internal auditors should also be culpable for accounting scandals occurring in corporate organizations in Nigeria and around the world. Based on the findings of the study, the researcher recommends that:

1. There should be regulation and training of internal auditors of corporate organizations so as to ensure that they comply with the ethical practice of audit as an internal auditor in many organizations.
2. Government and professional bodies should endeavour to regulate internal audit officers as an independent officer with liability so as to discourage organizational managers who are fund of formulating and manipulating accounting policies for the sole aim of misleading and misrepresenting the actual financial position of their organizations.
3. External auditors should endeavour to get more involved in internal audit controls of organizations if such report will be used as audit evidence during their assignment.
4. Finally, considering the risk associated with the audit report, it is finally recommended that external auditors should endeavour to carry out more comprehensive sampling during audit exercise

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26) Accountancy Business and the Public Interest, 9(159) 204 2010


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### APPENDIX

<table>
<thead>
<tr>
<th>S/N</th>
<th>Cluster 1: Issues on Auditors Independence</th>
<th>Mean (X)</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Does your company have an internal audit committee</td>
<td>3.87</td>
<td>Agree</td>
</tr>
<tr>
<td>2</td>
<td>Do you agree that audit committee in your organizations are member of any of the professional audit bodies</td>
<td>2.05</td>
<td>Disagree</td>
</tr>
<tr>
<td>3</td>
<td>the audit committee directly involved with the internal audit department</td>
<td>3.21</td>
<td>Agree</td>
</tr>
<tr>
<td>4</td>
<td>audit committee give input to the internal audit planning</td>
<td>3.89</td>
<td>Agree</td>
</tr>
<tr>
<td>5</td>
<td>Internal audit department report functionally to the audit committee only</td>
<td>2.86</td>
<td>Disagree</td>
</tr>
<tr>
<td>6</td>
<td>Internal auditors evaluation is done by the audit committee only</td>
<td>2.43</td>
<td>Disagree</td>
</tr>
<tr>
<td>7</td>
<td>Internal auditors are highly involved in establishing internal control system in your organization</td>
<td>1.38</td>
<td>Disagree</td>
</tr>
<tr>
<td>8</td>
<td>Internal auditors has the power to investigate transactions related to the top management level within the organizations</td>
<td>2.57</td>
<td>Disagree</td>
</tr>
<tr>
<td></td>
<td>management and other organs of the system support and appreciate the role of internal audit department within your organization</td>
<td>3.23</td>
<td>Agree</td>
</tr>
<tr>
<td>10</td>
<td>Staffs within the organization sees internal audit department as checks to their operations within the organization</td>
<td>3.91</td>
<td>Agree</td>
</tr>
</tbody>
</table>

### Cluster 2: Issues on External Auditors Reliance on Internal Auditors

<table>
<thead>
<tr>
<th>S/N</th>
<th>Do you agree that external auditors</th>
<th>Mean (X)</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Are you allowed to relate with internal auditors</td>
<td>4.59</td>
<td>Agree</td>
</tr>
<tr>
<td>2</td>
<td>Internal audit procedures are regularly reviewed by external auditors to make them current</td>
<td>1.68</td>
<td>Disagree</td>
</tr>
<tr>
<td>3</td>
<td>Did the lead audit engagement partner maintain a professional and open dialogue with the audit committee and internal audit team</td>
<td>4.26</td>
<td>Agree</td>
</tr>
<tr>
<td>4</td>
<td>As external auditor we maintain close working relationship with internal auditors of organizations of our client</td>
<td>2.87</td>
<td>Disagree</td>
</tr>
<tr>
<td>5</td>
<td>Did the external auditor adequately discuss the quality of the company's financial reporting, including the reasonableness of accounting estimates and judgments with the internal audit team</td>
<td>3.68</td>
<td>Agree</td>
</tr>
<tr>
<td>6</td>
<td>Did the external auditor discuss how the company's accounting policies compare with industry trends and leading practices</td>
<td>3.95</td>
<td>Agree</td>
</tr>
<tr>
<td>7</td>
<td>Did the external auditor discuss with the audit committee current developments in accounting principles and auditing standards relevant to the company's financial statements and the potential impact on the audit</td>
<td>4.36</td>
<td>Agree</td>
</tr>
<tr>
<td>8</td>
<td>Did the external auditor discuss sensitive issues candidly and professionally, such as: internal control over financial reporting (e.g., management review controls);</td>
<td>3.57</td>
<td>Agree</td>
</tr>
<tr>
<td>9</td>
<td>Did the external auditor discuss sensitive issues candidly and professionally, such as: the quality of the company's financial management team</td>
<td>3.61</td>
<td>Agree</td>
</tr>
<tr>
<td>10</td>
<td>Did the lead audit engagement partner promptly alert the audit committee if he or she did not receive sufficient cooperation from management including management in other jurisdictions</td>
<td>4.22</td>
<td>Agree</td>
</tr>
</tbody>
</table>

### Cluster 3: Issues on internal audit and control reliance on auditor report quality

<table>
<thead>
<tr>
<th>S/N</th>
<th>Do you agree that external auditors reliance on internal audit and control</th>
<th>Mean (X)</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>helps to reduce time allocation to audit task considering the overall audit time for the company</td>
<td>3.86</td>
<td>Agree</td>
</tr>
<tr>
<td>2</td>
<td>aids in not to further explore and verify the reasons for the inventory turnover change</td>
<td>2.69</td>
<td>Disagree</td>
</tr>
<tr>
<td>3</td>
<td>aid in provision of reliable audit evidence</td>
<td>2.56</td>
<td>Disagree</td>
</tr>
</tbody>
</table>
## Evaluation of Internal Audit and Control System as a Prerequisite for Qualitative External Audit Report

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Aids in raising of external audit expertise and competence</td>
<td>3.68</td>
<td>Agree</td>
</tr>
<tr>
<td>5</td>
<td>Aid in reducing restatement of financial reports</td>
<td>3.93</td>
<td>Agree</td>
</tr>
<tr>
<td>6</td>
<td>Helps external auditors understanding of organization business operations</td>
<td>3.68</td>
<td>Agree</td>
</tr>
<tr>
<td>7</td>
<td>Aids external auditors in discovery of frauds during audits/financial misstatements</td>
<td>1.32</td>
<td>Disagree</td>
</tr>
<tr>
<td>8</td>
<td>Aids in detection of fictitious revenue in financial statement</td>
<td>1.63</td>
<td>Disagree</td>
</tr>
<tr>
<td>9</td>
<td>Aids external auditors to identify related party transactions that may mislead financial reporting</td>
<td>1.21</td>
<td>Disagree</td>
</tr>
<tr>
<td>10</td>
<td>Aids non-disclosure of related parties transactions</td>
<td>2.11</td>
<td>Disagree</td>
</tr>
</tbody>
</table>

**Source:** Field Survey, (2019)

## APPENDIX B

Summary of Study Organizations and Auditors

- Wandel International Limited
- Cadbury Nigeria Plc
- Nigerian Breweries
- Total Nigeria Plc