



## Internal Audit and Financial Performance of Quoted Manufacturing Companies in Lagos State, Nigeria

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### ABSTRACT

The study examined the effect of internal audit on financial performance of quoted manufacturing companies in Lagos state while the specific objective was to determine the effect of audit scope on the profitability of quoted manufacturing companies. The population of the was five hundred employees from which a sample size of sixty was selected through purposive sampling technique. It was revealed by the study that there was a positive relationship between internal audit and financial performance of quoted manufacturing companies; that audit scope had significant effect on the profit made by manufacturing companies with  $R^2=34\%$ , ( $P<0.05$ ). It was suggested that the scope of audit should be expanded to cover all critical operational areas to have a comprehensive evaluation of the company's processes and controls.

## **INTRODUCTION**

The manufacturing sector in Lagos, Nigeria, serves as a pivotal driver of economic growth and industrialization efforts in the region. With its diverse array of manufacturing companies spanning various industries, Lagos plays a central role in fostering economic development, employment generation, and trade expansion within Nigeria (Ogunleye, Ibrahim and Ajayi, 2019).

Effective internal audit practices are crucial for ensuring transparency, accountability, and financial integrity within manufacturing companies (Knechel & Salterio, 2019). Internal audit functions provide essential assurance regarding the effectiveness of internal controls, risk management processes, and compliance with regulatory requirements, thereby enhancing organizational governance and performance (Nwankwo, Ademola, and Olukunle, 2020).

Despite the recognized importance of internal audit, empirical research examining its specific impact on financial performance within the manufacturing sector, particularly in Lagos, remains limited (Adekoya and Saka, 2021).

The manufacturing sector in Lagos, Nigeria, represents a critical component of the regional economy, contributing significantly to employment, industrial output, and economic growth. Within this sector, the effectiveness of internal audit practices is paramount for ensuring transparency, accountability, and financial integrity within manufacturing companies. Despite the recognized importance of internal audit, empirical research examining its specific impact on financial performance within the manufacturing sector, particularly in Lagos, is limited (Adu and Ajigbotoso, 2024).

Moreover, the manufacturing landscape in Lagos is characterized by diverse challenges, including regulatory compliance requirements, operational risks, and competitive pressures. It remains unclear how these factors influence the effectiveness of internal audit practices and their subsequent impact on financial performance within manufacturing companies such as Cadbury Plc (Lagos Chamber of Commerce and Industry, 2019). Therefore, the central problem addressed by this study is the lack of empirical evidence regarding the relationship between internal audit practices and financial performance in quoted manufacturing companies in Lagos, with a specific focus on Cadbury Plc. This problem underscores the need for rigorous research to assess the effectiveness of internal audit practices, identify key determinants of financial performance, and provide actionable insights for organizational improvement (Benjamin, Dada, and Adegbite, 2021).

### **Objective**

To determine the effect of audit scope on the profitability of quoted manufacturing companies in Lagos state, Nigeria

### **Research Question**

To what extent is the effect of audit scope on profitability?

### **Hypothesis**

H0: There is no significant relationship between the audit scope and profitability of quoted companies

## **LITERATURE REVIEW**

### **Concept of Audit**

Deepak (2019), internal audit is an impartial, unbiased assurance and consulting role that aids in an organization's goal-achieving. He lists the following as the goals: preventing and detecting fraud; protecting assets; maintaining the effectiveness and efficiency of operations; and ensuring the accuracy of financial and operational data.

Audit is the examination or inspection of various books of accounts by an auditor followed by physical checking of inventory to make sure that all departments are following a documented system of recording transactions. It is done to ascertain the accuracy of financial statements provided by the organization (Adu and Majeobaje, 2024). Audit can be done internally by employees or heads of a particular department and externally by an outside firm or an independent auditor. The idea is to check and verify the accounts by an independent authority to ensure that all books of accounts are done in a fair manner and there is no misrepresentation or fraud that is being conducted.

### **Audit Scope**

Audit scope refers to the boundaries and extent of an audit engagement, defining the specific objectives, areas, and activities to be examined during the audit process. It outlines the range of operations, transactions, and controls that auditors will assess to fulfil their audit objectives effectively. (FasterCapital,2023). Audit scope should be sufficiently comprehensive to address relevant financial reporting risks and internal control deficiencies while remaining practical and feasible within the constraints of time and resources (Louwers,2018).

### **Profitability**

Profitability is a key indicator of an organization's financial health and performance, representing its ability to generate earnings relative to its expenses and investments. It is often measured through various financial metrics such as return on assets (ROA), return on equity (ROE), and net profit margin. Research indicates that profitability is influenced by a multitude of factors, including operational efficiency, pricing strategies, market demand, and industry dynamics. For example, firms with higher levels of operational efficiency and lower production costs are likely to achieve higher profitability levels (Gupta and Malhora, 2020).

## **METHODOLOGY**

### **Population of the Study**

The population of the study comprised the staff members of Cadbury Plc Lagos, Nigeria which were 500 employees.

### **Sample Size and Sample Technique**

The purposive sampling was applied to select 60 respondents for the study.

### Method of Data Collection

Primary source: These data were collected through the use of questionnaire.

### Research Instrument

A self-made questionnaire divided into two sections was employed.

### Hypothesis

H0: There is no significant relationship between the audit scope and profitability of quoted companies

## RESEARCH RESULT

### Model Specification

Dependent Variable: Profitability (P)

Independent Variable: Audit scope (AS)

$P = a + f(AS) + e$  OR  $Y = a + f(X_1) + e$

Where a=Constant, AI= [ X ] \_1, e=error term and f=beta (B) value

**Regression result showing the significant relationship between the audit scope and profitability of quoted companies.**

Table 1. Model Summary of Audit Scope on Profitability

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.184 <sup>a</sup>	.034	.015	.71792

a. Predictors: (Constant), Audit Scope

b. Source: Author's Computation (2024) Using IBM SPSS 20 Statistical Software

The table above, showed R square= 0.034 (P<0.05) indicating that Audit scope had a 034% relationship with Profitability. This shows a fair relationship between Audit scope in the organization and its Profitability. Therefore, the null hypothesis is rejected and the alternate hypothesis is accepted that there is a perceived significant relationship between Audit scope and the Profitability of an organization.

Table 2. ANOVA Table of Audit Scope on Profitability

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.902	1	.902	1.751	.192 <sup>b</sup>
	Residual	25.771	50	.515		
	Total	26.673	51			

a. Dependent Variable: Profitability

b. Predictors: (Constant), Audit Scope

Source: Author's Computation (2024) Using IBM SPSS 20 Statistical Software

Table 3. Coefficients of the Model of Audit Scope on Profitability

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.835	.302		6.079	.000
Audit scope	.297	.224	.184	1.323	.192

Dependent Variable: Profitability

Source: Author's Computation (2024) Using IBM SPSS 20 Statistical Software

Result of the regression result summarized in the table above show that Audit scope has a proportionate positive relationship with Profitability as the coefficient of the independent variable (0.297) is positive. This implies that a more accurate Audit scope will bring about achievement of Profitability in the organization.

The coefficient in Table above showed that Audit scope relationship with Profitability is significant with beta  $\beta = 0.297$  reinforced by a P-value of 0.18 ( $< 0.05$ ). Hence, the Model or linear equation becomes:

$$Y = A + (X1)$$

$$Y = (1.835) + (0.297 * X1)$$

$$Y = 1.835 + 0.297 * X1$$

Therefore, a rejection of the null hypothesis; and acceptance of the alternate, is that there is a significant relationship between Audit scope and the Profitability of the organization.

The objective was to determine the effect of audit scope on the profitability made by the quoted manufacturing company. The analysis revealed that majority of the respondents agreed that audit scope has effect on the profit made by manufacturing companies with  $R^2 = 34\%$ , ( $P < 0.05$ ).

## CONCLUSIONS

This study has demonstrated a clear positive relationship between internal audit and financial performance of Cadbury Plc by aligning with agency theory.

## RECOMMENDATIONS

Based on the findings, manufacturing companies should increase the frequency of their internal audits to ensure continuous monitoring and timely identification of issues; the scope of audits should be expanded to cover all critical operational areas to provide a comprehensive evaluation of the company's processes and controls; there should be adoption of advanced technologies such as data analytics, artificial intelligence, and machine learning should be enhanced for the effectiveness and efficiency of internal audits.

## ADVANCED RESEARCH

In writing this article the researcher realizes that there are still many shortcomings in terms of language, writing, and form of presentation considering the limited knowledge and abilities of the researchers themselves.

Therefore, for the perfection of the article, the researcher expects constructive criticism and suggestions from various parties.

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