

The Role of Internal Audit in Enhancing Corporate Governance Practices in the Nigerian Manufacturing Sector

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Abstract

Corporate governance is a crucial aspect of any organization, especially in the Nigerian manufacturing sector. Effective corporate governance practices are essential for promoting transparency, accountability, and sustainable business growth. Internal audit plays a significant role in ensuring that these practices are adhered to and maintained. This conceptual paper aims to explore the role of internal audit in enhancing corporate governance practices in the Nigerian manufacturing sector through review of scholarly literature. The article revealed that internal audit plays a vital role in enhancing corporate governance practices in the Nigerian manufacturing sector. The internal audit function provides independent and objective assurance to the board and management that the organization's systems and processes are operating effectively, efficiently, and ethically. The paper also highlighted the challenges faced by internal auditors in Nigeria, including inadequate resources, lack of awareness about the internal audit function, and the perception that internal audit is only focused on financial reporting. The study recommends that the internal audit function should be adequately resourced, and internal auditors should receive continuous professional development training to keep up with emerging trends and best practices in corporate governance. Overall, this study provides valuable insights into the crucial role of internal audit in enhancing corporate governance practices in the Nigerian manufacturing sector. The study's findings can guide organizations in improving their corporate governance practices by leveraging the internal audit function's strengths to enhance transparency, accountability, and sustainable business growth.

Keywords: internal audit, corporate governance, Nigerian manufacturing sector, sustainable business growth

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1. Introduction

Corporate governance is an essential aspect of business management that ensures transparency, accountability, and fairness in decision-making processes (Mukhibad et. al, 2022). The role of internal audit in enhancing corporate governance practices in the Nigerian manufacturing sector has been widely studied by researchers and practitioners. According to Abiola and Adeniji (2016), "internal audit is an integral component of corporate governance mechanism in any organization, as it provides independent assurance on the effectiveness of the control environment and risk management practices."

Internal audit plays a critical role in identifying weaknesses in the control environment and recommending appropriate remedial actions to enhance corporate governance practices. As noted by Onyebuchi and Nnabuko (2020), "the internal audit function is responsible for monitoring compliance with laws, regulations, and internal policies, ensuring accurate financial reporting, and providing recommendations for improvement of the internal control system."

Furthermore, the internal audit function can contribute to the development of a robust risk management framework by identifying potential risks and providing assurance on the adequacy of controls to mitigate those risks. This, in turn, enhances the effectiveness of corporate governance practices in the Nigerian manufacturing sector (Abiola & Adeniji, 2016).

Several studies have shown that a strong internal audit function can positively influence the overall corporate governance practices of an organization, particularly in the Nigerian manufacturing sector. For instance, a study by Daramola and Gbadeyan (2019) found that effective internal audit functions improve corporate governance and reduce the likelihood of fraud in Nigerian manufacturing companies.

Additionally, the Nigerian government has recognized the importance of internal audit in corporate governance practices and has taken steps to strengthen the internal audit function in public sector organizations. For example, the Nigerian Federal Ministry of Finance has issued guidelines and standards for internal audit functions in public sector organizations to ensure that they operate in accordance with international best practices

(Ojo, 2019).

Moreover, internal audit can also provide value-added services to an organization beyond the traditional assurance function. These value-added services may include providing advice on internal controls, risk management, and process improvement. For instance, a study by Adeniji and Oluwakemi (2017) found that internal auditors in Nigerian manufacturing companies provide value-added services such as fraud prevention, cost reduction, and process improvement.

Furthermore, the effectiveness of internal audit in enhancing corporate governance practices is influenced by several factors such as the independence of the internal audit function, the competence of internal auditors, and the support of top management. As noted by Onyebuchi and Nnabuko (2020), "the independence of the internal audit function is essential to ensure objectivity and impartiality in its assessments of the organization's control environment."

To further enhance the role of internal audit in corporate governance practices in the Nigerian manufacturing sector, it is essential to ensure that internal auditors possess the required skills and competencies. According to a study by Okezie and Adegbite (2019), internal auditors in Nigeria require technical skills, interpersonal skills, and managerial skills to perform their functions effectively.

In addition, the support of top management is crucial to the effectiveness of internal audit. Top management should provide internal auditors with the necessary resources and support to perform their functions effectively, and also ensure that the recommendations made by internal auditors are implemented.

To enhance the effectiveness of internal audit in the Nigerian manufacturing sector, stakeholders such as internal auditors, top management, external auditors, regulators, and shareholders must collaborate continuously. Nigerian manufacturing companies should prioritize the development of a strong internal audit function, and internal auditors should possess the required skills and competencies.

Overall, the Nigerian manufacturing sector must continue to improve its corporate governance practices to enhance its performance and promote investor confidence. The development of a strong internal audit function is an essential step towards achieving this goal.

Finally, the role of internal audit in enhancing corporate governance practices in the Nigerian manufacturing sector is not limited to large companies. Small and medium-sized enterprises (SMEs) can also benefit from an effective internal audit function (Alawaqleh, 2021). However, SMEs may face resource constraints that limit their ability to establish and maintain an internal audit function. To address this, SMEs can outsource their internal audit function to qualified external auditors or consultants.

In conclusion, the role of internal audit in enhancing corporate governance practices in the Nigerian manufacturing sector is crucial for promoting sustainable growth and development. It is on this note that this article seeks to review existing articles on how can effectiveness of internal audit be enhanced through the development of required skills and competencies by internal auditors, the support of top management, collaboration among stakeholders, government regulations, and the involvement of external auditors. Therefore, the paper sought to provide solutions to Nigerian manufacturing companies how to prioritize the development of a strong internal audit function to promote good corporate governance practices, enhance their performance, and build investor confidence.

2. Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. The Institute of Internal Auditors (IIA) defines internal audit as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes" (IIA, 2021).

Internal audit plays a vital role in ensuring that an organization's operations are efficient, effective, and comply with applicable laws, regulations, and standards. According to a survey conducted by Deloitte (2020), organizations are increasingly relying on internal audit to provide assurance on risk management, controls, and governance. The survey found that 55% of respondents believe that internal audit is essential to providing assurance on the effectiveness of risk management.

Internal auditors use a risk-based approach to identify potential risks and areas of improvement within an organization. They evaluate the adequacy and effectiveness of the organization's risk management, control, and governance processes and provide recommendations for improvement. According to the IIA (2021), the internal audit process consists of three phases: planning, fieldwork, and reporting. During the planning phase, the internal auditor identifies the scope and objectives of the audit and develops a plan to achieve them. The fieldwork phase involves collecting and analyzing data, testing controls, and evaluating the effectiveness of the organization's processes. The reporting phase involves communicating the findings and recommendations to management and stakeholders.

Internal audit has evolved over the years to become a strategic function within organizations. According to a

report by PwC (2021), internal audit is increasingly being called upon to provide insights into emerging risks and to help organizations achieve their strategic objectives. The report also found that internal audit is leveraging technology to enhance its effectiveness and efficiency.

In conclusion, internal audit is a critical function within organizations, providing assurance on risk management, controls, and governance processes. Internal auditors use a risk-based approach to identify potential risks and areas of improvement, and they provide recommendations for improvement. Internal audit has evolved to become a strategic function within organizations, providing insights into emerging risks and helping organizations achieve their strategic objectives.

Internal audit also plays a key role in promoting transparency and accountability within organizations. By providing independent and objective evaluations of the organization's operations, internal audit helps to ensure that the organization is operating in accordance with its values, principles, and objectives. This helps to build trust and confidence among stakeholders, including shareholders, customers, and employees.

One of the challenges facing internal audit is the need to keep pace with the rapidly changing business environment. According to a report by KPMG (2020), internal audit functions need to be agile and adaptable to respond to new risks and emerging trends. This requires a focus on continuous learning and development, as well as the use of technology to enhance the effectiveness and efficiency of the internal audit function.

Another challenge facing internal audit is the need to maintain independence and objectivity. Internal auditors need to maintain an independent and objective perspective in order to provide unbiased assessments of the organization's operations. This requires a strong culture of ethical behavior within the organization, as well as clear policies and procedures to ensure that internal auditors are not unduly influenced by management or other stakeholders.

In summary, internal audit is a critical function within organizations, providing assurance on risk management, controls, and governance processes. Internal audit has evolved to become a strategic function, providing insights into emerging risks and helping organizations achieve

3. Corporate Governance

Corporate governance is a critical aspect of the business environment in Nigeria, and the role of internal audit in enhancing corporate governance practices has been widely acknowledged (Inekwe, Hashim & Yahya 2021). The Nigerian manufacturing sector is a crucial part of the economy, contributing significantly to job creation, income generation, and export earnings. However, the sector has been plagued by poor corporate governance practices, which have undermined its performance and growth potential. In this conceptual review, we will explore the role of internal audit in enhancing corporate governance practices in the Nigerian manufacturing sector, with a focus on recent developments and trends.

4. Internal Audit and Corporate Governance

Internal audit is a critical component of corporate governance, providing independent assurance and consulting services to help organizations achieve their objectives (Harymawan *et.al*, 2022). According to the Institute of Internal Auditors (IIA), internal audit is "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations" (IIA, 2021). Internal audit plays a crucial role in enhancing corporate governance practices by providing independent and objective assessments of internal control systems, risk management practices, and financial reporting processes.

5. Recent Developments and Trends

Recent developments and trends in the Nigerian manufacturing sector have highlighted the importance of internal audit in enhancing corporate governance practices. The Nigerian government has taken steps to promote good corporate governance practices, including the adoption of the Nigerian Code of Corporate Governance 2018 (NCCG 2018) and the Companies and Allied Matters Act 2020 (CAMA 2020). The NCCG 2018 provides a framework for corporate governance practices in Nigeria, while the CAMA 2020 modernizes the legal and regulatory framework for companies in Nigeria.

In addition to these developments, there has been a growing trend towards the adoption of international best practices in corporate governance in the Nigerian manufacturing sector. Many companies in the sector are adopting the International Integrated Reporting Council (IIRC) framework, which promotes integrated thinking and reporting on an organization's value creation story. The adoption of the IIRC framework requires a robust internal audit function to provide assurance on the quality and reliability of the information reported.

6. Challenges and Opportunities

Despite the recent developments and trends, there are still significant challenges to enhancing corporate governance practices in the Nigerian manufacturing sector. One of the most significant challenges is the lack of awareness and understanding of the role of internal audit in corporate governance. Many companies in the sector

view internal audit as a compliance function rather than a strategic partner. Another challenge is the shortage of skilled internal auditors in Nigeria, which limits the effectiveness of internal audit in enhancing corporate governance practices.

However, there are also significant opportunities for enhancing corporate governance practices in the Nigerian manufacturing sector through the role of internal audit. The growing trend towards the adoption of international best practices presents an opportunity for companies to enhance their internal audit functions and adopt a more strategic approach to internal audit. The Nigerian government's commitment to promoting good corporate governance practices also provides an opportunity for companies to prioritize their internal audit functions and leverage them to enhance their governance practices.

7. Conclusion

In conclusion, the role of internal audit in enhancing corporate governance practices in the Nigerian manufacturing sector cannot be overstated. Recent developments and trends in the sector have highlighted the importance of internal audit in promoting good corporate governance practices. However, significant challenges still exist, and companies need to prioritize their internal audit functions and adopt a more strategic approach to internal audit. By doing so, the Nigerian manufacturing sector can realize its full potential and contribute significantly to the country's economic development.

Corporate governance refers to the system of rules, processes, and practices by which a company is directed and controlled. The importance of corporate governance in promoting sustainable growth and development cannot be overemphasized. In recent times, the role of internal audit in enhancing corporate governance practices in the Nigerian manufacturing sector has gained significant attention (Ahmed & Oyebisi, 2020). Internal audit provides independent and objective assurance to the board of directors and other stakeholders on the effectiveness of the company's risk management, control, and governance processes.

One of the key challenges facing the internal audit function in Nigeria is the lack of independence (Adediran, 2021). The internal audit function is often perceived as a department within the finance and accounts unit, thereby compromising its independence and effectiveness. To address this challenge, companies need to establish an independent internal audit function that reports directly to the board of directors.

8. Recommendations

To further enhance the role of the internal audit function in corporate governance in the Nigerian manufacturing sector, the following recommendations are suggested:

- The internal audit function should be given the necessary resources, independence, and authority to carry out its duties effectively.
- Top management should promote a culture of ethical behavior and accountability to support the internal audit function in identifying and mitigating risks and ensuring compliance with legal and regulatory requirements.
- The internal audit function should regularly review and update its risk assessment methodologies to stay ahead of changing market conditions and regulatory requirements.
- The internal audit function should work closely with other departments and functions within the company to promote effective communication and collaboration among stakeholders.
- The internal audit function should regularly provide reports to the board of directors and other stakeholders on significant risks and issues, highlighting areas for improvement, and providing recommendations for continuous improvement.

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