

INTERNAL AUDIT AND FINANCIAL PERFORMANCE OF PHARMACEUTICAL MANUFACTURING FIRMS IN PORT HARCOURT METROPOLIS.

Nnah, Lazbery, Ph.D
**Department of Accounting, Ignatius Ajuru University of Education, Rumuolumeni Port
Harcourt, Rivers State, Nigeria**

Email: nnahlazbery@gmail.com

ABSTRACT

The study examined internal audit and financial performance of pharmaceutical manufacturing firms in Port Harcourt Metropolis. This study adopted correlational survey research design. The population of the study is eight (8) pharmaceutical manufacturing firms in Port Harcourt Metropolis was randomly selected as the accessible population with one hundred (100) staff as the respondents. The sample size is 80. The instrumentation of the study was adopted in this study were questionnaire. The data generated was analyzed in research hypotheses using the Pearson product moment correlation coefficient with the aid of statistical package for the social sciences. The findings of the study were that; There is a positive and a significant relationship between the application of compliance audit and profitability in pharmaceutical manufacturing firms in Port Harcourt Metropolis. On the other side, there is a positive and a significant relationship between personnel audit and profitability in pharmaceutical manufacturing firms in Port Harcourt Metropolis. In view of the findings, the following recommendations are made among others: There should be regular audit reports, as well as regular review reports on functionality of internal controls so as to address the current business challenge. Existing Departments should be strengthened by according them the necessary professional independence and employing adequate number of experienced and qualified staff to enable the department extends coverage of the audit to all significant activities of these enterprises.

Keywords: internal audit, financial performance, pharmaceutical manufacturing firms, compliance audit, personnel audit and profitability

INTRODUCTION

Internal audit practice is a basis for effective private institution financial management and it is important for assuming effective and efficient application of appropriate controls. The need for accountability and honesty in private firms, especially in the manufacturing industry has been a great concern. The drive for accountability often begins with the pursuit of probity and integrity on the part of public administrators. Internal audit as the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management's objective of insuring, as far as possible, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and timely preparation of reliable financial information (Ewa, & Udoayang, 2023).

The internal audit is considered as the backbone of the business accounting as it is the section that records all businesses related to the sector. The efficiency of internal audit helps develop the work of the company because the financial reports reflect the internal audit department's quality. Moreover, an internal audit is a significant part of the corporate governance structure in an organization and corporate governance encompasses oversight activities taken by the board of directors and audit committees to make sure that the financial reporting process is credible (Public Oversight Board, 1994). Three monitoring mechanisms have been highlighted in the CG literature, namely, external auditing, internal auditing and directorship (Al Matarneh et al., 2022).

In Nigeria today, private firms undertake various transactions through its workers and as such, it very necessary to give account of their stewardship in order to know the performance of the

company. In line with this, the constitution of the Federal Republic of For a long time, internal audit was considered as an administrative unit aimed at checking documents, counting assets, and reporting on past events for management purpose. However, these days, many factors have led to an improvement in internal audit practices in private and public entities. Democracy requires government and its entities to be accountable in the use of public funds and in providing effective, efficient, and economical service delivery to its citizens (Arena, & Azzone, 2022).

To achieve its objectives, government develops strategies that could help in effective management of funds, and the internal audit function is one of those strategies (a governance tool) which help it to effectively manage and achieve its objectives (Cohen & Sayag, 2021). The internal audit department of any organization strives to instill accountability in financial resources management spanning from prudent recruitment, training and all other internal processes. Internal auditing activity is primarily directed at evaluating internal control. Under the COSO 1992 Framework, internal control is broadly defined as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of the following core objectives for which all business entities strive: effectiveness and efficiency of operations, reliability of financial and management reporting, personnel with laws and regulations, Safeguarding of Assets. Control mechanisms are those processes set up to monitor and to direct, promote or restrain the various activities of an enterprise for the purpose of achieving set objectives. By detecting weaknesses in management operations, internal auditing provides a basis for correcting deficiencies that have eluded the first line of defense before these deficiencies become uncontrollable or are exposed in the external auditor's report. In River State owned companies, safeguarding of government assets is one aspect that has not been given the attention it deserves. Government -owned enterprises staffs have on a number of cases been given government asserts and have failed to account for them appropriately. Internal auditors have noted cases where funds are advanced to staff but were never recovered. When an organization suddenly collapses, the often-resounding question is "what went wrong?" A breakdown in the internal controls system, of which internal auditing plays key roles, is the usual cause. A major challenge faced by the Nigerian public sector is the existence of high level of fraud, corruption and irregularities. Although fraud is not a subject that any organization wants to deal with, the reality is most organizations experience fraud to some degree. Fraud can be defined as a misstatement of fact that is material in nature which involves a criminal deception that injures the other party.

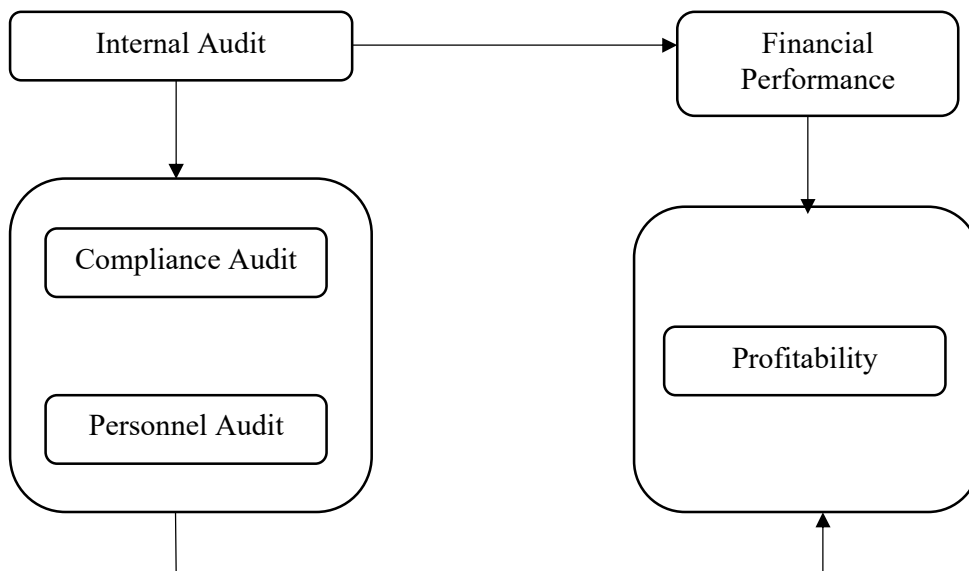
Statement of the Problem

In recent years there has been increasing in cases of fraudulent and misappropriation activities in manufacturing firms in Nigeria. Thus, resulting to gross inefficiency and massive loss. In spite of the existence of auditors in the pharmaceutical manufacturing firms in Port Harcourt Metropolis, the rate of fraud and financial impropriety is arguably on the increase. Auditors in private sector entities are expected to ensure that funds are utilized in accordance with the terms by which such monies were appropriated and their accounts have been properly prepared. Though, internal audit has become a crucial function within organizations; insufficient attention has been directed to this area of study when compared to external audit. The study identified inadequate qualified manpower as a factor which hinders segregation of duties and early detection of errors and misappropriations of public funds. Moreover, recently there has been heightened interest in issues associated with detection and prevention of fraud by internal auditors in the private sector in order to enhance its financial performance. This gives support to the present study on internal audit practices and financial performance in pharmaceutical manufacturing firms in Nigeria. Internal audit is facing many challenges, some of which include lack of opportunity for professional development, repetitive audit routines which staff members can predict, inability to insist on getting significant information because of fear of losing promotion opportunities and job security (lack of independence), wrong perception of the audit function by the staff of the public body. In

spite of various pronouncements on internal audit in the Nigerian Private Sector, the general opinion according to literature is that most of the private enterprises have failed to deliver on the purposes for which they were established.

Many people accuse managers of private enterprises in Nigeria of ineffectiveness and inefficiency in terms of resource control. They argue that poor application of internal audit principles and procedures leads to blatant diversion of scarce resources with its attendant consequences on the traditional accountability of government to the public. In fact, Lee, Johnson and Joyce (2021) observe that internal control is desired to provide some assurance to stakeholders that scarce resources are not diverted away from basic considerations inherent in financial management system design. It also hinges on whether there are adequate punishments for violations of internal audit procedures and whether the punishments are justly and effectively applied whenever need be. In spite of the existence of internal audit departments in organizations, it is often argued that the rate of fraud and misdeeds is still on the increase. Some people argue that the internal auditors are creating more problems than they are solving, others see it as a tool for witch-hunting, and therefore as unnecessary evil. An analysis of the problems related to these losses indicates that they could probably have been avoided had the establishments maintained effective internal audit unit. Such systems would have prevented or enabled earlier detection of the problems that led to the losses, thereby limiting damage to the companies. Furthermore, it is in the light of the above challenges, that this study is aimed at examining internal audit and financial performance of pharmaceutical manufacturing firms in Port Harcourt Metropolis to fill in the gap.

Conceptual Framework/Study Variables



Aim and Objective of the Study

The main purpose of this study is to investigate internal audit and financial performance of pharmaceutical manufacturing firms in Port Harcourt Metropolis. The study is designed to achieve the following specific objectives:

1. To determine the extent of relationship between compliance audit and profitability in pharmaceutical manufacturing firms in Port Harcourt Metropolis.
2. To investigate the extent of relationship between personnel audit and profitability in pharmaceutical manufacturing firms in Port Harcourt Metropolis.
- 3.

Research Hypotheses

The following null hypotheses are formulated for the study.

Ho₁: There is no significant relationship between compliance audit and profitability in pharmaceutical manufacturing firms in Port Harcourt Metropolis.

HO₂: There is no significant relationship between personnel audit and profitability in pharmaceutical manufacturing firms in Port Harcourt

Review of Related Literature

Internal Audit

Deepak (2021), sees internal audit as an independent and objective assurance and consulting function designed to help an organization to achieve its objectives. He identifies the objectives to include: Effectiveness and efficiency of operations (programmes and projects), reliability of financial and operational information, safeguarding of assets, personnel with rules and regulations and prevention and detection of fraud. The objectives of internal audit are unarguably broad but government differ in their commitment to them. This is why it is generally asserted that the effectiveness of internal audit can only be as good as the commitment of government to pursue these objectives. According to Unegbu and Obi (2022), internal audit is part of the internal control system put in place by management of an organization to ensure adherence to stipulated work procedure and as aid to management. They believe that internal audit measures, analyses and evaluates the efficiency and effectiveness of other controls established by management in order to ensure smooth administration, control cost minimization, capacity utilization and maximum benefit derivation. This implies that internal audit is an integral part of a complex system designed by the management of any organization to ensure orderly conduct of its business and prevent abuse of assets.

Vos (2018) states the internal auditor's main objective is to evaluate effectiveness of financial and operating control, confirm personnel with company policies, procedure, protect assets, verify the accuracy and consistency of organization's external and internal reports. While Stoner (1994) believes that the objective of internal audit is to evaluate several of the organization's reports for accuracy and usefulness and also recommending improvement of the control system, Owler and Brown (2019) argue that the objective of internal auditor is to protect management against errors of principle and neglect of duty. Adeniji (2024), states that internal audit is part of the internal control system put in place by management of an organization. He believes it is an aid to management which ensures that the financial operations are correctly carried out according to the law and also in accordance with the wishes of the board or council. Barker (2019) while corroborating the views of Owler and Brown (2019), extends the objective of internal audit to include review of the operations and record of the undertaking, and in course of these checks much of the detailed work of the organization in respect of financial and other statements are effectively audited.

Enofe et al. (2019) contend that the aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism. This means that identification of areas of weakness and suggestions for improvement are the main thrust of internal auditing. Little wonder Sawyer (1995) state that internal auditor's job is not done until defects are corrected and remain corrected.

The Institute of Internal Auditors (2019), defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It assists an organization to achieve its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The American Accounting Association in its Statement of Basic Auditing Concepts described auditing as 'a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria and communicating the results to interested users.

Traditionally, public sector internal audit efforts were mainly directed at the review of financial controls compliance audit). Internal audit is a long-standing function and an effective tool of management in many organizations. Gayasi (2019) regards internal audit as the independent review or appraisal within an organization of the accounting, financial and other operations as a basis for protective and constructive service to management. It is conducted by the organization's own specifically assigned staff and while dealing primarily with accounting and financial matters.

Internal Audit Practices

Internal auditing is often seen as an overall monitoring activity with responsibility to management for assessing the effectiveness of control procedures which are the responsibility of other functional managers (Kent, 2024). Internal auditing is taking on increased importance in many of today's global organizations by assisting management in evaluating controls and operations and thereby providing an important element of global control. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations (Kent, 2024). Being independent and objective, internal auditing 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. According to Millichamp (2019), Mainoma (2018) and Sani (2022), internal auditing includes among others reviewing the adequacy and effectiveness of internal control system, its personnel with government regulations, accounting rules and standards, securing the asset of the organization in order to prevent misappropriation. This ensures that the organizational goals and objectives are achieved. Internal auditing acts as an in-house consultant on control matters. Hermanson and Rittenberg (2024) deduced that an effective internal audit function existence leads to superior organizational performance. Similar sentiments were expressed by Prasad and Rao (1989). They observed that the internal auditor saves the organization from malpractices and irregularities by acting as a watch dog. This helps ensure high level of productivity and profit.

Internal audit department of any organization strives to instill accountability in financial resources management covering prudent hiring, training and all other internal processes. It is the internal audit department that ensures that good practices are followed throughout all processes of the organization to achieve good governance. An internal audit function could be viewed as a first line of defense against poor governance and inadequate financial reporting. With appropriate support from board and audit committee, the internal audit is in the best position to gather intelligence on sharp accounting practices, inadequate internal controls and ineffective corporate governance (Zekele, 2018). Thus, the motives behind the establishment of internal audit unit include: to promote accuracy and reliability in accounting and operating data; safeguarding government resources in order to prevent resources embezzlement and fraud; to determine the extent of personnel with relevant government laws, policies and procedure established within the various department as well as ensuring proper and judicious resources utilization (Sani, 2022; Mainoma, 2018; Glance, 2019).

Furthermore, when it come to the issues of legality of auditing in Nigeria, the legal instruments that sets the overall framework for the financial management, auditing procedures, government accounting and financial reporting for either the Federal, State or Local government are: The Constitution of the Federal Republic of Nigeria 2019, the Finance Control and Management Act 1958, the Audit Ordinance No. 28 of 1956, the Annual Appropriation Act and the financial memoranda of 2019. While in the aspect of professionalism, is usually handled by the professional bodies such as ICAN and ANAN through Nigerian Standard on Auditing (NSA) (Aruwa, 2024). However, with the adoption of IFRSs in Nigeria, NSAs are gradually being phased out.

Institute of Internal Auditors (IIA) (2022) referred internal auditing as an independent goals and consulting activities that is intended to add imperative value and build up the operations of an organization. It assists any firm to complete its targets through bringing a composed restrained approach to build up the adequacy of hazard administration control and administration forms. In

this way, interior evaluating is being performed by experts with a careful comprehension of the business culture, frameworks and procedures, the inner review movement which offers ensure that inside controls set up are adequate keeping in mind the end goal to ease the dangers, administration procedures are useful and equipped, and authoritative objectives and targets are being met (IIA, 2021). This pronouncement recommends internal control as system that bring a unique experience to organizations and an outlook change from an accentuation on responsibility about the past to enhancing future result which help evaluators work in more compelling and effective way (Nagy & Cenker, 2018).

Internal Audit is a target and independent appraisal benefit in risk management, control and administration by measuring and assessing their viability in accomplishing the organization concurred goals (Committee, 2018). Likewise, internal audit results are basic to the Board of Directors and line administration in the inspected units. The administration applies the master capacities of inward examining through exact and controlled evaluation of the techniques, strategies and operations that administration set up to ensure the achievement of the association's objectives and through proposals for development (Dumitrescu, 2021). According to Institute of Internal Auditors (2022) internal auditing is a self-overseeing, objective and consulting function that is intended to add value and develop operations in organizations. Internal audit practices helps organizations to accomplish their objectives by setting up a sorted out and taught way to deal with surveying the adequacy of risk control and management and in addition processes within organizations. As a result, internal auditing should be performed by professionals with a proper comprehension of the business culture, systems, and procedures. According to IIA (2021) internal audit is an activity that guarantees that interior controls of an organization are sufficient to alleviate risks. It also ensures that governance process are helpful and competent and that the organization' goals and objectives are met.

Dimensions of Internal Audit Practices

The dimensions of internal audit practices are many but for the purpose of this study therefore, compliance audit and personnel audit shall form the proxies of the study.

A. Compliance audit

A compliance Audit is a comprehensive review of an organization's adherence to regulatory guidelines. Here, audit reports evaluate the strength and thoroughness of compliance preparations, security, policies, user access controls and risk management procedures over the course of a compliance audit. The main objective of conducting an internal or external compliance audit is to assess the overall effectiveness of a business compliance practices and protocols. While examining processes and transactions, a compliance auditor must determine whether the item being examined complied with established standards.

The scope of a compliance audit may be related both to whether an underlying or not. Hence, the content and scope of compliance audit.

B. Personnel Audit

Personal audit is a term used for a case study of human resources in the organization. Personnel audit can be conducted in every aspect of management of human resources. For example, in terms of planning manpower requirements, an audit can be made of the effectiveness of past forecasting and scheduling to ascertain how far the needs were identified in time.

If such an audit indicates that the forecasting was inaccurate, management can start thinking on how to improve the forecasting techniques and variables for more accurate results in the future.

Again, over a period of time, descriptions are likely to get out-of-date. Revised thinking might be indicated with regard to the sources of recruitment so far used.

An evaluation can also be made of the effectiveness with which interviews and psychological test, if any were conducted so that improvement can be incorporated in these areas.

Motivating the personnel perhaps the most important aspect of manpower management. An evaluation may whether the employees do feel that the organization is a good one to work for and they have a bright career within it provided they are willing to put fourth their best efforts. In the area of controlling manpower resources, it is necessary to identify the marginal employees for elimination where possible.

Financial Performance

Financial performance can be defined as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Mills, 2019). This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. The performance measurement concept indicates that employees can increase the value of the firm by; increasing the size of a firm's future cash flows, by accelerating the receipt of those cash flows, or by making them more certain or less risky (Cadbury, 1992). There are many different ways to measure financial, but all measures should be taken in aggregation. Some of the indicators of financial performance are net profit, profitability, liquidity ratios, asset management ratios, profitability ratios, leverage ratios and market value ratios.

Profitability

Profitability is the capacity to make a profit and a profit is what left over from income earned after you have deducted all costs and expenses related to earning the income. Profitability ratio is a measure of profitability, which is a way to measure a company's performance. Profitability ratios are financial metrics used by analysts and investors to measure and evaluate the ability of a company to generate income (profit) relative to revenue, operating cost, balance sheet assets, shareholders equity over time.

They show how well a company utilizes its assets to produce profit and value to shareholders. There are different types of profitability ratio which are being used by companies in order to track their operating performance. However, in this work, we discussed the margin-based profitability ratios.

Profitability ratio formula:

$$\text{Gross Profit margin} = \frac{\text{Revenue} - \text{cost of goods sold}}{\text{Revenue}} \times 100\%$$

$$\text{Net profit margin} = \frac{\text{Profit after tax (PAT)}}{\text{Revenue}} \times 100\%$$

$$\text{EDITDA Margin} = \frac{\text{PAT} + \text{Interest} + \text{Taxes} + \text{Dep.} + \text{Amort.}}{\text{Revenue}} \times 100\%$$

The gross profit is calculated by deducting all the direct expenses called cost of goods sold from the sales revenue. The cost of goods sold primarily includes the cost of raw material and the labour expense incurred towards the production.

The net profit is calculated by deducting all the direct expenses called cost of goods sold from the sales revenue. The cost of goods sold primarily includes the cost of raw material and the labour expense incurred towards the production.

The net profit which is also called profit after Tax (PAT) is calculated by deducting all the direct and indirect expenses from the sales revenue. Then, the net profit margin is calculated by dividing the net profit by the sales revenue and is expressed in terms of percentage.

The EDITDA is calculated by adding back interest expenses, taxes, depreciation and amortization expenses to net profit or PAT. Then, the EDITDA margin is calculated by dividing the EDITDA by

the sales revenue and is expressed in terms of percentage.

Theoretical Framework

The Policeman Theory

Itton (2021), "The policeman theory suggests that the auditor is responsible for searching, discovering and preventing fraud within the organization". The Policeman Theory is very help to the study because, the main focus of internal auditing is to provide reasonable assurance and verify the fairness and truth of financial statements. Hayes (2015), recently, the auditors' responsibility to discover fraud has been relevant, whereby the main purpose to the financial performance and development of the organization. The theory helps the study to provide reasonable assurance and verify the fairness and truth of financial statements and increase responsibility to internal auditors to discover the financial frauds, increases physical control, information processing controls and monitoring its led internal auditors to gain skills and competence which bring positive impacts on financial performance.

Empirical Review

Abdi (2015), investigated the impact of internal audit control system on financial performance in Somalia-Mogadishu private banks. The demographic profile of the respondents was age, gender, qualification and experience. The main objectives were to assess the functionality of internal control systems in Mogadishu private banks and to examine financial performance of private 12 banks in Mogadishu. The study was based on 33 target population especially Accountants, finance directors, chief cashiers, internal auditors and managers of private banks in Mogadishu Descriptive analysis was used. It administers questionnaire as a research instrument. The findings of this study reveal that majority of the private banks in Mogadishu has enough cash to meet its intended goals. Also there is a clear separation of duties. This study suggests that the internal auditors perform their duties fast, efficient and reliable.

A study by Muraleetharan (2021), in determining the impact of internal audit control system on financial performance found a very significant relationship between internal control and financial performance ($R^2 = 0.818$). This finding is similar to that of Mawanda (2019) who sought to find the effects of internal control systems on financial performance in institution of higher learning in Uganda. The research findings showed a significant impact of internal control systems on financial performance.

Njanike, et al. (2024), assessed factors that influence the internal audit controls in ensuring good corporate governance in financial institutions in developing economies with special reference to Zimbabwe. The research paper assessed how lack of internal audit controls affected good corporate governance and aimed to bring out elements of good corporate governance. It emerged that failure to effectively implement internal audit controls contributed significantly to poor corporate governance. The study discovered that internal control system overrides and the issue of "fact cat" directors also contributed to poor corporate governance.

Mwakimasinde, et al. (2024) investigated the effect of internal audit control systems on the financial performance of sugarcane out grower companies in Kenya. The study adopted a descriptive correlation survey design. All the sugarcane out grower companies was studied. Both the primary and secondary data was collected. Primary data was collected from the key informants from all the nine out grower companies in Kenya using questionnaires.

Njanike, et al. (2024) assessed factors that influence the internal audit controls in ensuring good corporate governance in financial institutions in developing economies with special reference to Zimbabwe. The research paper assessed how lack of internal audit controls affected good corporate governance and aimed to bring out elements of good corporate governance. It emerged that failure to effectively implement internal audit controls contributed significantly to poor corporate governance. The study discovered that internal control system overrides and the issue of "fact cat" directors also contributed to poor corporate governance.

Mawanda (2019) conducted research on effects of internal control systems on financial performance in institution of higher learning Uganda. In his study he investigated and sought to establish the relationship between internal control systems and financial performance in an Institution of higher learning in Uganda. Internal controls were looked at from the perspective of Control Environment, Internal Audit and Control Activities whereas financial performance focused on Liquidity, Accountability and Reporting as the measures of financial performance. The Researcher set out to establish the causes of persistent poor financial performance from the perspective of internal controls. The study established a significant relationship between internal control system and financial performance. The investigation recommends competence profiling in the Internal Audit department which should be based on what the University expects the internal audit to do and what appropriate number staff would be required to do this job. The Study therefore acknowledged role of internal audit department to establish internal controls which have an effect on the financial performance of organizations.

METHODOLOGY

This study basically adopted correlational survey research design. The study population consists of all the pharmaceutical manufacturing firms in Port Harcourt Metropolis, Rivers state. The choice of pharmaceutical manufacturing firms in Harcourt Metropolis, Rivers state was necessitated on the fact that manufacturing firms in Nigeria have much similarity with respect to size, structure, operation and management (Akinsanya, 2022). It is expected therefore that the findings of the study will have equal applicability to these manufacturing firm in other States in Nigeria. For the purpose of accessibility therefore, eight (8) pharmaceutical manufacturing firms in Port Harcourt Metropolis was randomly selected as the accessible population with one hundred (100) staff as the respondents. The sample size eighty (80) therefore was determined by using the Taro-Yame formula. The principal methods of data collection that was adopted in this study were questionnaire. The hypotheses analysis was carried out using the Pearson product moment correlation coefficient with the aid of statistical package for the social sciences.

Data Analysis

Bivariate Analysis

It is important to test the hypotheses having completed the univariate analyses. Thus, this section of the study is concerned with the testing of the formulated hypotheses in 1-5. To carry out the testing of the hypotheses, Everitt and Dunn (2018) was adopted as a guide to determine the r value and the extent of the relationship between the variables.

Table 1: Range of Relationship and Descriptive Level of Association of Relationship

Range of r values	Descriptive level of association of r
±0.80 – 1.00	Very strong
±0.60-0.79	Strong
±0.40-0.59	Moderate
±0.20-0.39	Weak
±0.00-0.19	Very weak

Test of Hypothesis 1

Table 2 Correlation Analysis on the Extent and Direction of the Relationship between Compliance audit and Profitability

		Correlations	
		Compliance audit	Profitability
Compliance audit	Pearson Correlation	1	.647"
	Sig. (2-tailed)		.000
	N	65	65
Profitability	Pearson Correlation	.647**	1
	Sig. (2-tailed)	.000	
	N	65	65

** . Correlation is significant at the 0.01 level (2-tailed).

Table 2 shows the correlation analysis on the extent and direction on the relationship between compliance audit and profitability. The table showed a correlation coefficient of $r = 0.647^{**}$ with a correspondent significant/probability value of 0.000, from the classification of r value in table 1, the value is strong. Also, the correlation coefficient is positive which indicate that an increase in profitability is associated with an increase in compliance audit practices. Thus, the analysis from table 2, shows that there is a strong significant relationship between compliance audit and profitability.

Test of Hypotheses HO₂

Decision Rule

If the significant/Probability Value (PV) < 0.05 (level of Significance) = reject the null and conclude Significant Relationship

If the Significant Probability value (PV) > 0.05 (level of Significance) = Accept the null and Conclude Insignificant Relationship.

Table 2 showed that the probability/significant value is 0.000, < 0.05 level of significance hence the researcher rejects the null hypothesis and conclude that there is significant relationship between compliance audit and profitability.

Test of Hypothesis 2

Table 3 Correlation Analysis on the Extent and Direction of the Relationship between personnel audit and Profitability

		Correlations	
		Personnel Audit	Profitability
Personnel Audit Duties	Pearson Correlation	1	.769"
	Sig. (2-tailed)		.000
	N	65	65
Profitability	Pearson Correlation	.769"	1
	Sig. (2-tailed)	.000	
	N	65	65

** . Correlation is significant at the 0.01 level (2-tailed).

Table 3 shows the correlation analysis on the extent and direction of the relationship between

personnel audit and profitability. The table showed a correlation coefficient of $r = 0.769^{**}$ with a correspondent significant/probability value of 0.000, from the classification of r value in table 1, the value is strong. Also, the correlation coefficient is positive which indicate that an increase in profitability is associated with an increase in personnel audit. Thus, the analysis from table 3 shows that there is a strong significant relationship between personnel audit and profitability.

Table 3 showed that the probability/significant value is 0.000, < 0.05 level of significance hence the researcher rejects the null hypothesis and conclude that there is significant relationship between personnel audit and profitability.

Summary of Findings

1. There is a positive and a significant relationship between the application of compliance audit and profitability with correlation coefficient of $r = 0.647$ significant at $pv = 0.000 < 0.05$ in pharmaceutical manufacturing firms in Port Harcourt Metropolis
2. There is a positive and a significant relationship between personnel audit and profitability with correlation coefficient of $r = 0.769^{**}$ significant at $pv = 0.000 < 0.05$ in pharmaceutical manufacturing firms in Port Harcourt Metropolis.

CONCLUSION

The success of any manufacturing firm is dependent on the internal auditing practices operating in that enterprise. It was in the light of this that the researcher set to examine the relationship between internal audit practices and financial performance. In pursuance of this, pharmaceutical manufacturing firms in Port Harcourt Metropolis were chosen as industry of study. The researcher wishes to further indicate that internal audit practices are not an end itself, but, serves as a means to an end. The continuous success of the process therefore, depends on its constant monitoring by the audit department supported by the management of the manufacturing firms. This is true in the sense that the presence of audit staff is usually a highly effective method of verifying the proper recording of financial transactions. It is on this note that the researcher made the recommendations, which if adhered to will ensure that the functions of authorization, recording and custody of transactions are at best carried out more efficiently in pharmaceutical manufacturing firms. The study therefore, concludes that both internal audit practices and its dimensions relate positively and significantly with financial performance and its measures in pharmaceutical manufacturing firms.

RECOMMENDATIONS

In view of the findings of this study therefore, the following recommendations are made:

1. There should be regular audit reports, as well as regular review reports on functionality of internal controls so as to address the current business challenge.
2. Existing Departments should be strengthened by according them the necessary professional independence and employing adequate number of experienced and qualified staff to enable the department extends coverage of the audit to all significant activities of these enterprises.

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Questionnaire Part B

The following statements in a weighing scale are intended to measure the relationship between Internal Audit and Financial Performance. Please indicate the extent to which you agree or disagree with each of the statements given:

- SD= Strongly Disagree (1)
- D= Disagree (2)
- U= Undecided (3)
- A= Agree (4)
- SA = Strongly Agree (5)

S/N	Compliance audit	SA	A	UD	D	SD
1	Management does not interfere in the internal audit processes in terms of financial transaction					
2.	We ensure that all financial transactions follow due process.					
3.	Audit unit is fully independent to check all revenues and expenditures following due process.					
S/N	Personnel audit	SA	A	UD	D	SD
1	The duties in your firm are delegated in a way that the initiation, execution and recording of transactions are separated amongst staff.					
2.	Does your establishment carry out segregation of duties periodically and consistently					
3.	Custody of assets is clearly separated from record keeping responsibility in your organization					

	Profitability	SA	A	UD	D	SD
	In the last three successive years, the growth rate of your firm's equity capital has maintained steady increase due to profit retentions.					
	The equity capital of your firm has remained on a steady growth path, despite increase in your harvesting of profit					
	In the three successive years, the proportion of debts in your firm's capital structure has been on the decrease					