

THE EFFECT OF INTERNAL AUDIT FUNCTION ON FINANCIAL PERFORMANCE IN THE LUCKNOW CITY, UTTAR PRADESH, INDIA

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ABSTRACT

As the business is the backbone for the development of the any country, it is nerve and blood of any countries for the sustainable development and, business people all around the world are familiar with the term "Internal Audit". This paper mainly focuses on the effect of internal audit function on financial performance of an organisation. At the outset this paper mainly focuses on developing countries like India and their counterparts, and also on what is the role/effect of internal audit function of any organisation specially uttar Pradesh in India and its impact on industry.

KEYWORDS; Internal Audit, Monitoring Activities, Efficiency, Financial Performance, Internal check, organizational structure.

INTRODUCTION

Internal audit mainly focus on company's internal controls, also including its accounting process and corporate governance. Internal control system mainly helps to achieve financial performance goals for any organisations. It is formulated to add value and ameliorate an organization's operations and to help an organization accomplish its objectives by bringing a disciplined, systematic approach to evaluate and improve the effectiveness of risk management/factor, control, and governance processes. Internal control system not only helps to enhance the financial performance of any organisation but also achieve any specific objective and determines risk management on financial performance of any organisation.

Internal controls refer to the measures/parameters taken by an organisation to ensure that goals, objectives and missions are achieving properly and to check all the protocols are following. It is system of the procedures and policies that aid to protect the assets, prepare reliable/authentic financial reporting, promote compliance with rules and regulations and achieve effective and efficient operations of an organization. These systems are related to accounting, reporting, organizations communication processes- internally and externally, and include procedures for handling funds received and expended by the organization, preparing authenticate and timely financial reporting for board members and officers, conducting the annual audit of the organization's financial statements, maintaining inventory records of real and other properties and their whereabouts. Internal audit has very crucial role in the auditing

it prevent form frauds, falseness, errors, mistakes, forgery etc so that audit process can be done with transparency to present actual position of an organization.

NEED FOR THE STUDY

This study will help to motivate to the business man to adopt internal audit programme for their business to make sure that effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations are done properly.

OBJECTIVES OF THE STUDY

- To determine the effect of internal audit functions on financial performance
- To determine the effect of risk management on financial performance
- To make sure compliance with applicable laws and regulations are done properly.
- To make sure protocols are following by each and every member.

METHODOLOGY

This research study adopted a survey design. The design will conduct to get relevant information on the effects of internal control systems on financial management in Lucknow City, Uttar Pradesh, India. The study was conducted in various organisations in Lucknow, Uttar Pradesh, India. It targeted employees related to financial and accounting positions of the organisations. This study used both primary as well secondary data. The researcher prepared and used structured questionnaires to get primary data. All data conducted total 50 employees of the various organisations. Quantitative data was analysed for using descriptive statistical methods, frequencies and percentage with the aid Microsoft Excel. Content validity will be determined by making logical relations between questions and the objectives of the study. Hypothesis shall be tested with the help of regression model. The analysed data presented using frequency tables which enabled the researcher to easily explore the findings of the research. Interpretation of the data was done within the frame of reference of the research problem.

FINDINGS

Table: Internal Audit Function

Scale: (Strongly Agree=A, Agree=B, Neutral=C, Disagree=D, Strongly Disagree=E presented in the %)

| RESPONDENTS OPINION | A | B | C | D | E |
|---|----------|----------|----------|----------|----------|
| The internal auditor/s presents professionalism and an objective approach. | 11.1 | .9 | 11 | 70.7 | 17.3 |
| Recommendations of the internal audit team are considered very seriously | 2 | 2.6 | 17.4 | 55.9 | 22.1 |
| The audit department provides management with assurance that there are no major weaknesses and/or major internal control weaknesses are reported. | 3.6 | 1.7 | 11.9 | 69.1 | 15.4 |
| The internal audit unit plays a crucial role in the prevention/detection of fraud. | 25.7 | 51.4 | 17.5 | 4.3 | 1.1 |
| Internal audit findings are reported directly to the utmost top level management | 45.5 | 49.2 | 1.6 | 1.7 | 2 |
| The audit always complete on a timely basis. | 20 | 27.6 | 25.2 | 22.6 | 4.6 |
| The internal audit unit has developed an internal audit manual that guides audit operations such as planning, implementation, monitoring, and evaluation. | 29.3 | 55.2 | 13.9 | 1.6 | 0 |
| The timing of the audit is appropriate. | 30.7 | 45.5 | 13.3 | 9.6 | .9 |
| The organisations have a functional internal audit unit/department | 72.1 | 19.0 | 4 | 4.9 | 0 |

In view of the conducted research/study and table, the study reached to investigate that the internal auditor/s presents professionalism and an objective approach total percentage is only 20% where as if the organisations have a functional internal audit, if the timing/completion of audit is appropriate and if the internal audit department has developed manual that guide on planning monitoring and evaluation. The result in table indicated that 91.1% of the respondents said that the organisation has a functional internal audit department. On the other side, 76.2% of the respondents replied that the timing of audit was appropriate, whether the internal audit team in the county has developed an internal audit manual that guides audit operations such as planning, implementation, monitoring, and evaluation. Moreover, 84.5% of the respondents agreed that internal audit unit in the company has developed an internal audit manual that guides audit operations such as planning, implementation, monitoring, and evaluation. Further, 47.6% of the respondent said that the audit is always completed on a timely basis. The results indicate that organizations have an effective internal audit function that plays the crucial role of monitoring and evaluating organization activities, an indication of presence of systematic internal control systems.

The results also disclosed that 94.7% of the respondents said that internal audit findings are reported directly to the utmost top level management. Also, 77.1 of the respondents said that internal audit department plays a major role in fraud detection and prevention. From the findings, 95.4% of the respondents said that the audit recommendations are not taken seriously in the county. Moreover, 80% of the respondents said that the internal auditor does not demonstrate professionalism and objective approach in executing their duties. Finally, 96.4% of the respondents said that there are no major weaknesses and/or major internal control weakness which are reported. Therefore, the findings show that although organisations have an effective and good internal audit function which is able to detect fraud, it is not able to prevent and control it. The results confirm that organisations in the Lucknow City have good internal control systems.

CONCLUSION

This research provides in Lucknow a district of Uttar Pradesh, India regime, internal audit functions add value and ameliorate an organization's operations and helps an organization accomplish its objectives by bringing a disciplined, systematic approach to evaluate and improve the effectiveness of risk management/factor, control, and governance processes. Tables shows that organisations have good internal control systems according to the results over 91.10% respondents agreed that organisations have a functional internal audit unit/department and most of the respondent agreed the favour of internal control system and supported all the methods, techniques that are using by the internal audit teams. Respondent also agreed that it is able to detect fraud. Our complete research shows that companies have good internal control system that helps to determine the effect of internal control systems on financial performance.

SUGGESTION

In the terms of developing country it has major role to detect fraud, prevent form frauds, falseness, errors, mistakes, forgery etc and follow internal control of the organisation. As per our research Recommendations of the internal audit team are not considered very seriously in India, the audit recommendations should be taken seriously in the county. The internal audit should demonstrate professionalism and objective approach in executing their duties to take all benefits of internal control systems and achieve company/organisation in proper manner without any accounting hurdle and also the audit department provides management with assurance that there are no major weaknesses to avoid concern of management related to the auditing functions.

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