



Effect of Internal Auditing on Financial Performance of Listed Microfinance Banks in Enugu Capital City

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Abstract

Research Objective: This study investigated the impact of internal auditing on the financial performance of microfinance banks in Enugu capital city, covering the period from 2013 to 2023. Specifically, it evaluated the influence of internal audit quality, measured by audit report lag, audit fee, audit tenure, and audit firm size, on financial performance, which was proxied by return on assets, earnings per share, net profit margin, and dividends per share.

Methodology: The study utilised secondary data obtained from the annual reports of six microfinance banks, which were selected from a population of 18 banks in Enugu capital city using a judgmental sampling technique. Ordinary least square regression analysis was employed to predict the relationship between internal audit quality variables and the financial performance of the banks.

Findings: The regression analysis revealed that audit report lag, audit tenure, and audit firm size have a significant positive effect on the financial performance of the listed microfinance banks. However, audit fees and earnings per share showed an insignificant relationship with financial performance. The model explained approximately 73% of the variation in the financial performance of microfinance banks in Enugu, indicating a strong relationship between internal audit quality and financial outcomes.

Conclusion: The study concluded that audit report lag, audit tenure, and audit firm size have a significant positive impact on the financial performance of microfinance banks in Enugu. These findings underscore the importance of strong internal audit practices in driving profitability and efficiency in financial institutions.

Recommendations: The study recommended that efforts should be focused on creating an environment that enhances the sustainability of internal audit quality in both private and publicly listed companies. This will help foster good corporate governance practices and improve overall profitability in the banking sector.

Key words: *Internal Auditing, Financial Performance, Microfinance Banks, Enugu.*



1.0 INTRODUCTION

The soundness of a country's economy is dependent to a large extent on the size, strength and health of the banking sector. Bank profitability is essential for improved financial performance; its relevance goes beyond individual bank profitability to economic stability. This is because it is the responsibility of the audit committee members to brainstorm and create plans and procedures for repetitive monitoring of the internal control system of the bank and its procedures internal capital and as such, to also assist management and board of directors in the effective performance of their responsibility. Fanen Anande (2020), states that large size audit committees can protect and control the process of accounting and finance compared to small committees because of greater transparency with respect to shareholders and creditors leading to improved firm performance.

The Institute of internal auditors (2016), posit that internal audit evolves objective assurance, independent and consultative design activities that add value to the overall operations of the organisation. Internal audit has served as an elementary procedure consisting principally of examining documents, counting assets and reporting to board of directors, management or external auditors. It has been known to enhance the objectives and discussions within and outside the organisational department which in turn enhance the value of the organisation (Suraj, 2017). Management is held with the responsibility to increase shareholder's wealth while deploying competence in the performance of its duties. Internal audit therefore checks on the performance in accordance with contemporary practices. In managing shareholders' money, organisations have to be transparent and efficient, hence, they need competency and professionalism from internal audit and scarce resources must be distributed more efficiently to minimise and manage risks.

The introduction of modern technology has made it very possible to track and examine data faster, therefore making it important and essential for the organisation to receive advice from the internal audit department. An important attribute of an auditor is independence. Independence of an internal auditor refers to a state of not being controlled by other people or things like financial benefit. Nancy (2013), stated that independence is the essence of auditing. An internal auditor must be independent of both the personnel and operational activities of an organisation. Otherwise, the integrity of the auditor's opinion, conclusion and recommendations would be compromised. This means that for an effective attainment of the function and objective of an internal audit, independence is necessary. Moreover, in the context of banking Njunge. Peninah (2019), posit that every bank should have an internal audit department with regard to the volume and nature of its activities. The authors went further to explain that in smaller banks, internal audit is often provided externally. The internal audit in a banking institution must comprise audit committee gender diversity which involve both competent men and women of high intellectual ability from the day-to-day internal control processes. In this way, the internal auditors would perform their duties



objectively and impartially. This is because the objectives related to internal Audit control are associated with the audit committee established policies, processes and practices in the five components of management internal control, such as the control environment, risk assessment, risk focused control activities, information and communication and monitoring activities. Internal auditors perform audits to evaluate whether the five components of management control are present and operating effectively, if otherwise they provide advice or recommendation. Hence, internal audits which act as a supervisory body can save the institute from negligence and irregularities hence, pushing the business to attain high levels of output and profit. From the foregoing, the primary roles of the audit committee include overseeing the financial reporting process and to monitor the management, because management intends to manipulate figures for their own interest.

However, due to the collapse of big corporate organisations, for instance, firms such as Enron, WorldCom and Satyam, the effectiveness of the audit committee and external auditors have been questioned by regulators in ensuring that financial statements are fairly stated to reduce ineffectiveness. The Federal Government of Nigeria (FGN) through the Central Bank of Nigeria (CBN) over the years has carried out several reforms to enhance the profitability and stability of Nigerian deposit money banks (DMBs). However, in recent times fraudulent practices have been prevalent in the Nigeria banking industry. These practices have deeply eaten down the reputation and opportunities of most banking organisations, especially the deposit money bank. History has it that by 1952, a total number of 25 banks were shut down to depositors in Nigeria as a result of an untold hardship for customers. A story of a customer of farmer's bank limited who on finding that his bank had closed its doors dropped dead by the bank premises.

According to the report made by NDIC (2010), it stated that "the amount involved in the fraudulent activities documented increased by N3.33 billion from the N8.68 billion reported in 2016 to N12.01 billion in 2017". Furthermore, the "online and ATM card - related- fraud types reported constituted 92% of all the reported cases, 63.66% of losses in the industry in 2017". "The report also documented other miscellaneous crimes such as fraudulent transfers and withdrawals, cash suppression, unauthorised credit and fraudulent conversion of cheques. According to the NDIC (2010) report, the result of fraud and forgeries during the year 2017, were 22 licensed microfinance Banks. The report stated that out of the 26,182 fraud cases reported by the 22 licensed banks, 320 cases were attributed to internal collaboration by bank staff. Losses from fraud cases in the MFBs have remained high and are likely to rise in the nearest future as a result of inefficiency on the part of the internal audit department.

Internal audit quality is ultimately about the purpose of the audit. The measure of internal audit quality is whether the auditor has given an appropriate audit opinion, as evidenced, perhaps, by the absence of audit failures. This view emphasises audit judgement. It is predicated on the assumption that auditors will detect material misstatements through the



application of judgement and process and that they will report them. A measure of internal audit quality is whether auditors have done all that is required of them. DeAngelo (2018), defined internal audit quality as; the probability that a given auditor will both discover and report a breach in the client's accounting system. The probability of discovering a breach depends on the auditor's technical capabilities to detect any material misstatement and the probability of reporting the error depends on the auditor's independence. According to Koh, Choi and Woo (2014) most companies and managers lack the accounting knowledge and resources to create a suitable financial statement. In fact, many banks rely on the auditor to make the financial statement and take advice from the auditor before making any accounting decision. Therefore, auditors indirectly affect the financial statement prior to doing their job (Ilaboya & Ohiokha, 2014). In this circumstance, companies have a high level of reliance on auditors when they make an accounting decision or make a financial statement. A high level of reliance on the auditor implies that the auditor highly affects the quality of the financial statements (Koh, Choi & Woo, 2014). Insufficient or inappropriate audit evidence may lead to wrong calculations and this may affect the quality of the Financial statements (Ilaboya & Ohiokha, 2014).

Financial statements are prepared to provide useful information in making business and economic decisions (Dogan, Coskun & Celik, 2007). This information is important for the users, as they use the statements to assess the financial condition and performance of the related companies (Ahmed & Hossain, 2010). Farouk and Hassan (2014) stated that the financial statement audit is a monitoring mechanism that helps reduce information asymmetry and protect the interests of the various stakeholders by providing reasonable assurance that the management's financial statements are free from material misstatements.

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. It 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.

There are many different ways to measure financial performance, but all measures should be taken in aggregation. Such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into the financial statements and look for margin growth rates or any declining debt.

From the foregoing, it is clearly seen that there is a gap in knowledge and in order to resolve this gap left by literature in terms of inconclusive outcome, this study focuses on the effect of internal audit on the financial performance of selected deposit money banks in Nigeria.

Various definitions of auditing have been promulgated by different authors and accounting bodies among which includes



Auditing is an examination and evaluation of the authenticity and therefore the reliability of an organisation's business documents and records. It also involves making inquiries to ascertain that the financial statement on which the auditor is reporting on and which has been prepared from these records display a true and fair view of the financial results for the period under review, and also the true and fair view of the statement of affairs of the organisation at the year-end.

More so, auditing is seen as an examination of the books, accounts and vouchers of a business as will enable the auditor to satisfy himself that the balance sheet is properly drawn up so as to give a true and fair view of the state of the affairs of the business and state whether the profit and loss for the financial period according to the information given to him and as shown by the books, and if not, in what respect he is not satisfied.

Auditing is the examination by the auditor of a balance sheet and profit and loss accounts prepared by others so as to ascertain to be able to know if the accounts are properly drawn up to show a true and fair view of the state of affairs and of the results of the particular concern and compliance with relative statutes.

According to auditing standard and guidelines of combined councils of the accounting bodies (CCAB) issued in April, 1989, "An audit is the independent examination an expression of opinion of the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation".

Leslie R.H. said that, "An audit is the investigation of a statement in figure which involves the examination of certain evidence which the object of the investigation is to enable the auditor to make a report on the statement.

Auditing therefore involves a complete examination of a period of transaction of business and the manner in which the transaction is recorded. How far such an examination must extend will depend upon the individual circumstance of the case but the auditor should obtain relevant and reliable audit evidence thereof. The audit evidence is a written report signed by the auditor and addressed to the person (s) to whom he is liable to report to. According to Leslie R.H, "No investigation may be termed an audit unless a report is ultimately provided. The report is usually set out at the foot of the statement so that it is clearly identified with the information to which it refers. In the case of Limited Liability Company (i.es), this methods of presentation is laid down by the companies Act of 1986 and later amended by Companies and Allied Matters Act 1990 (CAMA) but in other cases, the report may be issued separately from the financial statement

The question on how to increase efficiency and positive result in audit work in the public sector is a perennial problem in Nigeria, and one that is increasingly warning the generality of the people of this country. The response has been to upgrade the quality of audit staff and powers conferred on audit institutions in the public sector. There is also the need for training



of audit staff in modern techniques of auditing to enhance effectiveness and result oriented rather than restricting them to the traditional methods of trick and turnover which is inadequate and outdated.

Public sector auditing is conferred towards ensuring the proper and efficient use of public funds, development of sound financial management, the orderly executive administrative activities and the communication of information to the public through the publication of objective reports. These are necessary for the stability and development of the nation. There is a need to map out the machinery and method of carrying out research functions effectively to achieve a desired result.

In the past, the emphasis of an audit was on the traditional approach which had been mainly the compliance audit to ensure that all books and records comply with the laid down procedures and regulation. But in the modern time, there is the need for a shift of emphasis to the modern concept of effectiveness and efficiency.

Based on these individual views of auditing and its functions, the researcher took a keen interest in rest empirically auditing as an aid to accountability with a particular reference to Enugu State Ministry of Finance .

The increased incidence of fraud and misappropriation of public funds and property by the accounting officers and chief executives in the public sector/ service passes a question as to whether auditing plays any role towards ensuring proper accountability in the public service especially the state government and particularly the ministry of finance.

Auditing is to control, deter and find out any fraud or misappropriation of public funds or property by officers entrusted with such duties.

It is because of this onerous task that the Enugu state audit department was established to appraise the work of those entrusted with responsibility of accountability.

1.2 Statement of the Problem

Globally, the problems associated with audit issues and failure, has brought great disappointment to the user of financial reports. Especially in Nigeria, the problem has been traced to long-term audit firm tenure which has been traced to creative accounting. In Nigeria audit setting, the challenge of audit tenure and internal audit quality reporting has not attracted much testable study beyond mere anecdotal opinions (Mgbameet *al*, 2012). In view of these studies, auditor tenure has become the focus of much debate. The production of internal audit quality reports is seen to foster confidence in financial reports by the users of those reports. Investors in particular tend to place better trust in financial statements that are audited; as the expected independence of the auditor boosts the assurance that important investment decisions can be made on those statements. The increased confidence of these sets of financial users tends to attract the inflow of capital which has the long-run effect of creating growth and development in the business environment. However, lack of efficiency on



the part of management could lead to disorganised financial statements. These financial statements ordinarily do not show the true state of affairs and financial position of the microfinance banks and hence, could threaten the decisions of the prospective investors. Unfavourable results on investment would reduce the credibility of the financial statements; which would in turn reduce the level of capital flow, thereby de-generating the state of the business environment. The burden therefore rests on the auditors to address these issues through efficient and effective execution of the audit assignment, and the outcome production of a quality report. Theoretically, the auditor is expected to be independent of the management staff of the company being audited. However, a number of factors like familiarity, threat of replacement of an auditor and the provision of management advisory services appear to impair auditor's independence. Concerns have been expressed about the conflict of interest between the statutory role of the auditor and the other services it may undertake for a client (UK House of Common Treasury Committee, 2008). The study therefore investigated the Effect of Auditing on Financial Performance of Listed Microfinance Banks in Enugu Capital City.

1.3 Objective of the Study

The main objective of this study was to ascertain the effects of internal auditing on financial performance of listed microfinance banks in Enugu. The specific objectives include to:

- i. Determine the effect of Internal auditing on Return on Assets of listed microfinance banks in Enugu capital city.
- ii. Ascertain the effect of Internal auditing on Earnings Per Share of listed microfinance banks in Enugu capital city.
- iii. Examine the effect of Internal auditing on Net Profit Margin of listed microfinance banks in Enugu capital city.
- iv. Assess the influence of auditing on Dividend Per Share of listed microfinance banks in Enugu capital city.

1.4 Research Questions

- i. To what extent does Internal auditing affect Return On Assets of listed microfinance banks in Enugu capital city?
- ii. To what extent does Internal auditing affect Earnings Per Share of listed microfinance banks in Enugu capital city?
- iii. To what extent does Internal auditing affect Net Profit Margin on listed microfinance banks in Enugu capital city?
- iv. To what extent does Internal auditing affect Dividend Per Share on listed microfinance banks in Enugu capital city?



1.5 Statement of Hypotheses

H₀₁: Internal auditing has no significant effect on Return On Assets of listed microfinance banks in Enugu capital city.

H₀₂: There is no significant relationship between internal auditing and Earnings Per Share of listed microfinance banks in Enugu capital city.

H₀₃: Internal auditing has no significant effect on Net Profit Margin of listed microfinance banks in Enugu capital city.

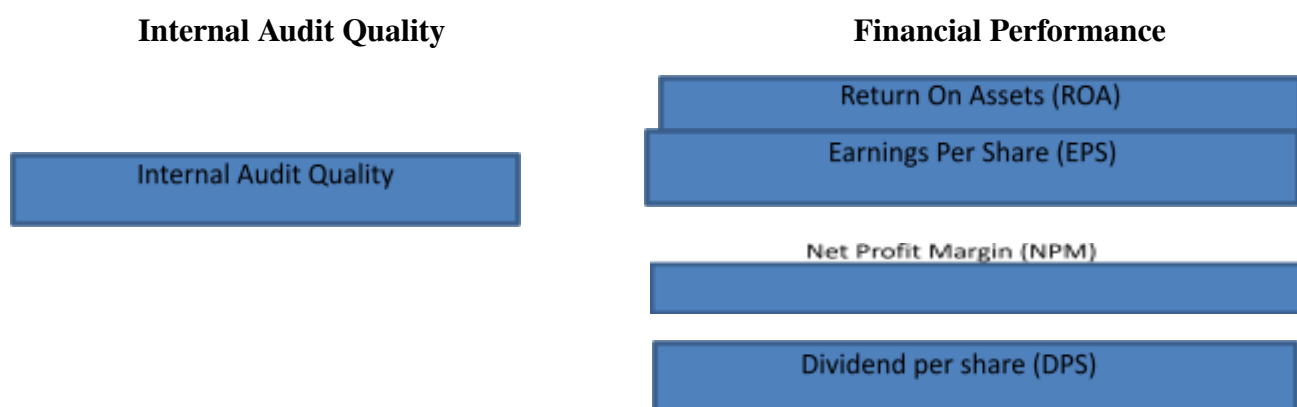
H₀₄: Internal auditing has no significant effect on Dividend per Share of listed microfinance banks in Enugu capital city.

1.7 Scope of the Study

This study covered the effects of internal auditing on the financial performance of listed microfinance banks in Enugu capital city and their activities for the period 10 years (2013-2023). The study made use of secondary data. Furthermore, this study was limited to investigating the relationship between internal audit quality (Independent Variable) and Financial Performance (Dependent Variable). A sample size of six (6) microfinance banks in Enugu capital city quoted on the floor of the Nigerian Stock Exchange was used from a population of eighteen (18) microfinance banks in Enugu capital city as at the time of this work. The selected quoted micro finance banks under study are: Umuchinemere Procredit microfinance Bank Limited, Coal Camp Microfinance Bank Limited, Ogbete microfinance Bank Limited, UNN microfinance Bank Limited, Bethel microfinance Bank Limited, Green Bank Microfinance Bank Limited.

2.0 REVIEW OF RELATED LITERATURE

Fig. 2.1 Conceptual Framework



(Source: Researcher's version, 2023)

Conceptual framework of internal audit quality on financial performance of listed microfinance banks in Enugu capital city.



2.1 Conceptual Reviews

2.1.2 Internal audit quality

Internal audit quality, according to DeAngelo (2018) cited in Okaro, Okafor and Ofoegbu (2020), 'is market-assessed joint probability that a given auditor will both discover a breach in the client accounting system and report the breach', that is, that the auditor has both the technical competence to detect any material errors during the audit process, and the independence to ensure that material errors and omissions are corrected or disclosed in the auditor's report. Jackson, Moldrich and Roebuck (2008) view quality of audits from actual and perceived quality.

Titman and Trueman (1986) see internal audit quality as the accuracy of the information reported by auditors. DeAngelo (ref) definition captures attribute criticality to the role played by auditors in financial statement preparation. Thus, internal audit quality combines the ability of an auditor to detect a breach (auditor competence) and a willingness to report such a breach (auditor independence).

The Financial Reporting Council (2006) considers five factors that influence internal audit quality: audit firm culture, skills and personal qualities of audit partners and staff, the effectiveness of the audit process, and the reliability and usefulness of audit reporting amongst factors that are external to the auditors.

Internal audit quality plays an important role in maintaining an efficient market environment; an independent quality audit underpins confidence in the credibility and integrity of financial statements which is essential for well-functioning markets and enhanced financial performance (Farouk & Hassan, 2014).

2.1.3 Audit fees

Theoretically, the amount of fees for audit services that a client firm pays to its audit firm reflects the level of audit work the latter has to perform in the auditing process. If an auditor wishes to decrease the risk of issuing a clean opinion when there are materially relevant distortions in the client's financial statements, he generally acts on the nature, extent and timing of audit procedures, which, naturally, influence the final amount of required fees (Moutinho, 2012).

The losses include litigation costs, sanctions from regulatory entities and image and reputation damages. There is empirical evidence that when there is a perception of high levels of liability exposure, audit firms adjust their required fees (Simunic & Stein, 1996). Audit fees are influenced by the litigation environment that is, the legal regimes of different countries where the audit firms operate on (Choi, Kim, & Simunic, 2008); in the face of increasing



litigating costs, big audit firms have avoided engagements with risky clients (Jones & Raghunandan, 1998).

2.1.4 Audit tenure

There are two opposing views on the effects of auditor tenure on internal audit quality. One states that as the auditor–client relationship lengthens, the auditor may develop a close relationship with the client and become more likely to act in favour of management, thus reducing internal audit quality. This view supports mandatory audit partner rotation. The other view is that as auditor tenure lengthens, auditors increase their understanding of their clients' business and develop their expertise during the audit, resulting in higher internal audit quality. The literature on auditor tenure has generally concluded that long auditor tenure does not impair internal audit quality.

Audit tenure has been investigated as short and large audit tenures. In this regard, studies have mentioned that the shorter the auditor's tenure, the less auditor client knowledge. As a result, lower internal audit quality is expected. In contrast, longer audit tenure can lead to a decrease in the auditor's professional care, and therefore reducing internal audit quality. On the other hand, with larger audit tenure it is more likely to discover misstatements using technical abilities and higher levels of knowledge. But the relationship between auditor and client may reduce independence and can reduce the probability of report misstatements. So, short audit tenure may involve the auditors with the risk of less technical knowledge and abilities. Therefore, the audit report quality can also be affected by audit tenure. In terms of the client's perspective, maintaining an auditor for the next period can depend on the issuing of a clean audit report. Therefore, if auditors know that clients are considering switching them, it can influence the type of audit report (Vanstraelen, 2000).

2.1.5 Audit firm size

The size of an audit firm has been used as a surrogate for internal audit quality, that is, large audit firms have a reputation to safeguard and therefore will ensure an independent quality audit service. Larger audit firms have better financial resources and research facilities, superior technology and more talented employees to undertake large company audits than do smaller audit firms. Their larger client portfolios enable them to resist management pressure, whereas smaller firms provide more personalised services due to limited client portfolios and are expected to succumb to management requirements (Mahdi and Ali, 2009).

Therefore, the size of the audit firm is an important characteristic that reflects auditor independence. Thus, the issue of maintaining auditor independence is more crucial for smaller firms than larger firms. A large body of research examines the relationship between audit firm size and internal audit quality (DeAngelo 1981; Dye, 1993).

2.1.6 Audit Report Lag



Audit report lag, which is the number of days from fiscal year end to audit report date, or inordinate audit lag, jeopardises the quality of financial reporting by not providing timely information to investors (Mohamad-Nor, Shafie& Wan-Hussin, 2020). Delayed disclosure of an auditor's opinion on the true and fair view of financial information prepared by the management exacerbates the information asymmetry and increases the uncertainty in investment decisions. Consequently, this may adversely affect investors' confidence in the capital market (Mohamad-Nor, Shafie& Wan-Hussin, 2010). Givoly and Palmon (2012) assert that audit lag is the single most important determinant of timeliness in earnings announcement, which in turn, determines the market reaction to earnings announcement (Chambers & Penman, 1984; Kross& Schroeder, 1984). Knechel and Payne (2017) suggest that an unexpected reporting lag may be associated with lower quality information.

2.1.7 Accrual quality

The definition of accruals quality is symmetric for estimation errors that overstate and understate cash flow realisations by an equal amount, which may be problematic in certain settings, although less of a concern in our setting as unintentional errors are not expected to be systematically over- or understated. Moreover, a sizable fraction of the explanatory power of the measure is attributable to the negative contemporaneous association between accruals and cash flows. To the extent that this contemporaneous component does not capture accruals quality, it can handicap the ability of the Dechow and Dichev model to capture accruals quality (Wysocki 2006).

2.1.8 Return On Assets (ROA): According to Prastowo (2002), Return on Assets (ROA) is used to measure the effectiveness of the company in generating profits by exploiting its assets. Return on Assets is often used as a tool to measure the rate of return on total assets after interest expense and taxes, (Brigham, 2001). The greater Return on Assets (ROA) shows that the better the company's performance, because of the greater rate of return on investment. (Riyanto, 2014). Is a financial ratio that shows the percentage of profit a company or bank earns in relation to its overall resources? It is commonly defined as a net income divided by total assets. Net income is derived from the income statement of the bank or company and is the profit after tax. The assets are read from the balance sheet and include cash and cash-equivalent items such as receivables, inventories, capital equipment as depreciated, and the value of property such as patents. ROA is a ratio but usually presented as a percentage. Mathematically; $ROA = \text{Net Income} / \text{Total Assets}$.

2.1.9 Earnings Per Share (EPS): Is the portion of a company's profit allocated to each share of common stock. It serves as an indicator of a company's profitability. The balance sheet and income statement are used to find the weighted average number of common shares, dividends paid on preferred stock (if any), and the net income or earnings. Mathematically; it can be calculated as: $EPS = \text{Net Income} - \text{Preferred Dividends} / \text{Weighted Average Common Shares}$.



2.1.10 Net Profit Margin (NPM): It is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends have been deducted from a company's total revenue. Mathematically; Net profit margin (NPM) = Net profit/total revenue
Net profit= total revenue - total expenses

2.1.10 Dividend Per Share (DPS): It is the sum of declared dividends issued by a company for every ordinary share outstanding. The figure is calculated by dividing the total dividends paid out by a business, including interim dividends, over a period of time by the number of outstanding ordinary shares issued. It is an important metric to investors because the amount a firm pays out in dividends directly translates to income for the shareholder, and the dividend per share is the most straightforward figure an investor can use to calculate his/her dividend payments from owning shares of a stock over time. Mathematically; Dividend per share (DPS)=total dividend/number of ordinary shares outstanding for the period.

2.2. Historical Development of Banking in Nigeria from 1892- Date

This is classified into seven different phases, namely:

Phase	Date	Period
First	1892-1952	Free banking era
Second	1952-1959	Pre-central banking era
Third	1959-1970	Era of banking legislation
Forth	1970-1976	Era of indigenization
Fifth	1977-1985	Post Okigbo era
Sixth	1986-1992	Deregulation era
Seventh	1992-date	Era of banking distress

Authors Computation 2024

- **Free Banking Era (1892 - 1952)**

Okaro and Onyekwelu (2003) posited that the operations and assets of the African banking Corporation was later taken over in 1894 by the Bank for British West Africa (BBWA) now First Bank Of Nigeria. During this era, two other expatriate banks were established namely; the British and French Bank of 1948, now the United Bank For Africa Plc and the Barclays Bank Dominion, Colonial and overseas now Union Bank of Nigeria Plc. Many of the indigenous banks established during this period failed. Among the surviving ones were National Bank Of Nigeria, established in 1933 and Agbomagbe Bank (Wema Bank Plc) established in 1945. These failures led to the government's setting up of Mr. P. Paton's commission of enquiry in September 1947 to enquire generally into the business of banking in Nigeria and make recommendations on the form and extent of control which should be



introduced. The Paton commission revealed serious deficiencies in the banking business boom, characterised by wild cat banking, which made failures inevitable. The result was the first ever banking legislation in the country, the banking ordinance 1951, which became effective from 1952. Onoh (2002) says that a litany of quantifiable and unquantifiable factors led to the failure of many pioneers' indigenous banks. These causes include the absence of a regulatory and supervisory authority to guide the banks and to play the role of lender of last resort, undercapitalization and over-branching; poor branch management and fraud; poor customer patronage; poor liquidity and poor-quality management.

- **Pre- central Banking Era (1952 - 1959)**

Okaro and Onyekwelu (2003) noted that this period was characterised by the coming into effect of the 1951 banking ordinance and lasted until 1959. The ordinance for the time defined banks and banking business, restricted the establishment of banks and the practice of banking to companies holding valid and duly issued licences. A minimum paid up capital was also stipulated for both local and foreign banks. They fluctuated when the ordinance became fully operational in 1955. It was discovered that it did not assist under-capitalised banks and was incapable of developing the banking system nor preventing fraudulent practices, hence the clamour for the introduction of a central bank. Such a bank should have powers to regulate commercial banks in their activities.

- **Era of Banking Legislation (1959 - 1970)**

Nzotta (2004) opined that the establishment of the central bank of Nigeria in 1959 gave impetus to the era of banking legislation. This establishment led to increased banking supervision and control, and substantially curtailed the malpractices prevalent in the system hitherto. Subsequent amendments of the CBN Act of 1959 tightened the grip of the central bank over the commercial banking system.

- **Era of Indigenization (1970 - 1976)**

According to Okaro and Onyekwelu (2003), the period since 1970 marks a new and fourth phase in commercial banking evolution in Nigeria, which was terminated in 1976. The key features of this period included the socialisation of the banking industry in Nigeria, which saw the federal government and the public part-owning shares of expatriate banks to bring public indigenous ownership to 60% of the banks shareholding in line with the indigenous enterprises promotion Act 1972 as amended in 1977.

During this period, the federal government established wholly owned banks to accelerate economic developments in areas of mortgage acquisition, agriculture, small and medium scale industries and so on. These gave birth to the Federal Mortgage Bank Ltd, Nigerian Agricultural and Cooperative Bank, Nigerian Bank for commerce and Industry respectively and so on. The state governments were not left out as they incorporated state development



finance companies. Nzotta further noted that this phase saw the establishment of the financial system review committee, whose report altered the face of financial intermediation in Nigeria.

- **The Post - Okigbo Era (1977 - 1985)**

Nzotta (2004) mentioned that the implementation of the recommendations of the Okigbo panel on the review of the financial system was a bold attempt to restructure the financial system to enable it discharge its functions efficiently, including the transformation of the rural economies, elevating the level of banking habits of the populace and the savings mobilisation mechanism generally. These views were further reinforced by Okaro and Onyekwelu (2003). Specifically, this phase saw the emergence of the rural banking scheme which sought to redress the lopsided nature of branch bank expansion in Nigeria.

- **The Deregulation Era (1986 - 1992)**

This era came into force as a result of the imperfection and failures in the system of credit allocations, the cost of credit and the intermediation process generally. The federal government introduced a wide range of reforms in the banking system from 1986, as part of the general deregulation of the economy (Nzotta 2004). These reforms covered namely: Privatisation of government interests in various banks, Establishment of more commercial banks as a result of free entry, increased competition among banks for deposit, leading to improved efficiency, Introduction of unified accounting system. The reforms generally sought to bridge the information and resource gaps in the system and enhance the level of financial intermediation in the economy. This led to the establishment of the People's bank, community banks and the Nigerian Deposit Insurance Company to curb emerging banking distress.

- **The Era of Banking Distress (1992 - Date)**

Nzotta (2004) noted with displeasure that this era saw the emergence of illiquid and terminally distressed banks in the system. The major cause of this was the high level of non-performing credits of the banks, the insider abuses and high level of fraud in the system etc. The level of financial accommodation to banks by the regulatory bodies increased generally. The regulatory authorities increasingly adopted holding actions as a management option for distressed banks while others included mergers and acquisitions, revocation of banking licences in 1992, 1994 and 1998. Efforts were also made to reduce the level of non-performing credits, bad lending, and fraud and insider abuses in the banking system through effective use of Nigerian Deposit Insurance Company and the Central Bank of Nigeria surveillance departments.

Microfinance Banks in Nigeria

Microfinance Banks is an institution which accepts deposits, makes business loans and offers related services. These institutions operate with the aim of making profit. In Nigeria, micro finance banks are licensed and regulated by the central bank of Nigeria. As a result of the



intermediary function the banking sector plays between lenders and borrowers, banks' role in the economy is very vital. They are considered the pillars of any economy because the activities of microeconomics, as well as macroeconomics of an economy, largely rely on them. An efficient financial system improves banks' profitability, increases the volume of funds flowing from savers to borrowers, and ensures a better quality of services offered to customers FanenAnande (2020). The Banking industry in Nigeria is governed by the Companies Allied Matter Act, the BOFIA, the Central Bank of Nigeria and the various prudential guidelines issued by the Central Bank of Nigeria (CBN). Banks serve as the custodians of the general public's money, which is accepted in form of deposit and pay out on client's instruction.;

Over the last few years, the banking sector in Nigeria has witnessed a decline and many banks have failed leading to withdrawal of licence from those banks or other healthy financial institutions acquiring them. Nevertheless, some banks in Nigeria have also succeeded, thus, continued growth in assets, deposits, profitability and products/Services offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Nigeria and Africa and even the world at large. This growth could be seen as a large number of services and a move towards meeting customers' needs rather than the traditional banking system. Nancy (2013) stated that, as a result of this growth the need for internal audits has increased in banks to enhance asset management, control of risks, and management controls.

2.1.9 Financial performance

There are several aspects of performance, each of which contributes to the overall performance in an organisation. Despite the evolution of various available benchmarks and performance measurement, the answer to what is performance may still be hard to pin down. The banking sector aims for strong performance, but few banks worry about what constitutes such performance. The current run up of the stock market, at a time when corporate profits are fast declining, raises the question of whether or not banks are doing a satisfactory job for their shareholders (Ghourri& Khan, 2011).

The main objective of financial performance measuring is to determine the operating and financial characteristics and the efficiency and performance of economic unity management, as reflected in the financial records and reports (Amalendu, 2010). Akinsulire, (2008) and Pandey (2003) points out that no performance review is beyond dispute, for instance, reported profit is a matter of opinion. If income is to be measured in terms of the increase or decrease in the wealth of an enterprise, obviously some definitions of that stock of wealth is required.

According to Benjalux, (2006), performance measures are the lifeblood of economic units, since without them no decisions can be made. Financial performance measure is one of the important performance measures for economic units. Financial performance measures are



used as the indicators to evaluate the success of economic units in achieving stated strategies, objectives and critical success factors (Katja, 2009).

Casu et al (2006) observed that performance analysis is an important tool used by various agents operating either internally to the bank or who form part of the bank's external operating environment. This is why investors in shares and Bonds issued by banks consider the investment outcome before forming an opinion about the ability of its management. A good means of measuring the performance of banks and other business organisations is financial analysis.

2.3 Theoretical Review

2.3.1 Legitimacy theory

Suchman (1995) considers that 'legitimacy is a generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions. He also defined legitimacy theory as: it helps organisations to gain acceptance in society, leading them to strive for compliance with socially determined norms, values, and beliefs. Legitimacy is a condition or a status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is part (Dowling & Pfeffer, 1975). Deegan and Rankin (1996) report that a company will provide information to the users of the accounts to justify or legitimise the company's continued operations within that society.

Hurst (1970) suggests that one of the functions of accounting, and subsequently accounting reports, is to legitimate the existence of the corporation. Legitimacy theory posits that organisations constantly seek to ensure that they operate within the bounds and norms of their respective societies to secure the inflow of needed resources (Brown & Deegan, 1998; Suchman, 1995). It therefore affects the way that individuals in society understand organisations, and act towards them; that is, organisations that are seen as legitimate are seen as more worthy, more meaningful, more predictable and more trustworthy (Suchman, 1995). However, because of the external nature of the organisation's relevant publics, organisations must constantly communicate that they are good corporate citizens (Guthrie & Parker, 1990) and are therefore meeting the conditions of its social contract. In short it is within the organisation's best interest, under normal circumstances to maintain the status of legitimacy. A number of likely consequences (in the form of economic, legal or social sanctions) may occur as a result of disparity between the value systems of the organisation and those of society (Dowling & Pfeffer, 1975; Lindblom, 1994). Not only is organisational legitimacy seen as being necessary for organisational survival, but it has also been argued that legitimacy may be seen as a constraint on organisations (Dowling & Pfeffer, 1975). It has been argued that once legitimacy is threatened, organisations will embark on a process of corrective action targeted primarily at those groups who have the necessary stakeholder attributes to confer or



withdraw legitimacy (O' Donovan, 2002; Deegan, 2002). Legitimizing may take various forms and be motivated ultimately by how corporate management assesses and perceives the severity of the incident (Deegan, 2002; O' Donovan, 2002). That is, the greater the likelihood of adverse shifts in a corporation's relevant publics' perceptions of how legitimate a corporation is the greater the desirability on the part of the corporation to attempt to manage these shifts in social perceptions (O' Donovan, 2002). Ashforth & Gibbs (1990) argue that legitimating activities will likely be intense and proactive as management attempts to win the confidence and the support of 'wary constituents'. It is likely that such relevant publics will scrutinise the organisation in cases, for example, where the organisation lacks clear outputs and goals; where the organisation lacks the support traditions and norms; or where constituents anticipate a long relationship with organisation (Ashforth & Gibbs, 1990). The theory adopted in this research work is the legitimacy theory. The basic belief of this theory is that it provides information on the users of the accounts to justify or legitimise the bank's continued operations within that society. It ensures that banks operate within the bounds and norms of their respective societies to secure the inflow of needed resources. Lamb's legitimacy framework is particularly interesting for investors given the need to understand the nature of a company's or banks stakeholders. It helps in assessing an organisation's governance structure. This helps in understanding banks and the sources of conflict in their business relationships. This theoretical finding is based on the quality of an institution's relationships, as they communicate a willingness to continue to engage with the bank – whether as a customer, shareholder, regular, employee or community member.

2.3.3 Stakeholder Theory

Friedman argues that the duty of managers within a corporation is not to "shareholders" or "stockholders" (that is people who own shares of the corporation, and stand to gain financially from it), but rather to what he calls "stakeholders". According to Friedman, a stakeholder of a business is someone who has ANY stake whatsoever in the going-on of a business. This means that anyone affected by the actions of that business has a stake (interest) in what that business does. So, this includes not only shareholders, but also employees, customers, suppliers, and often even the entire community. Stakeholder theory is primarily concerned with distribution of financial outputs (Marcoux, 2000). This view depicts stakeholder theory as primarily about who receives the resources of the organisation, and poses a stark and inherent conflict between shareholders and other stakeholders in terms of who gets what. Wood and Ross (2006) found out that stakeholder opinion is more influential in influencing manager attitude towards environmental social controls than subsidisation, regulatory cost or mandatory disclosure. Meek and Gray (1988) discussed issues surrounding the inclusion of a value-added statement in the annual reports of United States (U.S.) corporations. They argued that these statements are useful in focusing attention on a wide



group of stakeholders, while still allowing the firm to maintain its primary orientation on shareholders.

Dermer (1990), who described the organisation as an ecosystem to demonstrate the significance of accounting to strategy, in this view, organisations held together by a desire to survive, and stakeholders compete for control of firm strategy. In this context, accounting data and accounting systems take on unanticipated roles. For instance, accounting becomes a tool used by stakeholders to construct reality and ultimately to assess the risks of “associating their stakes” with a particular firm (Greenwood, Van Buren & Freeman, 2009). Auditors spend a relatively long time and devote considerable energy to things that can be satisfactorily verified, but not to other things that they knew were important to stakeholders (Ohman, Hackner, Jansson, & Tshudi, 2006).

2.3.4 Agency Theory

This theory was propounded by Jensen (1976). This theory is widely known to be used in accounting literature to give further explanation and also to predict the appointment and performance of an auditor and financial consultant. Nancy (2013) went further in explaining the agency theory, which is concerned with resolving problems that can exist in relationships that are between principals (such as shareholders) and agents of the principals (example, company Executives). It states that audited financial statements can enhance shareholder's faith in management stewardship. There are different groups in the world of business that participate in and are affected by financial reporting of the regulatory agencies. These groups are shareholders, managers, Banks, creditors, employees, and other groups. The major users of financial reports are the shareholders including individuals with relatively small shares and institutions such as Banks or insurance companies. The decision made by these groups most times is based on a financial report and also on the performance of the company's management, who is given the responsibility to act in the investor's interest. Egolum, Ugonabo and Okonenwa (2021), recommended establishing oversight committees including an audit committee for the auditing of financial statements and appointment of directors which are supported by agency theory. It considered board committees which provided an additional control mechanism for increased accountability; thereby enhancing the assurance that the interests of the shareholders were being safeguarded. Agency theory can provide for richer and more meaningful research in the internal audit discipline. Internal audit in common with other intervention mechanisms like financial reporting and external auditing helps to maintain cost efficient contracting between owners and managers. Agency theory may not only help to explain the existence of internal audit in an organisation but can also serve as a tool used to explain the characteristics of the internal audit department for example, its size and scope of activities such as financial versus operational. Agency theory can be employed to test empirically whether cross sectional practice between internal auditing practices reflect the different contracting relationships emanating from difference in organisation form.



2.4 Empirical Review

There have been several empirical studies conducted on the effect of internal audits on the financial performance of firms in Nigeria including banks. However, a number of these studies either provided inconclusive findings or inconsistent results. In this section, a review of the empirical studies was presented. In a study by Lee and Jang (2008), they found out that audit report lag is negatively associated with non-audit fees paid to incumbent auditors. It was also seen that ARL is negatively associated with the use of Big 4 auditors and unqualified audit opinions. The study, however, did not find significant associations between Audit Report Lag and auditor tenure.

On their part, Oladipupo (2019) investigated the extent of audit lag in Nigeria. Forty companies were selected. Both univariate and multivariate analyses were performed on the data collected. The study observed that; audit delay ranged from 16 to 284 days; Nigeria listed companies take approximately four months on the average beyond their balance sheet date before they are finally ready for the presentation of the audited accounts to the shareholders; That profitability, total assets, total debt, total equity, audit fees and industry type have no significant impact on audit delay.

Yassin and Nelson (2012) used audit fee as proxy for internal audit quality. They suggested that higher audit fees indicate that auditors provide more efficient audit services to the companies compared to lower audit fees. Also, Moutinho (2012) investigated the relationship between audit fees and firm performance. Using a sample of U.S. publicly traded, non-financial firms covering the period from 2000 to 2008, a fixed effects model is presented to estimate firm operating performance. The model included standard control variables, such as size, leverage, sales growth and research and development intensity.

Hoitash, Markelevich, and Barragato (2007) examined the relationship between audit fees and earnings quality. Their paper shows that fees paid to an auditor can impact in a way; large fees paid to the auditor increases the quality of the audit. Higher audit fees are related to non-audit service and makes auditors more dependent on their clients. In their study, they examined audit fees for period of 2000 to 2003 and found that there is a significant positive relationship between audit fees and earnings quality

Carcello, Hermanson, Neal and Riley (2002) opine that audit fees reflect additional audit effort which leads to a higher level of earnings per share. In the same vein, Geiger, Lennox, and North (2008) are of the view that a positive relationship exists between audit fees and earnings, which implies that additional audit effort results in more accurate earnings quality. Hence it can be inferred that the results of the study imply that audit firms receiving higher fees are perceived to have high internal audit quality, which translates into greater earnings quality of a firm. There has been a debate in the literature on the effects of the various components of auditor's compensation on auditor independence



However, Fariba and Hassan (2014) conducted a study on the relationship between audit fees, board independence and earnings quality in 104 listed accepted companies in Tehran stock exchange market, during the year (2007-2012), using descriptive correlation method. The study found no relationship between Audit fees and earning management. It was observed that the study was conducted for the period of six years only. Lin and Hwang (2010) in their study, internal audit quality, corporate governance and earnings management. Found a negative significant relationship between audit tenure and earnings management, hence the study posit that when audit tenure lengthens, earnings management reduces. It is, however, observed that though the study was conducted in a developed country, it's time coverage stopped at 2007. The time coverage on the study may have excluded recent event within the context of earnings quality.

However, Augustine, Famous and Augustine (2014) in their study, internal audit quality and accrual-based earnings management of quoted companies in Nigeria, found no significant relationship between audit tenure and accrual-based earnings management which indicates that the length of time of audit client relationship does not have any effect on earnings management. This study, though conducted in the non-financial firms in Nigeria stopped in 2011; it could not have captured recent events in earnings quality.

Arrunada and Paz-Ares (1998), argue that a long auditor–client relationship may result in the development of personal relationships that may lead to the bonds of loyalty, trust or emotive relationships being developed between the client and the auditor. The implication is that truly independent auditor behaviour becomes difficult and there is the increased likelihood of the auditor acceding to client's pressure in relation to their choice and application of accounting policies. This adversely affects the auditor's independence and ability to offer a true and fair audit report.

Copley and Doucet (1993), in an investigation of the relationship between the quality of audit services and auditor tenure in order to evaluate the usefulness of rotation, describe and tested a statistical model that is, a regression between the dependent variable “internal audit quality” and other independent variables, of which the most important is “tenure.” The results show a positive sign for the estimated parameter of “tenure”. This means that the likelihood of receiving a substandard quality audit increases with the length of the auditor – client relationship. In other words, the longer the period of engagement, the higher the risk of lower internal audit quality.

Vanstraelen (2000) examines the effect of long-term audit client relationships on internal audit quality. The external user's perception of the audit report was used as the indicator for quality. Utilising the logistic regression model, the study findings show that long-term auditor client relationships are positively related with the increased likelihood of the auditor issuing an unqualified opinion. A significant difference was also found between the auditor's reporting behaviours in the first two years versus the last year of the audit mandate. This



implies that auditors are more willing to issue an unqualified audit report in the first two years of their official mandate than in the last year of their mandate. The policy implications of Vanstraelen (2000) support mandatory auditor rotation to maintain the value of an audit for the external users.

Adeyemi and Okpala (2011), notes that an audit firm's tenure can result in a loss of auditor's independence. A long audit-client relationship could lead to an alignment of the auditors' interest and that of its client which makes truly independent behaviour of the auditor a probability. The study concluded that audit firm rotation does not necessarily enhance audit independence in Nigeria. This could be due to the unity of professional attitude among auditors and similarity in cultural bias and orientation.

DeAngelo (1981) and Ireland and Lennox (2002) are of the opinion that since large audit firms could not be so financially dependent on the fees of a particular client, they are to some extent less likely to be subject to pressure from clients to compromise in the event of discovering accounting irregularities as they have more to lose should a scandal arise; in that their brand names and reputations are more valuable compared to smaller audit firms.

The study of Augustine, Famous, and Augustine, (2014), reveals that the size of an audit firm has a significant negative relationship with earnings management, which indicates that the more the services of big audit firms are employed; the less the managers are able to manage the earnings. This study, though conducted in Nigeria and in the non-financial services, only covered up to 2011 and left out more recent years. Financial performance of the banking sector is a major subject that has received much attention in recent years. Many studies have evaluated the financial performance of banks under various operating parameters. It is generally agreed that better quality management of resources is the main factor contributing to bank performance, as evidenced by numerous studies that have focused on the U.S. banking system (De Young and Rice, 2004; Stiroh and Rumble, 2006; Bhuyan and Williams, 2006; Hirtle and Stiroh, 2007) and the banking systems in the western and developed countries (Ho and Tripe, 2002; Williams, 2003; Pasiouras and Kosmidou, 2007; Kosmidou *et al*, 2007; Kosmidou and Zopoundis, 2008; Athanasoglou *et al*, 2007; Aldertazzi and Gambacorta, 2008).

Hempel and Simonson (1999), investigated the financial performance and management efficiency of banks in Taiwan using ROA. From their findings, they concluded that profitability measured using ROA had a significant relationship with financial performance of banks.

Kumbirai and Webb (2010) investigated the use of ratios in determining the financial performance of banks in South Africa between 2005 and 2009. The research work revealed that profitability (measured by ROA and ROE) had a significant relationship with financial



performance. However, the liquidity and asset quality does not have a significant relationship with financial performance.

Osuka and Osadume (2013), researched on the determinants of financial performance of selected money deposit banks in Nigeria between 2001 and 2010 using SPSS regression method. Their findings showed that capital adequacy, asset quality and employee motivation had a significant relationship with financial performance.

2.5 Gaps in Literature

Many of the empirical studies reviewed dealt largely on effect of internal audit quality using Return on Assets, capital adequacy, asset quality, employee motivation, audit fees and audit tenure as measures against internal audit quality and not inculcating earnings per share, dividend per share and net profit margin which are the main aspect affecting financial performance of deposit money banks in Nigeria. The results obtained on the variable relationships in most cases, were neither consistent nor conclusive. Most of the literature was not cited in Nigeria but in other countries. This somehow did not match to some policy of deposit banks in Nigeria. The crux of this study was to examine the impact of internal audit quality on financial performance of deposit money banks in Nigeria, using internal audit quality from audit tenure, audit firm size, audit report lag, audit fees and accrual audit, while return on assets (ROA), working capital (WC), earnings per share (EPS), dividend per share (DPS), net profit margin (NPM) were used to measure financial performance of deposit money banks in Nigeria.

3.0 RESEARCH METHODOLOGY

3.1 Research design

This study adopted the *ex post facto* research design in assessing the effect of internal audit quality on financial performance of microfinance banks in Enugu. The data for the study were collected from annual reports and accounts of microfinance banks in Enugu. Regression analysis and coefficient correlation were employed to test the formulated hypotheses. A correlation research design is the measurement of two or more factors to determine or estimate the extent to which the values for the factors are related or changed in an identifiable pattern. In correlation research, the goal is to determine whether two or more variables are related (Marczyk, DeMatteo, &Festinger, 2005).

3.2 Population of the Study

The population of the study was made up of eighteen (18) microfinance banks in Enugucapital city as at 31st December, 2023. The micro finance banks are as follows:

1. Bettel Microfinance Bank Limited
2. Urban Microfinance Bank Limited
3. Oraukwu microfinance Bank Limited



4. Coal Camp Microfinance Bank Limited
5. Golden funds Microfinance Bank Limited
6. Umuchinemere Procredit Microfinance Bank Limited
7. First Omasi Microfinance Bank Limited
8. Gift Microfinance Bank Limited
9. Ohha Microfinance Bank Limited
10. Preeminent Microfinance Bank Limited
11. Femez Microfinance Bank Limited
12. Good shepherd Microfinance Bank Limited
13. Integrated Microfinance Bank Limited
14. Ogbete Microfinance Bank Limited
15. UNN Microfinance Bank Limited
16. Green Bank Microfinance Bank Limited
17. Grooming Centre Microfinance Bank Limited
18. Lapo Microfinance Bank Limited

3.3 Sample size and sampling technique

The study sample was six (6) microfinance banks from a population of eighteen (18) microfinance banks as at the time of this work. The study made use of secondary data obtained from the Nigeria Stock Exchange and examined the effect of internal audit quality on financial performance of listed microfinance banks in Enugu capital city over a period of ten (10) years (2013-2023). Non-probability technique was adopted to determine the sample size. This research adopted a judgmental sampling technique based on the availability and up-to-date annual financial statements. The eleven (10) year's period was chosen in order to have a reasonably and reliable available financial data

The six (6) microfinance banks selected for the study are;

- 1) Umuchinemere Procredit Microfinance Bank Limited
- 2) Coal Camp Microfinance Bank Limited
- 3) Ogbete Microfinance Bank Limited
- 4) UNN Microfinance Bank Limited
- 5) Bethel Microfinance Bank Limited
- 6) Green Bank Microfinance Bank Limited



3.4 Validity of Research instrument

Validity is defined as the degree to which a research study measures what it intends to measure. Content validity implies that the research work measures the behaviour for which it is intended. The figures used for this work were verified and certified by the appropriate regulatory body of the Central Bank of Nigeria.

3.5 Method of data collection

This study made use of secondary data precisely. The data were sourced from publication of the Nigeria Stock Exchange (NSE).

3.6 Reliability of research instrument

Reliability can be defined as the degree to which the instrument consistently measures what it is expected to measure. For the purpose of this study, the data return on assets, earnings per share, working capital, net profit margin and dividend per share for the various years were extracted from audited financial statements of microfinance banks and collated by the Central Bank of Nigeria, and reports of internal audit quality. Hence, these data are highly reliable and expected to achieve the objective of the study.

3.7 Method of Data Analysis

The statistical method applied in analysing the data collected is regression analysis. According to Koutsoyannis (1993), it is stated in the following form:

$$Y = B_0 + B_1X_1 + B_2X_2 + u$$

Where:

B_1 and B_2 are parameters and are constant figures once estimated.

U = disturbance or error term

Parameter B is the value of Y when the value of X is zero. It is also the Y intercept while B is the slope of the regression line or the rate of change of the dependent variables as the independent variables change by one unit. Y is the dependent variable. A 5% level of significance will be used in the hypothesis testing.

3.8 Model Specification

$$ROA = \alpha + \beta (ARL) + \beta (AF) + \beta (AT) + \beta (AFS) + u \text{ ----- (1)}$$

$$EPS = \alpha + \beta (ARL) + \beta (AF) + \beta (AT) + \beta (AFS) + u \text{ ----- (2)}$$

$$NPM = \alpha + \beta (ARL) + \beta (AF) + \beta (AT) + \beta (AFS) + u \text{ ----- (3)}$$

$$DPS = \alpha + \beta (ARL) + \beta (AF) + \beta (AT) + \beta (AFS) + u \text{ ----- (4)}$$

Where

α = constant



ARL = audit report lag

AF = audit fee

AT = audit tenure

AFS = audit firm size

u = error

3.9 Operationalization of Variables

$Y=f(X)$

Y=Dependent variable and

X=Independent variable

Y will represent the financial performance of deposit banks.

X will represent internal audit quality.

Which means Financial Performance is a function of internal audit quality. Financial performance will either increase or decrease depending on the performance of the deposit banks.

Mathematically, it is represented as;

$FPDB=f(AQ)$.

All the sub-variables can be written in small x

$X=f(x_1, x_2, x_3, x_4)$

x_1 = audit report lag

x_2 = audit fees

x_3 = audit tenure

x_4 = audit firm size

$Y=f(y_1, y_2, y_3, y_4, y_5)$

y_1 = return on assets

y_2 = earnings per share

y_3 = net profit margin

y_4 = dividend per share

$y_1(FPDB) = f(x_1) ROA$ -----eqn 1

$y_2(FPDB) = f(x_2) EPS$ -----eqn 2

$y_3(FPDB) = f(x_3) NPM$ -----eqn 3



$$y_4 (\text{FPDB}) = f(x_4) \text{ DPS} \text{-----eqn 4}$$

Where;

ROA means Return On Assets

EPS means Earnings Per Share

NPM means Net Profit Margin

DPS means Dividend Per Share

FPDB means Financial Performance of Deposit Banks

4.0 DATA ANALYSIS AND PRESENTATION OF RESULTS

4.1 Preamble

This chapter analysed and interpreted the results obtained from the tests conducted on the data collected for the study. The chapter was divided into three sections. The first section dealt with the preliminary analysis of the sample using descriptive statistics. The second section presented the correlation and regression analysis between the explained and explanatory variables. The last section ended with testing of the hypotheses of the study as well as discussion of major findings and policy implications of the findings.

4.2. Data Presentation: This research made use of secondary data which were obtained from the Nigeria Stock Exchange Annual Report Publication (2023). The data collected are presented in the table below.

Table 4.1. This table shows the audit report lag, audit fees, audit tenure and audit firm size of Umuchinimere microfinance, Coal Camp microfinance, Ogbete microfinance, UNN microfinance, Bethel microfinance and Green bank microfinance between the periods of 2013 to 2023.

	UMUCHINEMERE MICROFINANCE BANK				COAL CAMP MICROFINANCE BANK				OGBETE MICROFINANCE BANK			
YE R	RO A	EPS	NPM	DPS	RO A	EPS	NPM	DPS	RO A	EPS	NPM	DPS
2013	.01	0.27	.09	0.10	.01	1.35	.10	0.36	.01	1.12	.15	0.62
2014	.00	1.41	.02	0.45	.02	1.93	.15	1.10	.01	1.42	.20	0.70
2015	.02	0.74	.14	1.55	.02	2.02	.20	1.00	.02	1.62	.24	0.95
2016	.02	1.10	.16	1.83	.03	3.85	.26	1.70	.01	1.24	.30	1.00
2017	.01	0.48	.10	2.15	.02	0.82	.17	0.45	.02	1.53	.28	0.75
2018	.00	1.45	.02	1.00	.02	1.06	.19	0.85	.00	-	.25	1.00



2019	-.02	1.53	-.15	1.10	.02	1.54	.20	1.15	.03	1.69	.28	1.10
2020	.02	1.59	.16	1.59	.04	3.19	.32	2.10	.05	3.05	.39	1.13
2021	.02	1.97	.16	2.05	.03	3.01	.27	1.77	.04	3.17	.37	0.95
2022	.01	1.66	.12	2.85	.03	3.16	.25	3.05	-	-	-	1.45
2023	.02	2.00	8.10	2.50	.05	3.45	.30	3.00	.04	3.00	.40	1.60
	UNN MICROFINANCE BANK				BETHEL MICROFINANCE BANK				GREEN BANK MICROFINANCE			
YEA R	AR L	AF	AT	AFS	AR L	AF	AT	AFS	ARL	AF	AT	AFS
2013	70.0	105454.0	5.0	-	45.0	120.0	5.0	-	55.0	135435.0	5.0	-
2014	66.0	118059.0	5.0	-	51.0	135.0	5.0	-	60.0	238600.0	5.0	-
2015	72.0	-	5.0	-	-	-	5.0	-	68.0	249044.0	5.0	-
2016	85.0	155284.0	5.0	-	60.0	180.0	5.0	-	59.0	369114.0	5.0	-
2017	78.0	176010.0	5.0	-	105.0	217.0	5.0	-	73.0	301477.0	5.0	-
2018	82.0	148500.0	5.0	-	-	-	5.0	-	-	-	5.0	-
2019	80.0	-	5.0	-	243.0	254.0	5.0	-	109.0	285424.0	5.0	-
2020	90.0	-	5.0	-	87.0	320.0	5.0	-	70.0	320931.0	5.0	-
2021	77.0	188583.0	5.0	-	66.0	420.0	5.0	-	59.0	335337.0	5.0	-
2022	64.0	155700.0	5.0	-	58.0	460.0	5.0	-	66.0	301245.0	5.0	-
2023	80.0	195216.0	5.0	-	77.0	500.0	5.0	-	75.0	389412.0	5.0	-

Source: NSE Annual Report Publication, 2024.



4.3 Summary of Descriptive statistics

The summary statistics of the explained and the explanatory variables are presented in Table 4.3 where minimum, maximum, mean and standard deviation of the data collected for the variables in the study were described.

Table 4.3: Descriptive Statistics of the Variables

<i>Variables</i>	<i>Obs</i>	<i>Mean</i>	<i>Std. Deviation</i>	<i>Min</i>	<i>Max</i>
ROA	11	1.9668	32.5097	8.1954	28.5725
EPS	11	6.8857	0.9204	4.7919	8.2874
NPM	11	9.5870	1.3765	0.0000	12.1005
DPS	11	0.9615	0.1932	0.0000	1.0000
ARL	11	0.3942	0.4911	0.0000	1.0000
AF	11	0.4235	0.1590	0.0000	1.0000
AT	11	0.9510	0.1922	0.0000	1.0000
AFS	11	1.5962	1.4930	3.1542	8.2540

Source: Descriptive Statistics Result using Eviews 7.0. Computation

Table 4.3 showed the detail account of the descriptive statistics for the explained and explanatory variables. Return on Assets (ROA) which was the dependent variable of the study had a minimum value of 8.1954 and a maximum value of 28.5725. The average value of the ROA was 1.9668 with standard deviation of 32.5097, signifying that the data deviated from the mean value by 32.5097, showing large variations across the sample banks.

The summary statistics from the table with respect to Earnings Per Share (EPS) which was also a dependent variable showed minimum and maximum values of 4.7919 and 8.2874 respectively. The average value of EPS is 6.8857 with a standard deviation of 0.9204. This showed that there is variation of earnings per share across the sample banks. The table also indicated that the minimum and maximum values of the natural log of Net Profit Margin (NPM) are 0.0000 and 12.1005 respectively, with the mean value of 9.5870 and a standard deviation of 1.3765. This shows that there is variation of net profit margin across the sample banks.

The result also indicates that Dividend Per Share (DPS) has minimum and maximum value of 0 and 1 respectively since it is also a dependent variable. The average value of the dividend per share is 0.9615 and a standard deviation of 0.1932. This shows that there is variation of dividend per share across the sample banks.

Regarding the control variables in the summary statistics, audit report lag (ARL) has a minimum of 0 and a maximum of 1, on average 39.4%, with a mean value of 0.3942 and standard deviation of 0.4911. The table also indicates that Audit fees have an average of



0.4235 with a standard deviation of 0.1590. The low average of the audit fees indicates that only about 42.4% of the banks complied with audit fees requirements based on the scope of the study. Audit tenure has an average of 0.9510 and a standard deviation of 0.1922, audit firm size has an average of 1.5962 and a standard deviation of 1.4930.

4.4. Correlation Matrix

The correlation coefficient represents the linear association or relationship between two variables and also between the explanatory variables themselves. The most widely used type of correlation coefficient is Pearson(r) which is also called linear or product moment correlation. Table 4.4 shows the correlation matrix with the values displaying the Pearson correlation coefficient between all pairs of variables and the asterisk beside each Pearson correlation coefficient shows the significance of these coefficients. Observing the pattern of the correlation between the explained and explanatory variables, the result reveals that there are no high correlations among variables. According to Gujarati (2004), all variables that have less than 0.80 correlation coefficient are considered safe and can be included in the same regression model, since there is no interdependency among the independent variables. The summary of the Pearson correlation Coefficients of the variables of the study are presented in Table 4.4.

		ARL	AF	AT	ROA	EPS	NPM
Audit Report Lag	Pearson Correlation	1	0.70	.015	.371**	.099	.248
	Sig. (2-tailed)		.626	.930	.007	.495	.083
	N	11	11	11	11	11	11
Audit Fees	Pearson Correlation	.070	1	-.160	-.097	.046	-.043
	Sig. (2-tailed)	.626		.337	.498	.750	.769
	N	11	11	11	11	11	11
Audit Tenure	Pearson Correlation	.015	.160	1	.142	.215	.452**
	Sig. (2-tailed)	.930	.337		.364	.177	.004
	N	11	11	11	11	11	11
Return on Assets	Pearson Correlation	.371**	0.097	.142	1	.781*	.955**
	Sig. (2-tailed)	.007	.498	.364		.000	.000
	N	11	11	11	11	11	11
Earnings Per Share	Pearson Correlation	.099	.046	.215	.781**	1	.808**



	Sig. (2-tailed)	.495	.750	.177	.000		.000
	N	11	11	11	11	11	11
Net Profit Margin	Pearson Correlation	.248	-.043	.111	.955**	.808*	1
	Sig. (2-tailed)	.083	.769	.480	.000	.000	
	N	11	11	11	11	11	11

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

Source: SPSS Version 22

From the correlation matrix in table 4.4 audit report lag is positively correlated with return on assets with a p-value of 0.371 and significant at 0.07 significance level, and also positively correlated with earnings per share and net profit margin with a value of 0.99 and 0.248 respectively but not significant.

The table also indicates that the audit fee has no significant effect on earnings per share of Enugu microfinance banks. It shows a p-value of 0.046 and at .750 statistically level, which is not significant, and therefore concludes that, Audit fees have no significant effect on earnings per share of Enugu microfinance banks. From the correlation matrix, it was also indicated that audit fee is negatively correlated with return on assets and not significant, while positively correlated with earnings per share and negatively correlated with net profit margin but not significant

It was also indicated in the table that audit tenure has a significant effect on the net profit margin of Nigerian banks with a p-value of 0.452 and significant at 0.04 significance level. Therefore, it was concluded that, Audit tenure has a significant effect on net profit margin of Enugu microfinance banks.

Audit fees have no significant effect on net profit margin of Enugu microfinance banks; and from the correlation matrix audit tenure is positively correlated with return on assets, earnings per share and net profit margin but not significant.

4.4. Regression Results

In this section, the regression results of internal audit quality variables and financial performance of Enugu micro finance banks were presented and analysed.

Table 4.4. Regression Results

<i>OLS Model</i>			<i>Fixed Effect Model</i>		<i>Random Effect Model</i>		
<i>Variables</i>	<i>Coef</i>	<i>P-Value</i>	<i>Coef</i>	<i>P-Value</i>	<i>Coef</i>	<i>Z-Value</i>	<i>P-Value</i>
ROA	0.0005	0.302	0.0034	0.534	0.0051	1.04	0.300



<i>EPS</i>	0.4370	0.044	0.1990	0.521	0.4371	2.04	0.041
<i>NPM</i>	0.0007	0.135	0.0015	0.135	0.0007	1.49	0.300
<i>DPS</i>	0.1436	0.622	0.1475	0.355	0.1436	1.40	0.340
<i>ARL</i>	0.8555	0.001	0.7895	0.099	0.8555	3.46	0.001
<i>AF</i>	-0.0436	0.631	-0.0575	0.557	-0.0436	-0.48	0.630
<i>AT</i>	0.4250	0.443	0.3572	0.549	0.4250	0.77	0.015
<i>AFS</i>	0.8767	0.012	1.3982	0.015	0.8767	2.52	0.010
Constant	4.2429	0.000	17.6629	0.001	4.2829	3.85	0.000
R ²		0.7282	R ² within 0.1808				0.0838
Adj R ²		0.7054	R ² between 0.1348				0.9537
			R ² overall 0.1426				0.7282
F-Stat		31.82		2.29			
Prob>F		0.0000		0.0288			
Wald chi ²		-		-			254.59
Prob>chi ²		-		-			0.0000

Source: Eviews 7.0. Computation

From the table 4.4 above, the fixed effect regression model shows R² within, between and overall of 18.08%, 13.48% and 14.26% respectively. Within R² means that independent variables explain 18.08% variations in the financial performance in this study from year to year. Between R² indicates that independent variables explain 13.48% variations in financial performance from bank (cross-sectional unit) to other banks. While overall R² shows that independent variables explain 14.26% variations in the whole study. The random effect regression model shows R² within this model is 8.38%, R² between is 95.37% while the overall R² of the study is 72.82%. The result shows that both fixed and random effect models are significant at 1% and 5% level of significance respectively.

The results from table 4.4 indicate that the variables of the internal audit quality (audit report lag, audit fees, audit tenure, and audit firm size) explained financial performance variation of Nigeria deposit banks by 72.82%, from the OLS R² coefficient of multiple determinations (R² value of 0.7282). The table also shows that the model is fitted as evidenced by the F-stat of 31.82 (as indicated by the P-value of 0.0000).

4.4. Hypotheses Testing

The hypotheses of the study were tested from the regression result presented Table 4.4

**Hypothesis One: Audit report lag has no significant effect on Return on Assets of deposit banks in Nigeria.**

The result from table 4.4 shows that audit report lag (ARL) has a significant positive effect on return on assets (ROA) of deposit banks in Nigeria as indicated by the coefficient of 0.8555 with P- value of 0.001 which is statistically significant at 1% level of significance. That is, audit report lag is significant in either increasing or decreasing the return on assets (ROA) of deposit banks in Nigeria. Based on this, the study rejects the null hypothesis one (H01) which states that audit report lag (ARL) has no significant effect on the return on assets (ROA) of microfinance banks in Enugu. The positive significant relationship indicates that a 1% increase or decrease in audit report lag will result in a 1% increase or decrease in the return on assets of micro finance banks in Enugu capital city.

Hypothesis Two: Audit fees have no significant relationship on Earnings Per Share of microfinance banks in Enugu capital city.

The results from the table shows that the audit fees (AF) have a negative effect on earnings per share (EPS) of microfinance banks in Enugu, from the coefficient of -0.0436 which is not significant at all levels of significance (p-value of 0.631). This suggests that audit fees have no significant effect on earnings per shares of microfinance banks in Enugu during the period under study. Therefore, the study accepts the null hypothesis two (H02) which states that audit fees have no significant effect on earnings per share (EPS) of microfinance banks in Enugu. The negative insignificant relationship indicates that an increase or decrease in audit fee will not result in any effect on earnings per share of deposit banks in Nigeria. Therefore, the study accepts the null hypothesis two (H02) and rejects the alternate hypothesis which states that audit fees have no significant effect on earnings per share (EPS) of deposit banks in Nigeria.

Hypothesis Three: Audit tenure has no significant effect on net profit margin of microfinance banks in Enugu capital city.

Similarly, the results from the table indicate that audit tenure (AT) has a positive effect on net profit margin (NPM) of Enugu microfinance Banks, considering the coefficient of 0.4250 and p- value of 0.015. This implies that the result is significant at all levels of significance. Thus, this study however accepts the alternate hypothesis three (H03) which states that audit tenure has a significant effect on the net profit margin of Nigeria Deposit Banks. The positive significant relationship indicates that an increase or decrease in audit client relationship or familiarity is likely to result in a positive effect on the net profit margin of deposit banks in Nigeria. Therefore, this study accepts the alternate hypothesis which states that, audit tenure has a significant effect on net profit margin of microfinance banks in Enugu capital city.

Hypothesis Four: Audit firm size has no significant effect on dividend per share of microfinance banks in Enugu capital city.



Table 4.4 shows a significant positive relationship between audit firm size (AFS) and dividend per share (DPS) of deposit banks in Nigeria. This is evident from the coefficient of 0.8767 which is significant at 5% level of significance (from the p-value of 0.012). This implies that audit firm size contributes significantly in improving the dividend per share of microfinance banks in Enugu. Based on this, the study therefore rejects the fourth null hypothesis (H04) which states that Audit firm size has no significant effect on the dividend per share of microfinance banks in Enugu capital city. The positive significant relationship indicates that a 5% increase in the audit firm size will lead to the same level of increase on the dividend per share of microfinance banks in Enugu capital city. Therefore, the study accepts the alternate hypothesis, which states that, audit firm size has a significant effect on dividend per share of microfinance banks in Enugu capital city.

4.5. Discussion of Findings

From the tests conducted on the data collected and the analyses of the results this study found that internal audit quality is strongly associated with the financial performance of microfinance banks in Enugu capital city. Evidence from the regression results indicates that the variables of internal audit quality explained around 73% of the total variation in the financial performance of microfinance banks in Enugu capital city.

Audit Report Lag (ARL) and Return on Assets (ROA)

The result from the study reveals that audit report lag in microfinance banks in Enugu capital city has a positive effect on the return on assets of the sampled banks. This finding is in line with the opinion of Givoly and Palmon (1982) who asserted that audit report lag is the single most important determinant of timeliness in earnings announcement, which in turn, determines the market reaction to earnings announcement. Similarly, Knechel and Payne (2001) suggest that an unexpected reporting lag may be associated with lower quality information, which may affect the credibility of financial reporting. It is also in line with the agency theory that the ability of an auditor to give assurance of the credibility of the financial report has to do with internal audit quality.

Audit Fees (AF) and Earnings Per Share (EPS)

This study found that audit fees (AF) have no significant effect on earnings per share (EPS) of microfinance banks in Enugu capital city during the period under review. This implies that whether there is an increase or decrease in audit fees the earnings per share may not necessarily change either by increasing or decreasing. This contradicts the view that audit fees reflect additional audit effort which leads to higher levels of internal audit quality (Carcello, Hermanson, Neal & Riley, 2002). This could be that the auditor's financial dependence on the client has increased the auditors' chances to consent to the manager's request leading to low quality in the reported earnings. The result contradicts the findings of Geiger, Lennox, and North (2008), Habbash (2010) and Umar (2014) who reported a



significant relationship between audit fees and earnings per share. This could imply that auditing fees, though a necessary attribute, might not be a sufficient condition in enhancing earnings per share of the sample banks. However, the study agrees with the study of Fariba and Hassan (2014) and Mohammad (2016) who found no significant relationship between audit fees and accrual-based earnings management.

Audit Tenure (AT) and Net Profit Margin (NPM)

The study also found that audit tenure has a significant positive effect on the net profit margin of microfinance banks in Enugu capital city. This implies that whether there is an increase or decrease in audit tenure, the net profit margin is likely to change either by increasing or decreasing.

This finding collaborates the postulate of Arrunada and Paz-Ares (1998), that a long auditor–client relationship may result in the development of personal relationships that may lead to the bonds of loyalty, trust or emotive relationships being developed between the client and the auditor. The implication is that truly independent auditor behaviour becomes difficult and there is the increased likelihood of the auditor acceding to client’s pressure in relation to their choice and application of accounting policies. This adversely affects the auditor’s independence and ability to offer a true and fair audit report.

However, the result supports the finding of Copley and Doucet (1993), in an investigation of the relationship between the quality of audit services and auditor tenure in order to evaluate the usefulness of rotation, describe and tested a statistical model that is, a regression between the dependent variable “internal audit quality” and other independent variables, of which the most important is “tenure.” The results show a positive sign for the estimated parameter of “tenure”. This means that the likelihood of receiving a substandard quality audit increases with the length of the auditor–client relationship. In other words, the longer the period of engagement, the higher the risk of lower internal audit quality.

Audit firm size (AFS) and Dividend Per Share (DPS)

This study found that audit firm size has a significant positive effect on dividend per share of deposit banks in Nigeria. This is in line with the theoretical expectation that the presence of high-quality auditors may constrain dividend per share by minimising the propensity of corporate managers to manage earnings through the inflation of discretionary accruals of deposit banks in Nigeria. The results also support the findings of Brand and Ann (2005), Piot, and Janin (2005), and Abubakar (2014), who found that the use of audit firm size reduced the ability of managers to manage organisation’s earnings. However, the findings contradict those of Imen and Pascal (2005) and Umar (2014), who found that audit firm size has a negative significant effect on dividend per share.

4.6. Implications of the Findings



This study examined the effect of internal audit quality on financial performance of Nigeria deposit banks, using features of internal audit quality such as audit report lag, audit fees, audit tenure and audit firm size. The results and findings from the analysis conducted have implications to policy makers, investors and management of Nigeria deposit banks. The findings of this study contribute to the search by regulators on measures that could improve and enhance financial performance in the corporate world. The analysis revealed that audit report lag is positively and significantly influencing return on assets of deposit banks in Nigeria. This implies that the more experienced the auditors are in discharging their duties with credibility and timeliness, the higher the quality of earnings reported. This result has implications on the banks management because as they employ auditors who audit other banks in the industry it becomes difficult for managers to hide their opportunistic behaviour, simply because those auditors already know all the complexity in the financial report of banks in that particular industry.

Moreover, the finding showed that audit firm size is positively and significantly influencing the quality of reported earnings on dividend per share of deposit banks in Nigeria. This implies that the bigger the size of the audit firms such as Ernst and Young, Deloitte, PWC and KPMG are employed the higher the quality of earnings to be reported which will significantly affect the dividend per share. This finding provides support in favour of the argument that the audit firm size reflects internal audit quality. These findings have implications to shareholders that the employment of this audit firm will ensure that all manipulation in the financial report is pointed out before releasing the financial statement. This is because the audit firm will have their reputation to protect since they have more to lose should a scandal arise in a firm they have audited.

Finally, the finding showed that audit tenure is positively and significantly affecting the net profit margin of deposit banks in Nigeria. This implies that the longer an auditor-client relationship, an independent auditor behaviour becomes difficult and there is the increased likelihood of the auditor acceding to client's pressure in relation to their choice and application of accounting policies. The policy implications support mandatory auditor rotation to maintain the value of an audit for the external users.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Findings

This study investigated the effect of internal auditing on the financial performance of microfinance banks in Enugu capital city for the period of 2013 to 2023 (10 years). Specifically, the study assessed the effect of audit report lag, audit fee, audit tenure, audit firm size on the financial performance of listed microfinance banks in Enugu capital city. The study used secondary data obtained from the bank's annual reports for the period of 10 years (2013 to 2023). Ordinary least square regression was used with the aim of explaining and



predicting empirically the relationship between internal audit quality variables and financial performance of the financial institutions. Furthermore, the study used the ordinary least square regression model. The results of ordinary least square regression model revealed that audit report lag, audit tenure and audit firm size have significant positive effect on the financial performance of the listed microfinance banks in Enugu capital city, while audit fees and earnings per share have insignificant relationship with the financial performance. The regression results indicated that the variables of internal audit quality including the control variables explained about 73% of the total variation in the financial performance of listed microfinance banks in Enugu capital city during the period covered by the study.

5.2 Conclusion

The need to ensure financial performance in the financial report by banks is inevitable as stakeholders rely on it for effective decision making, and external auditors are theoretically considered to have an effect on the bank monitoring mechanisms and the incidence of earnings management. This study was an attempt to empirically examine the effect of internal audit quality on the financial performance with data from the financial reports of 6 listed microfinance banks in Enugu capital city for the period of 2013-2023.

After careful review of the results and discussion, as well as relevant literature, the study concludes that there is a significant positive effect of audit report lag, audit tenure, and audit firm size on the financial performance of the listed microfinance bank in Enugu capital city. This implies that audit report lag, audit tenure and audit firm size have improved the financial performance of microfinance banks in Enugu capital city during the period covered by the study.

It is also concluded that the more experienced and specialised an auditor is with the banking industry, the higher the quality of financial earnings recorded. Similarly, it is concluded that the larger the audit firm size, the higher the quality of financial earnings reported by Enugu capital listed microfinance banks in Enugu capital city, which in turn affect the dividend per share. The study also concludes that an increase or decrease in audit fees of listed microfinance banks in Enugu capital city does not affect the earnings per share. Similarly, it is concluded by the study that the longer the length of audit- client relationship, net profit margin of listed microfinance banks will be favourable to the banks.

5.3 Recommendations

The researcher recommends that:

1. Thoughtful Efforts should be made in creating an environment that would improve return on assets for the sustainability of internal audit quality not only in publicly quoted companies but be extended to private companies for enthrone of good corporate governance practices.



2. The earning per share should be improved, quality of audit should be maintained and improved upon by keeping audit objectives such as: financial control mechanisms, implementation of acts, rules and regulations.
3. The net profit margin should be improved and independence of internal audit quality must be deepened, with a true essence of regulation and the right assurance of protection of investors.
4. The dividend per share should be improved upon and entrenchment of effective internal audit quality would help build and retain investors' confidence and reduce systemic risk and improve quality financial reporting,
5. Policy makers should make policies that guide the selection of audit firms by banks as quality and independence is paramount in dictating and reporting errors in the financial report and the shareholders of the banks should be more inclined in employing the services of audit firms that have experience and understand the financial complexity of the banking industry.
6. This is because such auditors will be able to select and implement audit procedures that are precise and effective when delivering their service. This may go a long way in improving earnings quality.
7. The relationships between management and shareholders have to be characterised by transparency and fairness.

5.4 Contribution to Knowledge

This study contributes to knowledge in many ways; for instance, the study provides evidence on the effect of internal audit quality on the financial performance of microfinance banks in Enugu using regression analysis. Specifically, this study is unique because it used quantitative research methods in the analysis of the effectiveness of internal audit quality of the Nigerian banks, which is also very rare in the literature. Furthermore, most of the studies on internal audit quality concentrate only on the internal audit quality and financial reporting quality of earnings management while there are other dimensions with regards to internal audit quality duties and responsibilities. This study contributes by relating internal audit quality with the financial performance of the listed microfinance Banks in Enugu capital city. Specifically, the study shows there is a positive relationship between the variables of internal audit quality (audit report lag, audit tenure and audit firm size) on return on assets, net profit margin, and dividend per share of microfinance banks in Enugu capital city.

5.5 Outcomes of the Research

1. There is a positive and significant relationship between Audit Report Lag (ARL) and Return on Assets (ROA) in Microfinance banks in Enugu capital city.



2. There is no significant relationship between Audit Fees (AF) and Earnings Per Share (EPS) in Deposit Banks in Nigeria
3. There is a positive and significant relationship between Audit Tenure (AT) and Net Profit Margin (NPM) in Microfinance banks in Enugu capital city.
4. There is a positive and significant relationship between Audit firm size (AFS) and Dividend Per Share (DPS) in Microfinance banks in Enugu capital city.

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