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INTERNAL AUDIT, RISK MANAGEMENT PRACTICES AND PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT

To improve and sustain performance of the deposit money banks, the internal component of internal audit and risk management practices is very important to enhance continuity in the level of performance in the banks. The study examines into the combine effect of internal audit, risk management practices on the performance of deposit money banks in Nigeria. The study employed the descriptive survey design were questionnaire was distributed to employees in the selected deposit money banks. The study employed the multiple regression analysis in determining the effect of the both independent construct on performance of deposit money banks in Nigeria. The findings reveals that quality of audit, competence and expertise of audit staff has positive significant effect on net interest margin while risk maturity has negative insignificant effect on net interest margin. It is recommended that financial institutions invest heavily in improving audit quality and developing the skills and expertise of their audit personnel through regular training, certifications, and experience-building.

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INTRODUCTION

Performance holistically is the overall effectiveness and efficiency of the organization. Performance is the aim to operate in consonance to improve profitability, ensure liquidity, stimulate internal growth in asset size and employee and proffer solutions to environmental treats and disturbances. Performance could also be termed as the activities carried out today that would produce valuable outcome tomorrow (Agapia et al., 2025). Performance is the monetary and non-monetary objectives that is been attained by the organization, within the financial period. Specifically, the deposit money banks performance captured with net interest margin, measures the intermediation prowess of the organization in increasing profitability, liquidity and development in the economy. Internal component like internal audit and risk management practices, when ignored could affect the financial and non-financial prowess of the organization (Edeh, & Obinna, 2025; Alawaqleh, 2021). However, internal audit is a non-influenced activity carried out in the organization, where expert opinion and recommendation are given to the tactical strategic level manager to aid the goal actualization of the company. Internal audit is carried out by professional and experienced internal auditors. Internal auditors are regulated through internal companies' regulations, legal regulations and international standard (Demirović, et al., 2021). Internal auditors are to ensure compliance in their operations to organizational rules and regulations. They are less significant when it comes to the financial statement. According to Ziniye et al (2018) Internal audit is the foundation for efficient and accurate financial management in various types of institutions. Moreover, risk management practices is a wide meaning to the scope of internal audit. Risk management practices are strategies and system put in place to assess, mitigate and monitor treats or risks that could affect the goodwill, objectives and procedures of the organization. These are practices like risk identification, risk maturity and risk culture, that is incorporated to reduce risk and maximize performance of the organization (Shanmugam, et al., 2012; Demirović, et al., 2021)Risk a two edged sword even when it is identified as a treat, if well managed could be used to spur the overall performance level of the organization. Based on the above premises this investigated into the combine effect on internal audit and risk management practices on performance of deposit money banks in Nigeria.

LITERATURE REVIEW

Agency Theory: Agency theory, developed by Jensen and Meckling in 1976, conceptualizes a firm as a collection of contracts among various stakeholders. The theory highlights potential conflicts of interest between owners and managers regarding what serves the organization best. An agency relationship exists when a principal assigns duties to an agent, which may lead to the agent acting in self-interest rather than the principal's, resulting in what is known as an agency problem. According to Jensen and Payne (2003), effective internal control systems are vital for addressing this issue. Studies, such as Abdel-Khalik (1993), have shown that strong internal controls help lower agency costs and enhance a firm's financial performance. Agency theory also supports the implementation of monitoring mechanisms like financial audits, independent directors, audit committees, internal audit functions, and incentive-based compensation (Arwinge, 2013). These measures help reduce information imbalances between principals and agents and play a critical role in managing agency-related challenges, underscoring the theory's importance to this research.

Institutional Theory: Institutional theory, as established by Meyer and Rowan (1977) and DiMaggio and Powell (1983), provides a sociological lens for understanding how organizations adopt control practices. Etengu and Nasieku (2015) explain that companies often implement management approaches and operational methods that are widely accepted within their industry, aligning with prevailing legal and structural norms. According to Arwinge (2013), when organizations design new control systems, they frequently draw from industry trends, established practices, and popular management styles not solely from cost-efficiency analyses. From this theoretical viewpoint, organizations introduce controls not just for functional purposes but also to gain legitimacy and conform to institutional expectations. Governance mechanisms such as risk evaluations, compensation committees, and compliance policies are often adopted to demonstrate dedication to key concerns, shaped by company customs, peer influence, and imitation. This theory supports the study by highlighting how internally developed control strategies, influenced by institutional forces, can be used to improve a firm's financial outcomes.

Empirical Review: Edeh & Obinna (2025) investigated into the effect of internal control system on the financial performance of information and communication technology companies. The subject matter was to determine how control activities, risk assessment, control environment, information and communication influence financial performance of ICT companies. The study employed the qualitative research design and correlational research approach in selecting forty listed and registered ICT companies. The inquiry was anchored on the agency theory and resource based theory. The findings depict that effectiveness of communications systems may not directly translate into improved financial outcomes in the ICT firms. Agapia, et al., (2025) investigated into the relationship between internal control and financial performance. The subject matter was to determine how audit control activities affect financial performance from the context of market share, operational efficiency, and profitability. The study adopted the cross-sectional survey design, which included selecting six food and beverages firms from five different segments. The study anchored on the agency theory. The findings reveals that internal control (audit activities) affect financial performance of firms in different magnitude and direction. Okafor, et al., (2025) examines into the effect on internal control system and operational performance. The subject matter includes to determine how internal control components affect the operational performance of agricultural cooperative societies in Anambra State. The study adopted the correlational research design, in selecting two thousand eight hundred and ninety one members in the society as the respondent. The study is anchored on the system theory. The linear regression analysis was employed. The findings reveals that internal control system specifically all the constructs have a significant effect on operational performance. Vutumu, et al., (2025) investigated into forensic accounting, internal control on Nigerian Public Sector Fraud Prevention. The subject matter is to determine how combination of forensic accounting and internal control affect the prevention of fraud in the Public Sector. The study employed the cross-section correlational design is selection of six hundred and fifty questionnaire from employees in six finance, accounting, internal audit and forensic federal ministries. The study was anchored on the vutumu forensic accounting theory and fraud pentagon model. The findings depicts the government should enhance fraud prevention strategies in Nigerians public sector.

Akande, F. I, et al. (2024) investigated into the relationship between fraud and financial performance of banks in Nigeria. The subject matter is to determine how credit to private sector, is affected by total number of fraud cases and total amount involved in fraud. The quantitative approach was employed using also the regression analysis to determine the relationship between the variables. The theory is anchored on fraud diamond theory. The findings depicts that the total amount involved in fraud have effect on banking sector performance. Olorunfemi (2024) investigated into the effect on internal control system and financial reporting quality in the listed Oil and gas Companies in Nigeria. The subject matter is determine how the components of internal control affects financial reporting quality in the oil and gas sector. The employed the survey research design in selection of two hundred and thirty three management staff in the selected companies. The study used the multiple regression analysis which revealed that montoring activities, control environment and risk assessment have positive impact on the comparability of financial reports in Nigeria sector. Nisak&Rochayatun (2023) in their inquiry carried out a review on the role of internal audit, fraud detection and prevention in Universities. The subject matter is to determine how internal audit aid in fraud detection in Universities through a comprehensive literature review addressing relevant database like Emerald, Springer, Google scholar. The inquiry captures the concept of internal audit role, the role of internal audit in detection of fraud, the role of internal audit in preventing fraud. The findings reveals that internal audit is very important in detection of fraud in the University environment. Samuel, et al., (2021) examines into the effects of internal control system on the prevention of fraud in the deposit money banks in Kwara State Nigeria. The subject matter is to determine how internal control system and measure affect fraud prevention. The study employed the descriptive survey design which informed the purposive random sampling technique. The theoretical framework which includes agency theory. The study depicts that internal control system have positive significant effect on fraud prevention.

Demirović, et al., (2021) examines into the internal audit risk assessment in the function of fraud Detection. The subject matter of this inquiry is determine the importance of the role of internal audit, through the application of techniques, tools and prescribed risk assessment and responsibilities. The study was able to present risk assessment technique which the internal auditor can apply in quantitative and qualitative assessment of fraud risk, in notifying audit processes. Alawaqleh (2021) examines into the effect of internal control on Employee Performance in the Small and Medium-Sized Enterprises in Jordan. The subject matter is to determine how internal control and accounting information system affect employee performance. The study employed the structural equation modelling. The qualitative approach was employed using two hundred and three respondent which the findings depicted that accounting information system and internal control has positive employee performance. Wan Fauzi, et al., (2019) examines into the relationship internal control and fraud in construction industry. The subject matter is to determine financial pressure, rationalization and opportunity on commitment of fraud. It also proposes that organizations should periodically perform formal risk assessments and internal control reviews to reduce fraud activities. It is recommended to all parties to promote and practice effective internal control in their project to minimize the occurrence of fraud and failures. Ndimitu, et al., (2018) examines into relationship between internal audit practices and performance of water service. The subject matter is to determine how internal audit on performance on water corporations. The theoretical employed includes agency theory, monitoring theory, policeman theory. The study employed cross-sectional to select ninety-three, respondent from water corporation. The findings depicts that internal audit process have significant impact on performance. Bett &Memba (2017) examines into the effects of internal control on the financial performance of processing firms in Kenya. The subject matter is to determine components of internal control affect financial performance. The employed the case study research design in the selection of one hundred and eighty employees in the Menengai Oil Company. The employed the multiple regression analysis and

ANOVA. The findings depicts that control environment, risk assessment and information have significant to influence on financial performance. Joseph et al., (2015) investigated into the effect of internal control on fraud detection and prevention in District Treasuries of Kakamega County. The subject matter was to investigate how control environment, risk management, control activities, information and communication and monitoring constructs aid the reduction of fraud which includes accountability for funds, efficiency and effectiveness of operations, economy in project and programs implementation. The study employed purposive sampling technique and a closed ended questionnaire in selecting respondent from Senior treasury staffs and Heads of Department. The findings revealed a statistically significant and positive relationship between the adequacy of internal control systems and fraudprevention and detection in district treasuries in Kakamega County.

METHODOLOGY

This study employed the descriptive survey design. The independent variables in this study includes; quality of audit, competence and Expertise of Audit Staff, risk maturity and risk culture while the dependent variables is net interest income. The study selected 15 deposit money banks located in Ikeja Lagos government area in Lagos State. The study employed the purposive sampling technique which includes selecting one hundred employees in the strategic, tactical and operational level management in the selected banks. This model was adapted and adjusted to suit the present study from the study of Bett &Memba (2017), Okafor, et al., (2025) and Samuel, et al., (2021)

The linear equation is given below;

$$PER_{NIM} = f(IAR_t RMP_t) \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 1$$

$$NIM_t = f\left(QA_{t,} CEA_{t,} RM_{t,} RC_{t,}\right) \quad \ldots\ldots\ldots\ldots\ldots\ldots 2$$

Where:
PER; Performance at time t
IAR; Internal audit at time t
RMP; Risk Management practices at time t

RESULTS AND DISCUSSION

Table 4.1 showed net interest margin has a mean value (average value) of 8.44. The highest value of 13.00 and lowest value of 5.00. The standard deviation shows that level of disparity of the group from the mean value of 8.44 is 2.44. Quality of audit has mean value (average value) of 8.98. The highest value of 14.00 and lowest value of 5.00. Competence and Expertise of audit staff has mean value (average value) 8.53. The highest value of 13.00 and lowest value of 5.00. The standard deviation shows that level of disparity of the group from the mean value of 8.53 is 2.34. Risk Maturity has mean value (average value) 9.81. The highest value of 16.00 and lowest value of 6.00. The standard deviation shows that level of disparity of the group from the mean value of 9.81 is 3.46. Risk culture has mean value (average value) 8.83. The highest value of 13.00 and lowest value of 5.00. The standard deviation shows that level of disparity of the group from the mean value of 9.81 is 3.46. Table 4.2 depicted that quality of audit has positive significant effect on Net Interest margin at *(β_1= 0.331; ρ<0.05)*.Competence and Expertise of audit Staff has positive significant effect on net interest margin at *(β_1= 0.612; ρ<0.05)*.Risk Maturity has negative significant effect on net interest margin at *(β_1= -0.152; ρ<0.05)*.Risk Culture has positive insignificant effect on net interest margin at *(β_1= 0.159; ρ>0.05)*. R^2 is a measure of goodness of fit of the regression model. It revealed that, the independent variablequality of audit, competence and expertise of audit staff, risk maturity and risk culture for 0.926 (92.6%) variation or change in the dependent variable employee productivityand if any additional variable is added it will still explain the variable at 0.923 (92.3%).The study implies that improving the quality of audits and enhancing the competence and expertise of audit staff significantly boosts net interest margin (NIM), indicating that skilled auditing practices contribute to better financial outcomes. However, risk maturity has a negative significant effect, suggesting that excessive or overly cautious risk controls may reduce profitability. While risk culture showed a positive but insignificant effect, it still reflects the potential value of fostering a proactive risk-aware environment. Financial institutions should, therefore, prioritize high audit standards and staff competence, while maintaining a balanced risk management approach to avoid negatively impacting NIM performance. The findings agree with the work of Demirović, et al., (2021), Nisak & Rochayatun (2023) and disagree with the work of Edeh & Obinna (2025).

Table 1. Descriptive Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Net_Interest_Margin	100	5.00	13.00	8.4400	2.44255
Quality_of_Audit	100	5.00	14.00	8.9800	2.48218
Competence_and_Expertise_of_audit_Staff	100	5.00	13.00	8.5300	2.34178
Risk_Maturity	100	6.00	16.00	9.8100	3.46613
Risk_culture	100	5.00	13.00	8.8300	2.53084
Valid N (listwise)	100				

Researcher's Field Survey, 2025

Table 2. Multiple Regression Analysis

Variable	Co-efficient	Std-Error	t-stat	P-value
Constant	-0.238	0.282	-0.843	0.402
Quality of Audit	0.331	0.080	4.098	0.000
Competence and Expertise of audit Staff	0.612	0.114	5.619	0.000
Risk Maturity	-0.152	0.030	-3.533	0.001
Risk Culture	0.159	0.030	1.100	0.274
R^2	0.926	F.cal		297.787
Adj. R^2	0.923	Sig.F		0.000

Researcher's Field Survey, 2025

Independent Variable

QA: Quality of Audit at time t
CEA: Competence and Expertise of audit Staff at time t
RM: Risk Maturity at time t
RC: Risk Culture at time t

Conclusion and Recommendation

This study explored the influence of audit quality, audit staff competence, risk maturity, and risk culture on net interest margin (NIM) in financial institutions. The results revealed that both audit quality and the competence and expertise of audit staff have a positive and significant impact on NIM. Notably, audit staff competence showed the strongest effect, emphasizing the value of professional skill and knowledge in enhancing financial performance. On the contrary, risk maturity demonstrated a negative significant effect, indicating that overly advanced or rigid risk management systems may constrain profitability. Risk culture, while positive, had no significant effect on NIM, suggesting that its influence may be indirect or moderated by other factors.Based on these findings, it is recommended that financial institutions invest heavily in improving audit quality and developing the skills and expertise of their audit personnel through regular training, certifications, and experience-building. Institutions should also reassess their risk maturity frameworks to ensure they do not hinder profitability through excessive caution or inflexibility. While risk culture did not show a significant effect, fostering an organizational environment that supports responsible risk-taking could still contribute positively to long-term performance. Overall, balancing audit strength with adaptive risk strategies is crucial for maximizing net interest margins.

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