

Corporate Governance Mechanism: An Investigation of the Internal Audit Function Quality in Nigerian Listed Firms

Simon Ademola Akinteye

PhD Candidate

Faculty of Accounting and Finance

UGSM-Monarch Business School Switzerland

Hagendon-Zug, Switzerland

Prof. Dr. Donald Oxford York

Professor of Leadership

Dean of Student Development and Assistant Dean of Faculty

UGSM-Monarch Business School Switzerland

Hagendon-Zug, Switzerland

Dr. Hassan Quadrat-Ullah

Professor of Research Methodology

UGSM-Monarch Business School Switzerland

Hagendon-Zug, Switzerland

Abstract

Internal Audit Function is a key corporate governance mechanism as an insider activity through which the Board of Director and the Audit Committee get a clearer knowledge of the activities of the management for effective oversight. The Internal Audit Function must possess the ingredients of quality namely, competence, objectivity and reliability, measured by experience, certifications, continued professional development and trainings, internal audit size, extent of the focus of the Internal Audit Function on financial work, and, independence of the Internal Audit Function. All of this affects the quality of financial reporting. This paper examines the quality of Internal Audit Function in the firms listed on the Nigerian Stock Exchange through a qualitative approach. The results show that the Internal Audit Function in Nigerian listed firms possesses the ingredients of quality as documented in the existing literature.

Keywords: Corporate Governance, Corporate Governance Mechanisms, Internal Audit Function Quality, Head of Internal Audit Function, Audit Committee, Board of Directors, Quality of Financial Reporting

1.0 Introduction

Internal Audit Function (IAF) is an important corporate governance mechanism which complements the activities of the Audit Committee (AC) and the Board of Directors (BOD). The interaction of these three actors makes up the internal corporate governance mechanism of a firm (Ramly & Rashid, 2010). The quality of the IAF is critical for the oversight effectiveness of the AC and the BOD and for continuous relevance and visibility of the IAF (Staciokas & Rupsys, 2005; Yessin, Ghanem, & Ruston, 2012). As such, the IAF should be integrated into the highest level of authority in the company (Gramling, Maletta, Schneider, & Church, 2004; Okafor & Ibadin, 2009; Prawitt, Smith, & Wood, 2009). Researchers have documented that the IAF must possess the ingredients of quality for its relevance and effectiveness in helping the AC to exercise the proper oversight on the activities of the firm and to ensure the quality of financial reporting.

These ingredients of quality as discussed in the literature are: competence, objectivity and reliability (Leung & Cooper, 2009; Leung, Cooper, & Perera, 2011; Soh & Nonna, 2011; Schneider & Wilner, 1990). The objective of this paper is to examine the attributes of the IAF of Nigerian listed firms as a corporate governance mechanism in comparison with the empirical findings in the existing literature on IAF Quality. The findings from this research will establish the extent of the IAF quality of the firms that are listed on the Nigerian Stock Exchange.

1.1 Research Question

How does the Internal Audit Function of Nigerian listed firms compared with the existing literature on IAF quality and assist as an effective corporate governance mechanism?

2.0 Literature Review

As discussed in Section 1.0, the three measures of the IAF quality as a corporate governance mechanism are: competence, objectivity (independence) and reliability. These attributes are briefly examined in the empirical literature in the following subsections.

2.1 The IAF Quality

Prawitt, Smith, & Wood (2009) argued that the IAF is capable of strengthening corporate governance and moderating aggressive accounting activities by the management. Schneider & Wilner (1990) suggested that IAF must be of acceptable quality to serve as an effective corporate governance mechanism in restraining abnormal financial reporting. Researchers in this field have identified three attributes of the IAF quality which are: competence as evidenced in the reliability of the work of the IAF, independence and objectivity (Prawitt, Smith, & Wood, 2009). It is further argued that, if the Management is aware that the company has a quality IAF in place, the courage to aggressively manipulate financial statements will be lacking. One reason for this is the fear that the IAF will be alert to the occurrence of any sharp practices and will bring such to the attention of the AC (Prawitt, Smith, & Wood, 2009). Church, McMillan, & Schneider (2001) argued that, when attributes such as: independence, competence and objectivity are embodied in the IAF quality, then, the IAF will have the ability to detect and prevent fraud and irregularities.

Coram, Ferguson, & Moroney (2008) document that, IAF quality must be above board to improve and defend established controls and for the detection and prevention of fraud. Prawitt, Smith, & Wood (2009) further document that, the three key components of the IAF quality, namely: independence, competence and objectivity are connected together by six (6) distinct individual principles: (1) experience of the H-IAF, (2) professional certifications, (3) trainings, (4) size of the IAF, (5) the extent to which the IAF focus is on financial work, and (6) the relationship between the H-IAF and the AC.

Al-Shetiwi, Ramadili, Chowdury, & Sori (2011) argued that, the proficiency of the IAF staff, IAF independence and IAF work performance are key components of IAF quality. They further argued that, competent IAF staff will acquire relevant knowledge of the structures and systems in the company and be able to detect the inadequacies of the internal controls. It is further argued that the effective functioning of the IAF requires independence. The independence, quality will embolden the IAF to report all lapses to the AC without any reason for trepidation. It is suggested that the independence of the IAF is guaranteed where the IAF reports directly to the AC and where the power to hire and fire the H-IAF is vested in the AC (Al-Shetiwi, Ramadili, Chowdury, & Sori, 2011).

3.0 Methodology

The research methodology of this paper is a qualitative method by way of phenomenological study.

3.1 Research Instrument

The research instrument is a questionnaire divided into two parts as presented in Appendix A-2. The first part of the questionnaire is the participant profile. This is designed to recognize the role of the IAF as a corporate governance mechanism. The aim is to capture the gender, the job title, academic and professional qualification, years of experience, age range, place of birth, religious and philosophical upbringing. We considered these features as important because they are capable of influencing the participants' responses and the degree of their understanding of corporate governance issues. The second part is the research questionnaires. This comprises fifteen open ended questions designed with the aim of gaining deeper understanding of the quality of the interaction between the IAF and the AC, the quality of the IAF and the competence of the head of the IAF.

We pre-tested the research instrument through the test-re-test method by administering the questionnaire on a sample of chartered accountants practitioners, practicing auditors and accounting and finance professionals in academia with internal consistency and reliability measured by Pearson Product Moment Correlation of 0.95 indicating that the research instrument is effective. The justification for the open ended questionnaire is to enable the respondents answer the question in their own words and in their normal day to day manner of speaking.

This approach is suitable to harness the hidden meanings and beliefs personally held by each of the respondents without imposing the external thoughts, feelings and beliefs on the participants (Cresswell & Miller, 2000; Zikmund, 2003).

3.2 Data Collection Techniques

The data collection technique was as face to face recorded two staged interviews: the initial and follow up interviews. At the initial stage, twenty five heads of IAF representing twenty five companies and ten NSE sector classifications were contacted through the emails and telephone and were sent the electronic copies of the introductory letters, consent forms and research subject approval forms. In the end, only five individuals representing five organizations and five sectors participated in the initial interviews while three individuals representing three organizations participated in the follow up interviews. Each individual was initially given 2 weeks to confirm their willingness to participate in the research. However, because of low response rate, we gave additional 2 weeks. Where there was no response afterwards, the participants were removed from the process because of the voluntary nature of the participants required and the need to complete the research within a reasonable time frame. The final sample of the head of Internal Audit (H-IAF) represents those who responded to the email, communicated their willingness to participate in the research and showed consideration for the research timeframe. The final sample is adequate for research saturation. In phenomenological studies, a long interview with 2 to 10 participants is sufficient to form saturation (Cresswell & Miller, 2000).

We collected the data in face-to-face interviews using a Samsun GT-S762 recording device. The recorded interviews were transcribed through a play-replay method. The transcribed copy of the interviews was sent to each of the participants for them to individually confirm that the transcribed copy represents the expression of each of the participants. Where the participant made amendments, these were done and sent back for agreement by the participants. Thus we obtained written confirmation from each of the participants on the contents of the interviews before we proceed to the data analysis stage. We followed the same procedure for the follow up interviews.

3.3 Data Distillation

The responses from the participants were broadly categorized into two parts. The participants' profile and the characteristics survey. Nine (9) classification categories originated from the characteristics survey. Thereafter, we coded and allocated the nine (9) categories to tally charts and tables to express the results as indicated in section 4 below. It is believe of the researchers that this method provides enhanced understanding of the phenomenon of study and deepens the understanding of the subject matter of the research (Vogt, 2007; Sommer & Simmer, 1991). This detail is presented in section 4 below.

4.0 Data Presentation

4.1 Category One: Experience Level of the Head of Internal Audit Function

In this section, H-IAF was asked to provide an answer to the following questions: (1) How many years of Internal Audit Experience do you have? And (2) What is your Audit function experience before moving to your current role? The responses provided were collected and those responses are documented in Table 4.1.1 and 4.4.2

4.1.1 Combined Results on the Years of Internal Audit Experience

In Table 4.1.1A similar data and common terms were highlighted and generated into units of meanings to provide a clear overview of length and depth of experience of the H-IAF. There were four words or phrases used to express the views of the H-IAF. These terms are not ranked in any order of importance. In Table 4.1.1B, we produced the tally chart to analyze the value of each H-IAF in explaining the experience level of the H-IAF. The tally chart provided a significant visual measure of how many times each H-IAF employs the use of these categories. There were 4 categories generated from Table 4.1.1A

4.1.2 Combined Result on the Prior Experience and Years of Internal Audit Experience

In Table 4.1.2A similar data and common terms were generated into units of meanings to provide a clear overview of length and depth of experience of the H-IAF. There were five words or phrases used to express the views of the Heads of the IAF. These terms are not ranked in any order of importance. In Table 4.1.2B, we produced the tally chart to analyze the value of each H-IAF in providing an explanation to the length of prior experience H-IAF before their various appointments. There were 5 categories generated from Table 4.1.2A.

4. 2 Category Two: Professional Qualifications of the Heads of Internal Audit Function

In this section, H-IAF was asked to provide an answer to the following question: What professional Accounting or Internal Auditing qualification do you possess? The responses provided were collected and those responses are documented in Tables 4.2.1

4.2.1 Combined Result on Professional Accounting or Internal Audit

In Table 4.2.1A we similar data were highlighted and common terms were generated into units of meanings that can provide a clear overview of professional qualifications of the H-IAF. There were five words or phrases used to express the views of the H-IAF. These terms are not ranked in any order of importance. In Table 4.2.1B, we produced the tally chart to analyze the value of each H-IAF in explaining the professional accounting or auditing qualifications held by the H-IAF. There were 5 categories generated from Table 4.2.1A

4. 3 Category Three- Quality of Other IAF Staff

In this section, H-IAF was asked to provide an answer to the following questions: (1) How many staff do you have in the Internal Audit Department that are proficient in the use of computer and Internal Audit Application Packages? And (2) How many of them have Professional Accounting or Professional Audit Qualification? We collected the responses provided and documented them in Tables 4.3.1 and 4.3.2

4.3.1 Combined Result on Computer Literacy of Internal Audit Function Staff

In Table 4.3.1A similar data were highlighted and common terms were generated into units of meanings to provide a clear overview of number of staff in the IAF that are proficient in the use of computer and Internal Audit Application packages. There were four words or phrases used to express the views of the Heads of the IAF. These terms are not ranked in any order of importance. In Table 4.3.1B, we produced the tally chart to analyze the value of each H-IAF in explaining the level of proficiency in the use of computers and Internal Audit Application packages by the other staff of the IAF. The tally chart aided the understanding of how many times each H-IAF employs the use of these categories. There were 4 categories generated from Table 4.3.1A

4.3.2 Combined Result on Professional Accounting or Auditing Qualification of Internal Audit Function Staff

In Table 4.3.2A similar data were highlighted and common terms generated into units of meanings that can provide a clear overview of the number of staff in the IAF with professional Accounting or Auditing Qualifications. There were 3 words or phrases used to express the views of the H- IAF. These terms are not ranked in any order of importance. In Table 4.3.2B, tally chart was produced to analyze the value of each H-IAF in explaining the Professional Accounting or Auditing qualification of the IAF staff. There were 3 categories generated from Table 4.3.2A

4.4 Category Four-Continued Professional Development of H-IAF

In this section, we asked each H-IAF to provide an answer to the following question: How many hours of Continued Professional Development Training (CPD) did you attend: (1) In the last 12 months? And (2) In the last 24 months? We collected the responses and documented them in Table 4. 5.1 and 4.5.2 respectively.

4.4.1 Combined Result on the Head of IAF 12 Months attendance of CPD

In Table 4.4.1A similar data were highlighted and we generated common terms into units of meanings to provide a clear overview of the attendance of CPD by the Heads of IAF. The H-IAF used five words or phrases used to express the views. These terms are not ranked in any order of importance. In Table 4.4.1B, we produced the tally chart to analyze the value of each H-IAF in providing an explanation to the subject matter of the attendance of CPD by the heads of IAF. There were 5 categories generated from Table 4.4.1A

4.4.2 Combined Result on the Head of IAF 24 Months attendance of CPD

In Table 4.4.2A we highlighted similar data and generate common terms into units of meanings so that we can provide a clear overview of the attendance of CPD by the Heads of IAF. The H-IAF used five words to express their views. These terms are not ranked in any order of importance. In Table 4.4.1B, we produced the tally chart to analyze the value of each H-IAF in explaining the 24 months attendance of CPD by the H-IAF. There were 5 categories generated from Table 4.4.2A

4.5 Category Five- Hiring and Firing of the H-IAF

In this section, H-IAF was asked to provide an answer to the following question: What is the level of approval in the organization for engagement and disengagement of Head of Internal Audit Function? We collected and documented the responses provided in Table 4.5.1

4.5.1 Combined Result on the Hiring and Firing of the Head of IAF

In Table 4.5.1A similar data were highlighted and common terms generated into units of meanings to provide a clear overview of the level of approval required for the hiring and firing of the H-IAF. The H-IAF used three words or phrases to express their views. These terms are not ranked in any order of importance. In Table 4.5.1B, we produced the tally chart to analyze the value of each H-IAF in explaining the level of approval required for the hiring and firing of the head of Internal Audit Function. There were 3 categories generated from Table 4.6.1A

4.6 Category Six- Reporting Line of the Head of the IAF

In this section, H-IAF was asked to respond to the following question: What is the reporting line of the Internal Audit Department in your company? We documented the responses provided in Table 4.6.1

4.6.1 Combined Result on the Reporting Line of the Head of the IAF

In Table 4.6.1A we highlighted the data that are similar and generate terms that are common into units of meanings to provide a clear overview of the reporting line of the Head-IAF. Six words or phrases were employed to express the views of the Head-IAF. These terms are not ranked in any order of importance. In Table 4.6.1B, tally chart was produced to analyze the value of each H-IAF in reporting line of the H-IAF. There were 6 categories generated from Table 4.6.1A

4.7 Category Seven- Attendance of the H-IAF at Audit Committee Meetings

In this section, H-IAF was asked to answer the following question: How often do you attend Audit Committee Meetings as the Head of Internal Audit Function? We documented the responses provided in Table 4.7.1.

4.7.1 Combined Result on the Attendance of Head of IAF at Audit Committee Meetings

In Table 4.7.1A we highlighted similar data and generate common terms into units of meanings to provide a clear overview of the frequency of the attendance of the head of IAF at the Audit Committee meetings. Four words or phrases were used to express the views of the H-IAF. These terms are not ranked in any order of importance. In Table 4.7.1B, we produced the tally chart to analyze the response of each H-IAF on the subject matter of their attendance at the AC meetings. Furthermore, the tally chart was a significant measure to visualize how many times each H-IAF employs the use of these categories. There were 4 categories generated from Table 4.7.1A

4.8 Category Eight- Informal Interaction of AC Members and the Head of IAF

In this section, H-IAF was asked to answer to the question: What other informal avenues for meeting the Chair of the Audit Committee and other members of the Audit Committee are open to you? We documented the responses provided in Tables 4.8.1

4.8.1 Combined Result on the Informal Interaction of AC and the Head of IAF

In Table 4.8.1A we highlighted similar data and generate common terms into units of meanings to provide a clear overview of the avenues for informal interaction between the AC and the H- IAF. There were 9 words or phrases used to express the views of the H-IAF. These terms are not ranked in any order of importance. In Table 4.8.1B, we produced the tally chart to analyze the response of each H-IAF on the avenues and extent of informal interactions between the AC and the head of the IAF. There were 8 categories generated from Table 4.8.1A

4.9 Category Nine- Involvement of IAF in Other Activities

In this section, H-IAF was asked to provide an answer to the following question: What is the level of participation of IAF in other non audit activities? We collected the responses provided and document them in Tables 4.9.1

4.9.1 Combined Result on the Involvement of the IAF in other Activities

In Table 4.9.1A, similar data were highlighted and common terms were generated into units of meanings so that we can provide a clear overview of the involvement of the IAF in other activities of the company. The H-IAF used 12 words or phrases used to express their views. These terms are not ranked in any order of importance.

In Table 4.9.1B, tally chart was produced to analyze the response of each H-IAF on the level of involvement of the head of IAF in other activities of the company. There were 12 categories generated from Table 4.9.1A

5.0 Discussions of Findings and Conclusion

5.1 Discussion of Findings

In line with the objective of this paper and the established indicators of IAF quality in the existing literature, we design the research instrument to capture data on : the experience of the Head of IAF (H-IAF) (Table

4.1.1A and Table 4.1.1B), length of experience of the H-IAF in accounting or auditing before appointment to the current role (Table 4.1.2A and Table 4.1.2B), Certifications (Table 4.2.1A and Table 4.2.1B), Trainings by way of Mandatory Continuous Professional Education (Table 4.4.1A and Table 4.4.1B), Internal Audit Function Size (Tables 4.3.1A, 4.3.1A, 4.3.2A and 4.3.2B), Independence (Tables 4.5.1A, 4.5.1B, 4.6.1A and 4.6.1B), relationship between the IAF and the AC (Tables 4.7.1A, 4.7.1B, 4.8.1A and 4.8.1B) and the extent of focus of the IAF on financial work (Table 4.9.1A and Table 4.9.1B).

5.1.1 Experience of the H-IAF

In Table 4.1.1A and Table 4.1.1B, we captured the total years of experience of the H-IAF in either the external auditing function, accounting function or internal auditing function. We document that 20% of the respondent H-IAF has 7 years experience, 40% has 14 years experience, 20% has 15 years experience while 20% has 22 years cumulative experience. In Table 4.1.2A and 4.1.2B, we captured the previous relevant accounting or auditing experience of the H-IAF. We document that 20% have 5 years experience, 20% have 8 years experience, 20% have 10 years experience, 20% have 12 years experience while 20% have 13 years experience. In line with the guidelines provided by IIA (2004) which prescribe a minimum of five years prior experience for anyone to be appointed to head the Internal Audit Function, and on the basis of the data captured in Tables 4.1.1A, 4.1.1B, 4.2.1A and 4.2.1B, we argue that the H-IAF in Nigerian listed firms is sufficiently experienced to enable the Internal Audit Function operate as an effective corporate governance mechanism. This is also consistent with existing empirical studies in this field (Arena & Azzone, 2009; Gramling, Maletta, Schneider, & Church, 2004; Soh & Nonna, 2011).

5.1.2 Professional Certifications of H-IAF

The Institute of Internal Auditors' guidelines for the practice of internal auditing recommend that the H-IAF should have either a professional qualification in Accounting or Auditing (IIA, 2004). In Table 4.2.1A and Table 4.2.1B, we captured the measure of professional accounting qualification of the H-IAF. We document that 40% of the H-IAF are Associate of the Institute of Chartered Accountants of Nigeria (ACA-ICAN-Nigeria), 40% are Fellow of the Institute of Chartered Accountants of Nigeria (FCA-ICAN-Nigeria) while 20% are Associate, Institute of Chartered Accountants in India (ACA-ICAI-India). Thus, this paper established that all (100%) of the H-IAF in our sample hold professional accounting qualifications which is a significant measure of the IAF Quality and in compliance with the guidelines set by the Institute of Internal Auditing (IIA, 2004). Thus, we argue that the IAF of Nigerian listed firms is an effective corporate governance mechanism consistent with the regulatory provisions of the Institute of Internal Audit and the existing literature in this field (Arena & Azzone, 2009; Gramling, Maletta, Schneider, & Church, 2004)

5.1.3 Trainings

The Institute of Internal Auditors' guidelines on the practice of Internal Auditing recommend that the H-IAF need to attend a minimum of 40 hours Mandatory Continuous Professional Education (MCPE or CPD) annually (IIA, 2004). In Table 4.4.1A and 4.4.1B, we captured the measure of the training of the H-IAF through the attendance of the MCPE in a 12 months period.

The Tables showed that the average MCPE hour by the sample of the H-IAF is 36 MCPE hours which is 4 MCPE hours short of the 40 MCPE hours recommended by the IIA. Further analysis showed that 20% attended 24 MCPE hours, 20% attended 68 MCPE hours, 20% attended 48 MCPE hours, 20% attended 38 MCPE hours while 20% did not attend any MCPE hours for the 12 months period. The findings of this paper suggest that the H-IAF need to recognize the need for continuous education and training in new areas and aspects of their work for effectiveness and efficiency in their role as the insider means of information for both the AC and the BOD.

5.1.4 The Size of the IAF

The Institute of Internal Auditors and existing literature suggest that the IAF should be resourced with competent and objective professionals who are computer literate and hold professional in Accounting or Internal Auditing (IIA, 2004; Godwin & Yeo, 2001; Gramling, Maletta, Schneider, & Church, 2004; Arena & Azzone, 2009). In Tables 4.3.1A, 4.3.1B, 4.3.2A and 4.3.2B, we captured the measure of the size and quality of other IAF staff. The Tables showed that the IAF department with the least staff has 2 staff while the IAF department with the highest number of staff has 30 staff. The Tables also showed that in all the sample firms, all the IAF staff are computer literate and are proficient in the use of Internal Audit Application Software. Furthermore, each of the firm in our sample has between One to six more persons with professional accounting qualifications. Consistent with the information gathered in Tables 4.3.1A, 4.3.1B, 4.3.2A and 4.3.2B, we argue that the IAF in Nigerian listed firms have sizes that are commensurate with the sizes of the firm and are resourced with competent and objective professionals.

5.1.5 Independence and Relationship of the H-IAF with the AC

IAF must be independent of the management for effective discharge of its function as a corporate governance mechanism. Literature established that the measure of independence of the IAF is determined by the answer to two issues: the authority for the engagement and disengagement of the H-IAF and the reporting line of the H-IAF (Godwin & Yeo, 2001; IIA, 2004; Prawitt, Smith, & Wood, 2009). We captured both indicators in Tables 4.5.1A, 4.5.1B, 4.6.1A and 4.6.1B. In Table 4.5.1A and 4.5.1B, 20% of the H-IAF stated that the power to hire and fire is vested in the BOD, 20% explained that the power is vested in the AC, while 60% explained that the power to hire and fire the H-IAF is vested in both the AC and the BOD. In Tables 4.6.1A and 4.6.1B, we captured the reporting line of the H-IAF. The Tables indicated that 20% of the H-IAF report to the BOD while 80% of the H-IAF report to the AC. The examination of Tables 4.5.1A, 4.5.1B, 4.6.1A and 4.6.1B showed that the IAF of Nigerian listed firm is independent of the Management of the firm and as a result is in position to effectively monitor the activities of Management and report to the AC and the BOD without trepidation or fear. We conclude that IAF is an effective corporate governance mechanism in Nigerian listed firms.

5.1.6 The Extent of Focus of the IAF on Financial Work

In Tables 4.9.1A and 4.9.1B, we captured the data about the degree of focus of the IAF on accounting functions and the extent of involvement of the IAF in other non accounting activities. We captured that 20% of the H-IAF are involved with the accounting functions of sister companies, 40% of the H-IAF are members of finance committee, 20% of the H-IAF are members of assets disposal committee, 40% of the H-IAF are members of due process committee, 60% of the H-IAF are members of IT steering committee, 20% of the H-IAF are members of ISO Certification Surveillance team, 40% of the H-IAF are members of the Executive Management Committee, 20% of the H-IAF are members of annual performance appraisal committee, 20% of the H-IAF are members of quarterly performance award committee, 20% of the H-IAF are members of entity wide risk management committee, 20% of the H-IAF are members of entity wide cost control committee. It is observed from the analysis that the H-IAF is integrated into virtually all the areas of the company. We are of the view that this should rather be seen as an advantage rather than a distraction. The involvement of the HIAF in these committee activities provides an opportunity for the H-IAF to have an in-depth understanding of the company's operating environment and be able to plan his work in a way that will address all the risk areas and safeguard the assets of the company.

5.2 Conclusion

This paper examine the IAF quality in Nigerian listed firm through the qualitative research employing both the initial in-depth interviews and follow up interviews of the H-IAF of Nigerian listed firms. The research instrument was designed to capture the six elements of quality IAF as effective corporate governance. We found evidence to conclude that the H-IAF of Nigerian listed firms have adequate experience and have professional accounting certifications required to function as an effective corporate governance mechanism.

Furthermore, we found evidence to conclude that the IAF of Nigerian listed firms are sufficiently resourced with competent and objective professionals. We also found evidence to conclude that the IAF of Nigerian listed firms is independent and are able to function independent of management, report on the activities of management to the AC and the BOD without fear or trepidation. Thus, we argue that the IAF is an effective corporate governance mechanism in Nigerian listed firms.

This paper also document that the H-IAF of Nigerian listed firm are fallen behind the recommended MCPE hours by the Institute of Internal Auditors and represent an area that required further corporate governance attention by the AC, the BOD and regulators such as the Nigerian Stock Exchange and the Security and Exchange Commission. Furthermore, this paper document that the IAF of Nigerian listed firm is fully integrated into the business and as such put the IAF in good position to function as an effective corporate governance mechanism. In summary, this paper finds conclusive evidence that the IAF Quality of Nigerian listed firms meet the recommendations of the Institute of Internal Auditors and the existing empirical literature in the domain of corporate governance.

This paper would be useful to the corporate governance actors such as the AC and the BOD. The papers would also be of help to the Nigerian Stock Exchange (NSE) and the Security and Exchange Commission (SEC) who are the regulators of publicly listed firms in Nigeria and charged with the responsibility of ensuring strong corporate governance. The paper would also be of interest to the investors and other operators in the capital market. Furthermore, it is believed that the paper would be of interest to the academic community and would trigger further studies in this field.

References

- Al-Shetiwi, M., Ramadili, S., Chowdury, T., & Sori, Z. (2011). Impact of Internal Audit Function (IAF) on Financial Reporting Quality (FRQ): Evidence from Saudi Arabia. *African Journal of Business Management*, 11191-11198.
- Arena, M., & Azzone, G. (2009). Identifying organisational Drivers of Internal Audit Effectiveness. *International Journal of Auditing*, 13 (1), 43-60.
- Church, B., McMillan, J., & Schneider, A. (2001). Factors Affecting Internal Auditors Consideration of Fraudulent Financial Reporting During Analytical Procedure. *Auditing: Journal of Practice and Theory*, 65-80.
- Coram, P., Ferguson, C., & Moroney, R. (2008). Internal Audit, Alternative Internal Audit Structures and the Level of Misappropriation of Assets Fraud. *Journal of Accounting and Finance*, 48, 543-559.
- Cresswell, J., & Miller, D. (2000). Determining Validity in Qualitative Inquiry. *Theory Into Practice*, 39 (3), 124-131.
- Godwin, J., & Yeo, T. Y. (2001). Two Factors Affecting Internal Audit Independence and Objectivity: Evidence from Singapore. *International Journal of Auditing*, 5, 107-125.
- Gramling, A., Maletta, M., Schneider, A., & Church, B. (2004). The Role of Internal Audit Function in Corporate Governance: Synthesis of the External-Internal Audit Function and Direction for Future Research. *Journal of Accounting Literature*, 23, 194-244.
- IIA. (2004). *International Standard for The Professional Practice of Internal Auditing*. Institute of Internal Auditors .
- Leung, P., & Cooper, B. (2009). Internal Audit-An Asian Pacific Profile and the Level of Compliance with Internal Auditing Standards. *Managerial Auditing Journal*, 24 (9), 861-882.
- Leung, P., Cooper, B., & Perera, L. (2011). Accountability Structure and Management Relationship of Internal Audit: An Australian Study. *Managerial Auditing Journal*, 26 (9), 794-816.
- Okafor, C., & Ibadin, p. O. (2009). The Imperatives of Internal Audit in Nigerian Banks: Issues and Prospects. *Global journal of Social Sciences*, 8 (2), 21-27.
- Prawitt, D., Smith, J., & Wood, D. (2009). *Internal Audit Quality and Earnings Management*. Institute of Internal Auditors Research Foundation, 1-42.
- Ramly, Z., & Rashid, H. M. (2010). Critical Review of Literature on Corporate Governance and The Cost of Capital: The Value Creation Perspective. *African Journal of Business Management*, 2198-2204.
- Schneider, A., & Wilner, N. (1990). A Test of Audit Deterrent to Financial Reporting Irregularities Using the Randomized Response Technique. *The Accounting Review*, 668-681.
- Soh, D., & Nonna, M.-B. (2011). Internal Audit Function: Perception of Internal Audit roles, Effectiveness and Evaluation. *Managerial Auditing Journal*, 605-622.
- Sommer, B., & Simmer, R. (1991). *A Practical Guide to Behavioral Research: Tools and Techniques*. New York: Oxford University Press.
- Staciokas, R., & Rupsys, R. (2005). Internal Audit and Its Role in Organizational Government. *Management of Organizations: Systematic Research*, 12 (33), 169-181.
- Vogt, P. (2007). *Qualitative Research Methods for Professionals*. California: Sage Publications.

Yessin, N., Ghanem, G., & Ruston, L. (2012). The Role of Internal Audit Function in Corporate Governance: An Empirical Study of Commercial Banks in Lebanon. Worldbank.org, 1-5.
 Zikmund, W. (2003). Business Research Methods (7th ed.). Indiana: Thomson/South-Western.

Appendix A-1- Research Instrument

PART A- Participant Profile

1. Gender:
2. Title:
3. Career Level in the Company: Manager/Senior Manager/AGM/DGM/GM
4. Years with the Company:
5. Age Range:
6. Place of Birth:
7. Religious or Philosophical upbringing:

PART B- Characteristics Survey

- 1 (a) How many years of Internal Audit Function Experience do you have?
- 1 (b) What is your Audit function experience before moving to your current role?
2. What professional qualification in Internal Auditing or professional Accounting do you possess?
- 3 How many staff do you have in the Internal Audit Department and how many of them have Professional Accounting or Professional Audit Qualification and could use computer and application softwares proficiently.
4. How many hours of Continue Professional Development Training (CPD) did you attend in the last 12 months? Last 24 months?
5. What is the level of approval in the organization for engagement and disengagement of Head of Internal Audit/CAE and other Internal Audit Staff?
6. What is the reporting line of the Internal Audit Department in your company?
7. How often do you attend Audit Committee Meetings as the CAE/Head of Internal Audit?
8. What other informal avenues for meeting the Chair of the Audit Committee and other members of the Audit Committee are open to you?
- 9 What is the level of participation of IAF in other non audit activities?

Source: Akinteye, York & Ullah (2014)

Appendix A-2:

TABLE 4.0: PARTICIPANTS PROFILE- HEAD OF INTERNAL AUDIT FUNCTION

	CORPGOV12- IAFI	CORPGOV13- IAF2	CORPGOV14- IAF3	CORPGOV15- IAF4	CORPGOV16- IAF5
Gender	Male	Male	Male	Male	Female
Title	Internal Auditor	Head of Internal Audit	Head of Audit & Finance	Head of Internal Audit	CC Director
Career Level	Manager	DGM	SM	DGM	Director
Professional Qualifications	ACA, ACTI	ACA, ACTI, MNIM	ACA –Ind.	FCA, FCTI, MNIM	FCA, FCTI
Years with the Company	4 years	14 years	2 years	7 years	11 years
Age Range	45-50 years	40-45 years	40-45 years	45-50 years	40-45 years
Birth Place	Delta	Delta	Andhra, Pradesh,India	Ibadan	Lagos
Nationality	Nigerian	Nigerian	Indian	Nigerian	Nigerian
Religion, Philosophy	Christianity	Christianity	Hindu	Christianity	Christianity

LEGENDS

- 1. Corporate Governance # Head of Internal Audit Function# =CORPGOV#IAF#
- 2. Deputy General Manager = DGM
- 3. Senior Manager = SM
- 4. Compliance and Control Director =CC Director
- 5. Associate of Institute of Chartered Accountant of Nigeria= ACA
- 6. Associate of Chartered Taxation Institute of Nigeria= ACTI
- 7. Member, Nigerian Institute of Management =MNIM
- 8. Fellow of the Institute of Chartered Accountants of Nigeria= FCA
- 9. Fellow of the Chartered Taxation Institute of Nigeria =FCTI
- 10. Associate of Chartered Accountants Institute of Indian= ACA-Ind.

Source: Akinteye, York & Ullah (2014)

Appendix B-1: Years of Experience On Current Role as H-IAF

TABLE 4.1.1A: Explaining the Years of Experience of the Heads of IAF

- 1. 7 Years
- 2. 14 Years
- 3. 22 Years
- 4. 15 Years

Source: Akinteye, York & Ullah (2014)

TABLE 4.1.1B: Years of Experience of Heads of Internal Audit Function Terms Tally

H-IAF#	7 Years	14 Years	15 years	22 Years
1	x			
2		x		
3		x		
4			x	
5				x
TOTAL	1	2	1	1

Source: Akinteye, York & Ullah (2014)

Appendix B-2 : No Of Prior Audit And Finance Related Experience

TABLE 4.1.2A: Explaining the Pre-Appointment Audit Experience of the Heads of Internal Audit Function

- 1. 5 years
- 2. 10 years
- 3. 12 years
- 4. 8 years
- 5. 13 years

Source: Akinteye, York & Ullah (2014)

TABLE 4.1.2B: Pre Appointment Years of Audit Experience of Heads of IAF Term Tally

H-IAF#	5 years	10 years	12 years	8 years	13 years
1	x				
2		x			
3			x		
4				x	
5					x
TOTAL	1	1	1	1	1

Source: Akinteye, York & Ullah (2014)

Appendix C: Professional Qualifications

TABLE 4.2.1A: Explaining Professional Qualification of the Heads of Internal Audit Function

- | | |
|---|--|
| 1. Associate, Institute of Chartered Accountants of Nigeria (ACA-Nigeria) | 4. Fellow, Institute of Chartered Accountants of Nigeria (FCA-Nigeria) |
| 2. Associate, Chartered Taxation Institute of Nigeria (ACTI-Nigeria) | 5. Fellow, Chartered Taxation Institute of Nigeria (FCTI-Nigeria) |
| 3. Associate, Institute of Chartered Accountants of India (ACA-India) | |

Source: Akinteye, York & Ullah (2014)

TABLE 4.2.1B: Professional Accounting or Auditing Qualifications of Heads of IAF Terms Tally

H-IAF#	ACA-Nigeria	ACTI Nigeria	AC-India	FCA-Nigeria	FCTI Nigeria
1	x				
2	x				
3		x			
4			x		
5				x	
TOTAL	2	1	2	1	

Source: Akinteye, York & Ullah (2014)

Appendix D-1: Number of Staff In The Internal Audit Department

TABLE 4.3.1A: Explaining the Number of IAF Staff that are Proficient in the Use of Internal Audit Application Packages

- | | |
|------------|-------------|
| 1. 2 staff | 3. 12 staff |
| 2. 6 staff | 4. 30 staff |

Source: Akinteye, York & Ullah (2014)

TABLE 4.3.1B: Proficiency of IAF in the Use of Computer and Internal Audit Application Packages Terms Tally

H-IAF#	2 Staff	6 Staff	12 Staff	30 Staff
1	x			
2		x		
3			x	
4				x
5	x			
TOTAL	1	2	1	1

Source: Akinteye, York & Ullah (2014)

Appendix D-2: Number of Staff with Professional Qualifications and Computer Literacy

TABLE 4.3.2A: Explaining the Number of IAF with Professional Qualification in Accounting or Auditing

1. One (1) ACA-Nigeria
2. Six (6) ACA-Nigeria
3. Four (4) ACA-Nigeria

Source: Akinteye, York & Ullah (2014)

TABLE 4.3.2B: Professional Accounting Qualification of IAF Staff Terms Tally

H-IAF#	One (1) ACA-Nigeria	Six (6) ACA-Nigeria	Four (4) ACA-Nigeria
1	x		
2		x	
3	x		
4			x
5			x
TOTAL	2	1	2

Source: Akinteye, York & Ullah (2014)

Appendix E: Hours of CPD by the Head of IAF

TABLE 4.4.1A: Explaining 12 Months Attendance of CPD by the Heads of IAF

- | | |
|--------------------|----------------------|
| 1. 24 hours of CPD | 4. Zero Hours of CPD |
| 2. 68 hours of CPD | 5. 38 hours of CPD |
| 3. 48 hours of CPD | |

Source: Akinteye, York & Ullah (2014)

TABLE 4.4.1B: 12 Months CPD attendance by Head of IAF Terms Tally

H-IAF#	24 hours of CPD	68 hours of CPD	48 hours of CPD	Zero hours of CPD	38 hours of CPD
1	x				
2		x			
3			x		
4				x	
5					x
TOTAL	1	1	1	1	1

Source: Akinteye, York & Ullah (2014)

TABLE 4.4.2A: Explaining the 24 Months Attendance of CPD by the Heads of IAF

- | | |
|---------------------|----------------------|
| 1. 48 hours of CPD | 4. Zero Hours of CPD |
| 2. 120 hours of CPD | 5. 76 hours of CPD |
| 3. 96 hours of CPD | |

Source: Akinteye, York & Ullah (2014)

TABLE 4.4.2B: 24 Months CPD attendance by Head of IAF Terms Tally

H-IAF#	48 hours of CPD	120 hours of CPD	96 hours of CPD	Zero hours of CPD	76 hours of CPD
1	x				
2		x			
3			X		
4				x	
5					x
TOTAL	1	1	1	1	1

Source: Akinteye, York & Ullah (2014)

Appendix F: Authority Level to Engage and Disengage the Head of IAF

TABLE 4.5.1A: Explaining the Approval Level for the Engagement and Disengagement of the Head of IAF

- | | |
|--------------------------------|---|
| 1. Only the Board of Directors | 3. Approval of both the Audit Committee and the Board of Directors is required. |
| 2. Only the Audit Committee | |

Source: Akinteye, York & Ullah (2014)

TABLE 4.5.1B: Approval Level for Engagement and Disengagement of the Head of IAF Terms Tally

H-IAF#	Board of Directors Only	Audit Committee Only	Audit Committee & Board of Directors together
1	x		
2		x	
3	x		
4		x	
5		x	
TOTAL	1	3	

Source: Akinteye, York & Ullah (2014)

Appendix G: Reporting Line of the Head of IAF

TABLE 4.6.1A: Explaining the Reporting Line of the Head of the IAF

- | | |
|--------------------------|----------------------------|
| 1. Board Chair | 4. Group Finance Director |
| 2. Audi Committee | 5. Board of Director |
| 3. Managing Director/CEO | 6. Executive Vice Chairman |

Source: Akinteye, York & Ullah (2014)

TABLE 4.6.1B: Reporting Line of the Head of IAF Terms Tally

H-IAF#	Board Chair	Audi Committee	CEO/Managing Director	Group Finance Director	Board of Director	Executive Vice Chairman
1	x					
2		x		x	x	
3		x		x		
4		x				
5		x				
TOTAL	1	4	1	2	1	

Source: Akinteye, York & Ullah (2014)

Appendix H: Frequency of AC Meeting Attendance by the Head Of IAF

TABLE 4.7.1A: Explaining the Frequency of Attendance of the Head of IAF at AC Meetings

1. Head of IAF do at attend AC meetings	3. Head of IAF attends all AC meetings
2. Head of IAF attends AC meetings four times a Year (once quarterly)	4. Head of IAF only send his reports to AC quarterly

Source: Akinteye, York & Ullah (2014)

TABLE 4.7.1B: Attendance of Head of IAF at AC Meetings Terms Tally

H-IAF#	Head of IAF does not attend AC meetings	Head of IAF attends AC meetings 4 times a year	Head of IAF attends ALL AC meetings	Head of IAF ONLY sends IAF reports to AC
1			x	
2	x			
3		x		
4				x
5				x
Total	1	2	2	1

Source: Akinteye, York & Ullah (2014)

Appendix I: Informal Interaction between the AC and the H-IAF

TABLE 4.8.1.A: Explaining Informal Interaction between the AC and the Head of IAF

1. Cordial interaction with AC Chair	5. Mutual trust between AC Chair and Head of IAF
2. Minimal interactions with AC members	6. Unrestricted access to the AC Chair and AC members
3. Relationship and interaction with AC members beyond mere professional association	7. Excellent relationship with AC members
4. AC Chair is always available to listen to the Head of IAF	8. Informal interaction at social events
	9. Informal interactions at Clubs and sporting events

Source: Akinteye, York & Ullah (2014)

TABLE 4.8.1B: Informal Interaction of the AC Chair and AC members with Head of IAF Terms Tally

H-IAF#	Cordial interaction with AC Chair	Minimal Interaction with AC members	Unrestricted access to AC Chair	Avenues for ono-on-one interactions with AC Chair	Excellent informal Interaction with AC Chair and AC members	Informal Interaction at Social events	Informal interaction with AC members at Clubs & Sporting events	Informal interaction based on mutual trust between the ACChair and HIAF
1	x	x	x					
2	x		x		x	x		x
3	x		x		x	x		
4	x		x		x	x		x
5	x		x		x	x		
TOTAL	5	1	5	4	4	4	2	

Source: Akinteye, York & Ullah (2014)

Appendix J: Involvement of Head of IAF in Other Activities

TABLE 4.9.1A: Explaining the Involvement of the Head of IAF in other Activities of the Company

1. Non Accounting and Accounting function of sister companies 2. Member of the Finance Committee 3. Member of Asset Disposal Committee 4. Member of Due Process Committee 5. Member of IT Steering Committee 6. ISO Certification Surveillance Committee	7. Management Quarterly Performance Award Committee 8. Annual Performance Appraisal Committee 9. Member of Executive Management Committee 10. Management Policy Formulation Team 11. Entity wide Risk Management Committee 12. Entity wide Compliance and Control Committee
---	--

Source: Akinteye , York & Ullah (2014)

TABLE 4.9.1B: Involvement of the Head of IAF in other Activities Terms Tally

H-IAF#	Acct & Non Acct Functions	Finance Committee	Assets Disposal Committee	Due process Committee	IT Steering Committee	ISO Certification Surveillance	Executive Committee Mgt	Annual Performance Appraisal Committee	Quarterly Committee Award	Policy Team Formulation	Entity wide Risk Management	Entity wide cost control committee
1	x											
2		x		x	x							
3			x		x							
4					x	x	x	x				
5		x		x			x		x	x		x
TOTAL	1	2	1	2	3	1	2	1	1	1	1	1

Source: Akinteye, York & Ullah (2014)