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Original article

Evaluating Internal Audit Effectiveness under the Nigerian Code of Corporate Governance (NCCG) 2018

[1]Stephen Gowon John-Oti, PhD, FCA
[1]*SJC Professionals Abuja, Nigeria.*

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Abstract: *This study examined the extent to which the Nigerian Code of Corporate Governance, 2018 (NCCG 2018) has enhanced the effectiveness of the Internal Audit Function (IAF) among private and public companies in Nigeria. In specific terms, the paper offers meaningful insights into the provisions of the code towards reinforcing the potency of the IAF in addressing the cardinal issues of governance, control and risk management. Particularly, the paper identified and discussed six (6) provisions of the code, namely: appointment and removal of the CAE, Approval of the IAD Charter, Access rights and reporting responsibility of the CAE, Evaluation of the CAE, and preclusion of executive directors from membership of certain Board Committees. Furthermore, the paper has undertaken a critical review of relevant literature to establish the extent to which adoption of the code has redefined and repositioned the IAF towards shaping the corporate destinies of organizations with a view to enhancing effectiveness in control, risk management and governance. The paper also introduces and stresses the principle of best-fit, drawing essence from the comparative advantage theories to underscore the respective roles of the identified major key stakeholders saddled with the monitoring of compliance with the code towards enhancing the effectiveness of the IAF. With the aid of descriptive statistics and the Chi-Square (X^2), it was revealed that the emergence of the code has significantly enhanced the effectiveness of the IAF for corporate organizations in Nigeria. The study further revealed that the IAF has been leveraged, reinforced and ring-fenced effectively, towards higher levels of independence, objectivity and professionalism by the lofty provisions of the code. It was recommended that the monitoring of compliance with the code from the perspective of the IAF and operations be ramped up and that the Council (FRCN) increase its oversight activities to provide an impetus and stronger bite to the monitoring efforts of sectoral regulators.*

Keywords: *Chief Audit Executive (CAE), Corporate Governance (CG), Effectiveness, Efficiency, Internal Audit, Internal Audit Function (IAF).*

I. INTRODUCTION

The Corporate landscape has been awash with cases of corporate failures in the last three decades, which has accentuated the imperativeness of looking beyond the assurance provided by external audits and the Audit Committees of Boards towards ensuring adequate oversight of the Corporate Board in discharging the responsibility for providing strategic direction for organizations. In most corporate jurisdictions, the responsibility for an effective internal control framework rests with the Board of Directors and Audit committees, and the internal audit function has since become a veritable tool for Boards to exercise effective and potent oversight over this governance responsibility. The delineation of ownership from control, as corporations evolved, has created scenarios where the interests of owners and ultimate managers have tended to often be at variance, coupled with the evaporation of erstwhile operational checks to curb the excesses of power and the emergence of certain risks which are best managed within the framework of corporate governance through accountability mechanisms such as internal control, internal audit and financial reporting (Omolaye and Jacob, 2017).

There is no gainsaying the fact that corporate governance frameworks and practices have become entrenched and embedded in the corporate arenas of Europe, the Americas and other developed worlds. The same cannot be said of Nigeria and most developing countries, with their corporate governance practices still at the rudimentary level of evolution and development. The history of the governance framework for Nigeria has been checkered with a multiplicity of corporate governance codes established by sectoral regulators to rein in malpractices and misfeasance as well as strengthening existing rules to curb excesses. The NCCG 2018 is the first national code of corporate governance that cuts across all sectors and that has been widely accepted without considerable rancor and upheavals that torpedoed its predecessor, the NCCG 2016.

The right governance and internal audit infrastructures have become a critical success factor for organizations' growth, development and sustainability for the long haul. Against this backdrop is the necessity to seek out the extent to which the code has enhanced the effectiveness of the IAF and the adequacy of the compliance monitoring and evaluation towards establishing the extent of independence, objectivity and professionalism of the IAF.

A) Statement of the Problem

Significant changes to the roles and supervision of management, external auditors, and corporate governance were demanded in the wake of the significant accounting scandals and the startling number of earnings frauds. Furthermore, inadequate internal controls have received a large portion of the blame for the widespread failure in financial reporting (c).

In contemporary times and following the role played by IAFs in unearthing the malfeasance in a number of organizations that were plagued by corporate scandals (Enron et al.), the appeal and allure of the IAF as a cornerstone of corporate governance assumed an upward spiral of ascendancy. The function has thus experienced redefining watersheds in its repositioning as the governance hub, forming a nexus between internal and external agents of assurance provision for corporate organizations. Since then, the practice of internal auditing has seen previously unheard-of levels of popularity and scrutiny.

The IAF stands out distinctly, providing support and assurance services for the Audit Committee and the Board of Directors. It is common practice for entities to have their internal organization structure anchored centrally on the IAF as the main assurance providing mechanism (c).

Eulerich and Lenz (2019), in reference to studies by Gramling et al., 2004 Carcello et al., 2005 Soh & Martinov-Bennie, 2011 and Eulerich et al., 2013, have stated that as a result of the changing regulatory environment and the shifting role and self-perception of internal auditors, the IAF has become the cornerstone of corporate governance. Integrity, a fundamental bedrock of internal audit, has become vital for developing strong and sound financial reporting frameworks that produce accurate and dependable financial statements (John-Oti, 2023). The right governance and internal audit infrastructures have become a critical success factor for organizations' growth, development and sustainability for the long haul.

It is in the light of the preceding that this study attempts to make an assessment of the extent to which the NCCG 2018 has provided for the enhancement of the effectiveness of the IAF and the adequacy of the compliance monitoring and evaluation towards establishing the extent of independence, objectivity and professionalism of the IAF for private and public companies in Nigeria.

B) Objectives of the Study

The study seeks to:

i. Ascertain the extent to which the NCCG 2018 has leveraged and reinforced the potency of the IAF for the public and in addressing the cardinal issues of governance, control and risk management
ii. Identify and highlight the existence of specific provisions in the code towards higher levels of independence, objectivity and professionalism for the IAF of public and private companies in Nigeria
iii. Evaluate the adequacy of the compliance monitoring and evaluation towards establishing the extent of independence, objectivity and professionalism of the IAF

C) Research Question

The research question for the study is to examine to what extent the emergence of the NCCG 2018 has catered to the fundamental requirements for effectiveness, independence, objectivity and professionalism of the IAF for private and public companies in Nigeria.

i. To what extent has the code leveraged and enhanced the effectiveness of the IAF in addressing the cardinal issues of governance, control and risk management in private and public companies in Nigeria?
ii. Identify and highlight the existence of specific provisions in the code towards higher levels of independence, objectivity and professionalism for the IAF for public and private companies in Nigeria?
iii. To what extent are the compliance monitoring and evaluation arrangements towards establishing the extent of independence, objectivity and professionalism of the IAF adequate?

D) Research Hypotheses

The hypotheses of this research are:

H_{01}: The NCCG 2018 has no significant effect on the effectiveness of the IAF for Private and public companies in Nigeria.
H_{02}: There are no specific provisions in the code towards higher levels of independence, objectivity and integrity for the IAF for public and private companies in Nigeria?
H_{03}: The monitoring and evaluation operations towards establishing the extent of independence, objectivity and integrity of the IAF for public and private companies in Nigeria are inadequate.

II. LITERATURE REVIEW

A) Theoretical Framework

Agency theory is a fundamental theory that serves as an approach to building a theoretical framework for IA effectiveness. Different studies have been deployed to investigate IA effectiveness. The guidelines provided by the International Standards for Professional Practice of Internal Auditing (ISPPIA) have been used by Al Darwish 1990; Al-Twaijry et al., 2003), whereas others such as Mihret & Yismaw, 2007; Arena & Azzone, 2009; Ahmad et al., 2009, developed their own models for determining IA effectiveness. Due to the dearth of research on this, we are still some reasonable distance away from common ground on an orthodox model for determining IA effectiveness. The Agency Theory was hugely endorsed by **Adams, M. B**. (1994) for its attributes:

- Providing a background supporting the need, nature and approach for the Internal Auditing activity.
- Predicting how the organizational structure and dynamics would affect internal auditors
- Providing a basis for meaningful research in Internal Auditing

Stated differently, the Agency Theory offers a valuable theoretical framework for investigating the role of internal auditing. Not only does it aid in explaining and forecasting the presence of an internal audit, but it also helps in explaining the role and responsibilities that the company assigns to internal auditors and forecasts how organizational shifts will probably impact the internal audit function. This study is, therefore, anchored on the Agency theory, the Stewardship Theory and the principle of best fit.

B) Agency Theory

In the words of Millichamp and Taylor (2008), the agency is the name given to the practice by which another person or group of persons manages productive resources owned by one person or group.

An agency relationship is defined as “a relationship that develops when one or more principals (e.g., an owner) employ another individual as their agent (or steward) to perform an act on their behalf” by the Institute of Chartered Accountants in England and Wales (2005). The Institute goes on to say that when this service is rendered, the agent is granted some degree of decision-making ability. An effective and productive economy is supported by the principal’s distribution of responsibilities and the ensuing division of labor. Additionally, it suggests that the principal must have faith in the agent to operate in the principal’s best interest.

In explaining the Agency Theory developed by them, Jensen & Meckling (1976) stated that an organization (firm) is composed of a nexus of contractual relationships among varying stakeholders in the entity. They posited that it was commonplace to have divergent opinions between the promoters (owners) and the executives who manage the organization over what was in the best interest of the entity. The Agency Theory thus sought to have in place the best possible contractual engagement between the principal (owners) and the Agents (management, employees, et al).

A fundamental assumption of the theory is that it is most common to have in place scenarios where the agent does not maximize the interest (wealth) of the principal due to the following reasons:

a) Goal divergence between the principal and the agent
b) Information asymmetry between the principal and the agent
c) Divergent aptitude toward risk between the principal and the agent.

Since managers serve as the organization’s agents to carry out certain tasks on behalf of the principals who assign certain decision-making authority and may abuse this authority for their own gain, the presence of Audit Committees and external and internal auditors will aid the organization in improving performance and guaranteeing that management carries out plans in accordance with established protocols (Adams, M. B., 1994).

From the perspective of the Agency theory, therefore, the main focus of the internal audit is to whittle down the level of asymmetry of information and the concomitant ineffectiveness unleashed among principals and agents, thus contributing towards ensuring that the essence of corporate governance as midwifing and achieving congruence among competing expectations of various stakeholders of an organization and their idiosyncrasies is facilitated (c).

Most certainly, agency problems are inevitable in every organization. It is important to find mechanisms and measures to reduce this conflict. A properly structured, resourced and enhanced IAF has enormous potential to whittle down agency conflicts significantly, for organizations, both public and private.

C) Stewardship Theory

The Stewardship Theory, propounded by Lex Donaldson and James Davies, is considered of necessity in examining the Internal Audit – Corporate Governance effectiveness in organizations. According to the theory, which provides a fresh and modern viewpoint on how ownership and management of firms interact, the manager is a steward of the company with goals and actions that align with the owners' (Donaldson & Davies, 2011).

The theory posits that:

i. There is no conflict of interest between managers and owners, and
ii. The goal of governance is, precisely, to find the mechanism and structure that facilitates the most effective coordination between the two parties (Donaldson, 2010).
iii. There is no inherent problem of executive control. In other words, organizational managers want to be honest and sincere in their actions (Donaldson, 2008).

In sharp contrast to the Agency Theory, which presupposes the existence of a conflict of interest between the agents and the principal, the Stewardship Theory is anchored on the presupposition that the behaviors and actions of managers are in congruence with the interest of the principal. It emphasizes the existence of goal convergence among the parties involved in corporate governance relative to the agent's self-interest (Van-Slyke, 2016).

Aligning with Freeman and Reed (1983), who identified two categories of stakeholders – those groups that are critical to the success and survival of the entity – and those groups who impact and or are impacted by the operations of the entity, Emerson and Raposo (2011) posited that stakeholders could be broadly classified into primary and secondary. The ones that are contractually covenanted with the entity are primary stakeholders, such as employees, customers and vendors. In contrast, those that are not formally contractually engaged with the entity are secondary stakeholders, such as the government and local communities.

D) The Principle of Best-fit

The paper also introduces and stresses the principle of best-fit, drawing essence from the comparative advantage theories to underscore the respective roles of the identified major key stakeholders saddled with the monitoring of compliance with the code towards enhancing the effectiveness of the IAF. The FRCN is best fit to exercise overall oversight on the activities of sectoral regulators assigned to monitor compliance with the NCCG 2018. The sectoral regulators and registered exchanges are best fit to monitor compliance with the code effectively and to impose appropriate sanctions based on specific deviations. Boards of Directors or those charged with governance of corporate organizations are best fit to ensure the existence of proper structures and adequate resources required to enable the IAF to thrive towards delivering an audit activity that is effective, efficient and objective. Executive Management is best fit to provide the enabling environment and support to the CAE to offer audit operations in a free, open and congenial atmosphere. The CAE is best to harness and nurture the required resources towards entrenching a culture of fair and objective internal auditing characterized by independence and professionalism. The staff of respective entities are also best fit for agreed-upon roles.

III. CONCEPTUAL FRAMEWORK

A) Internal Audit

The separation of management from ownership of organizations as corporations evolved over time gave impetus to the advent of audit activity (both internal and external). Statutorily, it became mandatory in several corporate jurisdictions for independent opinion to be expressed on the operations of companies as condensed in the financial statements produced periodically. As governance activities evolved, expanded and increased in sophistication, it became expedient and imperative to introduce an internal mechanism to review operations and management activities on an ongoing and continuous basis with periodic reports made to the Board of Directors.

The business landscape, widely organized around a market economic perspective, demands that the audit function play an increasingly mediating role in the assessment of certain scenarios, such as the viability of the organization, the reporting of frauds, malfeasance and illegal acts, the evaluation of the effectiveness, efficiency and economy of the entity (Aureo Nhaca, 2023). From its very rudimentary nature prior to the 1980s, with emphasis on checking compliance with organizational policies, rules and procedures (Alrjoub & Ahmad, 2017) and verification of the existence of assets (Vani, 2010), the scope of Internal audit witnessed a watershed with its revised definition by the Institute of Internal Auditors (IIA, 2001) as "an independent objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to achieve its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes." The revised definition moves the internal audit function's emphasis from assurance to value addition and unquestionably advances the field toward a standards-driven strategy with a stronger sense of identity (Bou-Raad, 2000; Krogstad et al., 1999).

Different entities employ varying frameworks to integrate the IAF into their organizational governance arrangement. Entity-centric factors such as business model, entity size, business diversification and extent of internationalization of activities play a huge part in this respect. The IAF stands out distinctly, providing support and assurance services for the Audit Committee and the Board of Directors. It is common practice for entities to have their internal organization structure anchored centrally on the IAF as the main assurance-providing mechanism (COSO, 2009; De Zwaan et al., 2011; Behrend & Eulerich, 2019).

Eulerich and Lenz (2019), in reference to studies by Gramling et al., 2004 Carcello et al., 2005 Soh & Martinov-Bennie, 2011; Eulerich et al., 2013, have stated that as a result of changing regulatory environment and the shifting role and self-perception of internal auditors, the IAF has become the cornerstone of corporate governance.

The right governance and internal audit infrastructures have become a critical success factor for organizations' growth, development and sustainability for the long haul.

By evaluating and reporting on the efficacy of governance, risk management, and control procedures created to assist the company in achieving its operational, strategic, financial, and regulatory goals, internal audit offers assurance. (IIA, 2018).

B) Internal Audit Reporting & Interactions

The efficacy and potency of the IAF is a function of its relationships and interactions with other corporate governance stakeholders/agents (risk management, corporate compliance, the Audit Committee, the Board of Directors, the External Auditor) in the corporate governance setup (Godwin, 2003; Radcliffe, 2009). A healthy interaction and collaboration among the Corporate Governance agents has the potential to accelerate the effectiveness and efficiency of control and governance as well as to secure speedy resolution of audit matters in an organization.

It is proper and, in fact, exceedingly appropriate to have the IAF report directly (functionally) to the Audit Committee and/or the Executive Board (Mat Zain et al., 2006). Effective collaboration between external and internal assurance providers achieves congruence in the all-important objective of reducing enterprise risk and achieving desired outcomes for organizations. It is totally in sync and bodes well with the IIA's Standard 2050 "Coordination and Reliance".

Major changes to management, external auditors, and corporate governance oversight roles followed the huge accounting frauds and the startling number of earnings misstatements. Additionally, the widespread failure in financial reporting has been substantially attributed to weak internal controls (Agrawal, 2003). Since then, internal auditing has enjoyed a level of prominence and attention that was hitherto unprecedented.

A major fallout of the corporate failures has been the emergence of more strict provisions in the governance requirements of several corporate jurisdictions insisting on increased transparency and, enhanced disclosure and clear declarations and certifications on the soundness of internal controls. Thus, Section 404 of the Sarbanes Oxley Act, 2002 (United States) mandates the inclusion of a declaration and certification (by the CEO and CFO) affirming the soundness of the internal control system of entities in the annual reports and accounts. Similar or very close provisions have been replicated across the governance requirements of most countries.

In contemporary times and following the role played by IAFs in unearthing the malfeasance in a number of organizations that were plagued by corporate scandals (Enron et al.), the appeal and allure of the IAF as a cornerstone of corporate governance assumed an upward spiral of ascendancy. The function has thus experienced redefining watersheds in its repositioning as the governance hub, forming a nexus between internal and external agents of assurance provision for corporate organizations.

Because both internal and external auditors gain from working together, a strong rapport between them strengthens an organization's assurance apparatus.

Information sharing facilitates knowledge transfer and reduces effort duplication when it comes to similar auditing activities. Mutual learning processes are also produced when the work of internal and external auditors is coordinated. As a result, the underlying expertise is increased in addition to the audit processes being utilized and optimized. Additionally, by incorporating IAF data into their audit plans, external auditors can enhance their work, and collaborative audits provide an opportunity to benefit from organizational efficiencies. This is encouraging in light of the IIA's Standard 2050 "Coordination and Reliance."

An effective IAF serves as a primary information source and, as a result, gives the board members a great deal of assistance in carrying out their supervisory duties. Thus, the level of cooperation is highly dependent on how much the board values the IAF, but it always contributes to the improvement of corporate control and audit-related issues.

Qualification levels are always rising, and the type of knowledge needed is shifting from broad to specialist. The ability of internal auditors and audited units to speak on an equal footing is made possible by this specific competence, which enhances both value-added and communications.

A functioning audit function is supposed to add value to the company as a whole, and this requires interaction and communication between the IAF and other organizational governance players, including the board of directors and the AC.

IV. CORPORATE GOVERNANCE

Corporate governance is the system by which companies are directed and controlled (Cadbury Committee, 1992). It is derived from the Latin word 'gubernare', which means 'to drive or steer'. Thus, corporate governance is concerned with the direction and function of an organization (Gachie, W. & Govender, D. W., 2017). Corporate governance, like political governance, is about limiting power and holding power accountable (Korine, 2020, p. 15). It is the way an entity governs itself, akin to a sovereign state, through the laws, policies, procedures and customs (Stanwick, P. & Stanwick, S. (2017).

Corporate governance emphasizes rules and principles of organizational direction towards the strict and stern imposition of the rules with checks and balances designed to guide operations and the conduct of business (Gachie, W. & Govender, D. W. 2017). Such checks and balances enthrone transparency, responsibility and accountability in business operations (Stanwick, P. & Stanwick, S. (2017).

According to the IIA (May 2018), The combination of procedures and frameworks known as governance is intended to assist the company in accomplishing its goals. The processes and structures of an organization are subject to the influence of both known and unknown risks, as well as hazards that impair the organization's ability to accomplish its goals.

I would define corporate governance as a systematic and structured collection of processes designed to minimize conflict and to ensure proper accountability and transparency in the operations of an organization.

As organizations strive to promote accountability, integrity and quality of service and products amidst heightened competition and disparate stakeholders' needs, enthroning an effective and efficient corporate governance framework offers a potent elixir to the challenges and bottlenecks of contemporary corporate management and administration. Such challenges are multidimensional and manifest in torrents and with such intensity that most entities have, in recent times, been driven into unanticipated collapse and, oftentimes, complete extinction.

Attractive as self-regulation and policing have appeared to free market economies, it has been established, reasonably so, that operating without a form of censorship and regulation leaves several stakeholders at the mercy of managers who, most of the time, are bereft of scruples. The era of absolute self-governance by organizations has been characterized by unethical conduct in the form of corruption, mismanagement, financial statements misstatement and a vast number of other malfeasances, all combining to unleash a plethora of governance failures across nations and other geographies.

Corporate governance comes in, readily and handily, to provide a bulwark against corporate rascality and to foster a sense of order, discipline, transparency, accountability, responsibility and integrity in the operations and administration of organizations, if only, to 'tame the raging bulls'.

A 2002 McKinsey Survey revealed that 'Corporate Governance is at the heart of investment decisions'. In other words, investors are willing to put corporate governance on the same pedestal as financial indicators in evaluating investment decisions (Mckinsey, 2002).

When governance breaks down, it is because of too much power concentration, not enough accountability or both (Korine, 2020, p. 11). There is a lot the IAF can do to help in preventing governance failure.

Effective corporate governance demands that the Board of Directors sets strategic objectives, provides leadership for their realization, supervises management and reports to shareholders on their leadership (Kabeyi, 2019). The lessons from the experiences of the Enron Corporation and Volkswagen scandals depict that the consequences of failed corporate governance could be dire and far-reaching for a varied group of stakeholders, including the perpetrators and the innocents. The signposts indicative of governance failures include manipulation of financial records, corruption, poor quality products and services, high staff turnover, poor stakeholder relationships, exaggerated quality specifications in manufacturing and engineering, lack of transparency and accountability, shoddy performance and low economic development with the potential to result in widespread poverty and social disorder (Kabeyi, 2019A recurring subject in corporate governance is how to make sure that an entity's authority is utilized for the intended purpose rather than being diverted in another direction (Gachie, W. & Govender, D. W. (2017).

According to Monks and Minow (2008), a string of corporate meltdowns, frauds, and other misfortunes in 2002 resulted in the depletion of shareholder wealth, the loss of jobs, the opening of criminal cases against dozens of executives, and a record number of bankruptcy filings. This made the worldwide significance of corporate governance evident. Due to the growing awareness that an entity's corporate governance influences both its financial performance and its capacity to get long-term, low-interest finance, corporate governance concerns are generally getting more attention (Mordelet, 2009).

Global organizations, nations, and public and private organizations all embrace the idea and practice of corporate governance. Better corporate governance makes it easier for businesses to access capital markets, which is crucial for businesses looking to borrow money on favourable terms and on a large scale.

According to Oliver Hart (1995), when two circumstances come together, corporate governance problems in an organization occur. First, there is an authority problem, or conflict of interest, affecting employees, customers, management, or owners of the company. Second, a contract is not a viable solution for this agency problem due to transaction costs.

V. EMPIRICAL FRAMEWORK

A study conducted in the East African country, Tanzania, by Njunwa, F., 2013, with the main objective of determining the factors that contributed to ineffectiveness of the internal audit function in promoting good corporate governance in the public sector in Tanzania, with data obtained by structured questionnaire and employed multiple regression model for data analysis attributed the ineffectiveness of the IAF in the Mwanza City Council, and by extension, the public sector in Tanzania to factors such as lack of integrity, independence and proficiency of Internal Audit personnel.

Another East African study, this time Ethiopia, by Mihret, D. G. and Yismaw, A. W., 2007, addressed public sector tertiary educational institutions as a case study and, using a model for the analysis identified key factors with significant impact on IA effectiveness to include organizational structure/setting, characteristics of the auditees, management support and quality of the Internal Audit function.

Towards investigating the role of internal audit in enhancing corporate governance for companies listed at the Nairobi Stock Exchange with the stated objectives to include assessing the auditor's role in corporate governance, assessing internal audit's capacity to achieve its objectives and suggesting how the independence of the internal auditors could be secured, Odoyo & Monwono (2014), in their study, using descriptive research design with the questionnaire as the means of data collation in a sample size of thirty (30) companies quoted on the Exchange, found that eighty-four percent (84%) of respondents opined that the corporate governance of companies listed on the Exchange is influenced by internal audit activity. They thus concluded that internal audit activity contributes to corporate governance effectiveness while recommending, among others, that the CAE reports functionally to the audit committee and administratively to the CEO.

In examining to better comprehend the organizational drivers of internal audit effectiveness having regards to contemporary changes in the 'mission' of internal auditing and its central role in corporate governance, Arena and Azzone (2009) employed a questionnaire survey, taking a sample of 153 Italian companies. They found that internal audit effectiveness increased under scenarios where the proportion of internal auditors to employees was high, the CAE was fully associated with the IIA, and the organization adopted control risk-assessment techniques and the strong involvement of the audit committee in internal audit activities.

Investigating the significance of internal auditing in the public sector of Malaysia, Ahmad et al. (2009) administered a questionnaire to 99 persons, made up of internal auditors, directors of audit and others. The study revealed that factors such as top management support, knowledge and proper training of internal auditors and the extent of appreciation of the internal audit activity had a very significant impact on the implementation of internal audit recommendations and, therefore, its effectiveness.

Furthermore, investigates the role of internal audit in strengthening corporate governance in Nigeria, with the main objective of examining, from a theoretical perspective, the contribution of internal audit to corporate governance and the interaction between various corporate governance organs such as the BODs, audit committee, an external auditor with the internal audit activity, Unuigbokhai & Ihimekpen (2014), undertook an extended literature review. They concluded that internal audit significantly contributes to the improvement of corporate governance in Nigeria and that the study demonstrated a favorable association between internal audit and the governance of companies. They recommended that scholars undertake organization-specific studies to further enrich the literature on the impact of internal audits on corporate governance in Nigeria.

VI. SPECIFIC PROVISIONS IN THE CODE ENHANCING THE EFFECTIVENESS OF THE INTERNAL AUDIT FUNCTION

A) Approval of the Internal Audit Charter (IAD Charter)

The code mandates that "the purpose, authority and responsibility of the IAD function should be clearly and formally defined in an ***IAD Charter*** duly approved by the Board."

This Internal Audit Charter, from which the IAF derives its audacity, originality and leverage, defines and specifies the purpose, authority and responsibilities of the internal auditing activity. The rights and obligations of auditors, as well as the responsibilities of auditees, are also defined here in such a manner as to facilitate and elicit seamless interactions and cooperation. For propriety, this charter draws on global best practices and aligns with the provisions of the *International Standards for the Professional Practice of Internal Auditing (ISPPIA).*

For instance, the Basel-based *Bank for International Settlements* clearly states in its IAD Charter that "The Head of Internal Audit reports administrative to the General Manager (i.e., CEO) and operationally to the Chair of the Board's Audit Committee in order to maintain independence. In accordance with the Bank's regulations, the Head of Internal Audit establishes the goals for internal auditors and evaluates their work on an annual basis. IA has no operational control or authority over any of the audited activities in order to preserve objectivity. Internal controls and other aspects of each business unit's operations are under its own jurisdiction (Bank for International Settlements, July 5, 2021)."

B) Appointment & Removal of the CAE.

The code, in ensuring that the position of the CAE is fortified against possible manipulation and intimidation from Management, makes the appointment, evaluation, appraisal and removal of the CAE the exclusive preserve of the Board of Directors. This provision substantially promotes the objectivity, independence, integrity and professionalism of the IAF, thus reinforcing the effectiveness and efficiency of the audit activity.

Any corporate governance arrangement with respect to the position of the CAE that negates such provision would have in place a CAE that carries on according to the whims and caprices of Management and thus would have succeeded in enthroning an audit activity that is headed for disaster. As posited by Aguwamba & Akwawa 2022, as part of their duties, internal auditors conduct a variety of activities. Management sets the tasks that internal auditors must complete because they are employees of management and answer to them. Therefore, the scope and nature of internal audit activity are determined by the unique characteristics of a business and the demands of management. The tasks that internal auditors carry out are intended to find, examine, assess, and document enough data to support management in carrying out its responsibilities and making judgments. This is clearly a recipe for governance failure. Given this scenario, there is an enormous propensity for the CAE to be pliable and to exist at the mercy of the management that appointed him.

C) Evaluation of the CAE

The code provides that the evaluation of the CAE function should be performed by the Committee of the Board responsible for audit and he may only be removed by the board on the recommendations of that Committee. The authors of the code were demonstrably desirous of insulating the position of the CAE from the stranglehold of Management in many ways which included the evaluation and appraisal of the CAE. Any corporate governance arrangement that places the fate of the CAE, in terms of the latter's periodic appraisal, reward and sanctions, in the hands of the management of the organization is a recipe for organizational collapse as the governance apparatchik would have a high propensity to crumble. The saying goes, '*He who pays the piper dictates the tone.*'

D) Access Rights and Reporting Responsibility

From the perspective of access rights and reporting, the code provides that the CAE shall:

- Have unrestricted access to the Chair of the Audit Committee as well as the Chair of the Board.
- Report to the Audit Committee every quarter on the efficacy and sufficiency of the management, governance, and control of the risk framework; also report on any discovered flaws and leadership mitigation strategies.
- Meet with the Audit Committee and the outside auditor and have a discussion without management present to allow for the sharing of opinions and concerns that might not be suitable for a public forum.

The access and exclusivity provisions ensure that the CAE is well empowered to reach out to the leadership of the Board and the Audit Committee at any time to share experiences on the operations of the organization and the activities of management. It effectively puts the CAE in a stead to exercise authority and implement audit activities that would put the management in proper check and leave it in no doubt over the pervasiveness of the IAF which will ultimately enhance independence, objectivity and professionalism of Internal Audit operations.

E) Status of the CAE

The code has provided that the board should ensure that:

- The IAD function is headed by a member of Senior Management with requisite qualifications and experience and is duly registered with a recognized professional body
- The IAD function is sufficiently skilled and resourced to address the complexity and volume of risk faced by the entity

This provision is geared towards putting the CAE on such a pedestal that other governance organs and assurance partners reverence the position. It is quite imperative that the CAE sits at the highest level of Management of the entity to enable him to advise the Management as appropriate, in a consulting capacity, as well as to observe deliberations at the Management meetings for proper guidance in reporting to the Audit Committee. It also addresses the skills set and the resourcing needs of the IAF, which should be a matter of utmost concern and, as well, attended to by the board, and not by management over which activities the CAE reports.

F) Preclusion of Executive Directors from Membership of Some Key Board Committees.

The code precludes Executive Directors of an organization from membership in the following very crucial Committees of the Board:

- Audit
- Remuneration
- Nomination
- Governance

Each of these Committees of the Board has both direct and indirect bearing on the CAE and the Internal Audit function, such as appointment, evaluation, appraisal, remuneration of auditors as well as consideration of the periodic reports made by the CAE. To enhance the effectiveness of the IAF, it seems that membership of the Committees excludes Executive Directors of the entity, being sit-in members of Management over which activities the CAE examines and periodically reports on.

VII. METHODOLOGY

Survey Research Design was adopted by the study. To ensure that the respondents were persons with the capacity to provide meaningful insight and objective evaluation of the subject matter of the study, the selection was limited to persons with roles in Internal Audit, Compliance, regulation and governance activities in the organizations. 110 internal auditors and accountants with professional certifications made up the study's population. Because it was a manageable size, the full population was chosen as the sample size.

The Structured Questionnaire served as the data-gathering tool. With response options of Strongly Agree (SA), Agree (A), Disagree (D), and Strongly Disagree (SD) with weights of 4, 3, 2, and 1, respectively, the questionnaire was a modified 4-point Likert scale. Personal physical contact was made with respondents in distributing and obtaining the completed questionnaire with a view to further ensuring that the respondents met the defined criteria. The Return Rate achieved was 100% as the Total of 110 Questionnaires handed out were received back, duly completed.

The tool employed for data analysis was the Mean, while Chi-Square (X2) was employed for testing the stated hypotheses. Towards analyzing the research questions, the Options were categorized into two – Effective/Adequate and Ineffective/Inadequate, represented by 2 and 1 as Codes, respectively. Furthermore, Code 2 stood for Strongly Agree and Agree, while Code 1 stood for Disagree and Strongly Disagree. Thus, Mean Values of 1.5 and above were regarded as Effective/Adequate, while those that were less than 1.5 were categorized as Ineffective/Inadequate.

A) Population of the Study

The targeted population of this study was staff members drawn from three Sectoral Regulators (SRs) who are part of the agencies charged under the code to monitor and evaluate compliance of entities with the provisions of the code and to apply sanctions for violations. The specific names and identities of the Sectoral Regulators chosen are kept under wrap due to the sensitive nature of the evaluation. They are simply identified in the study as SRA, SRB and SRC. The personnel of these institutions engaged in accounting, auditing, legal and prosecution, investigations, and inspections were the distinctive components of the population. The study gave careful thought to the target population's knowledge and comprehension of the issues under investigation.

VIII. DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

The results of the study are presented in the Tables below.

Table 1: Gender of Respondents

Male	Female	Total
75	35	110

Source: *Researcher's Survey, 2024*

Table 2: Organization of Respondents

Sectoral Regulator A (SRA)	Sectoral Regulator B (SRB)	Sectoral Regulator C (SRC)
50	35	25

Source: *Researcher's Survey, 2024*

Table 3: Status of Respondents

Accountants	Internal Auditors	Total
45	65	110

Source: *Researcher's Survey, 2024*

Table 4: Working Experience of Respondents

0 – 10 Years	11 – 15 Years	15 – 20 Years	20 Years & Above	Total
12	28	30	40	110

Source: *Researcher's Survey, 2024*

Tables 1 – 4 above show the bio-data of the respondents.
Specifically, Table 1 shows that of the 110 respondents,75 were males, while 35 were females.

Table 2 shows that 50 of the respondents were from the SRA, 35 from the SRB and 25 from the SRC. Sectoral Regulators are entities that regulate the operations of companies operating under each sector such as banking, Insurance, Telecommunications, Pensions, etc. They receive returns (Periodic Reports) from the companies, monitor their activities and evaluate compliance from the perspective of corporate governance et al. The code has specifically mandated the Sectoral Regulators to monitor compliance with the code and meet sanctions as appropriate. The Sectoral Regulators are thus best fit to evaluate compliance with the code in the areas of audit, compliance and corporate governance, in general.

Table 3 reveals that 45 of the respondents were accountants, while 65 were internal auditors.

Table4 shows that 12 of the respondents have worked between 0 and 10 years, 28 between 11 and 15 years, 30 between 15 and 20 years, and 40 have worked for 20 years and above. With over 64% having spent 15 years and more in regulating the activities of corporate organizations, it is very obvious that the respondents had substantial knowledge of the matters in question in this study.

Table 5: Summary of Responses on the extent to which the code has enhanced Internal Audit Effectiveness

Q	Factors (Consideration)	N	Mean	STD DEV
1	Audit Committee and Top Mgt support crucial for IAF effectiveness	110	1.88	.8348
2	The code has adequate provisions for resourcing the IAF	110	1.78	.6743
3	Adequate provision in the code to insulate the IAF from Mgt intimidation	110	1.67	.5621
4	The pattern of interaction between CAEs and SM is a key determinant of IA effectiveness.	110	1.66	.5879
5	There is a lot the IAF can do to help prevent governance failure	110	1.75	.6745
6	The code has encouraged more entities to have the IAD Charter duly approved by the Board	110	1.59	.6243
7	The code has enhanced the IAF's role in risk management, control, governance	110	1.65	.7243
	Grand Mean		1.77	

Source: *Researcher's Survey, 2024*

As evident in Table 5, respondents were unanimous that the Audit Committee and top management support was crucial to internal audit effectiveness and that the code has adequate provision towards ensuring that the IAF was properly resourced, with means of 1.88 and 1.78, respectively. Also, with means of 1.67 and 1.59, respectively, respondents were largely of the view that there is ample provision in the code to insulate the IAF from intimidation by management and that the code has prompted most organizations to have in place duly approved Internal Audit Charters.

With a grand mean of 1.77, aligning with the code and enhancement of internal audit effectiveness, respondents were of the opinion that there existed enormous support mechanisms towards reinforcing the internal audit effectiveness for private and public entities in Nigeria.

Table 6: Summary of Responses on provisions in the code for a higher level of independence, objectivity and professionalism of the IAF

Q	Factors (Consideration)	N	Mean	STD DEV
8	The existence of an Internal Audit Charter is relevant to IAF's effectiveness	110	1.72	.4674
9	The code has enhanced IA independence, objectivity and proficiency	110	1.67	.5624
10	The BODs have sole prerogative to approve the Internal Audit Charter	110	1.84	.4356
11	The IAD Charter defines and specifies the purpose, authority and responsibilities of the internal auditing activity	110	1.58	.6321
12	The provision in the Code for Exclusive meetings of the Audit Committee with the internal and external auditors is ideal	110	1.88	.7622
13	The preclusion of executive directors from key Board Committees is ideal	110	1.79	.6742
14	Evaluation of the CAE is a prerogative of the BODs	110	1.76	.4164
	Grand Mean		1.75	

***Source:** Researcher's Survey, 2024*

As can be seen from **Table 6**, respondents were largely of the opinion that, in recognizing the relevance of the Internal Audit Charter to the efficiency of the IAF and towards enhancing the independence, objectivity and professionalism of the IAF, the IAD Charter, which defines and specifies the purpose, authority and responsibility of the IAF, is mandated for approval, under the code, exclusively by the Board of Directors. This was indicated by the Mean of 1.72, 1.58 and 1.84, respectively, obtained from the survey. This aligns with global best practices and the provisions of the *International Standards for the Professional Practice of Internal Auditing (ISPPIA).* With a mean of 1.88, survey respondents substantially affirmed the provision in the code for the Board Audit Committee to hold exclusive meetings, from time to time, with the Internal and External auditors to discuss matters of interest in the absence of executive management. Also, with a mean of 1.79, respondents were of the opinion that it seems to preclude executive management from key committees of the board that are crucial to the independence, objectivity and proficiency of the IAF. Such Committees include Audit, Remuneration, Nomination and Governance.

Table 7: Summary of Responses on Compliance monitoring & evaluation mechanisms towards establishing Internal Audit effectiveness

Q	Factors (Consideration)	N	Mean	STD DEV
15	The Financial Reporting Council of Nigeria (FRCN) is best fit to exercise overall oversight on the activities of sectoral regulators et al. assigned to monitor compliance with the Code	110	1.65	.6321
16	The code provides for proper insulation of the CAE from Mgt whims	110	1.58	.4528
17	The sectoral regulators are the best fit to monitor and evaluate compliance with provisions of the code towards establishing the integrity of the IAF	110	1.64	.5482
18	The objectivity, independence, integrity and professionalism of the IAF is enhanced under the Code	110	1.56	.5611
19	Adequacy of the FRCN exercise of oversight on sectoral regulators et al. in monitoring and evaluation compliance with the Code	110	1.37	.4862
20	Adequacy of the sectoral regulators' monitoring and evaluation of compliance with the code on the integrity of the IAF	110	1.32	.5493

***Source:** Researcher's Survey, 2024*

Analysis of the data in Table 7 shows that with a mean of 1.65, respondents were hugely of the opinion that the Financial Reporting Council of Nigeria (FRCN) was best fit to exercise overall oversight on the activities of sectoral regulators and registered exchanges assigned to monitor compliance with the code towards establishing IA effectiveness. Also, with a mean of 1.64, respondents are overwhelmingly of the opinion that sectoral regulators and registered exchanges who are empowered by law and regulation to receive periodic returns from the entities operating in the sectors are best fit to monitor and evaluate compliance with the code towards establishing extent of effectiveness of the IAF of such entities. Sadly, with means of 1.37 and 1.32, respectively, respondents adjudged the monitoring and evaluation activities of the FRCN and the sectoral regulators towards establishing the extent of effectiveness of the IAF as grossly inadequate.

A) Test of Hypotheses

H_{01}: The NCCG 2018 has no significant effect on the effectiveness of the IAF for Private and public companies in Nigeria.

Table 8: A Contingency Table on Chi-Square Test for the Relationship between the NCCG 2018 and Internal Audit Effectiveness

Question Number	**$\chi 2$ (**Calculated)	**$\chi 2$ (Critical)**	Decision
1, 2, 3, 6, 7	12.921	5.991	Reject **H_{01}**

Source: *Researcher's Survey, 2024*

We gather from **Table 8** above that the calculated value of **$\chi 2$** ***(12.921)*** is greater than the ***C****ritical* value at the 5% level of significance for the Degree of Freedom of 2 ***(5.991)***. We, therefore, reject the Null Hypothesis, which states that the NCCG 2018 has no significant effect on the effectiveness of the IAF for Private and public companies in Nigeria, and conclude that the code has a significant effect on the effectiveness of the IAF for public and private companies in Nigeria. In other words, the two attributes are not independent but substantially associated.

H_{02}: There are no specific provisions in the code towards a higher level of independence, objectivity and professionalism of the IAF

Table 9: A Contingency Table on Chi-Square Test for the availability of specific provisions in the code towards higher levels of independence, objectivity and integrity of the IAF

Question Number	**$\chi 2$ (Calculated)**	**$\chi 2$ (Critical)**	**Decision**
9, 10, 11, 12, 13, 14	8.563	5.991	Reject **H_{02}**

Source: *Researcher's Survey, 2024*

We gather from **Table 9** above that the calculated value of **$\chi 2$** ***(8.563)*** is greater than the ***C****ritical* value at the 5% level of significance for Degree of Freedom of 2 ***(5.991)***. We therefore reject the Null Hypothesis, which states that there are no specific provisions in the code towards higher levels of independence, objectivity and integrity for the IAF for public and private companies in Nigeria? In other words, the two attributes are not independent but substantially associated.

H_{03}: The monitoring and evaluation operations towards establishing the extent of independence, objectivity and integrity of the IAF for public and private companies in Nigeria are inadequate.

Table 10: A Contingency Table on Chi-Square Test for the relationship between the monitoring and evaluation operations of regulators towards IA Independence, Objectivity and Integrity

Question Number	**$\chi 2$ (Calculated)**	**$\chi 2$ (Critical)**	**Decision**
15, 17, 19, 20	3.432	5.991	Accept **H_{03}**

Source: *Researcher's Survey, 2024*

We gather from **Table 10** above that the calculated value of **$\chi 2$** ***(3.432)*** is less than the ***C****ritical* value at the 5% level of significance for the Degree of Freedom of 2 ***(5.991)***. We therefore accept the Null Hypothesis, which states that the monitoring and evaluation operations towards establishing the extent of independence, objectivity and integrity of the IAF for public and private companies in Nigeria are inadequate.

IX. CONCLUSION AND RECOMMENDATIONS

A) Conclusion

The paper concludes that the NCCG 2018 has profoundly enhanced the effectiveness of the IAF for public and private companies in Nigeria. The code has generous provisions towards higher levels of independence, objectivity and integrity for the IAF for public and private companies in Nigeria. The monitoring and evaluation operations towards establishing the extent of independence, objectivity and integrity of the IAF for public and private companies in Nigeria are inadequate.

B) Recommendations

In light of the aforementioned and the study's findings, the suggestions that follow have been put forward in the hopes that a variety of stakeholders, such as corporate managers, multinational companies, auditors, accountants, and regulators from both the public and private sectors, will find them useful.

1. Business organizations should consider having in place a robust and sound Audit Committee with membership made up of persons with strong financial and analytical backgrounds and skills. This would, most certainly, promote constructive and resourceful engagement with the CAE and the board towards positioning the IAF to deliver on its role as a change agent and a cornerstone for sound corporate governance.
2. The specific provisions in the code towards enhancing the independence, objectivity and integrity of the IAF should form part of the toolkits for evaluating corporate Boards of companies and organizations in the annual corporate governance review.

3. The monitoring and evaluating oversight mechanisms of the Financial Reporting Council, the Sectoral regulators and registered exchanges over compliance with the code as it relates to the independence, objectivity and integrity of the IAF should be ramped-up.
4. Proper and effective communication of Governance Policies and accountability frameworks, organization-wide, including extended operations, strategic business units and other forms of commercial alliances. The CAE should take responsibility for the monitoring, review and reporting of such policies to the board.
5. Regular communication and engagement amongst the CEO, the Audit Committee, the CFO and the CAE with a view to facilitating traction and common ground on internal controls, the risk management processes and the financial reporting system.

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