

The Role of Internal Auditing in Enhancing Good Corporate Governance Practice in an Organization

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Abstract

Corporate governance has been recognized as an indispensable factor in ensuring sound financial reporting and deterring misappropriations of capital in an organization. The growth of corporate governance has been of immense help to the internal audit function and has raised it to a professional status by emphasizing the benefits of independent judgment and objectivity in reporting. Internal auditing serves as a monitoring device, the organizational policeman and watchdog, thus, an integral component of corporate governance. The aim of this research is to examine the role of internal auditing in enhancing good corporate governance practice in the banking sector in Nigeria with focus on performance and to possibly provide guidance on strengthening the internal audit function in corporate governance. The aim was achieved through a critical review of related literature and the implementation of a survey research using email questionnaires. The study revealed that there exists a significant positive relationship between IAF and performance of banks through operational efficiency, organizational growth, higher profitability; solvency and continuity in business. The key conclusion drawn from this study was that compliance with corporate governance principles (especially IAF) leads to better organizational performance in the banking sector in Nigeria. Based on this it was recommended that the IAF should be continually supported by management and the board audit committee in terms of adequate staffing, training and compensation for effectiveness. Also, considering the position banks occupy in the economy, regulatory authorities in Nigeria should always ensure strict compliance with corporate governance guidelines and principles.

Keywords: Corporate governance; New York Stock Exchange; Financial markets

Introduction

The separation of ownership from control produces a condition where the interests of owners and ultimate managers may, and often do diverge, and where many checks which formerly operated to limit the use of power disappear [1]. It carries the risk to investors that management will misuse the resources entrusted to them and act in their own self-interest, even if it is detrimental to the shareholders [2]. These risks are better managed within the framework of corporate governance through accountability mechanisms such as financial reporting, internal control and auditing. The relevance of corporate governance in curbing financial malfeasance and ensuring probity in reporting cannot be overemphasized. Board of Directors and Audit committees are directly responsible for internal control framework and this governance responsibility is carried out via the help of internal auditors.

Since the beginning of the 21st century, the corporate world has witnessed series of failures (Enron, WorldCom, RBS, Northern Rock; Oceanic bank, Intercontinental bank), which brought about a heightened public awareness to corporate governance issues. The global economic crunch which began in 2007 added further strands to corporate governance practices and policies. These developments witnessed in the corporate sector have intensified investors' involvements. And with that trend, have come more and more demand for high corporate governance standards, to ensure the efficient and effective use of capital, which provides good returns on investments in a manner responsible for society's interest; and is protected from malfeasance and misappropriation. Corporate governance is about the procedures and processes according to which an organization is directed and controlled [3]. Corporate governance tends to encourage the efficient use of scarce resources as well as ensure accountability for the stewardship of those resources.

Good corporate governance is a sine-qua-non for the success of any organization. Its relevance was further stressed in a 2002 [4] McKinsey survey which stated that 'corporate governance is at the heart of investment decisions'. And investors tend to put corporate governance at par with financial indicators when evaluating investment decisions. Corporate governance is not an end in itself but a means to an end. As such, there are different factors that may lead to the accomplishment of its objectives.

One of those factors is effective internal audit function (IAF). The concept of internal auditing has been central in the debate on corporate governance and regulating financial reporting; its activities play an important part in the effective governance and risk and control framework. Internal auditing is an independent appraisal function established by management for the review of operations. It objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to the proper use of resources. Guidelines on good corporate governance all include recommendations for internal controls and audit as critical components of the governance structure. The provisions of the Cadbury code, published in 1992, were designed to improve internal mechanisms based on the assumption of a cordial relationship between corporate governance, internal control and audit, and financial reporting quality.

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Furthermore, after the major accounting scandals and the alarming number of earnings misstatements, there were calls for major reforms in the responsibilities and oversight of management, external auditors and corporate governance. In addition, the widespread failure in financial reporting has been largely blamed on weak internal control [5]. Since then, internal auditing has enjoyed a level of prominence and attention like never before. Consequently, due to the corporate failures, corporate governance codes now explicitly require disclosures by Companies on the soundness in their internal control system. Section 404 of the Sarbanes Oxley Act (SOX) made it compulsory for annual reports to contain a statement that management is responsible for internal controls and an assessment of the effectiveness of the internal control structure and procedure for financial reporting.

Again, in 2003, the US Securities and Exchange Commission approved final version of the revised New York Stock Exchange (NYSE) and NASDAQ requirements. The NYSE now requires listed companies to have an internal audit function. The Institute of Internal Auditors (IIA) has also clarified roles and responsibilities by affirming the importance of risk management and corporate governance. According to IIA, internal auditing helps an organization accomplish its objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and corporate governance.

However, in Nigeria, a survey by the Securities and Exchange Commission (SEC) reported in a publication in April 2003, showed that corporate governance was at a rudimentary stage, as only about 40% of quoted companies, including banks had recognized codes of corporate governance in place. Specifically for the financial sector, poor corporate governance was identified as one of the major factors in virtually all known instances of a financial institution's distress in the country. And one of those factors identified in poor corporate governance was weak internal control which is the primary area of the internal audit function [6].

While corporate governance and the IAF have been recognized as key factors in an organization in developed countries like U.S and the UK, corporate governance mechanisms are practically non-existent in less developed countries, including some transition economies [7]. The relationship between corporate governance issues and internal auditing enjoys very low patronage in both academic and professional literatures in developing countries like Nigeria. Having not seen much work on corporate governance and IAF in the Nigerian business environment, it becomes pertinent to carry out this study. Understanding corporate governance not only enlightens the discussion of perhaps marginal improvements in rich countries, but can also stimulate major institutional changes in places where they need to be made [7].

Internal auditing has undergone dramatic changes which have expanded its scope in a manner that allows it to make significant input to the organization it serves. The move away from a narrower scope of measuring and evaluating the usefulness of the IAF toward a wider spectrum of activities has created opportunities for the profession and academics to re-examine its role in the light of an ever increasing competitive market place. It then became quite natural that the vital role it plays be explored and to establish its proper place in the organization.

Furthermore, to gain a meaningful picture of how corporate governance practices have been carried out in Nigeria, a major focus of this research will be to provide qualitative evidence to determine whether compliance with corporate governance principles (especially

IAF) leads to better organizational performance in the banking sector in Nigeria for effective coverage and timely completion of this research.

The aim of this research is to find out the role of internal audit function in enhancing good corporate governance practices in the banking sector in Nigeria and also, to find out if in this sector, a strong internal audit function improved performance.

Literature Review

Conceptual framework

Corporate governance: Corporate governance involves a set of relationships and the network between a company's management, its board of directors, shareholders and stakeholders. It can be defined as 'the system by which companies are directed and controlled' [8]. Corporate governance is about the procedures and processes according to which an organization is directed and controlled. Also, corporate governance deals with the ways in which suppliers of finance assure themselves of getting a return on their investment [7].

Cohen and Hannon [9] using Public Oversight Board's perspective defined corporate governance as 'those oversight activities undertaken by the board of directors and audit committee to ensure the integrity of the financial reporting processes'. This view focuses on the control environment and control activities.

These definitions illustrate what corporate governance is and can be seen that it concern both the internal aspects (board structure and internal control) and external aspects (the relationships among stakeholders) of an organization. Most importantly, corporate governance also provides the instruments through which corporate objectives are set, monitored and achieved. Central to corporate governance thinking and practice are the shareholders and most especially board of directors and management. As earlier stated, recent corporate events has underlined the critical role of directors in promoting good corporate governance practices. These events have also highlighted the critical role internal auditing can play in supporting the board in ensuring adequate oversight for internal controls and the effectiveness of corporate governance. Particularly, boards are charged with the ultimate responsibility for the effectiveness of their organization's internal control systems.

Internal auditing: At this point, it is pertinent to elaborate more on internal auditing and its relevance in enhancing good corporate governance practice in an organization. Historically, internal auditing has been viewed as a monitoring function, the organizational 'policeman and watchdog' [10], tolerated as a necessary component of organizational control but deemed dutiful to the achievement of major corporate objectives. A review on internal auditing in recent years show it can, and thus, adds value to an organization. The financial scandals which provoked global concern with corporate governance highlighted apparent failures of accountability. Unavoidably, internal auditing mechanisms designed to secure accountability became a focus for argument about reforms in governance. Internal auditors traditionally experts in internal control but who were not highly regarded within the organization, have attracted the attention of boards grappling with external demands for assurance about corporate governance practice. Thus, Turnbull's approach to internal control has offered the chance to claim expertise in the vital areas of risk management. Internal auditing is an essential control mechanism used by both private and public organizations [11]. Controls mechanisms are those processes put in place to monitor, direct, promote or restrain the various activities of an organization to ensure that the objectives are met [12]. In corporations,

internal auditing functions as an important link in the business and financial reporting processes [13]. Internal auditors play significant role in monitoring an organization's risk profile and identifying areas of improvement in risk management.

The chartered Institute of Internal Auditors (IIA) defined internal auditing 'as an independent, objective assurance and consulting activity designed to add value and improve organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process. The primary purpose of internal auditing is to improve organizational efficiency and effectiveness through constructive scrutiny of internal processes, policies and procedures. Also, internal auditing ensures that weaknesses are detected in management operations and provides a basis for correcting deficiencies that have escaped the first line of defence before these deficiencies becomes uncontrollable or are exposed to the external auditors [11].

Corporate governance is an attempt to implement some risk analysis, verification, and control systems, with the objective of developing an effective and efficient management and governance. It is supported by internal auditing, with a vital role in assisting in the maintenance, reorganization of the internal control system and management advisory in general. However, while there is a growing body of academic and professional literature examining various aspects of corporate governance, there is paucity of research investigating the nature and extent of internal auditing on governance issues in the Nigerian business environment especially in the banking sector.

Corporate governance in the Nigerian banking industry: Corporate governance is one of the most critical issues in the financial service sector especially of banks globally. Retention of public confidence is very important given the role of the sector in the mobilization of capital, allocation of credit, the payment system and the implementation of monetary policies. The Basel committee on Banking Supervision (2006) defined corporate governance from a banking perspective as, "corporate governance involves the manner in which the business and affairs of banks are governed by the board of directors and senior management which, inter alia, affects how they: set corporate objectives, operate the bank's business on a day-to-day basis; meet the obligation of accountability to their shareholders (including, inter alia, supervisors, government, and depositors), align corporate activities and behaviour with the expectation that the bank will operate in a safe and sound manner and in compliance with applicable laws and regulations and protect the interests of depositors.

However, failures experienced in the recent past have made it imperative to promote sound corporate governance practice in the Nigerian banking sector. Poor corporate governance was identified as one of the major factors in virtually all known instances of a financial institution's distress in Nigeria [6]. Evidence can be found in recent Economic and Financial Crimes Commission's (EFCC) cases against some bank executives. For instance, a former CEO of Oceanic Bank PLC, Cecelia Ibru, was found guilty of fraud and mismanagement in 2009. Also, a former CEO of Bank PHB, Francis Atuche, was arraigned for fraud involving over twenty five billion Naira (N25B) of depositors' money. Others are former Executive chairman of Afribank and CEO of defunct Intercontinental Bank Erastus Akingbola. As a matter of expediency, the Central Bank of Nigeria (CBN) sacked the management of five (5) banks [14].

It was against this backdrop that a thirteen (13) point agenda

was introduced during the banking sector consolidation exercise in 2004, thereby enforcing a new code of corporate governance for banks in Nigeria. More so, the emergence of 'mega banks' in the post-consolidation era starting from 2005 tasked the skills and competence of management and boards in improving shareholders wealth and balance same against other stakeholders interest in an increasingly competitive business climate and the major area the corporate governance codes tend to address was the improvement of the required skills and competencies of management and boards in the banking sector.

CBN'S Codes of Corporate governance practices for banks post consolidation, 2005 (Abridged)

Equity ownership: Government direct or indirect equity holding in any bank shall be limited to 10% and an equity holding of above 10% by any investor is subject to CBN's prior approval.

Organizational structure

- The position of the chairman and the MD/CEO should be clearly separated. Also for the avoidance of doubt, no executive vice chairman is recognized in the structure.

- No two members of the same extended family should occupy the position of chairman and CEO at the same time.

- The number of non-executive directors (NED) should be more than that of the executive directors subject to a maximum board size of 20 directors.

- A committee of entirely NEDs should determine the remuneration of executive directors.

- At least two (2) non-executive board members should be independent directors (who do not represent any particular shareholder interest and hold no special business interest with the bank) appointed on merit.

- NED's remunerations should be limited to sitting allowances, directors' fees and reimbursable travel and hotel expenses. And their term of office should not be more than three (3) terms of four (4) years each (that is, 12 years).

- Banks should have clear succession plans for their top executive.

Industry transparency, due process, data integrity and disclosure requirements

- Where board directors and companies/entities/persons related to them are engaged as service providers or suppliers to the bank, full disclosure of such interests should be made to the CBN.

- The corporate governance compliance status report should be included in the audited financial statements.

Risk management

- Banks should put in place a risk management framework.

- The internal control system (ICS) should be designed and documented to achieve efficiency and effectiveness of operations; reliability of financial reporting, and compliance with applicable laws and regulations at all levels of the bank.

- External auditors should render reports to the CBN on bank's risk management practices, internal controls and level of compliance with regulatory directives.

The role of internal auditors

- Internal auditors should be largely independent, highly competent and people of integrity.
- The head of internal audit should not be below the rank of assistant general manager (AGM) and should be a member of a relevant professional body.
- He should report directly to the board audit committee but forward a copy of the report to the MD/CEO of the bank. Quarterly reports of audit must be made to the audit committee and made available to examiners on field visits.
- Internal audit unit should be adequately staffed.

Necessity for corporate governance practice

The central idea common to all regulators across different sectors is recognition of the need to incorporate a value system with potential for a comprehensive achievement of societal and corporate goals. Interests in corporate governance go beyond that of shareholders in the performance of individual companies in today's economies. Companies play significant role in our economies and we rely on them to manage personal savings and secure retirement benefits and as such corporate governance is very important.

The benefits of sound corporate governance can be said to include:

- Prevent dominance by self-seeking Chief executive officers (CEOs).
 - Eliminate the risk of misleading or false financial reporting.
 - Enhance confidence in company's management.
 - Higher probability of success. Good governance and good leadership in management often go together.
 - Strong reputation and therefore lesser likelihood of exposure to reputational risk; and,
 - Encourages investment in companies for longer term.
- Furthermore, the relevance of sound corporate governance practice was elaborated in a review of McKinsey survey [4] on investors, and it showed that an overwhelming majority of investors are prepared to pay a premium for companies exhibiting high governance standards. Premiums averaged 12-14% in North America and Western Europe, 20-25% in Asia and Latin America; and over 30% in Eastern Europe and Africa. More than 60% of the respondents stated they would avoid companies with poor corporate governance controls, and about 33% said they would completely avoid countries corporate governance rules and regulations are not strictly adhered to.

In summary, adherence to corporate governance practices help improve confidence of domestic investors, reduce cost of capital, underpin the proper functioning of financial markets and ultimately induce more stable sources of financing (OECD, 2004).

The relationship between corporate governance and internal auditing

Virtually all guidelines on sound corporate governance practice, includes recommendations for risk management through internal control and audit as a critical part of the governance mosaic. This relationship can be seen as an intricate part of the stewardship model of corporate governance [15]. Internal controls and audit has been a central concept in the debate on regulating corporate governance

and financial reporting since the Cohen Report on the auditor's responsibilities and especially the Tread way report on fraudulent reporting.

Power in dealing with "the audit explosion" claims that, the new corporate governance guidelines, such as the combined code in the UK, represents a new style of regulating an entity. Power predicted that "for such a style to succeed, the inside of organization and their internal control system (ICS) must be re-conceptualized as a potential regulatory space" [16]. As a consequence, the researcher has identified the concept of internal auditing and its relationship with corporate governance, an issue of main concern and a topic for closer examination.

The internal audit profession has gone through a significant revolution and has received renewed emphasis internationally. There is also a growing recognition of the role internal auditing can or should perform in contributing to improved corporate governance and reporting, as organizations perceive and respond to risks associated with non-financial disclosures [17]. For instance in the US and Nigeria, under the new SOX and CBN requirements, management is required to provide an assessment on the effectiveness of the internal controls and the external auditors are also required to conduct an audit on the internal controls and certify that management has carried out an assessment of those controls. Even though effective controls may not totally eliminate all potential accounting errors (both intentional and unintentional); it can limit the probability of financial misstatements. Greater risk of financial misreporting can result from ineffective internal controls.

In addition, based on the findings from a global internal audit survey, it has been reported that internal audit practitioners expect that in the near future, less emphasis would be placed on operational and compliance audits and audit of financial risks, while corporate governance, enterprise risk management, strategic reviews; social and sustainability audits and ethics audit are set to become major focus areas [18].

The focus on risk management and the role of Board of Directors in aligning management's strategy setting and risk appetite of the company has enhanced the importance of the internal audit function (IAF). The internal auditor actively serves as a risk monitor or manager for the board, management and or the audit committee. This role has been promoted recently in the periodicals of the Accountancy profession, most especially in the "Internal Auditor", the professional magazine of the Institute of Internal Auditors (IIA). This view was adopted in the Federation des Experts Comptables Europeens (FEE) discussion paper on the Financial Reporting and Auditing Aspects of Corporate Governance (FEE, 2003), and in the Integrated Framework for Enterprise Risk Management by the Committee of Sponsoring Organization (COSO). Hence, the IIA has positioned the internal auditor in a significant role in relation to corporate governance. More so, it has integrated the relevant audit standards from IFAC regarding financial audits, in their publications. These developments have placed the internal auditor in a vantage point as a provider of essential services to all users.

The relationship between internal auditing and corporate governance has increased significantly in recent years. Auditing regulations from society and the auditor's own rules and regulations have forced a closer view on internal control and audit. The focus on internal auditing function as a risk management tool, have become a key ingredient in corporate governance regulations. It is the direct responsibility of management and audit committee to set-

up and monitors the internal control framework of a company. This governance responsibility is carried through the instrumentality of internal audit function (IAF).

The IAF can therefore be counted as one of the six (6) pillars of the corporate governance structure besides Board of Directors, CEO or CFO, audit committee, external auditors, and Public Oversight Boards (POB), represented in Nigeria by CBN, Nigerian Deposit Insurance Corporation (NDIC), and SEC. IAF is capable of cooperating with other corporate governance mechanisms earlier mentioned, in improving the governance process and also provides objective assurance/assessment to the board and the audit committee about adequacy and effectiveness of the processes by which risks are identified and prioritized; managed, controlled and mitigated (FEE, 2003). It does this by:

1. Verification of records.
2. The evaluation of the logic and completeness of procedures, internal services and staffing to ensure they are efficient and appropriate for the organization's policies.
3. Reporting recommendations for improvements to management.
4. Supporting the audit committee in fulfilling its responsibility.
5. Reviewing the effectiveness of the organizations code of conduct and ethics policies.
6. Help in risk assessment and monitor performance.
7. Facilitating and enhancing communication with the Chief Executive Officer, Chief Financial officer and other oversight executives. For example, Coram et al. [12] found in a sample of 324 Australian and New Zealand organizations that those with internal audit function are more likely to detect and report fraud through misappropriation of assets than those without internal audit function.

Corporate governance and organizational performance

The link between corporate governance and organizational performance lies in the multi-dimensional nature of good governance. Corporate governance involves ensuring compliance with rules and protecting investors against unethical business practices, potential civil and criminal liabilities or organizational failures. Corporate governance is a significant factor for improving investors' confidence, increase competition and enhancing economic growth.

Corporate governance is the way in which suppliers of finance assure themselves of getting a return on investment [7], hence, it is very important to ascertain whether there is a correlation between organizational performance and corporate governance. The structure of corporate governance determines distribution of rights and responsibilities between various actors in an organization, (such as Board of Directors, management, shareholders, and other stakeholders) and lays rules and procedures for making corporate decisions. This way, it provides the framework through which the objectives are set and the means of attaining these objectives and monitoring performance are determined (OECD, 2004).

Sound corporate governance plays a key role in enhancing integrity and efficiency in organization as well as financial markets and institutions. The agency theory [2] suggests that a positive correlation exists between organizational performance and governance, that is, sound corporate governance should translate into improved operating performance and a higher market value, as better monitoring forces insiders to invest in projects that have positive NPV's and to reduce

perks and wastes; so that more of the benefits flow back to outside investors [7].

A recent cross-European study indicates that improved corporate governance ratings leads to better performance, whether market or accounts based. Levine [19] assert that when there is good corporate governance in place, banks efficiently mobilize and allocate funds; this in turn, lowers the cost of capital of firms, boosts capital formation and stimulates productivity growth. The benefit of improved corporate governance encompasses more than a greater sense of personal accomplishment or organizational pride. Researchers at the University of Michigan Business School, and other academic studies also found a positive correlation between effective governance and profitable investment opportunities. In all, internal auditing plays a critical role by promoting an integrated, well planned, and progressive governance programs [20].

In essence, the need for improved internal control and auditing mechanisms is one of the most important issues in public debate regarding corporate governance. This research project aims at providing insight into the role of internal auditing in enhancing good corporate governance practice in an organization with focus on organizational performance in the banking sector in Nigeria. Different academic and professional literatures have been reviewed and results revealed that internal auditing have a role to play in corporate governance, thus, an integral part of the corporate governance mosaic. This is generally attributed to recent developments in regulations, increased awareness and changes in organizational culture as to the role of internal audit function.

To arrive at a deeper understanding of how corporate governance enhances performance through the instrumentality of internal auditing, qualitative research will be implemented. Specifically, such research will attempt to find out the role of IAF and what factors have contributed/hindered its effectiveness in enhancing organizational performance. The next chapter-Research Methodology-explains the method used to gather qualitative data (including the research strategy to be adopted and the data collection techniques).

Research Methodology

The study adopted both quantitative and qualitative research methodology to explore how internal auditing impacts organizational performance and provide understanding to why internal auditing is relevant in an organization. Qualitative data were gathered via the use of email questionnaires in order to achieve the research objectives and provide answers to the research questions. The questionnaires are designed in 'open ended' patterns which were administered to the respondents (staff and professionals currently engaged in internal audit practices and governance in selected banks in Nigeria) who were 'conveniently' selected and constituted the sample cases (21 respondents). This sample population was chosen because they provided the necessary data needed for qualitative analysis by the researcher. The choice of this method was to ensure the reliability and validity of data collected.

Data Analysis and Discussion of Findings

As aforementioned (framework for data analysis), the qualitative data (email questionnaire) will be analysed under different themes (staff support, reporting mechanism, performance, roles and barriers/drivers of the IAF).

Theme A: Staff supports

The aim of this theme is to evaluate the extent to which the internal audit unit has been supported. The IAF among other things actively serve as a risk monitor, manager and provider of independent assurance to the board, management, external auditors and the audit committee, therefore, it should be given the necessary support to adequately discharge its role. The IAF is most effective when there is an existence of an audit committee and is supported by top management. Cohen [21] found out that management support was a critical determinant to internal audit effectiveness. From the corpus, majority of the respondents (90%) indicated that they had received adequate support from management and the audit committee. The respondents also stated that they had access to all relevant information, people and records. Also, the fact that only 10% of the respondents had differing opinions, points out that staff is indeed adequately supported by management and the audit committee. This seems to correspond with the SOX (2002), CBN corporate governance code, Basel Committee on Banking Supervision (BCBS) principles and IIA guidelines on internal auditors' support mechanism.

To elaborate, principle 9 of the BCBS (relating to supervisory expectations relevant to the IAF) requires that the board should support the IAF in discharging its duties effectively. The IIA performance standard 2300 (Performing the Engagement) also stipulates that, the IAF should have unfettered access to necessary information, people, records and outsourced operations to enable it perform effectively. In Nigeria, the CBN's corporate governance code categorically mandated that the internal audit unit should be adequately staffed and supported.

Theme B: Reporting mechanisms

The position of the Central Bank Nigeria (CBN) as enshrined in the code of corporate governance practices for banks post consolidation, stipulates that the internal audit unit should report directly to the board audit committee, but forward a copy of the report to the MD/CEO of the bank. This is aimed at reducing the overriding influence of the management on the IAF. Similarly, the BCBS's principle 10 relating to the supervisory expectations relevant to the IAF requires that the audit committee or its equivalent should oversee the bank's IAF. In response to the question: In your organization, who do you report to as an internal auditor/internal audit unit? 90% of the respondents affirmed that they report directly to the audit committee while 10% stated they report to management. The 10% that report to management are the respondents that fall under the Accountants category; it is a known fact as with most organization, accounting department reports directly to management. In line with the regulatory authorities, it appears that the Internal Auditors across different banks in Nigeria make use of Corporate Governance guidelines provided in order to meet up with regulatory requirements.

Theme C: Performance

For banks to increase performance, become more competitive and even survive in the global market, they must implement sound corporate governance principles. Jensen and Meckling's [2] study suggested that a positive correlation exist between performance and good governance. From the responses in the researcher's opinion, IAF is a panacea for positive organizational performance as most of the respondents are of the view that the IAF has significantly enhanced organizational performance in Nigerian banks through operational efficiency (71%), organizational growth and higher profitability (86%). One respondent pointed out that "internal auditing is enhancing a legacy of solvency and

continuity in business." Another respondent stated that IAF "facilitates fraud investigation process and improves internal processes. This is consistent with Shleifer and Vishny's (1997) study, which emphasized that sound corporate governance, translates into improved operating performance and a higher market value. A cross-European study by Annelies et al. also indicated that improved governance leads to better performance. Writing in 2004, Levine affirmed that, when there is good IAF, banks efficiently mobilize and allocate funds; this in turn lower the cost of capital and stimulate growth.

A possible explanation for the enhanced performance in Nigerian banks observed from the responses can be linked to the effectiveness of the IAF aided by adequate support from the management and the board audit committees and the level of competence and work experiences of the internal auditors in the respective banks.

Theme D: Roles of the IAF

In line with the research aim, this theme is used to access the views of internal auditors regarding the role of the IAF in banks and the changing role of the IAF in the corporate governance process. All the respondents reported that IAF performs various roles in their organizations: risk management and mitigating strategies (100%), maintenance of the internal control system (100%), safeguarding of assets (75%); and supporting the audit committee (100%). One respondent opined that, "IAF provides assurance to the board that, information technology (IT) is adequate and safe to drive business." Similarly, another respondent was of the opinion that "IAF minimizes operational losses". Most of the respondents (90%) are of the view that corporate governance is a major driving force for the changing role of the IAF. One respondent in particular states that, "IAF will strengthen the financial stability of organization and give a new direction on how organizations will be governed." Another respondent opined that "it is a positive change as internal audit will function effectively without interference from top management." However, two respondents (10%) were undecided.

From the responses above, in the researcher's opinion it is clear that the IAF is significantly useful to the operations and performance of banks. For banks to continue as a going concern, credence must be given to the IAF at all times. This is because the IAF ensures that activities under their jurisdiction (example, Internal Control System) are always done right and contributes to their being done efficiently. As such, banks require successful working relationship between the IAF and other aspects of the bank (management, audit committee, external audit, etc.) to achieve stated goals. This finding is consistent with the roles prescribed by the chartered Institute of Internal Auditors (IIA), "the role of internal auditing is to provide independent assurance that an organization's risk management, governance and internal control processes are operating effectively". Eden and Mariah's [11] (p270) study also emphasized that "IA makes a valuable contribution to organizational effectiveness in terms of objective business measures". This statement is not different from the responses put forward by the respondents highlighted above. As James (2012) puts it "internal audit is taking on a more strategic and central role in the organization."

Theme E: Barriers and drivers of the IAF

Focusing on factors that have hindered the operations of the IAF, this theme accesses the efficiency with which Internal Auditors have performed their roles. The respondents outlined the following as factors hindering their operations: lack of management support (52%), inadequate corporate governance (67%), lack of standard operating

procedures (19%), limited manpower (81%), inadequate staff training (71%) and lack of independence (90%). One respondent commented that, "there are compromise and integrity issues of some internal audit staff". Another respondent stated that, "there is a high interference and override of internal auditor's report by management" while one respondent articulated that "policy implementation direction by management is one of the key factors responsible for the seemingly weak nature of the internal audit system of this organization".

The responses above indicated that different factors have hindered the operations of the IAF in Nigerian banks. Most of the responses centred on internal auditor's welfare and independence. For internal auditing to function properly, maintain objectivity and increase information quality, it is required to be independent and adequately supported in terms of staff welfare. Weakness in staffing can lead to error and abuse which can undermine the whole auditing process.

This is consistent with the CBN's report. To prevent or minimize the effect of these factors, the CBN's corporate governance codes made it mandatory for the internal audit unit to report directly to the audit committee in order to guarantee their independence. More so, the unit should be adequately staffed for effective discharge of their duties. Appropriate staffing, independence and good management are key factors to the effective operation of the IAF. Nevertheless, there are still lapses in the way the IAF is been supported by management and the audit committee.

Conversely, most respondents gave the following as factors contributing to the smooth operation of the IAF: technological improvements (86%), segregation of duties (24%), audit committee support (48%); qualified audit personnel (81%) and proper procedures and documentation (10%). One respondent opined that "audit staff productivity is acknowledged. These factors in a way neutralize the negative impacts of those impeding factors.

Conclusion

Corporate governance of banks has gone through a significant revolution and has even received renewed emphasis in Nigeria since the introduction of the CBN corporate governance code for banks in 2006. There is also a growing recognition of the role internal auditing in contributing to improved corporate governance and reporting, as banks perceive and respond to risks associated with banking operations, thus, an integral part of the corporate governance mosaic.

The institution of IAF in Nigerian banks is a desirable stride for the achievement of high performance standard. The findings of the research revealed that there exists a significant positive relationship between IAF and performance of banks through operational efficiency, organizational growth, higher profitability; solvency and continuity in business. The IAF achieves this through the provision of an independent assurance services and improved risk management, control and governance processes. This is generally attributed to recent developments in regulations, increased awareness and changes in organizational culture as to the role of the IAF.

The need for improved internal control and auditing mechanisms is one of the most important issues in public debate regarding corporate governance. This research project aimed at providing insight into the role of internal auditing in enhancing good corporate governance practice in an organization with focus on organizational performance in the banking sector in Nigeria. Based on the findings, this research work concludes that compliance with corporate governance principles

(especially IAF) leads to better organizational performance in the banking sector in Nigeria.

Recommendations

Though, the purpose of this research was not to make a generalized statement of facts, but the researcher feels it is pertinent to make some recommendations that might be of interest to stakeholders in the banking sector in Nigeria. From the conclusion, this study recommends the followings:

- The IAF should be continually supported by management and the board audit committee in terms of adequate staffing, training and compensation for effectiveness.
- The IAF has assumed a more central position and as such, internal auditors should at all times exercise their duties with professionalism, objectivity and fair play.
- Considering the position banks occupy in the economy, regulatory authorities in Nigeria (CBN, SEC, etc.) should always ensure strict compliance with corporate governance guidelines and principles by banks. Also, compliance tests should be carried out annually to ensure corporate governance principles are not circumvented.
- The concept of corporate governance is very broad. The researcher focused mainly on IAF and its impact on performance in Nigerian banks; hence, it is recommended that further research on IAF or other aspects of the corporate governance mosaic (audit committee, external audit, public oversight, etc.) be carried out. Also, since the research was limited to email questionnaires and literature review, it is recommended that other researchers incorporate other sources of data for an all-inclusive study.

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