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Corporate Governance: An Investigation of Interaction between the Audit Committee and the Internal Audit Function in Nigerian Listed Firms

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Abstract:

Internal Audit Function is a significant corporate governance mechanism as it remains the only insider activity by means of which the board through the Audit Committee could have a clear view of what is going on in the company and through which both the board and the audit committee can exercise their oversight functions. To fulfill this role, it is required that there should be a strong interaction between the Internal Audit Function and the Audit Committee. The relationship and interaction between the Audit Committee and the Internal Audit Function has a direct bearing on the effectiveness of the Audit Committee and the quality of financial reporting. This paper examines the degree of interaction between the Internal Audit Function and the Audit Committee in the firms listed on the Nigerian Stock Exchange through a qualitative approach using two-stage interviews: in-depth interviews and follow up interviews of the Heads of Internal Audit Functions in the non-financial listed firms. The results show the existence of strong interaction between the Head of Internal Audit Function and the Audit Committee. We conclude that the Internal Audit Function is an effective corporate governance mechanism in Nigerian listed firms.

Keywords: Corporate governance, corporate governance mechanisms, internal audit function, head of internal audit function, audit committee, board of directors, quality of financial reporting

1. Introduction

Internal Audit Function (IAF) is an important corporate governance mechanism which complements the activities of the Audit Committee (AC) and the Board of Directors (BOD). The interaction of these three actors makes up the internal corporate governance mechanism of a firm (Ramly & Rashid, 2010). The interaction of the IAF and the AC is critical for the oversight effectiveness of the AC and for the independence and visibility of the IAF (Staciokas & Rupsys, 2005; Yessin, Ghanem, & Ruston, 2012). Thus, the IAF should be the focus of the highest level of authority in the firm (Gramling, Maletta, Schneider, & Church, 2004; Okafor & Ibadin, 2009; Prawitt, Smith, & Wood, 2009). Researchers have documented that there is need for a strong and cordial interaction between the AC and the IAF for the IAF to be relevant and effective in assisting the AC to monitor the activities of the firm and ensure quality financial reporting. (Zaman & Sarens, 2013; Sarens & De-Beelde, 2006; Arena & Azzone, 2009). The objective of this paper is to examine this attribute of the IAF in Nigerian listed firms in comparison with the empirical findings in the existing literature, on the attributes of quality interaction between the AC and the IAF that are required to qualify the IAF as an effective corporate governance mechanism. The findings from this research will establish the extent of the effectiveness of the IAF as a corporate governance mechanism in the firms that are listed on the Nigerian Stock Exchange.

1.1. Research Question

1. How does the degree of the interaction between the Audit Committee and the Internal Audit Function in Nigerian listed firms compared with the literature and position the IAF as an effective corporate governance mechanism?

2. Literature Review

As discussed in Section 1.0 above, a significant measure of the effective IAF as a corporate governance mechanism is: the degree of interaction between the IAF and the AC. It is suggested that the quality of interaction between the H-IAF and the AC has a direct bearing on the degree of the AC effectiveness as an important corporate governance mechanism (Mat-Zain & Subramaniam, 2007). In the next subsection, we briefly examined the empirical literature on the interaction between the IAF and the AC.

2.1. Interaction of the IAF and the AC

Godwin & Yeo (2001) argued that, the interaction between the head of internal audit function (H-IAF) and the AC helps the AC to be effective in their oversight duty and also assist the IAF to achieve its terms of responsibilities (Turley & Zaman, 2004). Spiral (1999) opined that, the presence of the AC enhances the prominence and relevance of the IAF in a company. Thus, the activities of the IAF must have the backing of the AC to be effective. On this subject, the IIA (2004) stated that, the interaction between the IAF and the AC is the direct functional reporting of the IAF to the AC as this would create an avenue for freeness of speech between the IAF and the AC (IIA, 2004). Briotta Jnr., Gazzaway, Colson, & Shridha (2010) argued that, the possibility of private and unscheduled meeting between the H-IAF and the AC enhances and protects the IAF freedom.

Beasley, Hermanson, & Neal (2009) opined that, both formal and informal interaction between the IAF and the AC are prerequisite for the AC's ability to function as effective monitors of managerial activities and in enhancing the quality and reliability of the financial reports. This view was supported by other eminent scholars ((Sarens & De-Beelde, 2006; Zaman & Sarens, 2013; Arena & Azzone, 2009; Mat-Zain & Subramaniam, 2007). Turley & Zaman (2007) argued that the greater impact of the AC activities as a corporate governance mechanism is achieved not through the usual formal processes, structures and interactions, but through informal sessions and interaction with the H-IAF. Arena & Azzone (2009) opined that, the involvement of the AC in the IAF work plan or the annual road map is an indication of good interaction, which helps to improve the firms risk control and assist the IAF to be effective as a complement of the AC monitoring activities. Mat-Zain & Subramaniam (2007) suggested that the AC should create avenues for regular informal and private interaction with the H-IAF and assume increased responsibilities as a pillar of support to the IAF. Godwin & Yeo (2001) opined that the strong interaction between the IAF and the AC helps the IAF to be independent and detached from the management. In summary, empirical literature documented that, the interaction between the AC and the IAF is a crucial prerequisite for effective corporate governance and for the AC effectiveness.

3. Methodology

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

3.1. Research Instrument

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

We pre-tested the research instrument through the test-re-test method by administering the questionnaire on a sample of chartered accountants practitioners, practicing auditors and accounting and finance professionals in academia with internal consistency and reliability measured by Pearson Product Moment Correlation of 0.95 indicating that the research instrument is effective. The justification for the open ended questionnaire is to enable the respondents answer the question in their own words and in their normal day to day manner of speaking. This approach is suitable to harness the hidden meanings and beliefs personally held by each of the respondents without imposing the external thoughts, feelings and beliefs on the participants (Cresswell & Miller, 2000; Zikmund, 2003).

3.2. Data Collection Techniques

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

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

3.3. Data Distillation

The responses from the participants were broadly categorized into two parts. The participants’ profile and the characteristics survey. Twelve (12) classification categories originated from the characteristics survey. Thereafter, we coded and allocated to tally charts and Tables all of these twelve (12) categories to express the results as indicated in section 4 below. It is believed that this method provides enhanced understanding of the phenomenon of study and deepens the understanding of the subject matter of the research(Vogt, 2007; Sommer & Simmer, 1991). This detail is presented in section 4 below.

4. Data Presentation

	CORPGOV12-IAFI	CORPGO13-IAF2	CORPGOV14-IAF3	CORPGOV15-IAF4	CORPGOV16-IAF5
Gender	Male	Male	Male	Male	Female
Title	Internal Auditor	Head of Internal Audit	Head of Audit & Finance	Head of Internal Audit	CC Director
Career Level	Manager	DGM	SM	DGM	Director
Professional Qualifications	ACA, ACTI	ACA, ACTI, MNIM	ACA –Ind.	FCA, FCTI, MNIM	FCA, FCTI
Years with the Company	4 years	14 years	2 years	7 years	11 years
Age Range	45-50 years	40-45 years	40-45 years	45-50 years	40-45 years
Birth Place	Delta	Delta	Andhra, Pradesh, India	Ibadan	Lagos
Nationality	Nigerian	Nigerian	Indian	Nigerian	Nigerian
Religion, Philosophy	Christianity	Christianity	Hindu	Christianity	Christianity
LEGENDS					
1. Corporate Governance # Head of Internal Audit Function#-CORPGOV#IAF# 2. Deputy General Manager = DGM 3. Senior Manager = SM 4. Compliance and Control Director =CC Director 5. Associate of Institute of Chartered Accountant of Nigeria= ACA 6. Associate of Chartered Taxation Institute of Nigeria= ACTI 7. Member, Nigerian Institute of Management =MNIM 8. Fellow of the Institute of Chartered Accountants of Nigeria= FCA			9. Fellow of the Chartered Taxation Institute of Nigeria =FCTI 10. Associate of Chartered Accountants Institute of Indian= ACA-Ind.		

Table 1: Participants Profile- Head of Internal Audit Function
 Source: Akinteye, York & Madarasz (2015)

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

In this section, H-IAF was asked to provide an answer to the following questions: (1) How many years of Internal Audit Experience do you have? And (2) What is your Audit function experience before moving to your current role? The responses provided were collected and those responses are documented in Table 2 to 11

4.1.1. Combined Results on the Years of Internal Audit Experience

In Table 2 below, similar data and common terms were highlighted and generated into units of meanings to provide a clear overview of length and depth of experience of the H-IAF. There were four words or phrases used to express the views of the H-IAF. These terms are not ranked in any order of importance.

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

Table 2: Explaining the Years of Experience of the Heads of IAF
 Source: Akinteye, York & Madarasz (2015)

In Table 3 below, we produced the tally chart to analyze the value of each H-IAF in explaining the experience level of the H-IAF. The tally chart provided a significant visual measure of how many times each H-IAF employs the use of these categories. There were 4 categories generated from Table 2

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

Table 3: Years of Experience of H-IAF Function Terms Tally
Source: Akinteye, York & Madarasz (2015)

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

In Table 4 below, similar data and common terms were generated into units of meanings to provide a clear overview of length and depth of experience of the H-IAF. There were five words or phrases used to express the views of the Heads of the IAF. These terms are not ranked in any order of importance.

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

Table 4: Explaining the Pre-Appointment Audit Experience of the Heads of Internal Audit Function
Source: Akinteye, York & Madarasz (2015)

In Table 5 below, we produced the tally chart to analyze the value of each H-IAF in providing an explanation to the length of prior experience H-IAF before their various appointments. There were 5 categories generated from Table 4.

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

Table 5: Pre Appointment Years of Audit Experience of Heads of IAF Term Tally
Source: Akinteye, York & Madarasz (2014)

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

In this section, H-IAF was asked to provide an answer to the following question: What professional Accounting or Internal Auditing qualification do you possess? The responses provided were collected and those responses are documented in Tables 6

4.2.1. Combined Result on Professional Accounting or Internal Audit

In Table 7 below, we similar data were highlighted and common terms were generated into units of meanings that can provide a clear overview of professional qualifications of the H-IAF. There were five words or phrases used to express the views of the H-IAF. These terms are not ranked in any order of importance.

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

Table 7: Explaining Professional Qualification of the Heads of Internal Audit Function
Source: Akinteye, York & Madarasz (2015)

In Table 8 below, we produced the tally chart to analyze the value of each H-IAF in explaining the professional accounting or auditing qualifications held by the H-IAF. There were 5 categories generated from Table 7

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

Table 8: Professional Accounting or Auditing Qualifications of Heads of IAF Terms Tally

Source: Akinteye, York & Madarasz (2015)

4.3. Category Three- Hiring and Firing of the H-IAF

In this section, H-IAF was asked to provide an answer to the following question: What is the level of approval in the organization for engagement and disengagement of Head of Internal Audit Function? We collected and documented the responses provided in Table 6

4.3.1. Combined Result on the Hiring and Firing of the Head of IAF

In Table 9 below, similar data were highlighted and common terms generated into units of meanings to provide a clear overview of the level of approval required for the hiring and firing of the H-IAF. The H-IAF used three words or phrases to express their views .These terms are not ranked in any order of importance.

1. Only the Board of Directors 2. Only the Audit Committee	3. Approval of both the Audit Committee and the Board of Directors is required.
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Table 9: Explaining the Approval Level for the Engagement and Disengagement of the Head of IAF

Source: Akinteye, York & Madarasz (2014)

In Table 10 below, we produced the tally chart to analyze the value of each H-IAF in explaining the level of approval required for the hiring and firing of the head of Internal Audit Function. There were 3 categories generated from Table 9

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

Table 10: Approval Level for Engagement and Disengagement of the Head of IAF Terms Tally

Source: Akinteye, York & Madarasz (2014)

4.4. Category Four- Reporting Line of the Head of the IAF

In this section, H-IAF was asked to respond to the following question: What is the reporting line of the Internal Audit Department in your company? We documented the responses provided in Table 6

4.4.1. Combined Result on the Reporting Line of the Head of the IAF

In Table 11 below, we highlighted the data that are similar and generate terms that are common into units of meanings to provide a clear overview of the reporting line of the Head-IAF. Six words or phrases were employed to express the views of the Head-IAF. These terms are not ranked in any order of importance.

1. Board Chair 2. Audi Committee 3. Managing Director/CEO	4.Group Finance Director 5. Board of Director 6. Executive Vice Chairman
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Table 11: Explaining the Reporting Line of the Head of the IAF

Source: Akinteye, York & Madarasz (2015)

In Table 12 below, tally chart was produced to analyze the value of each H-IAF in reporting line of the H-IAF. There were 6 categories generated from Table 11

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

Table 12: Reporting Line of the Head of IAF Terms Tally

Source: Akinteye, York & Madarasz (2015)

4.5. Category Five- Attendance of the H-IAF at Audit Committee Meetings.

In this section, H-IAF was asked to answer the following question: How often do you attend Audit Committee Meetings as the Head of Internal Audit Function? We documented the responses provided in Table 13.

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

In Table 13 below, we highlighted similar data and generate common terms into units of meanings to provide a clear overview of the frequency of the attendance of the head of IAF at the Audit Committee meetings. Four words or phrases were used to express the views of the H-IAF. These terms are not ranked in any order of importance.

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

Table 13: Explaining the Frequency of Attendance of the Head of IAF at AC Meetings

Source: Akinteye, York & Madarasz (2015)

In Table 14 below, we produced the tally chart to analyze the response of each H-IAF on the subject matter of their attendance at the AC meetings. Furthermore, the tally chart was a significant measure to visualize how many times each H-IAF employs the use of these categories. There were 4 categories generated from Table 13

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

Table 14: Attendance of Head of IAF at AC Meetings Terms Tally

Source: Akinteye, York & Madarasz (2015)

4.6. Category Six- Informal Interaction of AC Members and the Head of IAF

In this section, H-IAF was asked to answer to the question: What other informal avenues for meeting the Chair of the Audit Committee and other members of the Audit Committee are open to you? We documented the responses provided in Table 15 & 16

4.6.1. Combined Result on the Informal Interaction of AC and the Head of IAF

In Table 15 below, we highlighted similar data and generate common terms into units of meanings to provide a clear overview of the avenues for informal interaction between the AC and the H- IAF. There were 9 words or phrases used to express the views of the H-IAF. These terms are not ranked in any order of importance.

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

Table 15: Explaining Informal Interaction between the AC and the Head of IAF

Source: Akinteye, York & Madarasz (2015)

In Table 16 below, we produced the tally chart to analyze the response of each H-IAF on the avenues and extent of informal interactions between the AC and the head of the IAF. There were 8 categories generated from Table 15

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

Table 16: Informal Interaction of the AC Chair and AC members with Head of IAF Terms Tally

Source: Akinteye, York & Madarasz (2015)

4.7. Category Seven- Approval Level and Involvement of AC in the IAF Annual Work Plan

In this section, H-IAF was asked to provide an answer to the following two questions: (1) What is the approval level for IAF Annual Internal Audit Work Plan? And (2), what is the degree of the Audit Committee input in the content of the Annual Internal Audit program of your company? We documented the responses provided in Tables 17 to 20.

4.7.1. Combined Result on the Level of Approval for the IAF work plan

In Table 17 below, similar data were highlighted common terms generated into units of meanings to provide a clear overview of the approval level for the annual work program of the IAF. There were 4 words or phrases used to express the views of the H-IAF. These terms are not ranked in any order of importance.

1. Chairman of the Board	3. AC formally meets to approve
2. Executive Vice Chairman approves for AC	4. AC approves with input from the Board Risk Management and Board Finance Committees

Table 17: Explaining the Level of Approval for the IAF Annual Workplan/Roadmap

Source: Akinteye, York & Madarasz (2015)

In Table 18 below, tally chart was produced to analyze the response of each H-IAF on the level of approval for the IAF annual work plan as a significant aid to visualize how many times each H-IAF employs the use of these categories. There were 4 categories generated from Table 17

H-IAF#	Chairman of the Board	Executive Vice Chairman approves for AC	AC formally meets to approve	AC approves with input from Risk management and Finance Committees
1	x			
2		x		
3			x	
4			x	
5				x
TOTAL	1	1	2	1

Table 18: Level of Approval for the AIF Annual Work-Plan/Roadmap Terms Tally

Source: Akinteye, York & Madarasz (2015)

4.7.2. Combined Result on the Level of Input of the AC in the Annual IAF Work plan

In Table 19, similar data were highlighted and common terms were generated into units of meanings to provide a clear overview of the level of input of the AC in the content of the Annual Work plan of the IAF. There were 5 words or phrases used to express the views of the H-IAF. These terms are not ranked in any order of importance.

1. AC does not have specific input into the annual Workplan 2. AC set the pace 3. AC defines the scope	4. AC reviews and amend the workplan 5. AC consult with Finance and Risk Management committees for input into the plan
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*Table 19: Explaining the Level of Input of the AC into the Content of the IAF Annual Workplan
Source: Akinteye, York & Madarasz(2015)*

In Table 20 below, tally chart was produced to analyze the response of each H-IAF on the level of input of the AC in the annual work plan of the IAF as a significant measure to visualize how many times each H-IAF employs the use of these categories. There were 4 categories generated from Table 19

H-IAF#	AC has no input in the IAF annual work plan	AC define the scope and focus of the IAF Annual work plan	AC reviews and amend the work plan	AC consults with the Finance and Risk Management Comm for input into the IAF Work plan
1	x			
2		x		
3		x	x	
4		x	x	
5		x	x	x
TOTAL	1	4	3	1

*Table 20: Level of AC Input in the Annual IAF Workplan Terms Tally
Source: Akinteye, York & Madarasz (2015)*

4.8. Category Eight- Responsibility for the Preparation and Approval of Annual Internal Audit Charter

In this section, H-IAF was asked to provide an answer to the following question: What is the level of responsibility for the preparation and approval of the Internal Audit Charter in your organization? We documented the responses obtained in Table 25 & 21 Combined Result on the Responsibility for the Preparation and Approval of Annual Internal Audit Charter

In Table 21 below, similar data were highlighted and common terms generated into units of meanings to provide a clear overview of the responsibility and approval level for Annual Internal Audit Charter. The H-IAF used 6 words or phrases used to express their views. These terms are not ranked in any order of importance.

1. IAF prepares the Policy Manual 2. Board Chair approves the Policy Manual 3. AC reviews the Policy Manual 4. The finance Committee reviews the draft Policy Manual	5. The Risk Management Committee reviews the Draft Policy 6. AC approves the Policy Manual and it becomes the Internal Audit Charter
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*Table 21: Explaining the Responsibility for the Preparation and Approval of Internal Audit Policy Manual (Internal Audit Charter)
Source: Akinteye, York & Madarasz (2015)*

In Table 22 below, we produced the tally chart to analyze the response of each H-IAF on the responsibility for the preparation and approval of the Annual Internal Audit Charter as a significant means to visualize how many times each H-IAF employs the use of these categories. There were 6 categories generated from Table 21

H-IAF#	IAF prepare the Policy Manual	AC Chair Approves the Policy Manual	Finance and General Purpose Review the Policy Manual	Risk Management Committee Reviews the Policy Manual	AC Reviews the draft policy Manual after Finance & Risk have reviewed	AC gives final approval to the Policy Manual
1	x	x				
2	x				x	x
3	x				x	x
4	x				x	x
5	x		x	x	x	x
TOTAL	5	1	1	1	4	4

*Table 22: Responsibility for the Preparation and Approval of Internal Audit Policy Manual Terms Tally
Source: Akinteye, York & Madarasz (2015)*

4.9. Category Nine- Consideration and Review of the Work of the IAF by the AC

In this section, H-IAF was asked to respond to the following question: How does the Audit Committee review and consider the Internal Audit Reports and where necessary, the IAF Working Papers? We documented the responses provided in Table 23 & 24

4.9.1. Combined Results on the Review of the IAF Reports and Working Papers by the AC

In Table 23 below, we highlighted similar data and generate common terms into units of meanings to provide a clear overview of how the AC review and consider the IAF reports and where necessary the IAF working papers. The H-IAF used 4 words or phrases to express their views. These terms are not ranked in any order of importance.

1. IAF forwards its report to the AC through the Chairman for review and discussions quarterly	3. IAF attends the AC quarterly meetings and presents the report and Working Papers for Discussions
2. AC reviews and consider the reports of the IAF at AC quarterly meetings	4. Review, discussion and consideration of the IAF report is always an agenda item at AC meetings

Table 23: Explaining How AC Consider and Review IAF Reports and Working Papers

Source: Akinteye, York & Madarasz (2015)

In Table 24 below, tally chart was produced to analyze the response of each H-IAF on how the level of the AC consideration of the reports and the working papers of the IAF, as a significant means to visualize how many times each H-IAF employs the use of these categories. There were 4 categories generated from Table 23

H-IAF#	IAF forward reports to AC through Board Chair	IAF presents its report to the AC at the AC's quarterly meetings	AC meets and consider the reports of the IAF at its quarterly meetings	Consideration of the IAF report and the Working Papers is always an Agenda Item for AC meetings
1	x			x
2		x	x	x
3		x	x	x
4		x	x	x
5		x	x	x
TOTAL	1	4	4	5

Table 24: Review and Consideration of the IAF Reports by the AC Terms Tally

Source: Akinteye, York & Madarasz (2015)

4.10. Category Ten- Quality of Other IAF Staff

In this section, H-IAF was asked to provide an answer to the following questions: (1) How many staff do you have in the Internal Audit Department that are proficient in the use of computer and Internal Audit Application Packages? And (2) How many of them have Professional Accounting or Professional Audit Qualification? We collected the responses provided and documented them in Table 25 to 28

4.10.1. Combined Result on Computer Literacy of Internal Audit Function Staff

In Table 25 below, similar data were highlighted and common terms were generated into units of meanings to provide a clear overview of the number of staff in the IAF that are proficient in the use of computer and Internal Audit Application packages. There were four words or phrases used to express the views of the Heads of the IAF. These terms are not ranked in any order of importance.

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

Table 25: Explaining the Number of IAF Staff that are Proficient in the Use of Internal Audit Application Packages

Source: Akinteye, York & Madarasz (2015)

In Table 26, we produced the tally chart to analyze the value of each H-IAF in explaining the level of proficiency in the use of computers and Internal Audit Application packages by the other staff of the IAF. The tally chart aided the understanding of how many times each H-IAF employs the use of these categories. There were 4 categories generated from Table 25

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

Table 26: Proficiency of IAF in the Use of Computer and Internal Audit Application Packages Terms Tally
Source: Akinteye, York & Madarasz (2015)

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

In Table 27 similar data were highlighted and common terms generated into units of meanings that can provide a clear overview of the number of staff in the IAF with professional Accounting or Auditing Qualifications. There were 3 words or phrases used to express the views of the H- IAF. These terms are not ranked in any order of importance.

1. One (1) ACA-Nigeria 2. Six (6) ACA-Nigeria	3. Four (4) ACA-Nigeria
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Table 27: Explaining the Number of IAF with Professional Qualification in Accounting or Auditing
Source: Akinteye, York & Madarasz (2015)

In Table 28, tally chart was produced to analyze the value of each H-IAF in explaining the Professional Accounting or Auditing qualification of the IAF staff. There were 3 categories generated from Table 27

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

Table 28: Professional Accounting Qualification of IAF Staff Terms Tally
Source: Akinteye, York & Madarasz (2015)

4.11. Category Twelve- Quality Assurance for IAF Work

In this section, H-IAF was asked to provide an answer to the following question: What systems does your company has in place to ensure quality assurance of the Internal Audit Assignments? We documented the responses provided in Table 29 & 30

4.11.1. Combined Results of the Review of Quality Assurance of IAF Assignments

In Table 29 below, a we highlighted similar data and generate common terms into units of meanings to provide a clear overview quality assurance procedure for the Internal Audit Assignments. There were 10 words or phrases used to express the views of the Head-IAF. These terms are not ranked in any order of importance.

1. IAF works review process	6. Internal Auditors Conferences and Seminars
2. Mandatory CPD attendance for qualified IAF Staff	7. AC Reviews of IAF work
3. Mandatory Professional Accounting Examination for IAF staff	8. The Annual Audit Workplan
4. Reviews of IAF staff by the Head of IAF staff	9. The Internal Audit Policy Manual (Internal Audit Charter)
5. Trainings	10. Professional Internal Audit Circulars Issued from time to time

Table 29: Explaining Systems in Place to Ensure Quality Assurance of IAF Assignments.
Source: Akinteye, York & Madarasz (2015)

In Table 30 below, we produced the tally chart to analyze the response of each H-IAF on the quality assurance procedure for the Internal Audit Assignments as a significant measure to visualize how many times each H-IAF employs the use of these categories. There were 9 categories generated from Table 29

H-IAF#	IAF Work Review Process	Mandatory CPD attendance for qualified IAF staff	Mandatory Professional Accounting Exams	Internal Audit Policy Manual	Approved Annual IAF Roadmap	Internal Auditors Conferences and	Trainings and Seminars	Professional Internal Audit Circulars	IAF Work reviews by the AC	Multi-Staged Reviews by the Head of IAF
1	x	x	x						x	x
2	x	x		x	x	x	x	x	x	x
3	x	x	x	x	x	x	x	x	x	x
4	x	x	x	x	x	x	x	x	x	x
5	x	x	x	x	x		x	x	x	x
TOTAL	5	5	4	4	4	3	4	4	5	5

Table 30: Systems to Ensure Quality Assurance of IAF Assignments Terms Tally
Source: Akinteye, York & Madarasz (2015)

5. Discussions of Findings and Conclusion

5.1. Discussions of Findings

As discussed under the literature review, a good indicator of interaction between the IAF and the AC is the reporting line of the H-IAF and the attendance of the H-IAF at the AC meetings. In Table 2 and Table 3, we captured this indicator of interaction between the IAF and the AC. The Tables indicate that 100% of the H-IAF either report directly to the AC or to someone designated from its rank. The tally chart indicated that 80% of the H-IAF has a direct reporting relationship to the AC while 20% reports to the Chairman of the AC and the Chairman of the Board. In Table 13 and 14, we observed that 80% of the H-IAF attends all the AC meetings while 20% do not physically attend the meeting, but forward the IAF reports on a quarterly basis to the AC for consideration through the office of the Board Chairman. Also, a related measure of good interaction between the AC and the IAF is the possibility of informal interaction between the AC and the IAF. In Tables 15 and 16, 100% of the respondents said that they have cordial relationship with the AC Chair. In addition, 100% of the H-IAF interviewed said that they have unrestricted access to the AC Chair. The H-IAF employed the use of different terms and phrases to capture their access to the AC. 80% said they have excellent informal interaction with the AC Chair and the AC members, 80% said they have unlimited avenues for one-on-one interaction with the AC members and the AC Chair, 80% said that, they have a social platform for informal interaction with the AC Chair and AC members. Additional 40% said the cordiality of their relationship with the AC is based on mutual trust while only 20% said that, they have minimal informal interaction with the AC. In line with the findings discussed in Tables 11, 12, 13, 14 and 15 and 16 in this paragraph, we argue that, there is an open and cordial relationship between the AC and the H-IAF in the companies that are listed on the Nigerian Stock Exchange.

Further measure of good interaction between the AC and the IAF is the AC involvement in the IAF annual work plan and the IAF Charter. In Table 17 and Table 18, 60% of the H-IAF respondents stated that the AC is the approving authority of the IAF annual work plan or roadmap at a formal AC meeting, while 20% of the H-IAF respondents said that the Board Chair approves the annual work plan on behalf of the AC and 20% stated that the Executive Vice Chairman approved the annual work plan on behalf of the AC. One key observation here is that, the IAF annual work plan is approved by the AC or a member of the Board designated by the AC. In Table 19 and 20, 80% of the H-IAF respondents stated that the AC defines the focus and scope of the IAF work plan, 60% stated that the AC do not only review but also do make needed amendments to the IAF annual work plan while 20% of the H-IAF respondents stated that the AC is less concerned about the annual work plan. In Tables 21 and 22, 80% of the H-IAF respondents stated that the AC gives final approval to the IAF Charter while 20% stated that the approval of the Board Chair is required in addition to the AC

approval. Thus, we document a strong interaction between the AC and the IAF based on the findings presented in Tables 17, 18, 19, 20, 21 and 22.

Researchers document that close interaction between the AC and the H-IAF strengthen the independence and objectivity of the AC (Turley & Zaman, 2004; Godwin & Yeo, 2001). We captured the measure of independence and objectivity of the IAF as a measure of quality interaction between the IAF and the AC. In Tables 21 and 22, 100% of the H-IAF stated that they are independent of the management and their activities are not influenced in any negative way. Also, 100% of the H-IAF respondents stated that the IAF carries the authority of the AC outside the control of the Management, while 80% stated that the IAF has the backing of the board, the highest level in the organization. In Tables 4.8.2A and 4.8.2B, 80% of H-IAF respondents stated that they have unrestricted access to documents and information they need to do their work, while 20% stated that line managers at times create road block to information but the intervention of the AC and the CEO always guarantee access. The findings document that the IAF have access to the documents and information they need effectively carry out their work. This support our argument that there is a strong measure of interaction between the AC and the IAF in Nigerian listed firms.

The empirical literature document that where the responsibility for hiring and firing of the H-IAF is vested in the AC, the interaction between the AC and the IAF is stronger and effective (Al-Twaijry, Brierley, & Gwilliam, 2004; Prawitt, Smith, & Wood, 2009). In Tables 12 and 13, 20% of the H-IAF respondents stated that only the board of director can engage and disengage the H-IAF, 20% stated that the AC has the authority to hire and fire the H-IAF, while 60% stated that it would require the joint approval of the board and the AC to hire and fire the H-IAF. One key observation across the terms and phrases is that, the authority to engage or disengage the H-IAF is not vested in the CEO. The effect of this is a regular interaction between the H-IAF and the AC because the IAF will be able to bring all issues to the attention of the AC without trepidation or fear. Thus, we argue that the responsibility for hiring and firing the H-IAF is not vested in the CEO but, is rather vested in the AC and as such assist in building a strong basis of interaction between the AC and the IAF.

It is suggested that quality assurance by the IAF, which ensures error free and quality output gives muscle to the quality interaction between the IAF and the AC (Arena & Azzone, 2009; Al-Twaijry, Brierley, & Gwilliam, 2004). In Tables 29 and 30, 100% of the H-IAF respondents stated that the IAF work review process, the MCPE attendance by the H-IAF and other IAF staff as means of ensuring quality of IAF work. Other comments are: full adherence to the approved IAF Charter (80%), adherence to the approved IAF annual work plan (80%), other skills enhancing training (80%), circulars issued by the Institute of Chartered Accountants (80%) and the review of the IAF work by the AC (100%). These findings indicate that the IAF have a sound quality assurance procedure that boosts the interaction between the AC and the IAF.

It is believed that the quality of the H-IAF and the other IAF staff has a bearing on the level of interaction between the IAF and the AC (Arena & Azzone, 2009; Zaman & Sarens, 2013). In Tables 2, 3, 7, 8, 25, 26, 27 and 28, we document findings that the IAF is sufficiently resourced with competent and objective professionals, able to function effectively to assist the AC in its monitoring roles. In all the sample companies, all the H-IAF have professional qualifications in accounting and have extensive experience in external and internal auditing before their various appointments as the H-IAF of their various firms. In addition, the IAF staffs are computer literate and familiar with the Internal Audit application software. All the IAF staffs are either chartered accountants or are making progress towards qualifying as chartered accountants. This suggests that the quality of other IAF staff supports the oversight objectives of the AC and strengthens the bond between the AC and the H-IAF.

The degree or extent of review of the IAF working papers by the AC is an indication of the level of relationship or interaction between the AC and the IAF (Arena & Azzone, 2009; Turley & Zaman, 2004). In Tables 23 and 24, 100% of the H-IAF respondents stated that, the consideration of the IAF reports and working paper is always an agenda items at the AC meetings, while 80% stated that the H-IAF presents the IAF reports and working paper to the AC at its quarterly meetings. The central point here is that the AC and the IAF have good interaction from regular meetings to discuss the findings of the IAF reports and the IAF working papers. The regular meetings and interaction boost the prominence of the IAF and the AC and helps the AC to meet up with the dictate of its monitoring role (Spiral, 1999). In Tables 13, 14, 15 and 16, we document that the H-IAF have avenues to meet with the AC without the Management in attendance. 100% of the H-IAF stated that they have unrestricted access to the AC Chair and they enjoy excellent one-on-one interaction with the AC Chair and the AC members. 80% stated that they have excellent interaction with the AC members at social gatherings, social clubs while another 80% stated that they do meet the AC members on sport grounds at the clubs. This indicates that there is strong interaction between the AC and the IAF.

5.2. Conclusion

This paper examined the degree of the interaction between the Audit Committee and the Internal Audit Function of Nigerian listed firms and how the quality of the interaction between the Audit Committee and the Internal Audit Function assist in the evaluation of the IAF in Nigerian Listed firm as an effective corporate governance mechanism. Using both the initial interviews and follow up interviews of Heads of Internal Audit Function (H-IAF) of non financial listed firms, we obtained direct responses from the H-IAF and categorized the responses into twelve categories around the indices of quality interaction of IAF and the AC. This was further analyzed into Tables and tally charts.

On the basis of the findings of the research, we submit that, there is conclusive evidence to conclude that there is an open and cordial relationship between the IAF and the AC. we also found conclusive evidence that the AC approves the IAF annual work plan and the IAF Charter. The study also established conclusive evidence that the AC addresses with the H-IAF all the issues relating to the objectivity and independence of the IAF thus strengthening the interaction between the H-IAF and the AC. The paper also documents

evidence that the IAF is resourced with competent and objective professionals and there are avenues for the AC to periodically meet with the H-IAF without the presence of the Management. Thus, we submit that there is a cordial and quality interaction between the IAF and the AC in Nigerian listed firms. We further conclude that, the Internal Audit Function is an effective corporate governance mechanism in Nigerian listed firms.

This paper extends the frontier of corporate governance studies through the examination of the quality of interaction between the IAF and the AC as a cardinal requirement for AC effectiveness in the oversight of the activities of the Management. This study agrees with the previous studies of Al-Twaijry, Brierley, & Gwilliam (2004) on Saudi listed firms, and the study of Al-Shetiwi, Ramadili, Chowdury, & Sori (2011) that, quality interaction between the AC and the IAF will positively enhance the quality of financial reporting. Furthermore, this paper agrees with Zaman & Sarens (2013) that for IAF to be an effective corporate governance mechanism, it must have good interaction with the AC which will strengthen the independence and objectivity of the IAF.

This paper should be of good interest to capital market regulators, particularly the Nigerian Stock Exchange and the Securities and Exchange Commission and could inform future circulars on corporate governance practices for the companies listed on the Exchange. The paper should also be of interest to lenders, investors who are interested in corporate governance structures of a firm before making an investment or lending decision. Furthermore, this paper adds luster to the existing literature on the interaction of the IAF and the AC and hopefully will trigger other scholars to carry out more studies in this field. One possible area of future research would be to examine the impact of the interaction between the IAF and the AC on financial restatement and regulatory penalties for poor quality of financial reporting. It is believed that this suggested research area will quantitatively help the corporate governance actors to fully appreciate the significant role of IAF as an effective corporate governance mechanism.

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Appendix A: Research Instrument**PART A- Participant Profile**

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

PART B- Characteristics Survey

- (a) How many years of Internal Audit Function Experience do you have?
- (b) What is your Audit function experience before moving to your current role?
- What professional qualification in Internal Auditing or professional Accounting do you possess?
- What is the level of approval in the organization for engagement and disengagement of Head of Internal Audit Function?
- What is the reporting line of the Internal Audit Department in your company?
- How often do you attend Audit Committee Meetings as the Head of Internal Audit Function?
- What other informal avenues for meeting the Chair of the Audit Committee and other members of the Audit Committee are open to you?
- (a). What is the approval level for IAF Annual Internal Audit Work Programme?
- (b). What is the degree of the Audit Committee input in the content of the Annual Internal Audit Programme of your company?
- What is the level of responsibility for the preparation and approval of the Internal Audit Charter?
- How does the Audit Committee review and consider the Internal Audit Working Papers?
- How many staff do you have in the Internal Audit Department and how many of them have Professional Accounting or Professional Audit Qualification and could use computer and application softwares proficiently.
- What systems does your company has in place to ensure quality assurance of the Internal Audit Assignments?

Source: Akinteye, York & Madarasz (2015)