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INTERNAL AUDIT AND CORPORATE GOVERNANCE EFFECTIVENESS IN UNIVERSITIES IN RIVERS STATE

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ABSTRACT: *The increasing demand for internal auditing and the expanded scope of work of the internal audit function places a lot of responsibilities on the internal auditor. The main objective of this study was to establish the nature of the relationship between internal audit and corporate governance in universities in Rivers State. The survey research design was adopted for this study. The population of the study was made up of all the five universities in Rivers State. Convenience sampling technique was adopted in selecting the respondents that constituted the sample of this study. Data collection was done primarily using structured questionnaire to enable the gathering of sufficient evidence about internal audit and corporate governance practices in the universities surveyed. The reliability index of the data collection instrument was 0.885, obtained using the Cronbach Alpha technique. Data analysis was carried out using descriptive statistics while linear regression and correlation analysis were used in testing the hypotheses. The investigation revealed that a positive linear relationship exists between internal audit and corporate governance in universities in Rivers State and that all the measures of internal audit have significant influence on governing council and audit committee effectiveness but do not have significant influence on external audit effectiveness in universities in Rivers State. The study concluded that the internal unit of the universities surveyed, on the average, perform financial, operational and compliance audits. One of the recommendations made was that management and those charged with governance of universities in Rivers State should make effort to inject more qualified, competent and experienced personnel into the internal audit unit; this can be done through the engagement of professional accountants (or auditors) or career internal auditors and by training and retraining their internal auditors to bring them up-to-speed with recent developments in internal auditing and corporate governance.*

KEY WORDS: Internal Audit, Corporate Governance, Compliance audit, Financial Audit, Operational Audit.

INTRODUCTION

Internal audit is one of the functions within many organisations (both private and public) that assists management in achieving effectiveness in areas such as risk management, internal control and operations. Internal audit, which is traditionally a feature of public sector and large organisations (BPP Learning Media, 2010, Eke, 2015), is now an essential function in many organisations. The origin of internal auditing is not certain, however, the history of modern internal auditing can be traced to the Industrial Revolution period. Internal auditing began as a one-person clerical function that primarily involved performing independent verification of bills before payment (Boynton & Kell, 1996). Over the years, internal auditing has evolved into a highly professional activity that extends to the appraisal of the efficiency and effectiveness of all aspects of an organisation's operations, both financial and non-financial

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(Aguolu, 2002; Millichamp & Taylor, 2008; Meisser, 2000; BPP Learning Media, 2010). These changes led to the establishment of internal audit department by many organisations.

Internal auditing is traditionally viewed as an independent appraisal function within an organisation for the review of accounting, financial and other operations as a basis of service to management (Millichamp, 1999). Thus, internal auditing was originally viewed as a task that focuses on the financial activities of an organisation. The Institute of Internal Auditors (IIA) expanded the meaning of internal auditing when it defined internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organisations operations (IIA, 2002). Thus, the scope of work of the internal audit function has expanded in recent times and now includes assisting management and the board of directors in ensuring effective corporate governance. The expanded role of the internal audit function is borne out of the realization that the collapse of companies such as Polly Peck, the Mirror Group Newspapers, BCCI and Maxwell Communications Corporation (in the UK), Enron Energy Corporation, WorldCom, Adelphia, Tyco International and Peregrine Systems (in the US) as well as NITEL and NAFCON (in Nigeria) was due to corporate governance deficiencies. Corporate governance failures have often been attributed to board ineffectiveness and conflict of interest, lack of involvement and independence of the audit committee, lack of independence and objectivity of the external auditor as well as ineffectiveness and lack of independence of the internal audit function.

Academics, audit practitioners and policy makers have vigorously debated corporate governance issues in the past two decades (Abdullah & Page, 2009). Corporate governance is the system by which companies are directed and controlled. It is a process that involves managing and controlling the activities, direction and performance of companies and, by extension, other institutions. The scope of governance is a contested area; some commentators interpret it narrowly as referring to the maximisation of shareholder wealth, whereas, for others, governance has evolved to include corporate accountability, corporate social responsibility, risk management and the protection of interests of other stakeholders apart from shareholders (Abdullah & Page, 2009).

The increasing demand for internal auditing and the expanded scope of work of the internal audit function places a lot of responsibilities on the internal auditor. Internal auditors are required to assist management and the board of directors in achieving effective corporate governance. The modern internal auditor is no longer viewed as a 'ticking auditor' whose duty is to verify vouchers and accounting records for accuracy, completeness and reliability but as a professional who adds value and improves an organisation's operations. To effectively execute the task of adding value and improving an organisation's operations, and by extension the firm's corporate governance, internal auditors are expected to be highly competent, independent and objective, business experts and solution providers. However, it is common knowledge that many internal auditors lack the relevant skills required to effectively carry out internal audit assignments; this can be attributed to the fact that there is no minimum qualification requirement for internal auditors. Based on this observation, it becomes imperative for an assessment of the contribution, if any, of internal auditing to corporate governance to be carried out, with particular reference to universities in Rivers State. Thus, this study investigated internal audit's role in ensuring effective corporate governance in Universities in Rivers State.

Furthermore, many empirical studies on internal auditing and corporate governance focus on companies operating in sectors such as manufacturing, oil and gas, banking as well as

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telecommunications. There appear to be no research on the relationship between internal audit and corporate governance in universities and the extent to which internal auditing influence corporate governance in tertiary institutions of learning such as universities; hence, the need to investigate the nature of the relationship between internal audit and corporate governance effectiveness in universities in Rivers State motivated this study.

LITERATURE REVIEW

Theoretical Framework

The agency theory, stewardship theory and stakeholder theory are relevant to this study. They are discussed below.

Agency Theory

Jensen & Meckling (1976) developed the agency theory and in explaining the theory viewed the firm as a nexus of contracts between different stakeholders of the organisation. They pointed out that the owners and executives of an organisation may have differences in opinion with regard to the best interests of the organisation. The objective of agency theory is to determine optimal contract between the principal and the agent. The agent tries to maximize personal gains by satisfying principal's economic objectives and as such the agent's commitment level is a function of perceived reward value for satisfying principal's objectives.

The agency theory is based on the agency relationship. Jensen & Meckling (1976) pointed out that an agency relationship is one in which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. Perhaps, the most recognizable form of agency relationship is that of an employer and employee. Other examples include state (principal) and ambassador (agent); constituents (principal) and elected representative (agent); organization (principal) and lobbyist (agent); or shareholders (principal) and board of directors (agent). Thus, the relationship between the principal and the agent based on the contract is a focal point of agency theory. Principal wants to maximize his/her benefits while minimizing reward to the agent at the same time. On the other hand, the agent wants to maximize his/her benefits. The basic assumption of agency theory is that the principal's wealth, per se, would not be maximized because of the following reasons:

(1) The agent and the principal have different goals;

(2) The agent and the principal have different access to information; thus, the principal cannot effectively monitor what the agent does and know which information the agent has; and

(3) The agent and principal have different propensity towards risk.

Stewardship Theory

Another important theory that is considered relevant to the internal audit – corporate governance effectiveness relationship is stewardship theory. Stewardship theory was developed by Lex Donaldson and James Davies. Stewardship theory is a new perspective to understanding the existing relationship between ownership and management of a company and

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assumes that the manager is a steward of the business with behaviours and objectives consistent with those of the owners (Donaldson & Davies, 1991). Stewardship theory holds that there is no conflict of interest between managers and owners, and that the goal of governance is, precisely, to find the mechanisms and structure that facilitate the most effective coordination between the two parties (Donaldson, 1990). This theory also suggest that there is no inherent problem of executive control, meaning that organizational managers tend to be benign in their actions (Donaldson, 2008).

Unlike agency theory which assumes conflict of interest between the agent and principal(s), stewardship theory is based on the assumption that the behaviours of the manager are aligned with the interests of the principals and places greater value on goal convergence among the parties involved in corporate governance than on the agent's self-interest (Van-Slyke, 2006).

Stakeholder Theory

Edward Freeman advanced the Stakeholder Theory in 1984. Stakeholder theory has attracted widespread support because of its simplicity and logical application even though it is not a fully developed theory (Emerson, Alves & Raposo, 2011). No organisation exists in isolation, rather, every organisation (whether profit making or not-for-profit) exists for various categories of persons (stakeholders) who have interest in the organisation. Stakeholder theory is, therefore, based on the assumption that the responsibility of the business is to take into consideration the interests of other stakeholders, in addition to the shareholders, who impact the firm. Stakeholders are those groups who have a stake in or claim on the firm. Stakeholders of an organisation include management, employees, customers, suppliers, debt providers, government and the local community (the environment). The idea behind the stakeholder theory is that these group of persons influence the operations of the organisation and as such, their influence should be considered in the decision making process and the conduct of the operations of the organisation (Tse, 2011).

Freeman & Reed (1983) identified two sets of stakeholders in an organisation – those groups who are vital to the success and survival of the organisation and those groups who affect or are affected by the organisation. Emerson, Alves & Raposo (2011) supported this view when they pointed out that stakeholders could be primary or secondary; primary stakeholders are those that are contractually involved with the organisation such as employees, customers, and suppliers while secondary stakeholders are those that have no formal contracts with the organisation such as governments and the local community.

Conceptual Review

Concept of Internal Auditing

A variety of meanings have been attributed to the term 'internal auditing'. The concept of internal auditing is a popular concept in auditing and accounting literature and as such many authors and professional bodies have provided definitions of the concept.

In its simplest term, internal audit is an audit conducted in respect of the affairs of an organisation by its employees or by an external service provider (Eke, 2015). This definition recognises that internal auditing is performed by the employees of an organisation and focuses on the operations of the enterprise; it also indicates that the internal audit function can be outsourced to a vendor who perform same tasks as in-house internal auditors and report to management.

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Washerbrook (1978), cited in Kumar & Sharma (2001), defined internal auditing as an audit that is carried out by the specialist staff of the organisation being audited, and concern itself mainly with the routine checking of accounting transactions on a daily basis, with the object of quickly locating irregularities, thus making it more difficult for fraud to be perpetrated, because of the constant nature of the checking. This definition, which is one of the traditional definitions of internal auditing is quite comprehensive and brings out clearly the various features and objects of internal auditing. It emphasizes the fact that internal auditing focuses on accounting transactions and as such narrowly reflects the basic role of internal auditors.

The Institute of Internal Auditors (IIA), USA, cited in Kumar & Sharma (2001), Millichamp (1999), Eke (2015), initially defined internal auditing as an independent appraisal activity within an organisation for the review of accounting, financial and other operations as a basis for service to management; it is a managerial control, which functions by measuring and evaluating the effectiveness of other controls. This definition indicates that internal auditing is not mainly concerned with routine checking of accounting records but goes beyond the accounting records and includes reviewing and reporting on the operational performance of an organisation.

From the perspective of Aguolu (2002), internal auditing is the independent appraisal of the functions and quality of performance of an organisation by a specially assigned staff as part of the internal control system. He pointed out that many organisations, especially very large ones, engage the services of internal auditors in order to enhance the efficiency of their operations; and that the internal auditor is an employee of the organisation and hence works full time within the organisation. This definition is similar to the one originally given by the IIA because of its focus on the independence of the internal auditor.

All the definitions given above tend to emphasize the fact that internal auditing involves reviewing the accounting and financial operations of an organisation and is undertaken by the employees of the organisation. However, modern internal auditing now extends beyond reviewing transactions to evaluating operational and strategic risks and is undertaken as an assurance and consulting activity that improves the operations of an entity. It is on the basis of the strategic role of internal auditing that the Institute of Internal Auditors (IIA) via its Professional Practices Framework (PPF) issued in 2002 modified its original definition of internal auditing. The new definition of internal auditing is designed to accommodate the profession's expanding role and responsibilities. Thus, the IIA (2002) defined internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Audit Assignments

Internal auditors carry out various tasks in the performance of their functions. Since internal auditors work on behalf of and report to management, the tasks they perform are dictated by management. Thus, the peculiar nature of an organisation and demand of management determine the scope and nature of internal audit work. The assignments internal auditors execute are designed to identify, analyse, evaluate and record sufficient information to assist management in performing its duties and making decisions. The typical tasks or assignments performed by internal auditors as pointed out by Emile Wolf International (2010), Okezie

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(2015), Eke (2015), Aguolu (2002), Millichamp & Taylor (2008), BPP Learning Media (2010) and the Institute of Internal Auditors (2002) are:

(1) **Financial Audit:** Financial audit is the traditional task of the internal auditor. Financial audit involves reviewing evidence to substantiate information contained in the accounting records and financial statements made available to management for decision making. Financial audit focuses on transactions and events related to revenue or sales, cash, acquisition of assets, expenditure, financial capital receipts and payments, personnel and payroll, as well as external financial reporting.

(2) **Operational Audit:** Operational internal audit is an audit of specific processes and operations performed by an organisation. It involves the auditor looking into particular aspects of the entity's operations and is designed to ensure that policies are adequate and that they are working effectively, i.e. as intended. Operational audit serves as a management performance monitoring tool and often cover areas such as production, treasury, service delivery, procurement, marketing, human resources and inventory management.

(3) **Information Technology Audit:** Information technology audit is the evaluation of the controls within an organisation's information system infrastructure. This audit entails a consideration of the internal controls within an organisation's information technology (i.e. computer) environment to determine whether they are adequate and operating effectively so as to guarantee the reliability of information processed using the computer.

(4) **Value for Money Audit**: Value for money audit is an examination of the economy, efficiency and effectiveness of resource utilization in achieving objectives. Value for money is typically judged by comparison, that is, comparing current levels of an operation with previous levels of the same operation or with alternatives, thereby enabling the value for money auditor identify areas of waste in an organisation's operations.

(5) **Regulatory Compliance Monitoring:** Compliance with both internal and external rules, laws and regulations affecting an organisation is a pan aecia for the achievement of objectives. As part of its duties, the internal audit function monitors and ensures compliance with regulations affecting the organisation. To achieve this, a constant awareness of the operating environment of the organisation is required. Instances of deviations can then be identified and adjustments made accordingly.

(6) **Internal Control Review and Monitoring:** Internal auditors play a primary role in ensuring that financial and operational controls are adequate and operating effectively. Internal auditors are required to carry out a continuous evaluation of the system of internal control to determine whether it is operating effectively, identify weaknesses in the system and suggest improvement strategies to be implemented by management.

(7) **Risk Assessment/Management**: This is a continuing process to identify, analyze, evaluate, and treat loss exposures and monitor risk control and financial resources to mitigate the adverse effects of loss. Internal auditors assist management in identifying factors that may pose threat an organisation's ability to achieve its objectives.

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(8) **Fraud/Other Investigations**: Unlike the external auditor, the internal auditor is responsible for fraud prevention and detection. Whenever there are suspected or actual cases of fraud in an organisation, it is the duty of the internal audit function to carry out investigations to ascertain whether fraud had actually occurred, identify those involved and quantify the loss occasioned by the fraud as well as make recommendations to management on the controls required to forestall future occurrence of the identified fraud.

Concept of Corporate Governance

As pointed out earlier in this study, corporate governance became a prominent business management concept and practice following the collapse of a number of large companies in the UK (such as Maxwell Communications, Polly Peck, the Mirror Group Newspapers and BCCI) in the 1980s, and in the US (such as Enron Energy Corporation, WorldCom, Adelphia, Peregrine Systems and Tyco International) in the 1990s. The term corporate governance appears to have a unified meaning. Some of the definitions attributed to corporate governance are considered below.

Corporate governance as defined in the Cadbury Report (1992) is the system by which companies are directed and controlled. This definition has become the most universally accepted definition of corporate governance and the basis of modern theory and practice of corporate governance. Two managerial concepts underpin the principle of corporate governance; they are directing and controlling. Directing implies the use of communication, leadership and motivation to guide organisational members towards the attainment of organisational objectives (Nwachukwu, 1988); it is the process of achieving organizational objectives by motivating and guiding subordinates (Baridam, 1995). Controlling on the other hand is the measurement and correction of performance in order to make sure that enterprise objectives and plans devised to attain them are being accomplished (Weirich, Cannice & Koontz, 2010). Control involves three steps which are: establishment of standards, which are simply criteria for performance; measurement of performance, which involves comparing performance against established standards; and correction of deviations, which involves taking actions to rectify variations from standards and plans. In specific terms, the managerial function of control involves ensuring that the actual activities of employees correspond to the planned activities (Nwokoye & Ahiauzu, 1984). The important elements in the control function are setting standards, which involves establishing objectives and predetermined levels of performance against which actual results or performances are compared; obtaining information on employees' activities and performances, which involves monitoring the activities of employees by observing them, this can also be done through establishing a system of audit or review of subordinates' activities; and adopting appropriate corrective action, which involves introducing measures to ensure that actual performances conform with set standards.

From the foregoing, we can deduce that corporate governance is the process of leading, communicating and motivating organizational members towards the attainment of organisational objectives and also involves establishing objectives, measuring performance and taking corrective actions to ensure that actual performance conform to the set objectives.

Role of Internal Audit in Corporate Governance

Earlier in this study, the assignments undertaken by internal auditors were examined. This section specifically highlights the role of internal audit to establish how the internal audit

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function fits into the corporate governance framework and its contribution to corporate governance. According to the Institute of Internal Auditors, cited in Hermanson & Rittenberg (2003), internal audit plays two fundamental roles in corporate governance vis: monitoring risks and providing assurance regarding controls. Risk is the probability that an event or action, or inaction, may adversely affect the organization or activity under review (IIA, 2002). Thus, risk is the chance or probability of something bad happening and includes the opportunity cost associated with not taking action. Hermanson & Rittenberg (2003) argued that, in the governance context, the key activity with respect to risk is to monitor it, including all the subsidiary steps of identifying risk, assessing the potential effect of the risk on the organization, determining a strategy to address the risks, and then monitoring the environment for new risks as well as monitoring the existing risk strategy and attendant controls. Risk is inextricably linked to strategy. Assessing the risks inherent in new strategies and developing proper controls to mitigate risks associated with a strategy are essential management activities. In essence, internal audit's role in respect of risk is to monitor an organisation's operating environment for possible risk exposures, taking cognizance of the effect of identified risks and making recommendations to management on risk mitigation strategies and actions to be taken to reduce or eliminate the risks identified. The IIA (2002) summarized the role of the internal audit function in relation to risk as follows:

(1) Assess existing risk of audited area and report that assessment to management, the audit committee, or both.

(2) Develop a plan to systematically assess risk across the organization.

(3) Lead the risk management activities when a void has occurred within the organization.

(4) Facilitate risk assessment through risk self-assessment techniques.

(5) Evaluate risks associated with new computing developments and stop the project if risks are not controlled at predetermined acceptable levels.

(6) Assist management in implementing a risk model across the organization.

In addition to monitoring risks, the internal audit function provides assurance on internal controls. Controls exist to address risks. Control is any action taken by management to enhance the likelihood that established objectives and goals will be achieved (IIA, 2002). Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. Thus, control is the result of proper planning, organizing, and directing by management. In the context of governance, the internal auditor's role is to monitor the system of internal control to determine whether it is adequate and operating effectively; and hence make recommendations to management for improvement. The IIA (2002) summarized the role of the internal audit function in relation to internal control as follows:

(1) Assisting management in designing a comprehensive assessment, including testing of controls across the organization.

(2) Testing compliance with controls in functional areas, report findings to management, and if important, to the audit committee.

(3) Assisting management in preparing a report on the effectiveness of internal controls.

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(4) Identifying significant control deficiencies, including elements of the tone at the top, and communicate to the audit committee (for areas examined).

(5) Implementing computerized testing techniques, e.g., continuous control monitoring techniques, to monitor effectiveness of controls.

(6) Facilitating the understanding and development of controls within functional areas through control self-assessment techniques.

Emile Wolf International (2010) identified the following as the important roles of internal audit in an organisation, all of which are designed to assist an organisation in achieving effective corporate governance.

(1) Internal audit helps management to monitor the controls within an entity. The managerial task of monitoring controls may become difficult as an entity increases in size and complexity; hence, internal audit can be a useful management tool for monitoring controls.

(2) An internal audit function can be used to monitor the efficiency of operations. This is to ensure the efficiency and effectiveness of resource utilization, especially in a competitive market.

(3) In countries where there are large number of statutory and accounting regulations, internal auditors can be used by management to ensure compliance with laws and regulations.

(4) For organisations that use complex information technology systems, the internal audit function can help management review the effectiveness of controls within such systems.

In their contribution to the debate on the role of internal audit in corporate governance, Karagiorgos, Drogalas, Gotzamanis & Tampakoudis (2010) approached the issue by examining the relationship between internal audit and the key elements of corporate governance. They pointed out that, in terms of the relationship between the internal auditor and the directors, the internal auditor's contribution to corporate governance is to provide information to the directors which they (the directors) require to discharge their responsibility of managing the enterprise. Furthermore, internal audit assist the board of directors in its governance self-assessment. Based on the internal audit's relationship with the audit committee, Karagiorgos, Drogalas, Gotzamanis & Tampakoudis (2010) stated that internal audit contributes to corporate governance by: bringing best practice ideas about internal controls and risk management processes to the attention of the audit committee; providing information about any fraudulent activities or irregularities; conducting annual audits and reporting the results to the audit committee; and encouraging the audit committee to conduct periodic reviews of its activities and practices. Finally, in terms of the relationship between the internal auditor and the external auditor, they pointed out that the internal auditor supports and cooperates with the external auditor to enhance the overall quality of the external audit.

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EMPIRICAL REVIEW

Series of studies have been carried out on internal audit (as independent variable) and corporate governance (as dependent variable). Some of the empirical studies carried out on these two variables are examined below.

Asaolu, Adedokun & Monday (2016) examined the effect of internal audit function (IAF) on good governance in the public sector in Nigeria. The main objective of the study was to determine the role of the internal audit function in ensuring good governance in the public sector in Nigeria. Primary data for the study were obtained using structured questionnaire and data analysis was done using correlation analysis and multiple regression technique. The study found that internal audit moderately contributes to the effectiveness of corporate governance in the public sector in Nigeria and concluded that the internal audit function is a veritable tool for promoting good governance in the Nigerian public sector. The study recommended that there should be legal mandate in public sector organisations that allows government information to be publicly published and that special funds should be made available to internal auditors as it would enhance the effectiveness of the internal audit function and boost good governance in public organisations.

Abdullah (2014) carried out an investigation on ‘redefining internal audit performance: impact on corporate governance’. The specific purpose of the study was to explore the ways internal auditing is practiced in Malaysian public listed companies and as such establish internal audit’s contribution to corporate governance of such companies. The study adopted the survey research design and data were collected using mail questionnaire and interviews. Analysis of data was done using the Rasch model. The findings of the study reveal that internal audit has a significant impact on corporate governance and that collaborations particularly in risk management, information technology audits and quality audits, are increasingly being used as a strategy in internal audit to provide value-added services. It concluded that internal audit significantly influence corporate governance of Malaysian public listed companies and recommended that the practice of internal audit in future should be more collaborative to harness the expertise and experience of other departmental personnel in producing effective internal audit, ultimately creating a greater impact on corporate governance.

In another study, Changwony & Rotich (2015) examined the role of internal audit function in promoting effective corporate governance of commercial banks in Kenya. The purpose of the study was to determine the role of the internal audit function in promoting effective corporate governance of commercial banks in Kenya. Survey design was adopted for the study and stratified sampling technique used in selecting the sample elements. The findings of the study revealed that internal audit has a positive and significant influence on effective corporate governance. The study concluded that internal audit function plays a positive and significant role in promoting effective corporate governance of commercial banks in Kenya. The study recommended that the audit committee should take responsibility for approving the appointment, remuneration and disengagement of the Chief Audit Executive to enhance the effectiveness of the internal audit function.

Njunwa (2013) conducted a study on internal audit and corporate governance in local governments in Tanzania, using Mwanza city council as a case study. The primary objective of the study was to determine the factors that contribute to ineffectiveness of the internal audit function in promoting good corporate governance in the public sector in Tanzania. Data were obtained primarily using structured questionnaire. The study which adopted the multiple

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regression approach to data analysis found that factors such as lack of independence, lack of proficiency of internal auditors as well as lack of integrity on the part of internal auditors contributed to the ineffectiveness of the internal audit function in Mwanza city council and hence the public sector in Tanzania. The study concluded that the internal audit function in Mwanza city council does not promote good corporate governance. Consequently, it was recommended that internal auditors should ensure they improve their skills to enable them perform better and assist the council in promoting good corporate governance.

Odoyo & Omwono (2014) investigated the role of internal audit in enhancing corporate governance for companies listed at the Nairobi stock exchange. The objectives of the study were: to assess the auditor's role in corporate governance, to assess the internal audit's capacity to achieve its objectives, and to suggest how internal auditors' independence can be achieved. The descriptive research design was used and the data collection instrument was the questionnaire. The study employed both stratified and systematic sampling procedures. The sample size was thirty (30) companies quoted in the Nairobi stock exchange. The study found that eighty four (84) percent of the respondents were of the opinion that internal audit influence corporate governance of companies listed in the Nairobi stock exchange, hence it was concluded that the internal audit function contributes to corporate governance. One of the recommendations made in the study was that internal auditor should report functionally to the audit committee and administratively to the chief executive officer of the organization.

In another study, Mohammed, Unuigbokhai, & Ihimekpen (2014) investigated the role of internal audit in strengthening corporate governance in Nigeria. The main purpose of the study was to examine in a theoretical level the contribution of internal auditing to corporate governance. The study also examined the interaction between various corporate governance factors such as the board of directors, the audit committee and the external auditor, and the internal audit process. To achieve the objectives of the study, the researchers conducted an extended literature review. The study found that a positive relationship exist between internal audit and corporate governance and concluded that internal audit plays a vital role in strengthening corporate governance in Nigeria. The study recommended that case study researches be carried out by scholars to determine the impact of internal auditing on corporate governance in particular organisations.

METHODOLOGY

Research Design

This study adopted the survey research design. Survey design was appropriate as this study was a primary data research. Survey design ensures that data are obtained from dispersed respondents about the concepts being studied; it is an easy, convenient and cost effective method of collecting data required for a study. Considering that the respondents were many, the survey design was, therefore, appropriate for gathering the data required for this study.

Population of the Study, Sample Size Determination and Sampling Procedure

The population of this study was made up of all universities in Rivers State, both public and private. Currently there are five (5) universities (three public universities and two private universities) in Rivers State, they are: Rivers State University, University of Port Harcourt, Ignatius Ajuru University of Education, Madonna University and Rhema University.

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The sample size for this study was five (5). Since the population was small, a census of the entire population was done. Thus, all the universities in Rivers State constituted the sample of this study.

Convenience sampling technique was adopted in selecting the target respondents for the purpose of obtaining data required for the study. Convenience sampling technique is a sampling technique where sample elements are selected because of their accessibility and proximity. Convenience sampling provides a smattering idea of the variables being studied. Thus, adopting convenience sampling technique, twelve (12) copies of the questionnaire designed for the study were administered on senior personnel selected from the administration, bursary and internal audit units of each of the universities that constituted the sample of this study. In all sixty (60) copies of questionnaire were administered.

Methods of Data Collection and Analysis

This study was a primary data study; hence, structured questionnaire was used in collecting data required for the study while theoretical and empirical evidence were obtained from journals, textbooks and the internet.

Percentages, means and standard deviations were used in analyzing data collected for this study. The hypotheses formulated were tested using the linear regression and correlation techniques. To determine the influence of internal audit on corporate governance effectiveness in universities in Rivers State, the following hypotheses were formulated:

H_{O1}: Financial audit does not significantly influence corporate governance effectiveness in universities in Rivers State.

H_{O2}: Operational audit does not significantly influence corporate governance effectiveness in universities in Rivers State.

H_{O3}: Compliance audit does not significantly influence corporate governance effectiveness in universities in Rivers State.

H_{O4}: Government policies and technology do not significantly affect the relationship between internal audit and corporate governance effectiveness in universities in Rivers State.

Model Specification

This study used the linear regression and correlation statistics to investigate the relationship between internal audit and corporate governance effectiveness as well as the influence of internal audit on corporate governance effectiveness in universities in Rivers State. The model for this study is of the following form:

$$\mathbf{CGE = \beta_0 + \beta_1 FA + \beta_2 OA + \beta_3 CA + \varepsilon}$$

Where:

CGE = Corporate governance Effectiveness

β_0, β_1, β_2, β_3 = Regression coefficients

FA = Financial Audit

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OA = Operational Audit

CA = Compliance Audit

ε = Error term

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

Data Presentation and Analysis

This section presents and analyses data collected for this study using percentages, means and standard deviations. Weights were assigned to the responses obtained based on a four-point Likert Scale of the form strongly agree (4), agree (3), disagree (2), and strongly disagree (1). The expected mean of the responses is two and half (2.5) obtained by dividing the sum of the weights of the response options by the total number (i.e. 4+3+2+1÷4). The actual mean of each response was compared with the expected mean and a decision made on that basis.

Descriptive Statistics for Internal Audit

The results obtained in respect of the proxies for internal audit are shown in Table 1 below. Statements were made in the questionnaire to assess the extent to which internal auditors of the universities surveyed undertake financial, operational and compliance audits. The mean obtained for most of the items is above the expected (average) mean of 2.5 (on a four-point Likert Scale), indicating that internal auditors in the universities surveyed (on the average) perform financial, operational and compliance audits in order to assist the council in directing and controlling the affairs of the university; thus, enhancing corporate governance. The overall means for financial audit, operational audit and compliance audit were 2.705563, 2.55555 and 2.206357 respectively. The standard deviation for financial audit was 0.726949, that for operational audit was 0.686977 and that for compliance audit was 0.543757.

Table 1: Descriptive Statistics for Internal Audit.

Proxies for Internal Audit	N	Mean	Std. Deviation
Financial Audit	45	2.705563	0.726949
Operational Audit	45	2.55555	0.686977
Compliance Audit	45	2.206357	0.543757

Descriptive Statistics for Corporate Governance Effectiveness

Table 2 shows the results obtained in respect of the proxies for corporate governance (governing council effectiveness, audit committee effectiveness and external audit effectiveness). Nine (9) questionnaire items were considered to assess the effectiveness of the governing council (the equivalent of the board of directors in a public interest or private organisation), seven (7) questionnaire items were considered to assess the effectiveness of the audit committee while five (5) questionnaire items were considered to assess the effectiveness of the external auditor of the universities surveyed. The mean obtained for each of the items is above the expected mean of 2.5 (on a four-point Likert Scale). The overall mean for governing council effectiveness is 3.321 (with a standard deviation of 0.580952), that for audit committee

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effectiveness is 3.263486 (with a standard deviation of 0.585111) while that for external audit effectiveness is 3.35556 (with a standard deviation of 0.501988). These results suggest that the universities surveyed have implemented measures to facilitate corporate governance in line with global best practice.

Table 2: Descriptive Statistics for Corporate Governance Effectiveness.

Proxies for Corporate Governance Effectiveness	N	Mean	Std. Deviation
Governing Council Effectiveness	45	3.321	0.580952
Audit Committee Effectiveness	45	3.263486	0.585111
External Audit Effectiveness	45	3.35556	0.501988

Test of Hypotheses

To establish the relationship, if any, between internal audit and corporate governance effectiveness and hence determine the influence of the measures of internal audit (financial audit, operational audit and compliance audit) on the measures of corporate governance effectiveness (governing council effectiveness, audit committee effectiveness and external audit effectiveness), the hypotheses postulated were tested using linear regression and correlation statistical techniques. The test was done with the aid of the Statistical Package for Social Sciences (SPSS, version 20).

Regression/Correlation Analysis of Financial Audit and Corporate Governance Effectiveness

H_{O1}: Financial audit does not significantly influence corporate governance effectiveness in universities in Rivers State.

Table 3 below shows the outcome of the test.

Table 3: Correlation Output of Financial Audit and Corporate Governance Effectiveness.

Correlations

		FINANCIAL AUDIT	GOVERNING COUNCIL EFFECTIVENESS	AUDIT COMMITTEE EFFECTIVENESS	EXTERNAL AUDIT EFFECTIVENESS
FINANCIAL AUDIT	Pearson Correlation	1	.741*	.755*	.405*
	Sig. (2-tailed)		.000	.000	.006
	N	45	45	45	45
GOVERNING COUNCIL EFFECTIVENESS	Pearson Correlation	.741*	1	.787*	.546*
	Sig. (2-tailed)	.000		.000	.000
	N	45	45	45	45
AUDIT COMMITTEE EFFECTIVENESS	Pearson Correlation	.755*	.787*	1	.453*
	Sig. (2-tailed)	.000	.000		.002
	N	45	45	45	45
EXTERNAL AUDIT EFFECTIVENESS	Pearson Correlation	.405*	.546*	.453*	1
	Sig. (2-tailed)	.006	.000	.002	
	N	45	45	45	45

*. Correlation is significant at the 0.05 level (2-tailed).

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As shown in Table 3, the correlation coefficient (R) of financial audit and governing council effectiveness is 0.741, the correlation coefficient (R) of financial audit and audit committee effectiveness is 0.755 and the correlation coefficient (R) of financial audit and external audit effectiveness is 0.405, at 5% level of significance. This implies that a positive linear relationship exist between financial audit and all the measures of corporate governance. The result reveals that a strong correlation exist between financial audit and two of the measures of corporate governance (governing council effectiveness and audit committee effectiveness) while a weak correlation exist between financial audit and external audit effectiveness.

The coefficient of determination (R^2) (from the regression model) is 0.549 (in respect of the relationship between financial audit and governing council effectiveness), 0.57 (in respect of the relationship between financial audit and audit committee effectiveness) and 0.164 (in respect of the relationship between financial audit and external audit effectiveness). The coefficient of determination (for financial audit and governing council effectiveness) indicates that 54.9% of the effectiveness of the governing council of the universities surveyed is influenced by financial audit (undertaken by the internal audit unit) while 45.1% is due to other variables. The coefficient of determination (for financial audit and audit committee effectiveness) indicates that 57% of the effectiveness of the audit committee of the universities surveyed is influenced by financial audit (undertaken by the internal audit unit) while 43% is due to other variables. The coefficient of determination (for financial audit and external audit effectiveness) indicates that 16.4% of the effectiveness of the external audit of the universities surveyed is influenced by financial audit (undertaken by the internal audit unit) while 83.6% is due to other variables. Thus, the coefficient of determination result for financial audit and governing council effectiveness as well as that for financial audit and audit committee effectiveness does not support H_{O1} which states that financial audit does not significantly influence corporate governance effectiveness in universities in Rivers State; hence, H_{O1} is rejected. However, the coefficient of determination result for financial audit and external audit effectiveness supports H_{O1} which states that financial audit does not significantly influence corporate governance effectiveness in universities in Rivers State; hence, H_{O1} is accepted.

Regression/Correlation Analysis of Operational Audit and Corporate Governance Effectiveness

H_{O2}: Operational audit does not significantly influence corporate governance effectiveness in universities in Rivers State.

Table 4 below shows the outcome of the test.

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Table 4: Correlation Output of Operational Audit and Corporate Governance Effectiveness.

Correlations

		OPERATIONAL AUDIT	GOVERNING COUNCIL EFFECTIVENESS	AUDIT COMMITTEE EFFECTIVENESS	EXTERNAL AUDIT EFFECTIVENESS
OPERATIONAL AUDIT	Pearson Correlation	1	.724*	.680*	.443*
	Sig. (2-tailed)		.000	.000	.002
	N	45	45	45	45
GOVERNING COUNCIL EFFECTIVENESS	Pearson Correlation	.724*	1	.787*	.546*
	Sig. (2-tailed)	.000		.000	.000
	N	45	45	45	45
AUDIT COMMITTEE EFFECTIVENESS	Pearson Correlation	.680*	.787*	1	.453*
	Sig. (2-tailed)	.000	.000		.002
	N	45	45	45	45
EXTERNAL AUDIT EFFECTIVENESS	Pearson Correlation	.443*	.546*	.453*	1
	Sig. (2-tailed)	.002	.000	.002	
	N	45	45	45	45

* Correlation is significant at the 0.05 level (2-tailed).

From the result shown in Table 4, the correlation coefficient (R) of operational audit and governing council effectiveness is 0.724, the correlation coefficient (R) of operational audit and audit committee effectiveness is 0.68 and the correlation coefficient (R) of operational audit and external audit effectiveness is 0.443, at 5% level of significance. This implies that a positive linear relationship exist between operational audit and all the measures of corporate governance. The result reveals that a strong correlation exist between operational audit and two of the measures of corporate governance (governing council effectiveness and audit committee effectiveness) while a weak correlation exist between operational audit and external audit effectiveness.

The coefficient of determination (R^2) (from the regression model) is 0.524 (in respect of the relationship between operational audit and governing council effectiveness), 0.462 (in respect of the relationship between operational audit and audit committee effectiveness) and 0.196 (in respect of the relationship between operational audit and external audit effectiveness). The coefficient of determination (for operational audit and governing council effectiveness) indicates that 52.4% of the effectiveness of the governing council of the universities surveyed is influenced by operational audit (undertaken by the internal audit unit) while 47.6% is due to other variables. The coefficient of determination (for operational audit and audit committee effectiveness) indicates that 46.2% of the effectiveness of the audit committee of the

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universities surveyed is influenced by operational audit (undertaken by the internal audit unit) while 53.8% is due to other variables. The coefficient of determination (for operational audit and external audit effectiveness) indicates that 19.6% of the effectiveness of the external audit of the universities surveyed is influenced by operational audit (undertaken by the internal audit unit) while 80.4% is due to other variables. Thus, the coefficient of determination result for operational audit and governing council effectiveness as well as that for operational audit and audit committee effectiveness does not support H_{O2} which states that operational audit does not significantly influence corporate governance effectiveness in universities in Rivers State; hence, H_{O2} is rejected. However, the coefficient of determination result for operational audit and external audit effectiveness supports H_{O2} which states that operational audit does not significantly influence corporate governance effectiveness in universities in Rivers State; hence, H_{O2} is accepted.

Regression/Correlation Analysis of Compliance Audit and Corporate Governance Effectiveness

H_{O3}: Compliance audit does not significantly influence corporate governance effectiveness in universities in Rivers State.

Table 5 below shows the outcome of the test.

Table 5: Correlation Output of Compliance Audit and Corporate Governance Effectiveness.

Correlations

		COMPLIANCE AUDIT	GOVERNING COUNCIL EFFECTIVENESS	AUDIT COMMITTEE EFFECTIVENESS	EXTERNAL AUDIT EFFECTIVENESS
COMPLIANCE AUDIT	Pearson Correlation	1	.715*	.677*	.379*
	Sig. (2-tailed)		.000	.000	.010
	N	45	45	45	45
GOVERNING COUNCIL EFFECTIVENESS	Pearson Correlation	.715*	1	.787*	.546*
	Sig. (2-tailed)	.000		.000	.000
	N	45	45	45	45
AUDIT COMMITTEE EFFECTIVENESS	Pearson Correlation	.677*	.787*	1	.453*
	Sig. (2-tailed)	.000	.000		.002
	N	45	45	45	45
EXTERNAL AUDIT EFFECTIVENESS	Pearson Correlation	.379*	.546*	.453*	1
	Sig. (2-tailed)	.010	.000	.002	
	N	45	45	45	45

*. Correlation is significant at the 0.05 level (2-tailed).

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From the result shown in Table 5, the correlation coefficient (R) of compliance audit and governing council effectiveness is 0.715, the correlation coefficient (R) of compliance audit and audit committee effectiveness is 0.677 and the correlation coefficient (R) of compliance audit and external audit effectiveness is 0.379, at 5% level of significance. This implies that a positive linear relationship exist between compliance audit and all the measures of corporate governance. The result reveals that a strong correlation exist between compliance audit and two of the measures of corporate governance (governing council effectiveness and audit committee effectiveness) while a weak correlation exist between compliance audit and external audit effectiveness.

The coefficient of determination (R^2) (from the regression model) is 0.511 (in respect of the relationship between compliance audit and governing council effectiveness), 0.458 (in respect of the relationship between compliance audit and audit committee effectiveness) and 0.144 (in respect of the relationship between compliance audit and external audit effectiveness). The coefficient of determination (for compliance audit and governing council effectiveness) indicates that 51.1% of the effectiveness of the governing council of the universities surveyed is influenced by compliance audit (undertaken by the internal audit unit) while 48.9% is due to other variables. The coefficient of determination (for compliance audit and audit committee effectiveness) indicates that 45.8% of the effectiveness of the audit committee of the universities surveyed is influenced by compliance audit (undertaken by the internal audit unit) while 54.2% is due to other variables. The coefficient of determination (for compliance audit and external audit effectiveness) indicates that 14.4% of the effectiveness of the external audit of the universities surveyed is influenced by compliance audit (undertaken by the internal audit unit) while 85.6% is due to other variables. Thus, the coefficient of determination result for compliance audit and governing council effectiveness as well as that for compliance audit and audit committee effectiveness does not support H_{O3} which states that compliance audit does not significantly influence corporate governance effectiveness in universities in Rivers State; hence, H_{O3} is rejected. However, the coefficient of determination result for compliance audit and external audit effectiveness supports H_{O3} which states that operational audit does not significantly influence corporate governance effectiveness in universities in Rivers State; hence, H_{O3} is accepted.

Discussion of Findings

Based on the data presented and analysed in the previous sections, a number of findings emerged. The major objective of this study was to establish the nature of the relationship between internal audit and corporate governance effectiveness in universities in Rivers State. The results presented in table 1 indicate that the internal audit unit of the universities surveyed perform financial, operational and compliance audits. The overall mean obtained for each of the measures of internal audit is slightly above the expected mean of 2.5 on a four-point Likert Scale.

Each of the universities surveyed, as found in the course of this study, has a governing council, an audit committee and an external auditor. The results of this study, presented in table 2 indicate that: the chairman of the council of the universities surveyed is not involved in the day to day administration of the university; the council members are experienced, committed and independent; the audit committee is properly constituted in line with the edict/law/act establishing the university; the chairman of the audit committee is not an administrative executive of the university; the financial statements of the university are audited annually by the external auditor; and that the external auditor reports directly to the council. The overall

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mean for each of the measures of corporate governance effectiveness, as found in this study, is more than 3.4 (on a four-point Likert Scale) indicating that the governing council, audit committee and external auditor of the universities surveyed are effective.

In terms of the relationship between the various measures of internal audit and the corresponding measures of corporate governance effectiveness, as well as the influence of internal audit (measured in terms of financial audit, operational audit and compliance audit) on corporate governance effectiveness (measured in terms of governing council effectiveness, audit committee effectiveness and external audit effectiveness), the study found that a positive linear relationship exist between internal audit and corporate governance effectiveness. The study also found that while there is a strong correlation between the measures of internal audit (financial audit, operational audit and compliance audit) and two of the measures of corporate governance effectiveness (governing council effectiveness and audit committee effectiveness), a weak correlation exist between the measures of internal audit and the third measure of corporate governance effectiveness (external audit effectiveness), whilst controlling for government policies and technology respectively.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary

This study investigated the relationship between internal audit and corporate governance effectiveness in universities in Rivers State. Internal audit was measured in terms of financial audit, operational audit and compliance audit while corporate governance effectiveness was measured in terms of governing council effectiveness, audit committee effectiveness and external audit effectiveness. The study covered all the universities in Rivers State (there are five universities in Rivers State, three of which are government-owned while two are private universities). The sample size was five (5), which implies that a census of the population was done. Survey design was adopted for the study. Data required for the study were collected using structured questionnaire.

Employing the Statistical Package for Social Sciences (SPSS, version 20), analysis of data obtained for the study was done adopting linear regression and correlation techniques. The results of the study revealed that a positive linear relationship exist between internal audit and corporate governance effectiveness in universities in Rivers State. While a strong linear relationship exist between financial audit, operational audit, as well as compliance audit on the one hand, and governing council effectiveness and audit committee effectiveness on the other hand; a weak linear relationship exist between financial audit, operational audit as well as compliance audit on the one hand and external audit effectiveness on the other hand. The findings of the study further revealed that all the measures of internal audit have significant influence on governing council effectiveness and audit committee effectiveness (two of the three measures of corporate governance) but do not have significant influence on external audit effectiveness (the third measure of corporate governance) in universities in Rivers State.

CONCLUSION

Based on the findings of this study, we conclude as follows:

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(1) The internal audit unit of the universities surveyed, on the average, perform financial, operational and compliance audits.

(2) A strong linear relationship exist between the three measures of internal audit (financial audit, operational audit and compliance audit) and two of the measures of corporate governance (governing council effectiveness and audit committee effectiveness).

(3) A weak linear relationship exist between the three measures of internal audit (financial audit, operational audit and compliance audit) and external audit effectiveness (one of the three measures of corporate governance).

(4) Internal audit has a significant influence on governing council and audit committee effectiveness but does not have a significant influence on external audit effectiveness. While internal audit accounts for about 53 percent and 50 percent of the performance of the governing council and audit committee respectively, it only accounts for about 17 percent of the performance of the external auditor in universities in Rivers State.

Recommendations

The following recommendations are advanced based on the findings and conclusion of this study:

(1) The internal audit unit of each of the universities in Rivers State should improve its performance of financial, operational and compliance audits in order to contribute more to corporate governance in such universities. This can be done through the development of year-round work programmes that cover all aspects of the university's operations.

(2) Management and those charged with governance of universities in Rivers State should make effort to inject more qualified, competent and experienced personnel into the internal audit unit. This can be done through the engagement of professional accountants (or auditors) or career internal auditors and by training and retraining their internal auditors to bring them up-to-speed with recent developments in internal auditing and corporate governance.

(3) The weak relationship identified in this study between internal audit and external audit effectiveness can be attributed to the inability of the internal audit unit of the universities surveyed to effectively review accounting records maintained and financial reports prepared by the bursary unit. There is therefore need for the internal audit unit of each of the universities in Rivers State to reactivate its accounting and financial reporting review engine and maintain sufficient and appropriate documentation of work done to provide a basis for the external auditor's reliance on internal audit work.

(4) For the internal audit unit to provide a very reasonable contribution to corporate governance in universities in Rivers State, the unit should be made a strategic business unit (SBU) of the university and not just be seen as an ordinary support function. To achieve this, the Director of Internal Audit (DIA) should be part of executive management and one of the principal officers of the university (have the same authority and respect as other principal officers) and should not only report to the Vice-Chancellor but also to the Audit Committee and the Governing Council.

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