



INTERNAL AUDIT AND CORPORATE GOVERNANCE: A CASE STUDY OF NIGERIAN BREWERIES PLC

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ABSTRACT

The research work empirically assessed the roles of internal audit in corporate governance using the Nigeria Breweries company as a case study. The major focus of the study is to ascertain those relevant auditing roles that are very germane to corporate governance in the organization. A survey research of the auditing staff, accounting staff as well as management staff of the Nigerian Breweries is conducted and descriptive statistics is used to analyze the responses of the respondents to key variables that link auditing role to corporate governance. It was discovered from the results that not all internal control measures are followed despite the fact that all other identified variables shows that there is a well-established auditing procedures in the organization. Again, it was also discovered that important corporate governance variables such as disclosure of the remuneration of the directors as well as annual review of the remunerations of the BOD and other senior staff are not strictly followed. All these among others affect the effectiveness of internal audit on corporate governance in the organization.

Key Words: Internal audit, corporate governance, internal control measures.

I INTRODUCTION

Corporate governance is the manner in which power of corporate is exercised in the stewardship of the corporation, to the portfolio of assets and resources with the objective of maintaining and increasing shareholders value to the satisfaction of the stakeholders in the content of its corporate

mission (PSCGT, 1999). During the last decade, policy makers, regulators and market participants around the world have increasingly come to emphasize the need to develop good corporate governance policies and practices. An increasing amount of empirical evidence shows that good governance contributes to competitiveness, facilitates corporate wide spreading and thus helps develop area of participation and spur economic growth. The objective of corporate governance is to ensure a balance between the various actors and to implement power control instruments, both of shareholders and other interested parties in the capital of the entity. Modernizing economic environment, but also the social one, has made that current governance system to not only take into consideration the need to inform shareholders, but also their satisfaction, the company's ability to respond positively to the new market restrictions, the relations established with external bodies, employees, general public, etc. The idea that shareholders and managers have divergent interests is the dominant approach for corporate control in the agency theory.

In recent times, corporate governance has evolved as an intensely critical issue especially because of the financial crisis (Peni and Vahamaa, 2012). Consequently, policy frameworks formulated in the aftermath of the financial crisis, have traced recommendations for governance structures (e.g. Basel Committee on Banking Supervision, 2008), (FSA, 2008), (Walker Report, 2009). Particularly, after the chute of Enron, some regulations, including an emphasis on anti-fraud and whistle-blower provisions have put more attention on the internal audit function and the need for internal auditors to take a more active role in governance (Florea and Florea 2013). The internal audit function has evolved in many organizations to a position where it is often called upon to take leadership in helping the organization implement, assess, or conceptualize risk management and control processes within an organization. In other words, internal audits are playing an increasing active role in implementing effective governance and controls while being asked to assess the effectiveness of management's control practices. Internal audit has evolved from a function which targets financial and accounting issues to a function that focuses on a wide range of operating activities and becomes an integral part of the governance structure. The IIA defines internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, control, and governance processes.

Traditionally the internal auditors were acting as 'policemen' that check and monitor the company's procedures and level of compliances with the rules (Skinner and Spira, 2003). Currently internal auditors can be portrayed as consultants and the internal audit function of companies considered as helping to achieve corporate objectives and add value. Research suggests that boards are increasingly relying on the internal auditors to monitor the risk management processes (Fraser and Henry, 2007). The key role of internal audit is to assist the board and in discharging its governance responsibilities by delivering: (i) A review of the organization's control culture, especially the "tone at the top, (ii) An objective evaluation of the existing risk and internal control framework, (iii) Systematic analysis of business processes and associated controls, (iv) Reviews of the existence and value of assets, (v) A source of

information unacceptable levels of risk, (vii) Reviews of the compliance framework and specific compliance issues and (viii) Reviews of operational and financial performance (Fraser and Henry, 2007).

While there abound a host of literatures outside Nigeria that have incorporated these new tasks among the variables used in measuring role of internal audit, many of the studies on Nigeria still used variables that relegated the role of internal audit to financial control only consequently only variables that portray financial control role of internal audit were included in these studies. This paper apart from view these new roles which are stated above holistically, the study further contribute to existing literature by investigating the relative importance of individual variable on corporate governance.

The rest of the paper is arranged in the following sections; Section 2 examines the Literature, section 3 evaluates the theoretical framework and then finally the concluding section.

II LITERATURE REVIEW

Tobara and Ungureami (2012) Investigated internal auist and its role in corporate governance system. According to them, The corporate governance implies a cycle that extends from the steering and monitoring role of the board, to the administrative and operational executives and the role of internal and external auditors certification. These roles come from three different levels of governance. Efficiency level can impact another, but also governance throughout the organization. In this sense, the system includes all activities, from monitoring, operation and control to the processes and activities to meet the needs of different stakeholders. Implementing a system of corporate governance involves the basic principles leading to relations between different participants, to define responsibilities and ensure the correct operation of the decision making process. A well-based information system is essential for optimal functioning of organizations, but also for their future development.

Al-Jabali, Abdalmanam and Ziadat (2011) examined internal audit and its role in corporate governance. According to them, one main pillar for the success of corporate governance for any company or organization that is having this career, However, it should be noted that there are major activities of governance are the same activities are essential in this profession. In the sense that the two essential activities of the governance Crystallizes in the risk control and assurance regarding the existence of Regulatory Control, for that, the audit profession helps to control and manage risks in terms of diagnosis and identify risks on a regular basis. Ease the evaluation and risk assessment; Assessment of risk management processes Measuring, and monitoring performance, internal communications in order to take corrective action. As for the assurances of regulatory controls, it is according to the content and the concept of governance, the foundation is to ensure that regulatory controls are in force in any company has been developed to face the major risk of the institution. The management of the company or organization applies supervisory controls. While other participants in the governance (And here is the Internal Auditor) Playing a more role in Supervisory control or evaluation, Where can the Internal

Auditor providing assurances about the supervisory controls, and that in terms of assessment of the procedural methods in senior management. Estimate the regulatory environment on regular basis. Choose examining the effectiveness of supervisory controls. Submissions report of Ratings on the management and audit committees in the company or organization, report should submitted for Evaluations about the management and audit, And Committees in the company or organization. In the researcher, opinion it should not be overlooked the development that took place in the internal auditing standards, which support the effectiveness of corporate governance. Therefore, internal auditors should be fully prepared to audit the ongoing operations of the company and control systems of accounting, administrative, tactical operational performance in the company, (Ratliff&Reding, 2002, p5. (And showing up extent of compliance in terms of compliance with laws and regulations of the company, So it's a must (in the researcher opinion) internal auditor should possess the skills of analytical thinking and critical with the need for a full understanding of the threats and risks facing the company's activities, also with the necessity to adherence to the moral career, and the access to take advantage of technological development And knowledge in the performance of his work, In particular under the prevailing world knowledge economy, and the outcomes of all this will be access to the effectiveness unique governance institution in different fields level of local and international.

Karaigorios and George (2010) investigated internal audit as an effective tool in corporate governance. According to them, within the globalized economy, internal auditing is established as an essential means for the exact management of any business economic resources. Simultaneously, corporate governance has received wide attention in recent years both in practice (Brown, 1999) and in academic research (De Zoort and Salterio, 2001) because of the major accounting scandals and large-scale corporate failures. In this concept, the main purpose of the present paper is to examine in a theoretical level the contribution of internal auditing to corporate governance. Furthermore this paper aims to examine 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. Via an extended literature review, the study's originality is the provision of an integrated conceptual framework regarding internal audit and business corporate governance. The results of this literature review indicate that internal auditing plays a vital role in effective corporate governance.

Asaolu, Adedokun and Monday (2016) assessed internal audit functiona and good governance in Nigeria. According to them, the subject of governance has become a pertinent issue for business, government, politics, and the general public. In both the private and the public sectors, there is an increasing demand for good governance in terms of accountability and transparency, and internal audit function within organizations has an important role to play in the achievement of these objectives. This study therefore assessed the effects of internal audit function (IAF) on good governance in the public sector in Nigeria. Primary data was obtained through the administration of structured questionnaire to purposively selected respondents comprising Head of Internal Audit, Director of Finance and Supplies, and Head of Local Government Administration, in 33 public sector organizations in Oyo State, Southwestern Nigeria. A total of 99 respondents

participated in the study. IAF was measured by independence of internal audit system, scope of work, professional competence, examination process, and management support, while quality of service, management of public resources measured good governance. Data obtained was analysed using correlation analysis and multiple regression technique. The results showed that the effectiveness of IAF in Nigerian public sector organisations was moderate since internal audit system in the public organisations was not absolutely independent and professional competence was limited due to the challenge of insufficient funds to successfully carry out its duties. Moreover, the study revealed that IAF had significant and positive effect on the quality of service delivery and management of resources in the public organisations. The study concluded that internal Audit function is a veritable tool for promoting good governance in the Nigerian Public Sector. This study therefore recommended that there should be legal mandate in public sector organisations that allows government information to be publicly published and special funds should be made available to internal auditors as it would enhance effectiveness of internal audit function and boost good governance in the organisations.

Ndukwe (2016) examined perspectives of internal audit functions in Nigeria. According to him, adding service and a very crucial instrument of management control. The importance of internal audits has been confirmed in a variety of legislation such as the Sarbanes Oxley Act (2002) in the USA. The recent spate of corporate collapses and financial scandals has resulted in an increased focus on internal auditing as an important consideration for organizations. The basic role of internal auditing is to help management achieve company goals. It also provides assurance that management has implemented a satisfactory internal control system to prevent risks. In addition, internal auditing should provide internal consulting services to all levels of the organization in terms of training, advices, facilitation and counsels. Nonetheless, to date, there has been scant research conducted on Internal Audit (IA) effectiveness. Prior IA research also has, for the most part, focused on developed countries. Accordingly, internal audit appears generally, and IA effectiveness specifically, to be under-researched particularly in the context of developing countries. The increasing globalization of the world economy and the adoption of the International Monetary Fund (IMF) and World Bank-led economic reforms are factors now driving the surging interest in corporate governance practices in several developing countries. Therefore, it is important to understand internal audit practices in these environments. Apart from contributing to the literature, studies on IA in developing countries could potentially provide a more holistic understanding of the nature, context and processes of internal audit.

III METHODOLOGY

Research Design

The research design is viewed as a guiding plan for the process of collecting, analyzing and interpreting observations and a logical model of proof that facilitates the drawing of inferences by the researcher concerning casual relations among the variables under study. The research design of this project is a non-experimental or a survey, one which determined the perceived level of good corporate governance by internal auditing in The Nigeria Breweries, Ibadan. The

case study approach which embraces the exploratory or descriptive methods was adopted. Therefore, the questionnaire covering the objectives of the research was prepared and used to collect data from the selected respondents.

Instrumentation for the Study

Questionnaires are used to collect responses from relevant workers in the manufacturing firm selected for the study. The questionnaire is developed by the researcher based on ideas about the internal audit and corporate governance. The questionnaire used for the study consists of three component parts.

The first part consists of questions delve on the bio data of the respondent and background of the manufacturing firm. The years of incorporation, the sub sector it belongs, the staff strength, numbers of managers, the address among others are included here. The section B of the questionnaire contains questions on internal audit procedures. This aspect includes questions on functions of internal audit in a manufacturing company. Section C of the questionnaires contains questions on corporate governance framework. It contains questions that deals with indicators of corporate governance especially in a manufacturing company like Nigerian Breweries

Instrument scoring Scale

The scale of response on the questionnaire will tilt towards the nature of estimating techniques to be used for the study. Generally, summary of statistics such as mean and standard deviation as well as ratio scale are used. Consequently, 5 likert scale is used nad the scale of the question take the following form: strongly Agree, Agree, Undecided, Disagree, Strongly Disagree. The calibrations for the positive items will be such that they will be scored: 5, 4, 3, 2 and 1. The negatively structured items were scored as follows: 1, 2, 3, 4, and 5. Depending on the way the questions are framed.

Validity and Reliability

The authors adopt a method of checking the validity, reliability and consistency of our instrument and questions by including a few extra questions to respondents which deem essential for the study. The authors use a technique of putting in two roughly equivalent or closely related questions but well separated in the questionnaire. With this, it is possible to measure the consistency of answers. The authors also adopt the split ballot technique by constructing two parallel forms of questionnaires that are used with equivalent samples of our population. The two forms have some of their questions in common, but certain other questions are worded in different ways in order that the effects of the differences may be measured. At the end of this exercise, the authors are able to reexamine and revise some of the questions and their sequence drawing from the results of our technique above as well as outside criticisms.

Pre-Testing of the Questionnaire.

Pre-test is carried out to see how the questionnaire work out and whether changes are necessary before the commencement of full-scale study. The respondents used for the pre-test exercise are similar in grade and characteristics to those that are eventually sampled in the final study.

Population to be studied and sampling technique

The population of this study is all the staff of relevant department in the Nigeria breweries, these departments include audit, accounting and management staff among others. Consequently, the targeted population of the study is two hundred and twenty-eight (228) comprising fifty (50) management members and one hundred and seventy-eight (178) ordinary staff.

Sample Selection

Since it is not possible to cover all the famous Yamane technique sample selection techniques will be adopted by the study. The calculation of the sample size will be done as follows:

$$n = \frac{N}{1+N*(e)^2} \dots\dots\dots(3.1)$$

Where n = the sample size

N = the population size =228

e = acceptable sampling error

* 95% confidence interval is assumed (p=0.5)

By substitution in the formula

$$n = 228/(1+228[0.05]^2), \quad n = 228/1.57, \quad n = 145 \text{ sample size}$$

The implication is that a total of 145 staff from Nigerian Breweries constitutes our sample size.

Methods of data analysis

However, for clarity sake, all the method of data analysis that are employed to achieve the objective of assessing the relationship between corporate governance and internal audit are purely summary of statistics, descriptive and ratio analysis.

IV RESULTS AND DISCUSSION

This section provides presentation, discussion and analysis of data collected from the field by giving detailed information on the findings of the study and detailed discussion on responses obtained from the questions posed to the respondents as well as the analysis of the findings. The study uses narrative and descriptive statistics, mean and standard deviation were employed in explaining salient points of the study where necessary. Out of the 145 questionnaire distributed 132 were returned and the bio-data analysis of the respondents is as follows.

Bio data analysis of the respondents

Table 1 Sex distribution of the respondents

Sex	Numbers	Percentage
Male	83	63%
Female	49	37%
Total	132	100%

Source: Authors survey

The distribution of the respondents in terms of sex shows that most of the respondents that attended to the questionnaires are males. They occupy about 63% of the total population of respondents.

Table 2: Departmental distributions of the respondents

Sex	Numbers	Percentage
Auditing dept staff	34	26%
Accounting dept staff	65	49%
Management staff	33	25%
Total	132	100%

Source: Authors survey

Three categories of staff are given preference in the study they are the staff of the auditing dept, accounting as well as the management staff. This is because the questions contain some technical terms that will require staff of the knowledge of the staff of these departments to understand. The distribution shows that auditing staff are 26% of the population, accounting staff 49% and management staff 25%

Table 3: Academic qualification distribution of the respondents

Sex	Numbers	Percentage
O level	15	11%
OND/NCE	23	17%
B.Sc/HND	75	57%

M Sc/MBA	19	15%
Total	132	100%

Source: Authors survey

Table 3: shows that largest numbers of the respondents are university of polytechnic graduates. The implication is that the respondents are mostly educated. This is an indication that many of the respondents are able to understand the questions very well. However, very few of them are with O Level certificate and they are mostly the low level staff of the departments.

Table 4: Professional qualification distribution of the respondents

Category	Numbers	Percentage
ANAN	26	20%
ICAN	15	11%
Others	46	35%
None	45	34%
Total	132	100%

Source: Authors survey

Table 4 shows that many of the respondents are professional in the field of accountancy the implication is that about 66% of the respondents know much about auditing role. Out of the remaining 34% the findings further revealed that almost all of them are at the management level since managers are part of the respondents captured in the study.

Assessment of internal audit procedures

The level of compliance with the standard internal audit procedures in the organization is assessed empirically. The mean and the standard deviation of the responses are explained in table 5

In other to achieve the objectives of this study 12 variables are identified that really measure the relevance of internal audit in corporate governance of the Nigeria Breweries. Table 5 presents the result of the field survey on the respondents' information supplied. The analysis shows that the variable " All internal control measures are always followed" is the only variable that scored the lowest mean value of 3.18 which is about 63.60% of the total responds. All other variables score above 4.0. The variable with the highest mean value is "internal auditor has free access to the board or the board committee" with the mean value of 4.73 and about 94.6% of the responds

appear to be the most germane variable that affects corporate governance in the Nigeria breweries.

Again, the study has shown that Nigerian Breweries recognize internal audit control has very germane to corporate governance with the affirmation of the following assertions from the responds of the respondents the assertion are;

Table 5 internal audit procedures

S/N	Details	Mean	Standard deviation
1	Internal audit process is planned in conjunction with both senior management/board and the line management involvement	4.33	0.936
2	All risks are properly identified and included in the audit process	4.53	1.839
3	Internal audit is independent of day to day management operations	4.02	1.046
4	There is a proper quality control procedure in place within the internal audit function	4.20	1.49
5	The planning and procedures of the internal audit function conform with the professional standards	4.03	0.742
6	The internal audit function is cost effective to the organization.	4.14	1.032
7	The internal audit function is involved in the design of the financial internal controls	4.03	0.842
8	Internal audit function is involved in the design of the non-financial internal controls	4.02	0.653

9	All the internal controls are documented in procedures manuals	4.21	0.748
10	All internal control procedures are always followed	3.18	0.978
11	Internal auditor has free access to the board or a board committee.	4.73	0.268
12	All procedures are properly documented	4.43	0.742
	Average	4.15	

Source: Field Survey

All are properly documented, All internal control measures are always followed, All the internal controls are well documented in the procedure manuals, Internal audit function is involved in the design of the non-financial internal controls, The internal audit function is involved in the design of the financial internal controls, The internal audit function is cost effective to the organization. All risks are properly identified and included in the audit process, The planning and procedures of the internal audit function conform with the professional standards and Internal audit process is planned in conjunction with both senior management/board and the line management involvement.

The analysis of all the responds to the assertion shows average mean value of about 4.15 and about 83.09% of the responds confirm the assertions. This is an indication that Nigerian breweries have well-established internal audit procedures that have direct impact on their corporate governance.

Corporate governance framework

The following variables are developed by the researcher to measure corporate governance awareness in the organization and assess the level of adherent to the corporate governance procedures.

Table 6 Corporate governance framework

S/N	Details	Mean	Standard deviation
1	The remuneration of BOD and/or Senior Management reviewed by shareholders annually	3.61	1.544

2	Remuneration of directors disclosed	3.85	1.082
3	Upon appointing an external auditor its name and fees are disclosed	4.32	0.856
4	In dividend policy, the amount and basis of dividend should be announced.	4.01	0.976
5	Chairman of BOD attended AGM at least once in the past 2 years	4.31	0.723
6	CEO attended at least one of the AGM over the past 2 years	4.28	0.847
7	BOD provides all staff with code of ethics	4.07	0.682
8	Average mean	4.06	

Source: Field survey

It should be noted that 5 point likert scale is adopted for the responses to the questions that is 1: strongly disagree, 2 : disagree, 3: indifferent, 4: agree, and 5: strongly agree. The means of the responses are obtained and the result as shown in table 4.8 is an indication that corporate governance procedures are always adhered to by the management of the Nigerian Breweries. This is because most of the variables have means that is greater than 4.0. This implies that at the management level there is agreement to the following assertions such as; Chairman of BOD attended AGM at least once in the past 2 years, Upon appointing an external auditor its name and fees are disclosed, CEO attended at least one of the AGM over the past 2 years, In dividend policy, the amount and basis of dividend should be announced and BOD provides all staff with code of ethics.

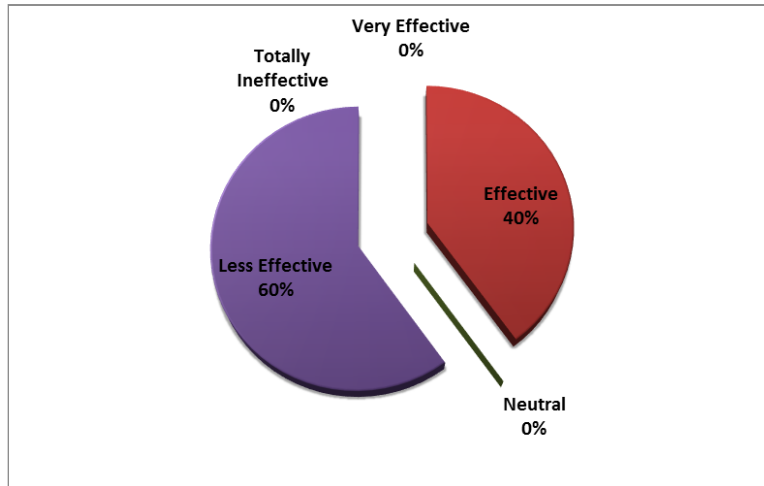
However, the results on the table show that some of the variables are not agreed upon at the management level of the organization; The remuneration of BOD and/or Senior Management reviewed by shareholders annually and Remuneration of directors disclosed did not enjoy positive response from all the management staff. This is the reason for their low mean scores of 3.61 and 3.85 respectively.

On the whole since the average score is more than 4.0, it can be concluded that corporate governance procedures are adhered to strictly by the organization that is Nigeria Breweries.

Examining the impacts of internal audit on corporate governance

A cross section of the management staff and the auditing department staff are used for this aspect of the research work. Equal percentages of number of staff are selected from the two divisions so as to pave way for equal representation and objectivity in the response and conclusions from their responses. The figure below explains the ratings by the selected staff.

Figure 1: Impacts of internal audit of corporate governance



Source: Field survey

Figure 1 has shown that there is a close rating in terms of effectiveness of internal audit in corporate governance in the Nigeria Breweries. Notwithstanding, it is shown that 60% of the respondents believe that internal audit is not effective in maintaining corporate governance in the organization while 40% are of the opinion that internal audit is very effective in controlling and maintaining corporate governance. The implication of the result is that despite the fact that internal audit procedures are well established in the organizations yet the effect on corporate governance is not outstanding.

V CONCLUSIONS AND RECOMMENDATIONS

The study has shown that internal audit procedures are followed in the organizations as well as corporate governance procedures. But an important factor is very important in the internal audit control and this is rate very low in the empirical analysis. That is the fact that all internal control measures are not followed in the organizations. Again, some information that are very germane for internal audit performance in the organization which are variables of the corporate governance are also rated very low these are remuneration of the BOD and senior directors are not reviewed annually and the remunerations of directors are not disclosed often. All these have affected the impact of internal audit in playing its necessary roles in corporate governance of the organization.

Consequently, it is recommended that for internal audit to have significant impact of corporate governance, all internal control measures in the organization must be followed and the

remunerations of the BOD, senior directors among others must be disclosed and openly subjected to annual review.

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