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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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   APPENDIX/ANNEXURE

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NEXUS BETWEEN CORPORATE GOVERNANCE REGIME AND INTERNAL CONTROL SCHEME IN BUSINESS ORGANIZATIONS

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ABSTRACT

This paper examines the relationship between corporate governance regime and internal control scheme in business organizations. The study which is based on documentary analysis reveals that the essence of internal control measures involves entrenching defined checks and balances on actions of mangers and workers in operations of corporate entities that would ensure protection of interest of the shareholders while providing for all other stakeholders in the society. The study also reveals that internal control objectives and measures ensure reliability of financial reporting, timely feedback on the achievement of operational and strategic goals, and compliance with existing corporate laws and regulations, which enhance the entrenchment of corporate governance regime in business organizations. The study concludes that managers should ensure that the standards established for internal control systems are tailored along the best practices around which good corporate governance regime can be entrenched.

KEYWORDS
Business Organization; Corporate Governance Regime; Internal Control Scheme; Stewardship Theory.

INTODUCTION

Business Organizations as corporate entities are established to operate for the benefit of the shareholders while at the same time providing for all the stakeholders in the society. Thus the operations of business entities are of tremendous interest to individuals and groups in the society to the extent that their success or failure is normally treated with utmost concern. The diversity in ownership of corporate entities results in the complete dependence on the managers of the business who are entrusted with the onerous responsibility to efficiently utilize the corporate resources to ensure the attainment of the corporate objectives and deliver value to their shareholders and other stakeholders.

The enormous responsibility and power entrusted on the managers are perceived to be liable to abuse or misuse. This originates the concerns of corporate governance issues in the operations of organizations. Basically therefore, corporate governance involves holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society

The impetus for corporate governance comes from the need to provide sound institutional structures and good governance practice to attract inward investment. As observed by Olumide-Fasuka (2009), corporate governance is the structure that is intended to make sure that the right questions get asked and that checks and balances are in place to make sure that the answers reflect what is best for the creation of long-term, sustainable value for the shareholders. Insider control regime is essential for enhancing best practice of corporate governance in business organizations because the former influences five critical corporate governance factors namely: control environment; risk evaluation; control activities; information and communication; and supervision, which further impact the rationality of internal control per se (Tuanye and Chucan, 2013).

In essence, corporate governance is instituted to ensure that such structure is not subverted because it becomes too easy for the managers and the directors of companies to succumb to the temptation to engage in self-dealing and insider abuses at the expense of the shareholders' interest. In order to ensure proactive approach to the best practices of corporate governance, there arise different initiatives on issues of transparent and effective discharge of the trust vested in the managers and the directors concerned with steering the affairs of the corporate entities. Based on such different initiatives, some measures have been adopted in different jurisdictions on the structure, independence and responsibilities of the managers and their boards.

The utmost consideration in such measures is the internal control mechanism, which is normally designed and meant for preventing, detecting, exposing and correcting abuse in the management of companies. The responsibilities of the internal audit, external audit and board's audit committee fall under the purview of the internal control mechanisms of corporate entities. Weakness in internal control system of any organisations can lead to corporate distress and ultimate failure (Adedeji, 2012). A weak internal control system per se is indicative of weak corporate governance regime in organizational operations.

Empirical evidence portrays that there is countless number of studies on the subject of corporate governance. However, there exist a few studies on the relationship between internal control systems and practice of corporate governance in corporate organizations. Hence the need to fill such gap motivates the researcher for this study.

OBJECTIVE OF THE STUDY

The study is carried out to investigate the relationship between internal control and corporate governance regime in the operations of corporate organizations. In essence, the study is an attempt to examine how internal control can foster the best practices of corporate governance in the operations of business organizations.

METHODOLOGY

For the purpose of this study, a methodology of content analysis of published materials has been carried out for the purpose of contextual investigation of the nexus between corporate governance and internal control scheme in business organizations, which is the essence of the study. The study made use of secondary data based on materials generated from published papers in academic journals and other relevant published materials.

CONCEPTUAL FRAMEWORK OF CORPORATE GOVERNANCE

The Organization for Economic Corporate and Development (OECD, 1999) defines corporate governance as a mechanism through which shareholders are assured that managers will act in their best interest; a system that involves methods by which investors control managers towards ensuring that their capital cannot be expropriated so as to earn some returns on their investment. This exposition on corporate governance is still relevant these days because of the emphasis on *a mechanism through which shareholders are assured that managers will act in their best interest.*

Corporate governance is also described as a framework that allows businesses to grow and thrive in a way that builds strong structures for the future growth of these entities. This implies that corporate governance regime is crucial towards building businesses that utilize entrusted resources efficiently, resulting in the greatest benefit for the majority of the stakeholders in the society; that is, a framework which generates maximum value with minimum wastes in the operations of these entities (Gatamah, 2008).

Furthermore, corporate governance has been described as the set of processes, customs and policies, laws and institutions affecting the way a corporation is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. The principal stakeholders are the shareholders, management and the board of directors while the other stakeholders include employees, suppliers, customers, banks, investors, regulators, the environment and the community at large (Olumide-Fasuka, 2009).

Furthermore, corporate governance provides the right framework that is intended to make sure that the right questions get asked and that checks and balances are in place to make sure that the answers reflect what is best for the creation of long-term, sustainable value. When that structure gets subverted, it becomes too easy to succumb to the temptation to engage in self-dealing. Expressed or implied in the above definitions of corporate governance is an initiative web of relationships and interests reflective of the dimension in which modern corporations have taken (Olumide-Fasuka, 2009).

Cadbury (2000) succinctly opines that corporate governance involves a structure of management of the affairs of corporate entities which ensures an adequate balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.

The essence of corporate governance (Cadbury, 2000) covers the rights of the stakeholders who are the shareholders, the employees, the public, the environment and the community in which corporate bodies operate, and the interest of the future generations, among others. Corporate governance requires fair treatment of the shareholders, some role for stakeholders in corporate governance, disclosure and transparency and some responsibilities for the board of directors.

The World Bank, however, suggests that there is no single model of corporate governance with systems varying by country, sector and even in the same corporation over time. Among the most prominent systems are the US and UK models, which focus on dispersed controls and the German and Japanese models which reflect a more concentrated ownership structure.

In broad terms, the interest of the stakeholders is a critical consideration in corporate governance since it is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. The Stakeholders are found both within the company as well as beyond the precinct of the entity. Hence, behaving socially responsibly will increase the human development of stakeholders both within and outside the corporation.

The above thesis on corporate governance transcends the stakeholder definition used by the Organization for Economic Cooperation and Development (OECD) and the World Bank. The OECD (2004) principles, for instance, imply that a key role for stakeholders is concerned with ensuring the flow of external capital to firms and those stakeholders are protected by law and have access to disclosure. A World Bank survey provides that investors contend that board governance is as important as financial performance in their investment decisions. However, in other countries such as Latin America, Europe, the USA and Asia majority of the investors contend that they would be willing to pay more for a company with good board governance practices.

There is a view on corporate governance which holds that good corporate governance obtains in a company that has traits such as: majority of outside directors; outside directors are truly independent with no management ties; directors have significant stockholdings; large proportion of director pay is stock options; formal director evaluation in place; and very responsive to investor requests for information on governance issues. On the other hand, poor corporate governance holds sway in a corporate entities that has traits such as minority of outside directors, outside directors have financial ties with management, directors own little or no stock, directors compensated only with cash, no formal director evaluation process, and very unresponsive to investor requests for information on governance issues.

The differentiation between good and poor governance is indicative of the fact that corporate governance has a very narrower expression when compared with corporate social responsibility sentiments. Nevertheless, there is increasing advocacy of a broader and more inclusive concept of corporate governance that extends to corporate responsibility. This is succinctly reflected in the King Report for South Africa, the Commonwealth principles of business practice, the UK's tomorrow's company; all on ideals on good corporate governance.

The framework of corporate governance, therefore, covers the rights of the stakeholders such as the shareholders, the employees, the public, the host community, the environment, and the future generations, and other sundry stakeholders. Therefore, corporate governance advocates an equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency and the responsibilities of the board. In related terms, Saconni, Antoni and Giacomo (2008), point out that there are considerations such as trust, trustworthiness and ethical norms of reciprocity and cooperation which have been receiving more and more attention in corporate governance.

According to Hopkins and Machold (2009), good corporate governance prevails in a corporate entity that has majority of outside directors who are truly independent, no management ties, directors have significant stockholdings, and large proportion of director pay is stock option. Other conditions include formal director evaluation in place and very responsive to investor requests for information on governance issues. On the other hand, poor corporate governance prevails in a company that has minority of outside directors, outside directors have financial ties with management, and directors own little or no stock. Other conditions include directors compensated only with cash no formal director evaluation process and very unresponsive to investor requests for information on governance issues.

The deduction from the above array of expositions on perspicuity of corporate governance leads us to a working definition that *corporate governance involves a mechanism through which the actions of managers are brought under scrutiny, by means of appropriate checks and balances, in organizational operations so as to assure the shareholders, and indeed other stakeholders, that managers act in their best interest.* This implies that corporate governance provides a procedural structure within which corporate entities operate towards ensuring that these businesses grow profitably in such a way that creates viable framework for their continued existence.

PRINCIPLES OF BEST PRACTICES OF CORPORATE GOVERNANCE

There are basic principles guiding the best practices of corporate governance, which are based on Sarbanes-Oxley Act 2002 of the United States, recommendations of the Cadbury (1999) and OECD (1999, revised in 2004). These principles which are reviewed herein include the following.

i) Rights and equitable treatment of shareholders: This provides that organizations should respect the rights of shareholders and help shareholders to exercise those rights by openly and effectively communicating information while encouraging them to participate in general meetings.

ii) Interests of other stakeholders: This provides that organizations should recognize that they have legal, contractual, social, and market driven obligations to other stakeholders such as employees, investors, creditors, suppliers, local communities, customers, and policy makers.

iii) Role and responsibilities of the board: This provides that the board needs adequate size and appropriate levels of independence and commitment coupled with sufficient relevant skills and understanding to appraise and challenge management performance.

iv) Integrity and ethical behavior: This provides that integrity should be a fundamental requirement in choosing corporate officers and board members while appropriate code of conduct should be developed for their directors and executives that promotes ethical and responsible decision making.

v) Disclosure and transparency: This provides that organizations should clarify and make publicly known on the roles and responsibilities of board and management with which to provide stakeholders with a level of accountability.

In addition, organizations should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear and factual information.

CONCEPTUALIZATION OF INTERNAL CONTROL

The Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013) explains that internal control involves a process which is initiated by a corporate entity's board of directors, management, and other personnel that is designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. Furthermore, COSO also suggests that a system of internal control allows management to stay focused on the organization's pursuit of its operations and financial performance goals while operating within the confines of relevant laws and minimizing surprises along the way. Besides, COSO also believes that internal control enables an organization to deal more effectively with changing economic and competitive environments, leadership, priorities, and evolving business models.

In line with the above exposition on internal control, Tuanye and Chucan (2013) posits that internal control is a mechanism arrangement for corporate behavior to correspond with laws to insure financial reports' reliability and efficiency of operating. Furthermore, Tuanye and Chucan (2013) succinctly perceives that strict internal control reduces debtor's loss, enhances the profitability robustness and cash flow's predictability and restrains earnings management; it decreases unintended accounting misstatement and improves accrual quality; and Investors' negative reaction to internal control mass defects' disclosure means capital market values internal control's role in a corporation.

The nature of internal control scheme as emphasized by COSO portrays that it is: an ongoing process consisting of tasks and activities signaling a means to an end and not an end in itself; geared towards achievement of corporate objectives in corporate operations, reporting and compliance; about policy and procedure manuals, systems, and forms on employees and their actions at every level of corporate organization to effect internal control; able to provide reasonable assurance to entity's top management and board of directors; and adaptable to the entity structure as it is flexible in application for the entire entity, its divisions, operating units, and the business process.

The exposition on internal control by COSO is broad-based judging from the fact that it captures important ideas that are essential to designing, implementing, and conducting internal control and assessment of effectiveness of an organization's system of internal control. Organizations are interested in focusing internal controls over reporting, compliance with laws and regulations, over strategic business units and operations of the entire entity, all depends on the entity's specific needs or circumstances Tuanye and Chucan (2013).

In the opinion of Rezaee (2002), internal control is a means by which an organization's financial resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physically (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks).

Van Creveld (2000) opines that at the organizational level, internal control objectives relate to the reliability of reporting fund utilization, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, financial control refers to the actions taken to achieve a specific objective, e.g., how to ensure the organization's payments to third parties are for valid services. Hence, internal control procedures reduce process variation, leading to more predictable outcomes and effective accountability in financial resources utilization in the operations of the firms.

In a similar vein, Aguolu (2002) posits that internal control involves the whole system of controls in the management of organizational financial and other resources established by the top management, in order to secure, as far as possible, the accuracy and reliability of the records, run the business in an orderly manner and safeguard company's assets, its objective being the prevention and early detection of fraud and errors. This system of ensuring checks and balances on utilization of financial resources include the internal auditing.

In corporate organizations, everyone has responsibility for internal control to some extent. Essentially, therefore, virtually all employees produce information used in the financial control system or take other actions needed to effect internal control. Also, all personnel have responsibility for communicating upward problems in operations, non-compliance with the code of conduct, or other policy violations or illegal actions.

The delicate responsibility for internal control in the operations of business organizations is on the shoulder of the management, the board of directors, and the internal auditors. The management team, over which the chief executive officer presides, has overall responsibility for designing and implementing effective internal control. More than any other individual, the chief executive sets the policy that affects integrity and ethics and other factors of a positive control environment.

In a large company, the chief executive fulfills this duty by providing leadership and direction to senior managers and reviewing the way they have been controlling the business. Senior managers, in turn, assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for the unit's functions. In a small corporate entity, the influence of the chief executive, often the owner-manager is usually more direct. In any event, in a cascading responsibility, a manger is effectively a chief over his or her sphere of activities cut across, as well as up and down, the operating and other units of an enterprise occupy strategic position in internal control.

In corporate pecking order, management is accountable to the board of directors, which provides governance, guidance and oversight. Effective board members are objective, capable and inquisitive. They also have knowledge of the entity's activities and environment, and commit the time necessary to fulfill their board responsibilities. Management may be in a position to override controls and ignore or stifle communications from subordinates, enabling a dishonest management which internally misrepresents results to cover its tracks. Nevertheless, a strong, active board, particularly when coupled with effective upward communications channels and capable financial, legal and internal audit functions performed by its audit committee, is often best able to identify and correct such a problem.

The internal auditors and external auditors of the organization also partake in internal control system of a corporate entity because it is their responsibility to measure the effectiveness of internal control through their efforts. They assess whether the controls are properly designed, implemented and working effectively, and make recommendations on how to improve internal control. They may also review existing laws and regulations on internal control regarding the financial reporting (Cattrysse, 2005; Adedeji (2012)) on the status of operations of business entities. For instance, in Nigeria, there are related provisions in the Company and Allied Matters Act 1990 and the CBN Code of Corporate Governance for Banks 2006, among others, which guide entrenchment of internal control schemes and practices of good corporate governance in operations of firms and banks.

INTERRELATED COMPONENTS OF INTERNAL CONTROL SCHEME

On the basis of COSO (2013) proposition, internal control scheme consists of *five interrelated components* such as monitoring, information & communication, control activities, and risk assessment.

i) Monitoring:-This component presupposes that the entire process of internal control scheme must be monitored, on continuous basis, by both top management and board of directors while necessary modifications are made so that the system can respond dynamically in line with changes in operational conditions.

ii) Information and communication:-This component presupposes an integrated information and communication system that enables the entity's people to capture and exchange the information needed to conduct, manage and control its operations.

iii) Control Activities:-This component presupposes that control policies and procedures must be established and executed to help ensure that the actions guaranteed by management as necessary to address risks towards achievement of corporate objectives are effectively implemented accordingly.

iv) Risk Assessment:- This component presupposes that the entity must be aware of and deal with the risks which are prevalent in its operations. A corporate entity must set objectives which are integrated with operational functions (sales, production, financial and marketing) so that these functions are operating in harmony. A corporate entity must also establish mechanisms to identify, analyze and manage the related risks in operations.

IMPERATIVE STRATEGIES IN USE FOR EFFECTIVE INTERNAL CONTROL SCHEMES

The study discovered that there are some imperatives in practice, which are germane in entrenching effective internal control system. Such guidelines as recommended by the UK Auditing Practices Board on effective internal controls, as cited by Aguolu (2002) are identified and discussed below.

i) Segregation of financial Duties

Financial duties of business organizations are to be split between two or more people so that the work done by one person acts as a check on the work done by another. The segregation makes it difficult for fraud to take place, and it is more difficult for accidental errors to occur. When several people are involved in a task, they act as a check on each other.

ii) Physical Controls of financial resources

These are measures instituted to ensure the physical safety of assets, such as putting cash in safe, banking cash receipts immediately, and preventing unauthorized access to computer systems through the use of passwords and internet firewalls.

iii) Authorization and Approval of Financial Transactions

All financial transactions should be subjected to appropriate authorization or approval of an appropriate responsible person, and there should be an authorization limit to how much spending each responsible person can approve.

iv) Management Control over financial systems

Management should exercise control over financial systems, for example by preparing a budget and then monitoring actual performance by comparing it with the budget. Management controls can also be exercised by reviewing their financial statements, such as a balance sheet, profit and loss account and cash flow statement.

v) Supervision over financial transactions

The day-to-day financial transactions of the business organizations and handling by employees should be properly supervised by the management and internal auditors. Good supervision is bound to reduce the likelihood of errors, frauds and fraudulent practices.

vi) Defined Level of Responsibilities

Everyone in the organization should be fully aware of his or her own responsibilities, lines of authority, lines of reporting and levels of responsibility should be clearly delineated by the management. Frauds and Errors in transactions and handling of financial resources are more likely to occur where there is ambiguity in respect of who is responsible for what and who should be reporting to whom in organization operations.

vii) Arithmetical and Accounting Controls

Appropriate policies and procedures in accounts departs in business organizations should be put in place to guide and check frequently the accuracy of the financial records and the numbers entered in the books therein. Such procedures in financial control include the use of control of totals and reconciliations in account records.

viii) Personnel

The quality of financial controls largely is a function of the quality of the individuals working in the accounts department, and personnel selected to do account duties should have the right personal and professional qualities and above all, should be properly trained on periodic basis. The general recommendation, by and large, is that the internal control system, and indeed financial control, should be sufficiently robust and effective to minimize the risk of serious financial losses through frauds and fraudulent practices.

SALIENT PRINCIPLES FOR ENHANCING INTERNAL CONTROL SCHEMES

The above internal control strategies for ensuring effective internal control scheme are in line with proposals (COSO, 2013) of some *salient principles* for enhancing the internal control regime in the operations of corporate entities. Such principles are identified and discussed below.

a) Demonstrating a commitment to integrity and ethical values

This can be ensured through: setting the tone by the board of directors and management at all levels of the entity demonstrate through their directives, actions, and behavior the importance of integrity and ethical values to support the functioning of the system of internal control; establishing standards of conduct that must be understood at all levels of the organization as well as outsourced service providers and business partners; putting processes in place to evaluate the performance of individuals and teams against the entity's expected standards of conduct; and addressing deviations of the entity's expected standards of conduct in a timely and consistent routine.

b) Board's independence from management oversight on internal control

This principle presupposes that boards of directors of corporate entities should: establish oversight responsibilities in relation to established requirements and expectations; define, maintain, and periodically evaluate the skills and expertise needed among its members to enable them ask senior management probing questions and take commensurate actions; have sufficient members who are independent from management and be objective in evaluations and decision making; and provide oversight for the system of internal control.

c) Establishing structures, appropriate authorities, and responsibilities in pursuit of objectives.

The management and board of directors of a corporate entity should consider all structures including operating units, legal entities, geographic distribution, and outsourced service providers to support the achievement of corporate objectives; management should design and evaluate lines of reporting for each entity structure to enable execution of authorities and responsibilities and flow of information to manage the activities of the entity; and management and board of directors should delegate authority, define responsibilities, and use appropriate processes and technology to assign responsibility and segregate duties as necessary at the various levels of the organization.

d) Demonstrating commitment to attract, develop, and retain competent individuals in alignment with objectives

In ensuring this, organizations should: establish relevant employment policies and practices that reflect expectations of competence necessary to support the achievement of objectives; evaluate competence across the organization and in outsourced service providers based on established policies and practices, and acts, as necessary to address shortcomings; provide the mentoring and training needed to attracts, develop and retain individuals attract, develop, and retain sufficient and competent personnel and outsourced service providers to support the achievement of objectives; and develop contingency plans for assignments of responsibility important for internal control.

e) Holding individuals accountable for their internal control responsibilities in the pursuit of objectives

In ensuring this, management and the board should establish the mechanisms to enforce accountability through structures, authorities, and responsibilities for performance of internal control scheme; establish performance measures, incentives, and other rewards appropriate for responsibilities; align incentives and rewards with the fulfillment of internal control responsibilities in the achievement of objectives; evaluate and adjust pressures associated with the achievement of objectives in assigning responsibilities, develop performance measures, and evaluate performance; and evaluate performance of internal control responsibilities and adherence to standards of conduct while providing rewards or exercise disciplinary action as appropriate.

THEORETICAL FRAMEWORK OF THE STUDY

The theory that is considered relevant for this study is the Stewardship Theory. This theory (Donaldson and Davis, 1994) holds that managers are good stewards of the corporations and diligently work to attain high levels of corporate profit and shareholders' returns. The theory suggests that managers are principally motivated by achievement and responsibility needs and given the needs of managers for responsible, self-directed work organizations may be better served to free managers from being subservient to non-executive director dominated boards.

Furthermore, on stewardship theory, Hawley and Williams (1996) observe that the logical extension is either towards an executive-dominated board or towards no board at all. Donaldson and Davis (1994) point out that the non-executive board of directors is, by its nature, an ineffective control device and that the whole rational for having a board becomes suspect. This is because board of directors can be redundant when there is a major and dominant shareholder such as a family member or government. And that such scenario implies that some boards are established from cultural habit, blind faith in their efficacy, or to make government or family companies appears more like business organizations. In supporting this view, therefore, Brewer (1996) opines that boards of directors should be abolished and replaced by a formal committee of advisers (Barney and Hesterly, 2008).

EMPIRICAL REVIEW

In a study on corporate governance and the role of the internal auditor, Cattrysse (2005) investigates the relationship between corporate governance and internal control besides the consideration on the relationship between corporate governance and the internal auditor based on secondary data. The result of the study reveals that the traditional role of the internal auditor is to help the organization to maintain the effective system of internal control of its financial statements, which invariably rekindle the good corporate governance in the operations of the corporate organizations. And that, by implication, internal auditors are presented with enormous responsibilities in the wake of corporate governance.

Hoitasd, Bedard and Hoitasd (2009) investigate corporate governance and internal control over financial reporting particularly regarding relationship between audit committee and board characteristics with the effectiveness of internal controls over financial reporting using secondary data on internal controls from provisions of the Sarbanes-Oxley Act (2002). The result of the study suggest that in regulatory environments without requirements of mandatory testing and independent auditor attestation that are required under Section 404 of the Sarbanes-Oxley Act (2002), corporate governance quality has no observable association with internal controls over financial reporting disclosure.

In a study on internal auditing as an effective tool for corporate governance, Karagiorgos et al. (2010), investigate the contribution of internal auditing, *an integral aspect of internal control scheme*, to corporate governance based on secondary data. The findings of the study reveal, among others, that internal auditing contribute to corporate governance by: bringing best practice ideas about internal controls and risk management processes to the audit committee; providing information about any fraudulent activities or irregularities; and internal auditing helps corporate governance by reviewing the organization's code of conduct and ethics policies to ensure they are current and are communicated to employees.

In another study, Adedeji (2012) evaluates the influence of corporate governance on internal control system using selected commercial banks in South Western Nigeria as a Case Study. The study is based on primary data for the investigation while using mean score analyses and Pearson moment correlation to test for the influence. The result of the work reveals that failures and distresses in the banking industry were as a result of weaknesses in management governance activities and control.

Abiola (2012), in a study on corporate governance in Nigerian banking sector and relevance of internal auditors, investigates the relevance of internal auditors in Nigerian banking sector, using nine commercial banks, based on exploratory, semi-structured interview approach coupled with face-to-face interviews conducted on twenty-three internal auditors in the selected banks. The findings of the study reveal that Internal auditors of the selected commercial banks, seem to understand that they are to complement the audit committee in fulfilling important objective of corporate governance; by instituting effective monitoring mechanism for management so as to enhance shareholders value but it is the management who will create the enabling environment.

Leng, J. and Ding, Y. (2012), in a study on internal control disclosure and corporate governance in Chinese listed companies, examine the influence of corporate governance structure on internal control disclosure, that is, test whether quality of internal control disclosure are associated with corporate governance characteristics using some selected non-financial companies. Based on published annual reports and data of such companies, the findings of the study reveal that internal control disclosure is positively related to directors' remuneration, two part-time posts of chairman and general manager, directors' education level and supervisors' education level, and it negatively related to the proportion of state ownership. Furthermore, the study reveals that internal control disclosure is not significantly related to the degree of ownership concentration, board size, the proportion of independent directors and the size of board of supervisors.

Tuanye and Chucan (2013), in a study on corporate governance, internal control and over investment under insider control in China using some selected manufacturing companies, investigate the relationships between internal control and over-investment, management control and internal control, overinvestment and between various corporate governance factors and overinvestment. Based on empirical test, the result of the study reveals that sound internal control restrains over investment enormously, management control weakens internal control and promotes over investment. Furthermore, the study reveals that executive compensation also significantly improves the quality of internal control and facilitates corporate investment behaviors.

FINDINGS AND DISCUSSION

The study reveals that internal control scheme is an integral aspect of the best practices of corporate governance due to their obvious interrelationship regarding the operations of business organizations. Such interrelationship between corporate governance regime and internal control scheme are discussed below.

RELATIONSHIPS BETWEEN INTERNAL CONTROL SCHEME AND CORPORATE GOVERNANCE REGIME

1. INTERNAL CONTROL ENHANCES CORPORATE GOVERNANCE REGIME IN BUSINESS ORGANIZATIONS

The study reveals that internal control objectives relate to the measures established by an organization towards ensuring reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with existing corporate laws and regulations. These internal control measures are meant to enhance the entrenchment of corporate governance regime in business organizations. Indeed, the study reveals that internal control schemes (as bolstered by further discussion below) are normally established to further the epitomes of best practices of corporate governance in operations of corporate entities.

2. ACCOUNTABILITY IN TRANSACTIONS

Internal control scheme involves the procedural actions instituted towards ensuring, at every organization level, that financial transactions are done in accordance to laid-down policies, and indeed the firm's payments to third parties are for valid services rendered. This implies that procedures in relation to internal control system reduce process variation, leading to more profitable outcomes and effective accountability in financial resources utilization, which enhances best practice of corporate governance in business organizations.

3. TRANSPARENCY IN TRANSACTIONS

Fundamentally, as the study revealed, internal control procedures are designed to provide reasonable assurance that financial objectives of the firms are achieved, or related progress understood. This implies that the basis of financial control, an integral aspect of internal control scheme, is the establishment of defined financial policies in relation to payments, documentation of payments and receipts, financial records, and transactions generally. This enhances corporate governance culture in an organization.

4. CORPORATE RESPONSIBILITY IN TRANSACTIONS

The study also reveals that the effectiveness of the operations of the internal control scheme in any organization determines the achievement of financial control and accountability. This implies, therefore, that the internal control measures which are established and entrenched by the organization are sin qua non to the achievement of organizational goals and objectives, and by extension ensuring that the stakes of shareholders are justified, and indeed the interest of all other stakeholders, by extension, can be fulfilled. This underlines the essence of corporate governance.

5. RISK ASSESSMENT AND REPORTING

An integrated internal control scheme, as the study revealed, assigns functions for company's risk oversight committee, with responsibility for the oversight and reporting of risks. Both risk department and internal audit department have responsibility for co-coordinating risk management within the company because the risk manager and a senior internal auditor are usually risk committee members, and reporting to the board or board audit committee about risks on a company-wide basis. This enhances the achievement of corporate objectives which goes to ensure protection of stakeholders' rights.

6. MONITORING FOR CHECKS AND BALANCES IN OPERATIONS

The practice in internal control system whereby the audit committee of the board monitors and reviews the effectiveness of the internal audit function, a requirement of the UK Combined Code on corporate governance, implies that internal control scheme plays significance role in the entrenchment of best practices in corporate governance. This is manifest in the fact that the internal audit which is normally saddled with responsibility to ensure that the system of checks and balances of internal control is functioning as intended complements the responsibility of the board audit committee. This essentially enhances corporate governance regime in the operations of business organizations.

7. COMPLIANCE, TRUTH AND FAIRNESS OF FINAL ACCOUNTS

The study also reveals that the external auditor has responsibility in best practice of internal control system, which borders on carrying out examination of the system of internal control of a firm, for both soundness in principles and effectiveness in operations. Since the external auditors only owe the shareholders the responsibility to verify the truth and fairness of the final accounts and in compliance with the relevant accounting rules and regulations, their work, in vicarious terms, goes to enhance the best practices of corporate governance.

8. BOARD'S PERIODIC REVIEW OF FIRM'S SYSTEMS OF FINANCIAL CONTROLS

The board, under practices of internal control, is required, at least annually, to conduct a review of the company's systems of internal controls, which are within the purview of internal control scheme, and report to the shareholders appropriately. Such review indeed covers all controls, particularly the financial controls, operational and compliance controls as well as risk management in the operations of the firm. This implies that the board's responsibility for reviewing internal controls and risk management extends beyond financial matters to the business operations and regulatory compliance. Such contribute to the entrenchment of best practices of corporate governance in corporate entities.

9. BOARD AUDIT COMMITTEE' MONITORING OF INTEGRITY OF FINANCIAL STATEMENTS

The board audit committee of a corporate entity has membership of only independent non-executive directors, as discovered from the study, according to the UK Combined Code on Corporate Governance (2003), with main responsibility of monitoring the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, and reviewing financial reporting judgments contained in them. This stance enhances internal control scheme, and by extension, the entrenchment of good corporate governance in operations of a business entity.

10. INDEPENDENCE OF RESPONSIBILITIES

The board of directors of a corporate entity, which comprises more non-executive directors than executive directors, has onerous responsibility to ensure that appropriate procedures and structures are in place for internal control system while holding the external auditors accountable for their functions and reports as well as controlling the internal auditors. This implies that their action is intended to minimize or avoid completely potential conflicts of interest. Since the external auditors are independent of the management of the corporate entity that engage their services but accountable to the board of directors who are representing the interest of the shareholders, and the board provides actions of checks and balances on the management, their work enhances the internal control system and therefore, they contribute to the entrenchment of best practices of corporate governance in corporate entities.

11. FINANCIAL TRANSPARENCY AND INFORMATION DISCLOSURE

The board of directors in internal control system initiates actions in ensuring that the financial reports and accounts of the business organizations, both interim and annual reports, reflect the true picture of the outcome s of the operations of the business entity. The board performs this important function through its audit committee whose members are only non-executive directors. Furthermore, the board is also predisposed towards holding external auditors responsible for their actions and reports regarding appropriate information on financial dealings, financial reports and disclosures on regulatory compliance in respect of the operations of the business entity. All this goes to enhance the practices of good corporate governance in business organizations.

CONCLUSION

The corporate governance framework concerns itself with the encouragement of corporate bodies in the efficient utilisation of financial and other productive resources coupled with requirement of appropriate accountability for the stewardship of those resources in order to protect the interests of the shareholders as well as corporate stakeholders. Internal control system is normally instituted to ensure that organizational operations are not subverted by the managers and the directors due to the temptation of engaging in self-dealing and insider abuses at the expense of the shareholders' interest.

Furthermore, the internal control system is all-encompassing as a defined framework for ensuring effective and efficient guide against possible abuses in corporate operations. This is in view of the fact that the internal control system assigns distinctive responsibilities to all those in charge of the affairs of a corporate entity even including the external party such as the external auditors. Hence, the internal control framework becomes relevant in ensuring proactive approach to the best practices of corporate governance regime in business organizations.

RECOMMENDATIONS

On the basis of the findings of the study, the following recommendations are proffered towards enhancing effective internal control system, and indeed the effective practice of corporate governance regime in business organizations:

1. Managers should try to demonstrate commitment in implementation of internal controls in the operations of companies;
2. Some sincerity of purpose in the entrenchment and enforcement of internal control measures in operations of companies is required of managers;
3. Managers should avoid blaming their shortcomings on the environment of the business but rather be bold enough to confront the issue of being held accountable for their actions in operations of the firms;
4. Managers should ensure that the standards established for internal control systems are tailored along the best practices around which corporate governance regime is entrenched.
5. It is in the best interest of managers to avoid weak implementation of internal control measures because in the final analysis healthy companies are beneficial to all stakeholders which include managers themselves.
6. Managers have the onerous responsibility towards ensuring strict implementation of internal control measures which have been entrenched in the company because they owe their existence to the profitable operations of their firms.
7. Best practices in internal control systems manifest in profitable financial transactions and other operations, which translate into good returns on operations, has potential of attracting investors to the firm's shares thereby increasing the market value of these corporations.

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