

## Relationship between Internal Audit and Organization's Performance: Evidence From Money Deposit Banks in Nigeria

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### Abstract

Businesses exist because of the need of investors and entrepreneurs, employees and suppliers of an organization to enable or make their money work for them. This paper examined the relationship between internal audit and sustainable performance in Money Deposit Banks in Nigeria. The objectives of the study are to examine the relationship between internal audit functions and organization performance and to determine the relationship between internal audit procedures and organization performance in money deposit banks in Nigeria. The study employed descriptive research design. The population of the study comprised of all the money deposit banks in Nigeria. The target population of the study was guaranty trust bank located in the south western part of Nigeria specifically in Ogun state. The sampling technique adopted for this study was the purposive sampling. The sampling frame was forty personnel consisting of fifteen audit personnel, twenty accounting officers and five audit trainees within Guaranty Trust Bank Sango Ogun State. Data were collected using primary data through the administering of questionnaire to the respondents. Multiple regression was used in the study to test the relationship between the independent variables and dependent variable. The result from the findings showed that there exist a positive relationship between the independent variables and the dependent variable. The study therefore recommended that organizations should adopt the internal audit functions and comply with the internal audit procedures in order to improve the performance.

**Key words:** Internal auditing functions; Internal auditing practices; Sustainable performance; Employees; Investors; Organization

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### INTRODUCTION

Businesses exist because of the need of investors and entrepreneurs, employees and suppliers of an organization to enable or make their money work for them. According to Barlow, Helberg, Large and Le Roux (1995), internal auditing helps unit managers at all levels in the organization to correct performance problems. By doing so, it improves their performance and by that contributes to improving organizational performance. Chambers and Rand (1997) opined that it is rare indeed to find an enterprise of any size which does not have an internal auditing function. In many cases, the internal auditing has now eclipsed other management services to become management's primary source of advice on efficiency, effectiveness and economy. Internal audit is reflected as the key element in the application of accounting systems which in return helps in evaluating the work of the departments. Internal audit makes an enormous contribution to the accomplishment of company goals, and the implementation of strategies for their achievement. Furthermore, internal audit is a significant part of the firms' performance structure in an organization and firms' performance encompasses oversight activities taken by the board of directors and audit committees to make sure that the financial reporting process is credible (Public Oversight Board, 1994).

Failure to maintain effective internal control over financial reporting could result in a material misstatement of financial statements or otherwise cause us to fail to meet financial reporting obligations. This in turn could result in a loss of investor confidence in the accuracy and completeness of financial reports, which could have an adverse effect on business, financial condition, operating results and stock price, and there could be subjection to further stockholder litigation and the costs associated therewith.

Therefore, the main objective of this paper is to examine the relationship between internal audit and organization performance in money deposit banks in Nigeria. Other specific objectives are to:

i. Examine the relationship between internal audit functions and organization performance of money deposit banks in Nigeria.

ii. Determine the relationship between internal audit procedures and organization performance of money deposit banks in Nigeria.

Internal audit determines the reliability, reality, and integrity of financial and operational information that comes from different organizational units, on which appropriate business decisions at all levels of management are based. Successful implementation of internal audit tasks means that it must be independent, i.e., company management should in no way be influenced by its work, information, conclusions, and evaluations. By so doing, the internal audit report becomes a means of communication between internal audit and management, and an important guideline for the successful management of the company (Ljubisavljević & Jovanovi, 2011).

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## 1. LITERATURE REVIEW

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### 1.1 Theoretical Review

#### Agency theory

According to Jensen and Meckling (1976), principal-agent theory in economics rests on several key assumptions about human and organizational behavior. Individuals and organizations are assumed to rationally pursue their self-interest, resulting in divergence of interests between the principal (owner) and agent (producer). The separation of ownership from production increases the cost and difficulty involved in monitoring the agent's behavior. This creates information asymmetry that benefits the agent as he goes about performing a task on behalf of the principal. The theory informs the variable of leadership style, financial management practices, governance practices and human resource practices. Without addressing the principal agent problems, financial mismanagement practices such as fraudulent practices arise. Without addressing the principal agent problems, poor governance practices such as conflict of interest arise. The presence of principal agent problems also implies that

leaders fail to apply transformational leadership styles. The above negative practices brought about by principal agent problems have the effect of contributing negatively to performance contracting results.

### 1.2 Systems Theory

Bertalanffy (1968) defines system theory as the trans-disciplinary study of systems in general, with the goal of elucidating principles that can be applied to all types of systems at all nesting levels in all fields of research. The term does not yet have a well-established, precise meaning, but systems theory can reasonably be considered a specialization of systems thinking, a generalization of systems science, and a systems approach. The term originates from Bertalanffy's General System Theory (GST) and is used in later efforts in other fields, such as the action theory of Talcott Parsons and the system-theory of Niklas Luhmann. According to Patton and McMahon (2006) systems framework is fundamental to organizational theory as organizations are dynamic entities that are goal oriented. The systems approach to organizations relies heavily upon achieving negative entropy through openness and feedback. The theory is relevant to the study because all organizations interact with outside world as they are often systems. Sections of organizations interact amongst themselves in exchange of key information and materials. In this regard, it is an important tool in diagnosing management deficiencies and providing principles through which they can be remedied.

### 1.3 Goal Setting Theory

Locke and Latham (2002) stated that clear goals and appropriate feedback motivates employees. He also went on to say that when employees worked towards a goal, it spearheaded a major source of motivation within the employees to actually reach the goal. Locke's study also threw light on the relationship between goals and performance. According to his study, specific and difficult goals conduced to better results and performance as compared to vague, randomly set or easy to do goals. Locke and Latham (2002) suggests that not only does the assignment of specific goals result in enhanced performance but that, assuming goal acceptance, increasing the challenge or difficulty of goals leads to increased motivation and increases in performance. The theory is therefore relevant to this study as performance contracts have a lot in setting goals.

### 1.4 Conceptual Framework

A conceptual framework describes the interconnections among variables and the elaboration of these variables addresses the issues of why or how we expect relationships to exist (Mathooko, 2011). In this study, the independent variables are internal audit functions and internal audit procedures and the dependent variable is organization performance.



**Figure 1**  
**Researchers Conceptual Model**

### Empirical Review

Al-Matari, Al-Swidi and Fadzil (2014) examined the effect of the internal auditing and firm's performance: a structure of the relationship between the internal auditing characteristics such as professional qualifications of the auditors, executive's size and experience and firm's performance was proposed; since internal auditing is a key element in the submission of accounting system. It was concluded that internal audit is a substantial part of corporate supremacy structure in an organization which covers the activities of the whole board of directors and audit teams to ensure trustworthy pecuniary reporting process. This relates to my topic which talks about relationship between internal audit and sustainable performance in an organization.

Schneider (2010) pointed out that audit committees are responsible for assessing internal auditing performance. That study analyzed these assessments and found some deficiencies in the audit committee's role in this area. The results indicated that having the audit committee review the internal audit function is not usually required by the committee's charter and is not sufficient to measure internal auditing performance.

Zain, Subramaniam and Stewart (2006) examined the relation between characteristics of the audit committee, internal audit function and internal auditors' assessment of their contribution to financial statement audits in Malaysia. They found that internal auditors' contribution to the financial statements is affected by many factors related to the audit committee and internal audit function characteristics. Also, they found a positive relationship between extent of audit committee review of internal audit programs and the internal audit contribution to the financial statement audits. These results indicate that assessing the internal audit performance by audit committee reviews will increase internal audit effectiveness.

Whittington and Pany (2001) explained the comprehensiveness of internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. They further noted that, internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executive management to maintain control over the variety of activities and functions that are performed in an organization. They mentioned internal control devices to include; use of budgetary techniques, production standards, employee training, among others.

Alkhasa (2013) in his study titled "the extent to which the internal audit function in the financial and administrative performance in local government bodies adjust to the Gaza Strip: An Empirical Study analytical." This study aimed to identify the extent of the contribution of the internal audit function in the financial and administrative performance in local government bodies adjust to the Gaza Strip, and to achieve the objectives of the study, the researcher used the interview method and questionnaire, which was distributed (50) questionnaire on all internal auditors working bodies of local government, were obtained on (40) questionnaire from questionnaires distributed, the study relied on descriptive analytical method to describe and analyze the variables of the study and testing of hypotheses. The results showed clearly the role of the internal audit function in the financial and administrative performance tuning, and that local authorities apply all the internal audit procedures to ensure the validity and accuracy of financial and administrative data, and the commitment of internal auditors internal audit standards, and the current study benefited from this study in the financial performance and the internal audit function, but this study differed from the current study, in terms of history.

Hutchinson and Zain (2009) explored the association between internal (audit experience and accounting qualification) audit and firm performance (ROA) with growth opportunities and audit committee independence in Malaysia. The sample was selected by two methods namely questionnaire and secondary data from the annual reports. It involved 60 firms which were listed on Malaysia Bursa in 2003. This study used multiple regression analysis to test the association between internal audit and firm performance and found a significant relationship between experience of internal audit quality and firm performance.

Additionally, Prawitt, Smith and Wood (2009) examined the association between internal audit quality (experience and qualification) and earnings management. This study obtained sufficient data to estimate abnormal accrual models for 528 firm-year observations (218 unique companies) for the fiscal years 2000 to 2005. It used OLS regression to test the association between independent variables and dependent variable. The finding shows that a relationship between experience of internal audit and earning management.

According to Badara and Saidin (2012), in their research titled impact of the effective internal control system on the internal audit effectiveness at local government level scrutinized the impact of improving the existing internal audit function in order to deliver the expected services required in an organization. This is to aid better performance and render services that will improve organizational performance generally; descriptive survey method was used by the authors to analyze empirical work used in the research work.

## 2. METHODOLOGY

The study employed the descriptive research design. The population of the study comprised of all the money deposit banks in Nigeria. The target population of the study was guaranty trust bank located in the south western part of Nigeria specifically in Ogun state. The sampling technique adopted for this study was the purposive sampling. The sampling frame was forty personnel consisting of fifteen audit personnel, twenty accounting officers and five audit trainees within Guaranty Trust Bank Sango Ogun State. Data were collected using primary data through the administering of questionnaire to the respondents. Multiple regression was used in the study to test the relationship between the independent variables and dependent variable.

### Model Specification

$$Y=f(X)$$

Where Y = Organization Performance (dependent variable)

f= functional relationship

X= Internal Audit (Independent variable)

$$Y=\beta_0+\beta_1X_1 \dots\dots\dots H_1$$

$$Y=\beta_0+\beta_2X_2 \dots\dots\dots H_2$$

### Multiple Regression Model

$$Y= \beta_0 + \beta_1X_1 + \beta_2X_2 + e_i$$

$$OP= \beta_0 + \beta_1IAF + \beta_2IAP + e_i$$

Where;

OP = Sustainable Performance

$\beta_0$  = constant

$\beta_1, \beta_2$  = Model Coefficient

$e_i$  = Error term

$X_1$  = Internal Audit Functions (IAF)

$X_2$  = Internal Audit Procedures (IAP)

## 3. DATA ANALYSIS AND DISCUSSION OF RESULTS

### Data Presentation

#### SECTION A: Demographic Data

**Table 1**  
**Sex**

		Frequency	Percent
Valid	Male	18	45.0
	Female	22	55.0
	Total	40	100.0

Source: Researcher's field survey, 2019.

Table 1 revealed that 45% of the respondents are males, while 55% are females. This implies that more than average percent of the respondents are females.

Table 2 concealed that 52.5% of the respondents are single while 47.5% are married. This indicated that a larger proportion of the respondents were single.

Table 3 discovered that 27.5% of the respondents were within the ages of 18-25 years; 32.5% of the respondents

fall within the ages 26-35 years, while age 46 and above contained 40% of the respondents.

**Table 2**  
**Marital Status**

		Frequency	Percent
Valid	Single	21	52.5
	Married	19	47.5
	Total	40	100.0

Source: Researcher's field survey, 2019.

**Table 3**  
**Age of Respondents**

		Frequency	Percent
Valid	18-25	11	27.5
	26-35	13	32.5
	46 years above	16	40.0
	Total	40	100.0

Source: Researcher's field survey, 2019.

**Table 4**  
**Length of Service**

		Frequency	Percent
Valid	1-10	30	75.0
	11-20	6	15.0
	21-30	4	10.0
	Total	40	100.0

Source: Researcher's field survey, 2019.

It was revealed in Table 4 that a larger percentage (75%) of the respondents have only worked between 1-10years, 15% have worked for 11-20 years while only 10% have worked between 21-30 years.

**Table 5**  
**Educational Qualification**

		Frequency	Percent
Valid	OND/NCE	2	5.0
	B.Sc/BA/HND	16	40.0
	MBA/Msc	17	42.5
	Others	5	12.5
	Total	40	100.0

Source: Researcher's field survey, 2019.

Table 5 concealed that 5% of the respondents were NCE/OND holder; 40% were HND/BSC holders, 44.25% had second degrees (MBA/MSc), while 12.5% obtained other degrees apart from the ones specified.

SECTION B: Analyses and Interpretation of the Questions Relating To Internal Audit and Organization Performance.

**Table 6**  
**Internal Audit Functions Help Managers and Business Administrators to Work Efficiently Towards a Successful Performance**

		Frequency	Percent
Valid	Strongly disagreed	6	15.0
	Disagree	11	27.5
	Undecided	14	35.0
	Agree	9	22.5
	Total	40	100.0

Source: Researcher's field survey, 2019.

It was revealed that about 15% of the respondent disagreed to the above question while 27.5% disagreed, a large proportion were undecided and only nine respondents agreed that Internal audit functions helps managers and business administrators to work efficiently towards a successful performance.

**Table 7**  
**Internal Audit Functions Serves as a Tool for Assessing the Internal Control System.**

	Frequency	Percent
Valid Undecided	1	2.5
Agree	3	7.5
Strongly agree	36	90.0
Total	40	100.0

Source: Researcher's field survey, 2019.

It was revealed in Table 7 that 90% of the respondents in this study strongly agreed that Internal audit functions serves as a tool for assessing the internal control system while none disagreed and 2.5% were undecided. This suggests that internal audit function can be used to measure a firm internal control system.

**Table 8**  
**Internal Audit Functions Assist Managements in Making Good Investment Decisions.**

	Frequency	Percent
Valid Disagree	2	5.0
Undecided	2	5.0
Agree	8	20.0
Strongly agree	28	70.0
Total	40	100.0

Source: Researcher's field survey, 2019.

It is observed in Table 8 that the respondents to the above question largely agreed that Internal audit functions assist managements in making good investment decisions while only 5% disagreed and were undecided to this fact.

The Table 9 approves that Internal audit functions is useful in ensuring the operational efficiency in an organization as 72.5% of the respondent strongly agreed to this, 20% agreed, 5% were undecided while 2.5% strongly disagreed.

**Table 9**  
**Internal Audit Functions Are Useful in Ensuring the Operational Efficiency in an Organization**

	Frequency	Percent
Valid Strongly disagree	1	2.5
Undecided	2	5.0
Agree	8	20.0
Strongly agree	29	72.5
Total	40	100.0

Source: Researcher's field survey, 2019.

From the Table 10, it is observed that the respondents unanimously agreed that the internal audit procedures aid performance evaluation and review.

**Table 10**  
**The Internal Audit Procedures Aid Performance Evaluation and Review**

	Frequency	Percent
Valid Agree	19	47.5
Strongly agree	21	52.5
Total	40	100.0

Source: Researcher's field survey, 2019.

**Table 11**  
**In the Course of Performance, All Necessary Update and Correction Should Be Investigated by the Internal Auditor**

	Frequency	Percent
Valid Strongly disagree	1	2.5
Undecided	2	5.0
Agree	3	7.5
Strongly agree	34	85.0
Total	40	100.0

Source: Researcher's field survey, 2019.

It is strongly suggested from Table 11 that all necessary update and correction should be investigated by the internal auditor while only 2.5% disagreed to this. This is seen to be necessary in order to improve the firm performance.

**Table 12**  
**The Execution of Organization Agenda Should Be Supervised by the Internal Auditors**

	Frequency	Percent
Valid Disagree	1	2.5
Undecided	1	2.5
Agree	10	25.0
Strongly agree	28	70.0
Total	40	100.0

Source: Researcher's field survey, 2019.

It is also strongly suggested from Table 12 that the execution of organization agenda should be supervised by the internal auditors while only 2.5% disagreed to this. This is seen to be necessary in order to improve the firm performance.

**Table 13**  
**Planning, Budgeting Formulation and Review Should Be Embarked Upon After Proper Evaluation and Investigation Has Been Done**

	Frequency	Percent
Valid Strongly disagree	1	2.5
Undecided	2	5.0
Agree	16	40.0
Strongly agree	21	52.5
Total	40	100.0

Source: Researcher's field survey, 2019.

From the table above, 92.5% of the respondents agreed that planning, budgeting formulation and review should be embarked upon after proper evaluation and investigation has been done while only about 2.5% disagreed with the statement.

**Table 14**  
**Internal Auditing Procedures Enhances Organizational Performance**

	Frequency	Percent	
Valid	Strongly disagree	1	2.5
	Undecided	1	2.5
	Agree	11	27.5
	Strongly agree	27	67.5
	Total	40	100.0

Source: Researcher's field survey, 2019.

Table 14 revealed that 95% of the respondents agreed and strongly agreed that internal auditing procedures enhances organizational performance as only about 2.5% disagreed and were undecided with the statement.

**Table 15**  
**Internal Audit Improves the Performance in the Organization**

	Frequency	Percent	
Valid	Strongly agree	2	5.0
	Undecided	2	5.0
	Agree	12	30.0
	Strongly agree	24	60.0
	Total	40	100.0

Source: Researcher's field survey, 2019.

Table 15 showed that 90% of the respondents cumulatively agreed that internal audit improves the performance in the organization, suggesting that firms should be involved in internal audit so as to enhance its effectiveness and performance while 5% disagreed and were undecided with the statement.

**Table 16**  
**Internal Audit Functions Influences Performance in the Organization**

	Frequency	Percent	
Valid	Undecided	1	2.5
	Agree	6	15.0
	Strongly agree	33	82.5
	Total	40	100.0

Source: Researcher's field survey, 2019.

Table 16 revealed that 90% of the respondents cumulatively agreed that internal audit functions improves the performance in the organization, suggesting that the functions of internal audit is important and can improve performance, 2.5% were undecided.

**Table 17**  
**Internal Audit Procedures Are Carried Out in the Organization**

	Frequency	Percent	
Valid	Disagree	1	2.5
	Undecided	3	7.5
	Agree	10	25.0
	Strongly agree	26	65.0
	Total	40	100.0

Source: Researcher's field survey, 2019.

Table 17 indicated 65% of the respondents strongly agree to the statement, 25% also agreed to the statement,

7.5% were undecided and 2.5% disagreed with the statement.

**Table 18**  
**Internal Audit Helps in Improving the Sustainable Performance in the Organization.**

	Frequency	Percent	
Valid	Strongly disagree	1	2.5
	Disagree	3	7.5
	Undecided	1	2.5
	Agree	23	57.5
	Strongly agree	12	30.0
Total	40	100.0	

Source: Researcher's field survey, 2019.

Table 18 revealed that most of the respondents cumulatively agreed that internal audit helps in improving the sustainable performance in the organization while only about 7.5% and 2.5% disagreed and strongly disagreed respectively. Thus, internal audit helps in improving the sustainable performance in the organization.

### Hypotheses Testing

To test the hypothesis formulated, a multiple regression model is used to analyze the data gathered and the result is shown in Table 19.

**Table 19**  
**Relationship Between Internal Audit and Organization Performance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.409a	.167	.098	.33736

a. Predictors: (Constant), IAF, IAP

**Table 20**  
**ANOVA<sup>a</sup>**

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.822	3	.274	2.407	.083b
	Residual	4.097	36	.114		
	Total	4.919	39			

a. Dependent Variable: OP

b. Predictors: (Constant), IAF, IAP

**Table 21**  
**Coefficients<sup>a</sup>**

	Model B	Unstandardized coefficients		Standardized coefficients	T	Sig.
		Std. Error	Beta			
1	(Constant)	2.343	.899		2.606	.013
	IAF	.306	.145	.392	2.115	.041
	IAP	.044	.173	.051	.256	.800

a. Dependent Variable: OP

### Discussion of Findings

The above analysis was conducted to assess the effect of internal audit on organization performance. The model constant terms gives positive value of 2.34 as the value for the intercept of the model (Table 19). This implies that

holding all other variables constant, banks performance will increase by 2.34% which is statistically significant at 5%. The coefficient of internal audit functions (IAF) is 0.392. This implies that a positive relationship exists between internal audit functions and organization performance in the study carried out which is also found to be statistically significant as evidenced by an examination of the prob. Value of 0.041, while internal audit procedure (IAP) coefficient has a value of 0.051. This shows that there is a positive relationship between the two variables that is, internal audit procedure and organization performance and the prob. Value of 0.800 indicates that it is statistical insignificant at 10 percent. This therefore suggest that internal audit function and internal audit procedures improves organization performance in the firm sampled.

The R-Squared of the model is 0.167 showing that the explanatory variables explain 16.7% of changes in the dependent variable which is quite low (Table 19). This means that in this study, the variables chosen are weak in explaining the level of organization performance. The F-statistic which measures the joint statistical influence of the explanatory variables in explaining the dependent variable was found to be statistically significant at 0.083 percent level (Table 20). The F-statistic figure of 2.407 shows that components of internal audit are important determinants of organization performance in Nigeria. Thus, this result can be described as good and reliable as the model was properly treated to avoid spurious results. The result is thus reliable for policy formulation and forecasting purposes as such this study asserts that internal audit has significant effect on organization performance.

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## CONCLUSION AND RECOMMENDATION

Based on the findings, the study concluded that there exist a positive relationship between internal audit functions and organization performance. Also, there exist a positive relationship between internal audit procedures and organization performance. The study therefore recommended that internal audit improves organization performance. Moreso, organizations should adopt the internal audit functions and comply with the internal audit procedures in order to improve performance.

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