Empowering the Audit Committee for a More Effective Role in Corporate Governance in Nigeria: Problems and Prospects

By JOSEPH IGE

The Cadbury Report (Cadbury Committee, 1992: 2.54, 4.37) defined corporate governance as "the system by which companies are directed and controlled", adding: "Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place."

In order to help to raise the standards of corporate governance and the level of confidence in financial reporting and auditing, the Cadbury Report went on to spell out what it considered the respective responsibilities of those involved - the board of directors, the auditors and the shareholders. In particular, it stressed the crucial role of the audit committee in enhancing the standards of corporate practice.

In Nigeria, in view of the need for best practices in corporate governance if the country is to achieve accelerated and sustainable development, the Securities and Exchange Commission (SEC), in collaboration with the Corporate Affairs Commission (CAC), inaugurated a seventeen-member committee in June 2000 under the chairmanship of Atedo Peterside, Managing Director of Investment Banking and Trading Company (IBTC). The committee was mandated (ICAN, 2006: 347–348) to identify weaknesses in the current corporate governance practices in Nigeria and recommend necessary changes that would improve corporate governance in Nigeria. The committee's final report, titled "Code of Best Practice on Corporate Governance in Nigeria", was approved by both the SEC and the CAC in 2001. Significantly, the Code is divided into three parts:

a. Board of Directors.
b. Shareholders.
c. Audit Committee.

In a nutshell, what is clear from the foregoing is that good corporate governance (including the provision of full financial information on performance and position of affairs) is essential, not only in the best interests of shareholders and other stakeholders in a company, but also for the optimal development of the Nigerian economy and multi-national businesses in an increasingly global contemporary world.

Genesis of Audit Committees

Spira (1999: 232) discussed the reasons for the development of audit committees in Canada, the United States, the United Kingdom, Australia and New Zealand, as reflected in the works of key researchers in the field. The reasons may be summarised thus, to:

- Reduce illegal activities and prevent fraudulent financial reporting (Treadway Commission, 1987) and (Sprangler and Braiotta, 1990);
- Increase the credibility of audited financial statements, help boards of directors in meeting their responsibilities and reinforce the auditor's independence (Bradbury, 1990);
- Strengthen the role of non-executive directors with a view to protecting them from being misled by management (Cadbury Committee, 1992), (Guthrie and Turnbull, 1995) and (Porter and Gendall, 1998);
- Respond to unexpected corporate failures and corporate malpractices (Porter and Gendall, 1993); and
- Deal with the proliferation of corporate scandals in Malaysia (Teoh and Lim, 1996).

The Emergence of Audit Committees as a Legal/Recommended Requirement for Listed Companies

The Securities and Exchange Commission (SEC) in the United States initiated the promotion of the audit
committee concept after its investigation
McKesson and Robbins fraud in
a corrupt management had claimed
stence of inventory that later turned
to be false. Following its
megmentation in 1972 of the
ystem of audit committees
ed of independent directors, the
by 1974, began to require public
sure of whether audit committee
bers were, in fact, independent
and Mason-Olsen, 2007:1).
Indeed, since 1978, the New York Stock
range has required all listed
cies to have audit committees,
ed up solely of independent non-
directors (Cadbury Committee,
4:33).
Pressing the critical role of audit
mites in the maintenance of the
utiness of corporate financial reporting,
American Treadway Commission
nended that all public companies
quired to have audit committees,
ed entirely of independent
ctors (Treadway Commission,
1:12).
In its turn, the Cadbury Report
nmittee, 1992: Appendix 4,
ignon 4) also recommended that all
ed companies should establish audit
mittees because they have the
ential to:

(a) Ascertain whether the accounting
and reporting policies of the
pany are in accordance with
egal requirements and agreed
thical practices;
(b) Review the scope and planning of
udit requirements;
(c) Review the findings on
agement matters in conjunction
the external auditor and
departmental responses thereon;
(d) Keep under review the
effectiveness of the company's
ystem of accounting and internal
rol;
(e) Make recommendations to the
ard in regard to the appointment,
imal and remuneration of
ternal auditors of the company;
(f) Authorise the internal auditor to
carry out investigations into any
ctivities of the company which may
of interest or concern to the
mittee."

Problems Impeding the Effective Role
of Audit Committees in Corporate
Goverance in Nigeria

From the intricate nature and wide
scope of the statutory functions of an audit
mittee in Nigeria, as presented above,
to be a member of the committee is, to
use the words of the Cadbury Report
Cadbury Committee, 1992: 4.37), "A
demanding task requiring commitmen,
training and skill. The directors concerned
need to have sufficient understanding of
the issues to be dealt with by the
mittee to take an active part in its
ceedings."

But what is the reality on the ground?
In this connection, Akinwolemiwa (2005),
a member of the Council of the Institute of
hartered Accountants of Nigeria (ICAN),
with a wealth of experience in public
actice acquired over the years,
lamented:

"What we find is that directors nominate
those of their members with clout to work
on other members of the audit committee.
ther nominees of directors must also be
'good boys' on whom the other directors
can rely. For the shareholders, it is a mad
scramble for nomination to serve on 'juicy'
mittees... but the stark reality is
that the vast majority of them have no clue
to how to perform their duties. If you
have seen them in action, only one or two
embers ever speak at meetings. Others
ain mute and rely on the vocal
embers to do the job. After lunch,
verybody goes home — at the annual
al meeting, the audit committee's
port is read, irrespective of the fact that,
in most cases, commensurate work has
not been done."

Shonubi (2003), another Fellow of
ICAN and Chairman of the Audit
mittee of Guinness Nigeria Plc, had
expressed a similar severe criticism of the
generally poor quality of the membership
of audit committees in Nigerian
ompanies.

Another problem impeding a more
effective role of audit committees in
corporate governance in Nigeria derives
from the fact that CAMA (Section 350,
Sub-section 4) maintains that committee
embers shall not be entitled to
muneration. In other words, they must
spend their time and money to perform
their onerous task. It would surely be
realistic to expect optimum performance
from them. Also, ultimately, the lack of
muneration would be inimical to the
dependence required of the members of
the committee vis-à-vis management who
are, in the circumstance, able to ensnare
them with juicy compensation.

Moreover, CAMA merely requires that
an audit committee be made up of three
hareholders and three directors. Unlike
the New York Stock Exchange, the
Treadway Commission and the Cadbury
mission, CAMA does not specifically
require that the directors must be truly independent non-executive directors who are expected to hold the executive directors more accountable through an effective contribution to the discharge of the committee’s functions.

Finally, the high level of the naked corruption on the part of the political leadership in the wider Nigerian society cannot be dissociated from the problems confronting audit committees of companies in the country. The point is that the companies do not exist in a vacuum; they are bound to be influenced by the generally unifying moral values of the society in which they operate. It is, therefore, not a surprise that, despite the existence of audit committees, high-profile corporate scandals have been occurring in Nigeria. Examples include those of Lever Brothers Nigeria Plc under the managing directorship of the late Rufus Giwa in 1998, the AP Plc in 2001 and the recent one at Cadbury Nigeria Plc. This was the kind of situation Spira (1999:240) had in mind when she sought to demonstrate that audit committee meetings could be described as “ceremonial performances”.

Prospects for the Future

The future is bright in respect of the contributions that audit committees can make to the raising of the standards of corporate governance in Nigeria. But this is only if the measures necessary for improvement are taken.

In his suggestions in this regard, Akinwolemiwa (2005:3) does not specify that CAMA should be amended to ensure that directors are represented on audit committees only by independent non-executive directors and that all committee members should be entitled to fees commensurate with the level of the serious assignment they are burdened with. Otherwise, we agree with him when he writes: “The number of audit committee members should be a minimum of ten, with six representing shareholders. All members of the audit committee must function in accordance with agreed code of ethics, fashioned along the lines, which apply to external auditors. It is imperative that they undergo some form of training (no matter how short) so they know the extent of the statutory responsibilities which they carry. Audit committee responsibilities must carry sanctions where they are recklessly or ineffectively carried out. The external auditor faces sanctions from his professional body and is liable to stakeholder suits where he performs below standard. The same, or, at least, something similar should apply to audit committee members.”

Conclusion

We have attempted to argue that audit committee members, whether as shareholders or as independent non-executive directors, must have the knowledge, skill and training required to empower them to play a more effective role in enhancing the quality of corporate governance in Nigeria. But above all, we wish to conclude by stressing that, to flourish, political governance at the macro level in the Nigerian society must lead by example through total commitment to the democratic ideals of probity, transparency and accountability.

REFERENCES

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