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 ttee 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 ıragement in 1972 of the lishment of audit committees ›sed of independent directors, the by 1974, began to require public sure of whether audit committee ›ers were, in fact, independent ıst and Mason-Olsen, 2007:1).

leed, since 1978, the New York Stock ange has required all listed anies to have audit committees, up solely of independent non-itive directors (Cadbury Committee, :4.33).

ressing the critical role of audit nittees in the maintenance of the rity of corporate financial reporting, American Treadway Commission nmended that all public companies equired to have audit committees, posed entirely of independent ctors (Treadway Commission, :12).

ı its turn, the Cadbury Report lbury Committee, 1992: Appendix 4, tion 4) also recommended that all ed companies should establish audit ımittees because they have the ential to:

a) Improve the quality of financial reporting by reviewing the financial statements on behalf of the Board;
b) Create a climate of discipline and control which will reduce the opportunity for fraud;
c) Enable the non-executive directors to contribute an independent judgment and play a positive role;
(d) Help the finance director, by providing a forum in which he can raise issues of concern, and which he can use to get things done which might otherwise be difficult;
(e) Strengthen the position of the external auditor by providing a channel of communication and forum for issues of concern;
(f) Provide a framework within which the external auditor can assert his independence in the event of a dispute with management;
(g) Strengthen the position of the internal audit function by providing a greater degree of independence from management;
(h) Increase public confidence in the credibility and objectivity of financial statements.

It is also worth noting that audit committees are a legal requirement in Canada (Cadbury Committee, 1992: Appendix 4, Section 3).

Audit Committees: The Nigerian Experience

Taking its cue from the worldwide developments, highlighted above, the Companies and Allied Matters Act 1990, as amended and consolidated in the 2004 Act, stipulates that every public company in Nigeria must have an audit committee to which the external auditor must report, in addition to reporting to the shareholders (Section 359, Sub-section 3).

The functions of the audit committee are spelt out in Section 359, Sub-section 6, as follows:

(a) Ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices;
(b) Review the scope and planning of audit requirements;
(c) Review the findings on management matters in conjunction with the external auditor and departmental responses thereon;
(d) Keep under review the effectiveness of the company's system of accounting and internal control;
(e) Make recommendations to the Board in regard to the appointment, removal and remuneration of external auditors of the company; and
(f) Authorise the internal auditor to carry out investigations into any activities of the company which may be of interest or concern to the committee."

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

From the intricate nature and wide scope of the statutory functions of an audit committee 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 commitment, training and skill. The directors concerned need to have sufficient understanding of the issues to be dealt with by the committee to take an active part in its proceedings."*

But what is the reality on the ground? In this connection, Akinwolemiwa (2005), a member of the Council of the Institute of Chartered Accountants of Nigeria (ICAN), with a wealth of experience in public practice 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. Other 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' audit committees... but the stark reality is that the vast majority of them have no clue as to how to perform their duties. If you have seen them in action, only one or two members ever speak at meetings. Others remain mute and rely on the vocal members to do the job. After lunch, everybody goes home — at the annual general meeting, the audit committee's report 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 Committee of Guinness Nigeria Plc, had expressed a similar severe criticism of the generally poor quality of the membership of audit committees in Nigerian companies.

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 members shall not be entitled to remuneration. In other words, they must spend their time and money to perform their onerous task. It would surely be unrealistic to expect optimum performance from them. Also, ultimately, the lack of remuneration would be inimical to the independence 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 shareholders and three directors. Unlike the New York Stock Exchange, the Treadway Commission and the Cadbury Commission, 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 unedifying 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".

"For corporate governance to thrive and 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"

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 create an enabling environment for corporate governance to thrive and 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. This is why the National Assembly should no longer delay the passing of the Freedom of Information Bill into law.

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