CORPORATE GOVERNANCE AND AUDIT COMMITTEE IN NIGERIA

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Abstract
The purpose of this research is to evaluate whether corporate governance principles affect audit committee functions by ensuring that financial statements reflect the true financial position of companies. Data were analysed using correlation analysis. Spearman's correlation was calculated between the average scores on corporate governance variables and audit committee variables. The computations were done using SPSS statistical software. The study shows that corporate governance principles affect audit committee functions by ensuring that financial statements reflect the true financial position of companies. It is suggested that companies should be good corporate citizens and that members of the audit committee should possess requisite accounting knowledge to be able to effectively scrutinize the financial statements or query accounting practices of preparers of those financial statements.

Keywords: Corporate Governance, Audit Committee, Transparency, Accountability, Independence.

1. INTRODUCTION
Over the past three decades there has been a growing concern regarding the subsisting and persistent problem of corporate governance, whose major tenets are predicated on the fundamental belief that in the corporate world, it is assumed that corporate entities should behave rationally, optimally, transparently and accountably (Okolie, 2012). Corporate governance concerns the manner in which companies are managed and regulated. A generally accepted definition of corporate governance does not exist. Different people have come up with different definitions that basically reflect their special interest in the field. However, two definitions will make the world of corporate governance clearer. Tricker as cited in Sherer and Turley (1997) "If management is about running the company, corporate governance is about ensuring that the company is run properly". Farrar (2003) defined corporate governance as "the process of controlling management and of balancing the interests of all internal stakeholders and other parties who can be affected by the corporation's conduct in order to
ensure responsible behaviour by corporations and to achieve the maximum level of efficiency and profitability for a corporation”. Thus, the most important components of this definition are that corporate governance:

- is a process of controlling management;
- takes into consideration the interests of internal stakeholders and other parties who can be affected by the corporation's conduct;
- aims at ensuring responsible behaviour by corporations; and has the ultimate goal of achieving the maximum level of efficiency and profitability for a corporation.

Companies are required to prepare financial statements, and have these financial statements audited and obtain an auditor's report (Sec. 357 (1) CAMA, 1990). Specifically, the function of an auditor is to conduct an audit on the financial affairs of the company and ascertain if the financial statement provided by the company complies with relevant legal requirements and accounting principles and gives a true and accurate account of the company's financial affairs. Auditors do not prepare company's financial statement. Their role is one of checking or verifying. Audit committee is a mechanism in focusing the company on issues which are relevant to verifying and safeguarding the integrity of the company's financial reporting. It enhances communication between internal audit, external audit and the company's board. Furthermore, audit committee is part of the board and it showcases the audit observations and presents them to the board so that fairness and transparency is ensured.

1.1 RESEARCH QUESTION
Following from the literature and in particular the Cadbury's Report 1992 which premised the promotion of audit committee on the premise that audit committee are effective at remedying some of the deficiencies in corporate governance system, the obvious follow-up question which forms the research question is whether in actual fact auditors play a significant role in corporate governance. Hence the following research question was posed.

Is there any significant relationship between corporate governance and audit committee in ensuring that financial statement reflects the true financial position of companies?

1.2 HYPOTHESIS
The corresponding hypothesis is:
There is no significant relationship between corporate governance audit committee
in ensuring that financial statement reflects the true financial position of companies.

2. LITERATURE REVIEW

2.1 Origin of Corporate Governance
One cannot say with absolute finality when the corporate governance debate started. Nevertheless, there is little doubt that there were many factors that made the corporate governance stand out: the separation of ownership and control; the pivotal role of the corporate form in generating wealth for nations; the huge powers of corporations and the effects of these on our daily lives; and the enormous consequences that flow from collapses of public corporations (Plessis et al, 2005).

Corporate governance debate became prominent when the basic perception of the company changed. Originally the concern for a company was the maximization of profits for the shareholders. Gradually this perception changed. People began to realize that there were other stakeholders in a company too. Then the concept of corporate governance started to adopt this new articulation of "managing the corporation" with the central focus on the interrelationship between internal groups and outside interests.

Corporate Governance in the USA
Corporate governance has been a topic of debate in the USA for a very long time and materials on corporate governance in the USA are extensive. In such a dominant economy, US debates on corporate governance will almost invariably influence corporate governance in other countries. The debate on corporate governance in the USA started as early as 1932, when Berle and Means published their book, "The Modern Corporation and Private Property" (Plessis et al, 2005).

The passing of the Sarbanes - Oxley Act of 2002, was a reaction to huge corporation failures in the USA, which stemmed from tax accounting and corporate governance practices. Studying corporate governance development in the USA is important, since some people apparently only became aware of the corporate governance debate when Cadbury Report was published in 1992 in the UK. There are still some who wrongly believe that corporate governance was an invention of Cadbury Report (Kendall, 1998)

Corporate Governance in the United Kingdom

Corporate Governance in Nigeria
The historical development of corporate governance in Nigeria can be viewed from four perspectives:
Pre-1990
Before 1990, the prevailing Companies Act in Nigeria was the Companies Act, 1968. This Act was modelled after the Companies Act 1948 of United Kingdom. It contained elaborate provisions regarding the running of companies. However, the Act had its limitations. Consequently the Companies Act, 1968 was repealed and replaced by Companies and Allied Matters Act, 1990, as amended

1990 - 2003
The Companies and Allied Matters Act, Cap. C20, Laws of the Federation of Nigeria 2004 was the product of a rigorous process championed by the Nigeria Law Reform Commission (Ofo, 2013). After coming into force of the Act, some Corporate challenges around the world brought the issue of corporate governance to the fore. In August 2003, a code of Corporate Governance for Banks and Other Financial Institutions in Nigeria was issued. The code was predicated on eleven principles. These are:

1. Responsibilities of the Board of directors
2. Structure of the Board of Directors
3. The Chairman and the Chief Executive Officer
4. Appointments to the Board
5. Proceedings of the Board of Directors
6. Directors Remuneration
7. Board performance assessment
8. Risk management
9. Financial disclosure
10. Relations with shareholders
11. Audit committee

2003 - 2011

2011 to date
On April 1, 2011, the Securities and Exchange Commission issued the Code of Corporate Governance in Nigeria 2011 (2011 SEC Code) which replaced the 2003 SECI Code. Interestingly, a few months after the 2011 SEC Code became operational the Financial Reporting Council of Nigeria Act 2011 was enacted by the Federal
Government. This statute has far-reaching provisions regarding the operation of companies in Nigeria

2.2 Corporate Governance Principles
There have been several attempts to identify and explain essential corporate governance principles. Although there are numerous other examples, the two best examples of identifying and extracting the essential principles of corporate governance are perhaps the South African King Report (2002) and the Australian Stock Exchange (ASX) Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (2003). These two stand out because of the brevity and clarity of expressing the essential characteristics and principles of corporate governance.

The King Report (2002) identified seven characteristics of good corporate governance: discipline, transparency; independence; accountability; responsibility; fairness; and social responsibility. The Australian Stock Exchange (2003) identified ten essential principles: lay solid foundations for management oversight; structure the board to add value; promote ethical and responsible decision-making; safeguard integrity in financial reporting; make timely and balanced disclosure; respect the rights of shareholders; recognize and manage risk; encourage enhanced performance; remunerate fairly and responsibly; and recognize the legitimate interests of stakeholders.

2.3 Audit Committee in Nigeria
In recommending that all listed companies should establish an audit committee, the Cadbury Committee (1992) followed the US National Commission on Fraudulent Financial Reporting (Treadway Commission, 1987) and the Canadian Macdonald Commission (1988). In Nigeria, audit committee was a child of the Companies and Allied Matters Act (CAMA, 1990). In addition to providing an audit report to the members, the auditor shall in the case of public company also make a report to an audit committee which shall be established by the public company (section 359 (3), CAMA, 1990)

Composition of Audit Committee
The audit committee shall consist of an equal number of directors and representatives of the shareholders of the company (subject to a maximum number of six members) and shall examine the auditors report and make recommendations thereon to the annual general meeting as it may think fit. Provided, however, that such member of the audit committee shall not be entitled to remuneration and shall be subject to re-election annually. Any member may nominate a shareholder as a member of the audit committee by giving notice in writing of such nomination to the secretary of the company at least twenty-one days before the annual general meeting. (SEC 359 (4-5), CAMA, 1990)

Functions of Audit Committee
Subject to such other additional functions and powers that the company's articles of
association may stipulate, the objectives and functions of the audit committee shall be:

(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 the external auditors of the company; and
(f) Authorize the internal auditor to carry out investigations into any activities of the company which may be of interest or concern to the committee. (SEC 359 (6), CAMA 1990)

2.4 The Link Between Audit Committee and Corporate Governance
The promotion of audit committees by the Cadbury Committee (1992) is premised on the assumption that audit committees are effective at remedying some of the deficiencies in corporate governance systems. "Auditors play a significant role in corporate governance. This is not surprising given the emphasis placed on integrity and on the need for financial reporting that is honest and that presents a balanced picture of the state of the company affairs. (Owen Report, 2003). Furthermore, "the annual audit is one of the cornerstones of corporate governance ... the audit provides an external and objective check on the way in which the financial statements have been prepared and presented, and it is an essential part of the checks and balances required (Cadbury report, 1992). Whether the audit function is viewed as being internal or external to corporate governance, there is a symbiotic relationship between audit committee and corporate governance.

3. METHODOLOGY
The study is a diagnostic research study involving two major variables corporate governance and audit committee and the association between them were assessed. Kothari (2004). Data were collected from 20 companies quoted on the Nigerian Stock Exchange in such a way that major industrial sectors were represented in the sample. Mean scores for corporate governance were compared with mean scores for audit committee using Pearson Correction.

3.1 TEST OF HYPOTHESIS
The computations were done using SPSS statistical software.
Obtained correlation was 0.652 with a p-value of 0.001. Hence the correlation is significant. That means that corporate governance principles affect audit committee functions by ensuring that financial statements reflect the true financial position of companies.
4. CONCLUSION
Auditors and audits are pivotal to corporate governance. "Audited financial statements are an important part of the financial information that is available to the capital markets and an important part of effective corporate governance" (Ramsay, 2001). The ultimate objective of audit committee and corporate governance is to ensure that financial statements reflect the true financial position of companies. This will enable potential investors to make sound investment decisions based on the financial statements reflecting the true financial position of companies. However, this will not ensure that companies do not collapse in future but, it should, it is hoped, ensure that the signs of a collapse are detected as early as possible.

5. RECOMMENDATIONS
The following recommendations are put forward:
(i) That companies should be good corporate governance citizens. In doing so, the risks of fraud and corporate collapse are reduced. Furthermore good corporate governance processes are likely to create an environment that is conducive to success.
(ii) That if countries are to reap the full benefits of the global market, then corporate governance arrangements, must be credible, well understood across borders and adhere to internationally accepted principles.
(iii) The Companies and Allied Matters Act, 1990 as amended, did state specifically the qualification of the members of audit committee. It is then my humble opinion that the Act, when reviewed to include that members of audit committee should possess requisite accounting knowledge to be able to effectively scrutinize the financial statements or query accounting practices of preparers of financial statements.
(iv) The current situation in Nigeria is that the composition of the audit committee is skewed in favour of management. The committee should therefore be expanded with shareholders having more representation. The power of the board to nominate 50 percent of the membership of audit committee should be reviewed. In my opinion, the Board should appoint only 30 percent while the shareholders will appoint 70 percent inclusive of the chairman.

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