Corporate Governance for Nigeria Entrepreneurs: The role of Audit Committee

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ABSTRACT
In order to ensure that a financial report reflects the true and fair view of the financial statement of a business concern. This study examines the role of audit committee members to good corporate behaviour on the quality of financial report of a business concern with emphasis on entrepreneurs. It is anchored on the fact that the establishment of audit committee is an attempt to give protection to investors and users of financial statement. The committee is expected to act as a channel of communication between external auditors and board of directors and facilitate the flow of such information to the board of directors. This is to enable them carry out supervision on the management to achieve good corporate governance. To achieve the objective of this study, the data were drawn mainly from documentary series. The analysis was mainly descriptive. The paper concludes that members of the committee need financial sophistication for corporate governance to strive and flourish in Nigeria through the ideals of probity, transparency and accountability. This will improve the quality of financial report. On the basis of this conclusion, it was recommended that members of the committee should be men of proven integrity, uprightness, have requisite, knowledge, skill and training in financial matters. It is also recommended that section 395 (4) of CAMA 1990 as amended should be expanded to include sanctions on non compliance with the implementation of the recommendation of audit committee report.

Key Words: Corporate governance, financial report, audit committee, accountability and transparency, entrepreneur.

1. Introduction
Entrepreneur is fundamental for economic and social development of nations, states, communities, families and individuals. An understanding of the concept and practice of entrepreneurship will enable potential entrepreneurs to overcome the fear of taking the risk of creating something new and investing their time and efforts in innovation in order to grow and sustain their new ventures so as to reap enormous rewards associated with entrepreneurship.
Corporate governance is a continuous process and organizations relentlessly pursues it through full regulatory compliance, transparency, efficient operational practices, strong internal control and risk management systems and operating with fairness and integrity to enhance the interest of all its stakeholders. So, in order to present cogent and coherent views on audit the definition of corporate governance which one seeks to base his views on (Singh, 2006).

According to Mathiesen (2002) “corporate governance is a field in economics that investigates how to secure/motivate efficient management of corporations by the use of incentive mechanisms such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure or motivate that the corporate managers will deliver a competitive rate of return”

Similarly Singh (2006) says corporate governance is all about the relationship between the owners and managers in directing and controlling companies as separate legal entities. It is a system of directing and controlling the corporate entities, be they in the private sector, public sector or be they financial institutions to fulfill long-term strategic goals, taking care of the welfare of their employees and the local communities, maintaining harmonious relationships with their suppliers and customers and working in compliance with the legal framework that exists in the country and using such processes of production that generate minimum externalities of the negative kind for the notion as a whole.

Ige (2008) observes that in order to help raise the standards of corporate governance and the level of confidence in financial reporting and auditing. Cadbury (2003) went on to spell out what it considered the respective responsibilities of those involved in the board of directors, the auditors and the shareholders. In particular, he stressed the crucial role of the audit committee in enhancing the standards of corporate practice. As far as audit committee is concerned, perhaps it is sufficient to mention at this juncture that it is a committee of board of directors which was brought into existence through legal provisions and at the risk of over-simplifying it may be said that it is supposed to play a crucial role in increasing the reliability of financial reports published by a company. Asein (2008) is also of the view that the appointment of audit committees was designed to serve as checks on the board of directors who occupy fiduciary positions necessitated by the separation of ownership from control under the Anglo Saxon economic arrangements. Therefore, the objective of this paper is to examine the role of audit committee in achieving good corporate governance in Nigerian companies with emphasis on entrepreneurs.

2. Research Methodology
In carrying out this study, the major sources of data for the paper were from a vast array of relevant literature that deals with
corporate governance and audit committee. The pieces of information gleaned from the foregoing sources are weighed in relation to corporate governance and audit committee, using both deductive and inductive reasoning to arrive at the conclusion and recommendations.

3. Conceptual Framework
Corporate Governance for Entrepreneurs

The entrepreneur is proactive to change, willing to explore, experiment, and translate ideas into profitable innovations, expecting returns on investment and a willingness to accept failure if there is. The managerial process involves careful planning and control, adherence to administrative process and procedure, avoidance of risk, preference for predictability and intolerance for failure.

As the new venture grows, a great deal of corporate management has to be introduced. This will ensure efficiency in the utilization of scarce resources and provision of adequate information for decision making. Management also serve as a check on excessive exuberance of activities of the entrepreneur so that the business does not grow without plan and encounter difficulties or failures. The separation between ownership and control ensures good corporate governance as well as accountability and transparency as management performs their stewardship function, i.e. reporting to owners or shareholders.

Corporate governance, as a concept, can be viewed from at least two perspectives: a narrow one is which it is viewed merely as being concerned with the structures with which a corporate entity receives its basic orientation and direction (Rwegasira, 2000); and a broad perspective in which it is regarded as being the heart of both a market economy and a democratic society (Sullivan, 2000). The narrow view perceives corporate governance as relating to shareholder protection, management control and the principal-agent relationship. In contrast, the broader view uses the examples of the resultant problems of the privatization that has been sweeping through developing countries and the transition economies of the former communist economies in the 1990s that issues of institutional, legal and capacity building as well as the rule of law are at the heart of corporate governance.

Corporate governance is an integral system encompassing policies, processes and people, which serves the needs of shareholders and other stakeholders, by and controlling management activities with good business savvy, objectivity, marketplace commitment and legislation, plus a healthy board culture which safeguards policies and processes (Wikipedia, 2009).

The Cadbury Report (2003) defines corporate governance “as the system by which companies are directed and controlled”. Adding “Board 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. ICAN (2006) maintains that corporate governance issues usually result from an identifiable process which is a consequence of sustained public opinion or outcry. The public opinion may refer to the activities of opinion leaders and influencers.

In Nigeria, we have had Atedo Peterside Committee’s report which is the basis of the code of corporate governance commissioned by Securities and Exchange Commission (SEC). This has been reinforced by the establishment of the Center of Corporate Governance by the Institute of Directors, Nigeria and the New code of corporate governance published by the Central Bank of Nigeria (ICAN, 2006). Ige (2008) further noted that the code of Best Practices on Corporate Governance in Nigeria was approved by both the SEC and CAC in 2001 divided into the Board of Directors, Shareholders and Audit Committees.

The key elements of good corporate governance principles include honesty, trust, and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. Therefore, the commonly accepted principles of corporate governance include; right and equitable treatment of shareholders; interests of other stakeholders; role and responsibilities of the board; integrity and ethical behaviour; and disclosure and transparency.

Issues involving corporate governance principles include: internal controls and the independence of the entity’s auditors, oversight and management of risk, review of the compensation arrangements for chief executive officer and other executives, the way in which individuals are nominated for positions in the board.

Adukia (1999) gave the objective of good corporate governance as:
- Strengthen management oversight functions and accountability.
- Balance skills, experience and independence on the board appropriate to the nature and extent of company operations;
- Establish a code to ensure integrity;
- Safeguard the integrity of company reporting;
- Risk management and internal control;
- Disclosure of all relevant and material matters;
- Recognition and preservation of the needs of shareholders.

Singh (2006) made the following submission on the need for good corporate governance in companies:

To maintain competitiveness in a changing world, corporations most innovate and adopt their corporate governance practices so that they can meet new demands and grasp new opportunities. Similarly, governments have an important responsibility for shaping an effective regulatory framework that provides for sufficient
flexibility to allow markets to function effectively and to respond to expectation to shareholders. It is up to governments and market participants to decide how to apply these principles in developing their own framework for corporate governance taking into account the costs and benefit of regulations.

Corporate Entrepreneurship
Is about adopting the mindset and the skills of a start-up entrepreneur and integrating these characteristics into the culture and activities of a large company. According to Shama and Chrisman (1999), it is a process whereby an individual or a group of individuals, in association with an existing organization create a new organization, or instigates renewal or innovation within the old one. Dess et al (2003) describe corporate entrepreneur as the driver of new businesses within on-going enterprises, achieved through internal innovation joint ventures or acquisitions. The elements of corporate entrepreneur include (Ihornberry, 200:332):-

i. The creation of something new that did not exist before: a new business within a business, a product, a service, delivery system, a new value proposition. The new is intended to result in long-term economic value and the creation of wealth.

ii. The new requires additional resources and or changes in the pattern of resource development within the organization.

iii. Learning takes place in both the creation of the new and its implementation which results in the development of new organizational capabilities.

iv. There is increased risk because the new is unproven.

The emphasis in CE studies has been on the creation of new capabilities and the recognition of opportunities, but as is evident in Dess et al (2003), CE is firmly linked to strategic thinking in the context of established firms.

Audit Committees an Enforceable Authority: How It Came into Being
In Nigeria, the operations and powers of Audit Committee is derived from the provisions of section 359 of the Companies and Allied Matters 1990 as amended. Precisely, the law prescribed the establishment, composition, functions and sanction to companies that flouts any as part of the CAMA Act. It strengthens the independence of internal Auditors and enhances the quality of financial statement. The relevant section that regulates Audit Committee operations is section 359 (1), (2) (3) (4) (5) (6).

The members of the board of directors of a company, that is, directors exercise the power vested in a company either directly or through managers appointed by them. Okezie (2004) observed that the concept of audit committee was first recommend in
North America in the early 1940’s by the Securities and Exchange Commission (SEC). It was recommended that all public owned corporations should appoint committees of outside and non executive directors to nominate independent auditors to discuss audit work with them.

Ige (2008) noted that Spiray (1999) discussed the reasons for the development of audit committees in Canada, United States, United Kingdom, Australia and New Zealand as reflected in the works of Sprangler and Bralotta (1990), Bradbury (1990), Gothrie and Turnbull (1995), Porter and Gendall (1988) and Teoh and Um (1996). The reasons include:

i. Deal with the proliferation of corporate scandals;

ii. Strengthen the role of non-executive directors with a view to protecting them from being misled by management;

iii. Respond to unexpected corporate failures and corporate malpractices;

iv. Reduce illegal activities and prevent fraudulent financial reporting;

v. Increase the credibility of audited financial statements, help boards of directors in meeting their responsibilities and reinforces the auditors independence.

Therefore, the Audit report should be objective and credible and must be drawn to service the purpose of all its users. Auditors are based upon the information which they gather from the company expected to ascertain whether the annual accounts of a company present a “true and fair view” of the company’s financial position or not. However, there have been instances of accounting and audit failures which led to several brainstorming sessions by the regulators who suggested different modes of ensuring that such scandals become events of the past. Abass (2009) noted that failures such as Maxwell, BCCI and Polypeck in the United Kingdom led to the appointment of Cadbury committee on Financial Aspects of Corporate governance. The committee recommended that an audit committee consisting of three directors be appointed by companies and this committee was to work in accordance with the terms of reference decided by the board of directors. In Nigeria, the Companies and Allied Matters Act, 1990 introduced the concept of audit committee. Section 359(4) of CAMA states that the committee shall consist of an equal number of directors and the representatives of the shareholders of the company, subject to a maximum number of six members. Audit committee as ordained by section 359 (4) of CAMA is principally constituted with non executive directors and is able to view the company position in a detached and independent way, so as to liaise effectively between the main board of directors and external auditors in one hand and members, and the management and external auditors in other hand.

4. The Role of Audit Committee:
A critical assessment of the composition of audit committee in Nigeria shows that it is made up of an equal number of directors and
stakeholders. This enables it to effectively check the powers of directors with particular reference to the sensitive functions of accounting and financial reporting functions. This will further strengthen the quality of financial reports as it will enhance the independence of the auditors to report things the way they are to a body that is independent of the executive directors.

The audit committee, though ad hoc or standing in nature, would be entrusted with the responsibility of keeping a watch on the company affairs and the conduct of the Board of Directors. The audit committee should have the authority to investigate any matter that falls within the purview and the corporate entity should take it upon itself to make available all the resources and the information that the committee needs (Singh, 2008). The Cadbury Report recommended that an established audit committee have the potential to:

- Improve the quality of financial reporting by reviewing the financial statements on behalf of the board;
- Create a climate of discipline and control which will reduce the opportunity for fraud;
- Enable the non executive directors to contribute an independent judgment and play a positive role;
- Strengthen the position of internal audit function by providing greater independence from operating management;
- Strengthen the position of external auditors by providing a channel of communication and forum for issues of concern.

Prior to the establishment of audit committee researchers such as Klein (2002), Krishnan (2001), Carcello and Neal (2000), Sloan and Sweeney (1996), MCMullen (1996) have all reported in the weaknesses of corporation, misstatements, financial reporting frauds, weak and manipulations of the internal control system. To arrest most of these lapses, the Security and Exchange Commission (SEC) stated that the panacea to poor quality of financial statements is regulatory over-right. Consequently, the establishment of Audit Committee is to address the lapses and improve the quality of financial report, thus the issued and enforcement of a rule for public company (Blue Ribbon Committee (BRC) 1999).

Specifically, the Companies and Allied Matters Act, 1990 in section 395(6) provided that: “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 to:

1. Ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices;
2. Review the scope and planning of audit requirements;
3. Review the findings on management matters in conjunction with the external auditors and departmental response thereon;
4. Keep under review the effectiveness of the company’s system of accounting and internal control;

5. Make recommendations to the board in regard to the appointment, removal and remuneration of external auditors of the company and

6. Authorize the internal auditor to carry out investigations into any activities which may be of interest of concern to the committee.

The Sarbanes Oxley Act of 2002 in USA also included in the list of the functions of the Audit Committee the task of appointment and oversight of the work of an accounting firm employed by the company for the purposes of preparing an audit report (Abbas 2009). According to Nnadi (1999), Audit Committee were initially concerned as a means of ensuring the independence and quality of the external Auditors so as to enable him express an opinion that is free of interference and frivolities. Knapp (1987) opined that Audit Committee is more likely to support the Auditors rather than management and the Auditor and this support could be consistent among members. In summarizing what they felt as part of the achievement of the establishment of audit Committee, the Federal Committee on corporate governance FCCG (1999) and Walker (2004) opined that Audit Committee served as a bridge in the Board of Directors. They proceeded further to enumerate the activities of audit committee to include monitoring of the Audit assignment, results of the Audit etc geared towards producing qualitative financial statements.

Problems of Audit Committee in Corporate Governance

Pit (2001), and Ruder (2002), Observed that the incidence that led to the collapse of Enron was responsible for public outcry on enhancement of Audit Committee functions so as to ensure an improvement on the quality of financial report. In Nigeria, the Cadbury scandal, failure of commercial banks and NNPC $20billion missing fund are all examples of manipulation of financial statements.

The recommendations of Blue Ribbon Committee, Cadbury Committee, AMEX NYSE, NASD and CAMA require that audit committee members must be financially literate and in additions to these qualification; one among the members must have financial, management or accounting expertise. But this is not the case with Nigeria because of the poor quality of members of Audit Committee Sonubi, 2003, Ainwolemiwam 2005.

“What we find is that directors nominate those of their members with clout to work with other members of the committee. Other nominees of directors must also be good boys on whom the directors can rely. For the stakeholders, it is a mad scramble for nomination to serve on juicy audit committee. But the reality is that the vast majority of them have no clue as to how to perform their duties”.

Available online: http://edupediapublications.org/journals/index.php/JSMaP/
Okezie (2004) says members of the committee may lack the expertise and experience for an informed appraisal and recommendation on financial statements and reporting. Also another problem of audit committee in Nigeria is the issue of corruption in the society. This is seen by some scholars as the major problem of audit committee in achieving good corporate governance. The case of Lever Brothers Nigeria PLC, Cadhury PLC and AP PLC are good examples of corruption in organizations in Nigeria. Nevertheless, the actions of the committee may not be independent of the management as well as the Board of Directors, and therefore it could be frustrated by management especially since they fund the committees operations. Conflict of interest reared its ugly head as both the preparers and the examiners of financial report belong to same profession and same training and qualification. In order to reconcile this conflicting interest, and Audit Committee became a panacea.

Prospect of Audit Committee in Corporate Governance for Nigeria Entrepreneurs

An organization by its management function is saddled with statutory responsibility of preparing and presenting a financial statement that will be a true reflection of the affair of an entity. The Companies and Allied Matters Act 1990, statutory requires an Auditor of a company to make a report to the members of the company on the account examine by them, and on every balance sheet and profit and loss account and on all group financial statements, copies of which are to be laid before the company in a general meeting during the Auditors tenor of office. Precisely, section 360 (1) state that it shall be the duty of an Auditor in preparing his report to carry such investigatory power conferred on thirdly party (Auditor).

The future of audit committee in good corporate governance is bright in Nigeria only if the measures designed for effective and efficient organizational success is maintained. As Singh (2006) noted that good corporate governance dictates awareness of the importance of the boards tasks, integrity, sense of accountability, track record of achievements, leadership quality, financial literacy and the ability to think strategically. The directors must show a significant degree of committee to the company and devote adequate time for board meetings, preparation and attendance.

Aborode (2005), says the fundamental concern of corporate governance is to ensure the conditions whereby a firm’s directors and managers act in the interest of the firm and its shareholders and to ensure the means by which managers are held accountable to capital providers for the use of assets. Also Akinwolemiwa (2005) is of the view that the number of audit committee members should be a maximum often with six representing shareholders. All members of the committee must function in accordance with agreed code of ethics, fashioned along the lines, which apply to external auditors. However, for corporate governance to achieve the desired objectives, audit committee should
review the following information on a continuous basis:

i. Terms of appointment of the chief internal auditors;

ii. Report relating to legal compliance and risk management;

iii. Management letters issued by statutory and internal auditors;

iv. Records of related party transactions;

v. Management discussion and analysis of financial conditions and results of operations;

vi. Financial statement and draft audit report.

Nevertheless, it is necessary to state that audit committees would be ineffective without complete commitment of the company management to good corporate behaviour. The Audit Committee in Nigeria as stated in section 595 (6) of CAMA 1990 as amended is expected to ensure a high quality financial report that should be free of frivolities, misstatement etc and could be rely upon in making an inform financial decision.

5. Conclusion and Recommendations

Entrepreneurial activities have impacted tremendously on the development of modern society. The momentous growth and development of emerging economy is significantly due to increase in entrepreneurship. Many countries are enacting legislatures to remove any impediment to entrepreneurship. Developing, transitional and even the developed economies are all striving to boost local and international entrepreneurship. We have tried to examine critically the role of audit committee as a source of good corporate governance by entrepreneurs in Nigeria. The audit committee is expected to act as a channel of communication between the external auditors and board of directors. This is expected to facilitate the flow of such information to the board of directors so as to enable them to carry out supervision of the management in a better manner to achieve good corporate behaviour. Ige (2008) was so concerned about audit committee in good corporate governance in Nigeria that he said: “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”.

A number of lessons can be drawn from this paper:

1. Members of audit committee should be given some form of remuneration to prevent them from the temptation of bribery and corruption.

2. Members of the committee should have the requisite knowledge, skill and training in financial matters.

3. Members of the committee should be men and women of proven integrity in respect of the independence of the committee to ensure the monitoring role of the committee is not diluted by any ties with management.

4. Section 395 (4) of CAMA 1990 as amended should be expanded to include sanctions on non compliance.
with the implementation of the recommendation of Audit Committee report

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