

A review of internal and external influences on corporate governance and financial accountability in Nigeria

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A Review of Internal and External Influences on Corporate Governance and Financial Accountability in Nigeria

Abstract

No country exists in isolation, and as developing countries like Nigeria aspire to ‘international’ standards of accountability and governance suited to the developed economies, they are confronted with the reality that it is difficult to separate the sociocultural context in which they operate from the external pressures to conform. This literature review provides deep insights into the developments in corporate governance and accountability in Nigeria, and in particular the influence of internal and external factors. While the extant literature suggests that the lack of corporate governance structures limits improvements in developing economies, we argue that the appropriateness, and the effectiveness of regulatory compliance systems explains corporate governance infractions in the country. We contribute to comparative corporate governance discourse, presenting important implications for key players in corporate governance development and monitoring, across global polity and practice.

1.0 Introduction

Observing patterns of change is particularly relevant within the context of a developing economy like Nigeria, where it would appear that international pressures for change have over time influenced developments in corporate governance and financial accountability (Akinlo, 2004; Akinola, 2012). Like most developing countries, changes are constantly being made in Nigeria to aspire to standards of best practices developed in the more advanced economies. Change can be considered from two perspectives – ‘positive patterns of change’, which signal progress, or ‘negative patterns of change’, which would suggest retrogression.

There are important peculiarities in the socio-cultural, political and the economic environment in Nigeria, which presents a useful case study to examine these patterns of change in corporate governance development. These are some of the issues addressed in this paper. In particular, we present evidence of how a developing economy, Nigeria, has attempted to respond to the international pressures for change in corporate governance and accountability, whilst at the same time addressing its peculiar socio-economic challenges. In doing this, we focus on the question *‘how have the developments in the internal and the external environment influenced corporate governance and accountability in Nigeria?’*

According to Adegbite (2012, p. 258), “in formulating corporate governance regulatory strategies, countries must account for their specific circumstances. These include relevant historical perspectives; corporate ownership structures and characteristics; cultural norms and values; socio-political and economic climates; and the ethical environment of business conduct”. Thus, countries are anticipated to position their regulatory systems such that it is able to address the particular challenges faced. Corporate governance regulation in developing countries will possibly differ in terms of ideology, necessity, concerns, complexity and robustness in specific areas (Adegbite, 2012).

However, corporate governance regulatory provisions in developing economies, such as Nigeria, continue to be under pressure to align with external standards frequently promoted by notable international organisations, such as the World Bank, among others. As a result, we consider the internal and external influences on the general development of corporate governance and accountability regulation and practice in Nigeria. In particular, this paper examines the role and the importance of disclosure and transparency in corporate governance, as well as the role of the auditing profession and the importance of education and training of key players. This study is important given that the limited literature regarding corporate governance in developing economies tends to suggest that the absence of an efficient

corporate governance system represents the basis of governance challenges in developing countries (Adegbite, 2012; Okike, 2007). This paper challenges this view, by suggesting that the lack of corporate governance regulatory structures is not the problem, but their appropriateness, and the effectiveness of monitoring the system for compliance. The rest of this paper proceeds with a review of relevant literature, followed by an examination of corporate governance in Nigeria. The influence of the internal (sociocultural and political) and external environments is thereafter considered. Next we discuss the implications for transparency and disclosure requirements, the role of the auditing profession and the education/training requirements of key players. Lastly, we summarise our contributions.

2.0 Literature Review

Attempts to ensure the efficient management of corporations have compelled shareholders (principals) to institute various mechanisms to facilitate effective engagement with management (agent) to minimise potential agency conflicts. The efforts to minimise agency conflicts have stimulated the development of the agency theory which seeks to address concerns that could undermine the shareholder wealth maximisation objective of corporations (Jensen & Meckling, 1976). The theory, expounded by Alchian and Demsetz (1972) has attracted considerable awareness in recognition of its impact on shareholder-manager issues (Jensen & Meckling, 1976) and its effect on firm performance (Bhagat & Black, 1999; Fama, 1980). Eisenhardt (1989) provided an insight into the extensive application of the agency theory¹. Based on Eisenhardt (1989)'s account, it could be reasoned that the agency theory has indeed provided a supra-national lens for assessing all corporate governance concerns

¹ Accounting (Demski & Feltham, 1978); Economics (Spence & Zeckhauser, 1971); Finance (Fama, 1980); Marketing (Basu, Lal, Srinivasan, & Staelin, 1985); Political science (Mitnick, 1992); Organisational Behaviour (Eisenhardt, 1985) and sociology (Eccles, 1983).

(Shleifer & Vishny, 1997). But despite its extensive application, the theory assumes that the ability of a firm to achieve its wealth maximisation objective is enhanced by minimising potential conflicts between its main actors (Fama & Jensen, 1983). Consequently, techniques, particularly the use of incentive and compensation strategies (Core, Holthausen, & Larcker, 1999) have been advocated to address agent's potential selfishness. However, Raelin and Bondy (2013) contend that despite these efforts, cases of agency challenges still abound.

While agency issues have remained a global phenomenon, La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2000) noted that the degree of corporate governance (and agency) problems is influenced by the level of economic sophistication of individual countries. In contrast with developed economies, Shleifer and Vishny (1997) assert that developing countries tend to lack some elements of a good governance system. These challenges have contrived to ensure that the effects of poor corporate governance are worse in developing economies compared to their developed counterparts. This assumption should be critiqued. For example, Roberts, McNulty, and Stiles (2005) challenged the dominant influence of agency theory on governance research arguing for theoretical pluralism with a view to promoting better understanding of board processes.

Gailmard (2012) extend the preceding position by arguing that rather than seeking for theoretical pluralism as recommended in Roberts et al. (2005), agency theory offers a highly flexible family of models, which provides opportunities for principals to hold their agents accountable. The variations in positions of scholars regarding the significance of agency theory have nonetheless ensured the emergence of a body of literature (Eisenhardt, 1989; Letza, Kirkbride, Sun, & Smallman, 2008) critiquing the application of agency theory. Lubatkin, Lane, Collin, and Very (2007) noted that this development has contributed to the growth of other theoretical perspectives such as institutional theory.

According to Scott (1987), institutional theory examines the institutional environment, its influence on societal beliefs and practices which influence societal “actors”. The theory seeks to promote an understanding regarding why and how organisations attend to their institutional environments (Suddaby, 2010). Scott (1987) indicates that the institutional environment provides the basis for institutional theorising, promoting an awareness of the influence of non-economic elements on corporate governance (Aguilera & Jackson, 2003). Judge, Douglas, and Kutan (2008) argue that variations in the institutional environments across countries accounts for the differences in global corporate governance practice. Judge et al. (2008)’s position is, however inconsistent with the commonly-adopted practice of replicating the Anglo-Saxon (or US) model often engaged as ‘best practice’ model (Aguilera & Jackson, 2010). Indeed, the majority of the studies applying agency theory to corporate governance and accountability research has consistently relied on data explaining practices in the developed world (Enriques & Volpin, 2007). This has contributed to a limited understanding of the governance problems in some parts of the world (Rwegasira, 2000) owing mainly to institutional differences (Adegbite, 2015). This paper examines the foregoing concerns, focusing on Nigeria.

3.0 Corporate Governance in Nigeria: Regulatory Framework and Key Issues

Against the backdrop of studies (Bhagat & Bolton, 2008; Gompers, Ishii, & Metrick, 2003) which suggest that good governance enhances economic development, the Nigerian government, via various regulatory agencies, has consequently sought to provide a framework for good governance within the country. Other factors such as the need to promote foreign investment inflow (Okike, 2007) and the increasing incidences of corporate failures (Inyang, 2009) have also heightened calls for improved corporate governance. These

developments have resulted in increased academic, practice and policy interests in corporate governance matters in the country. However, considering that the business ownership model dominant in a system has implications for corporate governance, (Ahunwan, 2002), it is necessary to examine the prevailing ownership structure in Nigeria.

A crucial feature of a country's corporate system is the form of ownership dominant among firms in that country (Ahunwan, 2002). Jensen and Meckling (1976) attempted to define ownership structure along two fundamental views, indicating that ownership structure does not only describes the distribution of equity with regard to votes and capital but also by the identity of the equity owners. Zeitun and Tian (2007) demonstrate that ownership structure represents an important factor which affects the health of an organisation. Therefore, it can be reasoned that if the ownership structure affects an organisation's performance, then it is possible that ownership structure could predict organisational profitability.

In Africa, Okeahalam and Akinboade (2003) studied the effects of ownership structure on businesses, positing that ownership structure is affected by the internal arrangements put in place by an organisation. Okeahalam and Akinboade (2003) also observed that for publicly-owned organisations where ownership is largely dispersed, the procedure for selecting board members is very important. But in a closely-held company with a controlling shareholder, the challenge is to prevent the controlling shareholder from extracting excessive benefits from the company at the expense of minority equity holders. In essence, it is necessary to identify what form of ownership structure is dominant in a corporate environment to scrutinise the prevailing view in the extant literature. In Nigeria, Yakasai (2001) notes that firm ownership represents a strategic basis for exercising power, especially during annual general meetings (AGMs) of public companies. Ahunwan (2002) informed that the ownership structure of Nigerian corporations was significantly influenced by the enactments of the Foreign Exchange Act (FEA) and Nigerian Export Promotion Decree (NEPD) which abolished 100%

foreign ownership in various sectors; these led to four categories of ownership systems among Nigerian businesses. According to Ahunwan (2002), these categories are:

- Category A - organisations that are wholly owned by government;*
- Category B - joint ventures (JVs) involving government and major oil-producers.*
- Category C - public companies listed on the Nigerian Stock Exchange (NSE)*
- Category D - consists of privately-owned organisations not listed on the NSE.*

Concentrated ownership (categories A, B and D) dominates the Nigerian corporate environment. Considering that there has been growing calls to change the paradigm of stock ownership from concentrated to dispersed ownership (Coffee, 2001; Gorga, 2009), it could be contended that concentrated form of ownership is potentially undermining the maximisation of wealth in Nigerian businesses. This is because the concentrated ownership structure, as Morck (2007) suggested, is capable of weakening financial accountability and transparency in an organisation, initiating agency problems. Considering the possible impact of this problem, it is important to develop a mechanism for mitigating the effects of this challenge. The codification of regulations, notwithstanding obvious challenges, has offered a viable strategy for addressing these types of issues.

As in many parts of the world, the practice of corporate governance has been pursued by the establishment of a regulatory framework and the creation of an enforcement agency, backed with commensurate powers (Larcker, Ormazabal, & Taylor, 2011). This also explains the strategy which has been adopted in Nigeria to make boards and their organisations accountable to stakeholders. Inyang (2009) noted that the need to check the growing unwholesome practices among corporations was crucial to the enactment of the Companies and Allied Matters Act (CAMA) of 1990. While this Act was not specifically devoted to corporate governance issues, it however represented a pioneer attempt at addressing the mounting governance-related challenges among Nigerian firms. But despite the introduction of this regulation, the fundamental corporate governance problem has remained a recurring

problem (Yakasai, 2001). It was therefore necessary to launch a regulatory machinery solely dedicated to managing corporate governance complications. This formed the basis for the introduction of the SEC Code (2003) followed by other industry-specific codes such as the Central Bank of Nigeria (CBN) Code (2006); the Code for licensed pension operators (2008) and the National Insurance Commission (NAICOM) Code (2010). In 2011, the SEC Code (2003) was revised and updated. This, according to Ofo (2011), was to reflect latest developments in the global business world and to tackle governance issues still prevailing in the business environment. In addition to the identified policy interventions, there is an attempt to harmonise the existing codes of corporate governance in Nigeria. Osemeke and Adegbite (2014) report that the Nigerian government signed into law the Financial Reporting Council of Nigeria (FRCN) Act in order to put together a framework unifying existing codes into a single applicable code for the corporate sector.

However, despite the variety of policy and regulatory interventions, the practice of corporate governance in Nigeria is weak. Several challenges have been identified as the bane of corporate governance in the country. These include corruption (Akinlabi, Hamed, & Awoniyi, 2011; Lawal, 2007); weak regulatory and enforcement mechanism (Inyang, 2009); multiplicity of codes (Wilson, 2006; Osemeke and Adegbite, 2014); disclosure and transparency issues (Oyejide & Soyibo, 2001); weak shareholder activism (Amao & Amaeshi, 2008; Adegbite, Amaeshi & Amao, 2011); weak institutional arrangement (Adegbite & Nakajima, 2011); passive attitude of government (Ogbeidi, 2012); amongst many others. As a consequence, the impact of these challenges has been severe in the business environment. For instance, foreign investors are not encouraged to invest in the country, thereby hampering economic growth potentials (Akinlabi et al., 2011; Akinlo, 2004).

Poor corporate governance practices have also promoted a culture of corruption in all areas of its economy. Indeed, the corruption challenge has ensured poor financial accountability in the

system (Akinlabi et al., 2011). For example, Idoko and Jimoh (2013) noted that the most controversial problem confronting many developing countries like Nigeria revolves around financial accountability. This corroborates an earlier study by Okpala (2012) where accountability was deemed weak in the Nigerian polity owing to factors such as weak accounting infrastructure, poor regulatory framework and nonchalant attitudes of government officials. Consequently, good corporate governance has been hampered by poor financial accountability, which managers display with regard to the discharge of their fiduciary responsibilities to their shareholders. It is therefore appropriate to examine and explore the internal and external factors that have created the corporate governance and financial accountability challenges in the system.

4.0 The Influence of the Internal Environment

We suggest that the system of corporate governance and financial accountability challenges existing in any country is shaped by a wide array of internal as well as external factors² (see Figure 1). Internal factors include the state of the economy and the capital market, corporate and business culture, the legal system, government policies, professional/regulatory bodies, amongst others. The impact of these factors and the differences in the system operating within each country are well documented in the accounting and corporate governance literature (Adegbite, Amaeshi, & Nakajima, 2013; Rose & Mejer, 2003; Shleifer & Vishny, 1997). This position has also impacted the scholarship of institutional theorists (Meyer & Rowan, 1977; North, 1990; Zucker, 1987). Though the Nigerian legal framework has been

² For a more in-depth analysis of the effect of these factors on corporate audit reporting, see Okike (1998)

greatly influenced by its colonial past, its attempt to acquire a more distinct identity led to interference with the auditing profession (Okike, 1994).

FIGURE 1: Influences on Corporate Governance and Accountability

Similarly, MacLulich and Sucher (2004) report that economic, cultural and societal pressures may be a threat to auditor independence in transition economies. In their study of auditor independence in Poland and the Czech Republic, the authors found that the threat of societal, cultural and economic pressures to auditor independence far outweighed any formal safeguards designed to maintain professional competence. MacLulich and Sucher (2004) found that local culture had an impact on auditor independence since there was more emphasis on comradeship, loyalty to friends and family, and an adaptive approach to regulations. The dominant sociocultural practices, as argued by Wilson (2006), tend to influence economic agents negatively, which enhances sub-optimal behaviour on their part. This reinforces the views regarding the impact of socio-cultural elements on managerial activities, especially in developing countries where institutions are deemed to be weak (Akinlabi et al., 2011). Besides, Kajola (2008) not only presents some aspects of the socio-cultural context of corporate governance and financial accountability in Nigeria, but also provides some insight into how developing countries are attempting to make themselves globally relevant, in spite of the weaknesses in their socio-cultural and economic environments.

Consistent with the foregoing, Herbert (2006) affirms that the crisis of morality in Nigeria is largely due to growing poverty, inept and corrupt leadership and lack of respect for human rights and the rule of law (see also Adegbite, Amaeshi, & Amao, 2011). This crisis in governance have been provoked by past military governments (Omotoso, 2013); inept public service (Beetseh, 2014); and weak political process (Ogbeidi, 2012). Corporate corruption, although not unique to Nigeria, is frequently highlighted in the literature as the principal corporate governance challenge. A study by Fisman and Gatti (2002) reported incidences of corruption in 55 countries. This has led to many high profile corporate scandals across the globe (Knights & O'Leary, 2005). It has consequently remained a major concern within the international business community (see Sandholtz & Gray, 2003). Its implication on the Nigerian business environment is more pronounced as Akinlabi et al. (2011) and Ogbeidi (2012) indicated that the majority of the problems in the country can be traced to pervasive corruption in the system.

However, following recent anti-corruption initiatives, Nigeria is making progress at addressing corruption. At number 136 on the Transparency International (TI) 2014 corruption index survey conducted in 176 countries, Nigeria could be said to have made some progress, as it strives to move away from the notoriety of being one of the most corrupt countries in the world (Adegbite, 2015). Part of governmental efforts to address corruption includes the 'National Think Tank Project' (NTTP) which will provide the basis for assessing and promoting the highest standards of effective governance in the public and private sector.

Thus, it can be argued that on the one end of the accountability spectrum in Nigeria is the peculiarity of the socio-cultural environment, which is reflected in the country's corporate governance and financial accountability framework, whilst at the other end is the need and/or the desire to be seen to be globally relevant. This is why the issue of global convergence of corporate governance and the harmonisation of accounting and auditing practices across the

globe is highly debated amongst accounting scholars (see Goergen, Martynova, & Renneboog, 2005). Developing countries find themselves sometimes being stretched beyond their levels of competence as they lack the necessary resources to effectively integrate external policies in their internal activities (Faye, McArthur, Sachs, & Snow, 2004). As a consequence, policies and regulations replicated from external jurisdictions that are adopted in some developing countries are ineffective due to the lack of a robust mechanism for adequate enforcement (Adegbite, 2012). This represents a major concern for institutional theorists, examining the effect of variations in an institutional environment on variables such as enforcement and compliance levels (Doidge, Karolyi, & Stulz, 2007; Judge et al., 2008).

5.0 The Influence of the External Environment

As interdependent economic activity transpires between nations, occasioned by international trade and the effect of globalisation, the need to harmonise business practices continues to be pertinent (Okike & Adegbite, 2012). Figure 1 also shows some of the external influences on corporate governance and financial accountability in any country. Consequently, business enterprises in countries, especially in developing economies, where there are limited established standards of accounting, auditing and best practices in corporate governance, tend to adopt standards, principles and codes of best practices that are established in advanced economies, without due regard to their socioeconomic and political environment (Rwegasira, 2000). In most cases, the mechanisms for the enforcement of such standards are either non-existent or inappropriate (Amao & Amaeshi, 2008). This is because the level of effectiveness of institutions which drive the enforcement mechanism differ amongst countries (Doidge et al., 2007), hence in some countries, institutions lack the capacity to control the behaviour of economic actors (North, 1990).

Whilst there is a considerable volume of literature on corporate governance developments around the world, an understanding of the extent to which these developments are impacting other countries is minimal (Adegbite et al., 2013; Aguilera & Jackson, 2003). Agency implications of this development have been noted. For instance, differences in regulatory compliance levels have been identified as contributory to governance infractions in Nigeria (Inyang, 2009). Okpara (2010) also suggested that the low level of economic sophistication in developing economies tends to obscure the importance of good governance particularly among managers. However, the impact of the recent global economic recession has been considerable and led to the revision of corporate governance regulatory provisions in many countries. Also, the influence of organisations such as the OECD and the World Bank is helping to shape corporate governance around the globe (Adegbite et al., 2013). The first set of internationally acceptable standards of corporate governance was produced by the OECD, which has led to the development of codes of best practices in many countries.

A review of the accounting and auditing literature provides an overview of those factors that have influenced accounting and auditing practices in developing countries (see Wallace, 1990). These include the colonial history, multinational affiliation and the fact that many developing countries lacked the capacity to develop their own standards. Figure 1 highlights other external factors, which influence accounting, auditing and corporate governance practices. Okike (1989) reveals how accounting standards in Nigeria, and consequently annual report disclosures, were influenced by the Nigerian accounting profession's membership of the International Accounting Standards Committee (IASC) (now reconstituted as the International Accounting Standards Board, IASB).

Along similar lines, Okike (1998) examined auditors' reports on the accounts of listed companies in Nigeria over a 12-year period and noted that audit reporting in Nigeria has been greatly influenced by external factors. These factors include (i) the standards issued by

organisations such as the International Federation of Accountants (IFAC) and the IASC; (ii) the affiliation of auditors in Nigeria with one of the then ‘Big 6’ international accounting firms; and (iii) the multi-nationality of the reporting entities (Okike, 1998). In relation to the foregoing, Okike (1999) noted that external influences in the financial reporting environment in Nigeria have led to increased corporate disclosures. However, the question remains as to whether or not additional information in corporate reports means more transparency and better financial accountability. Insights can be provided into these, if specific corporate governance drivers are examined in the light of internal and external influences. This is the subject of subsequent sections.

6.0 Transparency and Disclosure

The role and importance of disclosure and transparency in corporate accountability and governance cannot be overemphasised. While it has been the subject of much academic discourse, it has been considered as a key driver of agency complications in firms (Eisenhardt, 1989). For example, Solomon (2013) explains that disclosure is critical to the functioning of an efficient capital market, which is fundamental to corporate governance. But what does the term ‘disclosure’ mean? Solomon (2013) describes disclosure as a whole array of different forms of information produced by companies such as the annual report and all forms of voluntary corporate communications. For example, the annual report and accounts of a company act as the channel of communication from the directors to shareholders and are important for corporate governance because these reports provide the means by which the directors are made accountable to the shareholders. Shareholders and other stakeholders use the information in the report to assess the stewardship of the directors and the financial health of the company (Coyle, 2006). Therefore, the nature, quality and the timeliness of the

information disclosed in the annual report and the accompanying auditors' reports are crucial, especially if agency issues are to be minimised.

In its 'final report' in January 1998, the Hampel Committee on the UK Combined Code of Corporate Governance noted that the objective of the code is not to propose corporate behaviour in detail, but to secure sufficient disclosure so that investors and others can assess the performance of companies and governance practice in an informed manner. Corporate disclosure to stakeholders is the means by which companies can become transparent and transparency is important because of information asymmetry (Solomon, 2013). Without adequate disclosure, the position could be unfairly weighted towards the managers since these agents have more knowledge of the company's activities and financial situation than owner/investors (principals). Avoidance of information asymmetry requires not only adequate, but also reliable disclosure. In its 'Principles for Corporate Governance', the OECD also requires that information disclosed by companies be 'accurate and timely' indicating that strong disclosure is a fundamental characteristic of market-based monitoring of companies and critical to shareholders' ability to exercise their voting rights (see Coyle, 2006).

Wallace (1987) examined the factors which are likely to determine the levels of disclosure of accounting information in a developing country. His study revealed that external factors (such as old colonial ties, membership of the International Accounting Standards Committee, direct foreign investment activities of multinationals) contribute considerably, if not totally, to the complex reality of financial reporting in Nigeria. According to Wallace (1987, p. 8), 'this influence seems to portray a picture of an external dependence, the consequence of which is the irrelevance of many of the financial reporting regulations and practices to the needs of the country'. Similarly, Okike (1989) examined attempts made by listed companies in Nigeria to disclose more information in their annual reports in line with international

standards of best practices. The study revealed a progressive increase in financial information disclosure over time, as a result of developments within the internal and the external environment (see Figure 1).

7.0 Role of the Auditing Profession

In Nigeria, independent auditors are required to audit the accounts prepared by management and to report to the shareholders. The Cadbury Committee noted in its Report that “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” (Cadbury, 1992 36, para. 5.1). Solomon (2013) notes that within a company’s internal control structure, the external audit embodies one of the most essential corporate governance checks and balances that help to monitor company management activities, thereby increasing transparency. This further highlights the important role of auditors in corporate governance. Given the need for utmost transparency in corporate disclosure, some companies ‘go the extra mile’ in their disclosures by providing relevant information above what is prescribed by legislation.

According to Solomon (2013), improvements in disclosure stimulates better transparency. However, a review of the literature on voluntary disclosures revealed that most authors (Diamond & Verrecchia, 1991; Fishman & Hagerty, 1989; Jensen & Meckling, 1976; Watson, Shrives, & Marston, 2002) have concentrated on voluntary disclosures in annual reports³, as opposed to auditors’ reports. Furthermore, Okike (1994) revealed a lack of uniformity in reporting patterns in Nigeria, and suggested that audit firm characteristics (especially

³ The reasons provided for the disclosures in annual reports include (i) the reduction in the cost of capital; (ii) the lowering of agency costs; (iii) improvement in the market price of the securities; iv) the effect of globalization; v) firm size effect, and so on

international affiliation of audit firms) appeared to be the most significant factor which influenced not only reporting patterns, but also, the disclosure quality indexes of the auditors' reports.

In Nigeria, auditors must be independent⁴, and must belong to one of the recognised professional accountancy bodies⁵. As a result, the audit function is a legal requirement. Prior to the enactment of the Companies and Allied Matters Act (CAMA) 1990, the Companies Act 1968 governed the operation of business activities in Nigeria⁶. Both Acts require auditors to lend credibility to management prepared financial statements, through an independent examination of the books and records of the company (CA 1968, section 155; CAMA 1990, section 359). But the 2001 collapse of Enron and revelations of unethical behaviour by members of the boards of large corporations in the US has stimulated the debate about the credibility of the auditing profession and their usefulness in establishing confidence in the capital markets. Similarly, in the discharge of their professional duties, the auditing profession in Nigeria faced challenges, which questioned the legitimacy of their existence as a profession. For example, Okike (1994) presents the potential implications, when members of a profession allow conflict of interests to interfere with the discharge of their professional responsibilities, drawing attention to the tension/rivalry between the two professions of law and accountancy (see also Dezalay, 1991; Marcos, 2000).

Accounting, auditing and corporate governance practices in Nigeria are subject to external influences, which are not surprising, given Nigeria's colonial history and her membership of

⁴ Independence is considered an important attribute of external auditors (Antle, 1984). Given the importance of auditors' independence to the audit function, stipulating that auditors must be independent both in fact and in appearance may seem to be an obvious requirement. However, in practice, such independence may be difficult to achieve and easy to compromise (Porter, Simon, & Hatherly, 1996). This controversial subject has attracted the attention of accounting scholars (Craswell, Stokes, & Laughton, 2002; Sweeney & Roberts, 1997).

⁵ Prior to the promulgation of the CAMA 1990, there was only one professional body of accountants recognized in Nigeria, for the purposes of undertaking the audit of listed companies. However, the enactment of the CAMA 1990 paved the way for the recognition of other professional accountancy bodies in Nigeria (see Okike, 2007).

⁶ This Act was a replica of the UK's Companies Act 1948, and as would be expected, the operation of business activities in Nigeria was identical to that of the UK

international organisations, such as the IFAC. Such external influences often make demands which require the auditing profession to respond positively, by being proactive. Okike (1998) examined how these influences impacted on the reporting obligation of auditors in Nigeria, through the inclusion of non-mandatory disclosures in their report. She (Okike, 1998) further provided evidence that some auditors in Nigeria understand the need to respond to the demands of the external environment and respond appropriately. Hence, these auditors go beyond the requirements of the law in their reporting obligation, by disclosing more than the bear minimum required by law as part of their effort to be more transparent.

Moreover, the quality of audit reporting relies on the quality of communication (i.e. good language, punctuation, and brevity enhance the delivery of the intended message) (see Adelberg, 1979). As a result, communicability, compliance and conformance, all contribute to the quality of audit reporting. In Okike (1999), it was shown that audit firms affiliated with the then 'Big 6', now 'Big 4' audit firms scored higher on the disclosure quality index than those not affiliated. The results also revealed that the variability in reporting patterns over time was dissimilar amongst the audit firms. Whilst members of the auditing profession in Nigeria may be proactive in their response to the demands of the external environment (Okike, 1998), it would appear that the challenges encountered in the profession had more to do with factors within the internal environment. The response of the profession is crucial, as this could determine the degree of success achieved in restoring public confidence in their members and the extent to which the legitimacy of their continued existence have been re-established.

According to ROSC (2004), the process of adjudicating on cases in Nigerian courts and law is so slow that regulators are discouraged from seeking support from courts and law enforcement agencies in enforcing sanctions. Besides, the penalties for infractions specified in CAMA 1990 that can be administratively applied to various non-compliance issues are too

weak compared to the gravity of the offences. This might explain why existing independence rules are breached. Although there would appear to be competition in the audit market, there is a shortage of qualified accountants in the private sector. Of the 18,000 members of the Institute of Chartered Accountants of Nigeria (ICAN), less than 5,000 are registered as auditors (Okike, 2007). ROSC (2004) reveals that competition in the audit market is causing many to leave public practice. The consequence is that some companies are not obtaining statutory audits or adhering to legal requirements to file annual audited accounts. In addition to the shortage of qualified accountants, there is also the problem of inadequate professional education and training for those that qualify. ROSC (2004) suggests that professional education has weakened over the last two decades.

The importance of adequate education and training to achieve effective corporate governance and financial accountability cannot be undermined. If developing countries like Nigeria are to achieve better standards of corporate governance and financial accountability that will attract foreign investment into their economy, more needs to be done to ensure adequate education and training of key players in the corporate governance system. This issue is considered in the section that follows.

8.0 The Importance of Education and Training

The 2008/2009 global economic recession has highlighted the criticality of identifying strategies that would enhance how companies do business, including the need for education and training of those charged with the responsibility of ensuring the stability of investments in the capital markets. As the globalisation of investment flow continues, the availability of capital from international markets will increasingly flow to those economies and companies, which have sound corporate governance standards (see Khanna & Zyla, 2012).

The importance of education and training for all who engage in the corporate governance system cannot be overemphasised, whether these stakeholders are the directors who are charged with the management and control of large listed enterprises, the shareholders, auditors or members of the audit committees of these enterprises. For example, training should introduce directors to best practices in corporate governance, whilst providing new skills and knowledge to manage their companies better, especially in less-developed economies. In Malaysia, for instance, it is mandatory that directors in all publicly listed companies attend special training courses conducted under the auspices of the Stock Exchange and the Registrar of Companies. The emphasis is on the duties and legal responsibilities of directors (Aziz, 2002). Also, in Nigeria, the Committee on Corporate Governance of Public Companies in Nigeria (2001) recommended that “directors should all undertake some form of internal or external training, at the time of appointment to the board and later on a periodic basis” (page 6). Interestingly, however, this recommendation was not accorded significant recognition in the SEC Code (2003 and 2011), even as the issues faced by directors are increasing in complexity (see Macey & O'Hara, 2003).

In the UK, the Higgs Report (2003) found that two-thirds of UK non-executive directors had not received any training or development and recommended that professional development be offered to all directors. This recommendation was reflected in the UK Combined Code (2003). The UK Combined Code (2003) recommends that “all directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge” (para. A5). This relates both to their role on the board and also to any board committees on which directors might sit, such as the audit committee, or the remuneration committee. The Chairman must ensure that the facility is in place, and it is the responsibility of the company to fund the training and development (Mallin, 2005). Non-executive directors are required by

the Code to “undertake appropriate induction and regularly update and refresh their skills, knowledge and familiarity with the company” (Code Principle A.5 and Provision A.5.1).

In order to enhance the capacity of auditors to act effectively, audit committee members must have the skills, knowledge and expertise, supported by access to independent advisors, and must be up to date with new developments given increasing knowledge demand. Hence, in Canada, KPMG (2004) informs that audit committee members must be financially literate. Corporate governance rules require Canadian companies to disclose in their annual returns the relevant education or experience of each audit committee member to allow shareholders and others to understand each member’s qualifications. Furthermore, the disclosures must outline any experience that the member has participated in, contributing to or actively supervising on, especially where the experiences relate to preparing, auditing, analysing or evaluating financial statements.

In Nigeria, ROSC (2004) reports that the audit committees of several companies in Nigeria are not effective because many committee members are not fully equipped to perform their function. This is not surprising given the socio-cultural and political issues behind such appointments⁷. Given the present drive to encourage foreign investments in the Nigerian corporate sector, there is the need to effectively manage the tripartite relationship between the shareholders, company management and auditors. Equally, it is crucial that necessary education and training of the trio in the corporate governance process in Nigeria be pursued in order to attract foreign investor confidence. In addition, one of the objectives of the newly created National Think Tank Project is “to provide high-quality research and education in order to promote a prosperous, fair and sustainable economy”.

⁷ It is difficult to dissociate the ‘Nigerian factor’ from the way business are run in Nigeria, including appointments to Boards of listed companies, which are often politically based, than on the suitability of the appointment.

Furthermore, ROSC (2004) notes that educational institutions in Nigeria do not teach professional values and ethics as separate subjects in pre-qualification academic educational programs (para. C22). The report states that “although the practical experience requirement is adequate, the mechanism for assessing the experience gained by prospective professional accountants is inadequate” (para. C23). Also, given that there are now two recognised professional accountancy bodies in Nigeria, (see Akhidime & Eriabie, 2013; Uche, 2002), ROSC (2004) observes that their qualifying examination processes differ (para. C24). And whilst continuing professional education is compulsory, it is not effectively monitored and enforced for members not in public audit practice (para. C25).

Moreover, “the best students are not retained in the accountancy profession” because of “low financial reward” (para. C26). ROSC (2004, para. C57) made a number of policy recommendations to strengthen professional education and training in Nigeria, including 1) the need to align the Continuing Professional Education (CPE) requirements with IFAC guidelines and review the arrangements for enforcing compliance with CPE requirements; 2) Business ethics should be taught as a separate subject in undergraduate accounting and business programs, and professional qualifying examinations should include a paper on business ethics, and 3) university accounting curricula should be revised to enable students gain exposure to practical application of International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and International Standards of Auditing (ISA).

In addition, training programs should be arranged to help corporate accountants and practicing auditors gain exposure to accounting and financial reporting practices that are in accordance with IAS/IFRS. The training programs for practicing auditors should focus on the practical aspects of ISA and IFAC-issued Code of Ethics for Professional Accountants. In a similar vein, Iyoha and Oyerinde (2010) suggests that there is still much for the accounting

profession in Nigeria to do to continue to improve its reputation and integrity. The Nigerian accounting professional bodies must be ready to discipline members who fail to abide by its Code of Ethics and continue to demonstrate that it is capable of effectively regulating its members and providing them with the necessary guidance on current developments within the profession. Furthermore, given the practical nature of auditing and the dynamism of the environment in which auditors are exposed, there is the need for practitioners and the academia to collaborate in providing robust and effective auditing education to ensure that the auditors of the 21st century are equipped with the requisite knowledge and skills to cope with the demands and challenges of their roles in corporate governance⁸.

9.0 Summary and Conclusion

This paper has examined the developments in corporate governance and financial accountability in Nigeria and the various factors in the internal and the external environment, which have influenced these developments. Specifically, it presented an analysis of how Nigeria is responding to the international pressures for change in corporate governance and accountability within the private sector, whilst at the same time addressing local demands. This paper contends that it is not the lack of corporate governance structures in Nigeria that accounts for weak practices, but their appropriateness, taking into cognisance the country's institutional environment, as well as the effectiveness of enforcement mechanisms. Consistent with institutional theory, variations in the institutional environment imply that

⁸ The use of the programme has particularly been beneficial to accounting and business students at the University of Sunderland. Since using it as part of the auditing curriculum, a number of the students who otherwise would never have had secured professional training contracts with the 'Big 4' accounting firms now have the opportunity. Having been exposed to the programme, many of the students have some understanding of the professional demands of the job and attend interviews with a certain degree of confidence, and are successful

attempts to respond to international pressures for good governance and accountability must take into account peculiarities in the Nigerian institutional environment.

In relation, the ineffectiveness of members of audit committees is cited as one of the factors responsible for poor quality financial reporting and corporate governance in Nigeria (see ROSC, 2004). This represents a key agency concern as efforts to address this problem might mean increased agency costs (Jensen & Meckling, 1976) with implications for shareholder wealth maximisation (Shleifer & Vishny, 1997). We also highlighted, in this paper, that many members of the audit committees are ill-equipped to discharge their functions. The consequence is that corporate governance structures are not as effective as intended. Whilst there is a case for international corporate governance standards owing to the pressure of globalisation and the need to attract foreign investments into the country, Nigeria must constantly review its Codes of Best Practices to ensure that it addresses its peculiar socio-cultural environment, especially the issue of corruption, auditor independence and education of stakeholders. These are the important areas covered in this paper.

Theoretically, corporate governance determinants, discussed in this paper, have implications for our understanding of financial accountability in different institutional contexts. For instance, the effect (whether positive or negative) of the local environment on the behaviour of management cannot be discounted. In many developing countries like Nigeria, where individuals display a strong affinity towards their environment and culture, there is a likelihood that their actions might be tailored to conform to societal expectations. Considering the many problems regarding Nigeria, particularly the high level of corruption, the Nigerian society, more often than not, tends to have a negative consequence on the decisions of managers. This act, while restricting the expected contribution of management, could eventually create conflict between management and shareholders. This is a variant of

the agency problem, highlighting both the usefulness and limitations of the traditional agency theory in capturing the dynamics of corporate governance in weak market institutions.

While this paper shows how the Nigerian corporate scene is responding to the international pressures for change in corporate governance and accountability, there is the need for further research into what steps are being taken to ensure and enforce compliance with corporate governance, auditing and financial reporting requirements. In the near future, this can be the subject of an empirical study focusing on the impact of the new Financial Reporting Council (FRC) Code on corporate governance improvements and its associated implications on investor confidence in financial reporting in Nigeria. Also, given the importance and the need for adequate education and training of all the key players in the corporate governance structure (particularly auditors, directors, shareholders and audit committee members), further research is required to ascertain the effectiveness of existing education and training provisions.

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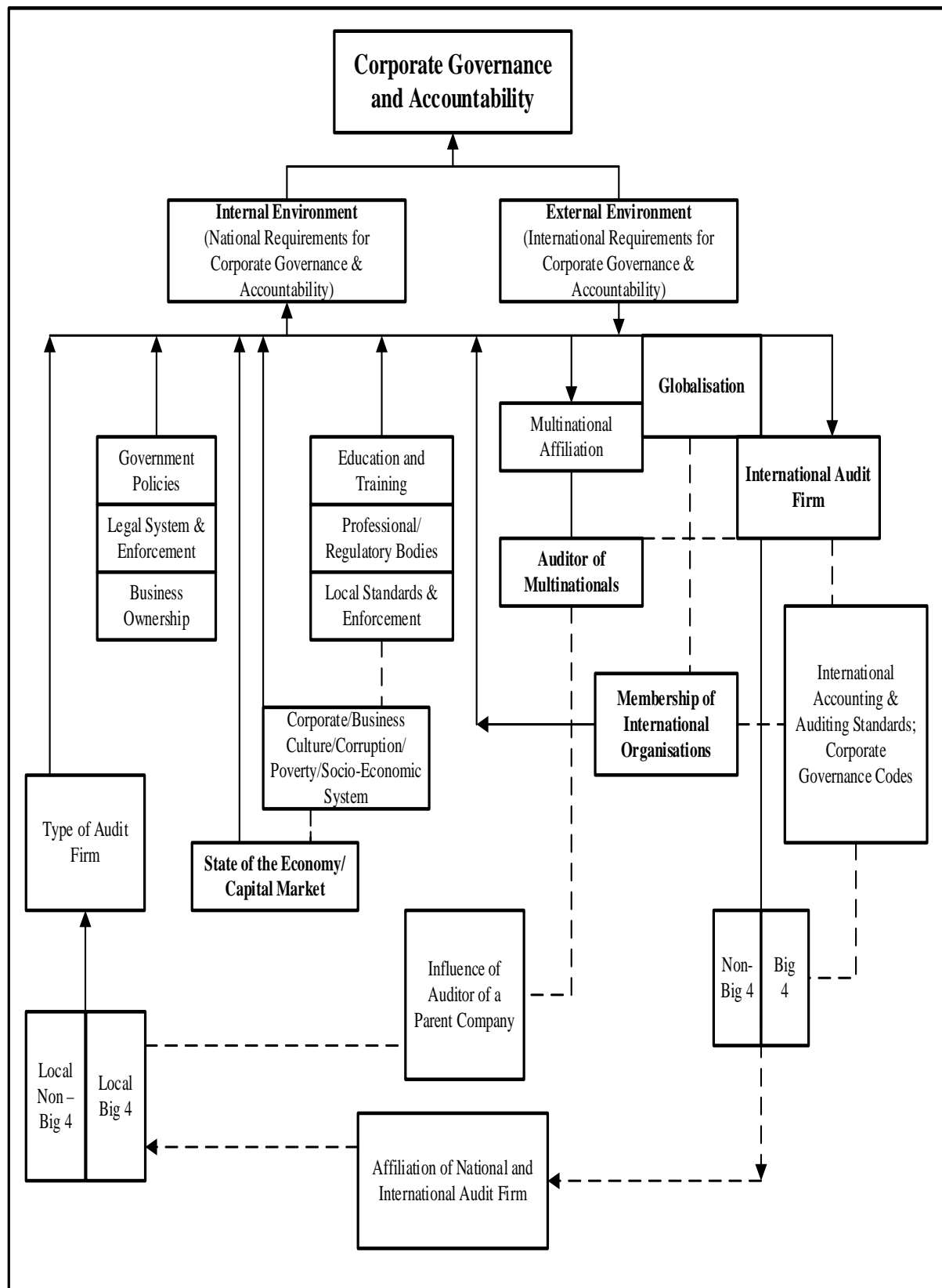
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Figure 1: Factors that could Influence Corporate Governance and Accountability



Source: Adapted from Okike (1998)