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Accounting Profession and Corporate Governance in Nigeria: A Critical Review

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Abstract: *Corporate scandals and failures worldwide and Nigeria in particular have brought much criticism on accounting profession with accusing fingers pointing at the profession as a major body to blame. The paper explores the concept of corporate governance and examines its principles and practices in Nigeria. Descriptive methodology is accepted. What is required and expected of accounting profession with respect to corporate governance is x-rayed. The paper recommends adequate punishment for inglorious and unethical practices by members and overhaul of the disciplinary committee of various professional bodies, among others.*

Keywords: *Accounting profession, corporate governance, shareholders, stakeholders, accountants and auditors .*

1. INTRODUCTION

A typical firm in Nigeria is noted by numerous owners having no management function and managers with no equity interest in the firm. Shareholders are usually large in number with average shareholders controlling a minute proportion of the share of the firm. This results in shareholders not being interested in monitoring of managers who on that premise may pursue selfish interest different from those of the shareholders. This conflict of interest between owners of equity and the managers of the firm need to be addressed for the firm to survive and grow (Ahmadu, Aminu and Tukur, 2005).

This issue has been of concern to financial economists who often rationalize the phenomenon in the theory of "Principal-Agent Relationship". To them, the management is the agent while the equity owners are the principals. The above is corroborated by Jensen and Meckling (1976) and Fama (1980). Their concern has been on the relationship between management and shareholders on the one hand and management and other stakeholders on the other hand.

To strike a fair balance between the interest of management and shareholders and that of management and other stakeholders has been a problem. When and how could the management be said to satisfy the shareholders or performing optimally is the subject of discourse in corporate governance.

The focus of corporate governance is on the board of directors (Osisioma, 2013). This stems from the fact that the board of directors oversees the top management of the firm. To him, corporate governance is a combination of processes and structures implemented by the board of directors in order to inform, direct, manage and monitor activities of the corporate body towards the achievement of set objectives.

In spite of the above seemingly adequate provisions for success, corporate failures still occur worldwide which indicates either structural or administrative defects in the machinery of corporate governance. Worthy of note is that those collapsed firms which published audited reports that described their financial statement as true and fair failed months afterwards. Notable among them are Enron corporation and MCI incorporation formerly WorldCom in United States of America and Cadbury Plc, the African Petroleum PLC and post consolidation crisis in banks in Nigeria.

The accounting profession seems not to have adequate measures to check mate what appears to be endemic cases of corporate failures in the society. It appears that the accountants and auditors have great bond and commonality of interest with the management that the auditor cares little about the shareholders whose interest he is paid to protect. This is so wide spread that Ezejelue (2001) stated as follows:

Time was during the colonial administration when the mere mention of auditors visiting an establishment led to a scrupulous cleansing of the table along with a sensation of fright and panic. Today, no more, they all appear to be hand-in-glove with those financial managers whose ingenuity ends with how to muddle accounts in order to cover up shady deals, in the hope of getting the auditor to endorse what is patently a swindle. Whether or not the auditors know it, their reputation has been largely sullied by their records or performance so far in the country. In truth, whatever creditability is still left of the possibilities and capabilities of Nigerian auditors is dangerously at stake and they should feel concerned. And I ask in all good conscience, what type of auditor are you?

Recently in Nigeria accusing fingers have been pointed at auditors rightly or wrongly, for the failure and collapse of many banks and other enterprises.

In view of the above, the paper tends to focus on concept of corporate governance, its principles and practice in Nigeria, as well as the way forward for the corporate gate keepers.

1.1 Statement of Problem

Corporate governance anchors on a clear cut process, directing and controlling the whole essence of business corporation on the basis of integrity, honesty, transparency and accountability in order to satisfy the interest of stakeholders. The recent corporate failures and global economic crisis are product of poor corporate governance. This is exemplified by the collapse of world class corporations like Enron, MCI formerly World Com, Parmalat, Barig banks and so on. In Nigeria bank failures and distresses were common in 1990s and 2000s until early 2006 when there was recapitalization of banks which resulted in mergers and acquisitions by banks to meet the Central Bank Nigeria (CBN) requirement of N25 billion (twenty five billion naira). The policy, which was made in 2004 took effect from 2006 resulted in reduction of banks from 89 active players to 25 as at the beginning of 2006. From that time till now, many more merger and acquisitions have been consummated.

The business combinations resulted in loss of jobs, loss of share holders capital and in banks, loss of depositors fund and erosion of confidence of other stake holders. These reduced economic growth.

Notable in failed corporations is that they produced audited financial statements attested to by the auditors to present a true and fair view of the financial status of the organization. However, these did not actually reflect what was on ground. Also, of note is that the financial statements were prepared by accountants working for the organization. The above raises ethical questions; what then is expected and required of the professional accountants?

1.2 Objectives of the Study

The study aims at analyzing corporate governance in Nigeria and what is expected and required of accounting profession. In pursuance of the above, the paper is expected to:

1. Explore the concept of corporate governance

2. Examine the principals and practices of corporate governance in Nigeria.

2. REVIEW OF RELATED LITERATURE

This is approached through the following subheadings

- a. Concept of corporate governance
- b. Principles of corporate governance
- c. Theoretical framework

2.1 Concept of Corporate governance

Corporate governance has divergent appeals to many, yet efforts to define it produce results pointing to similar direction and target.

Wilson (2006) defines corporate governance as the manner in which corporations are directed, controlled and held to account with special concern for effective leadership of the corporations to ensure that they deliver on their promise as the wealth creating organ of the society in a sustainable manner. In a wider dimension, the World Bank (2000) states that corporate governance is concerned with holding the balance between economic and social goods and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interest of individuals, corporations and society.

Explicit in the above are the interest of stakeholders, the principal -agent relationship and the business environment which corporate governance recognizes as vital for successful operation of organizations.

Corporate governance implies that organizations/corporations should manage their affair with diligence, transparency, responsibility and accountability and would maximize shareholders wealth (Pandy, 2005). To accomplish that, it means that structures, system design, processes and procedures should be in place to help in decision making in other to aid its financial performance and hence the stakeholders value in the long run.

Corporate governance involves set of relationships between a companies management, boards, shareholders and other stakeholders (OECD, 2004). In a similar view, Okoye and Ofoegbu (2006) see corporate governance as the rules and laws that govern the relationship between managers and shareholders of companies as well as other stakeholders and their application towards the achievement of the entity's goals.

In view of the above, corporate governance is all about good business behavior anchored on transparency and accountability while balancing the stakeholders interests and advancing shareholders wealth.

Corporate governance is being entrenched worldwide by organizations and companies hence Jayashree (2006) described it as a way of life not set of rules. Corporate governance in Nigeria and many African countries are at its rudimentary stage. In a survey by the Securities and Exchange Commission (SEC) showed that only about 40% of quoted companies including banks have recognized code of corporate governance in place. Specifically, it was pointed out that in financial sector, poor corporate governance was identified as one of the major factors in almost all the distressed financial institution's in the country (CBN, 2006).

Lai and Bello (2012) state that by the first half of 1990's, the concept and practice of corporate governance had become a public debate due to the wave of dismissals of chief executive officers (CEOs) of corporations like Kodak, IBM, Honey well etc by their board of directors and increased wave of institutional shareholders activism to ensure corporate governance value, notwithstanding the romantic relationship between the CEOs and the board of directors. They assert that in early 2000s massive bankruptcies and criminal malfeasance of Enron, World com as well as other organizations like Adelphia communication, Arthur Anderson, Global Crossing, Tyco and so on increased shareholders and government interest in corporate governance as seen in US Sarbane Oxley Act of 2002. These set the pace for practice of corporate governance around the globe.

Countries around the world have been amending their legal and stock exchange listing requirements to reform corporate governance as well as developing new code of best practices. (Ogbechie, 2006). Following scandals and collapse of large corporations, national governments and regional economic organizations have developed various guidelines and codes to avert such and entrench good business behavior. Organization for Economic Cooperation and Development (OECD) is a regional economic organization that has undertaken much work on corporate governance. The 1999 OECD principle of corporate governance was the first international code of good corporate governance approved by governments of various countries. It focuses on publicly quoted companies and is intended to assist governments improve the legal, institutional and regulatory framework that hampers corporate governance.

Since corporate governance arrangements and institutions vary from one country to another, each country is expected to study the OECD principles and apply it with necessary adjustments in line with their peculiar circumstances and structure.

Nigerian government was not left out of this. In 2001, the Securities and Exchange Commission (SEC) set up a committee that came up with a code of best practices for public companies in Nigeria (“the code” 2003). Similarly, to champion the course of good corporate governance among members, the institute of directors of Nigeria in 2005 set up a centre for corporate governance, while in 2006 the CBN issued post consolidation corporate governance guidelines for banks operating in Nigeria (Ogbechie, 2006). The Nigeria code of corporate governance primarily aimed at ensuring that managers and investors carry out their functions within a frame work of accountability and transparency which should ensure that stakeholders interests are recognized and protected.

2.2 Principles of Corporate Governance

Sanusi (2003) observes that there is no simple factor that contributes to institutional problems than the lack of effective governance. Building good corporate governance is a shared responsibility of all stakeholders who are expected to be mutually supportive. Good corporate governance starts with the owners, extending down through the board and management to the employees. In this regard, all rules that define governance responsibilities, incentives and sanctions facing board, management and staff must be well articulated.

Lai and Bello (2012) state the basic principles of corporate governance thus:

- i. Rights and equitable treatment of shareholders: There are basic rights of shareholders which organizations respect and help shareholders to exercise without fear or favour. Organizations are duty bound to give clear interpretation of these rights for better understanding by shareholders. The organization can help shareholders exercise their rights by openly and effectively communicating information and by encouraging them to participate in general meetings.
- ii. Interest of shareholders: Organizations should identify and recognize their stakeholders as having legal, contractual, social and market driven obligations to shareholders and stakeholders such as employees, investors, creditors, suppliers, local communities, customers and policy makers. This they should do in their policies and operations.
- iii. Role and responsibilities of the board: The board should be constituted with people of relevant skills and knowledge. This will enable them deal with various business issues, review and challenge management performance. The board should be of adequate size with reasonable degrees of independence and commitment to discharge its duties.
- iv. Integrity and ethical behaviour: The integrity of officers should be of upper most consideration while selecting officers and board members as corporate governance involves ethical and responsible decision – making which is necessary in managing risk and avoiding litigations. Corporate governance therefore, should develop clear cut code of conduct for directors and executives of organizations.

- v. Disclosure and transparency: The role and responsibilities of the board and management to which they can be held responsible should be made public to all shareholders. This promotes accountability. Also, of importance are the procedures to independently verify the firm's financial report independently to safeguard the organization's integrity. Timely disclosure of material facts will enable investors have factual information as it concerns the organization for necessary business decisions.

Osisioma (2013) lists the principles of good corporate governance as defined by the code of corporate governance in Nigeria thus:

- Board Governance: Board should be composed of executive and non executive members and the procedure for appointment and re-appointment transparently done. The board which is concerned with the firms strategic goals and effective deployment of the firm's resources should be supplied with timely, and accurate information necessary for the discharge of their duties.
- Directors Reward: Should be adequate and linked with corporate and individual performance and also disclosed in the annual report.
- Relationship with Shareholders: The board is directed to protect the interest of all the shareholders. Also, the firm should dialogue regularly with the shareholders.
- Accountability and Report: The board should ensure regular and balanced report on the prospect and position of the firm with emphasis on full, fair and adequate disclosure. Adequate disclosure entails disclosures as is contained in Companies and Allied Matters Act (1990 as amended) and other such matters as customers' satisfaction, product and service quality, market share and environmental performance.
- Risk Management and Audit: Emphasis here is on board's maintenance of sound internal control system and proper audit. Effective Risk management process which should be integrated into day to day activities of the company should be instituted.
- Sustainability Issues: This principle requires the company to have high interest on all issues that affect all the stakeholders, while promoting national interest, ethics and values and global aspiration. Of specific importance is the report on social, ethical, safety, health and environmental policies and practices of the firm.

Explicit from the above is that Nigeria's corporate governance issues revolve around the board of directors. It stems from careful selection of board members (executive and non executive) with regards to their characters and values, the adequacy of the board in terms of size, the board's working condition/environment, the information available to the board, their remuneration and the impact of the shareholders as regards oversight on the boards.

Left alone, corporate governance principles cannot ensure quality/effective board performance. The short comings in terms of quality of board members, the ethical/moral standing and accountability could be handled by independent auditor who will attest to the accuracy, completeness and fair presentation of the accounting information by the management to the investors – putting reliance on the information before him as prepared by trusted servants of the organization. Also of importance is adequate remuneration and monitoring of the directors. This is to avoid similar issues to what Okaro (2006) called Pre-Enron situation where, too many boards were stuffed with yes-men in America, who earn fat fees, yet could not impact positively on the corporate governance of their respective companies. In Nigeria, even more chilling is the revelation that many banks collapsed as a result of insider related credits granted mainly to the directors of the companies.

Another important measure is the internal control procedures and internal audit. Both can be an alarm when controls are violated.

In view of the enormous task, the code specifies a member of committees to facilitate the execution of the tasks of the board which includes:

- a. The Audit Committee: This has to oversee the integrity of the company's financial reporting and audit arrangements, establishment of internal audit, development of

comprehensive internal controls and overseeing the identification of significant fraud risks across the company. An independent director knowledgeable in analysis and interpretation of financial statement should be a member of the audit committee.

- b. Risk Management Committee: This assists in oversight of the risk profile, risk management framework and risk reward strategy of the company.
- c. Governance/Remuneration Committee: This is composed of non-executive directors charged with the responsibility to establish criteria for board membership, evaluate the contribution of current directors with respect to their renomination. They also evaluate skill, knowledge and experience required on the board.

2.3 Theoretical Framework

This work is anchored on agency theory. Agency theory explains the relationship between principals and agents in business. This theory originated in the 1960's and 1970's when economists explored sharing among individuals and groups. Agency relationship arises whenever an individual (principal) engages one or more individuals called the agent to render service or carryout activities on their behalf. The agent has the power to make some decisions on behalf of the principal. Sequel to inefficiency or incomplete information agency problems arise. Two agency problems often closely associated to agency theory are:

- (a) conflict of interest on the goal between the principal and agent; and the principal is unable to verify what the agent is actually doing due to difficulty or cost involvement and
- (b) the problem that arises when the principal and agent have different attitude towards risk (Eisenhardt 1989). In a similar view, Ayogu (2001) term the type 'a' problem above 'managerialism' or 'managerial agency' describing it as one from managerial moral hazard, since in not having full ownership, managers are unable to capture the full benefits of their efforts as well as they do not bear full cost of their action. He opine that the discretion some managers are allowed to make due to business uncertainties, bound rationality and contingencies creates opportunities for self centered behavior by managers.

The responsibilities placed on the agent is enormous. The agent is expected to act in the best interest of the principal. The agency delima exists because sometimes the agent is motivated to act in his own best interest rather than those of the principal. The deviation from the principal's interest by the agent is called Agency cost.

Good application of agency theory will facilitate the practice of corporate governance while the reverse will lead to corporate failure as witnessed worldwide.

3. RESEARCH DESIGN AND METHODOLOGY

The study utilized a descriptive methodology. This was accomplished by a careful review of relevant journal articles, seminar papers, text books and workshop documents etc to explore the topic.

4. DISCUSSION

In view of the aforesaid, Nigerian Accountants and Auditors have been under fire over what is actually wrong. The standard of accounting practice in Nigeria has been questionable. Question has been, is it due to inadequate knowledge on the part of accountants/Auditors, ethical issues/corruption, lack of independence, environmental factors or a combination of the above factors.

Inyama (2012) identifies collection of a fee much more than a modest auditor ought to, among others, as a consideration for not revealing a criminal act that comes to his notice. The truth is that the auditor may not aid in pepetration of a crime but most audit fees are above what it should be. Most clients agree to pay such fees with the latent understanding that the auditor should "co-operate".

Prior to consolidation, Nigerian accountants and auditors were in banks where against the provisions of the law and other requirements, directors collected huge loan facilities that eventually became non performing. Such loans to the directors made them compromise their

oversight functions. Nigerian accountants/auditors have been “corporating and compromising standard that their reputation is in disarray.

Okaro (2006) while corroborating the views of Anibaba (2003) expresses the believe that the moral and financial indiscipline plaguing the Nigerian society is also affecting the moral and professional performance of the members of the Nigerian accountancy profession. A cursory look at the above shows good relationship, as accountants are products from the society and lives among the citizenry. There is tendency that they may be influenced by the society they are derived from and in which they found themselves.

Anyaduba (2007) agrees with the expression of Okaro when he asserts that corporate governance practices among Nigerian companies are far from satisfactory and regulatory agencies are performing below expectation while moral and ethical issues are accorded little attention.

Poor ethical standard among Nigerian auditors is a cancerous disease that is fast metastasizing. Hardly do you see a qualified audit report whereas many enterprises in Nigeria are ‘sick’.

Ndibe and Okoye (1998) assert that the auditor is expected to perform his work with skill, care and caution, which a reasonable, competent careful and cautious auditor should exhibit where there is cause for suspicion in the system. The auditor must make inquiry and investigation until satisfied. A refusal to see the obvious, a failure to investigate the doubtful especially if gross, may furnish evidence leading to inference of lack of duty of care. Some auditors do not approach their work with the desired diligence, otherwise, why corporate failures few months after the audit of financial statements declared true and fair view. Mostly affected by the seemingly hand in glove as regards poor audit work are government-owned organizations.

However, Lerner (2002) contends that audit failures resulting from shoddy auditing are few compared to audit opinions given each year worldwide. Why shoddy audits at all? Auditing is a professional assignment that should be discharged with utmost sense of diligence and responsibility, since its failure often results in devastating financial consequences. It is therefore, not the number of failures but the implication that really matters. Failure of a commercial bank with a network of branches has a very devastating effect on the society.

What has professional bodies like the Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN) done in this direction? The disciplinary wings of these professional bodies appear to be handicapped in the midst of mounting cases of corrupt and sharp practices by their members.

5. CONCLUSION AND RECOMMENDATIONS

Accounting profession has made invaluable contributions towards ensuring good corporate governance in Nigeria but a lot still needs to be done. The unabating corporate scandals underline the need for pro-active actions rather than post mortem exercise as presently witnessed. Accountants/auditors must stand tall even if it means going to the gallows to protect their noble profession and Nigerian vision 20:2020 to be achieved (Nigeria being among the top twenty economies of the world by the year 2020).

Based on the above, the following recommendations are issued:

- a. Inglorious and unethical practices by members should be viewed as a serious crime and punished accordingly.
- b. Disciplinary committees of various accounting bodies should be overhauled to make them responsive to modern challenges of the profession
- c. Awards and ranking system for various accounting firm should be done annually by various accounting bodies to encourage sound practices by members.
- d. Efforts should be intensified to provide adequate security to enable professional accountants/auditors discharge their duties without fear or favour.
- e. Training and retraining of Accountants through workshops and seminars on various aspects of good corporate governance will keep them abreast of current issues in this direction.

6. SUGGESTIONS FOR FURTHER STUDIES

The following suggestions are offered for further studies.

1. The role of accounting in strengthening corporate governance in Nigeria.
2. Corporate failures: Challenges and lessons for the accounting profession in Nigeria.

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Our deep concern for the enthronement of corporate governance in Nigeria through the invaluable contributions of accounting profession stimulated our thoughts.



Hence, our interest in re-positioning the profession for the actualization of the objective.