

Corporate Governance and Financial Regulatory Framework in Nigeria: Issues and Challenges

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Abstract – The aim of this paper is to identify those factors that are peculiar to Nigeria which are likely to challenge the beneficial impact of the new accounting and corporate governance regulatory initiative in the country by using available anecdotal and empirical evidence. Based on our review, we find out that poor monitoring and compliance mechanisms arising from conflicting regulatory laws and the impairment of board of directors and auditor independence arising from the nature of firm ownership structure in Nigeria contribute to the failure in accounting and corporate governance practise. Of which if not address the ongoing effort by the Nigeria government to strengthen financial reporting atmosphere in Nigeria might not be realizable. Therefore, this study recommends that future accounting and corporate governance regulatory reforms in Nigeria should take into account the country institutional setting.
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1.0 INTRODUCTION

A close relationship exists between corporate entity collapse and poor financial reporting practices usually arising from governance failure in firms [1]. The case of Enron in 2001, WorldCom in 2002, and Lehman Brothers in 2008 are all evidence of corporate collapse resulting from poor financial reporting practice and governance failure. The combined effects of these scandals contribute a great deal to the credibility crisis rocking the accounting profession. Although, good corporate governance and disclosure practices may not guarantee the perpetual existence of corporate organizations however, it minimizes the occurrence of business collapse arising from misleading financial reporting. That is why the past and on-going legal reforms on corporate governance and financial reporting across the world are in response to corporate failure or financial crisis.

This question is important for all countries characterized by weak institutional framework because issues bother on financial reporting quality is of major concern among regulators and market participant owing to the globalization of financial market. In providing a good understanding of this question, this study identifies factors in the Nigeria context that are yet to be addressed in the new regulatory regime and capable of reducing the beneficial impact of new regulatory initiative in Nigeria. Based on our review, we discovered that the existence of many conflicting regulatory disclosure requirements inhibits the effectiveness of enforcement and compliance mechanisms in Nigeria. In the process of satisfying the multitude of

requirements, companies prepare a different set of accounts, which does not actually reflect the prevailing economic reality of the firm.

Secondly, the board of directors, its committees, and external auditors lacks adequate independence and this stem from the nature of firms' ownership structure. We argue that the above-highlighted issues are possible impediments towards reaping those benefits associated with regulatory changes. Unfortunately, the various reforms thus far do little to alleviate the above-highlighted issues. In line with the thought of [2], this study suggests that regulatory reforms in Nigeria should go beyond mere formulation of formal laws, the root causes of corporate reporting challenges as highlighted above is what need to be addressed. The laws must reflect the peculiar nature of the environmental setting. Failure to address them will always result into priority misplacement.

This study firstly, present summary of the business and legal environment in Nigeria business setting. The subsequent section presented a discussion on corporate governance initiative, standard setting, and financial reporting framework in Nigeria resulting from global trend. The next section presented a discussion on the implications, issues, and challenges surrounding the various developments on Nigeria corporate reporting. Discussion and conclusion are presented in the following section.

2. BUSINESS AND LEGAL ENVIRONMENT IN NIGERIA

Nigeria is the largest country in West Africa and the most populous country in African. It has a land mass expanding 700 miles from the west to east and 650 miles from the south to the north. The country is a multicultural society with a population of about 140 million people [3] consisting of over 200 ethnic-linguistic groups. Three main ethnic groups that are Hausa, Yoruba, and Igbo however, dominate the majority of the population. Nigeria is greatly blessed with natural resources, prominent among which is crude oil. Crude oil contributes about 90% of the country's GDP. However, before the discovery of petroleum, agriculture was the basis of economic activity of most Nigerians. Since independence, the country has witnessed a series of disruption in a political system with various military coups overthrowing politically elected governments. Nigeria has a long history of military rule. However, in recent years a stable democratic elected government was established.

Corporate ownership in Nigeria is greatly influenced by the various policies promulgated by the government. Substantial minority ownership structure is prevalent in most Nigeria Corporation [2]. Nigeria business and legal environment imitated that of the British system. The main legal and regulatory framework for companies' regulation is Companies and Allied Matters Acts (CAMA 1990), and it does predate the country's independence. The first company law in Nigeria was introduced during the colonial period, and that is the Companies Ordinance of 1922. After the country gained independence on the 1st of October 1960, the law was repealed, and the Companies Act of 1968 was introduced which is a replica of the UK Companies Act of 1948 [4].

Various socio-political and economic occurrences subsequently led to the repeal of 1968 Companies Act by the Companies and Allied Matters Act (CAMA 1990). The company's law is the main statute that provides a guideline for company's regulation in Nigeria and the statute the established Corporate Affairs Commission (CAC). The Act contains major provisions on company formation, company structure, and company dissolution. In addition, provisions were

made for corporate governance practices such as director's accountability, annual general meetings, and audit committee formation. Rules and regulations guiding the publication of financial statements are included in the Act. Similarly, various disclosures, as well as auditing requirements, are contained in the Act. Invariably, before the advent of SEC code, CAMA guides good corporate governance practice for the board of directors, statutory auditors, and CEOs of Nigeria listed companies. Besides, the CAMA 1990, the Investment and Securities Act 1999 and Bank and Other Financial Institutions Act 1999 as amended guided operation of the corporate enterprise.

3. CORPORATE GOVERNANCE INITIATIVE IN NIGERIA

The passage of Sarbanes-Oxley Act (SOX) in the US creates global awareness on the importance of good corporate governance practice. National governments responded to the passage of SOX by reviewing existing codes or initiating new ones to strengthen their reporting environment. For instance, the issuance of the African King's report 2002, Manual of Corporate Governance in Ghana 2002, Nigeria CCG 2003, and the Malaysian CCG 2002. In Nigeria, the global awareness spurs the development of corporate governance code to improve corporate governance practise. It is a common knowledge that good corporate governance would curb corruptions and unethical business practises that affected business norm in the country [5]. Corporate governance practise in Nigeria is still at the developmental stage with only 40% of the Nigeria listed companies have the knowledge of what corporate governance entails [6]. Even though, corporate governance as "distinct concept" is of recent, regulation, control and governance of public listed companies in Nigeria is articulated in CAMA 1990.

Practically, between the periods after independence to early 1990, CAMA 1990 regulates corporate administration in Nigeria. Renewed interest in effective corporate governance started in June 2000, when the Nigeria Securities and Exchange Commission (SEC) set up a seventeen (17) member Committee led by Atedo Peterside to develop Code of Best Practises for Corporate Public Listed Companies in Nigeria [7]. Among other things, the committee has the mandate to review corporate governance practises in Nigeria, identify weakness contain in the existing system and make recommendations in line with international best practises. Factors that fast track the review apart from global events include the country transition to civil rule in the year 1999. The civilian government as at then needed to restore back the loss of confidence in the country's economy to attract foreign direct investment. Thus, the role of the code of corporate governance in this regard cannot be overemphasised. The code becomes effective in 2003 and the code was later revised in the year 2011.

Some of the recommendations outlined in the code include the following, the duties and responsibility of the board of directors, the composition of the board of directors, separation of CEO, managing director responsibility, and board committees to be established among other recommendations. Most of these recommendations are primarily driven by the key provision of Organisation for Economic Corporative and Development (OECD) on principles of corporate governance alongside other global codes [8]. While the code preaches sound business practice, compliance with the provisions of the SEC codes of corporate governance is voluntary [6]. Although the SEC is empowered to monitor, and sanction erring listed public companies

through withdrawal of registrant, certificate and suspension of companies on the trading floor, this is weakly enforced.

Because of the dynamics of the corporate environment, the national code of corporate governance is frequently revised to keep track with contemporary requirements. Apparently, the 2003 code of corporate governance became outdated before it was later reviewed. The late review of 2003 code of corporate governance renders it obsolete and insufficient in addressing new development and corporate challenges in the Nigerian corporate reporting. Because of the late review of 2003 code of corporate governance, industry specific codes of corporate governance were issued. They include Corporate Governance for Banks in Nigeria Post-Consolidation (2006 CBN); Code of Corporate Governance for Licensed Pension Companies in 2008 (PENCOM 2008) and Code of Corporate Governance for National Insurance Commission 2009 (NICOM 2009). Unlike the SEC code of corporate governance, industry specific codes are mandatory to be followed by companies operating in under the respective sectors [6].

Interestingly, the SEC issued a revised code of corporate governance on the first of April 2011 to repeal the 2003 code of corporate governance for listed firms in Nigeria. The new codes make significant provisions like; the need for financial expertise on audit committee and the presence of at least one independent non-executive director on the board, CEO duality and at least one member of the audit committee should financially literate. Likewise, the 2011 code of corporate governance provided for the creation of risk management committee and corporate governance committee. The essence of the newly revised corporate governance code is to enhance transparency and promote accountability through sound corporate governance practises.

One significant constraint for sanctioning erring companies by the Nigerian SEC is ineffective enforcement, regulatory mechanism and inadequate penalty measures to deter non-compliance. Practically, the benefits of non-compliance with the code outweigh the cost; hence, most listed companies prefer to contravene the provisions [6]. Another challenge that impedes effective compliance with the SEC code of corporate governance is the multiplicity of the code of corporate governance and the distinctive provisions of each code. For instance, companies trading on the floor of the Nigeria Stock Exchange and as well operating in other regulated sector face the problem of complying simultaneously with the two codes [9].

The passage of the “Financial Reporting Council of Nigeria Act” in the year 2011 will supposedly address these challenges. Recently, the Financial Reporting Council of Nigeria (FRCN) exposed the drafted National Code of Corporate Governance (NCCG) to receive comments from stakeholders. The issuance of a national code of CG will unify all existing code of corporate governance in Nigeria. Presently, stakeholders’ comments and reaction suggest that the FRCN need to revise several aspect of the drafted NCCG before it can achieve the intended purpose of protecting the minority shareholder. Based on the comment issued by KPMG Nigeria, the draft NCCG is incomplete due to the absence of transitional arrangement. In the view of PWC Nigeria, the drafted NCCG suffers from “Regulation Creep” due to so many ambiguous details.

4. STANDARD SETTING AND FINANCIAL REPORTING FRAMEWORK

The essential role of setting accounting standards and financial reporting framework is to guide the reporting choices available to managers when presenting the stewardship of account. In doing so, a common language of communicating accounting information is established and this ease communication with investors, therefore, reducing information processing cost. However, the choice of what is regulated; the extent of regulation, and who regulate varies between countries. The responsibility of standard setting process in most cases is delegated under a legislative Act by National government to an agency within the economy. Impliedly, the standard setting process is the responsibility of the National government. In Nigeria, this is as well the case, the defunct Nigeria Accounting Standard Board (NASB) an agency under the ministry of trade and tourism is saddled with the responsibility of setting accounting standard in Nigeria. Legally, Section 335(1) of CAMA 2004 as amended recognise accounting standards issued by the defunct NASB as a basis for drawing and presenting public listed companies' financial statement for users. During the period of its existence, NASB issued thirty accounting standards [10].

Available information about NASB revealed that NASB is a private sector initiative established in 1982 as an advisory body for developing, issuance, and constant review of Statement of Accounting Standard in Nigeria. NASB later became a government agency in 1992 under the Federal Ministry of Trade and Tourism. A governing council made up of the major stakeholder in the financial reporting cycle coordinate the affair of NASB. Primarily, NASB has the responsibility to ensure that listed companies appropriately comply with the accounting standard set by the body. However then, since the activities of NASB is not backed up constitutionally, it was a challenging task to enforce its standard and this lead to the deficiencies witnessed in accounting standard compliance in Nigeria [11]. Preparers of financial statement most especially foreign companies listed in Nigeria complied with UK GAAP or those standards issued by the International Accounting Standard Board (IASB). This is because the majority of the auditors are members of international accounting bodies therefore; auditors applies accounting standard consistent with those issued at the home country of the accounting bodies, which they are a member.

Consequently, many financial irregularities between the period of establishing NASB and when the NASB Act was passed into law in 2003 go unabated [11]. Actually, the need to boost investors' confidence and attract foreign direct investment into the country after a long period of political instability encouraged the passage of the NASB Act. The passage of the NASB Act provides an enabling environment under which the body operated more efficiently. For instance, the coming into being of the NASB Act in 2003 makes compliance with NASB standard compulsory by listed companies as against the practise where accounting standards were applied based on auditors affiliation with accounting bodies. Accordingly, NASB creates an inspectorate unit that oversee accounting standard compliance related issues. This ensures uniformity in the application of accounting standard across all listed companies.

Interestingly, in the year 2011, FRCN was established under the Financial Reporting Council of Nigeria Act No.6 of 2011. The Act repealed the Nigerian Accounting Standard Board (NASB) Act No. 22 of 2003. FRCN Act recognised the limitations and obsolescence in the existing reporting framework and provision of the Act that established Nigeria Accounting Standard Board (NASB). Primarily, the Act creates a quasi-governmental body that will oversee and ensure the accuracy and reliability of financial stewardship of public listed companies. The Act also unifies existing heterogeneous regulatory and professional bodies

hitherto responsible for corporate governance and financial reporting. FRCN operates through 6 directorates. These directorates are the directorate of the accounting standard for private sectors, accounting standard for the public sector, auditing practise standards, actuarial standards, inspection and monitoring, evaluation of standards and corporate governance. The enactment of FRCN Act as well provides for the establishment of ethical standards for all those involve in financial reporting process most precisely the independence, objectivity, and integrity of external auditors.

To ensure compliance with ethical standards, individual professionals dealing with the public and government agency are required under the Act to register with FRCN before undertaking any professional service. In line with the function of the FRCN as set out under section 23-27 of the FRCN Act, the need for convergence of local standard with international standard commenced on the 2nd day of September year 2010. The adoption process based on the recommendation of the committee on the roadmap for the adoption of IFRS in Nigeria is structured in three phases. Consistent with the road map, all public interest entities starting from 1st of January 2012 should prepare their financial statement in line with the provision of IFRS while small and medium-sized enterprise are to adopt by 1st of January 2014. The last stage of the transition process is the adoption of IFRS in the public sector by 1st of January 2015. The essence of the adoption of IFRS is to give the investing public highest level of assurance about the country's commitment to high level of financial transparency, therefore, repositioning Nigeria as an attractive investment.

Although, IFRS adoption in Nigeria is a step in the right direction, empirical and anecdotal evidence suggest that its adoption does not necessarily guarantee high quality transparent and comparable financial report [12]. Individual country specificities caused by politics, laws, economy and regulation is a major challenge in achieving the aims and objectives of IFRS. Adopting countries might have to adjust for the country peculiarity and doing so negates the touted comparability objectives of IFRS. Leuz [13] highlight the differences between reporting regulation among countries resulting from interdependence of institutional infrastructure. Leuz [13] concluded that a single reporting regime does not fit all countries across the globe. Hence, the benefit of high quality accounting standard will be heterogeneous across countries and impliedly move to a principle base accounting standard might not yield desired outcome in some countries.

5. ISSUES AND CHALLENGES

To have a full grasp of those issues and challenges that is likely to frustrate the effectiveness of financial reporting framework in light of the new regulatory initiative. We proceed by asking some few important questions. Firstly, what are the factors that facilitate credible information flow between manager and investors? Secondly, what role does the board of directors and audit committee play in ensuring the credible flow of information and thirdly, how effective are Nigerian auditors in enhancing the credibility of the financial report? These questions were developed based on the corporate governance mechanisms documented in literature that align managerial incentive with those of the shareholders. By answering these questions, we are able

to assess the prevailing realities in Nigeria institutional settings and identify the subsisting issues that have been the bane of an effective regulatory framework.

What are the factors that facilitate credible information flow between management and shareholders?

In the presence of inherent conflict between managers and owners, accountability through adequate disclosure of financial information is very important [14]. The annual report remains the most significant source among other available sources for discharging accountability due to its "wide coverage and availability" [15]. The information content of the annual report informs and influences the perception of the investing public about the state of affairs in the firm. Therefore, the quality and extent of disclosures made in the annual report partly go a long way in shaping public perception about the firm [16]. In order to facilitate the flow of credible information between the management and shareholder, accounting regulators and market forces [14] are important factors that increase the level of disclosure and thus reduce information asymmetry.

For instance, accounting regulators and regulation guides the measurement and the disclosure of accounting information in the annual report by providing a general framework to that effect. Capital markets around the globe have various disclosure requirements for companies listed on their exchange. In addition, there are accounting rules that guide the accounting choice of managers when drawing up the financial statement. The essence of these set of disclosure requirements is to reduce information asymmetry arising from market imperfection and financially uninformed investors [17]. With respect to market forces, corporate take-over and shareholder activism are means employed to discipline company management [18]. In a situation where the management is not managing the business effectively, shareholders could elect the option to take over the firm and improve it. Although, this action are resisted by management (poison pill) due to its negative consequence on their career, it thus aligns the interest of both the management and shareholders [18]. Meanwhile, due to the weakness in corporate law enforcement in Nigeria [2], the market forces that would have facilitated the disclosure of credible information to shareholders according to [19] are not available. Haven identify the role of accounting regulation and market forces in ensuring the free flow of accounting information, we move to discuss the effectiveness and efficiency of these factors in Nigeria.

At present, the FRCN, the Nigerian Securities, and Exchange Commission (NSEC) regulate the various disclosures requirement in financial statement and some other industry specific regulatory bodies regulate the disclosure requirement of public listed companies. Two issues and challenges namely; weak enforcement and many conflicting rules in part affect accounting regulation in Nigeria [20]. Failure to address the two issues might jeopardize the acclaimed benefits of IFRS adoption and other regulatory initiatives in the country. This is because as noted by [21] the quality of financial information is a function of both the quality of accounting standard and regulatory enforcement and the application of the standard. Ball [12] expressed a similarly view which suggest that the institutional and regulatory framework that exist in a country determine the quality of accounting information rather than the adoption of IFRS. Accordingly, it can be said that the best accounting standard would have no consequence when the enforcement mechanisms are weak just like in Nigeria [22].

Meanwhile, the presence of much conflicting regulatory disclosure requirement and the absence of a working synergy between the regulators have as well impeded enforcement and

compliance by the firm. Lack of coordination between the existing regulatory bodies is a major impediment to the success of the new regulatory initiative in Nigeria. This is because the heterogeneous and conflicting disclosure requirements with the absence of a clear-cut definition of responsibility to discipline erring companies contribute to compliance problem in Nigeria [23]. In many instances, public listed companies due to the conflicting disclosure requirements prepare a different set of accounts to suit the disclosure requirement of each regulatory body. In a situation where managers prepare different set accounts for the sake of meeting a regulatory requirement, then the quality of such report will be in question.

Presently, it still appears that the various institutions are not ready for the onerous task of enforcing compliance and sanctioning violators of mandated disclosure requirement in the country and this has been the major setback of the previous regulatory regime. This is claim is evident the recent framework collusion between FRCN and CBN. The Central Bank of Nigeria (CBN) had restrained Stanbic IBTC from complying with the directives of FRCN claiming that as the apex monetary regulator in the country the institution account is errors free [25]. However, the FRCN has faulted the action of CBN claiming that CBN is not competent to review it operation as a regulatory body. Another issue is that of the conflicting code of corporate governance [24]. The 2011 code of corporate governance applies to all public listed companies including banks. Although section 1.3 (g) of the 2011 code makes provision that where its provision conflict with any other code, companies will adopt the code with stricter provisions. However, other sectors specific code of corporate governance made it mandatory for companies operating under them to comply with their own code. For example, section 1.7 of the CBN code mandate all banks to comply with CBN code of corporate governance. Based on the foregoing discussion it suffices to say the weakness in accounting regulation and absent of strong market forces renders the annual report a major source of information channel less informative, therefore shareholders are not adequately informed about their company [24].

How effective is the roles of the board and audit committee in enhancing the quality of financial report?

The board of directors and its committee are internal corporate governance mechanisms available to resolve agency conflict [26]. Theoretical and empirical evidence noted that the role of boards involves two broad functions: (1) advising senior management and (2) monitoring senior management [27]. To fulfil both roles a balanced mixed of the board of directors with sufficient firm specific expertise and industry related knowledge and that they are wholly independent of management is essential [28]. As such, the various events that lead to board of director's appointment and its final composition and structure either enhance or undermine board of directors' independence and effectiveness. An independent board is widely believed to be that board whose majority member are socially and economically independent from management. Independent directors are rigor and objective in the discharge of their function, as such they are vigilant, and exert more control over management [28]. The ways in which firms structure their boards to achieve these goals has been the subject of considerable research, with a clear distinction between outside and inside directors as commonly investigated in the literature. While outside directors are widely touted to be independent and as such efficient in their monitoring role, inside directors perform best in an advisory capacity [27].

The 2011 Nigeria Code Corporate Governance indeed makes provisions for board composition. Explicitly, the code stipulated that the board of directors should contain a right mix of executive and non-executive directors headed by a chairman and that the majority should be non-executive directors, of whom one must be an independent director. This SEC code provision

on board composition is inadequate considering the factors that led to some corporate scandals in Nigeria. Specifically, the multi-billion dollar banking scandal in the year 2009 involving top bank executive indicate the inadequacy of the code of corporate governance in ensuring the board of directors independence. The scandal as well raised serious ethical concern as noted by the former governor of Central Bank of Nigeria (CBN) Sanusi Lamido Sanusi.

In his words:

“Corporate governance in many banks failed because boards ignored these practices for reasons including being misled by executive management, participating themselves in obtaining unsecured loans at the expenses of depositors and not having the qualification to enforce good governance on bank management... The Banks chairman/CEO often had an overbearing influence on the board and some board lacked independence; directors often failed to make contributions to safeguard and development of the bank and had weak ethical standards, the board committees were often inefficient or dormant” [29].

What is evident in the above remark is that there is an acute shortage of board ethics arising from lack of board of directors’ independence in Nigerian listed companies. As ascertained by [20], board members lack personal integrity and are driven by greed. Adegbite and Nakajima [30] reported that the Board of directors of corporate entities in Nigeria are abusing the power given to them by shareholders to reap a private benefit. In some cases, the company CEOs and other key board members sometimes act independence is impaired by the controlling shareholders therefore, their oversight function is limited. The controlling shareholder in connivance with the senior management and board of directors alters financial reports to conceal their divisionary activities that lead to minority shareholder expropriation [30].

Practically in Nigeria, board independence is only in theory and not reflected in practise. For instance, the issue of CEO duality aimed at preserving board independence is enshrined in the 2011 code of corporate governance with many listed companies complying with the provision. However, [20] reports that most of the chairmen of Nigerian listed companies were formally the CEO of their companies. This raises serious concern about the independence of the board because as further noted by [20] the chairmen become very influential and control board activities. In addition, the provision of the board regarding the number independent directors on board is another major constraint. For instance, the 2011 code prescribe that at least one independent director should be on board while the CBN prescribe a minimum requirement of two directors. Going by the critical mass theory, then one can easily conclude that one or two independent directors on a board size of 8 directors cannot perform much monitoring function.

Unfortunately, the activities of the audit committees of corporate companies in Nigeria since inception are not encouraging. This is due to the statutory requirement of audit committee composition and the independence issue affecting the board [24] [20]. Section of 359(4) of CAMA provides that audit committee should comprise of an equal number of board directors and shareholders, however, the 2011 code of corporate governance does not stipulate the require number. Since the majority shareholder has control over the activities of the board of directors, then only favored shareholders and directors are nominated to serve in audit committee. In [20] findings, “audit committee lack personal integrity and driven by greed they only become managerial puppet”. Hence, what the audit committee of many Nigerian public

listed companies does is to rubber stamp the financial statement without a thorough review of its content [31].

How effective are Nigerian auditors in enhancing the credibility of financial report?

Traditionally, auditors are “corporate watch dog” charged with the responsibility of providing independent assurance that all disclosures conforms to GAAP and are credible. A condition required for this role is “independent of the mind”. Question arisen on the credibility of the Nigerian auditors report as various reported cases of financial scandals and culpability of auditors with Nigeria rating on corruption perception index resulted into confidence crisis on the profession [32]. Number of anecdotal evidence indicated the auditors of unethical practice and unprofessional practices. A study by [33] reported some corporate scandals involving management/board of director connivance with the company auditor to extract undue private benefit hence the financial statement does not reveal the exact state of affair in the country.

It is worrisome for audited annual reported to be re-examined few months later and so many irregularities discovered. This calls into question the credibility of the auditor’s report and the integrity of the auditors. The case of the five (5) banks in 2009 that failed CBN audit exercise lends credence to this assertion. The CBN bank post audit exercise reveals that the CEOs of the failed bank set up Special Purpose Vehicles through which money is lent to CEO for stock price manipulation and acquisition of asset choices. The CEO’s approve loans that are not secured to associate companies and friends and when eventually the loan turn non-performing they still classify them as a performing loan [29]. Ordinary, the expectation is that the auditors of the affected banks should have discovered this abnormality in the course of their audit engagement and report to the regulators. The failure of either not discovering these issues or not reporting it to the concern regulators might suggest auditors’ independent impairment. According to [33], the impairment of auditors’ independent in Nigeria arises from the excessive audit fees receive by auditors then career pressure. These two factors make the external auditor tolerate management aggressive reporting practice.

5. DISCUSSION AND CONCLUSION

So far, this paper present an overview of corporate governance initiative, standard setting and financial reporting framework in Nigeria then proceed to identify the issues and challenges that affect the effectiveness of financial reporting framework in Nigeria in the light of the new regulatory initiatives embarked upon to improve corporate reporting.

In brief, the globalisation of capital market set the stage for a global campaign for sound corporate governance and unification of accounting standard. Towards this direction, a number of reforms such as issuance of 2011 of the code of corporate governance, the adoption of IFRS in 2012 and the passage of FRCN Act in 2011. While the reforms are commendable, nevertheless, much still need to be done by the government. This is because the country approach to corporate regulation closely mimics those of developed countries with little or no effort to adjust accounting and corporate regulation to circumstances prevailing at the local setting [2]. Thus, this creates a misfit between the designed corporate financial regulatory framework and the intended purpose of the framework.

For instance, in the absence of strong monitoring mechanisms and imposition of a strict penalty for defaulters then the reforms will not yield a beneficial result. The root of any corporate

reporting and governance regime lies in its effectiveness in ensuring sound corporate governance, which in turn is determined by the level of enforcement [22]. Examining Nigeria institutional environment, both local and international commentators adjudge market monitoring mechanism as practically in a non-existence [19].

This according to the Report of the Observance of Standards and Codes (ROSC 2004) greatly contribute to failure in the past financial reporting regime. This is because the cost of non-compliance can easily be traded off with the benefits of not complying with some statutory requirements. Similarly, the conflict of authority among regulators as evidence in the recent faceoff between FRCN charged with the responsibility of enforcing compliance with the accounting and financial reporting standard adopt by the council and CBN another regulatory body that oversee banks activities are a source of concern. Because presently it seems that FRCN has no authority to enforce its standard the way the council deemed appropriate. This has the tendency to threaten how listed companies comply with IFRS.

Other issues noted in section 5 relates to the board of directors and external auditor independent impairment. Adebite [20], highlight weak board governance, weak executive monitoring, and accountability, corporate corruption and public –private corruption as issues challenging sound corporate reporting at the firm level in Nigeria. While, [33] highlights the issue of auditor’s independent impairment resulting from fees dependency. These two issues stem from the lack of adequate fit between firm ownership structure and code of corporate governance in Nigeria. In Nigeria, firm ownership in Nigeria is concentrated in the hands of few individuals mostly founding families [20] [30]. These few individuals in most cases have control over the operation of the company, as they are responsible for corporate strategic direction and performance outcome of listed companies [2] [20]. Consequently, the appointment of board members is usually influenced by the major shareholders in most cases [30]. What becomes obtainable in this kind of situation is minority expropriation, where the majority shareholders reap private benefits from the wealth of the minority holders. Minority expropriation become worse in a country like Nigeria where laws protecting shareholders is at zero level, corruption is endemic, abysmal market and corporate governance monitoring mechanisms are not really functioning [20].

Conclusively, as noted in [34], firm ownership structure suggests the nature and severity of agency problem faced. Therefore, corporate governance reform should take into account those agency issues stemming from firm ownership structure. Ownership structure already reflects a sharp contrast to what is practically obtainable in the western world that Nigeria corporate laws mimic. Agency problem in Nigeria is how to alleviate minority shareholder exploitation by majority shareholders. Therefore, this study recommends that future accounting and corporate governance regulatory reforms in Nigeria should take into account the country institutional setting.

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