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Critical Examination of the Roles of Audit Committees, Shareholders, and Financial Reporting Council of Nigeria in Ensuring Quality of Audit in the Nigerian Banking Industry

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Abstract

Growth will be stymied in the banking industry where there is no proper evaluation of the financial performances of the bank by the auditors. The challenge had been that the ability of the auditors to render quality audits as required is sometimes hampered by fraudulent behaviours by the auditors leading to poor quality audits and consequent crash of such banking institutions and loss of investments by stakeholders. The 2009 crisis in the banking industry revealed that poor audit quality was a great contributing factor. Whilst the bank executives connected with the troubled banks were prosecuted, the auditors, especially the 'big four' were left untouched as no disciplinary action was taken against them, which is a good incentive for the auditors to continue to shirk their responsibilities. It is contended that the shareholders and the audit committees if alive to their respective roles in the banking industry can checkmate the auditors to ensure that they deliver quality audits as required of them. But both the shareholders and the audit committees are bugged down by one problem or the other thus putting their effectiveness in doubt in ensuring quality audit. It is stated that the establishment of the Financial Reporting Council of Nigeria, which is now tasked with supervising the accounting industry, is a positive development, if and only if, the Council will discharge its functions effectively, then the days of sacred cows in the accounting profession and poor-quality audit are over.

Keywords: Auditors, Audit Committees, shareholders, corporate governance.

1. Introduction

The term "auditing" typically refers to an unbiased inspection and evaluation of a company's financial records by a third party, someone from outside the organization. The likelihood of dishonesty on the part of individuals who produce financial statements rises as a result of the fact that such statements are internally developed. Preparers might easily exaggerate the company's financial situation to make it appear more successful or profitable than it truly is if the proper standards and criteria are not followed. Auditing is crucial for firms to fairly and accurately depict their financial situation by accounting standards.[2]The effectiveness of corporate contracts as well as the allocation of corporate resources are improved by auditing, which offers impartial assurance of the accuracy of corporate information.[3] Due to this, auditing has also come to be understood as

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[2] https://corporatefinanceinstitute.com/resources/knowledge/accounting/what-is-an -audit, accessed on 27/06/22. Corporate Finance Institute, "Auditing," CFI Education Inc [2022] Cfi Education Inc.

[3] Chen, P. F. et al "Qualified audit opinions and debt contracting." (2012) Working Paper, HKUST. Retrieved from http://www.kaa-edu. or.kr/online3/2013_1/1.%20Derrald%20Stice.pdf cited in Ameneh B. et al " The Beneficial

an appointed auditor's impartial examination, analysis, and expression of opinion on a company's financial records and supporting documentation. Under the Audit aim, the management is in charge of preparing the financial statements. Reporting on the financial statement as it has been provided by management is the auditor's duty. Given the crisis that has gripped the banking system as a result of subpar audit quality, which in turn caused enormous losses to the banks' depositors and stockholders, it is unclear whether the auditor has fulfilled this onerous task.

Delivering appropriate expert advice and opinion that is backed by significant and essential evidence as well as unbiased assessments is what audit quality is all about. When an audit is carried out knowledgeably, the quality of the audit is also increased, and the interested parties are convinced that in carrying out their professional responsibilities, the audit would make sure to avoid any violations and disclose what was seen.[4] According to Ame[5] the two components of audit quality are regarded to be the ability to find fraud and false reporting and the willingness to report it. The value of the information contained in a financial report will affect how well it is used by any interested groups.

However, the quality of the report's contents and the audit's integrity are put in jeopardy when these reports are full of intentional errors and window dressing that the hired auditor either never finds or finds but never discloses. The independent audit of a company's financial statements is a requirement for a good system of corporate governance and financial reporting. However, major worries about unethical behaviour in the creation of financial statements and the reporting thereon by the auditors are what led to the development of corporate governance, which is now everyone's business. The general public, potential investors, creditors, and owners of companies have all lost faith in the validity of audited financial statements as a result of these fraudulent actions. The relevant parties have taken action to start better governance to regain the lost faith.[6]

Events on a global and national scale have highlighted the need for ongoing awareness about the role that audits play in the stability of corporate entities and how their absence can lead to corporate collapse. The question that arises is whether the Financial Reporting Council of Nigeria, audit committees, and shareholders can all contribute to guaranteeing high-quality auditing in the Nigerian banking sector. If they do, what obstacles are likely to prevent them from carrying out the demanding tasks for the bank, that may render them ineffective?

Effect of shareholder participation in general meetings: Evidence in the context of audit quality" available online on https://www.scieto.br>rbgn last accessed on 21/06/22.

[4] Bassey E. B & others "Accessed on 27 June 2022 from https://www.researchgate.net/publication/344446383, "Auditors independence and Audit Quality in Nigeria" Journal of Critical Reviews Vol. 7 Issue 17, 2020, 625.

[5] Ame J. O. (2014). Audit Effectiveness of the committee and the standard of the Nigerian banks' money deposits. Association for Research in Accounting and Finance. quoted in Bassey E. B & others point 3 above as www.afra.org.ng

[6] Owolabi S. A. "In Nigeria, the audit committee is a tool for good corporate governance. May 2011, 388, Journal of Corporate Governance, Vol. 3 No. 1.

2. Importance of Auditor in Corporate Governance

The importance of the auditor in corporate governance cannot be overstated, which is why he or she is known as the "policeman of capitalism". The preparation of the bank's accounts by the management is supposed to comply with disclosure correctness and adequacy, standardization, clarity, and synchronization of legislation and accounting standards. An auditor is expected to ensure this following his professional training and competence. By performing the aforementioned duties, the auditor serves as the shareholders' and potential investors' eyes and ears, fostering market trust. The role of the auditor, or external auditor, is the unbiased evaluation of the company's accounts to see if they provide an accurate and fair representation of the company's state for the review period, and if satisfied, to publish an unqualified assessment of the bank's financial position. Such unbiased and objective reporting by the auditor makes it much easier for potential investors to decide whether to invest in the firm and for shareholders to know that their investment is holding up well. But the reverse is sometimes the case when a bank given a clean bill of health suddenly collapses and come to ruin due to poor accounting standard and disclosure requirement, which the auditor failed to disclose in their audit report. The consequence is the inevitable collapse of such an entity and the attendant loss of investment by shareholders. A few cases of such a fiasco are worth mentioning here.[6]

Management at Enron received stock options as payment because the value of the stocks hinged on sustaining the share price of the company, the board and management placed excessive pressure on rating agencies to acquire excellent investment ratings. Shares were offered at a premium to naive investors while questionable activities were taking place. Salesmen at World Com received several commissions for assisting in fraud by submitting bogus sales reports and repeatedly registering a single sale.

At Cadbury Nigeria Plc, the financial statements were falsified until December 12, 2006, when the Managing Director and the Financial Director were suspended for cooking and window dressing the books of account of the company. The company's financial situation was exaggerated by between N13 and N15 billion throughout the three years of this financial book padding scam and corruption, and if this is changed, there will be an N1 to N2 billion operating loss. This incident in Nigeria could be similar to the American Enron corporation crisis. Similar allegations were made by the former managing director of Afribank Nigeria Plc, who claimed that the board of directors collaborated with the business' external auditors to window-dress the books of accounts for some time.[7]Thus, in all these cases the auditor, the gatekeeper, failed in the discharge of its duties to the stakeholders of the company.

3. The Big Four and the Banking Crisis in Nigeria

To comprehend Nigeria's economic vulnerability, risk, and bank liabilities, regulators and investors have always depended on company financial statements, but this has proven to be quite problematic. To give the essential assurance of "fairness in the conduct of banking business," accountants and the auditing profession were involved in the process of creating a regulatory framework. However, after gaining independence in 1960, Nigeria has experienced a series of bank failures despite the incorporation of auditors as corporate watchdogs. Nigerian banks frequently undergo a wave of financial difficulty, which prompted the government to increase the required minimum capital for banks in 2004 to N25 billion ($167 million).

Out of the 25 major banks operating in Nigeria after recapitalization, the data shows that three multinational accounting firms have served as the primary bank auditors, with fierce competition between them to offer auditing services to these institutions. The three major auditing companies are Price water house Coopers, Akintola Williams, and KPMG Professional Services. The audit monopoly has given them financial security and served as a launch pad for the sale of additional services. Despite making hundreds of millions of dollars annually, Audit stakeholders lack the tools necessary to assess the quality and effectiveness of the audit work.[8] As said by Cousins

[6]Owolabi S. A. note 5 [7]
Ibid.
[88]Otusanya J. O. "The Role of Auditors in the Nigeria Bank Crisis-It Works. www.visar.Csustan.edu/aaba/Otusanya 2010.pdf p. 186 last visited on 20-7-19.

> *In the absence of a 'duty of care' to individual stakeholders and public accountability, the auditing industry does not have a strong economic incentive to improve the quality of audits. If by hook or by crook a company survives, no external party knows that audits were botched.... The auditing industry is preoccupied with fees and client appeasement.*[7]

Cousins had suggested that auditing firms mainly care about technical adherence to auditing rules as opposed to audit quality and that the main focus is on hiding flaws. There has been discontent with the development and quality of audits produced by the big accounting firms, and it has been stated that 'the crash of financial institutions in the western countries has shown that foreign auditors are no better than their local counterparts'.[8]Stakeholders' attention has been focused on auditors since it is widely believed that a report from an auditor that is unqualified shows that a company is healthy. The CBN estimated the loan portfolio of these banks to be worth N2.8 trillion ($18.67 billion), but the external auditors of these institutions were unable to adequately review and make public the exact state of these reports before the CBN publicly disclosed its conclusions regarding the situation of the banks and their actions in the Expanded Discount Window (EDW).The Nigerian Deposit Insurance Corporation (NDIC) annual report for 2007 indicated that four Nigerian banks were sound, 17 were adequate, two were just acceptable, and one was faulty, although the audited reports for these banks had demonstrated that they were sound.

Under the Companies and Allied Matters Act of 1990 (as amended)[9] and Banks and Other Financial Institutions Act, 1991, The Nigerian Statement of Accounting Standard, external auditors are needed to attest that the profits and cash flows of publicly traded companies are in compliance with these standards, and ensure their financial accounts accurately reflect the state of their financial affairs (in this case, the troubled banks).In contrast, despite auditing, the banks'

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[7] Cousins J. et "Auditors: Keeping the Public Hostage", Basildon, United Kingdom: Association for Accountancy and Business Affairs, 1998

[8] The Guardian, 9th August 2009 cited in Otusanya J. O. "The role of auditors in the crisis at Nigerian banks is effective. Last accessed on 20-7-19: www.visar.Csustan.edu/aaba/Otusanya 2010. pdf.

[9] Repealed and re-enacted in 2020 as the Companies and Allied Matters Act. [12]Otusanya J. O. note 8.

disclosures of their financial status contained a significant amount of undisclosed non-performing interests.[12]On their published financial statements, which were released just before the regulatory announcement of the distressed banks' financial troubles, the audit reports for the troubled institutions were unqualified. The proof shows that the audit opinions included in the banks' annual reports were given by the "big four" accounting firms in Nigeria: Akintola Williams Deloitte (AWD), Price water house Coopers (PwC), KPMG Professional Services, and Ernst and Young (E &Y).

Despite the deepening financial crisis in Nigeria in 2009, auditors did not express any reservations about the value of non-performing loans or of any scenarios under which the bank might not be able to honour its obligations. However, the regulators declared these institutions to be in crisis only a few months later. Given that many banks' financial issues were only made public a few months after they received unqualified audit reports, it is unclear how the auditors configured the audits to satisfy themselves that the affected institutions were operating regularly.

The issue is whether the professional accounting bodies were able to fulfil their legal responsibilities and look into and discipline their erring members. The answer is an unequivocal no. The truth was that the bodies used the authority and privileges granted to professional organizations for self-regulation to keep their members hidden from any form of public scrutiny.[10]

The accounting firms AWD, PwC, and KPMG have kept a dubious quiet despite unrest in the public about allegations of improper behaviour on the part of audit firms and in connection with the insolvent banks. Similar to other jurisdictions, corporate directors who publish false or misleading financial statements may be held personally liable; auditors are not subject to similar obligations. Since the global financial crisis, several bank executives and non-executive directors in Nigeria have been arrested and accused of acting unethically in the financial sector.[11]The regulating authority, the Economic and Financial Crimes Commission, did not, however, take any action beyond inviting the accused auditing firms to an administrative hearing and not holding them accountable for their unethical actions.

Researchers have attempted to debunk the fundamental cause of why competent accountants produce subpar audits.[12]They contend that the technique of corporate auditing's susceptibility to unconscious bias is its most serious, harmful problem. Because accounting is frequently subjective and because accounting companies and their clients have close relationships, even the most meticulous and sincere auditors could inadvertently distort the numbers to hide a company's true financial status, deceiving stakeholders like investors and regulators as well as occasionally management. In fact, rather than being the result of a planned criminal scheme, even crises that appear to include atrocious accounting practices, like Andersen's audits of Enron, may have been

[10] According to Samuel Nzekwe, a former National President of the Association of National Accountants of Nigeria (ANAN), prudential guidelines had always existed, so there was no need for new regulations to rein in "the excesses" of bank officials and external auditors. None of the auditors who were implicated in the scandal were prosecuted.

[11] On June 23, 2022, the Court of Appeal, Lagos Division upheld the convictions of Francis Atuche, a former managing director of the now-defunct Bank PHB Plc, and Ugo Anyanwu, a former chief financial officer of the bank. They had asked for the overturning of their conviction by Justice Lateefa Okunnu of the Lagos State High Court, who had found the pair guilty of N25.7 billion fraud on June 16, 2021. The Eagle Online, accessed 28 June 22.

[12] M. H. Bazerman et al "Why Good Accountants Do Bad Audits" https://hbr.org/2002/11 last visited 19/11/2019.

caused by a succession of unintentionally biased decisions. They cited three accounting structure features that greatly facilitate the possibility of bias influencing judgment.

The first is ambiguity, which occurs when there is the potential for different interpretations of the same information. When a piece of evidence is unclear, people frequently draw conclusions that are biased in their favour.

The auditors' ties to their clients come in second. Auditors are extremely driven to approve their customers' accounts because they have compelling business interests to keep them happy. An auditing firm's motive to offer favourable audits, from the leadership team down to individual accountants, is strong. People interpret evidence to favour one party once they start equating their interests with that of that other party.[13]

Lastly, approval. In the end, an audit either accepts or rejects the client's accounting. In other words, it evaluates the decisions that a client firm employee has previously made. According to this line of reasoning, an auditor is more likely to accept her client's more aggressive accounting recommendations than those she may independently make.[14]

Every time people must choose between what is morally right and what is best for them, according to Prentice, their judgment of what is morally right is likely to go toward what is best for them. The motive for client retention seems likely to cloud the judgment of auditors, who claim to represent shareholders' interests but are employed (and fired from) the companies they audit. The role of an auditor is to be unbiased and independent. But considering the constraints imposed on human nature, when they are being paid by the customer, they are auditing, it will be nearly hard for them to maintain objectivity or independence. When the audited client pays the auditors' companies heavily for non-audit services, the issue is exacerbated.[15]

Whether or not the poor audit quality of the auditors was a result of outright corruption or induced by unconscious biases would not have mattered much if those entrusted by banks to oversee the activity of the auditors carried out their duty diligently. In this regard, we would say that the Financial Reporting Council of Nigeria, audit committees, and shareholders are now in charge of overseeing the accounting industry. We hold the view that if these three bodies are alive to their responsibilities the quality of audits would be enhanced not only in banking industries but in every sector where audit reports help stakeholders in making an informed judgment concerning their investment. To this, we now turn.

4. Shareholders

Shareholders have two avenues within which to play their role in enhancing the quality of audit. First is in virtue of being a member of the audit committee as statutorily recognized by CAMA.[16] The membership of the audit committee being five in number and shareholders having a numerical advantage of three as against two of the directors there is no doubt that if they are to exercise their

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[13] Ibid.

[14] Ibid.

[15] Robert A. Prentice "The SEC and MDP: Consequences of the self-serving bias for impartial auditing. Last accessed on November 19, 2012: moritzlaw.osu.edu/students/groups/osij/files/2012.

[16] See section 404.

powers rightly the likelihood that they would hold the auditor to render a proper audit of the bank and would not accept anything short of that is extremely high.[17]

Participation in the annual general meeting is the second method. The participation of shareholders at general meetings is a fundamental and crucial aspect of corporate governance. Annual general meetings limit the risk of managerial expropriation of shareholders because they provide a suitable forum for shareholders to hold managers accountable. This is due to a few factors. First, general meetings serve as platforms for shareholders to learn about important business issues, giving them the chance to exert influence on managers and take part in a variety of decision-making processes. Second, general meetings offer the infrequent opportunity for various company stakeholders to gather in one location to debate crucial issues like firm governance. Thirdly, the meetings serve as a mechanism for checks and balances, allowing managers to defend their conduct before shareholders, who may then take corrective action by exercising their ownership rights.[21]Although relatively infrequent, related empirical research generally demonstrates that general meetings give shareholders an effective channel for communicating with managers and that managers typically respond to shareholder votes with corrective action.[18]

Shareholder participation in general meetings may reduce managers' influence over auditor selection and audits. As a result, the auditors may become more interested in the reporting preferences of investors rather than those of the managers, leading to higher audit quality. Additionally, shareholder attendance at general meetings acts as a monitoring tool that affects auditors and improves audit quality by perhaps ensuring that the chosen auditor satisfies the company's particular requirements.[19]This is especially true if institutional shareholders are present at the company's general meetings.

One drawback with this is that stockholders might not comprehend audit quality, and the majority of voters could not be familiar enough with the auditors' qualifications, as a result, their votes might reflect issues like stock returns that are outside the auditors' purview.[20]The majority of Annual General Meetings in Nigeria are rife with dishonesty, which is another negative factor. These AGMs are planned so that the majority shareholders can persuade the leaders of the shareholders' organization to turn a blind eye to the Directors' accounts rather than paying close attention to them.[21]

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[17] The sole drawback is the division between the Board audit committee and the Statutory Audit Committee, and the Board's preference for the Board audit committee over the Statutory Audit Committee, as detailed below. [21]Apostolides, N. "Exercising corporate governance at the annual general meeting, Corporate Governance, The International Journal of Business in Society, 10(2), 140–149 (2010).

[18] Yermack, D. "Shareholder voting and corporate governance." *Annual Review of Financial Economics*, (2010) 2(1), 103–125.

[19] Tanyi, P. N., & K. C. Roland "Market response to the vote count for auditor ratification." Accounting Horizons, (2017) 31(1), 141-157.

[20] Cunningham, L. M. (2017). "Auditor ratification: Can't get no (dis)satisfaction."*Accounting Horizons*, 3 (2017)1(1), 159-175.

[21] D. Nelson 'The Dilemma of the Shareholders under the Nigerian Company Law' *Journal of Law, Policy and Globalization vol.37, 2015* available online at<www.iiste.org>last visited on 23/11/2019.

The board and activist shareholders work together corruptly. In this instance, what ought to have been a robust institutional check onboard behavior was being misused.[22]Okike,[23]as well as Amao and Amaeshi[24]have stated that shareholder activism has increased significantly in Nigeria, but this has not had much of an impact because banks' boards and management may easily compromise them. These AGMs are so preset that you can tell right away that this is a staged event.

5. Audit Committees

To guarantee that public and private organizations are adhering to established financial regulations and practices, audit committees are a component of the internal audit systems established by both public and private companies. A good audit committee may be able to serve as a check on the excesses of the board and top management by raising the standard of the company's financial reporting and increasing public transparency, by maintaining adherence to a culture of discipline and control throughout the organization. These operating financial scandals can be avoided and the independence and effectiveness of internal and external auditors can be strengthened, to minimize the potential for accounting fraud and associated wrongdoing.[25] The following are some of the duties of the audit committees:

1. Monitoring a company's financial reporting and disclosure procedure.
2. Deciding on accounting principles and policies.
3. Monitoring the selection, operation, and independence of outside auditors.
4. Regulating ethics, whistleblower action, and financial reporting standards compliance.
5. Internal control process monitoring.
6. Directing the execution of internal audit tasks.
7. Assessing risk management procedures and policies.
8. Review any ongoing or recently filed legal or administrative processes involving corporate governance in which the organization is a party.[26]

Concerns over the potential loss of auditor independence and criticism of how non-executive directors of companies carry out their duties, which have led to the demise of important organizations, are largely to blame for the idea of creating audit committees.

[22] Ibid

[23] E. N. M. Okike (2007) 'Corporate Governance: An International Review, 15(2), 173–193, 2007. Corporate governance in Nigeria: The status quo.

[24] O. Amao and K. Amaeshi 'Promoting shareholder engagement is necessary for Nigeria to have effective corporate governance and accountability.*(2008) Journal of Business Ethics, 82 (1): 119-130*.

[25] Pat N. Ofili 'The Audit Committee's Function in Nigerian Corporate Governance Law, Security and Development Commemorative Essays of the University of Nigeria Law Faculty, edited by Chukwuemeka G. Nnora, was published in 2013 by Snap Press Nigeria Ltd. in Enugu.

[26] Owolabi S. A. et al "Corporate Governance and Audit Risk" Journal of Corporate Governance vol. 11 No. 2 November 2019, 2430.

Essentially, there are two phases in the creation of audit committees: the voluntary establishment phase and the forced establishment phase.[27]Before the Companies and Allied Matters Act, of 1990 (as modified), in Nigeria, there were no laws requiring an audit of a company's financial accounts. As many corporations as possible added a clause to their articles of association requiring the preparation of an annual audit by an independent person after recognizing how important it was to defend the interests of the investing public. Though the concept of audit committees had long been inculcated into several international laws, the U.S. Sarbanes Oxley Act of 2002, which completely defines, enshrines and integrates the functions and responsibilities of the Audit Committee and established the Public Company Accounting Oversight Board (PCAOB), which monitors the performance of audit committees, is the concept of audit committees' most thorough adoption.[28]

5.1 Audit Committees Under the Companies and Allied Matters Act, 2020

The Nigerian Companies and Allied Matters Act 2020, which establishes audit committees under section 404(2), incorporates the idea of an audit committee. According to Section 404(4) of the same Act, audit committees must consist of two directors and three shareholders[29] from the same publicly traded firm. The committee is responsible for reviewing the auditors' reports and presenting any suggestions to the AGM. Following Subsection 5 of Section 404, members of the audit committee shall be financially literate and shall include at least one member of a professional accounting organization in Nigeria established by an Act of the National Assembly. According to Section 404(6) of the Act, any member may propose a shareholder for election to the audit committee by notifying the company's secretary in writing at least 21 days before the annual general meeting. The duties of audit committees are listed in Section 404(7) of the Act. Among these include maintaining oversight of public firms' internal and external auditing processes, serving as an entity that oversees internal and external auditors, maintaining oversight of all public company accounting policies and procedures, maintaining regulatory compliance with financial reporting standards and ethics, supervising the internal financial control process of publicly traded firms, and safeguard whistle-blowers. To oversee the employment and performance of internal and independent external auditors.

5.2 Audit Committees under the Nigerian Code of Corporate Governance.

The Code acknowledges the necessity for every Company to have a Board committee in charge of auditing in addition to the Statutory Audit Committee.[30]Financial literacy and the ability to read and comprehend financial statements are requirements for all committee members. A financial expert with up-to-date knowledge of accounting and financial management and the ability to read financial accounts should make up at least one member of the committee.[35]The Code mandates that the audit committee for private companies be composed of non-executive directors, preferably

[27] Oghogho Gina etal "The Role of Audit Committee in Enhancing Financial Reporting in Nigeria" www.iosrjournals.org p. 27 last visited on 20/06/2019.

[28] Adoga O "Role of Audit Committees Under Nigerian Financial and Corporate Laws" www. hg.org legal resources last visited on 12-07-19.

[29] This is in contradistinction to the 1990 Act that provides for a maximum of six members of equal representation of three members each for both directors and shareholders.

[30] Nigerian Corporate Governance Code (NCCG) Principle 11.4.1 [35]
NCCG, principle 11.4.2

independent non-executive directors.[31]The chairperson of the statutory audit committee should be chosen from among its members and have financial literacy.[32]The Audit Committee is anticipated to convene every three months.[33]

The Code outlines the mandated duties of audit committees, examining, for instance, whether the business's accounting and reporting practices meet ethical and regulatory requirements; reviewing the audit requirements' scope and planning, as well as the management letter and the external auditor's responses to them. Give the internal auditor permission to investigate any company operations that may be of interest or concern to the committee. Make recommendations to the Board regarding the appointment, removal, and compensation of the company's external auditors.[34]The Code charges the Audit Committee with a slew of additional duties.[35]

5.3 Composition of Audit Committees

As was previously observed, shareholders and directors from the company's board of directors make up the audit committee. Non-executive directors make up the majority of the audit committee's members representing the board. The shareholders are to elect their representatives. To be qualified to stand for election at the annual general meeting, at least 21 days before the annual general meeting, a shareholder must be proposed by another member, as stated in section 404(6) of the CAMA.CAMA and the Nigerian Code of Corporate Governance stipulate that committee members must be financially competent due to the nature of the audit committee's work. Financial literacy is emphasized as an important aspect of corporate governance recommendations for the US. A financial expert as defined by the SEC must be one of the audit committee's members, according to the Sarbanes-Oxley Act. According to SOx, financial competence is defined as having a comprehensive understanding of accounting and auditing standards as well as the business and the sector in which it operates.

When the 2014 Code of Governance for Banks and Discount Houses stated in section 5.2.3 that the Board Audit Committee (BAC) shall be of enough size, independence, and technical expertise to accomplish its job efficiently, it seemed to embody the aforementioned Sox provisions. The BAC must also have members who are financially literate, or have the capacity to read and comprehend financial statements, according to Section 5.2.4. According to the provision, at least one member must be qualified and have relevant expertise, i.e., they must be a certified public accountant or another financial expert knowledgeable in both financial and accounting matters.

The chairman and secretary are the audit committee's two primary officers. The head of the audit committee is in practice a shareholder representative, even though there is no such provision in the CAMA.[36]Following section 5.2.2 of the 2014 Code of Governance for Banks and Discount Houses, the audit committee shall be chaired by an independent director. There is a conflict between the

[31] NCCG, principle 11.4.3.
[32] NCCG, principle 11.4.4.
[33] NCCG, principle 11.4.5.
[34] NCCG, principles 11.4.6.1 to 11.4.6.6.
[35] See principles 11.4.7.1.-12 of the NCCG.
[36] Nat Ofo "An Evaluation of Nigerian Public Company Audit Committees. Nat Ofo last visited https://ssrn.com/abstract=1641603 on 10/10/19. [42]Nat Ofo ibid [43] Ibid.

Code and what is in practice. In a similar spirit, it is customary for the Company Secretary to serve as the audit committee's secretary. The CAMA does not statutorily cover this.[42]

According to our jurisprudence, there are two distinct types of audit committees. They are the statutory audit committee and the board audit committee. The second is a result of the code while the first was a creation of CAMA. The statutory audit committee is made up of five people: two directors and three corporate shareholders. While having shareholders' representatives on audit committees may increase shareholder turnout at annual general meetings, most companies are reluctant, if not outright unwilling, to present matters to the committee for discussion, as shareholders do not have the same level of obligations to the company as directors do under the CAMA, thus the possibility of revealing price-sensitive information that is not yet in the public domain is high.[43]

The composition of audit committees must include directors who serve on the committees. The CAMA only requires that the committee consist of two directors and three shareholders' representatives, making a total of five members. The CBN Code of Corporate Governance for Banks and Discount Houses, 2014, section 5.2.2, on the other hand, mandates that all members of audit committees be independent non-executive directors and that the committee must be chaired by one as well. Although the 2014 CBN Code's provision on the composition of audit committees is commendable, it still falls short of global best practices. For instance, in India, the audit committee for banks must include a minimum of three directors. Independent directors make up two-thirds of the audit committee.[37]

Independent directors must make up the audit committees of banks. First, the committee's work will benefit from their independence of character and judgment due to their membership, they also add a great deal of credibility and credence to the quality of the audit report, both of which are allegedly lacking in other non-executive directors because of their ties to the management or other employees of the company in question. The practice of allowing proxy members to participate in such elections for shareholders' representatives on the audit committee has some flaws. There is a danger that the election process will be exploited and/or manipulated when there are a large number of proxy participants.[38]

The fact that the tenure of audit committee members is uncapped is another problem with the constitution of the committee. In the case of shareholders' representatives, once a member is elected annually at the annual general meeting, he remains a member of the committee. These shareholders would eventually get too comfortable with the company's directors. The effectiveness of the committee can suffer as a result. If a tenure limit is enforced, particularly on the shareholders' representatives, this negative influence could be avoided. The Act's requirement that members of the audit committee be nominated annually appears to have addressed this problem.[39]

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[37] Sanjiv Agarwal "Corporate Governance Through Audit Committees" The Chartered Accountant, November 2006 p.736.

[38] Nat Ofoopcit 21

[39] See section 404 (3) CAMA.

The efficacy of audit committees has not increased due to the establishment of dual audit committees, especially since some companies have adopted the practice of referring to the Statutory audit committees' somewhat insignificant matters while reserving important matters to the so-called "Board Audit Committee," to handle. Audit committees' influence on the efficient operation of banks would be minimal unless they are permitted to carry out the duties outlined in the CAMA and corporate governance standards.

Additionally, management has tremendous incentives to sway the audit process, particularly if they stand to gain personally. Thus, the push for audit committees to be in charge of choosing and paying external auditors. Despite the presence of audit committees, evidence suggests that management nevertheless has significant control over the hiring and firing of auditors. All imply that the audit committee is not being fully utilized in discussions between the auditor and management and, consequently, a new structure is required where shareholders have more control over the appointment and dismissal of auditors.[40]

Despite being a commendable idea, the audit committee has not accomplished its goal. It is simple to pinpoint several causes for the Audit Committee's ineffectiveness non advancing of ethical business behaviour in Nigeria. First, other than the basic need that he must be financially literate, the law did not specify any specific requirements for membership of shareholder representatives in the audit committee. Second, organized shareholder groups with small stakes in the company that are vulnerable to manipulation by the Board or management win elections since voting is done by show of hands. Third, the ratio of executive to non-executive members on the board of directors of the company is unrestricted by law.[41] Fourth, because it is unclear who should present the Chairman, different companies have very different practices. The membership of the Audit Committee is also not term-limited.

6. Financial Reporting Council of Nigeria

According to section 378 (1) of CAMA 2020, all financial statements published in Nigeria must adhere to the accounting principles outlined in the Financial Reporting Council Act's first schedule as well as any later accounting guidelines published by the Nigerian Financial Reporting Council. The Nigerian Accounting Standards Board was superseded by the Council, which was established in June 2011. The Act provides a thorough regulatory framework that includes norms and regulations for governance, accounting, and auditing. The Council is in charge of regulating these accounting and auditing standards.

The Financial Reporting Council now has formal, statutory oversight over professional accounting organisations, ending the voluntary self-regulation that had existed before the passage of the ground breaking Financial Reporting Act. As was previously said, the fact that the accounting profession to which they belonged was self-regulated was one of the factors contributing to the auditors who were implicated in the crisis that shook the banks being let off the hook. The Big Four audit companies, which were mired in the crisis, escaped unscathed because it appears that the internal regulatory bodies for the accounting profession lacked the guts to hold the Big Four

[40] Stewart, J., & Munro, L. "The Impact of an Audit Committee's Existence and Regularity of Meetings on an External Audit: Australian Auditors' Perceptions. 11(1), 51–69, International Journal of Auditing, 2007.

[41] Nat Ofoopcit

businesses accountable. Accordingly, the law's purpose is to abolish the "sacred cow" in the accounting profession and provide all members with an equal playing field in terms of practice and liability for their audit role. The Act's sections 7 and 8 give the essential details of the Council's duties and authority. These authorities are a source of conflict because they are both new in Nigeria's regulation of professional organizations.[42] The Council performed its duties, some of which are detailed here, in a way that contributed to improving audit quality.

6.1 Registration of Professionals

All professionals who wish to hold any positions or render professional services for payment in businesses acting in the public interest must register with the Council first, making this one of the Act's most contentious provisions. Without being registered under the Act, any professional whose activities affect how a public interest corporation reports its financial information cannot successfully carry out its duties. The Act Sections 8(1)(f), 33, and 41 all apply to this obligation. All professionals who want employment with large companies or so-called public interest entities (PIEs) must comply with the Act's requirements,[43] and to be registered by the Council and with it.

For several reasons, the Council requires registration. First, it aids in conducting inspections and assuring compliance with its auditing criteria. Second, registration acts as a screening tool to determine who should and shouldn't provide professional services in Nigeria. Additionally, Council certification will give the government the desired databank it needs to determine the precise number of experts working in the financial reporting chain.

6.2 Professional Discipline

A new disciplinary system will now apply to professional accountants, which is another significant result of the Council registration. Section 8 of the Act contains this. The section grants the Council authority to examine, encourage, and enforce the Council's established accounting and financial reporting criteria;[44]conduct practice evaluations of registered professionals to ensure that they are practicing following the Act and Council regulations. This also applies to impacted public interest entities and registered professionals.[45]

In the exercise of its mandate, the Council had ordered ICAN to stop its 2012 Annual General Meeting due to perceived corporate governance breaches. This unprecedented action has never occurred in Nigerian accounting history, and it demonstrates the potency of the law if it is applied correctly and consistently.[46]Additionally, the Council declared in 2015 that the Chairman and Group Managing Director of Stanbic IBTC Bank Plc had had their registration suspended and that a partner from KPMG Professionals who had been hired to serve as the bank's external auditors, was also suspended due to false financial statements. The Council further directed the bank's directors to release the financial statements again following Section 64(2) of the Act and

[42] Wilson E. Herbert, etal "Financial Reporting Council of Nigeria and the future of Accounting Profession in Nigeria" International Journal of Finance and Accounting 2016, 5 (3) 153.
[43] Wilson E. Herbert, etal note 48.
[44] See section 8 (1) (b) of the FRC Act.
[45] See section 8 (1) (l) of the Act.
[46] http://www.vanguardngr.com/2012/05/financialreporting-council-stops-ican-agm.cited in Wilson E. Herbert etal note 48.

Regulation 21 of the Financial Reporting Council of Nigeria for the fiscal years ended December 31, 2013, and 2014.[47]

6.3 Management Assessment of Internal Controls, Including Information Systems Controls with Independent Attestation

This is yet another clear-cut but potent factor for change that could have a significant effect on the accounting sector. To determine how much faith should be placed in the current internal control system and, invariably, how much work has to be done, external auditors are often expected to assess its effectiveness. There is no publicly available data suggesting that the auditors' schedule is anything other than what is stated. The Council is empowered to request a third-party attestation of the effectiveness of internal control and information systems control by Section 7(2)(f) of the Act.

Financial statements must contain one of three distinct attestations, namely: a) assurance attestation, b) internal controls and information system controls certification, and c) certification of corporate governance. Although completing these attestations can be expensive, their importance and benefits are predicted to equal or outweigh their costs. This industry represents a significant driver of change for the accounting industry in Nigeria because it would necessitate greater caution and attention from professionals.[48]For attestation to the effectiveness of the internal controls and information systems, appropriate ex-ante tests are necessary.

6.4 Compliance with the Code of Ethics for Financial Officers and Certification of Financial Statements by Chief Executive Officer and Chief Financial Officer

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of the organization must jointly certify all financial accounts, according to Section 7(2)(g) of the Act. This is a component of the global initiative to improve sound corporate governance, instil trust in publicly available financial data, and hold the top two corporate leaders responsible for disclosures or failures to disclose made by the company. The aforementioned criterion is certain to encourage greater accountability and improved company governance because forfeiture will result if financial statements are not certified with the utmost care, by the chief financial officer and executive officer of the company, of specific incentives they got from the business and gains made from the selling of company shares they owned.[56]These corporate leaders effectively have a mandate to closely and effectively supervise both the steps leading up to the process of creating financial statements and the final results of those statements. Financial statements will become more credible as a result of increased professional pressure brought on by an awareness of personal responsibility for egregious financial statements.

6.5 Practice Review of Professional Accountants

Section 60(a) grants the Council the authority to inspect any relevant book that is in the auditor, partner, or employee's possession and to extract information from, copy, and record any such book,

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[47] Guidelines/Regulations for Inspection and Monitoring of Entities, 2014 (see, https://drive.google.com/file/d/0BxB1b qcIt35aHh 2OX BF NFBneWM/view? pref=2 &pli=1).cited in Wilson E. Herbert etal note 48.

[48] Wilson E. Herbert, et al note 48.

[56] Ibid.

document, and record about a firm that is the subject of an investigation, subject to the approval of the public interest entity (PIE), record any such book, document, and record concerning a firm under investigation. According to Section 61, professional accountants who audit more than 20 PIEs must do a practice review annually, but everyone else must do so every three years. However, at any moment, the Council has the authority to ask for a special inspection of any licensed accountant.[49]

6.6 Inspection and Monitoring

Due to the provisions of the Act making it clear that disobedience was possible, the Directorate of Inspection and Monitoring was established, allowing for the implementation of steps to ensure compliance[50]Section 28(1) of the Act outlines the Directorate's responsibilities, which have the potential to change the direction of the accounting profession in Nigeria. The Directorate is specifically given the authority to: Monitor adherence to auditing, accounting, actuarial, and valuation standards evaluated and enacted by the Council; Recommend any necessary punishments to the Technical and Oversight Committee for the Council's approval, and carry out any fines or other sanctions that the Council decides are appropriate. The frequency of practice evaluations, reviews of professional accountants' practices, investigative authority obstructing the inspector, and penalties for noncompliance are just a few of the issues covered in Sections 60 to 67.

These clauses are meant to give the Council the authority to oversee the accounting profession from the outside, doing away with the internal regulation that had previously been in place over the years. The ultimate objective is to establish professional discipline, improve industrial ethics, and ensure that accountants fulfil their duties with the necessary care and professionalism, failure of which defaulters face very severe penalties.

There is no question that the audit quality in the Nigerian banking sector will improve if these regulations are carefully executed by the Council.

7. Conclusion

For the banking sector to remain stable and flourish, a quality audit is essential. The shareholders and audit committees must be able to successfully fulfil their separate tasks for this to occur. However, if this fails, the authority granted to the Financial Reporting Council of Nigeria is strong enough to prevent any dishonest behaviour on the part of the auditors in fabricating information about the financial standing of businesses in the Nigerian banking sector. Where the shareholders, audit committees, and the Financial Reporting Council diligently play their respective roles cases of bank failures may become a thing of the past.

[49] Ibid.

[50] See section 23 of the Act.