



IMPORTANCE OF INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT IN NIGERIAN COMPANIES

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Abstract

Effective Internal control and efficient enterprise risk management are very important concepts towards achieving proper corporate governance in any organization. A sound corporate governance structure for companies can act as an engine of economic growth as it leads to investor confidence in different sectors of the economy. To this end, different legislation have over the years been introduced in Nigeria by different regulators to ensure that these two concepts are properly executed in Nigerian Companies. This paper evaluates the importance of these concepts and how they can contribute to economic development in Nigeria. The paper examined the effects of poor internal control and enterprise risk management have had on companies in Nigeria over the years and how this highlights the importance of these concepts. The paper relied on the doctrinal legal research methodology by analysing both primary and secondary sources of law. The paper found that many of the corporate failures in Nigeria can be attributed directly to a failure in corporate governance especially a failure by companies to implement and maintain effective internal control systems and efficient risk management practices. The paper concludes that effective and efficient internal control and effective risk management can act as a way of mitigating future corporate failures and recommends that this can be achieved by greater accountability of management and the board, better enforcement of existing legislation by regulators and improvement in existing legislation to better cater for the complexities of the two concepts.

Keywords: Internal Control, enterprise risk management, corporate governance, accountability, Legal Framework

1. Meaning of Internal Control

Internal control is defined by the Committee of Sponsoring organisations of the Thread way Commission (COSO) as a process carried out by the Board of Directors, the Management and other personnel of an entity designed to provide reasonable security with respect to the achievement of objectives in the following categories; effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.¹ These objectives are to be achieved through its internal control over financial reporting framework that is based on five inter-related components. These include: control environment, risk assessment, information and communication, control activities and monitoring processes.² These components describe and analyse the internal control system implemented in a company as regulated by financial regulations. Internal control (over financial reporting) is defined by the United States Securities and Exchange Commission (SEC) in Exchange Act Rules 13a-15(f)³ under the Securities Exchange Act of 1943⁴ as:

*A process designed by, or under the supervision of, the issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures...*⁵

The United States SEC notes that companies should in evaluating or assessing their internal control systems make use of a suitable, recognised framework that is established by a body or group that has followed procedures including the broad distribution of the framework for public comment, free from

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¹ <<https://www.coso.org/Documents/990025P-Executive-Summary-final-may20.pdf>> accessed 13 January 2020

² Ibid

³ 17 CFR 240.13a-15(c).

⁴ 15 U.S.C. 78

⁵ Exchange Act Rules 13a-15(f) and 15d-15(f)

bias, permit reasonably consistent and qualitative measures of a company's internal control, sufficiently complete so that relevant factors that would alter a conclusion about the effectiveness of a company's internal control are not omitted and relevant to an evaluation of internal control over financial reporting.⁶ These requirements according to the United States SEC are met by the COSO framework which it encourages firms to adapt when it introduced the Sarbanes Oxley Act in 2002 (SOX).⁷

In Nigeria, Internal control is regulated by the Investment and Securities Act, 2024 (ISA)⁸, the Federal Reporting Council Act 2011⁹ (amended in 2023),¹⁰ the Nigerian Code of Corporate Governance 2018 (NCCG)¹¹ and the Companies and Allied Matters Act, 2020¹² (CAMA).

2. What is Enterprise Risk Management

The complex business activities many companies engage in involves significant risks and failing to adopt adequate risk management policies that adequately identify, monitor and manage risk exposure related activities could lead to huge losses and raises the necessity of adequate and effective enterprise risk management.¹³ Enterprise risk management is the process of planning, organizing, leading, and controlling the activities of an organization in order to minimize the effects of risk on an organization's capital and earnings. Enterprise risk management expands the process to include not just risks associated with accidental losses, but also financial, strategic, operational, and other risks.¹⁴

Enterprise risk management is a firm-wide strategy to identify and prepare for hazards with a company's finances, operations and objectives. Enterprise risk management allows management to shape and devise the overall risk position of the company by mandating different segments of the business to 'engage or disengage from certain activities that may have a negative impact on the company'.¹⁵ It is a top down strategy that aims to identify, assess and prepare for potential losses, dangers and hazards and other potentials for harm that may interfere with a company's operations and objectives.¹⁶

COSO introduced its enterprise risk management integrated framework in 2004.¹⁷ The framework demonstrates how integrating 'enterprise risk management practices throughout an entity helps to accelerate growth and enhance performance'.¹⁸ COSO identifies 8 core components for effective enterprise risk management practices. These include: internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication and Monitoring.¹⁹ Implementation of these components allows companies achieve objectives in 4 different areas; Strategic objectives, operational objectives, reporting objectives and compliance objectives across an entity's various levels, departments and procedures.²⁰ Effective enterprise risk management mitigates

⁶ Pub. L. 107-204 <<https://www.govinfo.gov/content/pkg/PLAW-107publ204/pdf/PLAW-107publ204.pdf>> accessed 10 February 2020

⁷ *ibid*

⁸ The Investment and Securities Act, 2024

⁹ Federal Reporting Council of Nigeria, Act 2011

¹⁰ Federal Reporting Council of Nigeria, (Amendment) Act 2023, Act No. 42

¹¹ <[Nigerian Code of Corporate Governance 2018 – SCGN \(corpgovnigeria.org\)](https://www.scgn.gov.ng/)> accessed 10 February 2020

¹² Companies and Allied Matters Act, 2020

¹³ K N Johnson, 'Addressing gaps in Dodd-Frank Act: Directors' risk management oversight functions' University of Michigan Journal of Law Reform (2011) <<https://advance.lexis.com/api/document?id=urn:contentItem:54CH-SNM0-00CV-N0KC-00000-00&idtype=PID&context=1516831>> accessed 6 February 2024

¹⁴ A S Gillis <What is Enterprise Risk Management (ERM)? | Definition from TechTarget> accessed 30th March 2024

¹⁵ Adam Haynes, 'Enterprise Risk Management (ERM): What Is It and How It Works' (2024) <<https://www.investopedia.com/terms/e/enterprise-risk-management.asp>> accessed 30th March 2024

¹⁶ *ibid*

¹⁷ <[coso_erm_executivesummary.pdf \(sox-online.com\)](https://www.cso.org.uk/~/media/Files/2017/04/coso_erm_executivesummary.pdf)> accessed 10 November 2024

¹⁸ *ibid*

¹⁹ T H Thabit, A Solaimanzadah and M A. Mohammed, 'Determining the Effectiveness of Internal control in Enterprise Risk Management based on COSO recommendations', International Conference on Accounting, Business Economics and Politics, (2019) <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3401199> accessed 31st March 2024

²⁰ <[COSO's enterprise risk management framework | ACCA Global](https://www.cso.org.uk/~/media/Files/2017/04/coso_erm_executivesummary.pdf)> Accessed 21 July 2024

operational, financial, security, compliance, legal and other risks.²¹ It involves a firm wide surveillance as opposed to individual units although communicating and coordinating between different business units is essential for enterprise risk management to be successful, since risk decision coming from top management may seem at odds with the local assessments on the ground. Effective enterprise risk management requires dedicated enterprise risk management teams.²² It also operates best when a company operates enterprise risk management best practices formalised through COSO.²³

COSO's fundamental idea is that good risk management and internal control are necessary for long term success of all companies and this can be achieved by improving the company's performance and governance.²⁴ The purpose of the framework was to help entities better protect and enhance value for all stakeholders.²⁵

In 2017, COSO updated its Enterprise Risk Management framework²⁶ to assist organisations to understand and prioritise risks to build a strong and sustainable link between risk, strategy and business performance.²⁷ This framework highlights the importance of considering risk in both the strategy setting process and during performance.²⁸ The framework recognises that considering risk while planning the strategy of an organisation usually improves decision making.²⁹ Every entity exists to provide value for all stakeholders, yet these entities face uncertainty in pursuing that value.³⁰ This updated framework focuses 'on creating and preserving enterprise value with an emphasis on managing risk within the entity's defined risk tolerance'.³¹ This framework condensed the components and principles into five categories; governance and culture, strategy and objective setting, performance, review and revision and finally information, communication and reporting.³² The underlying philosophy of the framework is that corporate value is maximised when management sets strategy and objectives to strike an optimal balance between the growth of the organisation and achieving goals with the related risks by efficiently and effectively deploying resources in pursuit of an entity's objectives.³³

The framework more clearly connects enterprise risk management with a multitude of stakeholder expectations. It considers risk in the context of an organisation's performance rather than an isolated event.³⁴ It enables organisations to better anticipate risk and plan ahead³⁵ Enterprise Risk Management is not just a function of departments rather, it is the culture; capabilities and practices organisations integrate with strategy settings and apply when they carry out that strategy with the purpose of managing risk in creating, preserving and realising value'.³⁶

Management holds overall responsibility for managing risk (and for providing oversight) to the entity but this process can be improved by management having communication with the board and stakeholders about using enterprise risk management to gain a competitive advantage.³⁷ This process starts by deploying enterprise risk management as a crucial part of selecting and refining the strategy of

²¹ Thabit H. Thabit, Alan Solaimanzadah and Mohammed A. Mohammed, 'Determining the Effectiveness of Internal control in Enterprise Risk Management based on COSO recommendations', International Conference on Accounting, Business Economics and Politics, (2019) <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3401199 > Accessed 31 March 2024

²² *ibid*

²³ *ibid*

²⁴ *ibid*

²⁵ <[coso_erm_executivesummary.pdf \(sox-online.com\)](https://www.ciso.org/sox-online.com)> accessed 10 November 2024

²⁶ <Enterprise Risk Management | COSO> accessed 10 November 2024

²⁷ T H Thabit, A Solaimanzadah and M A. Mohammed, 'Determining the Effectiveness of Internal control in Enterprise Risk Management based on COSO recommendations', International Conference on Accounting, Business Economics and Politics, (2019) <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3401199 > Accessed 31 March 2024

²⁸ <Enterprise Risk Management | COSO> accessed 10 November 2024

²⁹ *ibid*

³⁰ *Ibid*

³¹ *ibid*

³² *ibid*

³³ *ibid*

³⁴ *ibid*

³⁵ *ibid*

³⁶ *ibid*

³⁷ *ibid*

the organisation. Management then deploys enterprise risk management capabilities as part of selecting and refining strategy.³⁸ This process helps management gain a better understanding of how the consideration of risk may impact the choice of strategy.³⁹ Once strategy is set, management can better fulfil its role knowing how risks would affect the chosen strategy and how best to manage them.⁴⁰ Applying enterprise risk management creates trust and breeds confidence in how management is handling risks by the stakeholders in this current environment which demands greater scrutiny than before the corporate failures that led to an increase in legislation to prevent or minimise their occurrence.⁴¹

3. Legal Framework for Internal Control and Enterprise Risk Management in Nigeria

Section 89 (1) ISA, regulated by the Securities and Exchange Commission (SEC), provides that: ‘A public company shall establish a system of internal controls over its financial reporting and security of its assets and it shall be the responsibility of the board to ensure the integrity of the company’s financial controls and reporting’. The ISA defines internal control in section 89(3) as the ‘policies, procedures and practices put in place by management to ensure safety of assets, accuracy of financial records, achievement of corporate objectives and compliance with laws and regulations’. The ‘existence, adequacy and effectiveness or otherwise’ must also be certified by the auditor of a public company in his audit report.⁴²

On March 31st 2021, the SEC published guidance on the Implementation of Sections 60 - 63 of the ISA 2007,⁴³ (now sections 89-91 ISA 2024, however the provisions of both legislation regarding these sections are identical) which provided essential clarity for public companies. This guideline emphasized the importance of accuracy in financial statements, requiring CEOs and CFOs to certify their correctness in annual or periodic reports.⁴⁴ It outlined the responsibilities of directors, who must establish and maintain robust internal controls over financial reporting.⁴⁵ The guideline also mandated that management should conduct an annual assessment and report on the company’s internal control over financial reporting.⁴⁶ This ensures that any weaknesses are identified and addressed promptly. Auditors also play a crucial role, as they are required to report on the internal controls of public companies⁴⁷. The independence of the auditors is vital, and they must address any material weaknesses they find.⁴⁸ Additionally, auditors should issue an attestation report on management’s evaluation of the company’s internal controls system and also include within its audit report to the company; a statement as to the existence, adequacy and effectiveness or otherwise of the internal control system of the public company.⁴⁹ This comprehensive approach aims to enhance transparency and accountability in financial reporting, ultimately strengthening investor confidence in public companies.

The Financial Reporting Council Act 2011⁵⁰ which establishes the Federal Reporting Council of Nigeria (FRCN) also includes provisions regulating internal control in Nigeria. The council’s powers include requiring that the management of public interest enterprises (PIEs) conduct assessment of internal controls and also independent attestation.⁵¹ The council also ‘monitors compliance with reporting requirements specified in the adopted code of corporate governance’⁵². The Act also establishes a

³⁸ *ibid*

³⁹ *ibid*

⁴⁰ *ibid*

⁴¹ *ibid*

⁴² Section 91, The investment and securities Act, 2024

⁴³ https://sec.gov.ng/guidance-on-the-implementation-of-sections-60-63_of-the-investments-and-securities-act_2007/ > accessed 10 November 2024

⁴⁴ *Ibid*, Section 1.1

⁴⁵ *Ibid*, Section 1.1 (2), 1.2 and 1.6

⁴⁶ *Ibid*, Section 1.3

⁴⁷ *Ibid*, Section 1.4

⁴⁸ *Ibid*, Section 1.5

⁴⁹ *Ibid*, Section 1.4

⁵⁰ Federal Reporting Council of Nigeria, Act 2011

⁵¹ *Ibid*, Section 7(f)

⁵² *Ibid* Section 8(g)

directorates of corporate governance with one of its major objectives being; encouraging sound systems of internal control to safeguard stakeholders' investment and assets of public interest entities.⁵³

The NCCG, 2018⁵⁴ issued by the FRCN provides for among others; an internal audit committee to assess risk management,⁵⁵ and the adoption of a risk management framework;⁵⁶ establishment of internal control systems,⁵⁷ annual corporate governance evaluations,⁵⁸ and the appointment of an external assessor to review the effectiveness of the audit committee at least once every 3 years. It is also to:

*Ensure the establishment of and exercise oversight on the internal audit function which provides assurance on the effectiveness of the internal controls. On a quarterly basis, obtain and review a report by the internal auditor describing the strength and quality of internal controls including identification of any issues or recommendations for improvement raised by the most recent internal audit review of the company.*⁵⁹

On 26th May 2024, the FRCN issued the guidance for the management report over internal control over financial reporting.⁶⁰ The guidance issued pursuant to sections 7(2) (f) and 50 (f) of the FRC Act 2011, empowers the council to require independent attestation on the management of internal controls to safeguard the investments of stakeholders and assets of PIEs.⁶¹ It states further that it is the responsibility of management to maintain a system of internal control that provides reasonable assurance regarding the reliability in the preparation of financial statements in accordance with generally accepted accounting principles.⁶² To ensure that the system is achieving its aims, management must also assess the effectiveness of the internal control system deployed and include any material weaknesses discovered in its annual reports.⁶³

Section 405 CAMA details the corporate responsibility of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) for Nigerian companies (other than small companies) over financial reports. Section 405 (1) (b) states that the CEO and the CFO shall certify that in each financial statement that the officer who signed the audited financial statements:

Is responsible for establishing and maintaining internal controls and has designed such internal controls to ensure that material information relating to the company and its subsidiaries is made known to the officer by other officers of the companies, particularly during the period in which the audited financial statement report is being prepared

They should also certify that this person '...has evaluated the effectiveness of the company's internal controls within 90 days prior to the date of its audited financial statements, and certifies that the company's internal controls are effective as of that date...'⁶⁴ This officer should have also disclosed to the auditors and the auditors committee any deficiencies in the design and operation of the company's internal control procedures and also any material weaknesses in the company's internal controls.⁶⁵ Finally this officer should disclose whether there has been any fraud involving management or other employees that could significantly affect the company's internal control processes⁶⁶ and whether there have been any significant changes in the company's internal control that could affect the company as well as any measures taken to correct such deficiencies.⁶⁷

⁵³ Ibid, Section 50(f)

⁵⁴ <Nigerian Code of Corporate Governance 2018 – SCGN (corpovngovnia.org)> accessed 10 February 2020

⁵⁵ Ibid, Principle 11.5

⁵⁶ Ibid, Principle 17

⁵⁷ Ibid, Principle 11.4.7.3

⁵⁸ Ibid, Principle 15

⁵⁹ Ibid, Principle 11.4.7.2

⁶⁰ <FRC-Guidance-on-Management-Report-on-ICFR-RR-1.pdf (frcnigeria.gov.ng)> accessed 10 November 2024

⁶¹ Ibid, section 1.7

⁶² Ibid, section 1.1, 1.4

⁶³ Ibid, Section 1.5

⁶⁴ CAMA 2020, section 405 (b) (ii)

⁶⁵ Ibid, Section 405 (b) (iii)

⁶⁶ Ibid, Section 405 (c) (ii)

⁶⁷ Ibid, Section 405 (d)

SEC issued a circular on 14th June 2024 directing all capital market operators (CMOs) to implement an Enterprise Risk Management framework that conforms to international standards such as those made by COSO, International Organisation for Standardisation (ISO 31000), Financial Action Task Force (FATF) and other internationally recognised risk management standards.⁶⁸ SEC recognises that the adoption of a comprehensive Enterprise Risk Management framework is important in protecting against risks and safeguarding the interests of all stakeholders.⁶⁹ The framework should include a risk governance structure, a systemic process for risk identification, analysis, and prioritization, strategies to manage to mitigate risks, statements defining the level of risk the organization is willing to accept, regular monitoring of risk factors and reporting to senior management and the board and promoting risk awareness within the organization.⁷⁰ The directives aim at improving the risk based supervision measures in the capital market. All CMOs are also required to submit annual risk profiles before 31st January every year. In addition they are also measures put in place to mitigate emerging threats must be assessed and reported to SEC for review.⁷¹

Principle 17 of the NCCG 2018,⁷² states that ‘a sound framework for managing risk and ensuring an effective internal control system is essential for achieving the strategic objectives of the Company’. The FRC recommends that companies should establish a risk management framework that defines the company’s risk policy, appetite and limits.⁷³ The framework must also identify, assess, monitor and manage key business risk to protect the interest of shareholders and the assets of the company.⁷⁴ The FRC also encourages companies to conduct an annual risk assessment to ensure mitigating strategies have been put in place to manage identified risks. Principle 17.7 of the NCCG 2018 states that companies should ensure that the Company’s risk management framework is disclosed in their annual report.

4. Importance of Internal Control and Enterprise Risk Management

The importance of good internal controls and effective risk management became pronounced in the wake of high profile corporate failures, e.g. Maxwell, Enron, WorldCom, Tyco, Shell etc.⁷⁵ In Nigeria, many corporate failures such as the case of Cadbury, Cresta bank, Oceanic bank etc.⁷⁶ were as a result of weak corporate governance practices. It is recognised that a good system of corporate governance is essential for the smooth working of any company. This had led over the years to the introduction of several codes of corporate governance in Nigeria⁷⁷ to encourage proper corporate governance practices in different sectors.

A sound corporate governance structure for companies can act as an engine of economic growth as it leads to investor confidence in different sectors of the economy. Corporate Governance is the manner in which companies are directed and controlled.⁷⁸ It involves a process by which the board and senior management of a company can be held accountable and responsible for their actions. This process incorporates principles such as; ‘corporate discipline, transparency, independence, accountability, responsibility, fairness and social responsibility’.⁷⁹ Internal controls are the practical aspects of corporate governance like the policies and procedures that enable a company comply with its own moral code and applicable corporate governance legislation of practices.⁸⁰

⁶⁸ <The Securities and Exchange Commission, Nigeria> accessed 12 December 2024

⁶⁹ *ibid*

⁷⁰ *ibid*

⁷¹ *ibid*

⁷² <Nigerian Code of Corporate Governance 2018 – SCGN (corpgovnigeria.org)> accessed 10 February 2020

⁷³ *Ibid*, principle 17.1

⁷⁴ *Ibid*, Principle 17.2

⁷⁵ Ruth v. Aguilera ‘Corporate Governance and Director Accountability’ *British journal of Management* (2005) (16) (39-53)

⁷⁶ < https://www.vanguardngr.com/2022/03/shareholders-and-issues-of-corporate-frauds/#amp_tf=From%20%251%24s&aoh=17176815476401&referrer=https%3A%2F%2Fwww.google.com&share=https%3A%2F%2Fwww.vanguardngr.com%2F2022%2F03%2Fshareholders-and-issues-of-corporate-frauds%2F> Accessed 10 June 2024

⁷⁷ For instance; The codes for the banking industry, the insurance industry, The National code for corporate governance 2018

⁷⁸ Section 2.0 of The Code of Business Ethics and Principles on Corporate Governance for the Insurance Industry issued by the National Insurance Commission in 2009

⁷⁹ *ibid*

⁸⁰ <<https://bizfluent.com/facts-6817611-importance-internal-controls-corporate-governance.html>> accessed 14 February 2023

According to COSO ‘Since inception, the internal control and Enterprise Risk Management frameworks were intended to provide guidance for management on how to implement and evaluate effective Enterprise Risk Management and efficient Internal Control processes leading to the improvement of management and governance.’⁸¹ When applied effectively, the COSO framework’s concept contributes to improving corporate governance and ultimately in the achievement of better performance and deliverables to all stakeholders of a company.⁸² The various risks facing the company are identified and assessed routinely at all levels and within all functions of the company.⁸³ Control measures are proactively designed to address and mitigate significant risks. Information critical to identifying business objectives are communicated through established channels across the company.⁸⁴ The entire system of Internal Control is continuously monitored and problems addressed in a timely manner.⁸⁵ Corporate governance relies heavily on effective internal controls which help to ensure that the processes operate as designed and that effective responses in managing risk are carried out.

With the increase in competition among companies and the attendant need to maximise profits, adherence to corporate governance practices are becoming more important. As management and the board try seek to maximise profit (sometimes for themselves) and create value for their various stakeholders, they are often might be prone to making risky investments or speculations and then try to cover up such practices if adequate corporate governance practices are not in place to deter such actions. The Enron Scandal that occurred in 2021 is a classic a corporate failure that arose as a result of a failure in corporate governance practices that were linked to improper financial reporting and acquiescence of auditors. Enron faced increase in completion in its energy trading business and under pressure from shareholders (and in an attempt by management to make more money for themselves as their bonuses were tied to stock prices) the company started relying on dubious accounting practices to hide its losses.⁸⁶ The company listed projected profits in its balance sheet as actual received profits, giving a false account of its actual profit recorded.⁸⁷ Also the company then set up shell corporations to hide the losses so that these losses did not appear on its company balance sheet.⁸⁸ When the severity of the situation finally came to light, the company announced losses of \$638 million dollars and there was a drastic reduction in shareholder equity.⁸⁹ The auditors of the company, Arthur Anderson were also indicted by the United States, Department of Justice for obstruction of justice. The scandal led to new regulations and legislation like the SOX act⁹⁰ as it was seen as a failure of corporate governance especially risk management and internal control systems of the company.⁹¹

On 4th July 2016, CBN took regulatory action against Skye bank that led to the resignation of the board.⁹² This action was done due to, among others; unacceptable corporate governance practices. The license of the bank was later revoked by a press release on 21st September 2018 and a bridge bank (Polaris Bank) was created in conjunction with The Nigerian Deposit Insurance Corporation (NDIC).⁹³ The CBN took this action to protect depositors’ funds and ensure the stability of the banking system.⁹⁴ Also, on January 10th 2024, the CBN dissolved the boards of Union Bank, Keystone Bank and Polaris bank for among other reasons; regulatory non- compliance, corporate governance failures and involvement in

⁸¹ <<https://www.coso.org/other-guidance> >

⁸² *ibid*

⁸³ *ibid*

⁸⁴ *ibid*

⁸⁵ *ibid*

⁸⁶ L I Levison <White-collar crime - Fraud, Embezzlement, Corporate | Britannica> accessed 12th November 2024

⁸⁷ *ibid*

⁸⁸ *ibid*

⁸⁹ *ibid*

⁹⁰ Pub. L. 107-204 <<https://www.govinfo.gov/content/pkg/PLAW-107publ204/pdf/PLAW-107publ204.pdf>> accessed 10 February 2020

⁹¹ <Enron Scandal - Overview, Role of MTM, Agency Conflicts (corporatefinanceinstitute.com)> accessed 12 November 2024

⁹² <CBN Press Statement on Skye Bank July 040716.pdf> Accessed 4 November 2024

⁹³ < <https://proshare.co/articles/cbn-revokes-skye-banks-operating-licence-amcon-to-capitalise-the-established-bridge-bank?menu=Regulators&classification=Read&category=Regulators>> accessed 4th November 2024

⁹⁴ *ibid*

activities that posed a threat to the financial system and new directors were appointed for all 3 banks.⁹⁵ Polaris Bank itself was created as a bridge bank to protect the depositors of Skye Bank when the latter's license was revoked.⁹⁶

Heritage Bank's license was also revoked by the CBN for similar infractions to those mentioned already for banks above which meant the bank was unable to meet its financial obligations to its customers and posing a threat to the financial stability of the nation despite several supervisory measures taken by the CBN.⁹⁷ The failure of internal control in 9 banks to adhere to proper internal measures in respect of compliance with regulations recently led the CBN fining these banks a sum of N1.35 billion for a failure to comply with the CBN cash distribution guidelines.⁹⁸

Cadbury PLC, Nigeria is another example of a corporate failure that arose in Nigeria due to inadequate internal control systems.⁹⁹ The Company misrepresented its profits in 2006. This was made possible by collusion between the management and the auditors of the company.¹⁰⁰ As a result the directors and management were banned or suspended by SEC from being directors in any quoted company for a long period. The auditors of the company were also fined for their role in the false reporting.¹⁰¹

The importance of Companies such as Banks and other Companies to the economic development of the nation has made it imperative for the board and Management of companies to properly assess their risk exposure and its management of these risks through robust internal control policies and procedures and ensure that such procedures are carried out by the appropriate officer(s) of the company and in order to reduce the company's exposure as and mitigate any risk detected. This would lead to better corporate governance practices that would prevent the risk of corporate failures occurring and protect stakeholders and ultimately the Nigerian economy. The importance of corporate governance (especially ICS and ERM) to a nation cannot be underestimated as most corporate failures that can potentially affect the nation's stability of that can be attributed to a lack of effective corporate governance.¹⁰² However, notwithstanding legislative efforts to address bad governance many boards in Nigeria are still failing in their corporate compliance duties to their companies without adequate oversight from the regulators.¹⁰³

5. Conclusion

Effective Internal control activities and adequate enterprise risk management procedures ensure that companies adhere to corporate governance guidelines. Corporate governance sets the standards and recommends procedures; internal controls ensure those procedures are being followed and this aids in the overall risk management of corporations.¹⁰⁴ Internal controls also ensure there is an audit trail that can be retraced to show whom is accountable for any lapses or stage at which lapses occur during internal and external audits and recommend improvements.¹⁰⁵ It also ensures that there is some accountability in case of corporate failures.¹⁰⁶ This acts as deterrence to bad practices and to encourage transparency and

⁹⁵ <CBN Dissolves the Board & Management of Union Bank, Keystone Bank and Polaris Bank.pdf> Accessed 4 November 2024

⁹⁶ <<https://ndic.gov.ng/press-statement-on-the-resolution-of-skye-bank-plc/>> Accessed 4th November 2024

⁹⁷ <CBN Press Release Heritage 030624.pdf> accessed 5 November 2024

⁹⁸ <CBN fines nine banks N1.35b for not dispensing cash via ATMs — News — The Guardian Nigeria News – Nigeria and World News> Accessed 16 January 2025

⁹⁹ Abdullahi, Mariana, Enyinma Okpara, Ahunanya Stella < (PDF) Transparency in Corporate Governance: A Comparative Study of Enron, USA and Cadbury PLC, Nigeria (academia.edu)> Accessed 5th December 2024

¹⁰⁰ Chukwunedu, Okaro Sunday and Okafor, Gloria Ogochukwu, Creative Accounting, Corporate Governance Watch Dogs Institutions and Systems- the Case of Cadbury (Nig.) Plc. (October 19, 2011) < <http://dx.doi.org/10.2139/ssrn.1946441>> Accessed 4 November 2024

¹⁰¹ *ibid*

¹⁰² Kunle Aina 'Board of directors and corporate governance in Nigeria' *International Journal of Business and Finance Management Research* (2013) (1) (21-34)

¹⁰³ < https://www.vanguardngr.com/2022/03/shareholders-and-issues-of-corporate-frauds/#amp_tf=From%20%251%24s&aoh=17176815476401&referrer=https%3A%2F%2Fwww.google.com&share=https%3A%2F%2Fwww.vanguardngr.com%2F2022%2F03%2Fshareholders-and-issues-of-corporate-frauds%2F> Accessed 10 June 2024

¹⁰⁴ *ibid*

¹⁰⁵ *ibid*

¹⁰⁶ *ibid*

accountability. Despite regulation and legislation by SEC and the FRC, there continue to be corporate failures in Nigeria and some of these could have been prevented if the regulators had been proactive in enforcing regulations and legislation. For instance, analysts believe that a lack of proper regulation led to the acquisition of Enterprise Bank by Heritage Bank in 2014 and this was one of the main causes for its collapse.¹⁰⁷ A similar situation occurred with the acquisition of Mainstream Bank by Skye Bank in 2004 when it did not appear that they were capable of such an acquisition¹⁰⁸

An effective system of internal control and effective enterprise risk management are based on objective guidelines and accountability by the management of the company. An effective internal control system leads to better internal control practices. This helps in detecting, assessing and mitigating risks face by corporations and this which results in better investor confidence and greater accountability or culpability when things go wrong or when there are issues with the failure to adhere to the internal control mechanisms put in place. Corporate governance of any company would suffer without good internal control and enterprise risk management procedures. This would then lead to corporate failures and a negative effect on the economic development of the country.

6. Recommendations

1. To ensure proper corporate governance, there needs to be accountability. With the legislation in Nigeria putting the onus on management and the board of directors for effective internal control and efficient enterprise risk management both directors and the board of companies in Nigeria need to be held to a higher degree of accountability.
2. Proper enforcement of existing regulations and legislation can act as a deterrent to the management and boards of Nigerian companies and amendments to current regulations and legislation to include criminal sanctions (like in section 906 of SOX Act) for directors and the board will serve as a deterrent to acts that are detrimental to the implementation of effective corporate governance practices in Nigeria.
3. Improvements in existing regulations and legislation by either domesticating legislation from other jurisdictions like SOX (this is important as studies have shown an improvement of financial reporting and corporate governance practices with the introduction of SOX in the United States)¹⁰⁹ or better application of the COSO framework for both IC and ERM,¹¹⁰ would ultimately lead to better corporate governance in Nigeria

¹⁰⁷ <CBN's withdrawal of Heritage Bank's licence - Daily Trust> Accessed 10 December 2024

¹⁰⁸ <<https://proshare.co/articles/the-surprising-new-math-of-acquisition-of-banks-in-nigeria-the-skye-bank-case?menu=Economy&classification=Read&category=Monetary%20Policy>> Accessed 10 December 2024

¹⁰⁹ Robert Prentice 'Sarbanes-Oxley: The evidence regarding the impact of SOX 404' <ARTICLE: SARBANES-OXLEY: THE EVIDENCE REGARDING THE IMPACT OF SOX 404, 29 Cardozo L. Rev. 703> Accessed 2 May 2024

¹¹⁰ Both SEC and FRCN recommend the use of COSO in implementing IC and ERM in Nigeria