

# ***KEYNOTE ADDRESS***

*by*

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## PROTOCOLS

### PREAMBLE

1. Let me begin by expressing my profound gratitude to the Board and Management of the Business Club, Ikeja, Lagos, for inviting me to share my experiences with this distinguished audience on the topic, "**Proper Audit—a vital tool for Good Governance**" as part of your 2012 Business Luncheon/Annual General Meeting. I warmly congratulate your organisation for the initiative to bring together captains of industry, business leaders and other key players to exchange ideas on this thorny but interesting subject matter.

### NEED FOR AUDIT

2. As you all know, the Anglo-Saxon business arrangement which entailed the separation of ownership from control necessitated the evolution of checks and balances in corporate governance such that the wealth of investors and the interests of other stakeholders are adequately protected. One of the checks imposed by law was the mandatory appointment of external auditors by shareholders of a company at the Annual General Meetings (AGMs) to examine the reliability of the financial reports submitted to them by the Board of Directors who have responsibility for their presentational faithfulness. Given this origin, the attestation role of the auditor is to ensure full disclosures, consistent compliance to accounting principles and the **expression of an opinion** on the objectivity of these financial reports prepared by the directors. These help to give the financial statements the desired credibility.
3. Indeed, the Committee on ***the Financial Aspects of Corporate Governance*** set up in U.K. stated in its 1992 report that "*the audit provides an external and objective check on the way in which the financial statements have been prepared and presented, and it is an essential part of the checks and balance required....Audits are a reassurance to all who have a financial interest in companies, quite apart from their value to boards of directors*".

4. Unfortunately and in spite of its outstanding contributions to the security of corporate assets and wealth creation, the global Accountancy Profession is currently facing a lot of credibility crises associated with breaches of corporate governance principles by some players in the board rooms and in the financial reporting chain. The Enron, Worldcom, Tyco, Oceanic Bank, etc, incidents present great challenges to financial reporting standards and corporate governance practices throughout the world. As key players in the business environment, the message of the credibility crises is both resounding and clear: we must collectively continue to conform to the highest standards of business practices and behavioural code as we pursue the goal of profits.
  
5. Realizing the need to take urgent actions to rebuild the confidence of the public in the attestation function of the profession, the International Federation of Accountants (IFAC), the global body that regulates the Accountancy Profession in 120 countries of the world, has enjoined all member-bodies to ensure that their members perform their duties in line with universally accepted standard of best practices and that deviant behaviours should be sanctioned as deterrent to others. At the heart of this initiative are the twin issues of transparency and reliability of the financial reporting processes.
  
6. From my experience, the hall marks for good governance which is embedded in transparency and accountability include:
  - Full disclosure of information about all the transactions of the organisation
  - Reliability and accuracy of information
  - Proper record keeping
  - Transparency
  - Full disclosure of interests by those in fiduciary capacity
  - Absence of insider dealings
  - Regular audit of financial records

An audit engagement well executed will add credibility to and reinforce these

hallmarks of good governance.

## **7. CONDITIONS FOR PROPER AUDIT**

### **7.1 Proper Record Keeping**

The basis of any audit exercise is the existence of accounting records that have been prepared and properly kept to aid auditing, verifications and investigations, where necessary. All financial transactions of the organizations must be properly documented and available for verification in order to enhance transparency and accountability in business processes. In other words, the books of accounts must be properly kept and available for audit inspection. Where financial records have not been kept or are poorly maintained, it will be foolhardy to expect an audit exercise to produce a reliable results. To achieve this, a chartered accountant must first be appointed to prepare or reconstruct the accounts from in-complete or non-existent records before an audit can be conducted by another independent professional. In essence, a proper and reliable tool of accountability and good governance is the existence of proper accounting records which will show the stewardship of persons in fiduciary responsibilities within a given time frame.

### **7.2. Planning an Audit**

The role of proper planning of audit in the success of any engagement cannot be over-emphasised. A well-planned audit has the best potential of preventing and even detecting fraud than a poorly planned audit assignment. Indeed, ISA 300: Planning an Audit of Financial Statements, states unambiguously that, " the auditor should develop an audit plan in order to reduce audit risk to an acceptably low level. Thus greater resources must be devoted to this aspect of the engagement. At the heart of planning is the critical issue of knowing your clients or knowledge of your client's business because it reveals among others, the nature of the business segments to be audited including the need for specialised knowledge, the setting of materiality threshold, the expected use of audit evidence obtained in prior audits,

for example, audit evidence related to risk assessment procedures and tests of controls. With proper planning, an efficient and effective audit will be done.

### **7.3 Quality of Audit Staff**

Furthermore, the audit firms must also improve on the quality of personnel they send out on audit assignments. There is no doubt that the planning and execution of audit exercises will be significantly influenced by the experience of audit staff. It is common knowledge that some audit firms can hardly recruit and retain experienced personnel because of their poor reward structure which cannot be divorced from the low audit fees being paid by clients. To reverse this trend, audit fees must be reviewed regularly while the audit firms should overhaul their reward structure and be made to invest a proportion of their turnover on training. The issue of training is crucial in view of the rapid changes in information technology which will significantly affect the audit efficiency. Only then will value for money audit be possible.

### **7.4 Composition and Quality of Audit Committees**

Many shareholders do not appreciate the need to have well-informed, active and independent audit committees in their organizations as checks on the excesses of the Board of Directors and management. The trend today is the existence of audit committees made up of poorly educated members who cannot make meaningful contribution to the corporate governance processes of their organizations. Even in public governance, the quality of the Public Accounts Committee which is supposed to check excesses of officials, is suspect. Thus, the statute must be reviewed to address the issue of the qualifications for audit committee members. Prospective directors, who should be non-executive directors without any relationship with the company, must be required to affirm their independence in writing before they are appointed by the shareholders. To further enhance their performance, a robust charter that will be subject to frequent review should be put in place. The Committee as a body must function within its mandate and this does not include participation in politics, whether directly or indirectly.

## **Conflict of Interests**

7.5 Many persons in fiduciary positions often encounter conflict of interests which they deliberately refuse to disclose because of expected pecuniary gains. For instance, the Insurance business involves a lot of players: insurers, brokers, loss adjusters, re-insurers, actuarial firms, tax accounting and practitioners, legal firms, etc. In the consummation of business dealings the Board of an insurance company will necessarily work with these persons. It is therefore imperative that members of the Board disclose their interests in any of them. Doing business at arms length is a hallmark of business ethics and transparency. Thus, the NAICOM Code expressly provides that, each director and employee of an insurance company shall formally disclose to the Board of Directors or Shareholders his/her interest whatsoever in any: Insurance Broking firm, Loss Adjusting firm, Actuarial firm, Insurance & Reinsurance company, Accounting/ Taxation firm/Audit firms and Legal firms in order to ensure and maintain high ethical standards for the conduct of insurance business. If this done faithfully, the audit function will deliver on its mandate.

## **CURRENT ICAN INITIATIVES**

8. As the flagship of the Accountancy Profession in Nigeria, the Institute of Chartered Accountants of Nigeria readily accepts that the profession must actively evolve, in concert with regulators and other players in the economic scene, measures that will forestall the occurrence of major failures such as that of Enron, Worldcom, Parmalat, etc. in Nigeria. Professionalism, to which we are eternally committed, demands such a proactive strategy if the interest of the public is to continually override short-term commercial gains. Accordingly, the Council of my Institute has introduced some initiatives designed to sustain the trust of users of the services of chartered accountants. These include:

### ***Practice monitoring initiative***

9. In order to raise the quality of financial reporting and further promote accountability, the Accountancy Profession has evolved the concept of practice

monitoring which involves the visit to firms of chartered accountants by selected reviewers to assess the work of their peers in line with agreed framework. During such visits, the extent of members' compliance to set standards and ethical codes are established. In the process, how issues of conflict of interests were addressed is frequently revealed. By the IFAC Code of Conduct, auditors are expected to always use the established safeguards, i.e. (profession, legislation or regulation, safeguards of the assurance client or the firm's own systems and procedures) to reduce threats of conflict of interests. Thus far, over 50 auditing firms have been monitored by the Institute's Professional Practice Monitoring Committee in the last three years. These active monitoring procedures conducted by the profession, also constitute a form of safeguard against conflict of interests.

### ***Enactment of the Whistle Blowers' Act***

10. The role that intelligent information can play in the detection of fraud and efficacy of audit cannot be over-emphasised. In fact, law enforcement agencies will become more effective and the occurrence of fraud minimised if people are encouraged to volunteer information, under confidential cover, that will lead to nipping in the bud of planned financial crimes or to the uncovering of past frauds. The current situation in which persons with valuable information are reluctant to volunteer them for fear of victimisation must be addressed frontally. Therefore, in order to further promote transparency and accountability in governance, my Institute is in the vanguard to get the National Assembly to expeditiously enact a Whistleblower's Act which will help to protect the whistleblower in the event of victimisation by his employer, client or persons with governance responsibilities for blowing the whistle on their malfeasance.

### **Aggressive Public Awareness**

11. Since the observed waning confidence in the Accounting Profession's attestation mandate or what some have described as the expectation gap is mainly a problem

of ignorance of the law, the legitimate place to start to solve it is to create the necessary awareness about the duties and responsibilities of the auditors and directors as dictated by law so that the expectations will be in the right perspectives. The Treadway Commission, USA, recommended in this direction an informative Directors' Report on the financial statements which should form part of the annual report to stockholders. Such a report should clearly indicate that management has responsibility for the financial statements and that it must establish and maintain adequate internal control system for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities. The management must also confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements. Finally, the management must confirm that applicable accounting standards have been followed, subject to any material departures disclosed and explained in the notes to the accounts. These will leave no one in doubt as to who has responsibility for the accounts when anything goes wrong.

### **Financial Reporting Council of Nigeria**

12. The recent enactment of the Financial Reporting Council (FRC) of Nigeria Act 2011 was informed by the urgent need to embrace global financial reporting standards as a strategy for raising the quality of financial reporting in Nigeria. The FRC Act will also bring into regulation all professionals involved in the financial reporting chain such that the quality of financial reporting conforms to global best practices. While standards are important, the existence and virility of the corporate governance mechanisms for their enforcement are much more significant and indeed, are crucial success factors. If a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere. If investors are not confident with the level of disclosure, capital will flow elsewhere. Inevitably therefore, economies where transactions are opaque, the market will impose a cost in terms of increased risk profile, poor valuation of shares of companies, inability to attract foreign direct

investment and underdevelopment. Inevitably therefore, any economy desirous of growth and prosperity, must strive to have its foundation laid on the virtues of reliability, transparency and integrity. The existence of FRC will help ensure that best practices are complied with in financial reporting in the country.

### **Harmonisation of Corporate Governance Codes**

13. In our peculiar business environment, there exists various corporate governance codes which define how organizations are to be governed and directed. The Securities and Exchange Commission has its own code for all listed companies while the Central Bank of Nigeria has a code for all deposit banks in the country. The National Insurance Commission, the regulatory agency for the insurance sub-sector, recently released its code of conduct. It is recommended here that all these various codes of corporate governance should be harmonized for ease of compliance.

### **Tone at the Top**

14. As we are know, the tone of the organisation is set at the top. If the leadership of organisations do not consistently act above board, it will be foolhardy to expect lower level employees to kowtow and for audit to achieve the desired results. It is therefore recommended that corporate entities should develop their independent code of conduct which will define acceptable mannerisms in their setting. Such codes should define sanctions for infractions which will be scrupulously enforced without fear or favour.

### **Adoption of International Financial Reporting Standards**

15. The need to ensure greater transparency and reliability of the financial statements has given impetus to the recent adoption of International Financial Reporting Standards (IFRS) by Nigeria. Hitherto, it was common practice for trans-national corporations to prepare their financial statements in line with International Accounting Standards (IAS) and these are now gradually been replaced by IFRS. Until recently, many corporate entities in the countries of Africa including Nigeria

prepared their reports in line with applicable local GAAPs making comparative analysis difficult for international investors. With the adoption of IFRS in Nigeria, greater emphasis and premium must now be placed on full disclosures and other qualitative characteristics of financial statements such as understandability, relevance, materiality and reliability.

## **CONCLUSION**

16. Distinguished guests, ladies and gentlemen, let me end this presentation by stating that the existence of transparency and accountability in both the private and public sector is germane to the achievement of sustainable economic growth and development. Yet, there cannot be accountability, transparency and good governance without accounting and auditing. Here lies the need for corporate entities and persons charged with governance responsibilities desirous of winning the confidence of their stakeholders to embrace the concept of audit, whether internal or external. Ultimately, their organizations and by extension, the nation, will be the better for it.
17. Thank you for listening.

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