

AUDIT COMMITTEES IN NIGERIA

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Abstract

A new requirement in the Nigerian Companies and Allied Matters Act (CAMA) of 1990 is the introduction of audit committees as an additional layer of control and certification in the bid to make annual accounts of public corporations more acceptable and reliable. This paper reviews the law and practice of audit committees in Nigeria. It argues that for audit committees to become more useful in the Nigerian context there is need for changes to be made in both its law and practice. Key areas of concern include the need to: determine and codify the qualification for membership of the committee given its technical nature; allow appropriate remuneration for committee members, and; the determination of appropriate membership tenure for such committees. The above review is necessary if audit committees are to be in a position to effectively perform their oversight functions aimed at improving the quality and information content of corporate financial reports.

Keywords: directors, audit committee, control

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Introduction

A requirement of the Nigerian Companies and Allied Matters Act (CAMA) of 1990 is the introduction of audit committees as an additional layer of control and certification in the bid to make annual accounts of public corporations more acceptable and reliable.¹ Prior to the 1990 Act, the only statutory requirement for the certification of annual accounts of public corporations in Nigeria was the provision that such accounts be audited by external auditors.² The idea of appointing external auditors arose in the quest to find more efficient ways of promoting accountability in complex organizations where management interests could differ from shareholder interests. Initially, the focus was on explicitly spelling out the characteristics of auditors in order to ensure their independence and competence.³ The law usually stipulates that external auditors should be appointed by shareholders and report to shareholders at annual general meetings. The independence of external auditors was further enhanced by the fact that their reports were treated as professional opinions and thus attracted some degree of liability in the event it is shown that they have been negligent in the conduct of their duty (Sasegbon, 1991, pp. 588-9).

Over time, however, various accounting and reporting scandals have led to corporate failures and embarrassments. Examples include the celebrated case of the Mckesson and Robbins (USA) in the late 1930s, and the failure of the Atlantic Acceptance Corporation (Canada) in 1965 (Cf. Lee and Stone, 1997, p.99; and Okaro, 2001, p155). This has led to

the questioning of very concept of auditor independence. Although the law usually provides that auditors should be appointed by shareholders and report to such shareholders in annual general meetings, the reality is somewhat different. In practice, annual general meetings are no more than rubber stamps for board decision on such matters. Within the board itself, executive directors usually have an upper hand since they deal with auditors on a day to day basis. Under such circumstances, the ability of such external auditors to remain truly independent, especially if there is need to express reservations about management's accounting policies, is whittled down. The idea thus developed that accountability will be enhanced if a subcommittee of the board: audit committee, comprising only of independent directors, be appointed to act as an arbiter between external auditors and management.⁴ The assumption is that such a committee is more likely able to protect the interest of shareholders. This has been the guiding principle behind the establishment and codification in the laws of the audit committee requirement all over the world. The Audit Committee requirement was enshrined in the Nigerian Companies and Allied Matters Act in 1991. Despite the fact that this provision has been in existence for more than fifteen years, its utility value especially with respect to enhancing the information value and credibility of financial accounts remain suspect (Okaro, 2001, p.157).

This paper reviews the law and practice of audit committees in Nigeria. It argues that while its introduction in Nigeria is a welcome development

there is need for the review of the existing laws governing the appointment, remuneration, duration of tenure and qualifications of audit committee members in the country. The above review is necessary if audit committees are to be in a position to effectively perform their oversight functions aimed at improving the quality and information content of corporate financial reports. To achieve its aim, the remaining part of this paper is divided into three sections. Section One examines the theory and origins of the idea of audit committees while Section Two critiques the law and practice of audit committees in Nigeria. Section Three concludes the paper

The Theory and Origins of Audit Committees

Theoretically, there is widespread agreement that the separation of ownership from control (the principal-agent problem) is the economic explanation for auditing (Lennox, 2003, p.5). Principal-agent problems mainly arise in companies where management is distinct from ownership. As far back as 1776, for instance, Adam Smith vividly explained this concept. He essentially argued that Joint stock companies are usually managed by directors who are usually subject to the control of the proprietors who seldom understand in detail the activities of the company. They are thus usually satisfied with the periodic dividends that are declared by the directors. The total exemption from both trouble and risk beyond a limited point offered by joint stock companies tends to encourage investors to prefer it over investments in private businesses which offer no such buffers. Joint Stock companies thus became the preferred investment option. Despite this preference, Adam Smith conceded that directors of joint stock companies, being the managers of other peoples' money, rather than their own, could not be reasonably expected to watch over it with the same vigilance with which the partners of private enterprises watch over their own (Spira, 2002, p. 2).

The above description is no doubt the foundations of the agency problem in shareholder manager relationships. There are however other extensions of this problem. Agency problems can also arise when managers remuneration are based on accounting performance. This could provide the incentive for managers to be engaged in income management, which subsequently impacts on the quality of market information which is critical for investment decisions. Along these lines, it has been asserted that:

When manager incentives are based on their companies' financial performance, it may be in their self-interest to give the appearance of better performance through earnings management. In many companies, managers are compensated both directly (in terms of salary and bonus) and indirectly (in terms of prestige, future promotions and job

security) depending on a firm's earning performance relative to some pre-established benchmark. This combination of management's discretion over reported earnings and the effect this earnings have on their compensation leads to a potential agency problem. Beyond the management compensation problem, earnings management may impact investors by giving them false information. Capital markets use financial information to set security prices. Investors use financial information to decide whether to buy, sell or hold securities. Market efficiency is based upon the information flow to capital markets. When the information is incorrect, it may not be possible for the markets to value securities correctly. To the extent that earnings management obscures real performance and lessens the ability of shareholders to make informed decisions, we can view earnings management as an agency cost (Xie et al, 2003, p. 297).

The above scenario is even made more complex when executive directors of a company dominate the board of directors. This is especially so given the fact that it is usually the responsibility of the directors to prepare financial statements which should reflect a true and fair view of the operations of the company during the financial year.⁵ A conflict thus arises when directors act as both shareholders and managers of a publicly quoted company. It can, for instance be argued that higher levels of stock ownership motivate directors to artificially boast reported performance. This brings them on direct conflict with external auditors who are supposed to be independent experts whose main role is to certify the credibility of financial statements to shareholders. Based on the above, owning large stockholdings in a company will weaken the performance of audit committee members. An interpretation of the above is that all things being equal, audit committee members who own less of the company's stock will be more likely to resist managerial attempts to manipulate financial statements and give the appearance of better performance through earnings management. Such members are also more likely to resist any attempt by management to dismiss an external auditor following the issuance of a going concern report (Carcello and Neal, 2003a, p.96).

Based on the above theory, it is not surprising that the idea of audit committees have continued to gain increasing prominence over time. In some countries, the emergence of audit committees has followed some form of financial crisis or scandal. In the United States of America, for instance, the origin of the emergence of the audit committee has been

linked to the McKesson and Robbins Inc. incident in the late 1930s (DeZoort, 1997, p.211; Olowokure and Nnadi, 1989a, p.18). The Securities and Exchange Commission reacted to this incident by issuing Accounting Series Release Number 19 in 1940. This essentially recommended that in order to assure auditor independence, a committee should be selected from non executive board members to nominate auditors and arrange details of engagement for such auditors (Williams, 1977, p.71).

Another country where the advent of Audit committees have been crisis induced is Canada. There, the 1965 collapse of the Atlantic Corporation Limited led to a rethink of financial practices and corporate governance. The Royal Commission subsequently set up to investigate the failure of the Corporation recommended that an audit committee consisting of not less than three directors of a company, the majority of whom should be non executives, should review the companies financial statements before approval by the board of directors. The committee was also required to confer with auditors (Collier, 1992, p.20). Australia is yet another example of a country where the idea of audit committees emerged after a financial incident. In 1979, the country's Corporate Affairs Commission endorsed, after an inquiry into the affairs of Gollin Holdings, the principle that companies should be encouraged to have audit committees (Collier, 1992, p.24).

Some other countries have simply adopted the concept of audit committees partly based on the American influence and partly as a means of reinforcing the financial credibility of their publicly quoted companies. Examples of countries in this category include United Kingdom and Singapore.⁶ The establishment of audit committees in Nigeria also falls, in the main, under this category. It has, for instance, been suggested that:

The factors which motivated the establishment of audit committees in the US and Canada are not present in Nigeria. There... [is] no evidence yet of company scandals, directors and auditors have not been subject of litigations, and disclosures in company accounts are laid down by law. However, it seems that the investing public in this country is getting skeptical about the credibility of financial reports including the auditors' reports and the performance of directors. This lack of faith in the directors was manifested recently by the formation in Lagos of a body known as 'Shareholders Solidarity Association'... In a television interview, the chairman of the new body indicated that his organization plans to monitor the activities of companies in which its members hold

shares. This is an indictment on the directors because the shareholders are indirectly accusing them of paying inadequate attention to the affairs of the companies. It also shows distrust of the auditors' reports (Olowokure and Nnadi, 1989b, p.31).

Despite the above noises from this new body of shareholders, the real pressure for the establishment of audit committees came from the submission of a Nigerian accountancy body to the Nigeria Law Reform Commission in 1988.⁷ In other words, the origin of the Audit committees in Nigeria can be traced to the review of the Nigerian Companies Act in 1988. This was in compliance with the Nigerian Law Reform Act of 1979 which require the Nigerian Law Reform Commission to periodically review Nigerian laws (Section 5). According to the Report of the Reform of the Nigerian Company Law, the idea of enshrining audit committees in our laws was mooted in a memorandum submitted by an accountancy body. The body was essentially concerned that auditor's report which were usually brief, as prescribed by the then existing company law did not usually deal with matters crucial to the future of the company which ought to be brought to the attention of shareholders.⁸ As a remedy, it was thus suggested that auditors be allowed to deal directly with the chairman or other non executive members of the board on such matters. The same accountancy body further suggested that public companies should be made to appoint audit committees made up of representatives of directors and shareholders. The auditors should then be made to report to such audit committees on the audit of the accounts in addition to reporting to the shareholders at Annual General Meetings. The need for an additional independent layer of persons to oversee the auditing process and act as an intermediary between auditors and management was explained thus:

The present practice whereby the auditor deals with the executive members of the Board who are part of management and report on management matters to the same members of the Board has proved unsatisfactory and with many pitfalls. Evidence abounds where auditors report weaknesses or malpractices by members of the board ... [to] the same board (Nigerian Law Reform Commission, 1991, p.212).

There was thus emphasis, from inception that audit committees be manned by non executive directors who are supposed to be sufficiently independent in order to meaningfully act as arbiter between the external auditors and the management (Cotter and Silvester, 2003, p.213; McMullen and Raghunandan, 1996, p.80). It was essentially on the basis of the above recommendation that the Law Reform Commission recommended that provisions be made for the appointment of an audit committee in

every public company in the emergent 1991 companies act.

The Law and Practice of Audit Committees in Nigeria

As a direct consequence of the work of the Nigerian Law Reform Commission, the Companies and Allied Matters Act was promulgated in 1990. In line with the recommendations of the Commission, the Law provided for establishment of an audit committee by each public company in Nigeria. Specifically, the audit committee is charged with the following responsibilities: to ascertain whether the accounting and reporting policies of the Company are in accordance with legal requirements and agreed ethical practices; to review the scope and planning of audit requirements; review the findings on management matters in conjunction with external auditor and departmental responses thereon; keep under review the effectiveness of the Company's system of accounting and internal control; make recommendations to the board in regard to the appointment, removal and remuneration of the external auditors of the company and; authorize the internal auditor to carry out investigations into any activity of the company which may be of interest or concern to the committee (Section 359 (6)).

Section 259(4) further requires the audit committee to examine the auditors report and make recommendations thereon to the annual general meeting as it may deem fit. It is the above provision that appears to be the basis of an audit committee report which is found on the accounts of all public companies in Nigeria. A standard Audit Committee Report states thus:

In compliance with Section 359(6) of the Companies and Allied Matters Act 1990, we have (a) Reviewed the scope and planning of the audit requirements (b) Reviewed the external Auditors' Memorandum of Recommendations on Accounting Policies and internal controls together with management responses (c) Ascertained that the accounting and reporting policies of the Company for the year ended 30th June, 2004 are in accordance with legal requirements and agreed ethical practices. In our opinion, the scope and planning of the audit for the year ended 30th June 2004 were adequate and the Management Responses to the auditors' findings were satisfactory (Guinness Nigeria PLC, 2004, p. 27).

Such reports raise a number of concerns. First, it raises a fundamental legal question. It could for instance be legitimately asked if such reports can be relied upon by shareholders and investors and if so whether audit committee members can be held liable for the opinions so expressed in such reports? This

question is particularly pertinent given the fact that the Companies and Allied Matters Act of 1990 imposed civil liability on external auditors whose reports and procedures are reviewed by the audit committee, should they be found to be negligent in conduct of their duty (Section 368). Despite the above, the CAMA does not explicitly extend such liability to audit committee members. This fundamentally questions the very essence of such audit committees and the utility value of their reports.

Based on the above, it is not surprising that the 1999 Blue Ribbon Committee recommendation, aimed at improving the effectiveness of audit committees in the United States, that audit committees' report to shareholders should specifically describe the procedures it performed and the conclusion that the financial statements are in accordance with the Generally Accepted Accounting Principles (GAAP) in all material respects was opposed. One such opponent was KPMG which explicitly stated that:

We do not believe, inspite of the recommended financial literacy requirements, that audit committee members, in accordance with their oversight role, should be asked to conclude that the financial statements are presented in accordance with GAAP. Management, as preparers of the financial statements, and auditors, as professionally trained accountants, are in a position to make such statements.... [W]e believe that SEC should require disclosure of audit committee responsibilities and activities. Extending these disclosures to reporting on the financial statements not only would discourage audit committee membership, it also will be inappropriate given the oversight role of the committee ... We expect the SEC to adopt new rules to require an audit committee report to shareholders. The SEC informally has proposed to modify the recommendation to eliminate the reference to GAAP and instead substitute a reporting on "accurate, full and fair disclosure." It strikes us that the new proposal is potentially worse than the original one in that GAAP at least provides a context in which to make a judgment (KPMG, 1999, p.4).

In Nigeria, the matter is further complicated by the fact that the 1990 CAMA specifies no qualification for audit committee members. The implication is that persons who have little understanding of financial reports could actually be elected into such an important committee. Given the fact that audit committees can only be as good as its members, such appointment turns the entire concept

of audit committees on its head.⁹ It is in recognition of such lapses in the law that some regulatory agencies, in their codes of best practices, which are not enforceable in law, have advised on some basic qualifications for audit committee membership. For instance, the Code of Corporate Governance in Nigeria, coauthored by the Securities and Exchange Commission and the Corporate Affairs Commission recommends that “members of audit committees should be able to read and understand basic financial statements”(2003, p.13). The Code of Corporate Governance for Banks recently released by the Central Bank of Nigeria also recommends that “some of them [audit committee members] should be knowledgeable in internal control processes” (Central Bank of Nigeria, 2006, p.19).

Despite these improvements, the above recommendations, even if enshrined in the statute does not go far enough. Given the technical nature of their assignment all members of this committee should be knowledgeable enough in accounting in order to be effective and make their opinion credible. Along these lines, it has been asserted that:

In view of the complex accounting and auditing issues faced by audit committees, it has also been recommended that committee members should have some degree of financial knowledge... The Public Oversight Board... suggests that the effectiveness of the audit committee is primarily affected by the expertise of its members in the areas of accounting, financial reporting, internal controls and auditing. The BRC [Blue Ribbon Committee] ... recommends that an effective audit committee should comprise at least three members all of whom should be financially literate... and at least one of whom should have accounting and management expertise. This is defined as past employment experience in accounting or finance, a professional certification in accounting or comparable experience... Such expertise is regarded as important if the audit committee is to effectively carry out its role of overseeing the work of both external and internal auditors.¹⁰

Another provision of the 1990 Companies and Allied Matters Act with respect to audit committees relates to the composition of its membership. Section 359(4) specifically states that such a committee shall consist of an equal number of directors and representatives of shareholders of the company subject to maximum number of six members. This section further stipulates that members of such audit committees shall be subject to reelection annually and shall not be entitled to remuneration.

There are a number of controversies surrounding the above provisions. Take for instance the issue of composition of membership of the audit committees. Right from the conception of this idea at the law reform stage, there was opposition to the composition. According to the Report on the Reform of the Nigerian Company Law:

We note some opposition at the workshop to the representation of shareholders on the committee. We think that such a representation is an important investor- protection devise which should be encouraged for the sake of better understanding between the management and the investors (Nigeria Law Reform Commission, 1991, p.212).

Such opposition is not surprising. The convention in most parts of the world is for audit committees to be seen as a sub committee of the board whose members are independent directors of the board.¹¹ The inclusion of non board members in the committee is therefore unusual. Despite this, the inclusion of non board members in audit committees is a welcome development. This is because it has rightly been argued that the idea that some directors could be truly independent could actually be a ruse. Along these lines, it has been argued that:

The expectation that certain directors will be semi-detached, orient themselves to interests outside the board, and actively safeguard the shareholder, may be somewhat optimistic. It underestimates the ability of boards to reproduce themselves in their own images electing people like themselves, and the incorporation and partial weakening of independence that follows from socialization into a powerful boardroom culture.¹²

The above view is even more pertinent in a developing country like Nigeria with underdeveloped capital markets. In several cases, non executive directors of publicly quoted companies are substantial shareholders in such companies. Owning large shareholdings in a company no doubt has the potentials of impairing the performance of audit committee members (Carcello and Neal, 2003a, p.96). Audit committee members that have strong economic ties to the company are likely to view financial reporting issues from a perspective similar to that of management. Such audit committee members would, for instance, like management prefer that their companies going concern problems are not discussed in the pages of the accounts (Caecello and Neal, 2003b, p.291). Under such circumstances, non board members, who do not have substantial financial investments in the company, are likely to be more useful in ensuring that audit committees are effective.

Despite the above endorsement, the method of electing these outside members and the duration of their tenure give reasons for concern. The requirement that such members be elected yearly at annual general meetings essentially means there is no guarantee of tenure for such outside members. It is for instance possible for such outside members to be replaced yearly during the Annual General Meetings. In this kind of scenario, the most experienced members of the Committee will therefore be the board nominees who are rarely changed. Although the law requires that audit committee members be elected at annual general meetings, the practice is that boards usually agree on its nominees before the annual general meetings. The situation for shareholder members of the audit committees is further worsened by the fact that boards may indeed be in a strong position to influence those who are elected to the Committee. Along these lines, it has been argued that:

Although Section... [359] Sub-section 3 of the CAMA provides for the appointment of an equal number of directors and shareholders as members of an audit committee of a public company but it seems the director members are the one determining the activities of the committees even when a shareholder is chairman of the committee. Instead of trying to see how to better the lot of the shareholders what you see as major attributes of the shareholders' members of the committee is how to perpetrate themselves in office as member of the committee. The annual election-re-election of the shareholders members of the committee has not only polarized their groups but has resulted in situation in which some members have become rubber stamp of the management – a matter of you rub my palm and I rub your back.¹³

Under such circumstances persons who are likely to be elected into audit committees will be men of little substance and integrity who are willing to sacrifice shareholder goals for personal gains. The fact that CAMA does not specify any minimum qualification or experience requirement for audit committee members ensures the availability of a steady army of volunteer shareholders who are willing to deal with the board and compromise the interest of shareholders.¹⁴ This position is further reinforced by the absence of any obvious liability on the part of the audit committee members. The result is that audit committee practices in Nigeria have, in the main become a ritual. The authors are unaware of any audit committee report in Nigeria that has expressed reservations about the accounting and auditing processes of any quoted company in Nigeria since the codification of the audit committee requirement in Nigerian laws in 1990.¹⁵

Despite the above analysis, there is need to define clearly the tenure of both board and non board members of the audit committee. This will at the very least promote certainty and allow for the development of constructive change strategy that will enable the injection of new ideas into the audit committee process. Furthermore, recruitments and exit from audit committees could be made more systematic in order to ensure continuity. Based on the above, there is need to strike a balance between continuity and rotation. Along these lines, it has been suggested that:

In theory, rotation of membership is desirable on two main counts, first to strengthen the independence of the committee and second to spread the responsibility and experience of audit committee work among as many directors as possible. The requirement to rotate membership should not however be allowed to interfere with the committee's effectiveness. It will take time for an audit committee to learn its job properly and each member will have more to contribute once he or she has the experience of several years service. A suitable compromise might be to rotate both chairmanship and membership every three years on a staggered basis, but to allow the chairman and individual members to be reappointed on expiry of their terms of office if the board believes that this additional continuity will strengthen the audit committee's effectiveness (Buckley, 1979, p.31).

In addition to the above, we recommend that no member of the audit committee shall serve for more than two terms consecutively. This will, at the very least help prevent possible collusion that familiarity between executive directors and audit committee members may bring. Given the ranking of Nigeria as one of the most corrupt countries in the world, this constitutes a real danger. In fact, a worrying innovation in the Company and Allied Matters Act of 1990 is Section 287 which permits directors of companies to receive unsolicited gifts as ex-post gratification from persons who have had dealings with the company. Such gifts should however be declared before the board and recorded in the minute books of the directors. The problem here, however, is that for a company which can be taken as a going concern and dealing in a particular line of business, ex-post gratification, even if unsolicited, could well amount to an ex-ante bribe for a future contract. Furthermore, it can be argued that directors are likely to be more favorably disposed, with regard to future dealings, towards companies that come to say "thank you" without being solicited than those companies that rightly believe that directors are fiduciary officers of the company whose judgment should not be clouded by such gifts. The requirement that recipient board members disclose such gifts in minute books also makes little sense. Most board decisions need the approval of the entire board. Under such circumstances, it may not be illogical for the benefiting company to gratify the entire board. In such a case, disclosure among fellow directors also amount to secret profits (Uche, 2004, pp.69-70). The

fact that minutes of board meetings are not normally available to shareholders further reinforces this position.

In fact, such a provision is a threat to the independence of both the board and audit committee members. It is for instance possible for auditors to regularly say "thank you" to both audit committee members and if need be the members of the entire board. Such an action will no doubt negatively impact on the judgment of audit committee member in the conduct of their oversight audit and accounting function. Specifically, it could impair their objectivity especially in their statutory responsibility of making recommendations to the board in regard to the appointment, removal and remuneration of the external auditors of the company.

Another area of concern is the requirement that audit committee members should not be remunerated in Nigeria. This is rather puzzling. At a very basic level, the same Companies Act allows the remuneration of Board members. If an audit committee is a sub committee of the board as is the convention in most parts of the world, it can meaningfully be argued that sub committee work should not attract additional compensation. Assuming this is the thought process of the promulgators of the Act, then it makes sense not to remunerate the representatives of the Board who are on the audit committee. The same however cannot be said for the representatives of the shareholders. To suggest that they should employ their expertise and time towards a venture mainly aimed at enhancing the outlook, credibility and performance of business enterprises motivated mainly by profits is absurd. A likely economic consequence of the above rule is that there will be a shortage of supply of competent audit committee members. Admittedly, the evidence in Nigeria suggests otherwise. A speculative explanation for this variance is that management, despite the explicit regulation on the issue use covert ways to remunerate audit committee members. Another possible explanation is that there are other intrinsic benefits derived from being a member of an audit committee. Either way, the independence of the audit committee members is compromised. Whatever the reason may be, the codification of non remuneration of audit committee members is an abnormally that should be corrected. On the basis for remunerating audit committee members, it has been suggested that:

In addition to the remuneration paid to all non executive directors... each company should consider the further remuneration that should be paid to members of the audit committee to recompense them for the additional responsibilities of membership. Consideration should be given to the time members are required to give to the audit committee business, the skills they bring to bear, and the onerous duties they take on, as well as the value

of their work to the company. The level of remuneration paid to the members of the audit committee should take into account the level of fees paid to other members of the board. The chairman's responsibilities and time demands will generally be heavier than the other members of the audit committee and this should be reflected in his or her remuneration (Financial Reporting Council, 2003, p.8).

Appropriate remuneration of audit committee members will at the very least help stimulate the interest of persons with the required qualifications, experience and integrity in such audit committees.

Conclusion

From the above analysis, it can be concluded that the codification of the requirement for the establishment of audit committees as an additional layer of corporate accountability control in Nigeria is a welcome development. This no doubt has the potentials of improving corporate governance and promoting corporate accountability in publicly quoted companies in the country. Mere codification of the audit committee requirement is however not enough to ensure the attainment of the objective of the audit committee goal (Rhagunandan, 1994, p.318). In Nigeria, for instance, there is still a wide variance between the above potentials and the actual practice of audit committees. Despite the codification of the audit committee requirement for publicly quoted companies in Nigeria in 1990, there is little evidence that this has made any meaningful impact on corporate accountability in Nigeria. It has for instance been argued that:

In fact, in most cases, the committees have become parts and parcel of management. Management report, through which external auditors communicate their findings to the shareholders are usually not well treated by the committee, leading to a situation in which those directing the affairs of the company continue business as usual. Until the bubble burst in Lever Brothers Nigeria Plc, now Unilever Nigeria Plc, in 1997 over a N1.2 billion overstated profit of the past, the audit committee was giving its management clean bills. Also the audit committee of National Oil and Chemical Plc (NOLCHEM) never indicted the management of the company for any wrong-doing, even when it was almost run aground, until a new core investor went there to reposition it. Even in companies whose accounts have been qualified by external auditors, the kind of audit

committee's report you see are the kind that tend to toe the line of the management- that is, the committees are usually satisfied with management's responses to auditors' management report. Also, the audit committees of some companies which have been declared as nonperforming in the stock market never deemed it fit to raise any alarm before the companies reached such level.¹⁶

For audit committees to become more useful in the Nigerian context there is need for changes to be made in both its law and practice. Some areas of concern include the need to: determine and codify the qualification for membership of the committee given its technical nature; allow appropriate remuneration for committee members, and; the determination of appropriate membership tenure for such committees.

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