European Journal of Accounting, Auditing and Finance Research

Vol.6, No.1, pp.33-42, January 2018

Published by European Centre for Research Training and Development UK (www.eajournals.org)

IN DEFENCE OF ACCOUNTING THOUGHT AND THE DEVELOPMENT OF CORPORATE GOVERNANCE IN NIGERIAN DEPOSIT MONEY BANKS (NDMB)

Agbi Eniola Samuel[1] and Falade, Samuel Shola[2]

[1]Department of Accounting and Management, Faculty of Arts and Social Sciences, Nigerian Defence Academy, Kaduna, Nigeria
[2] Internal Control Unit, 4 Kano Road Branch, UBA PLC, Nigeria.

ABSTRACT: *The study reviewed the role of accounting history in the development of corporate governance with emphasis on Nigeria deposit money banks from the primitive era to these contemporary periods. The study adopted historical review of available literature and noted how accounting developed over the years to provide necessary information and assurances to various stakeholders of the organization. The study observed how small firms and industries grew into multinationals and corporations which necessitated that management became divorced from the owners thus requiring a degree of accountability and responsibility from the management of the organizations. This need for accountability and responsibility naturally gave birth to the agency and stakeholder's theories and also the development of practice of accounting. Through this historical antecedent, the study noted that the needs which brought about the growth of accounting also necessitated the development of codes of corporate governance and concluded that the codes of corporate governance actually developed to assist accounting plays its role effectively as a provider of information to its various stakeholders.*

KEYWORDS: Accounting History, Nigerian Money Deposit Banks, Corporate Governance, Double Entry Book Keeping System, and Accounting Development

INTRODUCTION

The contemporary issues of corporate governance cannot be fully discussed without making references to the underlining historical antecedents in accounting. The modern corporate governance developed through the role accounting played, beginning from the era of, trade by barter economy which involved the exchange of goods for goods, when transactions were predetermined by exchange and measurement of values. The major challenges at this period of trade by barter included value determination, quantity measurement, qualities determination, double coincidence of wants, storage of wealth, indivisibility of goods for goods and measure of deferred payments were all-inherent in barter economy. However, the development of accounting theory was to ameliorate the inherent problems encountered in barter economy thereby leading into evolution of accounting practices which later became theories and principles.

Evolution of Accounting Practices. The evolution of accounting practices and theories which also run as an antecedent to the development of corporate structure and governance can be traced to the activities of the ancient cities. For example, the Roman Empire in an attempt to solve the problem occasioned by indivisibility of goods for goods which gave rise to need for unit of measurement invented coins around 630 BC. The China dynasties according to Crabben (2011) also recorded merchant's transactions, temples possessions and individual estates using the clay tablets with the Cuneiform script impressed upon it which suggest the activities of the forerunner of the present-day accountant.

Various evidences of accounting entries were also found within the ancient Mesopotamia economy which adopted a simple system for recording of transactions details and property ownership among varying parties between 500 and 450 BC. (Keistar, 1965). Thereafter evidences of records of complex transactions of grains between several individuals were also found according to Goldberg (1949) which suggest the existence of the art of recording and classification of transaction in play. Zenon in the Athens left relics evidence of records of estate through collection cuneiform of data, recording and analysis which suggest a form of responsibility accounting in a crude form operating at the time (Chatfield, 1977). There were also evidences that errors were easily detected, frauds and inefficiencies were easily spotted thus suggesting a form of accounting and auditing in operations as early as the 5th Century.

Additionally, Fu (1971) noted that the accounting systems employed mostly by feudal and expansionist for Chinese merchants and estates during the Chinese dynasty (1156 - 1222) BC, covered large physical distances of the estates and several layers or hierarchies which suggest a form of governance through good administrative controls with checks and balances in form of auditor's report which comes periodically within 10 days interval. The Chou system was also noted to have stringent and appropriate penalties for non-compliance by tax defaulters, (Yameh, 1980). Furthermore Ahmed (2000) assert that there were evidences of funds accounting system such as general reserve fund, special reserve fund and ordinary reserve fund which suggest a form of public accounting. Other findings revealed evidences of source of the goods, the purposes for which the goods were utilized, the frequency of taxation and the tax range applicable to the payers gives an inkling of an organized accounting system already in operations.

These historical facts also revealed that at this primitive period that bred the development of accounting, the evolution also saw the emergence of corporate governance principles at work. Hence the main objective of this study is to review the role of historical accounting in the development of corporate governance with particular focus on Nigeria Deposit Money Banks (DMBs).

Historical Development of Corporate structure. The 19^{th} and 20^{th} century opened with the advent of industrial capitalism the development of the factory system with larger and more capital intensive manufacturing processes, larger and better storage techniques and faster means of transportation. Additionally, the search for resources including minerals, petroleum, and foodstuffs as well as pressure to protect or increase markets in the 19^{th} and 20^{th} centuries led to the industrialization and expansion of business organizations thus creating a need for corporate governance.

The emergence of multinationals corporations according to Greer and Singh (2000) could be traced to the major colonizing and imperialist activities of the 16^{th} century with major players being England and Holland which continued for several hundred years. The era emerged with firms such as British East India Trading Company whose objective was to expand the territorial acquisitions and trading activities of their home countries in the Far East, Africa, and the Americas all brought to the fore the need for control and protection of the various stakeholders' interest thereby buttressing the need for monitoring and governance.

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

Furthermore, as the industrialization grew, other accounting issues began to emerge which included numerous mergers and acquisitions, monopolistic and oligopolistic concentration of large multinational corporations in major sectors such as petrochemicals and food were also founded during these periods. For example, the United states agricultural business giant, United Fruit Company, had over 90 per cent share of US banana imports market by 1899 while the Royal Dutch, Shell petroleum accounted for 20 per cent of Russia's total oil production (Dunning, 1993). Furthermore, European and United States corporate bodies began to explore beyond their territorial boundaries during and after the First World War because of the need to search for raw materials and natural resources. In Japan, the period witnessed the growth of large corporations such as Mitsui and Mitsubishi. These giant multinational corporations operated as oligopolies and had the major control of Japan's industrial, financial, and trade sectors.

Need for Accountability in the Corporate Structure. These developments of multinational corporations led to the challenge of accountability and responsibility thus necessitating that accounting standards, principles and practices also meet the need of the various stakeholders of accounting information, leading to the development of accounting standards, principles and practices adopted by the different nation's state around the globe. As each countries began to develop their laws, standards, principles and practices, the need for governance also became very obvious especially as ownership became divorced from control of organisations.

Development of Corporate Governance. In contemporary times, there has been heightened interest on the subject of corporate governance. Several events responsible for this growing interest in corporate governance included the episodes of financial crises which swept across the globe and affected developed economies such as Europe, America, Russia, Asia, and Brazil, the behavior of the corporate sector impacted the entire landscape, while the glaring deficiencies in corporate governance shook the stability of the global financial sector leading to a ripple effects of financial meltdown across the globe. Wells, (2010) informed that corporate governance has been with us since the development of corporation which became divorced from the real owners thus creating the possibility of conflict between owners or investors and managers. The history of corporate governance could be traced to the East India Corporations, the Hudson's Bay Corporations. The Levant Corporations and the other major chartered corporations launched in the 16th and 17th centuries and the explosions of multinational corporations that follow thereafter.

Corporate governance attributes however became more prominent in the years after the World War 2 although the phrase corporate governance did not gain much attention until the 1990s. in fact in the United kingdom Corporate governance began to gain attention in the 1990s when the accountancy profession, the London Stock Exchange and the Financial Reporting Council, which regulates accounting standards in the U.K., established the Committee on the Financial Aspects of Corporate Governance in 1991 and from then on corporate governance become a field of interest for the accounting profession.

Concept of Corporate Governance. The word governance originated from a Latin word 'gubernare' meaning to rule or to steer… Norbert Wiener used the Greek root as the basis for cybernetics - the science of control in man and machine. The idea of steersman – the Person at the helm - is a particularly helpful insight into the reality of governance. Thus corporate governance has to do with the art and science of controlling, ruling, steering or providing leadership for a corporate body. Cochran and Wartick (1988) also cited by Maason (2002:12) described Corporate governance as a universal body that has many branches involving

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

concepts, theories and practices of boards of directors, executive and non-executive directors and other senior management staff of the organization. It could also be describe as a field that focuses on the relationship which subsists between an organization's board of directors, shareholders, executive management, regulators, auditors and other stakeholders. Meanwhile the CBN (2003) define corporate governance as 'the *processes and structures by which the business and affairs of an institution are directed and managed, In order to improve long-term shareholder value by enhancing corporate performance and accountability, while taking into account the interest of other stakeholders.'* Furthermore, Farzin and Masoud (2012) viewed it as the structure that *"dictates how rights and responsibilities have to be distributed among role players such as members of the administrative board, managers, stockholders, and other beneficiaries"*. While Cadbury (1992) simply define it as *"the system by which companies are directed and controlled"* but a more widely used definition is that of Organisation of Economic Co-operation and Development (OECD, 2004:11) which state that

> *Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.*

These definitions by OECD and CBN unlike others focus both on the shareholders as well as external stakeholders of the organization.

From the foregoing and for the purpose of this study, we shall define corporate governance as a set of control framework which explain the nature and responsibilities of board of directors, by ensuring the rights and unbiased treatment of shareholders as well as other stakeholders in compliance with varying regulatory provision. This definition takes into consideration the nature of relationship which should subsist between an organization's executive management, board of directors, shareholders and other stakeholders on the one hand and how the organizations goals, objectives, compliances and performances are modeled, monitored and measured both internally and externally for the overall benefit of the stakeholders and organization goals.

Corporate Governance for Public Companies in Nigeria. There has been lots of attraction in Nigeria corporate environment both within and outside the Nigeria boundary. Mmadu (2013) informed that the major issues surrounding corporate governance hover around the board of directors, the responsibilities of the board members, director's roles, auditor's independents, responsibility and accountability and relationship of the auditors with the audit committee. He also emphasized that most of the management of organizations in Nigeria operates in akin to students, who set their own questions, mark their own scripts, score themselves distinctions and sing their own praises. Unfortunately, however, the bogus financial reports being rendered to shareholders are sometimes highly engineered with the resultant exorbitant quasi-dividends being declared. Mmadu (2013) also agreed with Yakasai, (2001) that in spite of the excellent results being declared by these organizations especially banks, the real effect in terms of growth has not translated to improvement on the real economy. Instead, there had been series of decadence and demise of several industries such as textile, assembling, manufacturing, agriculture, mining, and the real estate sector amongst others. All these imply a very weak corporate governance environment. Deposit money Banks in Nigeria also experienced similar crises within the last decades. Over 45 banks were designated as failed banks and consequently had their licenses revoked by the CBN, between 1994 and 2006. The Federal High Court

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

appointed the Nigeria Deposit Insurance Corporation (NDIC) as Liquidator of the banks. (NDIC, 2013). Consequently in a bid to introduce some sanity into the business environment, the Security and exchange commission introduced the 2003 edition of the Code of Corporate Governance for public companies in Nigeria (SEC, 2003).

Although this code of corporate governance of 2003 was found to be weak, hence the SEC further inaugurated a national working group in September 2008 chaired by Mr. M.B. Mahmoud to appraise the existing code of corporate governance for public companies in Nigeria. (SEC, 2011; Ofo 2013). The main purpose of this review was to address the weaknesses already noted and find a means to recommend better codes that would be easier to enforce and allow for compliance monitoring. Therefore the SEC came up with the 2011 version of the Code of corporate governance for public companies in Nigeria and additionally one distinctive feature of this 2011 version was that it aligned the code towards international best practice better than the previous editions.

Corporate Governance for DMBs in Nigeria. Just as the SEC took over the responsibility of ensuring sanity in the dealings of public companies in Nigeria and in other to bring sanity into the banking sector, the bankers committee in the year 2003 at the heel of SEC also came up with the Code of Corporate Governance for Banks and other Financial Institutions in Nigeria. (CBN, 2003). However the introduction of the code was more of persuasion than mandatory enforcement, hence another committee was set up named the Peterside committee with the mandate to review the 2003 very necessary due to the banking consolidation, mergers and acquisition that took place in 2005, thereby improving on the gaps that were not addressed in the previous code. (CBN, 2006). Following the global financial distresses which took place across the globe in 2009. And the effect of the bail outs given to some of the banks in Nigeria, the CBN revisited the codes of corporate governance and reviewed the attributes so that the codes will be more stringent and more applicable to the current needs of the stakeholders thus the 2010 and 2014 codes were developed as an improvement on the 2006 codes.

DMBS Corporate Governance Attributes. The CBN codifies the attributes of corporate governance in Nigeria DMBs with major focus on the following (i) Equity Ownership, (ii) Executive Duality, (iii) Quality of Board Membership, (iv) Board Performance Appraisal,(v) Quality of Management, (vi) Reporting Relationship, (vii) Transparency, Due Process, Data Integrity and Disclosure Requirements, (viii) Risk Management and (ix) Role of Auditors. (CBN, 2006). Appendix 1. Summarizes the 2006 CBN codes of corporate governance for banks in Nigeria.

Role of Accounting Theories on the Development of Corporate Governance

Historical findings revealed that accounting developed to meet the need of accountability and responsibility through the basic need for records and book keeping which then grew to the point where these records are analyzed and interpreted for appropriate decision making by the various stakeholders and users of accounting information. In the process and as a result of these needs, various descriptive theories in accounting emerged in other to explain why accountants do some things a certain way, while other theories which prescribe the how accountants should do some things also emerged. These prescriptive and descriptive theories formed the foundation of accounting which had grew to the contemporary field of accounting as we have it today. As these various theories emerged, the need for appropriate control and governance of these corporations led to the creation of corporate governance. Two major theories out of

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

several theories that had bearing with the development of corporate governance attributes are Agency theory and Stakeholders theory.

Agency Theory and corporate governance. Jensen and Meckling (1976) described the agency theory as originating from the fiduciary relationship that existed between the investors or owners of corporation and the managers of the corporations. They informed that these managers are regarded as the agents of the shareholders who employed the managers. This means the daily decisions of a company are made by the managers who are agents of the investors or owners of the company. This relationship led to the need for transparency, accountability and responsibility by the managers of the organization.

Although the primary objective of the companies is to improve and increase in the shareholders' wealth however the decisions of the managers of these companies may not always be in the best interest of the shareholders. These is because there had been cases where these managers of companies focus on goals and objectives which run contrary to the shareholders interest leading to conflict of interest hence the need to set up governing framework to guide the activities of these managers of companies which led to the development of the corporate governance attributes as we have it today.

Stakeholders' Theory and corporate governance. McDonald and Puxty (1979) maintained that companies are not just the instruments of shareholders alone but exist within society thus have responsibilities to that society hence accountability and responsibilities of the companies go beyond the shareholders and extend to all other stakeholders of the companies. The theory therefore holds that it is not just the owners of the organization that are concerned with the activities of such organization but that there are varieties of other stakeholders who have interest in the activities of the organization and also possesses a degree of influence over the activities of the organization. Thus these stakeholders because of their scope of influence on the organization are referred to as quasi-owners of the organization. Therefore, Gray, Owen and Maunders (1987) emphasized that the role of accounting which involves reporting of results and accountability is not just to the owners but to all the stakeholders of the organization. In the light of this the various codes of corporate governance as we have today were therefore developed, to take care of the interest of all these stakeholders by recognizing the wide needs of the stakeholder and ensure that these needs are met by the organizations.

CONCLUSION

The study traced the history of accounting from the primitive era to these contemporary periods and noted how accounting developed over the years to provide necessary information and assurances to various stakeholders of the organization. The study traced the development of firms and industries and how they grew into multinationals and corporations and observed that the growth necessitated that management became divorced from the owners thus requiring a degree of accountability and responsibility from the management of the organizations. The study thus observed the relevance of the agency and stakeholder's theories to the development of practice of accounting. Through this historical antecedent, the study noted that the needs which brought about the growth of accounting also necessitated the development of codes of corporate governance and concluded that the codes of corporate governance actually developed to assist accounting plays its role effectively as a provider of information to its various stakeholders.

REFERENCES

Ahmed R.B (2000) Accounting Theory. 4th Edition, U.K, Business Press Thomson Learning.

Cadbury A. (1992). *Report of the Committee on the Financial Aspects of Corporate Governance,* Gee and co ltd. *London*. Retrieved on 04-11-2017 from www.ecgi.org/codes/documents/cadbury.pdf

Central Bank of Nigeria, CBN. (2003). Code of Corporate Governance for Banks and other Financial Institutions in Nigeria. *A Document of Bankers' Committee.* Abuja, Nigeria. Retrieved on 10-11-2017 from www.cibng.org/code%20of%20conduct%20governance.

CBN. (2006). *Code of Corporate Governance for Banks and other Financial Institutions in Nigeria Post Consolidation*. Peterside Committee. Retrieved on 10-11-2017 from http://www.cenbank.org/OUT/PUBLICATIONS/BSD/2006/CORPGOV-POSTCONSO.PDF

Chatfield, M. (1977). A History of Accounting Thought. New York, Kreiger

Cochran, P. and Wartick, S. (1988). *Corporate Governance: A Review of the Literature*, Financial Executives Research Foundation, Morristown, New Jersey. Available at www.riskmanagementmagazine.com.au/ articles/ d3/ 0c03c8d3.asp

Crabben, J. V. D. (2011). Coinage. *Ancient History Encyclopedia*. Retrieved on 05/11/2017 from https://www.ancient.eu/coinage

Dunning, J. (1993). Multinational Enterprises and the Global Economy, Addison-Wesley Publishing Company, Massachusetts, 112-114.

Farzin, R., & Masoud, J., (2012). Influence of Corporate Governance on Accounting Outcomes & Firms Performance. *Interdisciplinary Journal of Contemporary Research in Business* 3(10) available at www.ijcrb.webs.com

Fu, P. (1971). Government Accounting in China, during the Chou Dynasty (1122BC – 256 BC), *Journal of Accounting Research. 9,* 40-51.

Goldberg (1949). The Development of Accounting in Gibson, *Accounting Concepts* Reading, Cassell.

Gray, O., & Maunders, M. (1987). Corporate Social Reporting: Accounting and Accountability. Prentice-Hall International Accounting, 224

Greer, J., & Singh, K. (2000). A Brief History of Transnational Corporations. Corpwatch. Retrieved November 17, 2017, from https://www.globalpolicy.org/empire/47068-a-brief-history-of-transnational-corporations.htm

Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure. *Journal of Financial Economics*, *3,* 305-360.

Keister, O. R (1965), The Mechanics of Mesopotamian Record-keeping. *The National Association of Accountants Bulletin. II.*

McDonald, D., & Puxty, A. G. 1979). An inducement-contribution approach to corporate financial reporting. Accounting, Organizations and Society. 4. 53-65. 10.1016/0361-3682(79)90007-2.

Mmadu, R. (2013). Corporate Governance and Bank Sector Crisis in Nigeria: Rescue Intervention or a Macabre Dance with the Economy. *African Journal of Law and Criminology.* 3(1) No1 pp. 83-109 available at www.sachajournals.com

Nigeria Deposit Insurance Corporation NDIC. (2013). *Annual report 2013. Retrieved on 05-11-2017 from* http://www.ndic.gov.ng/files/NDIC%20Report%202013.html

OECD (2004): OECD Principles of Corporate governance. *OECD publication service.* OECD publishing. 11. doi:10.1787/9789264015999-en

OECD (2014) List of OECD Member countries - Ratification of the Convention on the ECD retrieved on 16-11-2017 from http://www.oecd.org/general/listofoecdmembercountries-ratificationoftheconventionontheoecd.htm

OFO, N., (2013 Jan.21) .Code of Corporate Governance in Nigeria 2011 and International Best Practices on Corporate Governance: Chairman-CEO Duality. *The corporate Prof*. Retrieved on 06/11/2017 from http://thecorporateprof.com/code-of-corporate-governance-in-nigeria-2011-and-international-best-practices-on-corporate-governance-chairman-ceo-duality/

Security and Exchange Commission SEC (2011). Code of Corporate Governance for Public Companies in Nigeria. *SEC Publications*. Abuja. Retrieved on 6/11/2017 from www.sec.gov.ng/code-of-corporate-governance-.html

Wells, H. (2010). The Birth of Corporate Governance. *Seattle University Law Review*, *33,* 1247-1292.

Yakasai, G. A. (2001). Corporate Governance in a Third World Country with Particular Reference to Nigeria. Corporate Governance: *An International Review*. *9,* 238-253. 10.1111/1467-8683.00251.

Yamey, B. S. (1980). Early Views on the Origins and Development on Book-Keeping and Accounting, Accounting and Business Research (Special Accounting History) Issues, New York, Standard Text Press, 81-91

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

APPENDIX

SUMMARY OF THE CBN CODE OF CORPORATE GOVERNANCE FOR BANKS IN NIGERIA

Equity Ownership	The CBN codes require that Government shall not hold direct or indirect equity holding of more than 10% in any bank while any investor with more than 10% equity holding in any bank will require the prior approval of the CBN.
Executive Duality	The code holds that the responsibilities of Chairman should be clearly separated from that of the MD/CEO; this is to ensure that no one Individual or related party possesses unrestricted powers of decision making.
Quality of Board Membership	The code also prescribed that banks must be headed by an effective Board of directors composed of qualified individuals, that are experienced in its oversight functions and should be people of proven integrity and who are knowledgeable in business and financial matters. Such board members should be regularly trained in line with their oversight functions. The numbers of the Non executive directors should be more than executive directors with maximum number of 20 directors. Two of the non executive directors should be independent. The board should establish the following board committees; Risk Management Committee, Audit Committee, and the Credit Committee. At the minimum and the chairman of the board shall not serve in any of these committee.
Board Performance Appraisal	The board should set up means of Board performance reviews or appraisals to ensure successful performance. The Board shall identify its critical success factors or key and work effectively towards the achievement of the key strategic objectives. There would be annual Board and Directors' appraisal covering all aspects of the Board's structure and composition, responsibilities, processes and relationships, as well as individual members' competencies, and respective roles in the Board's performance. This review shall be carried out by an outside consultant who shall render a report at the AGM and a copy sent to the CBN.
Quality of Management	Appointments to top management positions should be based on merit in line with the existing guidelines on appointments to top management. Track records of the appointees which should cover integrity, fitness, past performance etc.
Transparency, Due Process, Data Integrity and Disclosure Requirements	There shall be full disclosure of related party interests. The CEO shall certify all statutory returns that to the best of their knowledge that the returns are free from any untrue statement of a material fact and that the financial statements and other financial of the reports fairly represent financial condition and results of operations of the bank as at the period under review and any false rendition shall attract stiff sanctions. The code stipulates due process in all the procedures of the bank. The board credit committee shall review and approve all insider credit of AGMs and above and their related parties and where any director's facility or related party credit becomes non-performing for more than a year, such director shall cease to be on the board of the bank and could be blacklisted from sitting on the board of any other bank. Furthermore the banks establish 'whistle blowing' procedures that would encourage all stakeholders to report any unethical

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

Risk Management	The Board Risk Management Committee Should establish risk management policies, document internal control system and internal audit reports should be documented and designed to achieve efficiency and effectiveness of operations; reliability of financial reporting, and compliance with applicable laws and regulations at all levels of the bank and reports on the risk managements practices, internal control and level of compliance with regulatory directives should be rendered by external auditors.
Role of Auditors	Internal auditors should be largely independent, highly competent and people of integrity. Their head should not be below the rank of AGM and should be a member of a relevant professional body who should report directly to the Board Audit Committee but forward a copy of the report to the MD/CEO of the bank. The members of the Board Audit Committee should be nonexecutive directors and ordinary shareholders appointed at AGM who should be knowledgeable in internal control processes. They shall be responsible for the review of the integrity of the bank's financial reporting and oversee the independence and objectivity of the external auditors. External auditors should maintain arms-length relationship with the banks they audit and ensure independence and objectivity. Their appointment shall be approved by the CBN with a tenor of not more than ten years.

Source: Adapted from the CBN Code of Corporate Governance for Banks in Nigeria Post Consolidation. (CBN, 2006)

ISSN 2053-4086(Print), ISSN 2053-4094(Online)