AN INSIGHT INTO:
PROFESSIONAL ETHICS AND GOVERNANCE

BARR. ADEMOLA, E. A
FATOGUN, O. I
BALOGUN, S. B

AN INSIGHT INTO: PROFESSIONAL ETHICS AND GOVERNANCE

All right reserved, No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying or recording without the written permission of the copyright holder, application for which should be addressed to the publishers. This book may not just be lent, resold, hired out or otherwise disposed of by way of trade in any form of binding or cover other than that in which it is published, without the prior consent of the publishers.

First Published 2022

Published by:
Femlight Productions,
Oluwatuberu House,
Tunde Ibikunle Road,
Library area,
Ilaro, Ogun State.
Tel: 08037613015

AN INSIGHT INTO: PROFESSIONAL ETHICS AND GOVERNANCE

BARR. ADEMOLA, E. A
FATOGUN, O. I
BALOGUN, S. B
Department of Accountancy
Federal Polytechnic Ilaro, Ogun State.

ISBN: 978 - 978 - 795 - 361 - 7

DEDICATION

This book is dedicated to Almighty God, the fountain of all knowledge.

ACKOWLEDGMENT

We are grateful to the Rector of The Federal Polytechnic Ilaro. Dr. M. A. Akinde for his fatherly advice. We say thank you sir. We appreciate academic members of staff in Accountancy Department of The Federal Polytechnic Ilaro for their contributions and encouragements most especially Dr. W. O. Akinleke (Dean, School of Management Studies), Barrister. E. A. Ademola, Dr. S. R. Mohammed, Dr. B. A. Agbeyangi, Mr. Y. O. Akinpelu, Mrs. C. C. Ajao, Mr. A. A. Oderinde, Mr. I. A. Busari, Mrs. F.R. Oduwole, Mrs. R. O. Akintoye, Mrs. K. J. Adekunle, Miss. B. Edeh, Mr. I. Abubakar, Miss. I. Babatola, Mr. O. O. Olawoore and Mr. O. J. Fatoki.

Many thanks to Bankole, Adesegun Samson and Sanni, Ridwan Temitope for the typesetting and the computer artwork.

We appreciate you all, thank you and God bless you..

FOREWARD

This Book 'An Insight into Professional Ethics and Governance' has been specially written for students and lecturer in polytechnics, universities and other tertiary institutions.
The major purpose of writing this book is to help students understand the theoretical and practical aspect of accounting ethics and corporate governance. The overall structure of the book is based on the degree of expertise in the course. it is structured and presented in a unique and simple form that reflects the scenario of a typical classroom environment.
in this regard, the book has sixteen chapters and the chapters discussed extensively on the fundamental issues and matters relating to ethics and corporate governance in Nigeria and across the ocean.

The book is good for lecturers and students in tertiary institutions, business men and upcoming accountants.
Readers are therefore advised to adopt a practical and dynamic attitude towards becoming successful accountants now or in the very future.

Kindly enjoy the valuable work done by the experienced scholars.

Barrister. E. A. Ademola. ACA
Department of Accountancy,
Federal Polytechnic Ilaro.
Ogun State.

BRIEF CONTENTS

CHAPTER 1 - INTRODUCTION TO ETHICS - BALOGUN, S. B.

CHAPTER 2 - FUNDAMENTAL PRINCIPLES OF ETHICS - FATOGUN, O. I

CHAPTER 3 - THREATS AND SAFEGUARDS FOR PROFESSIONAL ACCOUNTANTS - FATOGUN, O. I

CHAPTER 4 - THREATS AND SAFEGUARDS FOR PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE - BALOGUN, S. B

CHAPTER 5 - WHISTLE - BLOWING CONCEPTS, CASES AND SOLUTIONS - BALOGUN, S. B

CHAPTER 6 - ETHICAL DECISION MAKING MODELS - FATOGUN, O. I

CHAPTER 7 - THE CULTURAL CONTEXTS OF ETHICS - FATOGUN, O. I

CHAPTER 8 - ETHICAL ISSUES IN ORGANISATIONS - ADEMOLA, E. A

CHAPTER 9 - CORPORATE SOCIAL RESPONSIBILITY - BALOGUN, S. B

CHAPTER 10 - THE MEANING OF CORPORATE GOVERNANCE - FATOGUN, O. I

CHAPTER 11 - CORPORATE GOVERNANCE ISSUES - BALOGUN, S. B

CHAPTER 12 - CONCEPTS OF GOOD GOVERNANCE - BALOGUN, S. B

CHAPTER 13 - STAKEHOLDERS - ADEMOLA, E. A

CHAPTER 14 - AGENCY THEORY - FATOGUN, O. I

CHAPTER 15 - OTHER THEORIES OF CORPORATE GOVERNANCE - BALOGUN, S. B

CHAPTER 16 - INTERNATIONAL AND NIGERIAN CODES AND PRINCIPLES OF CORPORATE GOVERNANCE - ADEMOLA, E. A

TABLE OF CONTENTS

	PAGE
DEDICATION	ii
ACKNOWLEDGMENT	iii
FOREWARD	iv
BRIEF CONTENT	v
TABLE OF CONTENT	vi
REFERENCES	
CHAPTER 1 - INTRODUCTION TO ETHICS	1 - 10
CHAPTER 2 - FUNDAMENTAL PRINCIPLES OF ETHICS	11 - 21
CHAPTER 3 - THREATS AND SAFEGUARDS FOR PROFESSIONAL ACCOUNTANTS	22 - 24
CHAPTER 4 - THREATS AND SAFEGUARDS FOR PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE	25 - 32
CHAPTER 5 - WHISTLE - BLOWING CONCEPTS, CASES AND SOLUTIONS	33 - 36
CHAPTER 6 - ETHICAL DECISION MAKING MODELS	37 - 41
CHAPTER 7 - THE CULTURAL CONTEXTS OF ETHICS	42 - 44
CHAPTER 8 - ETHICAL ISSUES IN ORGANISATIONS	45 - 49
CHAPTER 9 - CORPORATE SOCIAL RESPONSIBILITY	50 - 55
CHAPTER 10 - THE MEANING OF CORPORATE GOVERNANCE	56 - 60
CHAPTER 11 - CORPORATE GOVERNANCE ISSUES	61 - 64
CHAPTER 12 - CONCEPTS OF GOOD GOVERNANCE	65 - 70
CHAPTER 13 - STAKEHOLDERS	71 - 80
CHAPTER 14 - AGENCY THEORY	81 - 85
CHAPTER 15 - OTHER THEORIES OF CORPORATE GOVERNANCE	86 - 88
CHAPTER 16 - INTERNATIONAL AND NIGERIAN CODES AND PRINCIPLES OF CORPORATE GOVERNANCE	89 - 93

CHAPTER ONE

INTRODUCTION TO ETHICS

Ethics, also known as moral philosophy that addresses questions about morality – that is, concepts such as good and evil, right and wrong, virtue and vice, justice and crime, etc.

The word 'Ethics' is derived from the Ancient Greek word *ethikos;* means customs and habits. A major branch of philosophy which centers on the study of values and customs of a person or group and covers the analysis and employment of concepts such as right and wrong, good and evil and do's and don'ts. Ethics relates to what is good or bad, having to do with moral duty and obligations.' (Moral is defined as relating to principles of right and wrong).

Ethics is not about being better than someone else; it's about being the best we can be. Ethics relate to the study of right and wrong and the choices of action and behavior.

Ethics relates to a set of well – based standards of right and wrong that provide a framework of human behavior. It supports the pursuit of moral values and standards for the individual, his/her relationship with others and society and for particular segments of society such as professional organizations. Ethics is expressed as rights, obligations, responsibility, fairness and justice. Codes of Professional conducts for professional organizations also prescribe additional standards of behavior such as objectivity, independence and due care.

Ethics relates to the study and development of one's ethical standards, leading to the choice of actions or decisions.

Our ethical standards are continuously evolving and we are required to:

- Continuously study our moral beliefs;
- Be aware of changes in our surroundings and
- Have the capacity to identify the right choice of actions.

What Ethics is not?

It is helpful to identify what ethics is **NOT**:

1. Ethics is not the same as feelings. Feelings provide important information for our ethical choices. Some people have highly developed habits that make them feel bad when they do something wrong, but many people feel good even though they are doing something wrong. And often our feelings will tell us it is uncomfortable to do the right thing if it is hard.
2. Ethics is not religions. Many people are not religious, but ethics applies

to everyone. Most religions do advocate high ethical standards but sometimes do not address all the types of problem we face.

3. Ethics is not following the law. A good system of law does incorporate many ethical standards, but law can deviate from what is ethical. Law can become ethically corrupt, as some totalitarian regimes have made it. Law can be a function of power alone and designed to serve the interests of narrow groups. Law may have a difficult time designing or enforcing standards in some important areas, may be slow to address new problems.
4. Ethics is not following culturally accepted norms. Some cultures are quite ethical, but others become corrupt - or blind to certain ethical concerns (as the United States was to slavery before the Civil War). "When in Rome, do as the Romans do" is not a satisfactory ethical standard.
5. Ethics is not science. Social and natural science can provide important data to help us make better ethical choices. But science does not tell us what we ought to do. Science may provide an explanation for what humans are like. But ethics provides reasons for how humans ought to act. And just because something is significantly or technologically possible, it may not be ethical to do it.

If our ethics are not based on feelings, religion law, accepted social practice, or science, what are they based on? Many philosophers and ethicist have helped us answer this critical question. They have suggested at least five different sources of ethical standards we should use:

Five Sources of Ethical Standards

The Utilitarian Approach

Some ethicist emphasize that the ethical action is the one that provides the most good or does the least harm, or, to put it another way, produces the greatest balance of good over harm. The ethical corporate action, then, is the one that produces the greatest good and does the least harm for all who are affected-customers, employees, shareholders, the community, and the environment. Ethical warfare balances the good achieved in ending terrorism with the harm done to all parties through death, injuries, and destructions. The utilitarian approach deals with consequences; it tries both to increase the good done and to reduce the harm done.

The Rights Approach

Other philosophers and ethicist suggest that the ethical action is the one that best protects and respects the moral rights of those affected. This approach starts from the belief that humans have a dignity based on their human nature per se or on their ability to choose freely what they do with their lives. On the basis of such dignity, they have a right to be treated as ends and not merely as means to other ends. The list of moral rights - including the rights to make one's own

choices about what kind of life to lead, to be told the truth, not to be injured, to a degree of privacy, and so on-is widely debated; some now argue that non-humans have rights, too. Also, it is often said that rights imply duties -in particular, the duty to respect others' rights.

The Fairness or Justice Approach

Aristotle and other Greek philosophers have contributed the idea that all equals should be treated equally. Today, we use this idea to say that ethical actions treat all human beings equally-or if unequally, then fairly based on some standard that of defensible. We pay people more based on their harder work or the greater amount that they contribute to an organization, and say that is fair. But there is a debate over CEO salaries that are hundreds of times larger than the pay of others; many ask whether the huge disparity is based on defensible standard or whether it is the result of an imbalance of power and hence is unfair.

The Common Good Approach

The Greek philosophers have also contributed the notion that life in community is a good in itself and our actions should contribute to that life. This approach suggests that the interlocking relationships of society are the basis of ethical reasoning and that respect and compassion for all others-especially the vulnerable-are requirements of such reasoning. This approach also calls attention to the common conditions that are important to the welfare of everyone. This may be a system of laws, effective police and fire departments, health care, a public educational system, or even public recreational areas.

The Virtue Approach

A very ancient approach to ethics is that ethical actions ought to be consistent with certain ideal virtues that provide for the full development of our humanity. These virtues are dispositions and habits that enable us to act according to the highest potential of our character and on behalf of values like truth and beauty. Honesty, courage, compassion, generosity, tolerance, love, fidelity, integrity, fairness, self-control and prudence are all examples of virtues. Virtue ethics asks of any action, “What kind of person will I become if I do this?” or “Is this action consistent with my acting at my best?”

The Ethical Framework for Accountants

Professional Ethics

A system of code of conduct based on moral duties and obligations that include how one should behave. Professional ethics for accountants refers to the objectives of the accounting profession to work to the highest standards of .

professionalism and performance so as to meet public expectations.
The Code of Ethics for professional Accountants replaced the Joint Code of Professional Conduct and established the ethical requirements for professional accountants

Ethics and the Professional Accountant

a. Accountancy profession accepts its responsibility to act in the public interest.
b. A professional accountant's responsibility is not exclusively to satisfy the needs of individual clients or employers.
c. In acting in the public interest, professional accountants must comply with their professional body's ethical code.
d. The fundamental principles of 'being an accountant' are common to all-ethics is indivisible.
e. People are expected to act ethically- in line with the principles of 'correct' conduct.
f. Professional ethics add layers to the acceptable level of behavior.

Why is there so much interest in ethics?

- Erron and WorldCom!
- Key lesson from the scandals is needed for a 'top to bottom' ethics-based culture.
- The values of integrity, transparency and expertise in the ICAN, ACCA and IFAC Codes should be followed by all those in the reporting supply chain.

Importance of Ethics

Ethics in professional accountancy are of utmost importance. Now as the business and financial world is adopting international accounting and auditing standards, it is becoming all the more necessary to adhere to certain Code of ethics prescribed by international and national accountancy bodies. Before arguing in favour of the topic, let's have a look at some basic concepts:

Code of Ethics:

In the context of a code adopted by a profession or by a governmental organization to regulate that profession, an ethical code may be styled as a code of professional responsibility, which may dispense with difficult issues of what behavior is 'ethical'. A code of ethics is often a formal statement of the organization's values on certain ethical and social issues relating to the profession and practice of the professional knowledge.

This also includes the principles and procedures for specific ethical situations.

Ethics in Professional Accountancy:

The general ethical standards of society apply to people in professions such as medicine, law, nursing and accountancy etc just as much as to anyone else. However, society places even higher expectations on professionals. People need to have confidence in the quality of the complex services provided by professionals.

Ethics in accountancy profession are invaluable to accounting professions and to those who rely on their services. Stakeholders including clients, credit grantors, governments, taxation authorities, employees, investors, the business financial community etc perceives them as highly competent, reliable, objective and neutral people. Professional accountants therefore, must not only be well qualified but also possess a high degree of professional integrity. Because of these high expectations, professionals have adopted codes of ethics; also known as codes of professional conduct. These ethical codes call for their members to maintain a level of self-discipline that goes beyond the requirements of laws and regulations. Each of the major professional association for accountants has a code of ethics.

As mentioned earlier, professional accountants can be of two types.

1. One who work in firms or independently run those firms that provide accounting, auditing and other advisory services to clients; these are called Public Practitioners.
2. Others are those who are employees of organizations and may serve as internal auditors, management accountants, financial managers and financial analysts.

Regardless of the role of accountants, they are adhered to code of ethics which are applied to their professional conduct although there are some special provisions for those in public practice.[Reference: Code of Ethics for Professional Accountants-International Federation of Accountants (IFAC)].

Ethics in the Workplace

Professional accountants are induced to act ethically through two aspects of their socialization, the education process, and the influence of work experience and role models who show what it means to be ethical.

Accountants learn principles of good conduct in their education and then receive advice than observe how significant others behave in the workplace. Consequently, the organizational context in which accountants operate influences moral reasoning. Such influences may bring about either higher or lower levels of moral reasoning depending on the individual's actual

experiences. For example, ethical attitudes are modified as new accountants internalize the values of the organization as demonstrated by the model of behavior of their superiors and industry practice.

A young professional operating in an ethical climate will instill a respect for moral behavior and any weakness in moral training will be overcome. Conversely, if peers are behaving unethically, young professionals will be tempted to believe that such behavior is normal and acceptable practice. In these situations, previous training and learning may be dismissed. In these circumstances, accountants, particularly those lacking in ethical training will only make morally defendable decisions if the corporate environment supports that view.

Therefore, education that enhances the ethics of accountants will increase the ability of accountants to resist peer pressure and pursue the right course of action rather than follow accepted practice. Ethics training in the final stage should focus on assisting individuals make better ethical choices at critical junctures in their careers.

Rules-based and Principle-based Approached to Ethics

Rule-Based Ethics

A rule-based approach to ethics gives priority to rules, regulations and policies as a means of determining ethical behavior. It accesses the right thing to do in a situation by checking for a rule that addresses or covers the situation. The law is considered an absolute in determining what should or should not be done. A rule-based ethics will prefer programmes that develop elaborate and comprehensive codes designed to deal with as many situations as possible and emphasize compliance with rules.

Principle-Based Ethics

An approach to ethics that focuses on theories of the importance of general principles such as respect for autonomy, beneficence / nonmaleficence, and justice.

Rules versus Principles

Rules are typically thought to be simpler to follow than principles, demarcating a clear line between acceptable and unacceptable behavior. Rules also reduce discretion on the part of individual managers or auditors.

In practice, rules can be more complex than principles. They may be ill-equipped to deal with new types of transactions not covered by the code. Moreover, even if clear rules are followed, one can still find a way to circumvent their underlying purpose – this is harder to achieve if one is bound by a broader

principle.

The principles on the other hand are form of self regulation. It allows the sector to determine what standards are acceptable or unacceptable. It also pre-empts overzealous legislations that might not be practical.

- Principles-based framework is best suited to a rapidly changing environment.
- Legalistic, rules-based codes encourage creative, loophole-based avoidance.
- A principles-based code provides a framework for 'doing the right thing', acting as a benchmark.

Problems with Rule-Based Ethics

1. There can never be enough rules to cover everything we organize as an ethical situation.
2. Due to the complexity of life, the promulgation of rules as the entirety of the ethical dimension can encourage an “exception” or loophole mentality then, ethics becomes manipulation.
3. Rules can conflict. Do we create more rules to adjudicate conflicts among rules? What if these rules conflict?
4. All rules need interpretation.
5. Focusing on rules and actions makes think of ourselves in terms of what we do, and not who we are.

So, do we simply forget about rules?

- We really cannot do without some rules. Everyone has them no matter what. Not to follow any rules is itself a rule!
- Rules are essential for understanding the difference between right and wrong-the main parameters of what is expected of everyone. Thus, they coordinate human behavior in a rough and ready way.
- Rules functions as helping guidelines or synopses of cumulative moral experience and wisdom.

Rules can clarify fundamental issues at stake in a practical problem.

Case 1: Ruled-Based vs. Principles-Based

American Football (Rules-Based)

In a rules-based environment like Wall Street has it now, there a lot of rules that the financial institutions must follows and the regulators enforce the rules. Football, like most American sports, is heavily rule-bound. There is an elaborate rule book that sharply limits what players can and cannot do (down to where they have to stand on the field), and its dictates are followed with great care.

Soccer (Principles-Based)
The regulators have more authority to interpret and pass judgement on the activities of Wall Street. Soccer is a more principles-based game. There are fewer rules, and the referee is given far more authority than officials in most American sports to interpret them and to shape game play and outcomes. For instance, a soccer referee keeps the game time, and at game's end has the discretion to add as many or as few minutes as extra time as he deems necessary. There's also less obsession with precision-players making a free kick or throw-in don't have to pinpoint exactly where it should be taken from. As long as it's in the general vicinity of the right sport, it is acceptable.
Not surprisingly, Wall Street favours the principles-based approach rather than rules-based (it's likely to be less complex and less onerous to comply with). Paulson is an ex-Wall Streeter.

Virtue-Based Ethics
A virtue-based approach to ethics gives priority to living a good life and to achieving excellence. In as much as it requires ethical decision making be based on what we achieve in life, a virtue-based approach has affinities with consequence-based ethics. However, rather than attach value to the results of actions, as does a consequence-based ethics, a virtue-based approach focuses on the life-long goal to be achieved-being person of good character. It starts with the idea that a person of good character will strive to do the right thing. Some of the virtues possessed by such a person are integrity, courage, compassion, and a sense of justice.

Ethics and the Professional Accountant
Accountancy profession accepts its responsibility to act in the public interest. A professional accountant's responsibility is not exclusively to satisfy the needs of individual clients or employers. In acting in the public interest, professional accountants must comply with their body's ethical code.
The fundamental principles of 'being an accountant' are common to all- ethics is indivisible. People are expected to act ethically – in line with the principles of 'correct' conduct Professional ethics add layers to the acceptable level of behavior.
Acceptable behavior already present dilemmas. Rushworth Kidder, President of Institute for Global Ethics, wrote 'the really tough choices involve right versus right; they are truth versus loyalty, individual versus community, short-term versus long-term and justice versus mercy'.
Their work as business 'interpreters' means puts the work of accountants in the public eye. Expectation that senior professional accountants will encourage an ethics-based culture.

Framework for resolving Ethical Conflicts

Principles-based framework is best suited to rapidly changing environment. Legalistic, rules-based codes encourage creative, loophole-based avoidance. A principle-based code provides a framework for 'doing the right thing ', acting as a benchmark.

Professional accountants must observe five Fundamental Principles

- Objectivity
- Integrity
- Professional competence and due care
- Confidentiality
- Professional behaviour

Why is there so much interest in ethics?

Enron and WorldCom! Key lesson from the scandals is need for a 'top to bottom' ethics-based culture.

The values of integrity, transparency and expertise in the Institute of Chartered Accountants of Nigeria (ICAN) and IFAC Codes should be followed by all those in the financial reporting supply chain.

What Influences 'Unethical Behavior'?

Pressure on employees to be 'successful'-'success' is almost always measures in monetary terms.

Promotion of a 'doing whatever it takes' culture.

What Influences 'Unethical Behavior'?

Michael G. Daigneault – in 'Ethics and Professionalism: Why Good People Do Bad Things' – noted the following: 'rationalisations for ethical compromise':

- I have to cut corners to meet my goals'
- My superiors want results, not excuses'
- No one will ever know the difference'
- I am afraid to do what I know is right'

Ethical Leadership

Ethical leadership is leadership that is involved in leading in a manner that respects the rights and dignity of others.

"As leaders are by nature in a position of social power, ethical leadership focuses on how leaders use their social power in the decisions they make, actions they engage in and ways they influence others".

Leaders who are ethical demonstrate a level of integrity that is important for stimulating a sense of leader trustworthiness, which is important for followers to accept the vision of the leader.

Characteristics of Ethical Leaders

1. Articulate and embody the purpose and values of the organization.
2. Focus on organizational success rather than on personal ego.
3. Find the best people and develop them.
4. Create a living conversation about ethics, values and the creation of value for stakeholders.
5. Create mechanism of dissent. Many executives don't realize how powerful they are simply by virtue of their positions.
6. **Take a charitable understanding of others' values:** Ethical leaders can understand why different people make different choices, but still have a strong grasp on what they would do and why.
7. Make tough calls while being imaginative.
8. Know the limits of the values and ethical principles they live.
9. **Frame actions in ethical terms**: Ethical leaders see their leadership as a fully ethical task.
10. Connect the basic value proposition to stakeholder to support and societal legitimacy.

How to Become an Ethical Leader

Becoming an ethical leader is relatively simple. It requires a commitment to examining ones own behavior and values, and the willingness and strength to accept responsibility for the effects of ones actions on others.

Ethical leaders must consider and take responsibility for the effects of their actions on customers, suppliers, employees, communities and other stakeholders.

To become an ethical leader, one must be committed to asking himself the following types of questions:

1. What are my most important values and principles?
2. Does my calendar- how I spend my time and attention – reflect these values?
3. What would my subordinates and peers say my values are?
4. What mechanism and processes have I designed to be sure that the people who work for me can push back against my authority?
5. What could this organization do or ask me to do that would cause me to resign for ethical reasons?
6. What do I want to accomplish with my leadership?
7. What do I want people to say about my leadership when I am gone?
8. Can I go home at the end of the day and tell my children (or a loved one) about my leadership, and use my day's work to teach them to be ethical.

CHAPTER TWO
FUNDAMENTAL PRINCIPLES OF ETHICSS

Accounting Ethics

Accounting ethics is primarily a field of applied ethics, the study of moral values and judgements as they apply to accountancy.

Accounting ethics were first introduced by Luca Pacioli, and later expanded government groups, professional organizations, and independent companies.

Due to the diverse range of accounting services and recent corporate collapses, attention has been drawn to ethical standards accepted within the accounting profession.

To combat the critics and prevent fraudulent accounting, various accounting organizations and governments have developed regulations and remedies for improved ethics among the accounting profession.

Accounting Ethics Education Objective

1. Relate accounting education to moral issues.
2. Recognize issues in accounting that have ethical implications.
3. Develop "a sense of moral obligation" or responsibility.
4. Develop the abilities needed to deal with ethical conflicts or dilemmas.
5. Learn to deal with the uncertainties of the accounting profession.
6. "Set the stage for" a change in ethical behavior.
7. Appreciate and understand the history and composition of all aspects of accounting ethics and their relationship to the general field of ethics.

Professional Code of Conduct

A professional accountant shall comply with the following fundamentals principles:

a. **Integrity** – to be straightforward and honest in all professional and business relationships.

b. **Objectivity** – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.

c. **Professional Competence and Due Care** – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable, technical and professional standards.

d. **Confidentiality** – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not discloses any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor

use the information for the personal advantage of the professional accountant or third parties.

e. **Professional Behavior** – to comply with relevant laws and regulations and avoid any action that discredits the profession.

Integrity

The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships. Integrity also implies fair dealing and truthfulness. A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:

a. Contains a materially false or misleading statement;
b. Contains statements or information furnished recklessly; or
c. Omits or obscures information required to be included where such omission or obscurity would be misleading.

When a professional accountant becomes aware that the accountant has been associated with such information, the accountant shall take steps to disassociate himself from that information.

Objectivity

The principle of objectivity imposes an obligation on all professional accountants not to compromise their professional or business judgment because of bias, conflicts of interest or the undue influence of others. A professional accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. A professional accountant shall not perform a professional service if a circumstance or relationship biases or unduly influences the accountant's professional judgment with respect to that service.

Professional Competence and Due Care

The principle of professional competence and due care imposes the following obligations on all professional accountants:

a. To maintain professional knowledge and skill at the level to required to ensure that clients or employers receive competent professional service; and
b. To act diligently in accordance with applicable technical and professional standards when providing professional services.

Competent professional service requires the exercise of sound judgment in

applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:

a. Attainment of professional competence; and
b. Maintenance of professional competence.

The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

A professional accountant shall take reasonable steps to ensure that those working under the professional accountant's authority in a professional capacity have appropriate training and supervision.

Where appropriate, a professional accountant shall make clients, employers or other users of the accountant's professional services aware of the limitations inherent in the services

Confidentiality

The principle of confidentiality imposes an obligation on all professional accountants to refrain from:

a. Disclosing outside the firm or employing organization confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
b. Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.
c. A professional accountant shall maintain confidentiality, including a social environment, being alert to the possibility of inadvertent disclosure, particularly a close business associate or a close or immediate family member.
d. A professional accountant shall maintain confidentiality of information disclosed by a prospective client or employer.
e. A professional accountant shall maintain confidentiality of information within the firm or employing organization.

A professional accountant shall take reasonable steps that staff under the professional accountant's control and persons from whom advice and assistance is obtained respect the professional accountant's duty of confidentiality.

Post Assignments: The need to comply with the principle of confidentiality continues even after the end of relationships between a professional accountant and a client or employer. When a professional accountant changes employment or acquires a new client, the professional accountant is entitled to use prior experience. The professional accountant shall not, however, use or disclose any confidential information either acquired or received as a result of professional or business relationship.

The following are circumstances where professional accountants are or may be required to disclose confidential information or when such disclosure may be appropriate:

a. Disclosure is permitted by law and is authorized by the client or employer;

b. Disclosure is required by law, for example:

   i. Production of documents or other provision of evidence in the course of legal proceedings; or

   ii. Disclosure to the appropriate public authorities of infringements of the law that come to light; and

   c. There is a professional duty or right to disclose, when not prohibited by law:

   i. To comply with the quality review of a member body or professional body;

   ii. To respond to an inquiry or investigation by a member body or regulatory body;

   iii. To protect the professional interests of a professional accountant in legal proceedings; or

   iv. To comply with technical standards and ethics requirements.

In deciding whether to disclose confidential information, relevant factors to consider include:

a. Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the professional accountant;

b. Whether all the relevant information is known and substantiated, to the extent it is practicable when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgment shall be used in determining the type of disclosure to be made, if any;

c. The type of communication that is expected and to whom it is addressed; and

d. Whether the parties to whom the communication is addressed are appropriate recipients.

Professional Behavior

The principle of professional behavior imposes an obligation on all professional accountants to comply with relevant laws and regulations, and avoid any action that the professional accountant knows or should know may discredit the profession. This includes actions that a reasonable and informed third party weighing all the specific facts and circumstances available to the professional accountant at that time would be likely to conclude adversely affects the good reputation of the profession in marketing and promoting themselves and their work. Professional accountants shall not bring the profession into disrepute. Professional accountants shall be honest and truthful and not:

a. Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or
b. Make disparaging references or unsubstantiated comparisons to the work of others.

Accountant in Ethical Dilemma

Definition of Ethical Dilemma

An ethical dilemma is a situation that involves a conflict between two moral choices. For example, do you save the drowning old woman or the drowning baby if they are the same distance away? This is an ethical dilemma because they are both unable to save themselves, but saving neither of them isn't acceptable. Another example would be wanted to feed your starving family, but in order to do so; you need to steal some food. Should your family starve, or should you steal some bread?

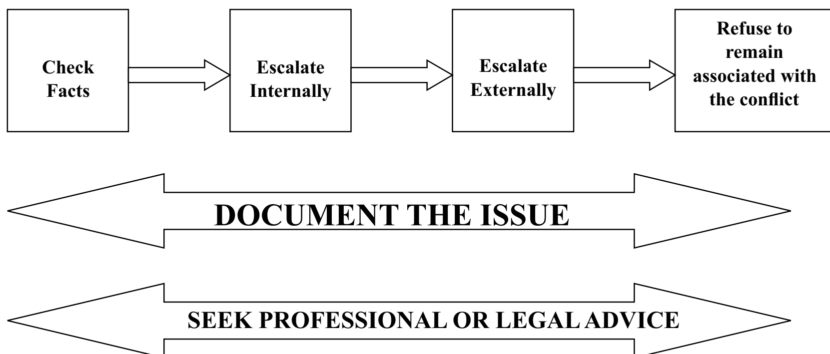
What should a professional accountant if he thinks he might be facing an ethical dilemma? How can a professional decide whether to take action?

If a professional accountant thinks something might be unethical, he or she will need to think about the relevant facts, the ethical issues involved, the fundamental principles of IFAC's code of ethics that apply and internal company procedures. He or She can then identify and weigh up alternative courses of action thinking about the consequences for those affected. What would be the outcome of going down a particular route? How would this compare with the alternatives?

An ethical dilemma exists when one or more principles of the code are threatened. A professional accountant may have discovered something unethical, illegal or fraudulent going on where he works, or perhaps may feel that he has been asked to do something that compromises his professional integrity. Maybe someone is putting pressure on a professional accountant to

mislead, or to report in a way that is inconsistent or goes against accepted accounting standards.
Conflicts of interest and confidentiality issues are also ethical problems. In general, ethical issues should be dealt with by taking actions (called safeguards) to reduce them to a level where they are no longer significant or of any consequence.
If a professional accountant is not sure whether something is significant, it can help to think about what reasonable third party might think if they had the facts of the situation. How would he feel if someone knows discovered how he had acted? Would he feel proud or embarrassed by his actions?

Resolving Ethical Dilemmas
Whether a professional accountant works in business, the public sector or in practice, the following is the process for addressing situations where he has discovered possible fraud or malpractice or where he feels he has professional integrity is at risk.



Source: *Authors compilation*

a. A professional accountant starts by gathering all the relevant information so he can be sure of the facts and decide whether there really is an ethical problem.
b. Raise concern internally. Manager could be an appropriate person to approach, or to speak to a trusted colleague. It these are not options, consider escalating the issue, such as to manager's boss, to the Board, or perhaps to a non-executive director. There might also be an internal grievance or whistleblowing procedure one can follow. If in practice, concern should be raised with the client.
c. If the issue is raised within the company, and concerns have not been addressed and the feeling is that it is a significant or persistent problem, one should think about reporting it externally. However, confidentiality still

applies, and a professional accountant should get legal advice to be sure of his obligations and rights.

d. Finally, if a professional accountant has exhausted these avenues and still unable to resolve the ethical conflict, he should consider how he could remove himself from the situation. Sometimes it might be enough to stop working with a particular team or client or to refuse to be associated with a misleading report. In most extreme cases of significant unethical behavior, however, where this is likely to continue despite one's best efforts to resolve it, a professional accountant may need to consider resigning. Again, legal advice will help to clarify one's rights and obligations and should be sought before taking the step of resigning.

Throughout the process, a professional accountant should document the steps he has taken to resolve the issue. For example, to raise his concern in writing and keep copies of relevant correspondence. This will allow him to demonstrate how he dealt with the problem should he ever need to do so.

Ethics and Accountants

Definition: Personal Ethics

Personal Ethics describes the intrinsic moral principles and values that govern an individual's interaction with others. Personal ethics is neither enforced nor required by a prescriptive code – it reflects one's inner views on morally and right and wrong.

Personal ethics are typically influenced by people's family, friends, experiences, cultures and religion.

'Business Ethics' describes the moral principles and the values that guide how people and institutions behave in the world of commerce. Business ethics considers how the pursuit of self-interest (e.g. profits) impacts others through the actions of individuals of firms within business.

Some businesses (particularly large multinationals) develop a formal corporate code of ethics that provides a reference point for employees and other stakeholder's behavior.

A business code of ethics will apply to all employees whether they are members of a professional body (and therefore subject to a code of professional ethics has) or not.

Definition: Professional Ethics

Professional ethics describes the moral principles and values that govern behavior in the context of a particular profession such as lawyers, doctors, architects and accountants.

Professional ethics normally specified in a professional code of conduct that all

members (and students) professing to be part of that profession must abide by. Adherence to an institute's professional code of conduct such as ICAN's Code of Professional Conduct is normally a requirement of membership and remarks relevant throughout the professional's life, not just in the work environment.

Acting in an ethical Way: Moral Philosophy

As an accountant, you need to recognize the need to behave in an ethical way. If you do not intend to act ethically in your work, you do not deserve to be an accountant.

To understand how to act ethically, it is necessary to have some understanding of ethics, how ethical codes of behavior are established and maintained.

It is also useful to recognize a link between ethical behavior and good corporate governance. Good corporate governance is associated with integrity, honesty and transparency. These are ethical qualities in business.

It is also important to recognize that individuals – and businesses – have differing views about 'right' and 'wrong'. We might think that we know what is right, but others may disagree strongly. Differences in ethical views can be very large between different communities and cultures.

There is general agreement that some actions are 'wrong' and unethical. It is wrong to steal and wrong to commit murder.

Many individuals take the view that war is 'wrong', but others might think that war is sometimes necessary to achieve a desirable and morally worthwhile objective.

There are strong differences of opinion on difficult moral issues such as abortion, euthanasia and medical research on animals.

There are probably strong differences on opinion on many other issues. Is it wrong for a government to torture a 'terrorist' in order to obtain information that might reduce the risk of more terrorist attack and deaths of civilians? Is it wrong to tell a lie to your boss at work in order to protect a colleague from dismissal for a minor disciplinary offence?

Why the Study of Ethics is important for today's Accountants

The study of ethics is important to today's accountants due to the following:

a. Accountants must abide by professional codes of ethics due to membership of a professional accountancy body.
b. It is in the public interest that members of the public have confidence in the accountancy profession. This is necessary to help facilitate commerce and industry, promote growth and prosperity and to help sustain a reliable and trustworthy economic mechanism.
c. Accountants must continue to be seen as ethical and independent for their

option to be valued both within audit and advisory roles.

d. The study of ethics will help promote consistency in the ethical values and principles that can be expected of accountants.
e. Adherence to professional codes of ethics remains ever critical in protecting the reputation of the accountancy profession in light of recent corporate scandals (such as Enron and WorldCom) and the global financial crisis.

Ethical Theories of Relativism and Absolutism

Moral philosophers do not agree on the nature of morality. Two opposing views are 'absolutism' and 'relativism'.

Absolutism

The ethical theory of absolutism, or moral absolutism, is that there are absolute moral standards against which the morality of actions can be judged. 'Right' and 'Wrong' are recognized by objective standards that apply universally to everyone. Plato was a philosopher who argued in favour of moral absolutism and in 'good' that always holds its values.

Absolutism might be associated with religious morally, but an individual can have an absolutist view of morality without being religious. For example, an individual might believe that slavery, war, child abuse and the death penalty are all morally wrong and cannot be justified under any circumstances.

Other terms related to ethical absolutism include:

i. **Ethical universalism** which describes the situation whereby all of mankind accept and live by the same basic ethical standards regardless of culture, race or religion.
ii. **Ethical objectivism** which describes the view that what is right or wrong doesn't depend on what anyone thinks is right or wrong but rather the pyre facts irrespective of scenario.

Relativism

The ethical theory of relativism rejects the absolutist view. It states that there is no objective or absolute moral truth, and there are no universal standards of moral behavior. There are two aspects to relativism:

i. **Descriptive ethical relativism**. This is the view that different cultures and societies have different ethical systems and cultures, 'Right' and 'Wrong' are concepts that relate to the particular culture. (There is no universal rule about right and wrong).

ii. **Normal ethical relativism**. The beliefs or moral values within each culture are right within that culture. It is impossible to judge the values of another culture externally or objectively. Moral values of a culture can only be judged from or within the culture.

iii. **Religious relativism** is an example of normative ethical relativism and maintains that one religion can be true for one person or culture but not for another. No single religion, therefore, is universally or exclusively true.

iv. **Historical relativism** is another example of normative ethical relativism and provides context for ethical views to vary over periods of time. For example, the elimination of suspected witches or the widespread adoption of slavery in the past may not be acceptable in today's society. Similarly, trends may move in the opposite direction – for example the liberalization of clothing fashions or the changing role of women in society.

Relativism accepts that ethical behavior cannot be judged objectively. That is right and what is wrong can also vary according to circumstances.

J L. Mackie is a fairly recent moral philosopher who supported the relativist view. He argued that ethical values and moral judgements are a human invention, which is imposed on society by 'institutions.

Example: Absolutism vs. Relativism

You might have your own view about which of these different approaches to making moral judgements is correct, absolutism or relativism.

Suppose that a manager is given confidential information by an employee which he promises to keep confidential and not to disclose to anyone else.

In your opinion, would there be any circumstances in which the manager might break his promises and disclose the confidential information to someone else, without the permission of the employee?

- The manager might take the view that that having given a promise, he must keep it. A promise is given with the intention to keeping it, and there are no circumstances in which the manager would disclose the information to anyone else, without the prior permission of the employee. This would be an absolutist view of ethics.
- The manager might take the view that, having given his promise, there could be situations in which the information could be given to someone else, without permission from the employee. This would be unethical behavior.
- The manager might give a promise not to disclose the confidential information to anyone else, but in giving his promise he might feel obliged to gave the information to someone else (and give an indication of what those circumstances might be, such as legal reasons). In this situation, the manager would be saying that the right thing to do could depend on the

circumstances and situation. This would be a relativist view of ethics.
It is therefore possible to take a moral position based on absolutist or a relativist view of morality. It is also possible to act unethically, from both an absolutist and a relativist point of view.

CHAPTER THREE

THREATS AND SAFEGUARDS FOR PROFESSIONAL ACCOUNTANTS

Ethical Threats and Safeguards

Threats and Safeguards

Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance crates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle.

Threats fall into one or more of the following categories:

1. **Self-interest threat** – the threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behavior; this can occur as a result of your own or your close family's interests – financial or otherwise. These threats often result in what is commonly called a 'conflict of interest' situation. Working in business, a self-interest threat could result from concern over job security, or from incentive renumeration arrangements. For those in practice it might be the possibility of losing a client or holding a financial interest in a client.
2. **Self-review threat** – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of providing a current service. Self-review threats occur when you are required to re-evaluate your own previous judgment, for example if you have been asked to review and justify a business decision you made, or if you are reporting on the operation of financial systems that you were involved in designing or implementing.
3. **Advocacy threat** – the threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised. Advocacy threats can be a problem when you are promoting a position or opinion to the point that your subsequent objectivity is compromised. It could include acting as an advocate on behalf of an assurance client in litigation or disputes with third parties. In general, promoting the legitimate goals of your employer does not create an advocacy threat, provided that any statements you make are not misleading.
4. **Familiarity threat** – the threat that due to a long or close relationship with a

client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work. Familiarity threats can be present when you become so sympathetic to the interests of others as a result of a close relationship that your professional judgment becomes compromised. Sometimes this can result from long association with business contacts who influence business decisions, long association with colleagues, or from accepting gifts or preferential treatment from a client.

5. **Intimidation threat** – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant. Intimidation threats occur when you are deterred from acting objectively by actual or perceived threats. It could be the threat of dismissal over a disagreement about applying an accounting principle or reporting financial information, or it could be a dominant personality attempting to influence the decision-making process.
6. **Management threat** (for example, doing a job that should be carried out by client's management, such as the design and implementation of IT systems),

Safeguards

Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level. They fall into two broad categories:

1. Safeguards created by the profession, legislation or regulation; and
2. Safeguards in the work environment.

Safeguards created by the profession, legislation or regulation include:

a. Educational, training and experience requirements for entry into the profession.
b. Continuing professional development requirements.
c. Corporate governance regulations.
d. Professional standards.
e. Professional or regulatory monitoring and disciplinary procedures.
f. External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.

Certain safeguards may increase the likelihood of identifying or deterring unethical behavior. Such safeguards, which may be created by the accounting profession, legislation, regulation, or an employing organization include:

a. Effective, well-publicized complaint systems operated by the employing organization, the profession or a regulator, which enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behavior.
b. An explicitly stated duty to report breaches of ethical requirements.

Conceptual Framework Approach to Managing Threats

The Code of Ethics for Professional Accountants (2009) provide a solid conceptual framework approach for managing threats under Section 100(6) to 100(11), the summary of which, is as follows:

a. The situations in which professional accountants operate are not only diverse and many but may also create specific threats to compliance with the above-stated fundamental principles. The International Federation of Accountants has handed down conceptual framework handling, with broad based guidelines. The type of engagement and / or assignments will determine the approach to adopt. The conceptual framework outlines thus assist professional accountants in their choice of ethical tools, to uphold canons of the code. However, a professional accountant is estopped from concluding that a situation is exempted once it is not specifically prohibited;

b. When a professional accountant identifies threats which are not at acceptable level, he shall look for safeguards to counter them or reduce them to acceptable level, after having exercised qualitative and sound judgment expected of an informed third party who has skillfully weighed all the scenarios. Ultimately, compliance with the fundamental principles should not be compromised;

c. A professional accountant is obliged to appraise any threats to comply with fundamental principles when it is clear that objectively, the emerging circumstances or relationships have the potentiality of compromising compliance;

d. He shall analyse qualitatively and quantitatively all factors when evaluating the significance of a threat. If it is too significant or appropriate safeguards cannot be found or applied, the professional accountant shall reject or discontinue the service or, as appropriate, resign from the appointment;

e. Where a professional accountant has mistakenly violated a provision of the Code, depending upon each development, the inadvertence may not be deemed to be an infringement, if the violation is discovered and promptly corrected with the necessary safeguards applied; and

f. Where a v is faced with unusual situations 'in which the application of a specific requirement of the Code would result in a disproportionate outcome" or a development which may run counter to the public interest, he is advised to seek counsel of The Institute of Chartered Accountants of Nigeria, his member body.

CHAPTER FOUR

THREATS AND SAFEGUARDS FOR ACCOUNTANTS IN PUBLIC PRACTICE

A professional accountant in public practice should not engage in any business, occupation or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the rendering of professional services.

Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. This nature and significance of the threats may differ depending on whether they arise in relation to the provision of services to an audit client and whether the audit client is a public interest entity, to an insurance client that is not an audit client, or to a non-assurance client.

Threats fall into one or more of the following categories:

a. Self-interest;
b. Self-review
c. Advocacy
d. Familiarity; and
e. Intimidation

Specific examples of circumstances that create each threat for a profess oral accountant in public practice are stated below;

Examples of circumstances that may create self-interest threats for a professional accountant in public practice include, but not limited to:

1. A member of the assurance team having a direct financial interest in the assurance client.
2. A firm having undue dependence on total fees from a client.
3. A member of the assurance team having a significant close business relationship with an assurance client.
4. A firm being concerned about the possibility of losing a significant client.
5. A member of the audit team entering into employment negotiations with the audit client.
6. A firm entering into a contingent fee arrangement relating to an assurance engagement.
7. A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the professional accountant's firm.

Examples of circumstances that may create self-review threats for a professional accountant in public practice include, but not limited to:

1. A firm issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems.
2. A firm having prepared the original data used to generate records that are the subject matter of the assurance engagement.
3. A member of the assurance team being, or having recently been, a director or officer of the client.
4. A member of the assurance team being, or having recently been, employed by the client in a position to exert significant influence over the subject matter of the engagement.
5. The firm performing a service for an assurance client that directly affects the subject matter information of the assurance engagement.

Examples of circumstances that may create advocacy threats for a professional accountant in public practice include, but not limited to:

1. The firm promoting shares in a financial statement audit client.
2. A professional accountant acting as an advocate on behalf of an audit client in litigation or disputes with third parties.

Examples of circumstances that may create familiarity threats for a professional accountant in public practice include, but not limited to:

1. A member of the engagement team having a close or immediate family member who is a director or officer of the client.
2. A member of the engagement team having a close or immediate family member who is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement.
3. A director or officer of the client or an employee in a position to exert significant influence over the subject matter of the engagement having recently served as the engagement partner.
4. A professional accountant accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential.
5. Senior personnel having a long association with the assurance client.

Examples of circumstances that may create intimidation threats for a professional accountant in public practice include, but not limited to:

1. A firm being threatened with dismissal from a client engagement.
2. An audit client indicating that it will not award a planned non-assurance contract to the firm if the firm continues to disagree with the client's accounting treatment

for a particular transaction.
3. A firm being threatened with litigation by the client.
4. A firm being pressured to reduce inappropriately the extent of work performed in order to reduce fees.
5. A professional accountant feeling pressured to agree with the judgment of a client employee because the employer has more expertise on the matter in question.
6. A professional accountant being informed by a partner of the firm that a planned promotion will not occur unless the accountant agrees with an audit client's inappropriate accounting treatment.

Safeguards

Safeguards that may eliminate or reduce threats to an acceptable level fall into two broad categories:

a) Safeguard created by the profession, legislation or regulation; and
b) Safeguards in the work environment.

A professional accountant in public practice may also find that specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorized in either professional or business relationships; a professional accountant in public practice should always be on the alert for such circumstances and threats.

A professional accountant in public practice shall exercise judgment to determine how best to deal with threats that are not at an acceptable level, whether by applying safeguards to eliminate the threat or reduce it to an acceptable level or by terminating or declining the relevant engagement.

In exercising this judgment, a professional accountant in public practice shall consider whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at that time, we would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the of safeguards, such that compliance with the fundamental principles is not compromised. This consideration will be affected by matters such as the significance of the threat, the nature of the engagement and the structure of the firm.

In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards comprise;

a. Firm-wide safeguards and
b. Engagement-specific safeguards.

A professional accountant in public practice should exercise judgment to determine how to best deal with an identified threat. In exercising this judgment, a professional accountant in public practice should consider what a reasonable

and informed third part, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would reasonably conclude to be acceptable. This consideration will be affected by matters such as the significance of the threat, the nature of the engagement and the structure of the firm.

Examples of firm-wide safeguards in the work environment include:

1. Leadership of the firm that stresses the importance of compliance with the fundamental principles.
2. Leadership of the firm that establishes the expectation those members of an assurance team will act in the public interest.
3. Policies and procedures to implement and monitor quality control of engagements.
4. Documented policies regarding the need to identify threats to compliance with the fundamental principles, evaluate the significance of those threats, and apply safeguards in eliminate or reduce the threat to an acceptable level or, when appropriate safeguards are not available or cannot be applied, terminate or decline the relevant engagement.
5. Documented internal policies and procedures requiring compliance with the fundamental principles.
6. Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients.
7. Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.
8. Using different partners and engagement teams with separate reporting lines for the provision of non-assurance client.
9. Policies and procedures to prohibit individual who are not members of an engagement team from inappropriately influencing the outcome of the engagement.
10. Timely communication of a firm's policies and procedures, including any changes to them, to all partners and professional staff, and appropriate training and education on such policies and procedures.
11. Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's quality control system.
12. Advising partners and professional staff of assurance clients and related entities from which independence is required.
13. A disciplinary mechanism to promote compliance with policies and procedures.
14. Published policies and procedures to encourage and empower staff to communicate to senior levels with the firm any issue the firm any issue relating to compliance with the fundamental principles that concerns them.

Examples of engagement-specific safeguards in the work environment include:

1. Having a professional accountant who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary.
2. Having a professional accountant who was not a member of the assurance team review the assurance work performed or otherwise advise as necessary.
3. Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant.
4. Discussing ethical issues with those charged with governance of the client.
5. Disclosing to those charged with governance of the client the nature of services.
6. Provided and extent fees charged.
7. Involving another firm to perform or re-perform part of the engagement.
8. Rotating senior assurance team personnel.

Depending on the nature of the engagement, a professional accountant in public practice may also be able to rely on safeguards that the client has implemented. However, it is not possible to rely solely on such safeguards to reduce threats to an acceptable level.

Examples of safeguards within the client's systems and procedures include:

1. The client requires persons other than management to ratify or approve the appointment of a firm to perform an engagement.
2. The client has competent employees with experience and seniority to make managerial decisions.
3. The client has implemented internal procedures that ensure objective choices in commissioning non-assurance engagements.
4. The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

Threats and Safeguards for Professional Accountants in Business

The professional accountant in business is encouraged to be alert for such circumstances and relationships.

Investors, payables, employers and other sectors of the business community, as well as governments and the public at large, all may rely on the work of professional accountants in business. Professional accountant in business may solely or jointly responsible for the preparation and reporting of financial and

other information, which both their employing organizations and third parties may rely on. They may be responsible for providing effective financial management and competent advice on a variety of business-related matters.

A professional accountant in business may be a salaried employee, a partner, director (whether executive or non-executive), an owner manager, a volunteer or another working for one or more employing organization. The legal form of the relationship with the employing organization, if any, has no bearing on the ethical responsibilities incumbent on the professional accountant in business.

A professional accountant in business has a responsibility to further the legitimate aims of the accountant's employing organization. This Code does not seek to hinder a professional accountant in business from properly fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles may be compromised.

A professional accountant in business may hold a senior position within an organization. The more senior the position, the greater will be the ability and opportunity to influence events, practices and attitudes. A professional accountant in business is expected therefore, to encourage an ethics-based culture in an employing organization that emphasizes the importance that senior management places on ethical behavior.\

A professional accountant in business shall not knowingly engage in any business, occupation, or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles.

Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. Threats fall into one or more of the following categories:

a. Self-interest
b. Self-review
c. Advocacy
d. Familiarity; and
e. Intimidation

Examples of circumstances that may create self-interest threats for a professional accountant in business include:

a. Holding a financial interest in, or receiving a loan or guarantee from the employing organization.
b. Participating in incentive compensation arrangements offered by the employing organization.
c. Inappropriate personal use of corporate assets.
d. Concern over employment security.
e. Commercial pressure from outside the employing organization.

Example of a circumstance that creates a self-review threat for a professional accountant in business is determining the appropriate accounting treatment for a business combination after performing the feasibility study that supported the acquisition decision.

What furthering the legitimate goals and objectives of their employing organizations, professional accountants in business may promote the organization's position, provided any statements made are neither false nor misleading, such actions generally would not create an advocacy threat.

Examples of a circumstance that may create a familiarity threat for a professional accountant in business include:

a. Being responsible for the organization's financial reporting when an immediate or close family member employed by the entity makes decisions that affect the entity's financial reporting.
b. Long association with business contacts influencing business decisions.
c. Accepting a gift or preferential treatment, unless the value is trivial and inconsequential.

Examples of a circumstance that may create intimidation threat for a professional accountant in business include:

a. Threat if dismissal or replacement of the professional accountant in business or a close or immediate family members over a disagreement about the application of an accounting principle or the way in which financial information is to be reported.
b. A dominant personality attempting to influence the decision-making process, for example with regard to the awarding of contracts or the application of an accounting principle.

Safeguards that may eliminate or reduce threats to an acceptable level fall into two broad categories:

a. Safeguards created by the profession, legislation or regulation; and
b. Safeguards in the work environment.

Examples of safeguards created by the profession, legislation are mentioned earlier.

Safeguards in the work environment include:

The employing organization's systems of corporate oversight or other oversight structures.

a. The employing organization's ethics and conduct programs.
b. Recruitment procedures in the employing organization emphasizing the importance of employing high caliber competent staff.
c. Strong internal controls.
d. Appropriate disciplinary processes.
e. Leadership that stresses the importance of ethical behavior and the

expectation that employees will act in an ethical manner.

f. Policies and procedures to implement and monitor the quality of employee performance.

g Timely communication of the employing organization's policies and procedures, including any changes to the, to all employees and appropriate training and education on such policies and procedures.

h. Policies and procedures to empower and encourage employees to communicate to senior levels within the employing organization any ethical issues that concern them without fear of retribution.

i. Consultation with another appropriate professional accountant.

In circumstances where a professional accountant in business believes that unethical behavior or actions by others will continue to occur within the employing organization, the professional accountant in business may consider obtaining legal advice. In those extreme situations where all available safeguards have been exhausted and it is not possible to reduce the threat to an acceptable level, a professional accountant in business may conclude that it is appropriate to resign from the employing organization.

CHAPTER FIVE

WHISTLE – BLOWING CONCEPTS, CASES AND SOLUTIONS

Introduction to Nature of Whistle – Blowing

According to Deni Elliot, "whistle – blowing is an action taken by an agent purported illegal or unethical behaviours to the attention of others. That is reporting suspicions of illegal or improper behavior to a person in authority. It always involves going outside expected channels or the chain of command." An agent may be non-human such as a guard dog backing at the physical or imminence presence of unfamiliar face or visitor who also may be out for some mischief. The agent may be a member of the public who is alerting his or her neighbours on the suspicious movement or presence of an uninvited guest, who may be intent on doing something funny. If the 'whistle' is blown by, say, a security staff-member of an organization, the action is in the nature of an informal and desperate report made to prevent or arrest a bad situation which may occasion the loss of life and or property or gravely misdirect judgment.

Suppose a thief snatches a purse from an elderly man, a public-spirited passerby who witnessed the incident called a nearby police station on his mobile phone. That act is whistle-blowing and is commendable.

Section 35 of the Civil Service Reforms Act No. 43 of 1998 created the Audit Alarm Committee, headed by the Auditor-General for the Federation to raise alertness and sanction any public officer that is suspected of committing an act of financial impropriety. The audit alarm is "whistle-blowing." One may consider the failure to attend to the crying needs of hapless others as being morally inadequate. However, the law of negligence says that the obligation to assist another person rests upon the relationship between the two parties. It is obligatory, morally and legally, to fulfill promises and contracts. Thus, children cannot be abandoned by their parents. An injured person cannot be left in a car while one is relaxing in a hotel.

The obligation to 'blow-whistle' for strangers in companies and the world of businesses is not easy to achieve. The choice is not imminent; it is predominantly a personal decision. No one likes a whistle-blower. Consequently, a potential whistle-blower in paid employment especially, will worry for himself and his family if his virtuous endeavour brings about negative effect. Some whistleblowing endeavours evoke or give rise to ethical dilemma.

Justifying Whistle-Blowing

Whistle-blowing is justified when the following conditions are met:

a. The behaviors - corporate or individual – being reported, such as effluent discharge. Mismanagement of a company, will likely result in serious health hazard.

b. The usual and perhaps official channels which have been tried are not successful;
c. All internal resources have been utilized but nothing constructive has come out;
d. The whistle-blowing report should likely bring about the needed changes; and
e. One should have a moral duty to prevent the harm.

Whistle-Blowing Cases and Solutions

Some whistle-blowing cases are straight forward and capable of clear and once – and for all resolutions. The intricate ones which generate moral dilemmas for the agents make 'heavy' demand on ethically acceptable analytical tools or theories of 'utilitarianism', ;deotology' and teleology 'and' ethical realism. The first three concepts have earlier been discussed. The fourth is now to be examined.

According to Cottell and Perling (1990), 'ethical realism' can be utilized along with the previous tools identified. However, a number of factors have to be present as pre-requisites. These include:

a. Ethical environment in which there are well-known and accomplished intellectual personalities from whom wisdom could be obtained. The oral agent or potential whistle-blower should be a member of a well-established professional body such as the Institute of Chartered Accountants of Nigeria which could provide some support;
b. The personalities referred to in 9a0 above, should be able to muster power and social responsibility, sufficient to transmit acceptably, their developed ethical values to the community; and
c. The moral agent would have had to share the values of the identified intellectual figures.

Practical Considerations

An employee considering 'blowing the whistle' should think about the following before deciding to actually blow the whistle:

1. Are the facts, correct? Could they have misinterpreted something or mistakenly drawn the wrong conclusion?
2. Is there sufficient evidence to justify blowing the whistle?
3. They should double-check they have thought about the situation objectively and with neutral emotion (rather than, say at a time of danger).
4. Consider discussing events in confidence with an independent confidential third party e.g. a professional helpline or legal advisor.
5. Think about the impact that blowing the whistle may have on the whistleblower's career. Is the risk of being victimized and bullied

outweighed by the benefits of proceeding with blowing the whistle?

6. Double-check company policy and whistleblowing procedures in the staff handbook. The whistleblower must ensure they follow company procedures at all times.
7. Establish whether there is scope to discuss events confidentially with the human resources department.
8. Is there an internal audit department who could be made aware of relevant events and take ownership of reporting any issues?
9. Consider if there is a legal obligation to report – for example in many countries there is a legal obligation to report the discovery of money laundry or terrorism activities.

Problems with Whistle blowing

There are several problems with whistleblowing.

a. Experience in many organizations has shown that when an individual reports concerns about illegal or unethical conduct, the individual is often victimized by colleagues and management. If the allegations by the individual are rejected, the individual might find that he (or she) does not receive the same salary increases as colleagues, and is overlooked for promotion. At work, colleagues and managers might treat the individual hostility, making it difficult for the individual continue in the job/
b. On the other hand, some individuals make allegations about colleagues or managers that are unfounded. The allegations might be made for reasons of malice and dislike, or because there has been an argument at work. Malicious allegations about colleagues and managers should not be tolerated.

A problem facing companies is therefore:

a. How to encourage reports of illegal or unethical behavior, by protecting honest whistleblowers, but
b. How to discourage malicious and unfounded allegations.

A company might state its policy on whistleblowing within its code of conduct. For example, a corporate code of ethics might include the following statements:

i. Every employee should make known their concerns about illegal or unethical behavior in the workplace. If there are doubts, the employees should ask first, because incorrect behavior might not be intentionally dishonest. It might be caused by a lack of information or by trying to get a job done too quickly. This aspect of a code of ethics is to encourage employees to speak about their concerns and try to resolve them first by discussion with colleagues and managers.
ii. An employee is **doing the right thing** if, **in good faith**, he seeks advice

about improper behavior or reports improper behavior. Whistleblowing is the correct thing to do, if the employee does it in good faith and is not being malicious.

iii. The company will not tolerate any action taken by anyone in the company against an individual who has reported in good faith their concerns about illegal or unethical behavior. This is a statement that whistleblowers will be protected, if they have made their report in good faith.

iv. Disciplinary action will be taken against any employee who knowingly makes a false report of illegal or improper behavior by someone else. Malicious reporting will not be tolerated.

Unfortunately, in practice, it seems that in many cases whistleblowers are not given adequate protection by their employer.

CHAPTER SIX

ETHICAL DECISION-MAKING MODELS

System Development Ethics

Business entities and non-business entities are exposed to ethical risk. This is the risk that some of its managers or employees will act in a way that is unethical, and the entity will suffer some loss or harm as a consequence. There is a risk to the entity itself from deception or fraud by employees. In addition, there is a risk of unethical action by some individuals causing harm to other – customers, other employees, suppliers, the community, and so on.

It might be argued that ethical risk can be minimised by recruiting and training individuals with strong moral character. System development ethics, however, is based on the view that recruiting and training morally-strong individuals is not sufficient. In order to act in a moral way, individuals need support from the systems they work in, and the environment provided by their employer. The employer should give clear guidance and moral support to its employees. 'Personal improvement and character-building can only occur in morally-supportive environments that are rationally-planned and maintained.' Codes of corporate ethics and codes of professional conduct help to provide the environment that individuals need.

The Purpose of Ethical Decision-Making Models

Guidance about ethical decision-making can also be provided by a decision-making model. The purpose of an ethical decision-making model is to help individuals to assess, before they make a decision, whether the decision is ethically correct.

These models do not deal with the problem of what is right or wrong. They assume that the basis for judging right and wrong is understood. This means that they could be used with either a deontological or a teleological approach to ethics, although a teleological approach is much more common in business.

Several ethical decision-making models have been developed for use in a business context, and can also be applied to professional activities such as accounting. Two such models are:

- Tucker's 5 question model; and
- The American Accounting Association model.

Tucker's 5 question model

Tucker's 5 question model for ethical decision-making in business is based on the view that the profit motive is justified, and the purpose of decision-making in business should be to make a profit. However, profits should be made in an ethical way.

In order to be ethically correct, business decisions and actions should be legal. Activities outside the law by a business cannot be correct. Business should also be conducted in a fair way, without deception or other 'under-hand' acts. For example, competitors should be treated with respect, and customers and employees should be treated in a fair way. Tucker's model is also based on the view that decisions should not be taken in business if they do not support sustainable business or could be damaging to the environment. The 5 question model involves asking five questions before making a business decision. If the answer to all five questions is 'Yes', the decision is ethically sound. The five questions about a decision are:
(1) Is it profitable?
(2) Is it legal?
(3) Is it fair?
(4) Is it right?
(5) Is it sustainable or environmentally sound?

Example: Tucker
An international company is planning to build a new manufacturing plant in a developing country. The country was chosen because costs of land and labour are low, so the forecast profits are high. The plant will be built on a 'brown field' site just outside the country's capital city, which used to be the site of another factory that has now been closed down. The company intends to build a plant that will use modern technology that keeps environmental emissions at a low level.
The country's government has approved the building of the new plant, and the local population is eagerly waiting for construction to begin, bringing with it much-needed commercial activity – and jobs. The government believes that the plant will bring economic growth to the country's economy.

Required
Is the decision to build the plant an ethical one? Use the Tucker 5 question model to reach an answer.

Answer
Question 1. Is it profitable? The answer seems to be Yes. The country was chosen because of its low cost of land and labour.
Question 2. Is it legal? The answer seems to be Yes, because the government has given permission for the plant to be built.
Question 3. Is it fair? There is no reason to suppose that it is not fair. The only stakeholders in the example are the government and the local population. Both

seem to support the building of the plant, and this suggests that the project is fair.
Question 4. Is it right? The answer seems to be Yes. The project will bring jobs, wealth and economic growth. There are no obvious reasons why the project is 'Not right'.
Question 5. Is it sustainable or economically sound? The answer seems to be Yes, because the plant will be built using modern technology that keeps environmental emissions at a low level.
In this simple case, the decision to build the plant would be ethical.

The American Accounting Association model

The American Accounting Association developed a model for ethical decision-making in 1990. It is based on a teleological approach, and is consistent with professional ethical guidelines.

The AAA model is based on a seven-step approach to decision-making.

Step	Question to ask	Comment
1	What are the facts?	It is important to establish all the relevant facts. It is difficult to make a correct decision without having a clear understanding of the facts.
2	What are the ethical issues?	The decision-maker should identify what moral issues are involved (if any). What is the moral dilemma?
3	What moral principles, values or 'norms' are relevant to the decision?	The decision-maker should consider the ethical principles or values that ought to be considered in reaching the decision.
4	What are the alternative courses of action for the decision-maker?	
5	Which course of action (or courses of action) seems best, because it is consistent with the moral principles and values identified in Step 3?	Each course of action should be assessed according to whether it is morally correct. Each choice is judged against the principles and values that should be applied in the case.
6	What are the consequences of each possible course of action?	
7	What is the decision?	The decision-maker makes an ethical choice.

Example: Tucker and AAA

A company makes and sells a range of products. One product, the mega-widget, has been produced for about ten years and has been very successful. It is still popular with customers, but profits have fallen to the point where the company is now losing money on the product.
The fall in profits has been due to rising costs. Due to competitive pressures in the market, increases in the selling price of the mega-widget have not kept pace with the increases in cost.

At a management meeting to discuss the problem, it was suggested that some technical alterations could be made to the mega-widget that would reduce costs substantially, but the expected useful life of the product would fall by over 25%. It would be necessary to prevent customers from finding out about any reduction in product quality, because they might switch to buying the products of competitors.

It was agreed that if the technical alterations are not made, the company would have to cease production and sales of the mega-widget. If the technical alterations are made, the product should become profitable again, at least for the next few years.

Required: What decision should management take: should the technical alterations be made to the product, or not? Management is expected to act in an ethical way by the company's board of directors. **Answer**

We could use an ethical decision-making model to help with making a decision.

Tucker's 5 question model

(1) Is the decision profitable? Making technical alterations to the product would improve profits, so the answer is: Yes.

(2) Is the decision legal? There is no law against making technical alterations to the product. As long as the company does not deceive customers with its advertising and marketing, making the technical alterations would be within the law.

(3) Is the decision fair? It is fair in the sense that all customers would be treated in the same way, and customers would have the choice to buy the products of competitors. However, it is not fair in the sense that customers would be encouraged to buy an inferior product, without knowing about the reduction in quality, at the same price as before when the product was better.

(4) Is the decision sustainable and environmentally sound? There are no indications to suggest that there is a problem with the environment or sustainable business.

(5) Is the decision, right? The moral problem is that the company would be making changes to the product without informing customers. Managers might think that this is wrong, but at the same time they would be under pressure to make profits for the company.

What decision should management take: should the technical alterations be made to the product, or not? Management are expected to act in an ethical way by the company's board of directors. (You should ignore reputational risk in this example.)

Answer (continued)

Using the Tucker model, the issue in this case might concern whether it is morally acceptable to withhold product information from customers. It would help managers in making their decision to know the ethical stance of the company towards its treatment of customers. If the company had a code of corporate ethics, this might help them to reach their decision.

American Accounting Association Model

A similar conclusion might be reached using the American Accounting Association model.

(1) The facts are given in the question.

(2) The ethical issue is whether to reduce the quality of a product without informing customers.

(3) What are the ethical principles and values that are relevant to the moral dilemma? A key principle here relates to the treatment of customers.

(4) What are the alternative courses of action? These are to make the technical alterations to the product, or to stop making it. We do not know what the consequences of shutting down production might be (for example, whether it might lead to redundancies amongst employees).

(5) Which actions are consistent with the principles and values in (3)? Ceasing to produce the mega-widget would be consistent with the principle of fair dealing for the customer.

(6) The consequence of the decision to make the change is to increase profits. Ceasing production of the product should result in no further losses. However, it is more likely that in the long run the trust of customers in the company would be maintained. (There is a reputational risk to consider, in the event that customers find out about the technical alteration, or find that the items that they buy have a shorter useful life than before.)

(7) What is the decision? Management would be assisted by clear guidance from the company on its ethical stance. If the company has a code of ethics that insists on fair treatment and due consideration for customers, the technical alteration should not be made. Production of the product should be brought to an end.

This is just one example to illustrate how ethical decision-making models might be applied to reach an ethical business decision. You might find that in your examination, you are required to apply an ethical decision-making model to another case or problem in order to make a recommendation about what a particular decision should be.

CHAPTER SEVEN
THE CULTURAL CONTEXT OF ETHICS

Culture and Ethics

Culture has been defined as the 'shared beliefs, attitudes, norms, values and behaviour found among speakers of one language in one time period and in one geographical region.' This definition suggests that in order to share a common culture, people must speak a common language and live in the same geographical area. Culture might also change over time.

Companies (and other entities) also develop their own culture. The individuals who work in a company often develop cultural attitudes and habits that are unique to that company. Even global companies, in which employees do not share the same language or live in the same geographical area, can develop a culture of shared beliefs and attitudes.

There is a link between culture and ethics, because the culture in which people live shapes their ethical beliefs, attitudes and values.

Culture, ethics and corporate social responsibility

Corporate social responsibility (CSR) was described in an earlier chapter within the context of corporate governance, and the responsibilities of the board of directors (and a company) towards society. CSR is concerned with issues such as the interests and welfare of:

- employees;
- customers;
- communities in which the company operates; and
- the general public, and society as a whole.

Well-governed companies take a stand against crime and do not sanction criminal activities by their employees, in any country in which they operate.

In recent years there has been much greater awareness of environmental issues and the role of companies in both damaging the environment and acting to protect the environment and create sustainable businesses.

Attitudes to CSR are evident in the ethical stance that many companies now take on these issues, and ethical stance in turn is affected by the corporate culture.

Johnson and Scholes: The Cultural Web

Johnson and Scholes suggested that there is a cultural web within any organization, which affects the way in which individuals understand the organization in which they work. This understanding of their organization is called their 'paradigm' of the organization. Employees find it difficult to think and act outside this paradigm.

The cultural web consists of six inter-related elements of culture within an

organization:

- **Routines and rituals** - Routines and rituals are 'the ways things are done around here'. Individuals get used to established ways of doing things;
- **Stories and myths** - Stories and myths are used to describe the history of an organization, and to suggest the importance of certain individuals or events. They are passed by word of mouth. They help to create an impression of how the organization got to where it is, and it can be difficult to challenge established myths and consider a need for a change of direction in the future;
- **Symbols** - Symbols can become a representation of the nature of the organization. Examples of symbols might be a company car or helicopter, an office or building, a logo or a style of language;
- **Power structure** - Organizations are influenced by the individuals who are in a position of power. In many business organizations, power is obtained from management position. However, power can also come from personal influence, or experience and expertise;
- **Organization structure** - The culture of an organization is affected by its organization and management structure. Hierarchical and bureaucratic organizations might find it particularly difficult to adapt to change and are often conservative in their outlook; and
- **Control systems** - Performance measurement and reward systems within an organization establish the views about what is important and what is not so important. Individuals will focus on performance that earns rewards. For example, it has been suggested that cash bonus systems help to create the profit-driven culture in investment banks.

The cultural web within a company shapes its corporate ethics.

Edgar Schein: three levels of culture

Schein had similar views about corporate culture. He suggested that employees working within a company have shared values, beliefs and ways of thinking: these interact with the policies, organization structure and politics of the company's management system to create a corporate culture.

Schein also argued that organization culture is strong because it is regarded as something that helps the company to succeed. An organization culture is a set of assumptions that a group of people working together have invented or discovered by learning how to deal with problems that the organization faces, internally and in its external environment. These assumptions work well enough to be considered valid; they are therefore 'taught' to individuals who join the organization. New entrants therefore learn the culture of the organization and become a part of that culture.

According to Schein, there are three levels of culture that members of an

organization acquire.
The outer skin - At one level, the culture of a company is evident in what an observer can see by visiting the company, and in the values that it states. The facilities and surroundings in which employees work help to create culture. So too does the way that employees dress. Culture is also seen in the way that employees talk to each other and interact with each other. A company might have a formal code of ethical behaviour, which is intended to shape the attitudes of all its members. However, stated values and mission statements are often expressed in general terms, such as 'providing a service to the community' and 'providing the best quality of service to customers'.

An inner layer - At this second level, the employees in a company share common views on specific issues. This layer of culture can be seen in the ethical stance that the company takes. Whereas the outer layer of culture is expressed in general terms, this inner layer is expressed in relation to specific issues, such as:
- Should we trade with companies or governments in politically repressive countries?
- Should we buy goods from suppliers who use slave labour or child labour?

The heart - The third level of culture is the company's paradigm. This is a term for the shared assumptions and attitudes about what really matters, that are taken for granted and rarely discussed. These affect the way that the organization sees itself and the environment in which it operates, and is the real 'core' culture of the organization. Unlike mission statements and codes of ethics, a paradigm is not written down, and it is difficult to identify or explain. The 'paradigm' has also been described as the reason why the organization exists. A police force exists to catch criminals, and a school exists as a place for learning.
Schein argued that changing corporate culture is very difficult. The 'outer skin' can be changed fairly easily, with a determined effort by management, but it is very difficult to change the paradigm.
The following example suggests that codes of corporate ethics cannot be made to work unless senior management enforces them and ensures that they are applied. The example can also be used as an illustration of how it is much more difficult to alter the paradigm of a company than the 'outer skin' of its culture.

Culture, ethics and global companies
Global companies operate in many different countries and employ managers and other employees from diverse cultures.
It can be difficult for global companies to develop a single corporate culture. It is therefore difficult for the senior management of global companies to 'enforce' their view of business ethics on the entire organization.

CHAPTER EIGHT

ETHICAL ISSUES IN ORGANISATIONS

Economic and Financial Crimes Commission (EFCC)

The commission is empowered to prevent, investigate, prosecute and sanction economic and financial crimes and is charged with the responsibility of enforcing the provisions of other laws and regulations regulating to economic and financial crimes. These crimes include the Money Laundering Act 1995, the Advance Fee Fraud and Other Related Offences Act 1995, the Failed Banks (Financial Malpractices in Banks) Act 1994; the Banks and Other Financial Institutions Act 1991, and Miscellaneous offences Act.

Duties of the Commission

According to Part II of the Act, the Commission is responsible for:

a. The enforcement and the due administration of the provisions of the Act.
b. The investigation of all financial crimes which include advance fee fraud, money laundering, counterfeiting, illegal charge transfers, futures market fraud, fraudulent encashment of negotiable instruments, computer credit card fraud, contract scam, etc.
c. The co-ordination and enforcement of all economic and financial crime laws and enforcement functions conferred on any other person or authority;
d. The adoption of measures to eradicate the commission of economic and financial crimes;
e. The adoption of measures to identify, trace, freeze, confiscate or seize proceeds derived from terrorist activities, economic and financial crime related offences or the properties, the value of which corresponds to such proceeds;
f. The adoption of measures, which include coordinated preventive and regulatory actions, introduction and maintenance of investigative and control techniques on the prevention of economic and financial related crimes;
g. The facilitation of rapid exchange of scientific and technical information and the conduct of joint operations geared towards the eradication of economic and financial crimes;
h. The examination and investigation of all reported cases of economic and financial crimes with a view to identifying individuals, corporate bodies or groups involved;
i. The determination of the extent of financial loss and such other losses by government, private individuals or organizations;
j. Collaboration with Government bodies both within and outside Nigeria,

carrying on functions wholly or in part analogous with those of the commission concerning;

i. The identification, determination, of the whereabouts and activities of persons suspected of being involved in financial crimes;
ii. The movement of proceeds or properties derived from the commission of economic and financial and other related crimes;
iii. The exchange of personnel or other experts;
iv. The establishment and maintenance of a system for monitoring international economic and financial crimes in order to identify suspicious transactions and persons involved;
v. Maintaining data, statistics, records and reports on persons, organizations, proceeds, properties, documents or other items or assets involved in economic and financial crimes;
vi. Undertaking research and similar works with a view to determining the manifestation, extent, magnitude and effects of economic and financial crimes and advising government on appropriate intervention measures for combating same;
vii. Taking charge of supervising, controlling, coordinating all the responsibilities, functions, activities relating to the current investigation and prosecution of all offences connected with or relating to economic and financial crimes, in consultation with the Attorney-general of the Federation;
viii. Carrying out such other activities as are necessary or expedient for the full discharge of all or any of the functions conferred on the Commission under the Act.

Powers of the Commission

Under paragraph 6 of the Act, the Commission has power to:

a. Cause investigations to be considered as to whether any person has committed an offence under the Act;
b. Cause investigations to be conducted into the properties of any person, if it appears to the Commission that the person's lifestyle and extent of his properties are not justified by his source of income;
c. Enforce the provisions of:
    i. The Money Laundering Act 1995.
    ii. The Advance Fee Fraud and Other Related Offences Act 1995.
    iii. The Failed Banks (Recovery of Debts) Financial Malpractices in Banks, Act 1994 (as amended).
    iv. The Banks and Other Financial Institutions Act 1991 (as amended).
    v. Miscellaneous Offences Act; and

vi. Any other law regulations relating to economic and financial crimes.

Offences and Convictions

A summary of the various offences committed and the penalties under part IV of the Act is:

a. Offences which relate to financial malpractices attract 5 years imprisonment or a fine of fifty thousand naira (N50,000) or both imprisonment and fine;
b. Offenses associated with terrorism attract imprisonment for life;
c. Offences committed by public officers attract between 15 and 25 years imprisonment;
d. Retaining the proceeds of a criminal conduct attract not less than 5 years imprisonment or to a fine equivalent to 5 times the value of the proceeds of the criminal conduct or to both fine and imprisonment;
e. Offences in relation to economic and financial crime attract imprisonment for a term not less than 15 years and not exceeding 25 years.

Paragraph 20 of the Act says 'for the avoidance of doubt and without any further assurance than this Act, all the properties of a person convicted of an offence under this Act and shows to be derived or acquired from such illegal act and already the subject of an interim order shall be forfeited to the Federal Government.

The Corrupt Practices and Other Related Offences Act, 2000

The Corrupt Practices and Other Related Offences Act, 2000, gave birth to the Independent Corrupt Practices and Other Related Offences Commission. The Commission is a body corporate, endowed with perpetual succession. It has common seal and is juristic (that is, may sue and be sued in its corporate name).

Duties of the Commission

a. Where reasonable ground exists for suspecting that any person has conspired to commit or has attempted to commit or has committed an offence under the Act or any other law prohibiting corruption to receive and investigate any report of the conspiracy to commit, attempt to commit or the commission of such offence, and in appropriate cases the offenders;
b. To examine the practices, systems and procedures of public bodies and where in the opinion of the Commission, such practices, systems or procedures aid or facilitate fraud or corruption, to direct and supervise a review of them;
c. To instruct, advise, and assist any officer, agency or parastatals on ways by which fraud or corruption may be eliminated or minimized by such officer, agency parastatals;
d. To advise Heads of Public Bodies of changes in practices, systems or

procedures compatible with the effective discharge of the duties of the public bodies as the Commission thinks fit to reduce the likelihood or incidence of bribery, corruption and related offences;

e. To enlist and foster public support in combating corruption.

Offences and Penalties

a. **Offence of accepting gratification**: Any person who corruptly asks for. Receives or obtains any property or benefit of any kind for himself or for any other person or agrees or attempts to receive or obtain any property or benefit of any kind for himself or for any other person, is liable to imprisonment for seven (7) years;

b. **Offence of giving or accepting gratification through agent**: On conviction, shall be liable to imprisonment for seven (7) years;

c. **Acceptor or giver of gratification** to be guilty, notwithstanding that, the purpose was not carried out or matter not in relation to principal's affairs or business; on conviction shall be liable to imprisonment for seven (7) years;

d. **Fraudulent acquisition of property**: Any person found guilty, shall on conviction, be liable to imprisonment for seven (7) years;

e. **Fraudulent receipt of property**: Any person who receives anything which has been obtained by means of act constituting a felony or misdemeanor inside or outside Nigeria, which if it had been done in Nigeria would have constituted felony or misdemeanor and which is an offence under the laws in force in the place where it was done, knowing the same to have been so obtained, is guilty of a felony and the offender shall, on conviction be liable to imprisonment for seven (7) years;

f. **Penalty for offences committed through postal system**: if the offence by means of which the thing was obtained is a felony, the offender shall on conviction be liable to imprisonment for three (3) years, except the thing so obtained was a postal matter, or any chattel, money or valuable security contained therein, in which case the offender shall on conviction be liable to imprisonment for seven (7) years;

g. **Deliberate frustration of investigation being conducted by the Commission**: Any person who, with intent to defraud or conceal a crime or frustrate the Commission it its investigation of any suspected crime of corruption under the Act or any other law destroys, alters, etc. any document shall on convicted liable to seven (7) years imprisonment;

h. **Making false statements or returns**: Any person who knowingly furnishes any false statement or return in respect of any money or property received by him entrusted to his care, or of any balance of money or property in his possession or under his control, is guilty of an offence and shall on

conviction be liable to seven (7) years imprisonment; i. **Gratification by and through agents**: Any person who corruptly accepts, obtains, gives or agrees to give or knowingly gives to any agent, any gift or consideration as in inducement or reward for doing, fore bearing to do any act or thing, shall on conviction be liable to five (5) years imprisonment;

j. **Bribery of public officer**: any person who offers to any public officer, or being a public officer solicits, counsels or accepts any gratification as an inducement or a reward, in the course of official duties shall on conviction be liable to five (5) years imprisonment with hard labour;

k. **Using office or position for gratification**: Any public officer who uses his office or position to gratify or confer any corrupt or unfair advantage upon himself or any relation or associate shall be guilty of an offence and shall on conviction be liable to imprisonment for five (5) years without option of fine;

I. **Any public officer who in the course of official duties, inflates the price of any good or service above prevailing market price or professional standards** shall be guilty of an offence under this Act and liable on conviction for a term of seven (7) years and a fine of one million naira (N1,000,000,00).

CHAPTER NINE

CORPORATE SOCIAL RESPONSIBILITY

Nature of Corporate Social Responsibility

Corporate social responsibility is the continuing commitment to business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

Corporate social responsibility (CSR), also known as corporate responsibility, corporate citizenship, responsible business, sustainable responsible business (SRB), or corporate social performance, is a form of corporate self – regulation integrated into a business model, Ideally, CSR policy would function as a built-in, self-regulating whereby business would monitor and ensure its adherence to law, ethical standards, and international norms.

The term "corporate social responsibility" came into common use in the late 1960s and early 1970s after many multinational corporations formed the term **stakeholder**, meaning those on whom an organization's activities have an impact. It was used to describe corporate owners beyond shareholders as result of an influential book by R. Edward Freeman, *Strategic management: a stakeholder approach* in 1984. Proponents argue that corporations make more long-term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses. Other argues CSR is merely window-dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations.

CSR is tiled to an organization's mission as well as a guide to what the company stands for and will uphold to its consumers. Development business ethics is one of the forms of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. ISO 26000 is the recognized international standard for CSR. Public sector organizations (the United Nations for example) adhere to the triple bottom line (TBL). It is widely accepted that CSR adheres to similar principles but with no formal act of legislation. The UN has developed the Principles of Responsible Investment as guidelines for investing entities.

Corporate social responsibility (CSR) is:

- An obligation, beyond that required by the law and economics, for a firm to pursue long term goals that are good society.
- The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as that of the local community and

society at large.

- About how a company manages its business process to produce an overall positive impact on society.

Corporate social responsibility means:

- Conducting business in an ethical way and in the interests of the wider community.
- Responding positively to emerging societal priorities and expectations.
- A willingness to act ahead of regulatory confrontation.
- Balancing shareholder interests against the interests of the wider community.
- Being a good citizen in the community.

Is CSR the same as business ethics?

- There is clearly an overlap between CSR and business ethics.
- Both concepts concern values, objectives and decision based on something than the pursuit of profits.
- And socially responsible firms must act ethically.

The difference is that ethics concern individual actions which can be assessed as right or wrong by reference to moral principles. CSR is about the organization's obligations to all stakeholders and not just shareholders.

There are four dimensions (approaches) of corporate responsibility as detailed latter.

- Economic - -responsibility to earn profit for owners.
- Legal – responsibility to comply with the law (society's codification of right and wrong).
- Ethical – not acting just for profit but doing what is right, just and fair.
- Voluntary and philanthropic – promoting human welfare and goodwill.

Being a good corporate citizen contributing to the community and the quality of life.

The debate on social responsibility

Not all business organizations behave in a socially responsible manner and there are people who would argue that it is not the job of business organizations to be concerned about social issues and problems.

There are two schools of thought on this issue:

1. In the **free market view**, the job of business is to create wealth with the interests of the shareholders as the guiding principle.
2. The **corporate social responsibility view** is that business organization should be concerned with social issues.

Free market view – a summary

- The role of business is to create wealth by providing goods and services.
- "There is one and only one social responsibility of business – to use its resources and engage in activities deigned to increase its profits so long as it stays will the rules of the game, which is to say, engages in open and free competition, without deception or fraud." (*Milton Friedman, American Economist*).
- Given money away is like a self imposed tax.
- Managers who have been put in charge of a business have no right to give away the money of the owners.
- Managers are employed to generate wealth for shareholders – not give it away.
- Free markets and capitalism have been at the centre of economic and social development.
- Improvements in health and longevity have been made possible by economics driven by the free market.
- To attract quality workers, it is necessary to offer better pay and conditions and this leads to a rise in standards of living and wealth creation.
- Free markets contribute to the effective management of scarce resources.
- It is true that at times the market fails and therefore some regulation is necessary to redress the balance.
- But the correcting of market failures is a matter for government – not business.
- Regulation should be kept to a minimum since regulation stifles initiative and creates barrier to market entry.

The free market case against corporate social responsibility

- The only social responsibility of business is to create shareholder wealth.
- The efficient use of resources will be reduced if businesses are restricted in how they can produce.
- The pursuit of social goals dilutes businesses' primary purpose.
- Corporate management cannot decide what is in the social interest.
- Costs will be passed on to consumers.
- It reduces economic efficiency and profit.
- Directors have a legal obligation to manage the company in the interest of shareholders and not for other stakeholders.
- CSR behavior imposes additional costs which reduce competitiveness.
- CSR places unwelcome responsibilities on businesses rather than on government or individual.

The corporate responsibility views

- Businesses do not have an unquestioned right to operate in society.
- Those managing business should recognize that they depend on society.
- Business relies on inputs from society and on socially created institutions.
- There is a social contract between business and society involving mutual obligations that society and business recognize that they have to each other.

Stakeholder theory

The basic premise is that business organizations have responsibility to various groups in society (the internal and external stakeholders) and not just the owner's shareholders.

The responsibility includes a responsibility for the natural environment. Decisions should be taken in the wider interest and not just the narrow shareholder interest.

Arguments for socially-responsible behavior

- It is the ethical thing to do.
- It improves the firm' public image.
- It is necessary in order to avoid excessive regulation.
- Socially responsible actions can be profitable.
- Improved social environment will be beneficial to the firm.
- It will be attractive to some investors.
- It can increase employee motivation.
- It helps to corrects social problems caused by business.

Enlightened self interest

This is the practice of acting in a way that is costly and/or inconvenient at present but which is believed to be in one's best long term interests.

CSR behavior can benefit the firm in several ways:

- It aids the attraction and retention of staff.
- It attracts green and ethical investment.
- It attracts ethically conscious customers.
- It can lead to a reduction in costs through re-cycling.
- It differentiates the firm from its competitor and can be a source of competitive advantage.
- It can lead to increased profitability in the long run.

Financial reporting is not an end in itself. It is a means of communicating to the users of the financial reports. Information is useful in making choices among alternative uses of scarce resources, though the objective stems largely from the

needs and interests of those users.

Potential users of financial reports and their information needs include:

a) Equity Investors

Equity investors in an entity are interested in the entity's ability to generate net cash inflows because their decisions relate to the amounts, timing and uncertainties of those cash flows. The equity investor, an entity is a source of cash in the form of dividends (or other cash distribution and increases in the prices of shares or other ownership interests. Equity investors are concerned with the ability of the entity to generate net cash inflows and with how the perception of that ability affects the prices of its equity interests. They are also interested in the ability of the company to issue script which will increase their shareholding and consequently increase their cash inflow.

b) Trade Payables, including purchasers of trade debt instruments

These provide finance to an entity by lending cash (or other assets) to it. Like investors, payables are interested in the amounts, timing and uncertainty of an entity's future cash flows. To a creditor, an entity is a source of cash in the form of interest, repayments of borrowing and increase in the prices of debt securities.

c) Suppliers

They provide services rather than financial capital. They are interested in assessing the likelihood that amounts an entity owes them will be paid as at when due.

d) Employees

They provide services to equity, employees and their representatives are interested in evaluating the stability, profitability, and growth of their employer. They are interested in information that helps them to assess the entity's continuing ability to pay salaries and wages and to provide incentive payments and involvement and other benefits.

e) Customers

To its customers, an entity is a source of goods and services. Customers are interested in assessing the equity's ability to continue to provide those goods or services, especially if they have a long-term involvement with or are dependent on the entity.

f) Governments and their agencies and regulatory bodies

These are interested in the activities of an entity because they are in various ways responsible for seeing that economic resources are allocated

entities, determining and applying taxation policies, preparing national income and similar statistics.

g) Management

This requires financial report to obtain financial information among others to effectively perform their function of planning and controlling the operation of the enterprise.

h) Financial Analysts

The like Accountants, Stockbrokers, etc will need the financial information to determine the performance of the entity in order to give constructive advice as to whether their clients should invest in a particular company or not.

h) Competitors

Competitors require the financial statement of companies in the same line of business or the same industry for the purpose of comparison. This will make them know their position and facilitate effective analysis of their strengths, weaknesses, opportunities and threats within the industry. This will also enable competing companies know how they are faring among them evolve appropriate policies and or actions for improvement.

i) Researchers

Researchers require financial information for inter-firm and inter-period comparisons to guide students and consultants.

CHAPTER TEN

THE MEANING OF CORPORATE GOVERNANCE

Corporate governance has been defined (in the Cadbury Report, 1992) as follows: 'Corporate governance is the system by which companies are directed and controlled.' Governance should not be confused with management. Management is concerned with running the business operations of a company. Governance is about giving a lead to the company and monitoring and controlling management decisions, so as to ensure that the company achieves its intended purpose and aims. Management is about making business decisions: governance is about monitoring and controlling decisions, as well as giving leadership and direction. 'If management is about running business, governance is about seeing that it is run properly': (Professor Bob Tricker, 1984). In order to understand what corporate governance is, it might be helpful to think about what it is not. Corporate governance is not about management activities, and management skills and techniques. The powers of executive management to direct a business is an aspect of governance, but how they use those powers to direct business activities is not. Corporate governance is not about formulating business strategies for the company. However, the responsibility of the board of directors and other senior managers for deciding strategy is an aspect of governance. Corporate governance is concerned with matters such as:

In whose interests is a company governed?

Who has the power to make decisions for a company? For what aims or purposes are those powers used?

In what manner are those powers used?

Who else might influence the governance of a company?

Are the governors of a company held accountable for the way in which they use their powers?

How are risks managed?

The term 'corporate governance' means the governance of companies (corporate bodies). Similar issues arise for the governance of other entities, such as government bodies, state-owned entities and non-government organizations as charities.

Corporate Governance Expectations

The corporate governance is meant to achieve the following;

a. Accountability: Corporate governance establishes accountability throughout the organization.
b. Integrity: It promotes integrity in all business dealings.
c. Adherence to strategic business objective.
d. Accurate and timely reporting of financial data.

e. Promotion of the entity concept within the organization.
f. Proactive involvement of all stakeholders.

Corporate governance also targets minimization of risks.

The Separation of Ownership from Control

Problems arise with corporate governance because of the separation of ownership of a company from control of the company. This is a basic feature of company law. A company is a legal person. In law, a company exists independently of its shareholders, who own it. The constitution of a company usually delegates the powers to manage a company to its board of directors. The board of directors in turn delegates many of these management powers and responsibilities to executive managers. The directors act as agents for the company. Their responsibilities are to the company, not the company's shareholders. However, it is widely accepted that companies should be governed in the interests of their owners, the shareholders. However, the interests of other groups, such as the company's employees, might also have a strong influence on the directors.

Problems arising from the separation of ownership and control

The separation of ownership and control creates problems for good corporate governance, because:

the directors of a company might be able to run the company in a way that is not in the best interests of the shareholders; and

but the shareholder might not be able to prevent the directors from doing this, because the directors have most of the powers to control what the company does.

When the shareholders of a company are also its directors, problems with corporate governance are much less likely to arise. When a company is controlled by a majority shareholder, problems with governance are also unlikely, because the majority shareholder has the power to remove any director and so can control decisions by the board of directors. Problems with corporate governance generally arise when a company has many different shareholders, and there is no majority shareholder. In these companies, the boards of directors have extensive powers for controlling the company, but the shareholders are relatively weak. The directors ought to be accountable to the shareholders for the way they are running the company. However, in practice the shareholders might have little or no influence and do not have the ability to prevent the directors from running the company in the way that the directors themselves consider to be best.

Problems of corporate governance are therefore particularly severe in large

companies where shareholders continually buy and sell their shares, so that many shareholders are not long-term investors in the company that, for a time at least, they partly own. This is why attempts to improve corporate governance have focused mainly on stock market companies (listed companies) and to a lesser extent on smaller public companies and large private companies.

Ownership and controlling non-corporate entities

The separation of ownership from control can affect the quality of governance in non-corporate entities, as well as companies.

In any entity, it should be possible to identify owners and controllers:

The owners might be the government, or the 'public'. In the case of a charity organization, the owners might be a section of the public; and those in control.

The power to governance non-corporate body might be given to a management committee (or for example in the UK, a board of trustees). Appointments to the management committee might be made by the owners, or by means of a procedure that is specified by the constitutional rules of the entity.

The relationship between owners and controllers is different in a non-corporate entity compared with a company. The aims of a non-corporate entity also differ from the profit-seeking aims of a company. Even so, the possibility of governance problems can arise. There is a risk that the controllers of an entity will not run its affairs in a way that meets the needs or expectations of its owners.

Corporate governance: laws and guidelines

It is well recognized that there is good governance and bad governance. Bad governance occurs when an entity is governed in a way that is inconsistent with certain concepts and practices. Often, bad governance means that a company is governed in the interests of its directors personally, rather than in the best interests of its owners (or other important interest groups). Good governance is based on certain key concepts and practices, which are described later. To some extent, good governance is supported by the law. In Nigeria, for example, the directors of a company owe certain duties to their company (these duties are included in Companies and Allied Matters Act, 2020). The Act also requires the directors of a company to present an annual report and accounts to the shareholders; this helps to make the directors accountable to the shareholders of their company.

The Sarbanes-Oxley Act 2002 in the USA introduced a range of legal measures designed to improve the quality of corporate governance in the US, following the spectacular collapse of several large corporations (such as Enron and World Com) where bad corporate governance was held largely to blame. In some countries, such as the UK, where laws on corporate governance are not strong,

guidelines or codes of governance principles and practice have been issued. The guidelines are voluntary, but are backed by major financial institutions, stock exchanges and investment organizations. For example:

The Nigerian Code of Corporate Governance for the Private Sector (2018), prepared by the Financial Reporting Council of Nigeria, requires that companies should comply with the principles and provision of the Code just as the Code shall form the basis of the minimum standard of their corporate behaviour. This Code applies to all public companies (whether listed or not), all private companies that are holding companies of public companies, concessioned and privatised companies and Regulated Private Companies;

Listed companies in the UK are required to comply with The UK Corporate Governance Code or explain why they have failed to do so, and other Codes apply to companies in the UK's junior market Alternative Investment Market (AIM) and to large private companies;

Similarly, Singapore has a Code of Corporate Governance, issued by the Ministry of Finance; and a more general set of corporate governance guidelines has been issued by the Organization for Economic Co-operation and Development (OECD), which all countries are encouraged to adopt as a minimum standard for good corporate governance.\

Example: A good company?

What makes a good company?

A good company is not necessarily a company that is well-governed. However, it is useful to think about what you would consider to be a good company. Which of the following characteristics would you consider to be a feature of a 'good' company?

1. A company that earns good profits.
2. A company that responds to the needs of its customers.
3. A company that is a good employer.
4. A company that is environmentally-friendly.

The Walker Report and board behaviour

You might think that a good company is any or all of these. Or you might have a different opinion about what makes a good company. However, your views on what makes a good company will probably also affect your opinions about how companies ought to be governed.

In 2009 the UK government commissioned a review by Sir David Walker into the corporate governance of UK banks and other financial institutions, following the global financial crisis that began in mid-2007.

The Walker Report included the following comments about the contribution of poor corporate governance to the crisis.

Serious deficiencies in prudential oversight and financial regulation in the

period before the crisis were accompanied by major governance failures within banks. These contributed materially to excessive risk taking and to the breadth and depth of the crisis and board conformity with laid down procedures such as those for enhanced risk oversight will not alone provide better corporate governance overall if the chairman is weak, if the composition and dynamics of the board is inadequate and if there is unsatisfactory or no engagement with major owners.

CHAPTER ELEVEN

CORPORATE GOVERNANCE ISSUES

So, what are the key issues in corporate governance, which establish how well or badly a company is governed? The main areas covered by codes of corporate governance are as follows:

The role and responsibilities of the board of directors: The board of directors should have a clear understanding of its responsibilities and it should fulfil these responsibilities and provide leadership to the company. Governance is therefore concerned with establishing what the responsibilities of the board should be, and making sure that these are carried out properly;

The composition and balance of the board of directors: A board of directors collectively, and individual directors, should act with integrity, and bring independence of thought and judgment to their role. The board should not be dominated by a powerful chief executive and/or chairman. It is therefore important that the board should have a suitable balance, and consist of individuals with a range of backgrounds and experience;

Financial reporting, narrative reporting and auditing: The board should be properly accountable to its shareholders, and should be open and transparent with investors generally. To make a board properly accountable, high standards of financial reporting (and narrative reporting) and external auditing must be upheld. The major 'scandals' of corporate governance in the past have been characterised by misleading financial information in the company's accounts – in the UK, for example, Maxwell Communications Corporation and Polly Peck International, more recently in Enron and WorldCom in the US and Parmalat in Italy. Enron filed for bankruptcy in 2001 after 'adjusting' its accounts. WorldCom, which collapsed in 2002 admitted to fraud in its accounting and its chief executive officer was subsequently convicted and jailed;

Directors' remuneration: Directors work for a reward. To encourage their commitment to achieving the objectives of their company, they should be given suitable incentives. Linking remuneration to performance is considered essential for successful corporate governance. However, linking directors' pay to performance is complex, and remuneration schemes for directors have not been particularly successful. Directors' pay is an aspect of corporate governance where companies are frequently criticised;

Risk management and internal control: The directors should ensure that their

company operates within acceptable levels of risk, and should ensure through a system of internal control that the resources of the company are properly used and its assets are protected; and

Shareholders' rights: Shareholders' rights vary between countries. These rights might be weak, or might not be exercised fully. Another aspect of corporate governance is encouraging the involvement of shareholders in the companies in which they invest, through more dialogue with the directors and through greater use of shareholder powers – such as voting powers at general meetings of the company.
Corporate social responsibility and ethical behaviour by companies (business ethics) are also issues related to corporate governance.

Governance issues for other types of organizations
Most of the writing on governance is about corporate governance, i.e. the governance of corporate limited and usually listed companies. This is a very important area as it links to the agency problem (see later) and the need for investors to trust and support the directors that have been appointed as the 'stewards' of their investments. The health of capitalist economic systems including the valuation of securities and the security of long-term shareholder value are all dependent on effective and robust systems of corporate governance.
However, governance issues also apply to other types of organizations. These different types of organizations have different governance issues to profit making companies in private ownership. However, there is an overriding similarity in that in each case the stakeholders will be concerned that the entity is being managed in a way that fulfils its underlying purpose.

Governance in public sector organizations
Public sector organizations are those that are directly controlled by one or more parts of the state and exist to implement specified tasks which serve government policy, for example, in areas like health care, education and defence.
The size of the public sector varies in different countries. In some countries government might retain control of industries which the government deems to be of key national interest. of course, government's view on this might change leading to the privatization of formerly government owned entities. This would require a valuation of the entity for sale to the investment community. The opposite could also occur with a government deciding that an industry should be taken into government ownership (nationalization).
Public sector organizations include:
hospitals;

schools;
local government authorities;
nationalized companies; and

Other non-governmental organizations (NGOs).

The public at large is a key stakeholder in public sector entities. Their focus is likely to be on value for money rather than the achievement of profits. The public is often concerned that public sector organizations are over-bureaucratic and unnecessarily costly.

In the UK, a Good Governance Standard was published by the Independent Commission for Good Governance in Public Service. This sets out six core principles of good corporate governance for public service corporations.

1 'Good governance means focusing on the organization's purpose and on outcomes for citizens and service users. This means having a clear understanding of the purpose of the organization, and making sure that users of the service receive high-quality service and that taxpayers (who pay for the service) get value for money.
2 'Good governance means performing effectively in clearly defined functions and roles'. The governing body of the organization is comparable to the board of directors in a company. It must be clear about what its responsibilities are, and it should carry these out. The responsibilities of executive management should also be clear, and the governing body is responsible for making sure that management fulfils its responsibilities properly.
3 'Good governance means promoting values for the whole organization and demonstrating the values of good governance through behaviour'. Integrity and ethical behaviour are therefore seen as core governance issues in public sector entities.
4 'Good governance means taking informed, transparent decisions and managing risk'. Risk management and the responsibility of the governing body for the internal control system is as much a core feature of governance in public sector entities as in companies.
5 'Good governance means developing the capacity and capability of the governing body to be effective'. This issue is concerned with the composition and balance of the governing body.
6 'Good governance means engaging stakeholders and making accountability real'. In companies, the relationship between shareholders and the board of directors is an important aspect of governance, and companies and shareholders are encouraged to engage in constructive dialogue with each other. In public sector organizations, the constructive dialogue should exist

between the governing body and the general public and particular interest groups.

Governance in charities

In many countries there are a large number of charities and voluntary organizations. These organizations exist for certain benevolent purposes. Governments often recognise the benefits that these organizations bring to citizens of the state (and sometimes of other states) by granting tax privileges and reduced reporting requirements. However, the organizations would have to demonstrate that they fulfil some sort of recognised benevolent purpose in order to qualify for the more relaxed regulatory regime.

In the UK the Charities Commission oversees and grants charitable status to organizations. In Nigeria, they are usually referred to as non-governmental organizations (NGO's) or civil society organizations (CSO's) and registered with the Corporate Affairs Commission (CAC), the same body that registers companies.

Stakeholders in a charity would include people who donate funds to the charity and the beneficiaries of the charitable purpose. The main concern for a donor is that funds provided are being used as the charity said they would be. If a person gives ₦100 to a famine relief charity, they would perhaps not have done so if they knew that ₦90 went to pay for the charity's administration and only ₦10 relieved famine!

CHAPTER TWELVE

CONCEPTS OF GOOD GOVERNANCE

There are several concepts of good governance. In companies, these concepts should be evident in the relationship between the shareholders and the board of directors. Some of these concepts should also apply to the company's dealings with other stakeholders such as its employees, customers, suppliers and the general public. The concepts described briefly here might seem 'obvious'. However, it is useful to think about what might happen if these concepts are not applied. In particular, how the absence of these concepts might affect the relationship between the board of directors and the shareholders.

Fairness

In corporate governance, fairness refers to the principle that all shareholders should receive fair treatment from the directors. At a basic level, it means that all the equity shareholders in a company should be entitled to equal treatment, such as one vote per share at general meetings of the company and the right to the same dividend per share.

In the UK for example, the concept of fair treatment for shareholders is supported by the law (which provides some protection for minority shareholders against unjust treatment by the directors or the majority shareholders). However, in some countries, the law provides little or no protection for minority shareholders. For example, in a takeover bid for a company, the law might permit a higher price to be offered to large shareholders than the price offered to small shareholders.

Openness/transparency

Openness or transparency means 'not hiding anything'. Intentions should be clear, and information should not be withheld from individuals who ought to have a right to receive it.

Transparency means clarity. In corporate governance, it should refer not only to the ability of the shareholders to see what the directors are trying to achieve. It also refers to the ease with which an 'outsider', such as a potential investor or an employee, can make a meaningful analysis of the company and its intentions. Transparency therefore means providing information about what the company has done, what it intends to do in the future, and what risks it faces. In public sector organizations and government, openness means telling the public, and not making decisions 'behind closed doors. In listed companies (stock market companies) openness includes matters such as:

requiring major shareholders to declare the size of their shareholding in the company;

and requiring the board of directors to announce to the stock market information about any major new developments in the company's affairs, so that all shareholders and other investors are kept informed.

Independence

Independence means freedom from the influence of someone else. A principle of good corporate governance is that a substantial number of the directors of a company should be independent, which means that they are able to make judgements and give opinions that are in the best interests of the company, without bias or pre-conceived ideas.

Similarly, professional advisers to a company such as external auditors and solicitors should be independent of the company, and should give honest and professional opinions and advice.

The independence of a director is threatened by having a connection to a special interest group. Executive directors can never be independent, because their views will represent the opinions of the management team. Similarly, a retired former executive might still be influenced by the views of management, because he or she shares the 'management culture'. Directors who represent the interests of major shareholders are also incapable of being independent.

The independence of external auditors can be threatened by over-reliance on fee income from a client company. When a firm of auditors, or a regional office of a national firm, earns most of its income from one corporate client there is a risk that the auditors might choose to accept what they are told by the company's management, rather than question them rigorously and risk an argument. It has been suggested that this occurred in the Houston office of Andersen's, the audit firm that collapsed in 2002 as a result of the Enron scandal.

Familiarity can also remove an individual's independence, because when one person knows another well, he is more likely to accept what that person tells him and support his point of view. Auditors are at risk of losing their independence if they work on the audit of the same corporate client for too many years.

Honesty and integrity (probity)

Honesty is an essential quality for directors and their advisers. An individual who is honest, and who is known to be honest, is believed by others and is therefore more likely to be trusted.

However, honesty is not as widespread as it might be. Business leaders, as well as political leaders, may prefer to 'put a spin' on the facts, and manipulate facts for the purpose of presenting a more favourable impression. Integrity is similar to honesty, but it also means behaving in accordance with high standards of behaviour and a strict moral or ethical code of conduct. Professional

accountants, for example, are expected to act with integrity, by being honest and acting in accordance with their professional code of ethics.
If shareholders in a company suspect that the directors are not acting honestly or with integrity, there can be no trust, and good corporate governance is impossible.

Responsibility and accountability
The directors of a company are given most of the powers for running the company. Many of these powers are delegated to executive managers, but the directors remain responsible for the way in which those powers are used.
An important role of the board of directors is to monitor the decisions of executive management, and to satisfy themselves that the decisions taken by management are in the best interests of the company and its shareholders.
The board of directors should also retain the responsibility for certain key decisions, such as setting strategic objectives for their company and approving major capital investments.
A board of directors should not ignore their responsibilities by delegating too many powers to executive management, and letting the management team 'get on with the job'. The board should accept its responsibilities. With responsibility, there should also be accountability. In a company, the board of directors should be accountable to the shareholders. Shareholders should be able to consider reports from the directors about what they have done, and how the company has performed under their stewardship, and give their approval or show their disapproval.
Some of the ways in which the board is accountable are as follows: Presenting the annual report and accounts to the shareholders, for the shareholders to consider and discuss with the board. In Nigeria for example, this happens at the annual general meeting of the company. If shareholders do not approve of a director, they are able to remove him from office. Individual directors may be required to submit themselves for re-election by the shareholders at regular intervals. In Nigeria for example, it is common practice for directors to be required to retire every three years and stand for re- election at the company's annual general meeting.
In the UK, it is recognised that individual directors should be made accountable for the way in which they have acted as a director. The UK Corporate Governance Code includes a provision that all directors should be subject to an annual performance review, and should be accountable for their performance to the chairman of the company.
It might be argued that a board of directors is not sufficiently accountable to the shareholders, and that there should be much more accountability.

Reputation

A large company is known widely by its reputation or character. A reputation may be good or bad. The reputation of a company is based on a combination of several qualities, including commercial success and management competence. However, a company
might earn a good reputation with investors, employees, customers and suppliers in other ways. As concerns for the environment have grown, companies have recognised the importance of being 'environment- friendly' or 'eco-friendly'. Reputation is also based on honesty and fair dealing, and on being a good employer.

Investors might be more inclined to buy shares and bonds in a company they respect and trust. Some investment institutions are 'ethical funds' that are required to invest only in 'ethical' companies. Employees are more likely to want to work for an employer that treats its employees well and fairly. As a result, companies with a high reputation can often choose better-quality employees, because they have more applicants to choose from.

Consumers are more likely to buy goods or services from a company they respect, and that has a reputation for good quality and fair prices, and for being customer-friendly or environment-friendly. Companies that are badly governed can be at risk of losing goodwill – from investors, employees and customers.

Judgment

Directors make judgments in reaching their opinions. All directors are expected to have sound judgment and to be objective in making their judgements (avoiding bias and conflicts of interest). In its principles of corporate governance, for example, the OECD states that: 'the board should be able to exercise objective judgment on corporate affairs independent, in particular, from management.'

Independent non-executive directors are expected to show judgment that is both sound and independent. Rolls Royce, for example, in an annual report on its corporate governance, stated that: 'The Board applies a rigorous process in order to satisfy itself that its non-executive directors remain independent. Having undertaken this review in [Year], the Board confirms that all the non-executive directors are considered to be independent in character and judgment.'

The corporate governance that could result in the collapse of corporate entities includes / are:

i. **False Accounting / Window dressing / Cosmetic / Creative Accounting**
   Executive management encourages or allows incorrect and misleading treatment of transactions in the company's account.

ii. Audit Committee

The Audit Committee of the company approves misleading annual financial statements.

iii. Company's Transactions / Conflict of Interest / Self – Interest

Executives in the company and professional advisers, profit personally (but secretely) from transactions involving the company.

iv. Ineffective Board

The Board is ineffective in supervising the actions of the company's senior executives.

v. Whistle – Blowers

The Board ignores information from 'whistle – blowers' about serious problems and dubious transactions.

vi. Failure of Internal Control

Where internal controls are not efficiently followed.

vii. Poor Risk Management

This can be in the form of inadequate risk assessments, risk awareness or risk management mechanism.

Nolan's Seven Principles of Public Life

The concepts described above apply to public sector entities and not-for-profit entities, as well as to companies. This is evident in Nolan's Seven Principles of Public Life. These were issued in the UK by the Nolan Committee on Standards in Public Life, which was set up in 1995 to report on standards of behaviour amongst politicians and in the civil service and other public sector bodies. The seven principles are ass follows:

Selflessness- Holders of public office should not make decisions that are in their personal self-interest. Their decisions should be based entirely on concern for the public interest;

Integrity- Holders of public office should not put themselves under any financial obligation or other obligation to another individual or organization that might influence how they act in the course of carrying out their duties;

Objectivity- Holders of public office, in awarding contracts or making recommendations, should base their decisions on merit;

Accountability- Holders of public office are accountable to the public and should submit themselves to public scrutiny;

Openness- Holders of public office should be as open as possible about the decisions they take and the reasons for those decisions. They should only withhold information when this is in the public interest;

Honesty- Holders of public office have a duty to declare any conflicts of interest they might have, and should take steps to resolve them whenever they arise; and

Leadership- Holders of public office should promote and support these principles by setting an example with their own behaviour and giving a lead to others.

CHAPTER THIRTEEN

STAKEHOLDERS

Stakeholders and their influence on corporate governance

Every organization has stakeholders. A stakeholder has been defined (by Freeman 1984) as: 'any group or individual who can affect or [be] affected by the achievement of an organization's objectives.

An important part of this definition is that a stakeholder may:

be affected by what the organization does;

affect what the organization does; or

both be affected by and affect what the organization does.

Companies have stakeholders. A stakeholder in a company is someone who has a 'stake' in the company and an interest in what the company does.

A company must offer something to all its stakeholders. If a company does not give its stakeholders something of what they want, the stakeholders might cease to have an interest in it.

All stakeholders in a company have some expectations from the company.

If a company wishes to remain associated with its stakeholders, it must do something to satisfy these expectations.

The expectations of different groups of stakeholders are not the same, and they are often inconsistent with each other. One of the objectives of corporate governance should be to provide enough satisfaction for each stakeholder group.

Stakeholder groups in a company include:

The shareholders of the company: shareholders expect a reasonable return on their investment in the company. They may be able to influence what the company does by exercising their right to vote at general meetings of the company;

The company's employees: employees expect a fair wage or salary, and often expect job security or career prospects. They can affect what the company does either positively (for example by being well-motivated and efficient) or negatively (for example, by going on strike, or demanding higher pay);

The directors and management of a company, who need to satisfy the expectations of both shareholders (for high profits and dividends) and employees (for high salaries). In addition, they have their own self-interests, for example in high remuneration and status;

Customers of the company;

Suppliers of the company;

Trade unions;

Communities in which the company operates; The government; and Pressure groups and activist groups, such as environmentalists.

Claims of stakeholders

Each stakeholder or stakeholder group in a company makes demands of the company and wants the company to do something to satisfy these demands. These demands are known as 'claims'. Shareholders want dividends and a higher share price, employees may want job security and higher pay, customers may want better quality goods at lower prices, and so on.

It is not always possible to identify the claims of a particular group of stakeholders. Certain groups of stakeholders may not know that they have a claim against an organization; others may know that they have a claim but do not know what it is and do not express it openly. This gives rise to a distinction between direct and indirect stakeholder claims.

Direct stakeholder claims are claims made by stakeholders directly, with their 'own voice'. For example, employees may make a direct claim for higher pay. Shareholders, customers, suppliers and (sometimes) local communities may express direct claims to the company.

Indirect stakeholder claims are claims that are not made directly by a stakeholder or stakeholder group, but are made indirectly on their behalf by someone else. For example:

A small customer of a very large company is too powerless to make claims in his own name.

Future generations have a claim on what a company does today, for example if the company's operations are capable of preserving or destroying the environment, future generations will be affected. They are not yet alive and able to express their claims directly, and someone else has to think about their interests for them.

Terrorist groups may claim to represent the interests of people in their region or country.

A problem with indirect stakeholder claims is that it is not always possible to be sure that the stakeholders are being properly represented and their claims correctly expressed. After all, how can we be sure what future generations will want, or whether a terrorist group really does speak in the interests of a wider community?

Stakeholder influence

A feature of corporate governance or strategic analysis in any company is the balance of power between the stakeholder groups and the relative power and influence of each group.

The Mendelow framework can be used to understand the influence that each stakeholder group has over a company's strategies and actions. The framework identifies two factors that make up the strength of a stakeholder's influence over a company's strategy, actions or decisions:
the power the stakeholder is capable of exercising; and
the interest that the stakeholder has in the particular issue, and how much the stakeholder cares about it.
Influence over a strategy or action comes from a combination of power and interest:
Influence = Power x Interest
The Mendelow framework can be presented as a 2 x 2 matrix. Each stakeholder group can be placed in one section of the matrix, and the company's strategy for dealing with each particular group will depend on where it is positioned in the matrix.
If stakeholders have little power and a low interest in a matter, a company can largely ignore them. (However, the Mendelow framework does not consider ethical issues and whether it would be ethically appropriate to ignore the stakeholder group).
Stakeholders with the highest amount of power and interest are the key players, whose influence will be of some significance in making strategic decisions. If there is just one stakeholder group in this section of the matrix – for example the company's senior management – there should be no problem. Difficulties can arise when there are two or more stakeholder groups in this section and they have differing interests and objectives.
Stakeholders with high interest but low power may try to increase their power by entering into a coalition with one or more other stakeholders. However as long as the group remains in the 'high interest, low power' section of the matrix a company can limit its treatment of the group to keeping it informed about what is happening, but the company's decision-making will not be affected by the group's objectives.
Stakeholders with a lot of power but only limited interest in a matter should be 'kept satisfied' so that they do not exercise their power to affect the company's strategic decision-making. For a large company, the government may be such a stakeholder.

Categories of stakeholders

Various writers have identified different ways of categorising stakeholders.

Narrow and wide stakeholders

Evans and Freeman made a distinction between narrow and wide stakeholders.
Narrow stakeholders are those that are the most affected by the actions and

decisions of the organization. Narrow stakeholder groups for a company usually include shareholders, directors, other management, employees, suppliers and those customers who depend on the goods produced by the company.
Wide stakeholders are those groups that are less dependent on the organization. Wide stakeholders for a company may include customers who are not particularly dependent on the company's goods or services, the government and the wider community (as distinct from local communities in which the company operates, which may be narrow stakeholders).
Evans and Freeman suggested that a company has much more responsibility and accountability to narrow stakeholders than to wide stakeholders.

Primary and secondary stakeholders
Clarkson made a distinction between primary and secondary stakeholders.
A primary stakeholder group for a company is a group that is essential for the continuation of the company as a going concern. Customers, suppliers and employees may be primary stakeholders.
Secondary stakeholders are those that the organization does not directly rely on for its continued survival, at least in the short term.
According to Clarkson, primary stakeholders have strong influence over a company's decisions and actions.

Active and passive stakeholders
Mahoney (1994) made a distinction between active and passive stakeholders.
Active stakeholders are those that seek to get involved in the company's activities and decisions. These stakeholders may be a part of the company's normal decision-making and operating processes, such as management and employees. Other active stakeholders who are external to the company may include, for example government regulators or environmental pressure groups.
Passive stakeholders are those stakeholders who do not usually try to get involved with a company's policy-making. They may have a strong interest in what the company does, but they do not want to get actively involved in the decision-making. The government and local communities may be examples of passive stakeholders.

Voluntary and involuntary stakeholders
A distinction can also be made between voluntary and involuntary stakeholders.
A voluntary stakeholder is someone who becomes a stakeholder voluntarily. They include employees (who could move to a job with a different employer), customers (who could buy goods from another company) and shareholders (who could sell their shares).

Involuntary stakeholders are those who do not choose to be stakeholders but have no choice. These include local communities, stakeholders who suffer from the effect of the company's operations on the environment, and future generations. Most competitors are also involuntary stakeholders.

Legitimate and illegitimate stakeholders

Another distinction is between legitimate and illegitimate stakeholders.

Legitimate stakeholders are those with a 'right' to make a claim on the company 'legitimate' claim). Illegitimate stakeholders are those that do not have such a 'right'. Deciding whether stakeholders have legitimate or illegitimate claims on a company may depend on a person's viewpoint and the distinction is therefore to some extent a matter of judgement. Examples of illegitimate stakeholders may be certain lobby groups or pressure groups (for example, animal rights activists) or charity organizations. In some countries, rebel groups or terrorists may be illegitimate stakeholders with considerable influence over a company's activities.

The main issues with this categorisation is whether a company should acknowledge the claims of a stakeholder group (if it is legitimate') or whether it should ignore them or oppose them (if the group is illegitimate).

Known and unknown stakeholders

A distinction can also be made between known and unknown stakeholders.

Known stakeholders are those that the company knows about.

Unknown stakeholders are those whose existence the company is not aware of.

This distinction may be relevant when a company has operations that affect the environment, or is planning new activities that will have an environmental impact. The company will not necessarily be aware of all the stakeholders that will be affected by its activities – for example animals, insects, sea creatures.

It may be argued that before implementing any new business strategy a company should carry out a thorough investigation in order to identify unknown stakeholders and consider the impact of its strategy on them.

Internal and external stakeholders

A widely-used distinction is between internal and external stakeholders.

Internal stakeholders of a company are inside the company and a part of it.

External stakeholders are outside the company and are not a part of it.

Two insider stakeholder groups in a company are the equity shareholders and the directors.

Shareholders and directors

The main stakeholder groups in a company are usually the shareholders and the directors of the company. The shareholders own the company and the directors are its leaders.

The shareholders

The influence of shareholders over their company varies with circumstances.

In a small company the shareholders and directors might be the same individuals.

In some companies, there may be a majority shareholder (controlling shareholder). A majority shareholder should be able to influence the decisions of the board of directors, because he has the power to remove directors who disagree with him.

In quoted companies (stock market companies) the interests of shareholders are likely to be focused on the value of their shares and the size of dividends. However, the shareholders might have little influence over the decisions of the board of directors.

The Directors

The board of directors is a significant stakeholder group in a company because they have the power to direct the company. Directors act as agents for the company and represent the interests of the company.

A board of directors consists of both executive and non-executive directors. Executive directors have executive responsibilities as managers in the company, in addition to their roles as director. They are usually full-time employees of the company. Non-executives are not involved in executive management and are very much 'part time' and in many countries (for example, Nigeria, the UK and US) they are not company employees. Since executive directors combine their role as director with their full-time job as company employee, their interests are likely to differ from those of the non-executive directors.

On the board of directors, some individuals might have considerably more influence than others. Typically, the most influential members of the board are the company chairman (board chairman) and the managing director (often called the chief executive officer or CEO).

The board of directors takes many decisions as a group, but they also have individual interests in the company. Directors are therefore stakeholders in their company both as a unit and as separate individuals.

Other internal stakeholders

Employees can be an important internal stakeholder group. It might be possible

to divide employees into sub-groups, each with a different set of interests and expectations, and each with a different amount of influence over the actions of the company.

It might be appropriate to separate senior management and other employees into two separate stakeholder groups. Senior management might have a bigger interest in the profits and share price of the company because they belong to a share incentive scheme or share option scheme, or because they receive annual bonus payments based on the company's profitability. Other employees who do not have such incentives will have much less interest in the financial performance of the company or its share price.

Some employees might be able to demand large rewards from the company or might exercise strong influence because of their value to the company. For example, in the UK some individual investment bankers have a strong influence within their bank because of the specialist skills they possess and the income they are able to earn for the bank.

In some companies, there might be a strong trade union influence. The ability of a company to alter its working practices, for example, may depend on obtaining the co-operation and support of the trade unions.

External stakeholders

A company has external stakeholders as well as internal stakeholders. External stakeholders are individuals or groups who do not work for the company but who nevertheless have an interest in what the company does and who might be able to influence the way in which the company is governed.

Lenders have an interest in a company to which they lend money. They expect to be paid what they are owed. Usually, a lender will not be closely involved in the governance or management of a company, but they will monitor its financial performance and financial position. Lenders will also become significant stakeholders if the company gets into financial difficulties and is faced with the risk of insolvency.

Suppliers have an interest in companies who are their major customers, although their influence over its governance might be small.

Regulators have an interest in companies whose activities they are required to regulate. Some aspects of regulation have a major impact on the way in which a company is governed. For example, quoted companies must comply with the rules set by the securities regulator (such as the Securities Exchange Commission in Nigeria and the US, and the Financial Conduct Authority in the UK).

Government has a stake in companies. Companies are a source of tax revenue and also collect tax (income taxes and sales taxes) for the government from

employees and customers. For some companies, such as companies that manufacture defence equipment, the government might have an influence as a major customer for the goods that the company produces.

Customers, the general public or special interest groups might have a significant influence over a company, especially a company that relies for success on the high reputation of its products or services.

Stock exchanges have an influence over the governance of quoted companies, because companies must comply with the rules of the stock exchange on which their shares are traded.

A company's auditors should also have some influence over the governance of a company, by making sure that the board of directors presents financial statements to the shareholders that present a true and fair view of the company's financial position and performance.

Investors are a major influence over companies whose shares are traded on a stock exchange. Investors decide what the market price of a company's shares should be. A company needs to satisfy the expectations not only of its shareholders, but of the investing community in general, if it wishes to sustain or increase the share price (and so the total value of the company).

Institutional investors

Institutional investors are entities that specialise in investing, mainly in shares and bonds. There are several types of institutional investor.

Pension funds - These institutions hold funds that will be used to provide pensions to individuals after their retirement. Pension funds may be sponsored by an employer, or may be private pension schemes of individuals. Until the money is needed to pay a pension, it is invested to earn a return.

Insurance companies - The funds of insurance companies come from insurance policy premiums and life assurance premiums. Until the money is needed for payment to the insurance policy holders, it is invested.

Mutual funds - Mutual funds are funds of many individual investors, who invest relatively small amounts of money in the fund. The investments of the many different individuals are combined and invested collectively. In the UK for example, the main types of mutual funds are unit trusts and Open-Ended Investment Companies or OEICs.

Institutional investors are significant stakeholders on companies, in any country where they invest large funds. They are particularly influential in the US and UK.

Individually, an institutional investor might hold only a small proportion of the shares in a large public company. However, by joining together and speaking collectively, a group of institutional investors might be able to have some

influence over the decisions of a company's board of directors.
Most institutional investors belong to a 'trade association'. In the UK, for example, most pension funds are members of the Pensions and Lifetime Savings Association (PLSA) and most insurance companies are members of the Association of British Insurers (ABI). Each of these trade associations give information and advice to their members about corporate governance matters, and might recommend how they should vote on certain issues at the general meetings of companies. Collectively, bodies such as the PLSA and ABI (and their members) can have a major influence on companies because of the significance of their members as investors and shareholders.
In the UK for example, the influence of institutional investors has been significant in persuading listed companies to adopt (most of) the provisions of the UK Corporate Governance Code. Their role in promoting good corporate governance has therefore been critically important.
The institutional shareholder bodies have issued guidelines on corporate governance to their members, which they encourage their members to apply.
There is a UK Stewardship Code for institutional investors, published to complement the UK Corporate Governance Code to encourage them to engage proactively in the corporate governance of companies in which they hold investments on behalf of others.
The institutional shareholder bodies issue regular advice to members on how they should consider voting on certain issues at general meetings of particular companies. For example, the PLSA or ABI might recommend to their members that they should vote against the re-election of a particular director, or should vote against the directors' remuneration report, or against a proposed takeover bid.

Corporate governance and investor confidence
Institutional investors are also important because their views are a good reflection of investor confidence in the stock market. Bad corporate governance could eventually damage the confidence of investors and make them much less willing to invest in shares. This in turn will keep share prices – and company values – down, and will make it difficult for companies to raise fresh capital in the financial markets when they need it.
Arthur Levitt, a former chairman of the US Securities and Exchange Commission, made the following comments at the time of the Enron collapse (and a heavy fall in stock market prices generally in the US): 'If a country does not have a reputation for strong corporate governance practice, capital will flow elsewhere. If investors are not confident with the level of disclosure, capital will flow elsewhere. If a country opts for lax accounting and reporting standards,

capital will flow elsewhere. All enterprises in that country, regardless of how steadfast a particular company's practices, may suffer the consequences. Markets exist by the grace of investors and it is today's more empowered investors who will determine which companies and which markets will stand the test of time and endure the weight of greater competition. It serves us well to remember that no market has a divine right to investors' capital.

CHAPTER FOURTEEN

AGENCY THEORY

The Law of Agency

An agent is a person who acts on behalf of another person, the principal, in dealing with other people. For example, a selling agent acts on behalf of a principal, a manufacturer of goods, to sell goods on the manufacturer's behalf. Similarly, a stock broker is an agent who acts on behalf of a client (the principal) to buy or sell shares on the client's behalf. The agent acts in the name of the principal, and commits the principal to agreements and transactions.

In company law, the directors act as agents of the company. The boards of directors as a whole, and individual directors, have the authority to bind the company to contractual agreements with other parties.

Since most of the powers to act on behalf of the company are given to the board of directors, the directors (and the management of a company) have extensive powers in deciding what the company should do, what its objectives should be, what its business strategies should be, how it should invest and what its targets for performance should be.

The powerful position of the directors raises questions about the use of this power, especially where the owners of the company (its shareholders) and the directors are different individuals.

How can the owners of the company make sure that the directors are acting in the best interests of the shareholders? If the directors act in ways that the shareholders do not agree with, what can the shareholders do to make the directors act differently?

Fiduciary duty of directors

As agents of the company, directors have a fiduciary duty to the company. A fiduciary duty is a duty of trust. A director must act on behalf of the company in total good faith, and must not put his personal interests before the interests of the company.

If a director is in breach of this fiduciary duty, he could be held liable in law, if the company were to take legal action against him. Legal action by a company against a director for breach of fiduciary duty would normally be taken by the rest of the board of directors or, possibly, a majority of the shareholders acting in the name of the company.

Agency law and challenging the actions of directors

In practice, it is very difficult for shareholders to use the law to challenge the decisions and actions of the company's directors. If shareholders believe that the

directors are not acting in the best interests of the company, their ability to do something about the problem is restricted.
The shareholders can vote to remove any director from office, but this requires a majority vote by the shareholders, which might be difficult to obtain. In a court of law, shareholders would have to demonstrate that the directors were actually acting against the interests of the company, or against the clear interests of particular shareholders, in order to persuade the court to take legal measures against the directors.
In summary, although there is a legal relationship between the board of directors and their company, the shareholders cannot easily use the law to control the decisions or actions that the directors take on behalf of the company.

Concepts in agency theory: the agency relationship
Whereas agency law deals with the legal relationship between a company and its directors, the theory of agency deals with the relationship between: a company's owners; and its managers (directors).
Agency theory is based on the idea that when a company is first established, its owners are usually also its managers. As a company grows, the owners appoint managers to run the company. The owners expect the managers to run the company in the best interests of the owners; therefore, a form of agency relationship exists between the owners and the managers.
Many companies borrow, and a significant proportion of the long-term capital of a company might come from various sources of debt capital, such as bank loans, lease finance and bond issues (debentures, loan stock and so on). Major lenders also have an interest in how the company is managed, because they want to be sure that the company will be able to repay the debt with interest.

The agency relationship
Agency theory was developed by Jensen and Meckling (1976). They suggested a theory of how the governance of a company is based on the conflicts of interest between the company's owners (shareholders), its managers and major providers of debt finance.
Each of these groups has different interests and objectives.
The shareholders want to increase their income and wealth. Their interest is with the returns that the company will provide in the form of dividends, and also in the value of their shares. The value of their shares depends on the long-term financial prospects for the company. Shareholders are therefore concerned about dividends, but they are even more concerned about long-term profitability and financial prospects, because these affect the value of their shares.
The managers are employed to run the company on behalf of the shareholders.

However, if the managers do not own shares in the company, they have no direct interest in future returns for shareholders, or in the value of the shares. Managers have an employment contract and earn a salary. Unless they own shares, or unless their remuneration is linked to profits or share values, their main interests are likely to be the size of their remuneration package and their status as company managers.
The major providers of debt have an interest in sound financial management by the company's managers, so that the company will be able to pay its debts in full and on time.
Jensen and Meckling defined the agency relationship as a form of contract between a company's owners and its managers, where the owners (as principal) appoint an agent (the managers) to manage the company on their behalf. As a part of this arrangement, the owners must delegate decision-making authority to the management.
The owners expect the agents to act in the best interests of the owners. Ideally, the 'contract' between the owners and the managers should ensure that the managers always act in the best interests of the owners. However, it is impossible to arrange the 'perfect contract', because decisions by the managers (agents) affect their own personal welfare as well as the interests of the owners.
This raises a fundamental question. How can managers, as agents of their company, be induced or persuaded to act in the best interests of the shareholders?

Agency conflicts
Agency conflicts are differences in the interests of a company's owners and managers. They arise in several ways.

Moral hazard- A manager has an interest in receiving benefits from his or her position as a manager. These include all the benefits that come from status, such as a company car, a private chauffeur, use of a company airplane, lunches, attendance at sponsored sporting events, and so on. Jensen and Meckling suggested that a manager's incentive to obtain these benefits is higher when he has no shares, or only a few shares, in the company. The biggest problem is in large companies.

Effort level- Managers may work less hard than they would if they were the owners of the company. The effect of this 'lack of effort' could be lower profits and a lower share price. The problem will exist in a large company at middle levels of management as well as at senior management level. The interests of middle managers and the interests of senior managers might well be different,

especially if senior management are given pay incentives to achieve higher profits, but the middle managers are not.

Earnings retention- The remuneration of directors and senior managers is often related to the size of the company, rather than its profits. This gives managers an incentive to grow the company, and increase its sales turnover and assets, rather than to increase the returns to the company's shareholders. Management are more likely want to re-invest profits in order to make the company bigger, rather than pay out the profits as dividends. When this happens, companies might invest in capital investment projects where the expected profitability is quite small, and the net present value might be negative.

Risk aversion- Executive directors and senior managers usually earn most of their income from the company they work for. They are therefore interested in the stability of the company, because this will protect their job and their future income. This means that management might be risk-averse, and reluctant to invest in higher-risk projects. In contrast, shareholders might want a company to take bigger risks, if the expected returns are sufficiently high. Shareholders often invest in a portfolio of different companies; therefore, it matters less to them if an individual company takes risks.

Time horizon- Shareholders are concerned about the long-term financial prospects of their company, because the value of their shares depends on expectations for the long-term future. In contrast, managers might only be interested in the short-term. This is partly because they might receive annual bonuses based on short-term performance, and partly because they might not expect to be with the company for more than a few years. Managers might therefore have an incentive to increase accounting return on capital employed (or return on investment), whereas shareholders have a greater interest in long-term value as measured by net present value.

Agency costs

Agency costs are the costs of having an agent to make decisions on behalf of a principal. Applying this to corporate governance, agency costs are the costs that the shareholders incur by having managers to run the company instead of running the company themselves. Agency costs do not exist when the owners and the managers are exactly the same individuals. Agency costs start to arise as soon as some of the shareholders are not also directors of the company. Agency costs are potentially very high in large companies, where there are many different shareholders and a large professional management. Agency costs can

therefore be defined as the 'value loss' to shareholders that arises from the divergence of interests between the shareholders and the company's management.

There are three aspects to agency costs:

They include the costs of monitoring. The owners of a company can establish systems for monitoring the actions and performance of management, to try to ensure that management are acting in their best interests. An example of monitoring is the requirement for the directors to present an annual report and accounts to the shareholders, setting out the financial performance and financial position of the company. These accounts are audited, and the auditors present a report to the shareholders. Preparing accounts and having them audited has a cost;

Agency costs also include the costs to the shareholder that arise when the managers take decisions that are not in the best interests of the shareholders (but are in the interests of the managers themselves). For example, agency costs arise when a company's directors decide to acquire a new subsidiary, and pay more for the acquisition than it is worth. The managers would gain personally from the enhanced status of managing a larger group of companies. The cost to the shareholders comes from the fall in share price that would result from paying too much for the acquisition; and

The third aspect of agency costs is costs that might be incurred to provide incentives to managers to act in the best interests of the shareholders. These are sometimes called bonding costs. These costs are intended to reduce the size of the agency problem. Directors and other senior managers might be given incentives in the form of free shares in the company, or share options. In addition, directors and senior managers might be paid cash bonuses if the company achieves certain specified financial targets. The remuneration packages for directors and senior managers are therefore an important element of agency costs.

CHAPTER FIFTEEN

OTHER THEORIES OF CORPORATE GOVERNANCE

The agency theory of corporate governance is based on the view that the directors of a company are the agents of the company's owners, the shareholders. Since the directors as agents do not have the same attitude as their principals, the shareholders, some measures are necessary to ensure that governance is effective in protecting shareholders' interests.

This involves measures to:

Monitor directors and apply some control over them; this can be achieved by requiring directors to report on company performance and for external auditors to confirm that their reporting is accurate; and

Encouraging directors to act in the best interests of shareholders by offering them rewards, such as bonus incentive schemes for achieving or exceeding target levels for profit or return on shareholder capital and open and complete financial disclosure.

Other theories of corporate governance, or ways of looking at corporate governance, have been developed from agency theory.

Transaction cost theory

Transaction cost theory attempts to explain companies not just as 'economic units', but as organizations consisting of people with differing views and objectives. A large part of the theory is concerned with what makes an organization grow to the size that it achieves: how many operations does it undertake 'in house' and how much does it buy in from external suppliers.

Logically, a firm's decision about whether to arrange transactions in the open market or whether to do the work 'in-house' (itself) depends on which is cheaper.

When a firm does work 'in-house', it needs a management structure and a hierarchy of authority. Senior management are at the top of this hierarchy. According to the theory of transaction cost economics, the structure of a firm and the relationship between the owners of a firm and its management depends on the extent to which transactions are performed internally.

From a governance perspective, traditional economic theory is based on the assumption that all behaviour is rational, and that profit maximisation is the rational objective of all businesses. Transaction cost economics changes these assumptions, by trying to allow for human behaviour, and the fact that individuals do not always act rationally. Transaction cost theory is based on two assumptions about behaviour:

Bounded rationality: humans act rationally, but only within certain limits of understanding. This means for example that the managers of a company will in

theory act rationally in seeking to maximise the value of the company for its shareholders, but their 'bounded rationality' might make them act differently. There are limits to rational thinking; and

Opportunism: individuals act in a self-interested way, and 'with guile'. In other words, people will not always be honest and truthful about their intentions and will sometimes be opportunistic. Opportunism is 'an effort to realise individual gains through a lack of candour or honesty in transactions.' An individual might try to take advantage of an opportunity to gain a benefit at the expense of someone else.

This self-interest needs to be controlled. When managers act in their own interests, they act against the interests of the shareholders. For example, managers will often try to increase the size of their company, even though this is not in the best interests of the shareholders, because they benefit personally from growth in the size of the company.

Stewardship theory

In the stewardship theory of corporate governance, it is recognised that the directors of a company have a stewardship role. They look after the assets of the company and manage them on behalf of the shareholders.

As stewards of the company and as agents for the shareholders, the board of directors should be accountable to the shareholders. In order for the directors to show their accountability to the shareholders, it is a general principle of company law that the directors are required to prepare annual financial statements, which are presented to the shareholders for their approval.

Resource dependency theory

Resource dependency theory looks at how the resources of an organization affect its governance and behaviour. The basic argument of resource dependence theory can be summarised as follows:

Organizations depend on resources (such as materials, labour and capital), many of which are under the control of other organizations;

Resources are a basis of power;

Legally independent organizations may therefore depend on other organizations for the resources they need; and

Power and dependence on resources are directly linked.

Within organizations, the personal success of managers is tied to customer demand. Managers are seen to succeed when demand grows, which means that customers are the ultimate resource on which companies depend.

Managerial hegemony theory and class hegemony theory

Class hegemony theory is a Marxist-based theory that considers the business elite (the 'upper class) as a group of individuals who control the governance of companies to perpetuate their power base.

Managerial hegemony theory is similar to class hegemony theory in that the system of governance under the board of directors is seen as the tool of management. It argues that the real power in corporate governance lies with management and that they can take advantage of shareholder weakness to pursue their self-interest.

Psychological and organizational perspective theory

A number of behavioural and psychological theories of corporate governance have also been developed. A psychological theory approach takes the view that governance depends largely on informal structures and behaviours within an organization. Decisions by a board of directors and the performance of the board are influenced by inter-personal tactics and relationships. Outcomes are often the result of a bargaining process between interested parties.

An organizational perspective theory is based on the view that the performance of the board of directors, company ownership and remuneration and other incentives for executives may differ according to the legal system and institutional characteristics in a specific country.

Stakeholder theory

The stakeholder theory of corporate governance is that governance depends on the inter-relationships and relative strength of the different stakeholders of a company. Stakeholder theory is explained in a previous section.

System theory

A system theory approach to governance considers a company as an overall system, consisting of inter-linked sub-systems. Governance depends on how these sub-systems (and sub-sub-systems etc) interlink with each other.

CHAPTER SIXTEEN

INTERNATIONAL AND NIGERIAN CODES AND PRINCIPLES OF CORPORATE GOVERNANCE

A brief history of corporate governance

When we discuss the history of corporate governance, we really mean the history of attempts to improve perceived weaknesses in corporate governance, especially among large public companies.

The drive for improvements in corporate governance began in the UK. Following a number of high-profile corporate collapses, a committee was established and produced a report (the Cadbury Report, 1992) which recommended, amongst other things, that listed companies should have an audit committee and a minimum number of non-executive directors on their board.

Concerns about excessive or inappropriate remuneration packages for executive directors and senior managers led on to the Greenbury Report (1995). This was followed by the Hampel Report (1998), which among other things raised the matter of board responsibility for risk management and control systems.

The recommendations of these three reports were amalgamated into the first UK Combined Code of corporate governance (1998). This was a principles-based set of principles and provisions, and all listed companies in the UK were required to comply with the code or explain their non-compliance.

The next major advance in corporate governance globally was the adoption of the Sarbanes-Oxley Act (2002), a rules-based governance code introduced following a number of major corporate scandals and failures in the USA.

Since that time, corporate governance codes have been introduced in many other countries, including Nigeria, where there is a 2018 revision of the Nigerian Code of Corporate Governance for private and public companies. The Nigerian Code, which covers similar areas to other national corporate governance codes, date back to year 2002 where a 17 men committee led by Atedo N. Peterside was set up with the following terms of references:

1. To identify weaknesses in the current corporate governance practices with respect to public companies.
2. To examine practices in other jurisdictions with a view to adopting international best practices in corporate governance in Nigeria.
3. To make recommendations on necessary changes to current practices.
4. To examine any other issue relating to corporate governance in Nigeria.

The report of the committee was adopted and lunched in October 2003 as the code of corporate governance for public companies in Nigeria.

Objectives of Corporate Governance

1. Evolution of efficient, effective and sustainable companies that contribute to the welfare of the society by creating wealth, employment and proffering solutions to emerging business problems or challenges.
2. Integrity, probity and transparency on the part of management.
3. Recognition and protection of all stakeholder's right.
4. Compliance with legal and ethical requirement at all time.
5. Effective monitoring and management of risk, innovation and change.
6. Existence of an audit committee that is free of interference of the board of directors.
7. Increase level of confidence of stakeholder's in the company.
8. Economy of scale will accrue to the company.

Strategies of Good Corporate Governance

1. Establishment of strategic objectives and the right corporate values.
2. This objectives and values are communicated throughout the organisations to provide direction for all activities and carry other staffs along.
3. Clear lines of responsibility and accountability are set and enforce (organisation structure).
4. Senior management should comprise core group of individuals with requisite knowledge and skills to manage the business.
5. The roles of the auditor internal and external are fully appreciated and their independent is not compromised.
6. Members of the board are qualified for the task entrusted to them.
7. The governance process is conducted transparently so that managers can be held responsible for their actions.
8. There is a process of efficient and effective supervision.
9. There must be good and transparent succession plan.
10. There should be periodic appraisal of staff on issue of corporate governance.

SARBANES OXLEY ACT 2002

The Sarbanes Oxley Act of 2002, enacted July 30, 2002, also known as the 'PUBLIC COMPANY ACCOUNTING REFORM AND INVESTOR PROTECTION ACT (in the Senate) and 'CORPORATE AND AUDITING ACCOUNTABILITY AND RESPONSIBILITY ACT (in the House) and commonly called Sarbanes-Oxley, Sarbox or SOX, is a United States federal law. It is named after sponsors U.S. senator Paul Sarbanes (D. Maryland) and U.S. Representative Michael G. Oxley (R.Ohio).

The bill was enacted as a reaction to a number of major corporate and accounting scandals including those affecting Enron, Tyco International, Aldephia, Peregrine Systems and WorldCom. These scandals, which cost investors billions of dollars when the share prices of affected companies collapsed, shook public cost in the nation's security markets. The legislation set new or enhanced standards for all U.S. public company boards, management and public accounting firms. It does not apply to privately held companies. The act contains 11 titles, or sections, ranging from additional corporate board responsibilities to criminal penalties, and requires the security and exchange Commission (SEC) to implement rulings on requirements to comply with the new law.

Sarbanes-Oxley contains 11 titles that describe specific mandates and requirements for financial reporting. Each title consists of several sections, summarized below:

1. **Public company Accounting Oversight Board (PCAOB):** This section consists of nine sections and establishes the Public Company Accounting Oversight Board, to provide independent oversight of public accounting firms providing audit services ("auditors"). It also creates a central oversight board tasked with registering auditors, defining the specific processes and procedures for compliance audits, inspecting and policing conduct and quality control, and enforcing compliance with the specific mandates of SOX.

2. **Audit or Independence:** it consists of nine sections and establishes standards and establishes for external auditor independences, to limit conflicts of interest. It also addresses new auditor approval requirements, audit partner rotation, and auditor reporting requirements. It restricts auditing companies from providing non-audit services (e.g. consulting) for the same clients.

3. **Corporate Responsibility:** Consists eight actions and mandates that senior executives take individual responsibility for the accuracy and completeness of corporate financial report. It defines the interaction of external auditors and corporate audit committee, and financial reports. It enumerates specific limits on the behaviours of corporate officers and describes specific forfeitures of benefits and civil penalties for non-compliance. For example, section 302 requires that the company's "principal officers" (typically the Chief Executive Officer and Chief Financial Officer) certify and approve the integrity of their company financial reports quarterly.

4. **Enhanced Financial Disclosures:** This section describes enhanced reporting requirements for financial transactions, including off-balance sheet transactions, pro-forma figures and stock transactions of corporate officers. It requires internal controls for assuring the accuracy of financial reports and disclosures, and mandates both adults and reports on those controls. It also requires timely reporting of material changes in financial condition and specific enhanced reviews by the SEC or its agents of corporate reports.

5. **Analyst Conflicts Interest:** Consists of only one section, which includes measures designed to help restore investor confidence in the reporting of securities analysts. It defines the code of conducts for securities analyst and requires disclosure of knowable conflicts of interest.

6. **Commission Resources and Authority:** This section defines practice to restore investor confidence in securities analysts. It also defines the SEC's authority to ensure or bar securities professionals from practice and defines conditions under which a person can be barred from practicing as a broker, advisor, or dealer.

7. **Studies and Reports:** Require the Comptroller General and the SEC to perform various duties and report their findings. Studies and reports include the effects of consolidation of public accounting firms, the role to credit rating agencies in the operation of securities markets, securities violations and enforcing actions, and whether investment banks assisted Enron, global crossing and others to manipulate earnings and obfuscate true financial conditions.

8. **Corporate and Criminal Fraud Accountability:** This section is also referred to as "Corporate and Criminal Fraud Act of 2002." It describes specific criminal penalties for manipulation, destruction or alteration of financial records or other interference with investigations, while providing certain protections for whistle-blowers.

9. **White Collar Crime Penalty Enhancement:** This section is also called the "White Collar Crime Penalty Enhancement Act of 2002." This section increases the criminal penalties associated with White Collar crimes and conspiracies. It recommends stronger sentencing guidelines and specifically adds failure to certify corporate financial reports as a criminal offense.

10. **Corporate Tax Returns:** Section 1001 (the only sub-section) states that the Chief Executive Officer should sign the company tax return.

11. **Corporate Fraud Accountability:** Section 1001 recommends a name for this title as "Corporate Fraud Act of 2002". It identifies corporate fraud and records tampering as criminal offenses and joins those offenses to specific penalties. It also revises sentencing guidelines and strengthens their penalties. This enables the SEC the resort to temporarily freeze transactions or payments that have been deemed "large" or "unusual".

REFERENCES

Bass, Bernard M. The Bass Handbook of Leadership! Theory, Research and Managerial App!ication, Fourth Edition, Free Press (2008). doi: 1016 / 001 - 6918(65) 90024 – 7. PMID 5841721.

Drucker, Peter 1946: Concept of the Corporation (New York): the John Day Company).

Goleman, D (2006). Social Intelligence; the new service of social relationships, New York: Bontam Books.

Jensen, A. and Meckling, R.(1976). Scoring the stroop test. Acta Psychological. 24 (5): 398 – 408.

Maxwell, John C. Developing the Leader Within You 2. Harper Collins Leadership series 2018. Reprint Edition.

The Concept Practices and Other Related Offences Act, 2000.

The Economic and Financial Crime Commission (EFCC) Act, 2002.

The Institute of Chartered Accounts of Nigeria (ICAN) Study Pack (2021). Corporate Strategic Management and ethics. www. Ican-ngr.org. ISBN 978-978-57010-0-5.

The Institute of Chartered Accounts of Nigeria (ICAN) Study Pack (2021).

The Institute of Chartered Accounts of Nigeria (ICAN) Study Pack (2019). Public Sector Accounting and Finance. www.Ican-ngr-org. ISBN 978-978-57010-9-8.

The Surbanes Oxley Act 2002.

The Wyse associates Ltd (2014). Management, Governance and Ethics Study Pack. Wyse Publishing http://www.wyseonline.com.

Tuckman, Bruce W. (1965): Developmental sequence in small groups: Psychological Bulletin, 63, 384 – 399.