INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

Indexed & Listed at:

Ulrich's Periodicals Directory ©, ProQuest, U.S.A., EBSCO Publishing, U.S.A., Cabell's Directories of Publishing Opportunities, U.S.A.,
Open J-Gage, India [link of the same is duly available at Inflibnet of University Grants Commission (U.G.C.)],
The American Economic Association's electronic bibliography, EconLit, U.S.A.,
Index Copernicus Publishers Panel, Poland with IC Value of 5.09 & number of libraries all around the world.
Circulated all over the world & Google has verified that scholars of more than 3770 Cities in 175 countries/territories are visiting our journal on regular basis.
Ground Floor, Building No. 1041-C-1, Devi Bhawan Bazar, JAGADHRI – 135 003, Yamunanagar, Haryana, INDIA

http://ijrcm.org.in/

CONTENTS

CALL FOR MANUSCRIPTS

We invite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the areas of Computer Science & Applications; Commerce; Business; Finance; Marketing; Human Resource Management; General Management; Banking; Economics; Tourism Administration & Management; Education; Law; Library & Information Science; Defence & Strategic Studies; Electronic Science; Corporate Governance; Industrial Relations; and emerging paradigms in allied subjects like Accounting; Accounting Information Systems; Accounting Theory & Practice; Auditing; Behavioral Accounting; Behavioral Economics; Corporate Finance; Cost Accounting; Econometrics; Economic Development; Economic History; Financial Institutions & Markets; Financial Services; Fiscal Policy; Government & Non Profit Accounting; Industrial Organization; International Economics & Trade; International Finance; Macro Economics; Micro Economics; Rural Economics; Co-operation; Demography: Development Planning; Development Studies; Applied Economics; Development Economics; Business Economics; Monetary Policy; Public Policy Economics; Real Estate; Regional Economics; Political Science; Continuing Education; Labour Welfare; Philosophy; Psychology; Sociology; Tax Accounting; Advertising & Promotion Management; Management Information Systems (MIS); Business Law; Public Responsibility & Ethics; Communication; Direct Marketing; E-Commerce; Global Business; Health Care Administration; Labour Relations & Human Resource Management; Marketing Research; Marketing Theory & Applications; Non-Profit Organizations; Office Administration/Management; Operations Research/Statistics; Organizational Behavior & Theory; Organizational Development; Production/Operations; International Relations; Human Rights & Duties; Public Administration; Population Studies; Purchasing/Materials Management; Retailing; Sales/Selling; Services; Small Business Entrepreneurship; Strategic Management Policy; Technology/Innovation; Tourism & Hospitality; Transportation Distribution; Algorithms; Artificial Intelligence; Compilers & Translation; Computer Aided Design (CAD); Computer Aided Manufacturing; Computer Graphics; Computer Organization & Architecture; Database Structures & Systems; Discrete Structures; Internet; Management Information Systems; Modeling & Simulation; Neural Systems/Neural Networks; Numerical Analysis/Scientific Computing; Object Oriented Programming; Operating Systems; Programming Languages; Robotics; Symbolic & Formal Logic; Web Design and emerging paradigms in allied subjects.

Anybody can submit the **soft copy** of unpublished novel; original; empirical and high quality **research work/manuscript** ***anytime*** in ***M.S. Word format*** after preparing the same as per our **GUIDELINES FOR SUBMISSION**; at our email address i.e. infoijrcm@gmail.com or online by clicking the link **online submission** as given on our website (***FOR ONLINE SUBMISSION, CLICK HERE***).

GUIDELINES FOR SUBMISSION OF MANUSCRIPT

1. **COVERING LETTER FOR SUBMISSION:**

DATED: _____________

THE EDITOR
IJRCM

Subject: **SUBMISSION OF MANUSCRIPT IN THE AREA OF .**

(e.g. Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)

DEAR SIR/MADAM

Please find my submission of manuscript entitled '____' for possible publication in your journals.

I hereby affirm that the contents of this manuscript are original. Furthermore, it has neither been published elsewhere in any language fully or partly, nor is it under review for publication elsewhere.

I affirm that all the author (s) have seen and agreed to the submitted version of the manuscript and their inclusion of name (s) as co-author (s).

Also, if my/our manuscript is accepted, I/We agree to comply with the formalities as given on the website of the journal & you are free to publish our contribution in any of your journals.

NAME OF CORRESPONDING AUTHOR:
Designation:
Affiliation with full address, contact numbers & Pin Code:
Residential address with Pin Code:
Mobile Number (s):
Landline Number (s):
E-mail Address:
Alternate E-mail Address:

NOTES:
a) The whole manuscript is required to be in ***ONE MS WORD FILE*** only (pdf. version is liable to be rejected without any consideration), which will start from the covering letter, inside the manuscript.
b) The sender is required to mentionthe following in the **SUBJECT COLUMN** of the mail:
New Manuscript for Review in the area of (Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)
c) There is no need to give any text in the body of mail, except the cases where the author wishes to give any specific message w.r.t. to the manuscript.
d) The total size of the file containing the manuscript is required to be below **500 KB**.
e) Abstract alone will not be considered for review, and the author is required to submit the complete manuscript in the first instance.
f) The journal gives acknowledgement w.r.t. the receipt of every email and in case of non-receipt of acknowledgment from the journal, w.r.t. the submission of manuscript, within two days of submission, the corresponding author is required to demand for the same by sending separate mail to the journal.

2. **MANUSCRIPT TITLE**: The title of the paper should be in a 12 point Calibri Font. It should be bold typed, centered and fully capitalised.

3. **AUTHOR NAME (S) & AFFILIATIONS**: The author (s) **full name**, **designation**, **affiliation** (s), **address**, **mobile/landline numbers**, and **email/alternate email address** should be in italic & 11-point Calibri Font. It must be centered underneath the title.

4. **ABSTRACT**: Abstract should be in fully italicized text, not exceeding 250 words. The abstract must be informative and explain the background, aims, methods, results & conclusion in a single para. Abbreviations must be mentioned in full.

5. **KEYWORDS**: Abstract must be followed by a list of keywords, subject to the maximum of five. These should be arranged in alphabetic order separated by commas and full stops at the end.

6. **MANUSCRIPT**: Manuscript must be in ***BRITISH ENGLISH*** prepared on a standard A4 size ***PORTRAIT SETTING PAPER***. It must be prepared on a single space and single column with 1" margin set for top, bottom, left and right. It should be typed in 8 point Calibri Font with page numbers at the bottom and centre of every page. It should be free from grammatical, spelling and punctuation errors and must be thoroughly edited.

7. **HEADINGS**: All the headings should be in a 10 point Calibri Font. These must be bold-faced, aligned left and fully capitalised. Leave a blank line before each heading.

8. **SUB-HEADINGS**: All the sub-headings should be in a 8 point Calibri Font. These must be bold-faced, aligned left and fully capitalised.

9. **MAIN TEXT**: The main text should follow the following sequence:

   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

   It should be in a 8 point Calibri Font, single spaced and justified. The manuscript should preferably not exceed ***5000 WORDS***.

10. **FIGURES &TABLES**: These should be simple, crystal clear, centered, separately numbered &self explained, and **titles must be above the table/figure**. **Sources of data should be mentioned below the table/figure**. It should be ensured that the tables/figures are referred to from the main text.

11. **EQUATIONS**:These should be consecutively numbered in parentheses, horizontally centered with equation number placed at the right.

12. **REFERENCES**: The list of all references should be alphabetically arranged. The author (s) should mention only the actually utilised references in the preparation of manuscript and they are supposed to follow **Harvard Style of Referencing**. The author (s) are supposed to follow the references as per the following:

- All works cited in the text (including sources for tables and figures) should be listed alphabetically.
- Use (**ed.**) for one editor, and (**ed.s)** for multiple editors.
- When listing two or more works by one author, use --- (20xx), such as after Kohl (1997), use --- (2001), etc, in chronologically ascending order.
- Indicate (opening and closing) page numbers for articles in journals and for chapters in books.
- The title of books and journals should be in italics. Double quotation marks are used for titles of journal articles, book chapters, dissertations, reports, working papers, unpublished material, etc.
- For titles in a language other than English, provide an English translation in parentheses.
- The location of endnotes within the text should be indicated by superscript numbers.

PLEASE USE THE FOLLOWING FOR STYLE AND PUNCTUATION IN REFERENCES:

BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

REGULATORY ISSUES IN PRACTICE OF CORPORATE GOVERNANCE IN NIGERIAN BANKING INDUSTRY

ABDULLAHI SHEHU ARAGA
LECTURER
SCHOOL OF MANAGEMENT SCIENCES
NATIONAL OPEN UNIVERSITY OF NIGERIA
LAGOS

ABSTRACT

The study has been carried out to investigate the inherent ambiguities in the provisions of the 2006 Central Bank of Nigeria (CBN) Code of Corporate Governance for the commercial banks in the country, which have made it easy to be circumvented by the commercial banks in the country. Evidently, the banking industry in Nigeria has witnessed some sharp practices bordering on breaches of corporate governance (CG) best practices, which were perpetuated despite the existence of such CBN Code on corporate governance. This leads to the distress of ten (10) out of the twenty five (25) existing commercial banks collapse of many banks in 2009. This study discovers that there are inherent loopholes in the provisions of the 2006 CBN CG Code for the banks in the country, which made the banks to subvert them with relative ease. The ineffectual regulatory framework of CG for the banks is due to some fundamental defects, which negate best practices of CG. The study therefore recommends, among others, that: the CBN Code for banks in Nigeria be revised to incorporateCG best practices such as: stiff penalty on banks against victimization of insider whistleblowers to encourage bank workers to speak up on any observed breaches against best practices of corporate governance; constant evaluation of the implementation of guidelines incorporated in the CBN Code; rigid controlover the insider related lending to directors and the top management of banks; tenure of external auditors of banks be pegged at only five years without renewal option; tenure of the non-executive directors of bankers be pegged at five years of only one term; and adequate regulations on transparency and disclosure of information.

KEYWORDS

Practice of Corporate Governance; Regulatory Issues; Nigerian Banking Industry; Central Bank of Nigeria Code for Banks.

INTRODUCTION

The Nigerian banking industry is, without doubt, dominated by the commercial banks in terms of numerical strength, assets base, number of customers, and branch network which span the length and breadth of the country. The commercial banks (Jhingan, 2008) thrive on financial intermediation. On one hand, these banks source for funds through deposits from customers while on the other hand, they lend such funds out to members of the public which include corporate bodies, government at various levels, institutions, and individuals.

Therefore, monetary transactions constitute the stock in trade for the commercial banks. Effective management of the depositors' funds undoubtedly constitutes the fulcrum of their operations and business. This implies that commercial banks have the onerous responsibility of maintaining a delicate balance between lending of funds and ensuring adequate liquidity with which to meet the daily claims of the depositors. Hence, they are under operational obligations to determine appropriate avenues where deposit funds could be placed to generate reasonable returns while striving to maintain liquidity through pragmatic lending policies (Adedoyin and Sobodun, 1996).

Commercial banking by its nature is highly prone to volatility and fragility, arising from exogenous shocks in the economy, policy measures by regulatory authorities, and vagaries of economic phases, and fraudulent practices of their workers. This implies therefore, that more often than not, their operations are subjected to regulations and supervision. These guidelines embrace statutory regulations that are imposed externally by the regulatory authorities; such regulations are intended, by and large, to enhance their operational integrity which engenders public confidence in the banking industry generally. One of such guidelines is the provision of the Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks Post Consolidation (Olayiwola, 2010; Nworji, Adebayo, and Adeyanju, 2011).

In the same vein, the board of directors and management of the commercial banks are under obligations to formulate relevant internal policies to guide their efficient operations while ensuring effective implementation of the regulatory policies, on corporate governance and other operational guidelines, in respect of the banking operations. Hence they have strategic and mandatory role in ensuring best practices of corporate governance in the operations of the banks.

The banking industry in Nigeria witnessed some sharp practices such as pervasiveness in concealment of material issues such as high magnitude of frauds, mixing up of family and business interests, high magnitude of non-performing loans (toxic assets), and award of bogus allowances to board members, among others during the era preceding consolidation in 2004. This led to the formulation and imposition of the CBN Code of Corporate Governance for Banks in 2006 (Sadiq, Muthar, Oyebola and Abdulrasheed, 2011).

Empirical evidence portrays that the consolidated banks turned around to be circumventing the corporate governance (CG) best practices guidelines, as incorporated in the Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks Post Consolidation, not long after the Code was released by the apex bank. This also led to the reforms of the banking industry in Nigeria in 2009 ((Sadiq, Muthar, Oyebola and Abdulrasheed, 2011). Evidently, there are inherent loopholes in the provisions of such CG Code for the bank industry that need to be investigated.

OBJECTIVE OF THE STUDY

The basic objective of the study is to investigate the pitfalls that are inherent in the regulatory policies on CG, such as those incorporated in the CBN Code of Corporate Governance for Banks, which has precipitated their easy contravention by the commercial banks in Nigeria.In the process of the study, relevant policies on corporate governance for banks were examined, which formed the basis of the research. Furthermore, past research works that were considered relevant to the study were also reviewed.

METHODOLOGY OF THE STUDY

In terms of methodology of the study, content analysis of published materials has been carried out for the purpose of contextual investigation. The study made use of secondary data extracted from academic journals and other relevant publications in related areas. Such data have been used to review related literature and discuss the subject matter in relation to the objectives of the study.

CONCEPTUAL CLARIFICATION OF CORPORATE GOVERNANCE

Corporate governance is viewed as a term that refers to the rules, processes, or laws by which businesses are operated, regulated and controlled. This is in tandem with the 1992 Cadbury Report which describes CG as systems by which companies are directed and controlled. According to Sadiq, Muthar, Oyebola and Abdulrasheed (2011), effective and efficient corporate governance that is put in place will assist the organization in achieving its corporate objectives easily while impacting positively on the market value of the company.

In the same vein, corporate governance (Jenson, 1993) is a system of laws, rules and factors that control operations of corporation, which in essence refers to the distribution of rights and responsibilities among different participants in the corporation such as the broad of directors, managers, shareholders and other stakeholders. Relatedly, best practices of CG call for the formulation of and implementation of rules and procedures for making corporate decisions that ensure

the protection of all stakeholders. Hence corporate governance (Denis and McConnell, 2003) is aimed at reducing conflicts of interest, short-sightedness of writing costless perfect contracts and monitoring of controlling interest of the firm; the absence of which firm value is decreased.
Good corporate governance also involves the diligent way in which providers of corporate financial capital are guaranteed appropriate rewards in a legal and ethically moral way, which involves both internal and external ways of achieving this (Jensen, 1993). Firstly, it is through the structure of ownership (shareholding concentration and voting rights), and broad of directors or supervisory board in some regulatory regimes (who monitor firms and are supposed to work in the interest of shareholders). Secondly, it is through the market for corporate control (takeover threats), regulatory intervention, and product and factor markets. In order to ensure this, corporate governance codes have been formulated to serve as templates of achieving value to shareholders and stakeholders in several countries.
In general terms, corporate governance, as a concept, can be viewed from at least two perspectives. The narrow view is concerned with the structures within a corporate entity or enterprise receives its basic orientation and direction. The broad perspective is regarded as being the heart of both a market economy and a democratic society (Oyejide and Soyibo, 2001). On the other hand, the narrow view perceives corporate governance in terms of issues relating to shareholder protection, management control and the popular principal-agency problems of economic theory. Sullivan (2000), in support of the broader perspectives, uses the examples of the resultant problems of the privatization crusade to prove that issues of institutional, legal and capacity building as well as the rule of law are at the very heart of corporate governance.
Oyejide and Soyibo (2001) opine that corporate governance is the relationship of the enterprise to shareholders or, in the wider sense, as the relationship of the enterprise to the society as a whole. Nevertheless, Mayer (1999) contends that CG refers to the sum of the processes, structures and information used for directing and overseeing the management of an organization.
The Organization for Economic Corporate and Development (OECD) (1999) defines corporate governance as a system on the basis of which companies are directed and managed. Hence CGinvolves the mechanism through which shareholders are assured that managers will act in their best interest. In a broader approach, CG involves the methods by which suppliers of finance control managers in order to ensure that their capital cannot be expropriated and that they earn some returns on their investment.
In essence, there is general consensus that all said and done, is that the broader view of corporate governance should be adopted in the case of banking institutions because of the peculiar contractual form of banking which demands that corporate governance mechanisms for banks should encapsulate depositors as well as shareholders. Jenson (1993) in support of the consensus by positing that the special nature of banking requires not only a broader view of corporate governance, but also government intervention in order to restrain the behavior of bank management.
Macey and O'Hara (2001) further opine that the unique nature of the banking firm, whether in the developed or developing world, requires that a broad view of corporate governance, which encapsulates both shareholders and depositors, be adopted for banks. They contend that the nature of banking operations firm is such that regulation is necessary to protect depositors as well as the overall financial system.
The working definition in this paper, therefore, is that CG involves formulation and application of guidelines and regulations for supervising and regulating firms' operations to align as nearly as possible the interest of shareholders, corporations and society at large. This is necessary in order to ensure that enterprises survive and meet the expectations of the shareholders, creditors, stakeholders and the society while strengthening of investors' confidence in the economy.

PRINCIPLES OF BEST PRACTICES OF CORPORATE GOVERNANCE
The OECDPrinciples of Corporate Governance, published in 1999 and revised in 2004,are considered as oneof the most influential guidelines, which serve as reference for countries in developing local codes or guidelines. Basically, based on these OECD principles other international organizations, private sector associations and numerous corporate entities produced corporate governance codes,under the aegis of the United Nations Intergovernmental Working Group of Experts on International Accounting and Reporting, which have become internationally agreed benchmarksin broad categories of such as; auditing; board and management structure and process; corporate responsibility and compliance in organization; financial transparency and information disclosure; and ownership structure and exercise of control rights.
Furthermore, there are principles which have been recommended in the Cadbury and OECD reports (Cadbury, 1992; OECD, 1999). These principles include the following:
i) Rights and equitable treatment of shareholders: This provides that organizations should respect the rights of shareholders and help shareholders to exercise those rights by openly and effectively communicating information while encouraging them to participate in general meetings.
ii) Interests of other stakeholders: This provides that organizations should recognize that they have legal, contractual, social, and market driven obligations to other stakeholders such as employees, investors, creditors, suppliers, local communities, customers, and policy makers.
iii) Role and responsibilities of the board: This provides that the board needs adequate size and appropriate levels of independence and commitment coupled with sufficient relevant skills and understanding to appraise and challenge management performance.
iv) Integrity and ethical behavior: This provides that integrity should be a fundamental requirement in choosing corporate officers and board members while appropriate code of conduct should be developed for their directors and executives that promotes ethical and responsible decision making.
v) Disclosure and transparency: This provides that organizations should clarify and make publicly known on the roles and responsibilities of board and management with which to provide stakeholders with a level of accountability.
vi) In addition, organizations should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.
There are other relevant CG principles which have been recommended by some writers that are worthy of exposition. Such other corporate governance principles are identified and discussed below.
The corporate governance mechanisms and controls are essentially designed to reduce the inefficiencies that arise from moral hazards and adverse selection as inherent in banking operations particularly bank lending. There are both internal monitoring systems and external monitoring systems (Goergen, 2012).
Furthermore, the various board mechanisms provide for internal monitoring. External monitoring of managers' behaviour, occurs when an independent third party such as the external auditor attests the accuracy of information provided by management to investors. Stock analysts and debt holders may also conduct such external monitoring. An ideal monitoring and control system should regulate both motivation and ability, while providing incentive alignment (Douma &Schreuder, 2013).

1) INTERNAL CORPORATE GOVERNANCE CONTROLS

Internal corporate governance controls are usually established to monitor activities and then institute corrective measures to accomplish organisational goals. Such internal control measures (Bhagat & Black, 2010) include the following:

A) MONITORING BY THE BOARD OF DIRECTORS

The board of directors, with its legal authority to hire, fire and compensate top management, safeguards invested capital. Regular board meetings allow potential problems to be identified, discussed and avoided. Whilst non-executive directors are thought to be more independent, they may not always result in more effective corporate governance and may not increase performance.Different board structures are optimal for different firms. Nevertheless, the ability of the board to monitor the firm's executives is a function of its access to information, which must be supplied by the executive directors.

B) INTERNAL CONTROL PROCEDURES AND INTERNAL AUDITORS

Internal control procedures are policies implemented by an entity's board of directors, audit committee, management, and other personnel to provide reasonable assurance of the entity achieving its objectives related to reliable financial reporting, operating efficiency, and compliance with laws and regulations. Internal auditors are personnel within the organization who test the design and implementation of the entity's internal control procedures and the reliability of its financial reporting.

C) BALANCE OF POWER

The simplest balance of power requires that the chief executive officer be a different person from the financial controller or treasurer as the case in banks. This involves the separation of power as being practiced in most companies where separate divisions check and balance each other's actions. One group may propose company-wide administrative changes, another group review and can veto the changes, and a third group check that the interests of the stakeholders (such as customers, shareholders, employees) outside the three groups, are being met.

D) REMUNERATION

Performance-based remuneration is designed to relate some proportion of salary to individual performance. It may be in the form of cash or non-cash payments such as shares and share options, superannuation or other benefits. Such incentive schemes, however, are reactive in the sense that they provide no mechanism for preventing mistakes or opportunistic behavior, and can elicit myopic behavior.

E) MONITORING BY LARGE STAKEHOLDERS

Given their large investment in the firm, these stakeholders have the incentives, combined with the right degree of control and power, to monitor the management. For instance, in publicly quoted corporations in the US, boards of directors are largely *chosen* by the CEO and the CEO often takes the Chair of the Board position, which makes it much more difficult for the institutional owners to remove in event of sharp practices.

2) EXTERNAL CORPORATE GOVERNANCE CONTROLS

External corporate governance controls encompass the controls that external stakeholders exercise over the organization in areas such as:competition; debt covenants; demand for and assessment of performance information (especially financial statements); government regulations; managerial labour market; media pressure; and pressure groups in the society.

3) FINANCIAL REPORTING AND INDEPENDENT AUDITOR

The board of directors has primary responsibility for the corporation's external financial reporting functions. The chief executive officer and chief financial officer are crucial participants and boards usually have a high degree of reliance on them for the integrity and supply of accounting information. They oversee the internal accounting systems, and are dependent on the corporation's accountants and internal auditors.

Current accounting rules under International Accounting Standards allow managers some choice in determining the methods of measurement and criteria for recognition of various financial reporting elements. The potential exercise of this choice is to improve apparent performance. Financial reporting fraud, including non-disclosure and deliberate falsification of values also contributes to users' information risk. To reduce this risk and to enhance the perceived integrity of financial reports, corporation financial reports must be audited by an independent external auditor who issues a report that accompanies the financial statements.

THEORETICAL FRAMEWORK OF CORPORATE GOVERNANCE

The theory considered relevant for this study is the **Agency Theory or Simple Finance Model,**which holds that the central issue in corporate governance is to construct rules and incentives by the firm to effectively align the behaviour of managers (agents) with the desires of principals as owners, particularly in countries where firms are known for using unitary boards (Hawley &Williams, 1996). Institutional ownership of firms implies is that the investment managers are fiduciary agents of the beneficial owners, which compounds agency costs of monitoring management, bonding the managers to the shareholders, and residual losses. A basic assumption of the theory is that managers will act opportunistically to further their own interests before shareholders. Hence, the theory holds that the value of a firm cannot be maximised because managers possess discretions which allow them to appropriate value to themselves due to the fact that most future contingencies are too hard to describe and foresee, which makes complete contracts between managers and shareholders to be technically infeasible. Therefore, managers obtain the right to make decisions that are not defined or anticipated in the implied contract, which thus underscores the basic issue of how publicly traded firms with such incomplete contracts with their managers can be effective in representing the interest of the owners .

EMPIRICAL REVIEW

In a study on the practice and standard of corporate governance in the Nigerian Bank Industry, Olayiwola (2010) used baselining evaluation methodology, and survey of relevant banking sector regulatory agencies to investigate the standard of CG in the banking sector in the country's economy. The study reveals that: compliance appears to be weak or nonexistent; enforcement of CG regulations appears to be weak or nonexistent; the apex bank in Nigeria (CBN) has failed woefully to perform its oversight role; and the banking supervision department of CBN has compromised their roles. Above all, as the study revealed, banks in Nigeria negated the basic hallmarks of banking such as high degree of professionalism, transparency, and accountability.

In another study, Sadiq, Muthar, Oyebola, and Abdulrasheed (2011) investigates the agency problem that surfaced in the Nigerian banking sector following the recapitalization exercise that took place in the industry, the breakdown in the corporate governance code, the various ways the regulatory authorities came out to curb the problem and also the measures that are being put in place to forestall a recurrence using secondary data. The study reveals that some factors that are responsible for failure of CG in the banking industry: include inadequate disclosure and transparency about financial position of the banks; the banks engaged in unethical and potentially fraudulent business practices; the boards did not carry out their responsibilities of monitoring and checking of management of the banks; overbearing influence of managing directors over the boards; manipulation of bank share prices; and conversion of non-performing loans to commercial papers and bankers acceptances and setting up of off balance sheet special purpose vehicles to hide bank losses.

Nworgi, Adebayo and Adeyanju (2011) investigate issues, challenges and opportunities associated with corporate governance and bank failure in Nigeria in relation to the relationship between corporate governance and bank failure based on a survey of some bank staff of eleven randomly selected commercial banks. The study which makes use of Pearson product coefficient of correlation to determine the relationship between breaches of corporate governance and bank failure reveals that CG breaches that were responsible for bank failure in in Nigeria include: ownership of banks by family members; overexpansion of banks; and corruption of bank officials. There are other factors, as revealed by the study,which were responsible for bank failure in the country such as: inadequate risk management; non-compliance of prudential guidelines; and absence of qualified, experienced and skilled professionals in the operations of the commercial banks.

FINDINGS AND DISCUSSION

The discussion and analysis herein incorporate the exposition on the findings of the study in respect of lapses in practices of CG in Nigeria banking industry, the CBN Code of Corporate Governance for consolidated banks in the country, and the loopholes inherent in the provisions of this CBN code, which make it susceptible for easy breach and circumvention by the banks.

LAPSES IN PRACTICE OF CORPORATE GOVERNANCE IN NIGERIAN BANKS POST CONSOLIDATION

The study revealed that the 2006 consolidation exercise in the Nigerian bank industry, which required mergers and acquisition arising out of the mandatory N25billion capital base for commercial banks, effectively reduced over 100 commercial banks in existence, before the exercise, to only 25 consolidated banks in the economy (see Table I below). However, as the study revealed, the breaches in CG practices which led to the consolidation exercise still became endemic even after the introduction of the CBN Code on CG for the banks in 2006. Hence this precipitatesthe recent reforms in the industry. Such CG breaches, as revealed by the study, include the following.

I) INCREASED LEVEL OF RISKS

There was the absence of a robust risk management system in place in most commercial banks as considered with the huge available quantum of funds from the new capital base of N25billion from paltry N2billion. This is besides significantly increased lending limits which precipitated financing more long-term mega projects in the real sectors of the economy compared to the hitherto working capital and trade financing. The tremendous increased level of operations made the commercial banks to become very vulnerable to various kinds of risks invariably manifested themselves in their operations after the consolidation.

II) INEFFECTIVE INTEGRATION OF BANKING ENTITIES

The integration process was cumbersome for some commercial banks to the extent that merged banks continued to operate independently rather than as a single entity, years after consolidation. For example, the COE, management team and staff of a commercial bank which operated mainly as investment bank continued to manage their own arm of the combined business in variance with the behavior of the personnel of purely commercial banks that constituted the other units of the new entity.

TABLE 1: LIST OF COMMERCIAL BANKS AFTER CONSOLIDATION (AS AT JANUARY 1ST 2006) IN NIGERIA

S/n	Name of Bank	S/n	Name of Bank
1.	Access Bank	14.	Oceanic Bank
2.	Afribank	15.	Platinum Bank
3.	Diamond Bank	16.	Skye Bank
4.	EcoBank	17.	Spring Bank
5.	Equitorial Trust Bank	18.	Stanbic Bank
6.	First City Monument Bank	19.	Standard Chartered Bank
7.	Fidelity Bank	20.	United Bank of Africa
8.	First Bank Plc	21.	Sterling Bank
9.	First Inland Bank	22.	Union Bank
10.	Guaranty Trust Bank	23.	Unity Bank
11.	IBTC-Chartered Bank	24.	Wema Bank
12.	Intercontinental Bank	25.	Zenith Bank Plc.
13.	Nigeria International Bank		

Source: Nairaland Forum (2013). The 25 Consolidated Commercial Banks in Nigeria (http://www.nairaland.com/5117/25-consolidated-banks-nigeria).

III) POOR RELATIONSHIP BETWEEN MANAGEMENT AND STAFF

The poor relationship between the management and the staff of consolidated harmonized banks arose from knowledge gaps, restructuring of roles and remuneration. These squabbles resulted in unhealthy relationships and indeed, competition among personnel from different and diverse backgrounds and orientation, which was counter- productive for the new banking entities.

IV) POOR RELATIONSHIPS AMONG DIRECTORS

There was unhealthy rivalry among the directors from different banks that were consolidated. The poor relationships among many directors arose from different business cultures and high ownership differentiation (some were of family ownership while others were of high breed ownership), which resulted in unbridle rivalry for the control of the new banking entities; with obvious attendant problems for their operations and survival.

V) MANAGEMENT AND BOARD SUPERVISORY PROBLEMS

There arose, from consolidation, some management and board supervisory problems as a result of incompetent technical and requisite managerial skills, which were needed to effectively redefine, re-strategize, restructure, expand and refocus the operational direction of the enlarged banking entities. Given such unhealthy scenario, it became difficult for the new banking entities to chart defined corporate identities, competitive leverage, branch consolidation, expansion, and product development.

VI) POOR INTEGRATION AND DEVELOPMENT OF INFORMATION TECHNOLOGY SYSTEMS, ACCOUNTING AND RECORDS SYSTEMS

Different banks that were consolidated together hitherto maintained distinct banking applications, database platforms, operating systems, human resource applications, hard-wares, and server configuration. Furthermore, they were having different network and telecommunication infrastructure, accounting systems and records as well as distinct personnel orientation on their operational modalities. The consolidation meant that such operational sub-systems were to be fused together but it could not be done seamlessly due to the obvious distinctions coupled with primordial interests to be protected by different directors. Hence diversity in operational sub-systems that would have constituted strength for enhance efficiency and quality service became impediments in the wheel of progress for the new banking entities.

VII) RESURGENCE OF HIGH LEVEL MALPRACTICES

The foregoing problems militated against the operational efficiency of the consolidated banks to the extent that they could not generate appropriate level of income. And in order to boost their income as result of increased competition and absence of viable projects, sharp malpractices by management teams and boards of the new banking entities resurfaced. Such malpractices were manifested in round-tripping in foreign exchange transactions, excessive customer charges, falsification of records, and adoption of unethical methods of poaching customers.

VIII) PERVASIVENESS OF INSIDER RELATED LENDING

There was pervasiveness of family and related party affiliations even after the consolidation exercise in the banking industry. Relatedly, the consolidation could not guarantee transparency through diversification in bank ownership as was envisaged, which invariably resulted in huge levels of insider-abuses and connected lending to members of management and their directors.

IX) FALSIFICATION OF OPERATIONAL RETURNS

There was also the pervasiveness in rendition of operational returns to the regulatory authorities (Central Bank of Nigeria and Securities and Exchange Commission) by the consolidated banks coupled with concealment of vital information from the Examiners. The detrimental practices were used to prevent timely detection of the unhealthy situations in the consolidated banks arising from lack of transparency and pressure to boost income.

X) CONCEALMENT OF MATERIAL OPERATIONAL ISSUES

There was pervasiveness in concealment of material issues such high magnitude of frauds, mixing up of family and business interests, high magnitude of non-performing loans (toxic assets), and award of bogus allowances to board members, among others, by the consolidated banks. Incidentally, these were among the detrimental practices that were found to be inherent in the operations of the commercial banks during the pre-consolidated era. All these unwholesome banking practices coupled with poor risk management strategies, ineffective board audit committees, and inadequate operational and financial controls combined to ruin the fortunes of the consolidated banks.

THE 2006 CBN REGULATORY CODE ON CORPORATE GOVERNANCE IN NIGERIA BANKING INDUSTRY

The regulatory policies that govern the practice of corporate governance in the Nigerian banking industry, as discovered by the study and discussed herein are essentially those regulatory guidelines as incorporated in the CBN Code of Corporate Governance of 2006, for the banks in the country. The review of the CBN Code is structured out insome distinct perspectives as identified and presented below.

I) OWNERSHIP STRUCTURE AND RIGHTS AND EXERCISE OF CONTROL RIGHTS

The CBN Code restricts government direct and indirect equity holding in any bank to only 10% by end of 2007 and in the same vein, the Code also provides that an equity holding of above 10% by any investment is subject to CBN's prior approval. According to the CBN Code, these restrictions are designed to encourage a private-sector led economy, whereby equity holdings by individual private investors and corporate bodies in ownership of banks should be more than that of government's equity interest. The restrictions are also stipulated by the CBN Code on the understanding that individuals who form part of management of banks in which they also have equity ownership would have a compelling business interest to run them well.

II) EXECUTIVE DUALITY AND BOARD STRUCTURE

The CBN Code stipulates that no one person should combine the post of Chairman and Chief Executive Officer (CEO) of any bank. And the responsibilities of Board Chairman must be clearly separated from those of the CEO such that no one individual or related party has unfettered powers of decision making by occupying the two positions at the same time. Relatedly, no two members of the same nuclear/extended family should occupy the position of the Chairman and that of CEO or Executive Director of a bank at the same time.

According to the CBN Code, banks should be headed by an effective Board composed of qualified individuals that are conversant with its oversight functions. Only people of proven integrity and who are knowledgeable in business and financial matters, as provided by the Code, should be on the Board of any bank. And regular training and education of board members on issues pertaining to their oversight functions is to be institutionalized and budgeted for annually by banks.

The CBN code prescribes that non-executive directors' remuneration should be limited to sitting allowances, directors' fees and reimbursable travel and hotel expenses. And that in order to ensure both continuity and injection of fresh ideas, non-executive directors should not remain on the board of a bank continuously for more than 3 terms of 4 years each, making a maximum number of 12 years.

The board of a bank, according to the CBN Code, should have a minimum of three committees such as Risk Management Committee, Audit Committee, and Credit Committee. And that Board Chairman should not serve simultaneously as chairman/member of any of the board committees in tandem with the concept of independence and sound corporate governance practice, and should be discontinued.

III) INTEGRITY AND ETHICAL BEHAVIOR

The CBN Code stipulated that there should be due process in all the procedures of banks. And all insider credit applications pertaining to directors and top management staff (AGM and above) and parties related to them, irrespective of size, should be sent for consideration and approval to the Board Credit Committee. The Board Credit Committee, according to the CBN Code, should have neither the Chairman of the Board nor the CEO/MD as its chairman. And that any director whose facility or that of his/her related interests remain non-performing for more than one year should cease to be the board of the bank and could be blacklisted from sitting on the board of any other bank. The Board Credit Committee should be composed of members knowledgeable in credit analysis.

The CBN Code stipulated that practice of Anticipatory Approvals by Board Committees should be limited strictly to emergency cases only and ratified within one month at the next committee meeting. And the bank's Chief Compliance Officer should, in addition to monitoring compliance with money laundering requirements, monitor the implementation of the Code. According to the CBN Code, banks should also establish 'whistle blowing' procedures that encourage (including by assurance of confidentiality) all stakeholders (staff, customers, suppliers, applicants, etc.) to report any unethical activity/ breach of the Code using, among others, a special email or hotline to both the bank and the CBN.

IV) FINANCIAL TRANSPARENCY AND DUE PROCESS AND INFORMATION DISCLOSURE

According to the CBN, where board directors and companies/entities /persons related to them are engaged as service providers or suppliers to the bank, full disclosure of such interests should to the CBN. And that Chief Executive Officers and Chief Finance Officers (CFO) of banks should continue to certify in each statutory return submitted to the CBN that they (the signing officers) have reviewed the report. CEOs and CFOs should, based on their knowledge, as stipulated by the CBN Code, ensure that the report does not contain any untrue statement of a material fact, and the financial statement and other financial information in the report, fairly represent ,in all of operation of the bank as of, and for the periods presented in the report.

In terms of penalty as prescribed by the CBN Code, false rendition to CBN shall attract very stiff sanction of fine plus suspension of the CEO for six months in the first instance and remover and blacklisting in the second. In addition, the erring staff would be referred to the relevant professional body for disciplinary action there should be due process in all the procedures of banks. Internal control system, according to the CBN Code, should be documented and designed to achieve efficiency and effectiveness of operations; reliability of financial reporting, compliance with applicable laws and regulations at all levels of the bank.

V) QUALITY OF MANAGEMENT

Appointments to the top management positions, according to the CBN Code, should be based on merit rather than some other considerations. And that track record of appointees should be an additional eligibility requirement; such records should cover both integrity (fit and proper) and past performance based on visible achievements in previous places of work.The CBN Code stipulates that management officials should be held accountable for duties and responsibilities attached to their respective officers. And that the structure of any bank should reflect clearly defined and acceptable lines of responsibility and hierarchy.

VI) RISK MANAGEMENT FRAMEWORK

The Board and Board Risk Management Committee a bank, according to the Code, should establish policies on risk oversight and management. And that bank should put in place a risk management framework including a risk management unit that should be headed by a Senior Executive, in line with the directive of the Board Risk Management Committee.

VII) ROLE OF INTERNAL AND EXTERNAL AUDITORS

According to the Code, internal auditors should be largely independent, highly competent and people of integrity. And that the head of Internal Audit should not be below the rank of AGM and should be a member of a relevant professional body. The Internal Auditor should report directly to the Board Audit Committee but forward a copy of the report to the MD/CEO of the bank. And that quarterly report of audit must be made to the Audit Committee, and made available to examiners on field visits.

Members of the Board Audit Committee, according to the Code, should be non-executive directors and ordinary shareholders appointed at AGM and some of them should be knowledgeable in internal control processes. And that one of such appointed ordinary shareholders should serve as the Chairman of the Audit Committee. The Audit Committee, as provided by the Code, will be responsible for the review of the integrity of the bank's financial reporting and oversee the independence and objectivity of the external auditors. And that the Audit Committee should have access to the external auditors to seek for explanations and additional information without management presence.

External auditors, as stipulated by the Code, should render reports to the CBN on business' risk management practices, internal controls and level of compliance with regulatory directives. External Auditors, whose appointment is to be approved by the CBN, are to maintain arms-length relationship with the banks which they audit. And their tenure, as stipulated by the Code, shall be for a maximum period of ten years after which the audit firm will not be reappointed in the bank after a period of another ten years. And that a bank's external auditors should not provide a bank, which they audit, services such as: bookkeeping or other services r elated to the financial records or statements of the bank; appraisal or valuation services, fairness opinion or contribution-in-kind reports; actuarial services; internal audit outsourcing services; and management.

VIII) CORPORATE RESPONSIBILITY AND COMPLIANCE IN ORGANIZATION

Compliance in terms of quality assurance auditing should be engaged whenever the CBN suspects a cover-up by auditors, and where proved, erring firms should be blacklisted from being auditors of banks and other financial institutions for a length of time to be determined by the CBN. Another area of compliance required of banks is ensuring that an audit firm would not provide audit services to a bank if one of bank's top officials (Directors, Chief Finance Officers, and Chief Accounting Officer) was employed by the firm and worked on the bank's audit during the previous year.

IX) BOARD PERFORMANCE APPRAISAL

The CBN Code stipulates that the board of a bank should identify and adopt, in the light of the company's future strategy, its critical success factors or key strategic objectives, and it should work effectively as a team towards those objectives. Furthermore, the Code requires that there should be annual Board and Directors' review/appraisal covering all aspects of the Board's structure and composition, responsibilities, processes and relationships, as well as individual members' competencies and respective roles in the Board's performance. The review should be carried out by an outside consultant while the review report be presented at the AGM and a copy be sent to the CBN.

LOOPHOLES IN 2006 CBN REGULATORY CODE ON CORPORATE GOVERNANCE FOR BANKS IN NIGERIA

The assessment of the provisions of the 2006 CBN Code of corporate governance for the banking industry in Nigeria revealed some inherent loopholes which make it susceptible to being circumvented by the consolidated banks. Such loopholes which characterized the provisions of the CBN Code, as discovered from the study, are identified and analyzed below.

1. INEFFECTUAL REGULATORY FRAMEWORK

The recent crisis in the Nigerian banking industry,which ledto the distress of 10 commercial banks in 2009 (see Table 2 below), is precipitated by poor practices of corporate governance by their boards and top management officials. This arose from poor regulatory framework. Hence the industry has been plagued by weak regulatory framework due to the fact that the provisions of the CBN Code on corporate governance for banks were not strong and far-reaching enough to deter unethical practices and other forms of breaches in the operations of the commercial banks. The banking operations in the country were found to be characterised by poor corporate governance and recklessness on the part of the bank officials.

TABLE 2: NIGERIAN COMMERCIAL BANKS THAT BENEFITTED FROM CBN INTERVENTION FUND IN 2009

S/n	Name of Bank
1.	Intercontinental Bank Plc
2.	Oceanic Bank International Plc
3.	Union Bank of Nigeria Plc
4.	Afribank Plc.
5.	Finbank Plc
6.	Bank PHB
7.	Spring Bank Plc
8.	Equitorial Trust Bank
9.	Wema Bank Plc
10.	Unity Bank Plc

Source: Agbana, G. (2009, October 22). Shareholders oppose nationalization of rescued banks, The Punch newspaper, Lagos, Nigeria, p. 2.

2. LACK OF PROTECTION FOR INSIDER WHISTLE BOWERS

The CBN code does not provide any form of protection for the insider whistle blowers against victimization in terms of assured tenure of their jobs, positions, and remuneration. The Code merely provides that banks should establish whistle blowing procedures that encourage all stakeholders to report any unethical activity or breach of the Code by the banks. For instance, an insider whistle blower (Executive Director, Finance and Risk) of ECObank Transnational Incorporated (ETI), who reported a CG breach bordering on debts been owned by the bank's chairman to be written off and manipulation of 2012 financial results, among others, was suspended by the bank (Ejembi, 2012). The staff was being victimized without prompt intervention by the CBN to save her job and status in the bank. At best, such staff of the bank would resort to court to press for her job and damages; a bitter lesson for her and deterrence for other prospective insider whistle blowers of banks in the country.

3. UNCONTROLLED INSIDER RELATED LENDING

The CBN Code of Corporate Governance for banksin this area is ineffective. Evidence abounds to indicate that reckless and uncontrolled insider related lending is still rampant in most banks in the country. This is corroborated by the findings of Olayiwola (2010) on defunct Intercontinental and Oceanic banks, in relation to his study on practice standard of corporate governance in the Nigerian banking industry. Relatedly, it also corroborate with a report on insider lending involving the Chairman of ECO Bank Translation Incorporated Nigeria whose non-performing debts was being written off instead of being compelling to repay it (Ejembi, 2013). Furthermore, this is one of the reasons adduced by the CBN for the recent reforms introduced in the country's banking industry which reduced the number of commercial banks from 25 consolidated ones to only 15 banks, while some other ones were acquired by the apex and renamed accordingly. There are three other commercial banks that were adjudged to be technically depressed and therefore, acquired by CBN. See Table 3 below.

4. LACK OF QUALIFICATION FOR MEMBERS OF BOARD CREDIT COMMITTEE

The CBN Code of Corporate Governance for banks merely provides that the Board Credit Committee should be composed of members knowledgeable in credit analysis. This is subject to abuses because the stipulations should have clearly defined the type of professionals such as Accountants and Financial experts that would have been very useful in analyzing credit requests in relation to the bank lending. The absence of such professionals in banks' clearly gives rise to poor and shoddy analysis of credit request from bank customers, which creates problems of adverse selection and borrower moral hazards (Chodechai, 2004) that leads to non-performing loans or the so-called toxic assets in the banks' books as corroborated by Olayiwola (2010).

TABLE 3: LIST OF COMMERCIAL BANKS AFTER 2009 REFORMS IN NIGERIA

S/n	Name of Bank	S/n	Name of Bank
1.	Access Bank – (acquired Intercontinental Bank)	16.	Enterprise Bank Limited* (formally Spring Bank)
2.	Diamond Bank	17.	Keystone Bank* (formally Bank PHB)
3.	ECO bank Nigeria – (acquired Oceanic Bank)	18.	Mainstreet Bank Limited* (formally Afribank)
4.	Fidelity Bank	19.	Standard Chartered Bank**
5.	First Bank Plc	20.	Citi Bank**
6.	First City Monument Bank – (acquired Fin Bank)	21.	Jaiz Bank (Islamic bank)***
7.	Guarantee Trust Bank	22.	Heritage Bank***
8.	IBTC-Chartered Bank		
9.	Standard Chartered Bank		
10.	Sterling Bank – (acquired Equatorial Trust Bank)		
11.	Union Bank		
12.	United Bank of Africa		
13.	Unity Bank		
14.	Wema Bank		
15.	Zenith Bank Plc		

Source: Wikipedia (2013). List of Commercial Banks in Nigeria (http://en.wikipedia.org/wiki/List_of_banks_in_Nigeria).

*Acquired by CBN after the Reforms in 2009; **Foreign banks in Nigeria; *** Banks established in 2013.

5. LACK OF CHECKS ON BANKS' INSIDER LENDING

The provision of the CBN Code of Corporate Governance for banks is not enough to deter or serve as effective check on reckless lending to directors and management staff by the commercial banks. The recent case of the Chairman of the ECOBank Transnational Incorporated whose non-performing debts was to be written off as blown open by the Executive Director, Finance and Risk (Ejembi, 2013) provided an abundant evidence that the reckless insider lending is still rife in the country's banking industry. And instead for the chairman of the bank to resign over the non-performing debts, as required by the CBN Code, the Director who reported the case to SEC has been suspended by the bank.

The stipulation of the CBN Code merely directs that all insider credit applications by directors and management staff and parties related to them should be sent for consideration and approval of the Board Credit Committee. This stipulation is devoid of needed directive that such credit applications be sent to the CBN for consideration and approval. And what about when such insider credits are not performing? The appropriate action to be taken by the banks such as reporting to the CBN is not required. This is the more reason insider credits to directors and top management staff of the banks are still being abused.

6. LONG RETAINERSHIP OF EXTERNAL AUDITORS

The tenure of 10 years for the external auditors of a bank is unnecessary long; a period within which the audit firm has the opportunity to connive with the bank to manipulate its financial records due to the fact that such can be compensated for in both cash and kind by the bank.This practice of long standing relationship between the banks and external auditors has led to unethical practices in the banking industry.

Bank shareholders alleged that the external auditors are part of the unethical practices of commercial banks in country (Agbana, 2009); this is because such external auditors never alerted the regulatory authorities that the banks which they audited were technically distressed and therefore, were almost collapsing as at the time they audited them prior to their being pronounced distressed through the audit test carried out by the CBN.The distressed commercial banks that benefitted from the intervention of N626billion as injected into their equity capital by the CBN in 2009 are presented on Table 2above.

7. LONG TENURE FOR NON-EXECUTIVE DIRECTORS

The tenure for the banks' non-executive directors of 12 years as stipulated by the CBN Code of corporate governance is unnecessary long; a period of time that would make such directors to become so close to the management team to the extent that can easily connive to defraud the banks. This position is corroborated by a cross section of the shareholders of the 8 banks that failed the rounds of stress tests by the CBN in 2009; as they succinctly observed that the apex bank failed to define the tenure of the managing directors and board members of such banks (Agbana, 2009).

8. REMUNERATION OF BANK DIRECTORS NOT FIXED

Another area of weakness of the CBN Code of corporate governance for banks is the fact that the remuneration of the board directors and bonus for the top management such as the CEO and their deputies were not explicitly determined. This unnecessary oversight on the part of the apex bank gives room for fraud sine these bank directors utilized such loophole to award fabulous amount of allowances, salaries and bonuses to themselves; instead of working for the fortunes of the banks they were busy enriching themselves, which contributed significantly to ruin the operations of such banks and ultimate failure.

9. UNDEFINED QUALIFICATIONS AND EXPERIENCE FOR BOARD MEMBERS

Another area of weakness of the CBN Code of corporate governance for banks is the fact that the requisite qualifications and length of experience for the board membership or directorship of commercial banks were not explicitly determined. The Code merely makes allusion to the fact that effective boards of banks should be composed of qualified individuals that are conversant with the necessary functions, and that only people of proven integrity and who are knowledgeable in business and their financial matters should be on the boards of the banks.

10. ABSENCE OF PUNITIVE SANCTIONS ON BANKS' MANAGEMENT AND DIRECTORS

The CBN Code of corporate governance does not provide necessary punitive measures for sanctioning the banks' management and directors in the event of committing unethical and sharp practices that can ruin the fortunes of the banks. This position is corroborated by a cross section of the shareholders of the 8 banks that failed the rounds of stress tests by the CBN in 2009; as they succinctly observed that the apex bank failed to impose adequate sanctions on the executive directors and their board members for committing frauds, which led to the downturn on the fortunes of such banks (Agbana, 2009).

11. LACK OF REQUIREMENTS FOR CHECKS AND BALANCES ON RISK MANAGEMENT POLICIES

The CBN Code of corporate governance does not provide necessary guidelines for the management of risks in the operations of the banks. The Code merely provides for the establishment of a risk management committee for risk oversight and management as well as a risk management unit to be headed by a senior executive but never required the banks to submit their risk management strategies to the apex bank for scrutiny and approval for their implementation. This gives rise to the possibility of shoddy management of risks in the operations of the banks.

Furthermore, there is no provision, in the code, for regular visitation by the apex bank to check and vet the internal control policies of the banks. Therefore, the perceived weakness in the banks' internal control systems ultimately resulted in weak performance and invariably collapse of some of the banks. This is evident, as corroborated by findings of Olayiwola (2010), in huge amount of non-performing loans which amounted to billions of naira in the balance sheet of most of the banks.

12. INADEQUATE REQUIREMENTS FOR TRANSPARENCY AND DISCLOSURE OF INFORMATION

Another serious oversight in the provisions of the CBN Code of corporate governance for the banks is lack of stringent measures, and punitive sanctions in case of breaches, for the management teams and boards of the banks. Insider sources in most banks alleged that three sets of financial reports are usually prepared for the banks; one set for the board, another one set for the regulatory authorities, publication and tax purposes, while the third one is for the use of the management team. This involves multiple financial reports being prepared and approved by both internal and external auditors of most of the banks.

This corroborates the findings of Olayiwola (2010) that nearly all commercial banks in the country engage in rendition of false returns to the regulatory authorities and concealment of information from examiners to prevent timely detection of unhealthy situations in the banks. The implication is that the Shareholders are being fed with false information, which they can use to judge the true performance of the banks. Therefore, the interest of majority of the shareholders, except those in the boards of the banks, is not being protected by the top management and boards of the banks. Thisis in tandem with empirical evidence on agency problems in the banking industry (Sadiq, Muthar, Oyebola and Abdulrasheed, 2011).

CONCLUSION

The operations of commercial banks are highly prone to exogenous shocks in the economy and the fraudulent practices of their workers, which necessitate the need for corporate governance (CG) in terms of transparent practices by their top management and boards of directors for ensuring survival of the banks and the protection of all stakeholders. The Nigerian banking industry has witnessed some unethical practices, which border on fragrant breaches of the best practices of (CG) over the years thus leading to the collapse of some banks. This has been the bane of the industry despite the existence of regulatory policy measures as formulated by the apex bank (CBN) in the country to guide the operations of the banks in ensuring best practices of CG in their operations.This study has discovered that there are inherent loopholes in the provisions of such CG Code for the banks in the country, which made the banks to subvert them with relative ease. The ineffectual regulatory framework of CG for the banks is due to its defects in areas such: lack of protection for insider whistle blowers; uncontrolled insider related lending; lack of qualification for members of board credit committee; lack of checks on banks' insider lending; long retainership of external auditors; long tenure for non-executive directors; undefined qualifications and experience for board members; absence of punitive sanctions on banks' management and directors; lack of requirements for checks and balances on risk management policies; and inadequate requirements for transparency and disclosure of information, among others.

RECOMMENDATIONS

Based on the findings of the study the following recommendations are proffered for strengthening the practices of corporate governance in the Nigerian Banking industry:

1. The CBN Code for banks in Nigeria should be revised to incorporateCG best practices, as identified in this work, towards removing the salient shortcomings inherent in the Code.
2. There should be stiff penalty on banks against victimization of insider whistleblowers to encourage bank workers to speak up on any observed breaches against best practices of corporate governance;
3. There should be constant evaluation of the implementation of the guidelines as incorporated in the CBN Code of Corporate governance for banks in the country;
4. There should be rigid controlover the insider related lending to directors and the top management of banks to guide against toxic assets in the balance sheet of banks in the country;
5. The commercial and other banks in the country should bemandated to have only chartered accountants and financial experts as members for the board credit committees of banks;
6. The tenure or retainership of the external auditors of banks be pegged at only 5 years without renewal option in order to forestall collusion between them and members of the banks' top management and their boards;
7. The tenure of the non-executive directors of bankers should be pegged at five (5) years of only one term in order to forestall treating banks' business as family entities;
8. There should be adequate regulations or requirements for transparency and disclosure of information, which should be enforced by the regulatory authorities;
9. Banks in the country should be compelled to institute an integrated, corporate-wide risk management system such as the Enterprise Risk Management (ERM) framework in their operations.
10. Relatedly, banks should be required to be submitting their risk management strategies to the apex bank for scrutiny and approval before their implementation. This requirement can be used to forestall the possibility of shoddy management of risks in the operations of the banks.

REFERENCES

1. Adedoyin, O. and Sobodun, B. (1996). Commercial Banking Lending Activities in Nigeria. Nigerian Financial Review, 9, 3.
2. Cadbury, A. (1992). *Report of the Committee on the Financial Aspects of Corporate Governance*, Gee, London.
3. Central Bank of Nigeria (2006). Code of Corporate Governance for Banks in Nigeria Post Consolidation: Effective Date – April 3, 2006. Retrieved from http://www.cenbank.org/OUT/PUBLICATIONS/BSD/2006/CORPGOV-POSTCONSO.PDF
4. Jenson, M. (1993). The Modern Institutional Revolution, Exit and Failure of Internal Control System, *Journal of Finance*, 48 (3), 831-880.
5. Jhinghan, M. L. (2008). Money, *banking, international trade and public finance*(7th ed.).Delhi, Vrinda Publications (P) Ltd.
6. Macey, J. and O'Hara, M. (2001). The Corporate OF Banks, *FRBNY Economic Policy Review*, April, pp. 91-107.
7. Mayer, F. (1999). *Corporate Governance and Performance in Enterprise and Community: New Directors in Corporate Governance*. Oxford, U.K: Blackwell Publishers.
8. OECD Principles of Corporate Governance (2004). Articles I, II and III.Retrieved from Wikipedia
9. Olawiwola, W. K. (2010). Practice and Standard of Corporate Governance in the Nigerian Banking Industry, International Journal of Economics and Finance, 2, 4.
10. Oyedije, T. A. and Soyibo, A. (2001). The Practice and Standard of Corporate Governance in Nigeria. *DPD Research Report*, 26, 33.
11. Sullivan, J. D. (2000). Corporate Governance: Transparency between government and Business, World Bank Position Paper present at Mediterranean Development Forum 3, Cairo, Egypt, March 7.
12. Turnbull, S. (1997). Corporate Governance: Its scope, concerns & theories. Retrieved from http://cog.kent.edu/lib/turnbull4.html
13. Bhagat & Black (2010). "The Uncertain Relationship Between Board Composition and Firm Performance", 54 Business Lawyer
14. Nairaland Forum (2013). The 25 Consolidated Commercial Banks in Nigeria. Retrieved from http://www.nairaland.com/5117/25-consolidated-banks-nigeria
15. Nworgi, I. D., Adebayo, O., and Adeyanju, O. D. (2011). Corporate Governance and Bank Failure in Nigeria: Issues, Challenges and Opportunities, Research Journal of Finance and Accounting, 2,2.
16. Sadiq, K. A., Muthar, E., Oyebola, F., and Abdulrasheed, A. (2011). Agency Problem in Corporate Governance in the Nigerian Banking Industry: A Review. *Journal of Business Ethics* 37, 261-279.
17. Wikipedia (2013). List of Commercial Banks in Nigeria. Retrieved from http://en.wikipedia.org/wiki/List_of_banks_in_Nigeria;
18. Agbana, G. (2009, October 22). Shareholders oppose nationalization of rescued banks, The Punch newspaper, Lagos, Nigeria
19. Ejembi, S. (2013, January 10). SEC asks ETI to convene EGM: discovers corporate governance breaches, *The Punch newspaper*, Lagos, Nigeria.

REQUEST FOR FEEDBACK

Dear Readers

At the very outset, International Journal of Research in Commerce & Management (IJRCM) acknowledges & appreciates your efforts in showing interest in our present issue under your kind perusal.

I would like to request you tosupply your critical comments and suggestions about the material published in this issue as well as on the journal as a whole, on our E-mail**infoijrcm@gmail.com** for further improvements in the interest of research.

If youhave any queries please feel free to contact us on our E-mail **infoijrcm@gmail.com**.

I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-
Co-ordinator

DISCLAIMER

The information and opinions presented in the Journal reflect the views of the authors and not of the Journal or its Editorial Board or the Publishers/Editors. Publication does not constitute endorsement by the journal. Neither the Journal nor its publishers/Editors/Editorial Board nor anyone else involved in creating, producing or delivering the journal or the materials contained therein, assumes any liability or responsibility for the accuracy, completeness, or usefulness of any information provided in the journal, nor shall they be liable for any direct, indirect, incidental, special, consequential or punitive damages arising out of the use of information/material contained in the journal. The journal, nor its publishers/Editors/ Editorial Board, nor any other party involved in the preparation of material contained in the journal represents or warrants that the information contained herein is in every respect accurate or complete, and they are not responsible for any errors or omissions or for the results obtained from the use of such material. Readers are encouraged to confirm the information contained herein with other sources. The responsibility of the contents and the opinions expressed in this journal is exclusively of the author (s) concerned.

ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals