

The new international financial architecture: Lessons and experiences from Africa

La nueva arquitectura financiera internacional: lecciones y experiencias de África

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Abstract

The purpose of this paper is to examine the requirements and successes of the New International Financial Architecture (NIFA) on transparency and corporate governance from a global perspective with a special focus on Africa. In recent years, transparency, accountability and governance have become key topics with many countries around the world having adopted International Financial Reporting Standards (IFRS) and corporate governance codes. The outcomes of these initiatives have been unconvincing. Desktop research was used to gather literature and data on compliance with corporate governance codes and International Financial Reporting Standards (IFRS) and other NIFA requirements. This study established that in spite of many regional and global initiatives by the World Bank and relevant regulators, compliance with IFRS and governance in parts of Africa has yet to reach its best level and guidelines are not fully followed leading to opportunities for improvement and policy adjustments. This research has implications and uses for both global and local institutions and regulators concerned with economic stability and growth including the World Bank, central banks, capital markets and boards of companies and the government in general. The findings contribute to governance debates by providing additional perspectives from Africa on compliance with accounting standards and codes in a region where research and corporate governance and reporting issues are still confusing.

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Resumen

El propósito de este artículo es examinar los requisitos y los éxitos de la Nueva Arquitectura Financiera Internacional (NAFI) sobre transparencia y gobierno corporativo desde una perspectiva global, con enfoque especial en África. En los últimos años, la transparencia, la rendición de cuentas y el buen gobierno se han convertido en temas clave con muchos países de todo el mundo después de haber adoptado las Normas Internacionales de Información Financiera (NIIF) y los códigos de gobierno corporativo. Los resultados de estas iniciativas han sido poco convincentes. La investigación de escritorio se utiliza para recopilar literatura y los datos sobre el cumplimiento de los códigos de gobierno corporativo y las Normas Internacionales de Información Financiera (NIIF) y otros requisitos NAFI. En este estudio se estableció que, a pesar de las muchas iniciativas regionales y globales por parte del Banco Mundial y los organismos reguladores pertinentes, el cumplimiento con las NIIF y la gobernabilidad en algunas partes de África es todavía para llegar a su mejor momento y directrices no se siguen completamente dando lugar a oportunidades de mejora y ajustes de políticas. Esta investigación tiene implicaciones y usos tanto para instituciones como reguladores globales y locales que se ocupan de la estabilidad económica y el crecimiento como el Banco Mundial, los bancos centrales, los mercados de capital y los consejos de administración de las empresas y el gobierno en general. Los hallazgos contribuyen a los debates de gobierno al proporcionar perspectivas adicionales desde África sobre el cumplimiento de las normas de contabilidad y códigos en una región donde la investigación y la gestión empresarial y las cuestiones de presentación de informes son todavía factores de confusión.

Palabras clave:

Gobierno corporativo; Normas Internacionales de Información Financiera (NIIF); Nueva Arquitectura Financiera Internacional (NAFI), transparencia.

Clasificación JEL:

G3, M1, M2.

Introduction

The question of Corporate Governance has been at the forefront around the world after the Asian Financial crisis of 1998 when intensified efforts to strengthen the international financial system resulted in the creation of a New International Financial Architecture

(NIFA). According to Singh and Newberry (2008, p. 1) NIFA requirements include corporate governance and compliance with International Financial Reporting Standards (IFRS). NIFA was conceptualized in April 1998, when finance ministers and Central Bank Governors from a number of significant economies met in Washington DC to examine issues related to the stability of the international financial system and the effective functioning of the global capital markets. They identified three action areas that would stabilize the international financial system: 1) enhancing transparency and accountability 2) strengthening domestic financial systems and 3) managing international financial crises. Under enhancing transparency, it was recommended that priority be given to compliance with and enforcement of high quality accounting standards to enhance the relevance, reliability, comparability and understandability of financial reports. The IMF was mandated to prepare a report summarizing the extent to which an economy meets internationally recognized disclosure standards. In this study, the International Financial Reporting Standards (IFRS) have been applied as a proxy for high quality accounting standards. Under strengthening domestic financial systems, the focus is on principles and policies that foster the development of a stable and efficient financial system including corporate governance and risk management.

According to Soederburg (2002), the International Monetary Fund (IMF) and the World Bank (WB) have used their considerable international surveillance powers to ensure that countries comply with NIFA, through the use of international standards such as IFRS, in accordance with what is known as the Report on Observance of Standards and Codes (ROSC). According to the Bank for International Settlements (BIS) (1998), members recognized that cooperation and coordination among national supervisors, regulators and international groups are crucial to the strengthening of domestic and financial systems. Bank for International Settlements is an intergovernmental organization of central banks that foster monetary and financial cooperation and serve as a bank for Central Banks. Its main objectives are monetary and financial stability.

Since NIFA came into being, IFRS have been rapidly spreading around the world. To date, over 100 countries have adopted the standards and the world's biggest economy, the US, has endorsed the use of IFRS by issuing a road map for its adoption in the country even though there is a belief US GAAP is as good as or even better than IFRS. According to IAS plus (2010), IFRS refers to the entire body of the International Accounting Standards Board (IASB) pronouncements including standards and interpretations approved by the IASB and the International Accounting Standards Committee (IASC). To date, there are 28 IAS and 15 IFRS. Other authors have also explained that accounting standards state how particular types of transactions should be reflected on the financial statements. Each accounting standard is structured with an objective, scope, definition of applicable terms, accounting treatment, presentation, and disclosure. The arrangements ensure that the objectives of financial reporting, including disclosures, are met.

The African case is important. Questions have been raised as to whether Africa is still a dark continent given the continuing increases in foreign direct investment (the highest in any developing region), the recent hosting of the World Cup in South Africa and the discovery of oil and gas in Uganda, Kenya and Tanzania. It is estimated that Africa's GDP in 2008 stood

at \$1.6 trillion, equivalent to that of Brazil and Russia. The McKinsey quarterly report (2010) indicated that about half of Africa's 1 billion populations will live in cities in 2030. 18 top cities in Africa will have a combined purchasing power equal to 8% of the total Africa GDP. Since 2005 GDP growth on the continent has averaged 5.1% and the World Bank and many other development institutions have recognized Africa as the area for growth given Europe and the US are not registering major growth projections. Moreover, oil, gas and other minerals continue to be discovered in the continent while service industries are now major part of the GDP. The five top economies include South Africa, Nigeria, Egypt, Algeria and Morocco while the fastest growing ones include Ethiopia (7.5%), Mozambique (7.2%), Tanzania (6.8%), Congo (6.5%), Ghana (9%) and Zambia (7.6%) in 2013 see appendix 1 and 2. Even though growth rates in Africa have been criticized as excluding equity and wealth distribution, this unequal distribution mars progress and has been a source of many upheavals. Some corporate leaders have suggested that African economic growth will not be sustainable if the continent does not improve its reputation for corporate governance (Ramalho, 2013) and that Africa's growth will be real only if it develops strong companies able to compete successfully in their home and overseas markets and that is best achieved through good corporate governance. Keeping Africa on governance trajectory is therefore timely as the anticipated and currently dismal wealth situation needs to be managed well and in the best interest of society so as to reach the predicted middle-income status by 2050.

In light of these debates, this study seeks to establish the extent to which corporate governance and financial reporting practices in Africa are in line with global best practices, and has applied desktop research to gather literature and data. The findings are that compliance with NIFA is still low though improving, and guidelines are not fully followed and this is manifested by the recurrence of financial crises, suspension of companies from securities exchanges, bailouts of companies, and bankrupt or collapsed companies. The study will be useful for both global and local institutions and regulators concerned with economic stability and growth. The World Bank, central banks, capital markets and boards of companies and organizations, investors and academics will find it useful.

The paper is organized as follows. Section 2 reviews literature on corporate governance and codes, theories, global corporate lapses, IFRS and African overview of NIFA. Section 3 reviews the situation on the ground regarding transparency and accountability by evaluating ROSC reports from selected countries in Africa. Section 4 covers strengthening of the domestic financial system and details general shortcomings in current corporate governance practices. Section 5 discusses findings and recommendations and section 6 concludes the paper by drawing on the lessons found in the study and then makes suggestions for future research.

Literature Review

Corporate Governance

The principal agent paradigm enunciated by Fama (1980) raises the question on how to ensure that managers follow the interests of shareholders. Modern corporations are

characterized by a separation of ownership and control as they are run by professional managers (agents) who are not accountable to dispersed shareholders (principals). The principals must then solve two problems 1) how to select the most capable managers and 2) address the moral hazard of giving the managers the right incentives to put forth efforts aligned with shareholder interests. Shleifer and Vishny (1997, p. 737) define corporate governance as a set of mechanisms through which outside investors protect themselves against expropriation by the insiders, a definition criticized for focusing too much on profit. There are many other definitions that try to put into perspective the motions of governance. These definitions state that corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investments. The Economic Commission for Africa (ECA) (2002) defined corporate governance as the system by which companies are governed and controlled. In view of these definitions, it's widely accepted that bad governance leads to economic collapse. Indeed, many corporate scandals and the stock price collapses of companies such as Adelphia, Tyco and World com, Enron, (US) and Parmalat (Europe) are believed to be the result of poor governance (Brown & Caylor 2004).

It has also been argued that good corporate governance structures encourage firms to create value and provide accountability and control systems commensurate with the risks involved. According to the Australian Stock Exchange (2003) good corporate governance is a necessary prerequisite that will attract investors, create competitive and efficient companies and business enterprises, enhance accountability and promote efficient use of limited resources. Similarly, the Organization for Economic Cooperation and Development (OECD) (2009) has defined corporate governance as the internal means by which corporations are operated and controlled. Tan and Tan (2004) state that best run corporations recognize that business ethics and sensitivity to the interests of the environment and the society in which they operate can have an impact on the reputation and long-term performance of the organization. Furthermore, Ashbaugh-Skaife, Collins and LaFond (2006) argue that applying the framework developed by Standards and Poor for evaluating governance provides compelling evidence that a variety of governance mechanisms explain credit ratings after controlling for other factors. In particular, the framework identifies four indicators that are associated with credit ratings. These are a negative association of block holders, positive relation to weaker shareholder rights and positive relationship to the degree of financial transparency and other board CEO relationships.

The damage caused by corporate scandals has encouraged many governments, regulators and international organizations to initiate measures aimed at restoring investor confidence (Corporate Centre for Governance, 2006). There are many issues that draw attention to corporate governance and Montgomery (2007) cites the global recognition of corporate social responsibility, the Asian Financial Crisis of 1998, and the economic scandals in the US and Europe. These scandals have been manifested through a decline in the value of stock prices, marketplace panics and a run on banks. The negative impact that such scandals have had on people are enormous leading to an urgent need for policy guidelines to prevent scandals in the future.

In the case of emerging economies, Montgomery (2007) takes the argument a notch higher by arguing that in developing countries, there are lost opportunities to mobilize financial resources on domestic and international markets as poor governance is associated with low returns. This view is also associated with the McKinseys & Company report (2002) where an investor opinion survey showed that companies with good corporate governance have a 12% increase in their market valuation. The findings also reported that over 73% of the investors in the world are willing to pay a premium for well-governed companies.

Corporate governance, it can be argued, is crucial because the impact occasioned by its absence or presence can be devastating or profitable. Commonwealth Association for Corporate Governance (CACG) (2006) rates the UK and Netherlands as front-runners in corporate governance compliance followed by Belgium, France and Germany while Norway, Portugal and Switzerland lag behind.

Corporate Governance Codes

According to the World Bank (2005), corporate governance codes are sets of nonbinding recommendations aimed at improving and guiding the governance practices of corporations within a country's specific legal environment and business context. They provide clear guidance for financial and non-financial disclosure, foster better engagement with minority shareholders and clarify the respective roles of managers and directors. Good corporate governance is supported by appropriate codes that are benchmarked to world standards. Most codes are voluntary and require firms to either comply or explain why they have not complied. A few others are regulatory and require mandatory compliance such as the Sarbanes Oxley Act commonly known as SOX 2002. Such codes include the Capital Market Authority (CMA) Kenya guidelines, SOX 2002 (USA), King II 2002 (SA) and the Higgs and Smith Report 2003 (UK), the European Commission's Action Plan (EU) and the Organization for Economic Cooperation's (OECD) Corporate Governance Framework. Other global bodies engaged in corporate governance include the IFC, World Bank and regional development banks such as the African Development Bank.

Iliev (2010) has raised some very critical questions on the role of regulation as far as corporate governance is concerned. What is the optimal level of regulation for public firms? Are the costs of new regulations excessive? Can regulation improve the quality of financial reporting? And, ultimately, how does regulation affect the market valuation of firms? There are no clear answers to these questions but it is possible the poor implementation and outcomes of corporate governance reflects the inability to adequately respond to these questions.

Capital Market Authority (CMA) Kenya Guidelines 2002 no 3362

This was issued by the CMA and referred to as guidelines on corporate governance practices by publicly listed companies in Kenya gazette notice no 3362 to be applied as of the year ending 2002. It encouraged companies to comply and like all other voluntary codes, it is expected companies to identify reasons why they are not able to comply. Other private

sector non-listed companies were encouraged to comply too as a best practice. Section 1.3 of the guidelines indicate that they have been developed taking into account the work that has been undertaken extensively by several jurisdictions through many task forces and committees including but not limited to the United Kingdom, Malaysia, South Africa, Organization for Economic Cooperation and Development (OECD) and the Commonwealth Association for Corporate Governance. Although a new one has been issued in 2011, companies in Kenya between 2007 and 2011 were expected to apply the 2002 act. The guidelines cover board structure, board committees, AGMs, shareholders, accountability and information audit and disclosure.

In Kenya, the broad Corporate Governance structure is made up of the CAP 486 Companies Act and other acts of parliament that include the state corporations act, the cooperatives act and the regulators that include the Insurance Regulatory Authority Act, Capital Markets Authority Act, the Central Bank Act, labor laws and many others. The existence of an independent judiciary and an independent press are considered crucial components of corporate governance and their impact is just beginning following the promulgation of the new constitution in 2010. In 2014, these guidelines were reissued together with a blueprint for action in light of the problems experienced in several listed companies.

The Sarbanes Oxley Act 2002

Enacted in the USA in 2002 as a government response to the numerous corporate scandals that befell the country, the code focuses on the independent auditing of oversight boards, higher penalties for corporate wrongdoers (up to 20 years in prison for destroying or falsifying financial or audit information), extensive financial disclosures and avenues of recourse for aggrieved shareholders. SOX also provides for CEOs and CFOs to forfeit any financial gain received from bonuses and profits based on inaccurate financial results. While it was initially opposed by many corporations in 2002 as another endless list of regulations adding costs to businesses, subsequent surveys indicated that 60% of those surveyed thought that SOX had positive effects on firms while 70% of the directors thought that SOX had positive effects on the activities of the board of directors according to Stanwick (2008). The impact of SOX according to Reilly (2006) was the reduction and an expected further reduction in earnings restatements, which were 250 in 2000 and rose to 1,200 in 2005. Another worry with SOX was the cost of implementation and which, according to Reilly (2006), was decreasing (\$463,000 in 2004 to \$223,000 in 2005) implying there are beneficial effects to complying with Sox. For African countries looking forward to sharing experiences from the west, it must be noted that cost, benefits and valuations are critical and recent scientific research is very skeptical about the benefits of mandatory regulation as opposed to voluntary codes.

European Commission Action Plan

According to Stanwick (2008), the framework falls into short, medium and long term with the short term requiring EU firms to explain their Corporate Governance structure in their

annual reports, including items such as shareholder rights, board of directors composition and operation, and this framework is commonly applied in Kenya. In the medium term, the European Action Plan recommends that firms be required to submit to shareholders their investment and voting policies as well as the kind of board structure they want to implement, and it is believed that the evaluation of the short and medium term will possibly lead to a long term horizon.

The organization for Economic Cooperation and Development (OECD)

OECD revised the 1999 Corporate Governance framework in 2004, which included requirements for transparency and efficient market development. The significant elements of this framework include fair treatment of individual shareholders to same information, disclosure of conflict of interest, performance enhancement systems and the freedom of shareholders to raise concerns regarding illegal and unethical activities.

King II and III report 2009

King II report in South Africa advocates for an integrated approach to good governance and incorporates emerging themes such as risk management, rights of the minority, and the reporting of non financial issues and has been supported by the revised Company's Act of 2008. King III applies to all entities even though it has not received Company's Act backing yet.

The Higgs and Smith Report

Targets audit committee composition and duties to monitor the integrity of financial controls and risk management.

Other Corporate Governance codes include the Combined Code prepared by the Institute of Chartered Accountants in England and Wales (ICAEW) following the Turnbull Report and the Commonwealth Association for Corporate Governance. One of the criticisms of local corporate governance codes is contained in the CACG Guiding Principles for Corporate Governance in the Commonwealth (2006) that states that the globalization of the market place has ushered in an era where the traditional dimensions of corporate governance defined within local laws, regulations and national priorities are becoming increasingly challenged by circumstances and events with an international impact. The other side of this argument has been proposed by Accountants when promoting globing accounting standards (IFRS), where it has been argued that the adoption of one common global framework may not be practical. From an analysis of the codes, it can be argued that the diversity and similarities in both global and local codes are quite obvious but Stanwick (2008, p. 2) concludes that certain core standards are universal and can be applied anywhere by combining the good qualities of each frameworks while avoiding global standards that result in conflicts when applied locally as noted in law and accounting.

Corporate Governance Theories

The theories that underpin these frameworks have been discussed in prior literature by Bruner (2011), Coffee (2005) and Leblac and Lilies (2003) and many others.

Bruner (2011, p. 309) argues that both sides of the Atlantic are engaged in proposals to empower shareholders in both financial and public companies with the belief that this would constrain reckless managers and curb risk taking that results in financial crises. This is based on the theory that corporate governance issues oscillate between the shareholders and board of directors. It is widely believed, according to Bruner (2011), that the current face of corporate governance proposals reflect a response to the last economic crisis of 2007 that wrought havoc on banking systems in the US and the UK and which, many studies believe, was related to executive compensation. He argues that the case for corporate governance in non-financial sectors is weak since risk incentives and associated regulatory problems differ between the two domains. This partly explains why the banking sector in Kenya, has to comply with Central Bank regulations based on the Basle conventions, in addition to Capital Market Authority (CMA) rules that are applicable to all listed companies but are not a sufficient deterrent to bad governance. Bruner's (2011, p. 321) argument is that corporate governance revolves around two power constituencies - the board and the shareholders - and that the 2007 crisis was occasioned by board oversight failures, meaning that the shareholders did not monitor the boards adequately. The reason for shareholder failures arises from the fact that shareholder ownership is either concentrated or dispersed. In concentrated ownership, corporate governance aims to constrain the block holder's (the majority shareholder) power by strongly emphasizing the interest of other stakeholders such as employees and creditors. The other ownership structure referred to as dispersed ownership is fragmented. In this case, corporate governance seeks to protect minority shareholders who lack voting power. It can therefore be inferred that Kenyan shareholders are dispersed in theory and that the Capital Markets Authority's objective in their corporate governance framework is to protect the minority.

Coffee (2005) applied the same theory in explaining why there are more corporate scandals in the US than in the UK. He theorizes that the corporate governance of majority-owned corporations (predominant in Europe) should be fundamentally different than corporate governance of corporations that lack a controlling shareholder group (predominant in the U.S.). It is not necessarily because there are fewer incentives to rip off other shareholders, but the feasible means to do so will differ, thus explaining why there are fewer scandals in Europe. In his theory of corporate scandals, he argues that fraud is more easily accomplished by the misappropriation of the private benefits of control: authorization of related-party transactions at advantageous prices and below-market tender offers. This theory can be used to understand the 2011 Cooper Motor's Cooperation (CMC - Kenya). In this scenario, a shareholder with a 24.8% interest who was a Director and Chair of the Board had his company conduct business with CMC Kenya. The net effect was that this sister company over billed CMC based on non-arms length transaction ranging in millions of shillings. Transactions arising out of relationship led to a dysfunctional board, suspension by the securities exchange and loss of confidence from partners including banks, auditors and franchise holders.

Leblanc and Gillies (2003, p. 3) in their paper on the coming revolution argue that regulations that were developed in the 1990's to govern corporations were based on very limited knowledge about the factors influencing corporate decisions. While they state that relatively little is known about why or how corporate scandals or failure occur or how and why key decisions were made or not made and why boards acted in a certain way, the reasons for these failures, broadly, irrationality of the markets, maximization of short term returns and personal greed, are still dominant. This reasoning has led to the theory that if that the task of the independent board is oversight responsibility of management, then these lapses must have been caused by the inability of the boards to operate effectively, which is in line with Brunner's argument above of oversight failure by the board. Leblanc and Gillies continue to reason that many commentators see Board effectiveness in terms of the separation of chair and CEO, composition (independent and non independent directors) and board size and this has led to the proposed model below:

$$BE = BS + BM + BP$$

$$DE = DI + DC + DB$$

Board effectiveness (BE) depends upon Board Structure (BS) +

Board Membership (BM) + Board Process (BP).

Director effectiveness (DE) depends upon Director

Independence (DI) + Director Competence (DC) + Director Behavior (DB)

Source: Leblanc and Gillies (2003, p. 9)

These models are based on arguments made by many commissions and think tanks that state it is board effectiveness that matters because there is no evidence linking board structure and corporate financial success. In many ways this model attempts to explain the real issues behind successful corporate governance i.e. Director Effectiveness. In Kenya and many emerging markets, the application of such models to explain corporate governance is uncommon yet most of the line items in the corporate governance models depict these variables.

Scope, Interest, and forces behind Corporate Governance

The scope of corporate governance is wide and CACG (2006) extends this to its impact on society in terms of corporate social responsibility (CSR) as well as its effects on shareholders, directors, employees and other stakeholders. In many countries, annual reports and audited accounts are now regarded as key sources of information on corporate governance and financial disclosures, with reports covering wide areas such the Board of Directors, Board Corporate Governance Committees (advice on governance standards), Board Audit and Risk Management Committees, Board Compensation Committees, Board Nomination Committees and Board Business Ethics Committees. Other important disclosures include shareholding structures, the number of meetings attended by each Director, conflict of interest statements, related party transactions and other disclosures.

Since the Asian financial crisis in 1998, vigorous activities have been intensified to improve corporate governance. Consequently, society needs to reassure itself that corporate business enterprises are viable, sustainable and competitive and that corporations are held accountable and are competitive investments. The policies that have been put in place are designed to make sure that corporations comply with the legal framework, remain relevant and legitimate in society and that the rights of all shareholders are respected. Apart from financial crises and corporate failures and scandals, other factors that drive corporate governance at the international and local level include the fight against money laundering, corruption, bribery, and abuses of corporate power, shareholder activism, global governance revolution and the environment. On a local level, in Kenya, additional forces pushing for good corporate governance include the farmers' dissatisfaction with the agricultural sector (coffee, sugar, tea, and cotton), corruption, nepotism, Savings Credit and Cooperative Societies (S ACCO's), and economic growth and development.

IFRS and the Accounting Framework

On the other hand, International Financial Reporting Standards (IFRS) have been noted as the other side of governance that focuses on disclosures that can help assess the financial performance and viability of an enterprise. IFRS are built from the standard conceptual framework known as the IASB. The structure of this conceptual framework specifies the following five concepts for the preparation and presentation of financial statements: 1) objectives of financial statements, 2) qualitative characteristics of financial statements, 3) Reporting Entity 4) Definition, recognition and measurement of the elements from which financial statements are constructed and 5) the concept of capital and capital maintenance. The IFRS are standards that explain how transactions should be accounted for and reported in the financial statements including minimum disclosures. The IFRS also provide guidelines that indicate the threshold at which reporting quality meets governance standards.

Robinson and Munter (2004) also state that high quality financial reporting is any overall financial reporting, including disclosures, which results in a fair presentation of a company's operations (both earnings and cash flow) and financial position. According to the two, low quality financial reporting results from:

1. Applying standards but selecting alternatives that bias or distort reported results.
2. Using loopholes or bright-lines in accounting principles (e.g., the lessee has a capital lease if the present value of the lease payments is 90 percent or more of the property's fair value)
3. Using unrealistic or inappropriate estimates and assumptions (e.g., using extraordinarily long depreciable lives for assets or unrealistically optimistic assumptions about the collectability of receivables and loans).
4. Stretching accounting principles (e.g., using a narrowly defined rule on consolidation of special-purpose entities (SPEs) for a lease transaction to justify no consolidation of SPEs in other types of transactions).

5. Engaging in fraudulent financial reporting. Rather than low quality financial reporting, this category actually has no financial reporting quality at all.

These five items explain that in many cases, financial statements certified as IFRS turn out not to be so, because in most corporate collapses unqualified financial statements have been signed. The same arguments are repeated by Saudagaran (2004) who states that high quality accounting systems produce comparable, reliable and relevant information to decision makers. Agrawal (2008) argues that IFRS will impact corporate governance as it (IFRS) involves an extensive use of judgment in the selection of appropriate accounting policies and alternative treatments at the time of adoption. Also, IFRS requires valuations and future forecasts, which will involve the use of estimates, assumptions and management judgment. It has been observed that the combination of all these factors can have a significant impact on an enterprise's reported earnings and financial position. In this way, boards and audit committee must be prepared to understand and play this role effectively. According to Agrawal (2008), investors, analysts and stakeholders may view earnings restatements negatively if the five items above are not taken into consideration.

There are numerous IFRS proponents who support the view that global financial reporting has positive effects on the functioning of global markets since standard and quality information will be available to users – including investors. In addition to this, it has been noted that global firms incur huge costs when preparing, auditing and interpreting information prepared using different accounting standards in different countries. Consequently, IFRS proponents such as the IASB (previously IASC), the International Organization for Securities commission organization (II) and Barth et al. (2008) among others argue that the adoption of IFRS will contribute towards a reduction in the cost of capital.

Although, there are calls for the universal adoption of IFRS including IASB, there is still considerable debate as to whether the adoption of IFRS is beneficial (Barth, Landsman & Lang, 2008, p. 1161 and Christensen, Lee & Walker 2008, p. 8). In this regard, consensus is yet to be reached on issues relating to improved accounting quality, reduced cost of capital, transparency and capital market effects.

Governance and IFRS Challenges in Africa and positive actions

Okeahalam and Akinboade (2003, p. 11) mention six items that constitute problems in Africa: Transition economies, a large number of state owned enterprises, a culture of corruption, a weak business environment and low financial intermediation all of which create extreme challenges. Many African economies started as socialist economies and over time have transitioned or are in the process of transitioning to capitalist economies involving privatization of enterprise and a reduction of government control. Some of these processes have involved massive corruption threatening many lives in their economies. Zambia is a leading example of this where privatization of the mines has created more problems that it has solved.

In light of the growing recognition of the importance of Corporate Governance and Financial Reporting Standards, African states have embarked on initiatives to facilitate IFRS

adoption such as the newly launched Pan African Federation of Accountants (PAFA) in 2011 and the Francophone Chartered Accountants int'l Federation (FIDEF). In this regard, positive country level steps have been seen in Lesotho, Mauritius, Zambia, Kenya, Tanzania, Uganda, Ghana and the West African Monetary Economic Monetary Union (WAEMU) (8 countries). In spite of these efforts, challenges such as adherence issues (Uganda), conflicts with national law (South Africa), enforcement mechanisms (Kenya and Mauritius), implementation guidelines (Tanzania), non-compliant accounting systems and software (WAEMU, CEMAC, OHADA/SYCOA) need to be addressed. CEMAC is the French acronym for the Economic Community for Central African States comprising Cameroon, Central African Republic, Chad, Equatorial Guinea, Republic of the Congo and Gabon. OHADA is a system of business laws and institutional implementations adopted by sixteen West and Central African nations. It is the French acronym for "Organization pour l'Harmonisation en Afrique du Droit des Affaires", which translates into English as "Organization for the Harmonization of Business Law in Africa".

It can therefore be said that IFRS acceptances has gained momentum and has had an impact on Africa, although a lot still needs to be done on the observance of standards and codes according to various World Bank reports.

Other initiatives in Africa towards the adoption and implementation of good corporate governance include the Africa Peer Review mechanism (APRM), an initiative under which 26 African leaders agreed to submit their countries and themselves to a peer review on selected areas of governance under the New Economic Partnership for African Development (NEPAD). NEPAD is a programme of the African Union (AU) adopted in Lusaka, Zambia in 2001. NEPAD is a radically new intervention, spearheaded by African leaders to pursue new priorities and approaches to the political and socio-economic transformation of Africa. NEPAD's objective is to enhance Africa's growth, development and participation in the global economy.

This initiative is similar to those promoted by regional bodies in other parts of the world. Montgomery (2007) cites results from 25 meetings of roundtables sponsored by the OECD in which 6 factors emerged as challenges. These included enforcement, ownership and control, shareholder rights and equitable treatment, responsibilities of the board, transparency and disclosure as well as the role of stakeholders. This list is very similar to the contents of many corporate governance codes. CACG (2006, pp.76-79) concurs with Montgomery but expands the list to include concentrated ownership structures, ineffective regulatory and judiciary systems, underdeveloped institutional capacities, limited underutilized human capital skills and capabilities, preponderance of small/fragmented economies, corrupt complex bureaucracies, expensive financing, heavy foreign debt and insignificant capital market. CACG's list is significant for emerging economies in Africa because 25 out of 40 highly indebted countries are in Africa, and 22 out of the 30 least literate countries are in Africa. The continent is also bedeviled by limited access to the Internet, phone, electricity and safe water. The CACG report makes an interesting observation that Africa constitutes only 1.8% of international trade and all these factors continue to complicate the governance situation in Africa.

Governance and IFRS Lessons: Global comparative analysis

Lessons from around the world on the magnitude of losses and their impact on society do prove the need to ensure no more governance lapses. While the list depicts direct losses, others including the reputation of the firms involved shouldn't be overlooked. Some of the reasons cited for these failures include lapses in auditing, hiding loans or losses, insider trading and inflated revenue. The New York Times on 16/6/2002 listed top institutions including Arthur Andersen, Deloitte & Touche, Ernst and Young, KPMG and PWC alongside other corporations. This section summarizes some of the consequences of corporate failures and scandals both in and outside Africa (See Table 1).

Table 1. Summary of key corporate scandals (global and local)

	Organization	Region	Loss	Sentence	Response
1	WorldCom-Biggest Telecommunications company in the US	USA	\$11 billion Accounting Fraud (Inflated profits) in 2002	1.CEO-B Ebbers-25 years in prison	Sarbanes Oxley Act – July 2002
2	Enron-7 th largest company in USA	USA	Pervasive fraud and conspiracy leading to Bankruptcy. \$68 billion wiped in market capital,9000 left jobless and eroded retirement savings-2001	1.CEO-J Skilling-24 years in prison 2. CFO-A. Fastow-10 years in prison 3. Treasurer-G. Glisan-5 years in prison.	Sarbanes Oxley Act – July 2002
3	Adelphia Communications-US 5 th largest cable company	USA	Multi billion dollar fraud involving securities fraud, conspiracy, bank fraud and duping members	1.Founder-J. Rigas-15 years in prison 2. Son and CFO Timothy-20 years	Sarbanes Oxley Act – July 2002
4	Tyco International	USA	Looting the company of \$150 million	1.CEO D.Kozlowski-8-25 years and repay \$167 M 2.Associate-M. Swartz 8-25 years and repay \$72M	Sarbanes Oxley Act – July 2002

Continued Table 1. Summary of key corporate scandals (global and local)

	Organization	Region	Loss	Sentence	Response
5.	Rite Aid Corp-US 3 rd largest pharmacy chain	USA	Billion dollar Accounting Fraud that sent the company's stock tumbling in 1999	1. CEO-M. Grass-8 years and \$500 fine 2.CFO-Bergonzi-28 months in prison	Sarbanes Oxley Act – July 2002
6	Parmalat-largest food Co. in Italy and 4 th largest in the world with 34,000 employees	Italy	Multi billion Euro scandal		
7	Siemens AG	Germany	Corruption by bribing employees of other companies to win contracts	Fined Euro 1 billion to settle corruption charges, fines, back taxes, and late interest	
8	National Aids Control Council	Kenya	Inflated salaries and benefits-ksh 27 million (\$330,000)	CEO jailed for 3 years but released	Anti Corruption and Economic crimes act
9	Dolphin Group of Companies	Kenya	Stealing ksh 112 million(\$1.4million)	CEO jailed for 2 years	No policy response
10	Uchumi Supermarkets	Kenya	Company went bankrupt and was delisted	Six directors charged in Court and later released	Life boat by the government
11	United Insurance	Kenya	Company went bankrupt	No known sanctions	Strengthened insurance Act
12	Euro Bank	Kenya	Closed down	None	Banking act
13	Lake Star Insurance	Kenya	Bankrupt	No known sanction	Strengthened insurance Act
14	KCC Ltd	Kenya	Collapsed and later revived	No known sanction	Strengthened insurance Act

Continued Table 1. Summary of key corporate scandals (global and local)

	Organization	Region	Loss	Sentence	Response
15	Kenya National Assurance Company	Kenya	Biggest Assurance Company went bankrupt, jobs and assets lost.	No action taken on directors	No action
16	Charter Bank	Kenya	Alleged tax and ethical issues	No action	No action
17	BCCI Bank Ltd	Kenya	Badly managed /no regard to regulations and closed down	No action	No action
18	CMC Motor Corporation	Kenya	Corporate governance failure	Declined performance and loss of confidence	Review of CMA guidelines
19	Kenya Bus Service (Stage Coach)	Kenya	Collapsed due to unlevel playing field and political interference	No action	No action
20	33 Banks in 1985	Kenya	Banks collapsed due to political and corrupt practices. ksh 17.8 billion (6% of GDP) lost	No known actions	Review of Banking Act
18	HIH Insurance-2 nd largest insurance co in Australia	Australia	In liquidation by 15/3/2001 and losses up to A\$ 5.3 billion	Conviction and imprisonment of some managers	No known action
19	CMC Holdings Kenya	Kenya	Accounting and Corporate governance issues leading to court battles, suspension from listing and sale of the company.	Some directors barred from directorships of listed companies, loss of franchise and dealerships together with reputation issues.	CMA corporate governance blue print 2014 and corporate governance guidelines 2014.
20	Regal Bank	South Africa	Fraud and Contravening the Companies Act and King III Report leading to collapse in 2001. Corporate Governance Issues.	CEO Jeff Levenstein Jailed for 15 years in 2013	

Source: Author (collected from various sources)

Enhancing Transparency and Accountability (ROSC reports)

According to NIFA, enhancing transparency and accountability is critical to achieving World Economic stability and minimizing the impact of global economic crisis. Countries can achieve this through compliance with the International Accounting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC). Findings on country code compliance with standards are reported by World Bank observer teams known as Report on Standards and Observation of Codes (ROSC) and the Financial Standards Compliance Index.

ROSC Compliance

The World Bank's Reports on the Observance of Standards and Codes (ROSC) targeting its member countries on the implementation of international accounting and auditing standards for strengthening the financial reporting regime (World Bank, 2010) has been an indicator of compliance. The general findings of this program over the past decade continuously show that gaps still exist between domestic and international standards and that these gaps need to be closed so the financial reports generated are of high quality (Transparent, relevant, reliable and comparable) (See Table 2).

Table 2: Summary of Selected African ROSC findings include:

	Country	ROSC Findings
1	Nigeria 2011	<p>1. Limited implementation of the 2004 Country Action Plan (6 of 14) leaving significant areas not implemented.</p> <p>2. Limited improvement in financial reporting practices</p> <p>3. A number of banks exploited loopholes in Nigerian accounting and auditing standards, weak capacity of the regulatory bodies and weak enforcement, employed creative accounting to boost their balance sheets. These weaknesses in financial reporting, auditing and accounting contributed to Nigeria's banking sector crisis valued at between N1.5 - N2 trillion.</p> <p>4. Further progress includes the adoption of IFRS and promulgation of the Financial Reporting Council (FRC) bill. The government has announced the adoption of IFRS as of January 1, 2012, for publicly listed entities and significant public interest entities.</p>
2	Kenya 2010	<p>Improvements noted but gaps still exist in financial reporting and more effort should target strengthening the capacity of the regulators and ensuring compliance with applicable standards and codes. Savings and credit cooperatives (SACCO), which control up to 30% of the countries GDP and a crucial part of financial intermediation, are badly affected.</p>

Table 2 (Continued). Summary of Selected African ROSC findings include:

Country	ROSC Findings
3 South Africa 2003	<ol style="list-style-type: none"> 1. High profile cases of corporate failures in 2000's gave rise to serious discussions about the quality of corporate audits. Inquiry commissions, specifically the Nel Commission, highlighted various problems, including issues related to auditor efficiency and independence. 2. Ten years of discussions on revisions to the legislative framework for accounting and auditing have contributed to uncertainties in the profession. 3. Immediate steps are needed for enacting the Financial Reporting Bill, amendments to the Companies Act, and the Accountancy Professions Bill; and ensuring proper enforcement of established statutory requirements.
4 Rwanda 2008	<ol style="list-style-type: none"> 1. Considerable effort made to align its accounting and auditing practices with internationally accepted standards and codes. 2. Has taken effective steps for strengthening all the pillars of accounting and auditing infrastructure in line with international good practices. 3. There are varying compliance gaps in both accounting and auditing practices. These gaps stem from a lack of a clear understanding among practicing accountants and auditors regarding the requirements of internationally accepted standards, inadequate technical capacities of regulators, absence of implementation guidance, lack of independent oversight for the auditing profession, and shortcomings in professional education and training.
5 Mauri-tius 2011	<ol style="list-style-type: none"> 1. Significant improvements in financial reporting practices in Mauritius. 5 of the 8 key policy recommendations implemented and activities have been initiated to address the other 3 recommendations. 2. The Financial Reporting Act, enacted in 2004, resulted in the establishment of a Financial Reporting Council (FRC) and Mauritius Institute of Professional Accountants (MIPA). 3. Legislation — Companies Act, Banking Act, and Insurance Act — was amended to ensure consistency in the corresponding financial reporting requirements. Enhanced Staff at the registrar of Companies.
6 Ghana 2004	<ol style="list-style-type: none"> 1. Accounting and auditing practices suffer from institutional weaknesses with regulations, compliance, and enforcement of standards and rules. 2. National ethical requirements for auditors are not in line with international requirements. 3. Full compliance with National Accounting Standards is not readily achieved; some listed companies inappropriately claim compliance with International Accounting Standards. 4. There is inadequate adherence to auditing standards and professional ethics. 5. Apart from the banking sector, monitoring and enforcement mechanisms are ineffective. 6. Poor quality accounting education and training

Table 2 (Continued). Summary of Selected African ROSC findings include:

Country	ROSC Findings
7 Congo (Brazzaville) 2010	1. The accounting and auditing obligations of businesses and entities in the financial sector are set out in the regulations of the Organization for the Harmonization of Business Law in Africa (OHADA), supplemented by the COBAC rules for banks, the CIMA code for insurance companies, and CIPRES for social security funds. The accounting standards applicable are those established in the OHADA Accounting System (SYSCOHADA). Exercise of the accounting profession is regulated by the CEMAC authorities in the zone, but no legal or regulatory text has been adopted to organize the profession or to establish auditing standards. The OHADA regulatory texts concerning accounting standards have evolved very little since coming into force because the national and community structures responsible for adapting them to changes in the accounting, economic, and legal environment are not functioning.
8 Uganda 2005	1. Full compliance with IAS/IFRS not yet readily achieved, and inadequate adherence to auditing standards and professional ethics. 2. Apart from the financial institutions and listed companies, monitoring and enforcement mechanisms are ineffective. 3. Inadequate accounting education at university level, lack of teaching materials on international standards, lack of monitored and controlled practical training.
9 Egypt 2002	1. Significant efforts to align corporate financial reporting requirements with the International Accounting Standards (IAS) and to close the "compliance gap" in both accounting and auditing practices. Consequently, important improvements have been achieved in accounting and disclosure requirements for publicly traded companies and financial institutions and in Egyptian Accounting Standards as benchmarked against IAS. 2. A new Accounting Practice Law has been drafted and agreed upon by all stakeholders,

Source: http://www.worldbank.org/ifa/rosc_nigeria.htm

It can be seen that throughout Africa, weak capacity of regulatory bodies, weak monitoring and enforcement, lack of independent oversight of the auditing profession and general institutional weaknesses cut across the continent weakening financial reporting and attendant investor confidence.

Financial Standards Compliance Index

It is widely recognized that global financial stability rests on robust national systems, and therefore requires enhanced measures at the country level. (ROSC Uganda 2008, p.1). In a world of integrated capital markets, financial crises in individual countries can imperil international financial stability. This provides a basic "public goods" rationale for minimum

standards, which benefit international and individual national systems. In this context, the World Bank and the International Monetary Fund (IMF) initiated the Reports on the Observance of Standards and Codes (ROSC), which cover twelve internationally recognized core standards and codes relevant to economic stability and private and financial sector development. The Financial Standards Compliance Index is made up of 12 key standards covering macroeconomic policy and data transparency, institutional market infrastructure and financial regulation and supervision. Africa has not fared well on these standards as can be seen in the table below. It can be seen that only two countries in Africa achieved a medium score while the other eight score 'low' and 'very low'. Since this data relates to some of the top economies in Africa, it can be argued that the financial standards compliance index is quite low meaning the 12 indicators above have not been sufficiently complied with. This is in total contrast to the EU and the US where the compliance index is considered high (See Table 3).

Table 3. Selected Country Financial Standards Compliance Index.

The European Union and the US					African Markets				
		Index Score	Rank	Compliance level			Index Score	Rank	Compliance level
1	Netherlands	73.33	1	High	1	S Africa	55.83	23	Medium
2	Italy	72.5	2	High	2	Morocco	45.83	43	Medium
3	Denmark	70.00	3	High	3	Tunisia	36.67	59	Low
4	Australia	69.17	4	High	4	Egypt	34.17	63	Low
5	UK	68.33	5	High	5	Ghana	28.33	70	Low
6	France	65.83	6	High	6	Tanzania	25.83	71	Low
7	USA	65.00	7	High	7	Kenya	24.17	74	Low
8	Norway	63.33	8	High	8	Algeria	14.17	85	Very low
9	Belgium	62.5	9	High	9	Nigeria	11.67	87	Very low
10	Germany	62.5	10	High	10	Cameroon	9.17	89	Very low

Source: <http://www.estandardsforum.org> (2009) latest statistics not published

Strengthening Domestic Financial Systems (corporate governance)

Under NIFA, the principles and policies that foster the development of stable, efficient financial systems include corporate governance. The findings of this study are based on the implementation status of corporate governance codes that indicate material items to be reported upon. Most codes expect that a report on good corporate governance should

ensure timely and accurate disclosures of all material information regarding the corporation to stakeholders. Generally and around the world, the key contents of corporate governance codes include compliance with guidelines on corporate governance codes and reasons for non compliance, establishment of board and board committees, supply and disclosure of information, election of directors, resignation of directors, AGM's, a balanced board, best practices relating to the rights of shareholders and an effective audit committee. It is however noted that good corporate governance may not survive in a place where country governance is still questionable. Governance in African countries has in many instances not measured up to many global standards and this has contributed to poor corporate governance. Some African countries have been under military rule or non-democratic civilian governments (Zimbabwe) and this has not helped corporate governance either (See Table 4).

Table 4. Selected African Corporate Governance Findings

	Country (s)	Observations
1	Nigeria-2009	The Securities Exchange Commission directed that all listed companies must release their financial results to all stock market operators and the press (Transparency and disclosure)
2	South Africa, Zimbabwe, Uganda and Ghana -2009	Have put in place institutions to promote good governance (Institute of Directors, Centre for Corporate Governance (CCG)) and relevant legislation
3	South Africa-2010	Corporate Governance recognized as an objective for efficient utilization and management of assets as evidenced by the King I, II, and III reports and Financial Reporting legislation
4	Botswana, Senegal, Tunisia, Mali, Namibia, Cameroun, Gambia, Mozambique, Sierra Leone and Zambia-2009	Received technical awareness and training from the World Bank and Commonwealth Secretariat but impact has not translated into real terms

Most Corporate Governance information is availed through the annual reports and audited financial statements of organizations. Annual reports and audited financial statements in Kenya like many other countries contain information on company objectives, management structures, shareholders and voting rights, board compensation, key executives, board charter/conduct, board responsibilities, meetings, accountability, enterprise risk, succession planning, shareholding structures.

This study has analyzed two cases in Africa's two largest economies shown in appendixes 3 and 4. Ned Bank South Africa is a strong Africa focused bank whose strategy is currently under threat following an alliance with Eco bank that trades on three West

Africa exchanges. The study depicts possible loss and harm to the relationship where the reputation of one partner is questionable and disclosure is being avoided. The Cadbury Nigeria Case is a near Enron style case where compliance with regulation and falsifying financial statements characterized a scandal in a multinational listed on the Lagos Securities Exchange. Penalties and damages were incurred directly and indirectly.

Discussion of Findings and Recommendations

From ROSC reports on financial standards compliance and corporate governance, it appears that there is still more to be done. While it has been seen that a foundation has been laid, the impact of governance measured in wealth creation has not been felt in many parts of Africa. The Nigeria ROSC report for 2011 paints a grim picture showing that most recommendations have not been adopted and this has led to a financial crisis in that country. While the annual reports of many companies in Africa have indicated increased attention to governance reporting it is many people's opinion that the reports are not sufficient evidence of governance compliance. Many reports show board responsibilities and don't indicate any separation between the roles of the Chair, the CEO and management. Many conflicts of interest exist and no mechanisms for dealing with them. Directors resign often but no reasons are given and where professional advice is necessary, there is no evidence on how it is obtained. The development of ethical behavior in most institutions isn't clear as code of conduct executions lack clarity. Many companies in Africa do not indicate the corporate governance codes they have applied and many countries have not clearly spelt out how this should be done and the consequences.

Some suggestions border on the fact that some regulators and governments think that codes and standards may not be suitable for Africa. Singh and Newberry (2008, p. 484) suggest that those seeking IFRS for developing countries may need to devise an acceptable solution and obtain inside access to the standard-setting process to achieve this aim. However, this is unlikely to happen in emerging economies because they seem to be consumers of IFRS and are not part of the creation process.

Other recommendations on good corporate governance challenge the effectiveness of the audit committees responsible for overseeing the work of the auditors and independently review the workings of the organization. According to The Accountant (2006), the Enron audit committee carried out its duty in a cursory manner with some members missing meetings up to 75% of the time. In the case of HIH (Lipton, 2003) insurance in Australia, their terms of reference and minutes indicated they were only concerned with the accounts and the figures and never focused on risk management or internal controls with the meetings attended by everyone including the executive directors thus leading to a failure to attend to the risks faced by the company and a serious conflict of interest. Coffee (2005) suggests that any difficulty in achieving auditor independence in a corporation with a controlling shareholder may also imply that minority shareholders in concentrated ownership economies should directly select their own gatekeepers - a suggestion that can be complex to implement.

The Accountant (2006) argues that failure to grasp the concept of conflict of interest can also lead to serious flaws. In the case of CMC Motors Group in Kenya, the annual governance report clearly indicated there was no conflict of interest, but events within the company did show that the directors and the chairman had been doing business with the company leading to serious conflicts of interest among many other issues.

In line with the above, Bruner (2011, p. 319) argues that governance codes such as the new code proposed by the Financial Reporting Council (FRC) in the UK, will enhance the quality of engagement between institutional investors and companies and accommodate the seven principles included in the code. Unsurprisingly, the principles are not new; they simply reflect what appears in several suggestions. These principles include (1) disclosure of investor stewardship policies; (2) adoption of a robust policy for managing conflicts of interest; (3) active monitoring of all related companies; (4) adoption of clear guidelines on when and how to escalate activities as a method of protecting and enhancing shareholder value; (5) willingness to act collectively with other investors where appropriate; (6) adoption of voting policies; and (7) periodic reporting on stewardship and voting activities.

Conclusions

This study has applied a literature review to assess the continent's response to NIFA suggestions regarding economic stability. The review looked at transparency and accountability as well as the strengthening of domestic markets. The findings include weak regulatory bodies, weak monitoring and enforcement, lack of independent oversight of the auditing profession and general institutional weaknesses with improvements over the years. World Bank ROSC reports also indicated lapses in IFRS implementation. Compliance with NIFA is therefore still low and guidelines are not fully followed. This is made manifested by recurrent financial crises, courtroom battles, suspensions and stock market delisting as well as challenges to reputations, some of which have trickledown effects for the economic development of the countries, with Nigeria being a case in point. It is therefore concluded that NIFA compliance is still low and ongoing efforts are still necessary for improving Africa's corporate governance and IFRS mechanisms so that wealth creation and resource management can trickle down to the wider population and reduce discontent among the population.

Future research could dwell on corporate governance and IFRS and state owned enterprises, corporate governance mechanisms, corporate governance and impact on poverty alleviation, enforcement of appropriate codes and relationship between corporate governance and country governance indicators.

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Appendixes

Appendix 1: Selected African Economic Indicators-2012

	Indicators	GDP \$billions	Real growth GDP %	Global Competitiveness rank	Population in millions
1	South Africa	524.0	2.5	1	51
2	Egypt	497.8	2.2	13	81
3	Nigeria	377.9	6.9	18	155
4	Algeria	251.1	2.5	14	36.4
5	Morocco	151.4	3.2	4	32
11	Kenya	66.3	4.2	12	41
	Total Africa	2,390.0	5.6		1,072

Source: Various World Bank Reports

Appendix 2: Selected African Government Indicators (2012 Updated Sept 2013)

Indicator	Kenya	South Africa	Nigeria	Egypt	Algeria	Morocco
1. Corruption Control: Estimated	-1.0965	-0.15195	-1.1327	-0.5725	-0.5363	-0.4141
2. Government Effectiveness: Estimated	-0.5453	0.325243	-0.9977	-0.7688	-0.5530	-0.0448
3. Political Stability and Absence of Violence/Terrorism: Estimated	-1.2931	-0.0042	-2.0532	-1.4810	-1.3407	-0.4596
4. Regulatory Quality: Estimated	-0.3101	0.378586	-0.7224	-0.4895	-1.2926	-0.0921
5. Voice and Accountability: Estimated	-0.2989	0.559563	-0.7275	-0.7378	-0.9143	-0.6062

Source: <http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=worldwide-governance-indicators#>

-2.5 Weakest and 2.5 Strongest

The Worldwide Governance Indicators (WGI) are a research dataset summarizing the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. This data is gathered from a number of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms.

1. Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.
2. Reflects perceptions of the quality of public services, the quality of the civil service and its degree of independence from political pressures, the policy formulation and implementation quality, and the credibility of the government’s commitment to such policies.
3. Reflects perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism.
4. Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

5. Reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

Appendix 3: NED Bank South Africa and Eco Bank Nigeria 2013

Ned bank South Africa traces its roots back to 1831 in Amsterdam but is now a South African bank with an African focus and at the end of 2012 it had a market capitalization of US \$9 billion. Its asset base then was US \$80.5 billion with 28,000 employees and it was listed on the Johannesburg Security Exchange (JSE). It resisted an HSBC buyout in 2010 but deepened its strategic alliance with Eco Bank, which operates in 36 African states and is traded on the Ghana, Nigeria and Ivory Coast Security Exchanges. The alliance was to provide facilities to support Eco Bank's corporate development programs including its transformational banking acquisition in Nigeria and in so doing secured the right to acquire up to 20% of Eco Bank Transnational Inc. It loaned Eco Bank \$285m to help it acquire Nigeria Oceanic Bank and in the West African press, Eco Bank claimed it had a similar right to subscribe to 20% of Ned Bank under an unclear arrangement. The Ned Bank press statement did not mention these reciprocal arrangements which were in perpetuity.

These arrangements required shareholder approval from both sides given the significant dilution it would have for Ned Bank and neither bank included this in their annual report in spite of their significance.

While no court cases have been filed nor has impropriety been found, an analyst's presentation indicated that the 2.478 million new shares to be acquired with the \$285 million loan would convert to 11.5 us cents per share whereas the shares were trading at 9c in Lagos and would only represent a 12.6% share of the company. To acquire the full 20%, Ned Bank would have to buy the additional shares at market rates resulting in an additional \$164 million on top of the loan.

In the course of the year allegations of fraud by the chairman and CEO of Eco Bank of writing off debts to a company owned by the chairman and selling assets on the cheap to related parties appeared and these investigations are ongoing by Nigerian regulators. It also surfaced that Oceanic Bank, the purchase which was financed by Ned Bank collapsed in 2008 under Nigeria Central Bank management under claims of fraud. Two South African Companies, Ethos Private Equity and Old Mutual Private Equity lost fortunes in the bank. The matters got even more clouded as the Public Investment Corporation of South Africa, which holds 6.5% of Ned bank and whose operations include acquiring African assets, is also a major shareholder of Eco Bank.

The issue that is a concern in South Africa is lack of progress in the regulator's investigation of the alleged Eco Bank transactions with its related parties which are thought to be lacking in corporate governance and a possible early warning sign. The outcome of these investigations will shed light on the options available to Ned Bank as it is believed it could suffer potential losses but, worse still, the question of why such a transaction exists if

there are questions regarding the leadership reputation of the entities involved. Even though both banks are giants and their stocks are trading, these disclosure failures are worrying, may have serious implications and have obviously put a check on Ned Bank's Pan African strategy.

1. Corporate Governance scandal threatens Ned bank's Africa Strategy.

<http://www.bdlive.co.za/opinion/columnists/2013/10/21/corporate-governance-scandal-threatens-nedbanks-africa-strategy> . Stuart Theobald, 21 October 2013, 07:37

Appendix 4: Cadbury Nigeria PLC 2006 - Overstatement in Financial Statements

Cadbury Nigeria was founded in 1965 as a subsidiary of Cadbury Schweppes, a major global player in confectionery and beverages markets with operations in 200 countries and 40,000 employees. Cadbury Nigeria engages in the manufacture and sale of sugar confectionery, gum and food beverages in two segments. It owns the Stanmark Cocoa Processing Company.

In October 2006, the board of Cadbury Nigeria PLC notified the world, including its stockholders and regulatory bodies, that it had discovered "Overstatements" in its accounts, which, in its words, had spanned many years. It quickly appointed Price WaterHouseCoopers, an independent auditing firm to investigate these "Overstatements," and they submitted a report that the overstatement could be around 13-15 billion naira (\$90 million) leading to a provision for a 15 million pounds goodwill impairment from the transaction. The overstatement was first detected after due diligence performed by Cadbury UK when increasing its acquisition from 46 to 50%. Analysts and reports from Nigeria indicated several lapses.

Sales and stock buybacks were reported including false stock certifications. Overstatement of profits, misrepresentation of sales and false supplier certificates characterized the financial statements. In 2006, the year of the scandal, the company recorded a loss of \$15 million with more expected, and share prices dropped 5-26%. Offshore compensation of certain senior employees was detected and this had not been authorized by the compensation committee as required by policy.

Other analysts and members of the Nigerian institute of Directors pointed at serious governance issues including a failure of board oversight functions. The CFO and CEO exercised delegated powers and after the US Enron debacle, directors learned and were expected to pay close attention to the affairs of the company. Even more interestingly, the audit committee was made up of 3 executive directors, contrary to the code of practice. Internal control and organization, integrity, audit committee, external auditors and the entire management were cited as having been problematic because of their failure to comply and detect the irregularities that led to this overstatement. Questions were raised regarding whistle blowing and why it didn't work. Why didn't the banks scrutinize the financial statements before lending any money?

Lastly, the Union Registrars, the filing company for Cadbury Nigeria with the duty to report to the SEC any actual or suspected breach, infringement or non-compliance with any SEC rules and regulations in the Nigerian code of corporate governance failed. However, the Union Registrars did not pay dividends and failed to notify SEC in writing as required when Cadbury Nigeria failed to transfer dividend payments to shareholders within 7 business days.

What was the damage? A scandal of this magnitude is always very expensive. The CFO, CEO and all the officials that presided over this company were disqualified from operating in the Nigerian Capital Market thus denting many people's careers. The Company suffered heavy penalties and their shares listing was suspended while the registrar and the auditors received penalties for their roles. The loss of share value from a loss of public confidence, the damage to the Cadbury brand, the reputation of the external auditor associated with the big 4 and the 300 shareholders suing the company for breach of duty all complicated the matter.

1. Corporate Governance Issues in Financial Reporting-The Cadbury Challenge
<http://www.nigeriavillagesquare.com/articles/oladele-o-solanke/corporate-governance-issues-in-financial-reporting-the-cadbury-challenge.html>
2. An evaluation of the limitations of the corporate governance codes in preventing corporate collapses in Nigeria.
<http://iosrjournals.org/iosr-jbm/papers/Vol7-issue2/P072110118.pdf>