KEYNOTE ADDRESS AT THE 2011 ANNUAL AUDIT COMMITTEE CONFERENCE

I am indeed honoured to be invited as the keynote speaker at this epoch making conference co-sponsored by the Audit Committee Institute of Nigeria and the Nigerian Accounting Standards Board. I am informed that this conference which has as theme, **Shareholder Value Assurance: A Shared Governance Responsibility,** is the first of its kind to be organized by the two bodies.

I must commend the effort of the organizers of this forum given its relevance and timeliness as the conference could not have come at a better time than now. The steady but slow recovery from the economic crisis, the yearning for cost efficiency and growth, as well as the desire of public companies to survive as going concerns, have all continued to put financial reporting and compliance systems and processes to the test. This has in turn led to an increased focus on the role of the Audit Committee in the emergence of credible financial reporting and good governance culture in the business environment.

It is also worthy to note that the conference is coming immediately after the passing into law of the Financial Reporting Council Bill and the launching of the revised Code of Corporate Governance by the Securities and Exchange Commission (SEC) Nigeria. While the Code has provided extensively for the role and responsibilities of the Audit Committee, the Financial Reporting Act, which replaces the Nigerian Accounting Standards Board Act of 2003, aims among others, at ensuring credible financial reporting from both the public and private sectors ahead of the adoption of the International Financial Reporting Standards. These are expected to combine to restore investor confidence, facilitate wealth creation and economic transformation, and boost the international competitiveness of the Economy.

The role of the audit committee in the entrenchment of financial reporting standards and corporate governance in public companies cannot be over emphasized. The World Economic Forum ranked Nigeria 127 out of 139 countries on the 2010-11 Global Competitive Index while Ghana was ranked 114, South Africa: 54, Brazil: 58 and Malaysia: 26. In the area of corporate governance, a major pillar of the Index, the same set of countries got the following rankings.

Indicators	***Nigeria***	***Ghana***	***S. Africa***	***Brazil***	***Malaysia***
Ethical Behaviour of Firms	*125*	*66*	*50*	*94*	*42*
Strength of Auditing and Rep. Standards	*130*	*73*	*1*	*94*	*32*
Board Efficiency	*107*	*53*	*2*	*67*	*17*
Protection of Minority Shareholders	*117*	*49*	*6*	*64*	*26*
Strength of Investor Protection	*45*	*33*	*10*	*59*	*4*

Source: World Economic Forum Global Competitive Index 2010 – 2011

It is evident from the above that corporate governance in the world today is a competitive tool. It is a tool of true advantage to the investors, the firm and the nation at large. On the other hand, the financial crisis had also underscored the importance of developing a competitive economic environment which is only achievable through the entrenchment of corporate governance standards in our business entities. This is more so since investible funds will only flow to countries where the funds are safe and well managed. Besides, it also a reputational and financial risk for most institutional investors to invest in companies that are not committed to corporate governance. Audit Committees hold the key to ensuring that corporate governance is entrenched in public companies. They should be empowered to function effectively to assume the required oversight role that is intended to protect investors and ensure corporate accountability.

The global financial crisis has precluded that we expect business to continue as usual. As the crisis steadily recedes, it is without doubt that the months ahead will continue to put a lot of pressure on the audit committee, either in the areas of business, governance, compliance or financial reporting. It is therefore imperative for the audit committee to focus deeply, in addition to risk management, on issues around financial reporting and control, financial communications as well as the transparency, quality, flow and usefulness of information from management. As one of the lessons from the financial crisis, audit committees should be more deeply concerned about the company's ability to identify emerging risks and anticipate the likely impact of significant risks facing the company. They should continue to reassess and redefine their role in the oversight of risk given that internal audit plans are traditionally focused on financial and compliance risks and not on other key risks to business. Focus should also be given to fair value, assets impairments, pension obligations, and other ongoing financial statement issues affected by economic conditions such as earnings, cash flow, liquidity positions and key performance indicators among others.

There is a compelling need to establish and maintain clear channels of communication with the Board, Management and Auditors (External and Internal) in ensuring the integrity of financial reports as well as the general operations of the company. The committee should intensify focus on all financial communications, the reporting systems and the processes behind them. To a great extent, audit committees must continually review and scrutinize key assumptions of underlying management accounting judgments and estimates.

Given emerging realities, it is also imperative that internal auditors carry out their responsibilities with the required level of diligence and independence. Besides ensuring the sustenance of a clear communication channel, the audit committee should be concerned with internal audit goals and objectives, schedules, staffing and financial budgets. They should determine if the internal audit function is deployed in compliance with the provision of the new Code of Corporate Governance and relevant laws of the Federal Republic of Nigeria. They should also ensure that external auditors examine the adequacy and effectiveness of companies' systems of internal control.

The quality of financial information depends squarely on the level of transparency with which it is prepared. Given the uncertain economic and political environment, and the increasing complexity and globalization of business, audit committees have more reason than ever to ensure good internal transparency and qualitative information. Specifically, they should be concerned with the accuracy and timeliness of financial information and management's focus on the right key performance indicators. They should monitor the company's ethical culture, and be concerned with the quality of information generally.

Distinguished ladies and gentlemen, you will agree that audit committees have a challenging and onerous task to ensure that companies remain going concerns that are primed for the attainment of shareholder value on a sustainable basis. They should ensure harmonious and professional working relationship with the Internal Control Departments of companies to be able to function effectively. Poor discharge of this oversight responsibility as we all know, had led to corporate failures such as those of Enron and World.com, fed by alleged financial misstatements which resulted in devastating consequences on shareholder value, the going concern profile of the companies, and ultimately, the economy. It is on this premise that I enjoin the Audit Committee Institute of Nigeria and the incoming Financial Reporting Council, to vigorously pursue the strict adherence to the provisions of the new Code of Corporate Governance and the relevant sections of the Company and Allied Matters Act which explicitly defines the composition, role and responsibilities of the Audit Committee. You should ensure vigilant oversight functions to safeguard the interest of public companies, shareholders and the Nigerian economy.

For the audit committee to perform its oversight functions effectively, members would need to be competent, independent, financially literate and appropriately compensated. It is my hope that this conference will chart a new course on how to ensure that the committees function effectively and contribute to the sustenance of shareholder value as well as the growth and development of the economy. Success in this regard will also strongly depend on the working relationship with other players in the efforts at entrenching corporate governance. Partnership with relevant regulators such as NASB and SEC Nigeria will definitely bolster the chances of audit committees to improve and sustain shareholder value as a shared responsibility.

Finally distinguished ladies and gentlemen, while I wish the conference fruitful deliberations, let me leave you with a few thought provoking questions for consideration by members of audit committees as they monitor their committees' effectiveness in the years ahead.

1. Do we have the right people on the committee – who understand the business and are willing and able to ask the right questions?
2. Is each member of the committee capable of understanding the financial reporting issues and complexities arising from the company's business activities
3. Do we take an active role in determining the committee's agenda and defining its information requirements
4. Do we have the right relationship with management? Is it clear who works for whom?
5. Do we insist on transparency, both internal transparency – *between management and the audit committee* – and external transparency?
6. Do we speak our minds? Do we listen? Do we build consensus?
7. Do we take a hard look at our committee's performance and assess the performance of individual committee members?

Thank you for listening.