PDF - IMPACT OF CORPORATE GOVERNANCE ON PUBLIC CONFIDENCE IN FINANCIAL REPORTING (A CASE STUDY OF UNILEVER PLC, LAGOS STATE) - researchcub.infoCHAPTER ONE

INTRODUCTION

BACKGROUND OF THE STUDY

The preparation of stewardship report from the accountingpoint of view is the role of management, who oversees the affairs of thebusiness organization on behalf of the owners usually the shareholders. Thisstewardship report represents the financial statements covering the operatingperformance and the financial position of a company. It is usually prepared bythe directors and addressed to the shareholders as a fulfilment of their agencyresponsibility. Suffice to say that if all the facts concerning financialtransactions were properly and accurately recorded, and if the owners andmanagers of business enterprises were entirely honest and sufficiently skilledin matters of accounting and recording, there would be little need forindependent auditing. However, human nature being as it is, there probably willalways be a need for the auditor to ensure the provision of dependablefinancial information which is essential to the very existence of our societyand the business world. The goal of the providers of accounting information runsdirectly counter to those of the users of the information. Implicit in thisline of reasoning is the recognition of the social need for independentauditors, individuals with a professional competence and integrity who can tellwhether the information on which investors can rely constitutes a fair pictureof what is really going on in an enterprise. Good accounting and financialreporting is the basis for society to allocate its resources in the mostefficient manner. The contribution of the independent auditor is to givecredibility to financial statements for this singular fact (Oyadonghan andIbanichuka 2014). Credibility in this usage means that the financial statementscan be believed; that is, they can be relied upon by outsiders, such as tradecreditors, bankers, stock holders, government and other interested thirdparties. Therefore Credibility is “The quality of being generally accepted andtrusted” (Oxford Advanced Learner’s Dictionary of English). Audited financialstatements are now the accepted means by which business corporations reporttheir operating results and financial position. The word audit when applied tofinancial statements means that the statements of financial position, incomeand changes in equities /retained earnings are examined with an audit reportprepared by independent public accountant, expressing a professional opinion asto the fairness of the company’s financial statements. On the other hand,Confidence is the feeling that you can trust, believe in and be sure about theabilities or good qualities of something or somebody. Audit competence can onlybe achieved if public confidence on audit reports can be improvedsignificantly. Both credibility and confidence goes hand in hand and eachvariable impacts on each other to achieve the audit quality and competence theusers of financial statement desires. However, management failure arising fromco-operate governance failure over the years had contributed to the loss ofcredibility in audit reports. The solution to this problem of credibility infinancial and audit reporting lies in appointing an independent person andpublic confidence in audit reports is enhanced when the profession encourageshigh standards of performance and conduct on the part of all practitioners.According to Olagunju (2011), for an audit to be credible and reliable, it mustbe performed by someone, who is independent and cannot be influenced byposition, power which will affect its own conclusion. Auditor independencehelps to ensure quality audit (Oyadonghan and Ibanichuka, 2014). The UKfinancial Reporting Council (UKFRC) has undertaken an extensive reform on auditquality and in February 2008 released the audit quality frame work to improvei.e. the confidence and credibility in audit. They are includes the culturewithin an audit firm, the skills and personal qualities of audit partners andstaff, the effectiveness of the audit process; the reliability and usefulnessof audit reporting; and factors outside the control of an auditor that affectsthe audit quality (Linberg and Beck,2011). The aim of this research work is toimprove audit reliability and public confidence, by utilizing the significanceof confidence and credibility as approaches to improving audit competence. Oneof the cumulative negative effects that window dressing (creative accounting)had was the collapse of some USA giant companies such as Enron; world-com,Global Crossing, Tyco, with a host of others in Nigeria (Linberg and Beck2011). The outcome of the investigations on the collapse of these firms showsthat they have being window dressing their accounts with false statements offinancial positions for years. This has affected the confidence of the publicon the favourable audit reports these companies had being having for the affectedperiods. Therefore it is good to determine what measures can contribute toimproving public confidence in audit reports in Nigeria, and to establish somecauses responsible for the lack of public confidence in audit report.

1.2 STATEMENT OF PROBLEM

Bushman et al., (2011) advanced that the information qualityincreases with the percentage of outside directors. Similarly, (Beekes et al,2011) noticed that the board independence allows disclosing information of goodquality by the firms in Nigeria. In other contexts, (Firth et al., 2007)indicated that the presence of independent directors improves the earningsquality of firms. In contrast, other studies suggested that the independentdirectors are not enough competent to control the managers and their presencein the board has no effect on the reporting quality. In addition to that, thecorporate governance literature has emphasized the need to separate thepositions of CEO (chief executive officer) and board chairman to guarantee theboard independence and improve the firm transparency (Jensen, 1993). Byard etal., (2009) indicated that the presence of a CEO who serves also as the boardchairman is associated with poor quality of financial information.Nevertheless, other authors did not detect a significant association betweenCEO duality and information quality in various contexts of studies (Ahmed etal., 2009; Petra 2007). (Beasley, 1996) argued that the probability ofdetecting financial statement fraud in the American firms decreases with thepercentage of outside directors. (Peasnell et al., 2012) and (Klein, 2012)revealed that the independent board mitigates earnings management. Based on theabove, this study is aiming to answer the following statement, which representsthe study question: “Do Corporate Governance Practices have impact on publicconfidence in Financial Reporting Quality in Nigerian firms?Poor application ofcorporate governance, which is considered one of the most important pillars toenhance transparency , increase control and supervision on management andreduction fraud committed by some executives and companies Boards of Directors,which may cause damage to shareholders, investors, stakeholders, and company’sreputation as well as. The purpose of this study is to investigate the impactof corporate governance on public confidence in financial reporting.

1.3 AIMS OF THE STUDY

The major purpose of this study is to examine the impact ofcorporate governance on public confidence in financial reporting. Other generalobjectives of the study are:

To examine the importance of financial reporting incorporate governance

To measure the effectiveness of corporate governance Code inrelation to minimization of earnings management

To examine how the impact of corporate governance on publicconfidence in financial reporting.

To examine whether corporate governance help in buildingpublic’s confidence in financial report.

To examine the relationship between corporate governance andpublic confidence in financial reporting.

To examine the problems of good corporate governance in abusiness firm.

1.4 RESEARCH QUESTIONS

What is the importance of financial reporting in corporategovernance?

How is the effectiveness of corporate governance Code inrelation to minimization of earnings management?

What are the impacts of corporate governance on publicconfidence in financial reporting?

Does corporate governance help in building public'sconfidence in financial report?

What is the relationship between corporate governance andpublic confidence in financial reporting?

What are the problems of good corporate governance in abusiness firm?

1.5 RESEARCH HYPOTHESES

Hypothesis 1

H0: There is no impact of corporate governance on publicconfidence in financial reporting.

H1: There is a significant impact of corporate governance onpublic confidence in financial reporting.

Hypothesis 2

H0: There is no significant relationship between corporategovernance and public confidence in financial reporting.

H1: There is a significant relationship between corporategovernance and public confidence in financial reporting.

1.6 SIGNIFICANCE OF THE STUDY

The study importance stems of its attempt to highlight theimportance of corporate governance and principles, in enhancing publicconfidence in financial reporting in business entities since these companiesare deemed one of the most important sectors in of capitals attracting processthat requires enhancing their position among other sectors in Nigerian marketthrough proving their credibility and transparency to increase shareholderstrust and other parties. Geographically, the study will cover the global viewon issues of public confidence and credibility in audit and financialreporting. Cases of window dressing and collapse of corporate governance as itnegatively impacted on audit credibility is also covered, both in the globaland Nigerian perspective. The study would serve as reference materials to otherresearchers who may want to carry out more research on this or related topic.The study would broaden the researcher knowledge on the subject

1.7 SCOPE OF THESTUDY

The study is based on the impact of corporate governance onpublic confidence in financial reporting, a case study of Unilever plc, Lagosstate.

1.8 LIMITATION OF STUDY

Financial constraint– Insufficient fund tends to impede theefficiency of the researcher in sourcing for the relevant materials, literatureor information and in the process of data collection (internet, questionnaireand interview).

Time constraint– The researcher will simultaneously engagein this study with other academic work. This consequently will cut down on thetime devoted for the research work.

1.8 DEFINITION OF TERMS

Corporate Governance: Is the system by which companies aredirected and controlled. Boards of directors are responsible for the governanceof their companies. The shareholders' role in governance is to appoint thedirectors and the auditors and to satisfy themselves that an appropriategovernance structure is in place.

Public Confidence: Trust bestowed by citizens based ondemonstrations and expectations of: (1) Their government’s ability to providefor their common defence and economic security and behave consistent with theinterests of society; (2) Their critical infrastructures’ ability to provideproducts and services at expected levels and to behave consistent with theircustomers’ best interests.
Financial Reporting: Financial reporting is the process ofproducing statements that disclose an organization’s financial status tomanagement, investors and the government.

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