CORPORATE FINANCIAL GOVERNANCE A ZAMBIAN PERSPECTIVE

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Abstract: In this paper we address one of the fundamental problems confronting the modern organization. This is briefly, how we can achieve sound financial governance in the face of the spate of financial abuses. Corporate financial governance is reviewed in the context of Zambian public companies. Governance issues are looked at from the perspective of information disclosure, governance structures and organizational checks and balances. The overall conclusion is that Zambian public companies do not exhibit evidence of good financial governance.

INTRODUCTION

Good financial governance is becoming a vital imperative for organizations in both the developed and the developing world. This is so because we are witnessing a wave of financial abuses and corporate .mis-management, which are having an adverse effect on economic development. It is an issue that requires urgent attention especially in the developing would where financial resources are extremely scarce and where the wastage of them has severe consequences for poverty alleviation.

Corporate governance is defined by the Cadbury Report as the "way companies are directed and controlled." Good corporate governance has always been central to the interests of corporate stakeholders. The writings of the early management theorists espoused the concept that good management was the key to economic survival and prosperity. Thus the work of Taylor, Fayol and the human relations movement reflected a desire to maximize efficiency and effectiveness in the workplace.

Over the past quarter century we have witnessed a serious deterioration in the level of corporate management in a significant number of organizations. The collapse in Britain of such large companies as Rolls Royce in 1971 and the more recent failures of Bank of Credit and Commerce International, Poly Peck, Maxwell Industries and in 1995 Bkarings Bank have contributed to the growing disenchantment with the work of both boards of director sand auditors.

Similar experiences can be cited for the United States, Japan, Germany and other developed countries. The collapse of Worldcom[1] in 2002 with debts estimated at US$4 billion has demonstrated the need for an urgent review of the whole legal basis for the management of companies. An investigation into the collapse of Enron[2] led to the introduction of new and stricter

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1 Wray R., Finch J and J. treanor, (2002) Rise and Falls, The Guardian June 27

2 Vinten g. (2002) The Corporate governance lessons of Enron, Corporate Governance 2,4, ppo. 4-9

corporate law[3] in the Unites States. The developing countries have also witnessed corporate upheaval but it tends to be concentrated in the parastal sector in contrast to the private sector in the developed world. Parastals are commercial entities owned by national governments and are expected to operate like the private sector. Shareholders, creditors and employees quite often end up the victims of bad and incompetent management, which can sometimes extend to fraudulent behaviour. Kaplan & Harrison[4] on the basis of an American study report that boards of directors are experiencing increased levels of responsibility for their actions and those of their organizations.

The dissatisfaction with the management of some companies has had an adverse effect on the perception of the role of corporate auditors. Shareholders invariably, expect auditors to discover fraud especially if it is significant. The unwillingness of auditors to undertake the task of discovering fraudulent activities and subsequently drawing stakeholders' attention to irregularities has given rise to the well known expectations gap.

The agency problem in corporate governance was first recognized by Jensen & Meckling.[5] It describes the problems, which can arise when there is a separation of ownership and control in an organization. In this situation there is a possibility that management will act in their own best interest, which may not be congruent with the financial interest of shareholders. Thus organizations are forced to invest in systems of monitoring and control of managerial activities. These systems include both internal and external auditing and the effective use of non-executive director to monitor managerial activity (Anderson, Francis & Stokes[6]). It is contended that the presence of a takeover market for firms acts as a brake on managerial abuses and excesses (Weisbach[7]) but this does not apply to private and parastatal entities.

Recently, the remuneration of directors has received increasing attention from both shareholders and researchers. The main complaint from shareholders and other stakeholders is that director remuneration levels bear no relationship to corporate performance. There are allegations that some directors have abused their fiduciary position through awarding themselves salaries and benefits unwarranted by the level of corporate performance.

Boyd[8] has investigated the chief executive officer remuneration issue. He found that CEO salaries were greater in firms with lower levels of control and that salaries were not significantly related to either firm size or profitability. A study by Tosi &

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3 Sarbanes-Oxley Act, 2002. This act is designed to restore investor confidence in US companies.

4 Kaplan M.R. & J.R. Harrison (1993), Defusing the Director Liability Crisis – the strategic management of legal threats, organization science, Vol. 4, iss 3, 412-432.

5 Jensen M.C. & W.H. Meckling (1976)

6 Anderson D., J.R. Francis & D.J. Stokes (1993) Auditing, directorships and the demand for monitoring, Journal for accounting and Public Policy, vol. 12, Iss 4, 353-375

7 Weisbach M.S. (1993) Corporate Governance and Hostile Takeover, Journal of Accounting and Economics, vol. 16, iss 1-3, 199-208.

8 Boyd B.K. (1994) Board of Control and CEO compensation, Strategic Management Journal, vol. 15, iss 5, 335-344

Comezmetjia[9] revealed that CEO salaries were not directly related to economic performance of the firm. Sometimes the case is made that comparison between companies in different countries is not appropriate because of different environmental factors. Research by Demb & Neubauer[10] indicates that boards of director sin differents countries have more similarities than differences.

In recent years what has been described as an expectations gap has developed in the area of corporate governance. The expectations gap is the difference between what shareholders expect of the external auditors and what the auditors themselves perceive their role in the auditing of the financial statements of companies.

RESPONSE TO THE EXEPECTATIONS GAP

The principal response to the expectation gap in Britain was the establishment of the committee on the financial aspects of corporate governance. The committee was established by the Financial Council, the London Stock exchange and the Accountancy profession. The committee sponsors were concerned with the apparent lack of confidence in Britain in financial reporting and in the value of audits (Cadbury[11]). The committee reported in what has become known as the Cadbury Report[12] with a code of best practice.

The code is based on two fundamental principles:

(1) The need for adequate corporate disclosure
(2) The need for proper checks and balances within the governing structure of organizations.

According to Cadbury the proposals on corporate governance have been well received. Stiles & Taylor[13] report a 73% compliance with the Cadbury Code among the 100 top companies in Britain. Pimm[14] states that during the previous reporting period, 84% of the large listed companies reported full compliance with the code.

THE KING REPORT

In South Africa there is also some concern with the level of governance in organizations. The Institute of Directors in Southern Africa in association with a number of other financial bodies, established what has become known as the King Committee with terms of reference on corporate governance, which was not on the Cadbury Agenda. These are Worker Participation, Affirmative Action programmes and a Code of Ethics. Those parts of the King recommendations and code

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9 Tosi H.L. & L.R. Comezmetji (1994) CEO compensation Monitoring and firm perfomance, academy of management journal, vol. 37, iss 4, 1002-1016

10 Demb A. & F.F. Noubauer (1992) the corporate board – confronting the paradoxes, long range planning, vol. 25, iss 3, 9-20

11 Cadbury Sir Adrian (1993) Corporate Governance, Certified Accountant, June, 43-48

12 Report of the committee on the financial aspects of corporate governance – the impact of the Cadbury code long Range planning, vol. 26, iss 5, 61-71

13 Stiles, P. & B. Taylor (1993) Benchmarking Corporate Governance-the impact of the Cadbury Code. Long Range Planning, Vol. 26, iss 5,61-71

14 Pimm, D. (1995) Cadbury: Where are we now, Accountancy, February, 82-83

dealing with Board of Directors are quite similar to the Cadbury recommendations and code. The areas where differences arise are usually of a minor nature. The recommendations are code are obviously based on best practice and clearly the majority of large organizations are already complying with the code of best practice. In 2002 the institute of directors in Southern Africa issued a second code of corporate governance, which became known as King 2. This code is an updating of the guidelines laid down in 1994.

THE CORPORATE GOVERNANCE PROBLEM SUMMARISED

The corporate governance problem was well summarized by Myners[15] when he said:

> "There is a new distract in the air. On Wall Street, regulators have imposed US$1.4bn in fines on investment banks and their analysis for breaches of trust. In the UK there has been public outrage over money paid to executives who have presided over job losses and massive share-price falls."

Both large and medium size companies are at greater risks today from both fraudulent activities and corporate mis-management. Attempts have been made through the promulgation of codes of corporate governance to police the management system. In some cases these codes are of a voluntary nature and in the developing world codes of good practice are entirely absent. When there are serious breaches of governance, all stakeholders suffer including shareholders and employees. In addition, economic functioning in an economy is disrupted and corporate collapse may exacerbate the existing levels of poverty. For all these reasons, it is of paramount importance that management abuses are prevented or at least detected at an early stage.

RESEARCH OBJECTIVE

This paper reports on empirical research carried out in Zambia in 2004. the purpose of the research was to examine the level of corporate governance in a number of public companies in Zambia. Zambia has not formally adopted a code of good corporate governance practice and there is an insignificant level of monitoring by the stock exchange on the financial activities of the listed companies. Nevertheless we would expect companies with a listing on the stock exchange to abide by good practice. The principal purpose of the research was stated as follows:

To Establish the Level of Financial Governance in Selected Zambian Public Companies

It is useful to provide a brief profile on the position of Zambia in the context of financial governance. Zambia[16] has a ranking of 77 and a perception score of 2.6 for the year 2002. five years ago its ranking was 52 and it had a perception score of 3.51. there has been a considerable worsening of the perception of

[15] Myners Paul (2003) Perspective on corporate governance, annual Travers Smith Braithwaite lecture, University of Cambridge, May 7, www.law.cam.ac.uk/cccl

[16] Countries are ranked from 1, which is the least corrupt to about 100, which is the most corrupt. Zambia falls into the fourth quartile in the ranking.

Zambia[17] as a corrupt country. This is due to the large number of corruption scandals reported in the media and the work of the anti-corruption commission. It appears that the ushering in of multi-party democracy in Zambia in 1991 has led to the widespread abuse of power by government ministers. This would appear to have had a knock-on effect in the private sector. Zambia has witnessed the collapse of a number of banks and parastatal organizations over the past ten years. Anecdotal evidence suggests that the main cause has been financial mis-management. Given the general level of fraud and corruption in the country, it is vital that we ascertain the extent to which companies are adhering to good and ethical management practices.

METHODOLOGY

It was decided to use a case study method to analyse the financial governance practices of Zambian companies, for the following reasons. The case studies are based on the published annual financial statements. As such they are expected to be objective and free from bias. Cadbury stated that information disclosure was one of the fundamental principles in good corporate governance. As the annual financial reports and accounts are the principal vehicle for making disclosures to the shareholders and others, they are considered to be ideal sources of information on corporate governance.

RESEARCH POPULATION

The research population was defined as all companies listed on the Lusaka Stock Exchange.[18] It was a requirement that four years' financial statements for each company were available. The total population in the stock exchange listing at February 2004 was fifteen. Of these fifteen one was virtually dormant and two were in existence for only two years. Of the remaining twelve it was possible to obtain at least four years accounts for ten of these companies and three years accounts for the other two.

RELIABILITY

The case studies consist of the annual financial statements. As such they are expected to be free from error and ambiguity. While they may not disclose all those pieces of information considered necessary the fact that the disclosures are not made does not negate their value. Knowing that a company does not disclose a piece of information is just as valuable as the opposite.

VALIDITY

The extent to which this study has measured corporate governance is explored under the issue of validity.

CONSTRUCT VALIDITY

Construct validity refers to the extent to which a phenomenon we wish to study is actually measured by the research instrument. In this study, the central issue is the level of good corporate governance. To what extent do our case studies measure this construct? Reverting to Cadbury's two planks of good corporate, proper checks and balances and adequate information disclosure, we can state

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[17] Ronan, N.J. (2002) financial Fraud and Corruption; Inhibitors to economic recovery, Paper presentation to the annual OSSREA conference, Lusaka, 15-16 August.

[18] See website http:www.luse.co.zm for details on the listing.

that the disclosure requirement can be assessed through the financial statements. Some information on the checks and balances can be obtained through information on the director's fees, audit fees, auditor rotation and the use of management charges to siphon off funds from the business. But they financial statements cannot inform us on whether the directors are contributing meaningfully to the direction of the company and whether the audit and remuneration committees, where they exist, are functioning properly.

EXTERNAL VALIDITY

The extent to which the findings can be generalized to the whole population of public companies in Zambia can be considered high. We have considered the whole population in making the analysis. Only three companies were excluded from consideration. Two were relatively recently listed on the stock exchange and the third one is an investment holding company with no active trading.

ANALYSIS OF THE DATA

A qualitative analytical approach was adopted. The financial statements were subjected to assessment using the first King Report[19] on corporate governance. The King Report, which is applicable to companies in South Africa, was chosen as it is considered to be the most appropriate for Zambia. There is no code of best corporate practice adopted in Zambia, but there is a recent Zambian publication[20] on good corporate governance which incorporates *inter alia* the King Report recommendations.

Table 1: *Corporate Governance Model*

1. Governance Structures
- 1.1. Code of Ethics in place
- 1.2. Remuneration committee in existence
- 1.3. Internal Audit committee in existence
- 1.4. Directors service contracts not to exceed five years

2. Checks & Balances
- 2.1 Internal Audit Function operating
- 2.2 At least two non-executive directors
- 2.3 Chairman and Chief Executive two difference persons
- 2.4 Chairman a non-executive director

3. Information Disclosure
- 3.1 Directors remuneration
- 3.2 Directors responsible for preparing the financial statement
- 3.3 Auditor is responsible for reporting on the financial statement
- 3.4 Maintenance of adequate accounting records and an effective system of internal controls.
- 3.5 The consistent use of appropriate accounting policies.
- 3.6 Adherence with applicable accounting policies.
- 3.7 There is no reason to believe the business will not be a going concern in the year ahead or an explanation of any reasons otherwise.

Source: The King Report on Corporate Governance, The Code of Corporate Practices and Conduct

[19] The King Report on Corporate Governance, Southern Africa Institute of Directors, 1994

[20] Manual on Corporate Governance, Zambia, November 2000, Issued by the Institute of Directors of Zambia and the Institute of Chartered Secretaries and Administrators, Zambia Association.

Table 1 contains the model based on the King Report for use in the analysis of the annual reports. It is designed under the headings of Governance Structures, Checks & Balances and information disclosure.

The performance is analysed under *Governance Structures, Checks and Balances* and *Information Disclosure.*

Governance Structures

Table 2 contains an analysis of the governance structures of these companies. The table is structured by providing information on the sector each company occupies. The governance structures we are concerned with are the code of ethics, remuneration committee, internal audit committee and the disclosure of the directors' service contracts including their duration. Only two of the twelve companies have a disclosed code of ethics. This is particularly poor for companies operating in a country with a poor track record in terms of the levels of fraud and corruption. Three companies have a directors remuneration committee. These companies are owned by parents who are listed on the Johannesburg and London stock exchanges.

Table 2: *Governance Structures*

Sector	ETH	RC	IAC	DSC
1. Sugar	E	E	E	O
2. Cement	O	O	O	O
3. Property	O	O	O	O
4. Brewery	E	O	E	E
5. Brewery	O	O	E	O
6. Bank	O	O	O	O
7. Tobacco	O	E	E	E
8. Power	O	O	O	O
9. Tobacco	O	E	E	E
10. Bank	O	O	O	O
11. Footwear	O	O	O	O
12. Food	O	O	O	O

Key:

ETH = Code of Ethics

RC = Remuneration Committee

IAC = Internal Audit Committee

DSC = Directors Service Contract Disclosed

E = That System or Information is in Existence

O = Either the System is Missing or Its Existence has not been Disclosed.

Five companies specified in the financial statements that they have an internal audit committee. As this is one of essential structures for good financial governance, it is surprising that seven companies do not have the benefit of this committee. Only three companies have disclosed information on director's service contracts. Again this is rather poor given that one of the main corporate abuses is that of excessive directors remuneration.

As far as governance structures are concerned, Zambian listed companies are poor. It is mainly only those with international parents in Europe who seem to concern themselves with governance issues. The amount of information disclosure can be described as minimalist. There are a number of reasons for this existing and continuing state of affairs. For one the Lusaka Stock Exchange plays a low-key role in corporate regulation and supervision. Also most of the companies have one majority shareholder with a holding between 80% and 90%. Thus the minority shareholders tend to have little influence when it comes to corporate governance. Also, one suspects that some of these companies treat their Zambian subsidiaries as cash cows. Thus it would not be in their best interests to disclose more information.

Checks and Balances

Table 3 contains information on the quality of checks and balances existing in the companies. The systems we are interested from a checks and balances perspective include the presence of an internal audit function, the presence of non-executive director on the board, the separation of the duties of chairman of the board and chief executive officer and the chairman being a non-executive director. Today, these would be considered the minimum necessary to establish reasonable checks and balances in the financial system.

Table 3: *Checks and Balances*

Sector	IAF	NEDS	C & CE	CNED
1. Sugar	E	E	E	E
2. Cement	O	E	E	E
3. Property	E	E	E	E
4. Brewery	E	E	E	E
5. Brewery	E	E	E	E
6. Bank	O	E	E	E
7. Tobacco	E	E	E	E
8. Power	E	E	O	O
9. Tobacco	O	E	E	E
10. Bank	O	E	E	E
11. Footwear	O	O	O	O
12. Food	O	O	O	O

Key: IAF = International Audit Function, NEDS = Non-Executive Director, C & CE = Chairman and Chief Executive Different Persons, CNED = Chairman a Non-Executive Director.
E = That System or Information is in Existence.
O = Either the System is Missing or Its Existence has not been Disclosed.

Six of the companies have disclosed that they have an internal audit function. Perhaps the other companies also have this function but there is no information on its existence or on how it operates. An internal audit function is extremely important. In its absence it is difficult to see how directors can issue a statement on the internal control system. All but two of the companies have non-executive directors (NEDS) on the board. This is a welcome development as the NEDS are expected to play an important monitoring role in the financial affairs of the company. Nine of the companies have separate persons occupying the positions of chairman and chief executive. Again this is a welcome development. Finally, nine of the twelve companies have a chairman of the board who is a non-executive director. The checks and balances in the corporate financial governance system are much better than the governance systems themselves. The few companies that are deficient in this area should bee encouraged to provide better disclosure and improve the checks and balances if considered desirable.

Information Disclosure

The fullest disclosure of non-competitive information is desirable in order for shareholders and other stakeholders to be able to assess the governance and management of an organization. Disclosure is part of the fiduciary duties of directors. In this section we are interested in discovering the extent to which the selected companies comply with the King disclosure requirements.

Table 4 contains the analysis of the level of disclosure by the twelve selected companies. In terms of disclosure of directors' remuneration, what we were looking for is the separation of the remuneration into fees and salaries and distinguishing that applicable to executive and non-executive directors. Only three companies provided the full disclosure, seven provided partial information and no information was provided by two.

Table 4: *Information Disclosure*

Sector	DR	DA	AR	GC	FR	AS	AF
1. Sugar	F	F	F	F	F	F	F
2. Cement	P	F	F	F	O	F	F
3. Property	P	F	F	F	O	F	O
4. Brewery	P	F	F	F	O	F	F
5. Brewery	F	F	F	F	F	F	F
6. Bank	F	F	F	F	F	F	F
7. Tobacco	P	F	F	F	F	F	F
8. Power	O	F	F	F	O	F	F
9. Tobacco	P	F	F	F	O	F	O
10. Bank	P	F	F	F	O	F	O
11. Footwear	P	F	F	F	O	F	F
12. Food	O	F	F	F	O	F	O

Key: DR = Directors' Remuneration DA = Directors Responsibility for preparing the financial statements, AR = Auditors responsibility, GC= Going Concern statement, FR = Maintenance of Adequate financial records, AS= Accounting standards & policies, AF= Audit fee disclosure.
F = Full disclosure, P= Partial disclosure, O=No disclosure

There was full disclosure of the directors' responsibility for preparing the financial statements and what the role and responsibility for preparing the financial statements and what the role and responsibility is. Also, all the companies had a directors' report on the going concern status of the entity. It is not surprising that we find full compliance with these issues, as they are required under the companies act.[21]

King calls for a directors' statement that the company has maintained adequate accounting records and a proper system of internal controls. Nine out of the twelve companies made this statement in the annual reports. For the other nine companies there was a total absence of information. In terms of disclosure related to complying with the accounting standards there was full compliance. Again this is a requirement of the companies act. Finally eight of the twelve companies disclosed the audit fee. But some of the companies did not specify what other monies were paid to the auditors for non-audit work. Four companies provided no information on auditors remuneration.

We can observe that there a company is required by law to disclose information that requirement is complied with. Where information is to be provided on what in Zambia amounts to a voluntary basis, then the level of disclosure varies widely. Those companies with majority shareholders abroad, who are themselves subject to stock market disclosure requirements, tend to be better at financial disclosure.

Conclusions

The conclusions are discussed under the three broad headings of, governance structures, checks and balances and information disclosure.

Governance Structures

Only two of the twelve companies have a written code of ethics. It is regrettable for large public companies not to have a well-developed and communicated code of ethics. Ferrell et al[22] observe "insider trading of stocks and bonds, bribery, falsifying documents, deceptive advertising and defective products are all problems cited as evidence of declining ethical standards." We have in this study indicated that Zambia is high on the list of corrupt countries according to Transparency International[23]. In 1999 Zambia had a ranking of 52 and in 2003 this had gone down to 75. While much of this change in perceptions may be due to corruption in government, there is some anecdotal evidence that there was considerable corruption associated with the privatization process. Thus the private sector cannot absolve itself of the blame for perceptions of falling standards, as they were willing participants in the corruption process. Thus the private sector cannot absolve itself of the blame for perceptions of falling standards, as they were willing participants in the corruption process. Thus we see an urgent need for Zambian public companies to adopt a written code of business ethics.

Only three of the nine companies have a remuneration committee and three have disclosed information on directors service

[21] Sec 164 (6) of the Companies Act, 1994

[22] OC Ferrell, J. Fraedrich & L. Ferrell, (2000) Business Ethics, Boston, Houghton Mifflin Company

contracts. This is in spite of the fact hat King recommends that these structures be in place. Only five companies stated that they had an internal audit committee. Again this is a requirement of the Kind code on corporate governance.

A number of possible financial abuses were observed in reading the companies' financial statements. These concern dividend payout, management fees and secondment fees. The dividend payout ranged from 30% to 100% of the after tax profits. When one observes that large management fees were also charged in the majority of cases, then the payout for these two items range from 60% to over 100%. This is questionable financial management practice. Gitman[24] states that the dividend policy should be developed with two objectives in mind. One is the need to reward shareholders with a cash payout and the second is to ensure that sufficient cash is available for working capital and possible expansion. In the case of the power company, it paid out over twice its annual earnings by way of dividend and at the same time borrowed for new developments. In this case there is strong evidence of fraud. In particular the company took over public assets, which were valued at US$ 133 million for a payment of US$ 1 million. In the intervening period it has been siphoning the assets out of the business by way of cash dividends. The payment of large management charges and high dividends is facilitated through the majority shareholding amounting to 80% or more. In these circumstances it would appear that the minority are powerless. But this activity could be construed as unfair prejudice on the minority. In the United Kingdom the concept of "unfairly prejudicial conduct" is contained in the companies act.[25] In Zambia there is no such concept and thus minorities have to fall back on the oppression of minorities law. In practice small shareholders do not have the resources to enforce their rights and thus the majority shareholder has virtually no controls imposed when it comes to both dividend payouts and management charges. But directors have a fiduciary duty to act in the best interests of the company and for the right motives. Draining a company of its cash resources is not indicative of directors taking their responsibilities seriously. These actions may also be an attempt to evade taxation. Transfer pricing is a mechanism used by some international companies to transfer profits from a high tax country to a low tax country. Transfer prices and charges are expected to be "arms length" in nature. But we know that this type of tax evasion is practiced by multinationals. Belkaoui[26] points out that multinational companies endeavour to maximize their global after tax profits and observes that "this arbitrary shifting of profits purely for tax avoidance is being challenged by most governments in the developing and developed countries through the enactment of appropriate legislation." But the reality in lesser-developed countries is that multinationals are far more powerful than national governments. Any hint of this type

[23] Transparency international www.transparency.org

[24] L.J. Gitman (1988) Principles of Managerial Finance, New York, Harper & Row.

[25] Companies Act 1985, S. 459

[26] A.R. Belkaoui (1994) International & Multinational Accounting, London, The Dryden Press p. 340

of legislation would be met with a threat of pulling out of the country.

CHECKS AND BALANCES

Six of the twelve companies reported that they had an internal audit function. We would expect all the companies to have a good system of internal audit. It may be that the others also have the system but omitted to disclose it. Under the code of corporate governance, an internal audit function is part of the checks and balances expected from companies.

Accounting systems are considered an important part of the overall management systems. But accounting systems need to be reoriented towards good financial governance. Historically accounting has not integrated concepts in organizational behaviour into its set of procedures. As 'Otley and Berry[27] have observed, "It is becoming evident that there is a need to match accounting information and control procedures to the type of organizations in which they operate." Poor internal control systems provide a great temptation for the perpetrators of fraud. Nick Leeson[28] who bankrupted Bartings Bank, stated, " I was astonished that nobody stopped me. People in London should have known that I was making up the numbers." Further evidence of the consequences that can flow when an organization lacks a proper system of internal controls comes from the BCCI debacle. This bank was involved in drugs money, money laundering and arms financing. Kochan & Whittington[29] quote from the public prosecutor the following: "BCCI was operated as a corrupt and criminal organization throughout its entire nineteen-year history." We can conclude that there are ineffective controls; fraud and mis-management can persist for long periods of time. The former Chief Internal Auditor[30] of Allied Irish Banks states, "The experience of the best companies is that good controls are not expensive and effective internal audit is well worth paying for." In relation to the other checks and balances the companies are good with regard to having non-executive directors on the board. But only one company disclosed which non-executive directors were independent. Both Cadbury and King are the view that strong independent non-executive directors on the board are import safeguards for the integrity of the corporate activities. Most of the companies comply with the recommendation that the post of chairman of the board and the chief executive are different persons. Finally, in eight of the companies the chairman of the board is a non-executive director. The separation of the roles of chairman and chief executive is a lesson learned from the bankruptcy of the Maxwell companies. Robert Maxwell was both

[27] D.T. Otley and A.J. Berry (1992) Control, Organisation and Accounting, p. 33, in radings in Accounting for Management Control, Edited by Clive Emmanuel, David Otley and Kenneth Merchant, London, Chapman & Hall.

[28] Nick Leeson (1996) Rogue Trader, p.249

[29] Nick Kochan & Bob Whittington, Bankrupt the BCCI Fraud, p. 14

[30] Anthony L. Spollen (1997) Corporate Fraud, The Danger from Within, p. 95 it is ironic that in 2003 John Rusnak cost Allied Irish banks US$691 Million through a major fraud. It is now being claimed that the internal audit function in this bank was weak at its bank in Maryland.

chairman and chief executive of Maxwell Industries. He managed to bankrupt the companies with his reckless form of management. Tricker[31] quotes from a DTI investigation into Maxwell twenty years before the bankruptcy occurred. It states:

> "Neither his fellow directors, his professional adviser nor his employees were able to sway his views and actions. The concept of a Board being responsible for policy was alien to him ... he is not in our opinion a person who can be relied on to exercise proper stewardship of a publicly quoted company."

INFORMATION DISCLOSURE

Cadbury reiterated that the fullest disclosure of corporate information consistent with maintaining a competitive position is important for good governance to be achieved. Where there is a legal to disclose information under the companies' act[32] all twelve companies have complied with it. These relate to the directors' responsibility for preparing the financial statements a statement of the auditors' responsibility in relation to auditing the accounts and a statement of going concern for the enterprise. There was reasonable disclosure on the audit fee charged but most companies did not disclose how much was paid for other services performed by the auditors. There was reasonably good disclosure on compliance with accounting standards. This is after all a fairly non-contentious issue.

Where there was only partial or no disclosure was in relation to the directors remuneration. Some companies provided a figure for total remuneration and a few companies gave a breakdown between fees and other remuneration. But two companies provided no disclosure. In no instance was disclosure made about individual fees or emoluments. This is the type of information which is now required in many jurisdictions as it provides useful information on whether the board is abusing its power in fixing its remuneration. Full disclosure and transparency in a company's activities enable stakeholders to evaluate management actions and it may stop abuses from taking place. Monks and Minow[33] observe that companies engage in criminal behaviour "Because at some level they find that the benefits outweigh the costs." Concealment is the chief means company fraudsters have for permitting them to engage in fraudulent behaviour. Thus it is in the interests of all stakeholders that the fullest possible disclosure is maintained on a company's affairs.

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[31] R.I. Tricker, International Corporate Governance, p. 575

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