Cadbury nigeria actions taken to overcome the scandal in accordance corporate gov...

Introduction

Cadbury Nigeria was founded in 1965 as a subsidiary of Cadbury Schweppes, a major global player in confectionery and beverages markets which operating in 200 countries and employs 40, 000 employees. Cadbury Nigeria has been operating for 45 years and it engages in the manufacture and sale of sugar confectionery, gum and food beverages in Nigeria. Confectionery and Food Drinks, and Intermediate Cocoa Products are the two segments that operated by the company. It owns a cocoa processing business, the Stanmark Cocoa Processing Company. (IDE-JETRO, 2008)

The nature of the scandal

The Cadbury Nigeria had been caught in a scandal on October 2006. This also called as the Nigeria version of Enron Corporation scandal case. The nature of scandal is:

Firstly, the scandal caused Cadbury Nigeria losing a lot of money, it had recorded roughly a loss of $15 million on the year and will continue lose money again in the next year.

Cadbury Nigeria shares quickly dropped 5% of their value and writing the shares down over 26% since the scandal. The company shares have been hit hard on the Nigerian Stock Exchange.

The corruption of Cadbury Nigeria has lead to Nigeria loss the public confidence to do business in the country and has a bad reputation. The CEO tried to shed its corruption image to encourage greater shareholder to activism in the country and attract foreign investment. The company's public affairs managers also said that the overstatement of financial position was traced to the CEO and the financial executive director keen to achieve its set ambitious growth target.

The scandal also disgraced Nigeria's reputation and leave a bad impression to foreign investors, which the country will recognized as a risky place to trading, suffer from widespread corruption, political instability, lack of transparency as well as the arbitrary enforcement of trade and investment regulations.

In addition, the global leading and well known brand ' Cadbury' also affected by the scandal, it decreases the brand reputation and sales of all the company's subsidiary in worldwide.

The scandal also damaged the CEO and the finance executive director's reputation and ended their long years of service at the company.

Besides, the board and the auditor of Cadbury Nigeria were suing by more than 300 shareholders for breach of duty. Another shareholder's suing was carried out by the independent auditor of Cadbury Nigeria for access to a review the financial position. This is because the shareholders were suffering a huge loss due to the overstatement of Cadbury Nigeria's accounts and the board failed to act in their interest.

Moereover, corporate ethics has gone in Nigeria due to some crooks in the society. For instance, the board of Cadbury Nigeria, it has packaged itself act as the good example of professional establishment, best practice as well as strong ethical in managing the company over the number of years. In fact, who was under the mask of ruse deception and fooled the general public.

The external auditor, Akintola Williams Deloitte (AWD) affected by the scandal and loss the investing public's confidence in the capital market and it has been strongly warned and reprimanded to desist from its action by public.

The Union Registrars, a registered market operator in the capacity of Registrars which engaged in acts that adversely affected the investors' confidence in capital market. (Economic Confidential, 2008)

Reasons of failure

The independent auditor, PricewaterhouseCoopers (PWC) was appointed to investigate the financial of Cadbury Nigeria. The reasons of failure are:

The Chairman, former CEO, executive directors, non-executive directors, senior financial accountant, head of internal audit and others failed to obey the provisions of the Nigeria's Code of Corporate Governance.

Cadbury Nigeria filed with the Commission its annual report and accounts for 2002 to 2005 which containing untrue and misleading statements.

The Cadbury Nigeria former chief executive officer (CEO), Bunmi Oni, who known as Nigeria's post most respected CEO and the former finance executive director, Ayo Akadiri had deliberately overstatement of the company's financial position over number of years to the tune of between N13 billion to N15.

Since year 2002, the sale and stock buy backs were used as well as false stock certificates schemes issued by the both of CEO and finance executive director. They overstatement of profits, misrepresentation of sales figures, besides false suppliers certificates to control its financial accounts that were issued to the public and filed with the Commission.

Besides, the heads of accounts, internal audit and sales operation were also participating in the preparation of the false report generated untrue data and statement filed by the company with the Commission.

Additionally, an undisclosed and undocumented offshore remuneration account was managed by the company.

The chairman of Cadbury Nigeria stated in the company's annual report and account that it had taken over the payment of dividend.

Then, the Audit Committee members of the Cadbury Nigeria failed to discharge to their statutory duties. They did not follow up available leads which ought to put them on enquiry in respect of the company's accounts.

The Akintola Williams Deloitte (AWD), which is a registered and leading accounting firm in Nigeria were the external auditors to the company. It failed to handle the company's financial reports with high professional level and diligence.

Last, the Union Registrars failed to pay dividend on behalf of Cadbury Nigeria which was not reported to the SEC the non-compliance by the company of SEC's earlier directives on the issue. (Economic Confidential, 2008)

The scandal link to provisions in the principles of corporate governance

The Board of Cadbury Nigeria failed to obey the provisions of the Code of Corporate Governance in Nigeria. For example:

The CEO, finance executive and other executive directors were paid offshore remunerations without the authorization of the Remunerations Committee and not recorded in the company's financial report and account. (Economic Confidential, 2008) In the Nigeria's code of corporate governance, remuneration of executive directors should be set by Remuneration Committee which comprises all or most of the non-executive directors. (Scribd, 2003) But, the board of the company also does not establish a remuneration committee. (AfricanFinancials, 2005) This shows that the company has bad corporate governance.

In according to CAMA Section 359 (3 & 4), every company should establish an Audit Committee with not more than one executive on them. (Scribd, 2003) However, the Audit Committee of Cadbury Nigeria consisting 3 executive directors. This indicates that the company failed to compliance the corporate governance.

The head of internal audit and members of Audit Committee failure in making proper recommendations to the board at meetings and failed to examine the auditor's report to review and make appropriate recommendations on management matters with the external auditors. They also failed to review the effectiveness of the company's internal audit function and failed to ensure that proper investigations are implemented by the internal auditors into some aspects of activities in the company. (Scribd, 2003) The Audit Committee members of Cadbury Nigeria failed to review the overstatement and misleading its financial report and accounts and make proper recommendations.

The head of internal audit and members of audit committee also failed to maintain effective control and manage over the company, executive and management. This is because in accordance to code of corporate governance, the audit committee should have at least three meetings between auditors, and one meeting with external auditors in a year where should report in the annual report. (Scribd, 2003) But the audit committee of Cadbury Nigeria does not hold meeting and failed to report and disclose it in annual report. (AfricanFinancials, 2005)

Accordance in code of corporate governance in Nigeria, the board needs to promote transparency in financial reporting. (Scribd, 2003) However, the board of Cadbury Nigeria failed to provide transparency of its financial reporting. And, the CEO and the finance executive director overstatement the account and reporting huge profits to shareholders and the general public but in fact the company had actually made a loss totaling N5 billion during the period. This implied that Cadbury Nigeria has a low standard of corporate governance.

The Board of Directors failed to responsible for the company’s affairs in a lawful and failed to improve its value creation. The Board should ensure that the value being created is shared among the shareholders and employees with due regard to the interest of the other stakeholders of the company.

(Scribd, 2003) Cadbury Nigeria failed to create value and act in the best interest of shareholders. For example, the company neglected to transfer funds en-bloc to Union registrars for the declared dividends payments to shareholders within 7 working days after the annual general meeting. (Economic Confidential, 2008)

The Chairman’s main responsibility is to ensure effective operation of the Board in according to Nigeria’s code of corporate governance. (Scribd, 2003) But, UduimoItsueli, the chairman of Cadbury Nigeria failed to review the Board effectively operate. This is because most of the Board members have participated in deliberately overstatement the company’s financial position but the chairman failed to noticed and reported.

Lastly, the Union Registrars have a duty to report to the SEC any actual or suspected breach or infringement or non-compliance with any of SEC rules and regulations in the code of corporate governance in Nigeria. However, the Union Registrars did not pay dividends and failed to notify SEC in writing as required when Cadbury Nigeria failed to transfer the dividend payment of shareholders within 7 working days. (Scribd, 2003)

Actions taken to overcome the scandal in accordance corporate governance

This scandal caused a lot of side effects to the company, the country, the shareholders and etc. So, all the organizations have looked to this scandal seriously. Many actions had been taken out to overcome the scandal problem, which are:

First of all, the former chief executive officer (CEO), Bunmi Oni and the former finance executive director, Ayo Akadiri were quickly sacked by Cadbury Nigeria because of their dishonorable action upon the company.

Under the Economic and Financial Crimes Commission (EFCC), both of the CEO and finance executive ordered to explain their roles in deliberate overstatement of accounts at Cadbury. EFCC also will take responsibility to convict them of fraud and conspiracy charges to protect investors and warning others crooks still in the companies of Nigeria. Then the board should refer to EFCC for further investigations.

As a result of the scandal, the CEO and finance executive are banned from operating in the Nigerian capital market, being employed in the financial services industry and holding directorship positions in any public company in Nigeria.

The chairman, non-executive directors and non-board members of the audit committee are disqualified from operating in the Nigerian capital market, being employed in the financial services industry and holding directorship positions in any public company for a period of one year from the date of this decision.

Additionally, Cadbury Nigeria Plc is ordered to pay a fine of N100, 000 in the first instance and a penalty of a total amount N8, 245, 000 for filing with the Commission within 21days began from the date of this decision, the Cadbury shares have been suspended from trading which based on the misleading and unusual financial statements.

The external auditor, Akintola Williams Deloitte is directed to pay a penalty of N20, 000, 000 within 21 days of the decision for failing in its responsibilities to handle the financial position of the company with due diligence and professionalism which its registration with the Commission will be cancelled. It also strongly advised to be more diligent in carrying out its assignments in capital market related issues. Further it ordered to sign an undertaking to be diligent and of good behavior in its future dealings in the capital market.

The union registrars also directed to pay up to a total penalty of N7, 615, 000 within 21 days of this decision for failure in carrying out its statutory responsibilities to pay the declared dividends by the company and does not report to the commission that the company rejected it to handle its dividend payments which was breach with the SEC rules and regulations. (Economic Confidential, 2008)

Conclusion

In conclusion, there are a vastly of side effects due to the scandal. Hence, all companies must practice good corporate governance to avoid this scandal repeated. The directors should compliance with the corporate governance in order to generate the confidence of shareholders and the public as well as act with the best interest of shareholder. Every company should commit to a high standard of corporate governance and create value to its shareholder, stakeholders, employees and the community.

(2114 words)