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UPDATE FROM THE ACTIVITIES OF THE FINANCIAL REPORTING COUNCIL OF NIGERIA

by

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INTRODUCTION

- The Financial Reporting Council of Nigeria (FRC) is a unified independent regulatory body for Accounting, Auditing, Actuarial, Valuation and Corporate Governance practices in public and private sectors of the Nigerian economy.
- The body is also to address current institutional weaknesses in regulation, compliance and enforcement of Standards and the development of robust arrangements for monitoring and enforcing compliance with financial reporting standards in Nigeria.
- *The implementation of the FRC Act will lead to increased management credibility, more long-term investments, lower cost of capital, improved access to new capital and higher share values.*
- For investors and lenders, better disclosure provides more relevant information for making sound investment decisions and risk assessment respectively. This is especially so because merchants do not have a country.

IMPLEMENTATION OF THE FINANCIAL REPORTING COUNCIL OF NIGERIA ACT No. 6, 2011

FRC facilitates professionalism

"As a Professional in today's world, you need to develop anticipatory skills because you cannot afford to be consistently reactionary. This way, you can handle issues with increased confidence and flexibility. Otherwise, you become defensive, competitive and resentful"

Jim Obazee, 2013

ISSUANCE OF REGULATIONS AND DIRECTIVES

The following Sections of the FRC Act should atract our attention:

- **S. 7 (2) (a) :enforce and approve enforcement of compliance with accounting, auditing, corporate governance and financial reporting standards in Nigeria.**

(f) :**Require management assessment of internal controls**, including Information Systems controls with independent attestation;

(g) :**Require code of ethics** for financial officers and certification of financial statements by CEOs and CFOs;

(h) :**Require entities to provide real time disclosures** on material changes in financial conditions or operations.

S. 8 (d): receive copies of annual reports and financial statements of public interest entities **from preparers within 60 days** of the approval of the Board.

S. 8 (f): maintain a register of professional accountants and other professionals engaged in the financial reporting process.

S. 8 (n): Receive qualified reports together with detailed explanations for such qualifications within 30 days from the date of such qualification. Such reports shall not be announced to the public until all accounting issues relating to the reports are resolved by the Council.

- S. 11(d) ensure accuracy and reliability of financial reports and corporate disclosures pursuant to to the various laws and regulations currently in existence.
- **Section 44(3)** : Where the directors disclose the extent of compliance with Code of Corporate Governance in the annual report, require an auditor to report separately whether the disclosure is consistent with the requirements of the Code.

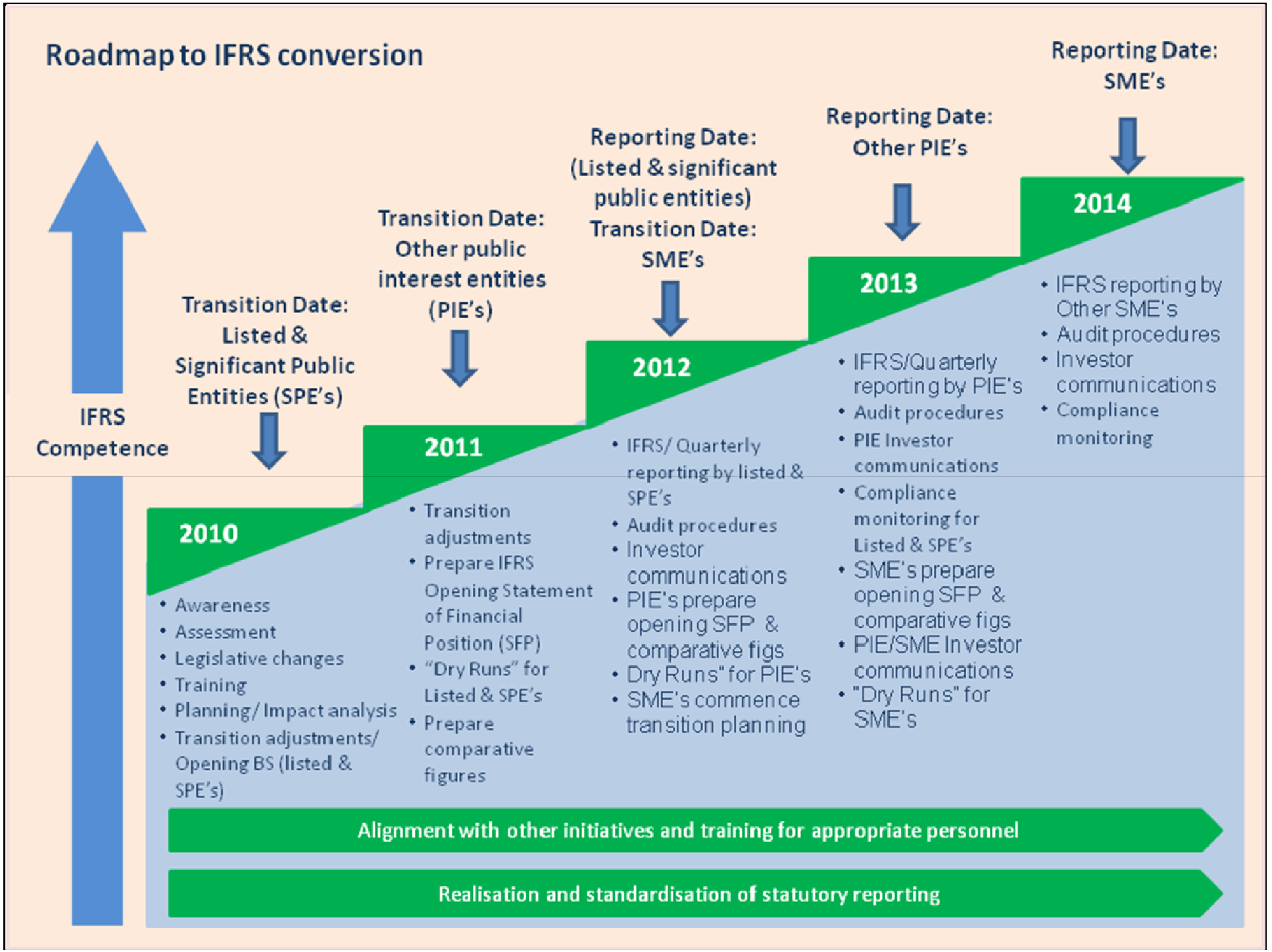
- Section 61 (1): Annual quality review (inspections) shall be conducted for professional accountants that audit more than public interest entities. All others shall be conducted every three years and the Council may order a special inspection of any professional accountant at any time.

FRC monitors managers

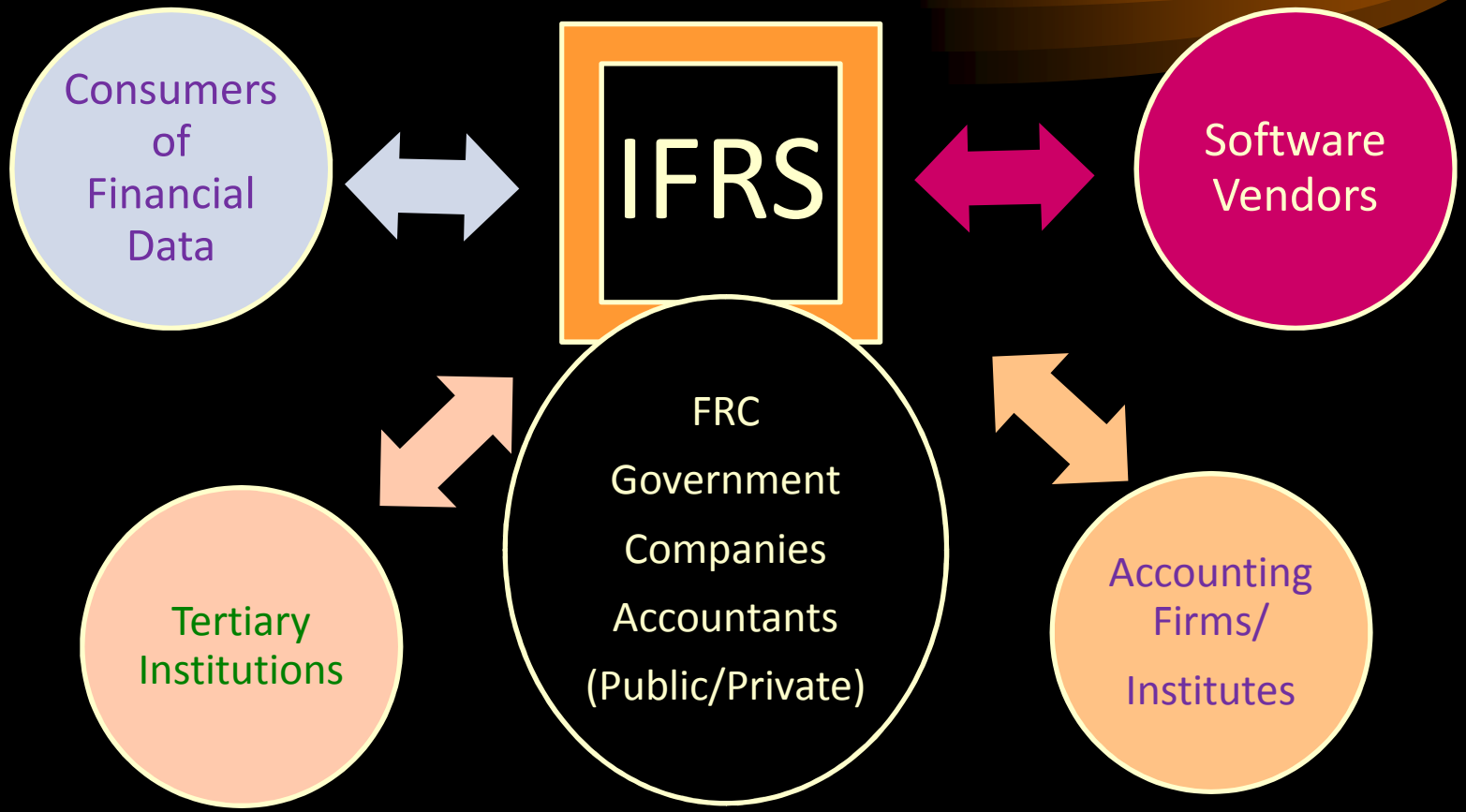
'Being the managers of other people's money rather than their own, it cannot be expected that they (managers) should watch over it with the same anxious vigilance which they would watch over their own. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company"

An inquiry into the Nature & Causes of the Wealth of Nations, Adams Smith (1776)

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS


Roadmap to IFRS conversion
IFRS Competence
Transition Date: Listed & Significant Public Entities (SPE's)
Transition Date: Other public interest entities (PIE's)
Reporting Date: (Listed & significant public entities) Transition Date: SME's
Reporting Date: Other PIE's
Reporting Date: SME's
2010
• Awareness
• Assessment
• Legislative changes
• Training
• Planning/ Impact analysis
• Transition adjustments/ Opening BS (listed & SPE's)
2011
• Transition adjustments
• Prepare IFRS Opening Statement of Financial Position (SFP)
• "Dry Runs" for Listed & SPE's
• Prepare comparative figures
2012
• IFRS/ Quarterly reporting by listed & SPE's
• Audit procedures
• Investor communications
• PIE's prepare opening SFP & comparative figs
• Dry Runs" for PIE's
• SME's commence transition planning
2013
• IFRS/Quarterly reporting by PIE's
• Audit procedures
• PIE Investor communications
• Compliance monitoring for Listed & SPE's
• SME's prepare opening SFP & comparative figs
• PIE/SME Investor communications
• "Dry Runs" for SME's
2014
• IFRS reporting by Other SME's
• Audit procedures
• Investor communications
• Compliance monitoring
Alignment with other initiatives and training for appropriate personnel
Realisation and standardisation of statutory reporting

A Decision with Implications



FRC regulates governance:

"The country's economy depends on the drive and efficiency of its Companies. Thus the efficiency with which their Boards discharge their responsibilities determines Britain's competitive position. They must be free to drive their companies forward, but exercise that freedom within a framework of effective accountability. This is the essence of any system of good corporate governance"

Sir Adrian Cadbury: (Cadbury Report 1992, para. 2.5).

NATIONAL CODE OF CORPORATE GOVERNANCE

National Steering Committee

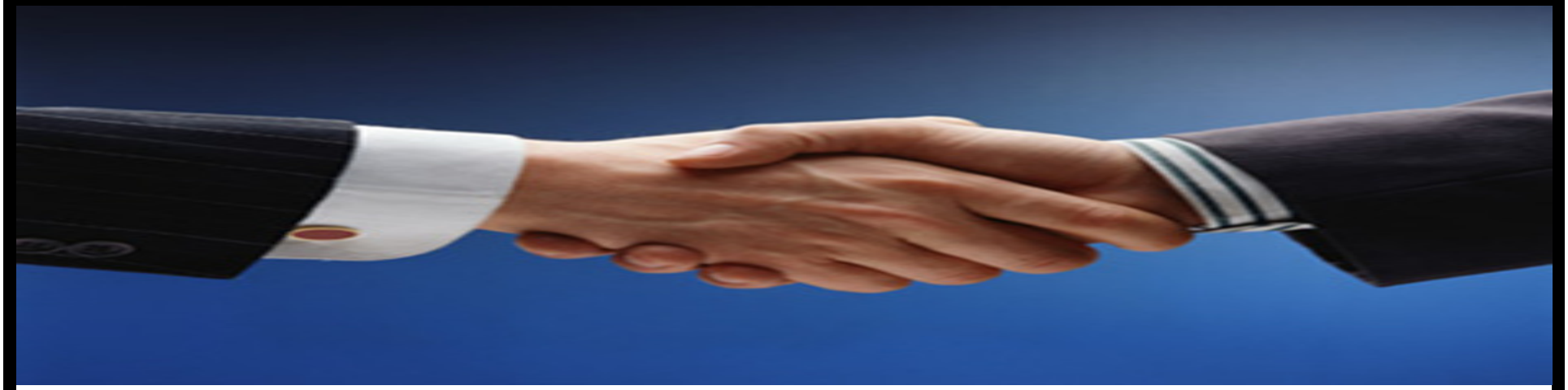
Our findings reveal the underlisted as some corporate governance key challenges:

- Insider dominated Boards (Private and Public Sectors)
- Non-independent or Affiliated Corporate Boards (Private and Public Sectors)
- Absence of minority voice on Boards
- Minorities helplessly widely dispersed.
- Very inadequate Minority Shareholder Protection (MSP).
- Significant resistance to the concept of independent non-executives
- Inadequate board monitoring and supervision of the executive
- Compromisable External Audit Function
- Compromisable and ineffective Audit Committees
- Flagrant abuse of Section 359 (3): Executive Directors on Audit Committees
- Easily repressible Internal Audit Function
- Easily repressible Chief Governance Compliance Officers.

CONCLUSION

- ✓ The FRC shall commence audit quality inspections.
- ✓ The Council shall be issuing a regulation on the framework for Joint Audit engagement.
- ✓ We are convinced that the national Code of Corporate governance will be operational in the second quarters of 2015. This will also strengthen the compliance with Section 44 (3) of the FRC Act and enhance the inflow of Foreign Direct Investment and steer greater interest from local investors.
- ✓ The required platform for the implementation of Internal systems/Information systems control with independent attestation, in accordance with Section 7 of the FRC Act shall also be laid.
- ✓ The FRC shall hence take significant interest in the activities of the Nigerian Accounting Association. We shall also begin to monitor the education and training in the field of the correlated standards that the Council is also set up to oversee.
- ✓ We shall also progress in the implementation of the national road map to the adoption of IFRS and shall also firm up its directive on the implementation of the International Public Sector Accounting Standards (IPSAS) .

THANK YOU



INITIAL ISSUES FROM A REGULATORY STANDPOINT

IASB

National GAAP

National Accounting Standards

IFRS

IFRS
IAS

IFRSIC
SIC

- Legal, Governance and Regulatory framework
- The implementation of IFRS requires considerable preparation both at the country and entity levels to ensure coherence and provide clarity on the authority that IFRS will have in relation to other existing national laws.
- The scope of application of IFRS with respect to the size of entities: consolidated or entity levels?
- The state of readiness of relevant professional accountancy organisations.
- The sincerity of peer review programmes among auditors.

- The requirement for Technical Partners Forum (of accounting firms) that can identify financial reporting issues that require clarification in order to avoid inconsistencies; as national accounting firms could contribute to inconsistent application of IFRS.
- Limited number of professional accounting organisations, preparers and users, including regulators that can provide the IASB with useful feedback, not only after standards are finalised and ready for implementation, but early in the drafting process.
- The extent of integration of IFRS modules into university accounting education.

- Institutional Issues: The shortage of expertise in the field of IFRS affects not only the private sector, but also regulators and other government agencies.

- Technical Issues : Complexities of some international accounting standards., IFRS Taxonomy, XBRL, Electronic filing, etc.

- Enforcement Issues: The extent of preparedness of enforcement authorities to play positive roles in consistent implementation of IFRS by facilitating sharing of enforcement decisions.

Corporate Governance

- The United Nations Development Program (UNDP: 1997) defines **'governance'** as
- ***"The exercise of economic, political and administrative authority to manage a country's affairs at all levels.***
- ***It comprises the mechanisms, processes and institutions, through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences".***
- The term "governance" can be thus be viewed in a variety of ways as:

✓ It invariably suggests the "act of decision-making" by a distinct and empowered authority that has accountability responsibilities for such governance based on empowerment.

✓ Governance can be related to a nation-state, a community, a municipality, a process, or a corporate entity and its entire external and internal structures.

✓ It is concerned with how societies, governments and organizations are managed and led and in particular, how they structure and order their affairs, make critical decisions, exercise powers, manage their relationships and account for their stewardship.

- Tax issues:

- IFRSs have been developed primarily to meet the information needs of shareholders, lenders and other investors. These needs do not always align with those of the tax authorities (e.g. extensive use of fair value and the application of substance over form)
- From taxation point of view, however, there are additional variables that may influence tax position such as impairment, fair value adjustments, specific provisions and treatment of tax losses etc.
- IFRS is a new world order, in corporate reporting, that will alter not only the financial accounting and reporting landscape in jurisdictions but also tax accounting/reporting, tax cash flows and tax distributable reserves.

- Language and Translation issues.
- Convergence options (Adoption or Adaptation)
- Normative Isomorphism (ESCAFA, PAFA, FIDEF, etc) ... Political and regional influence (Donor agencies)
- Corporate Governance issues (Board, Audit Committees, ownership structure)

Is IFRS Adoption a bad news?

NO
NO
NO

IFRS is not an impossible task for Emerging Economies.

- *Government will need to play its role.*
- Entities will have to take the following steps:
- ✓ Carry out a detailed gap and impact analysis.
- ✓ Check the sustainability of their systems and processes.
- ✓ Understand the financial and business impact and finally.
- ✓ Equip their critical key factor – People.

Government

Institutional Arrangements

There is the need to consider the functions of institutional bodies associated with financial reporting standards or having operational interest in financial reporting as well as consider the appropriate functions, powers and operational arrangements of such institutional bodies.

A particular issue in this regard is considering the inclusiveness of process. Such usually bear upon:

- **Transparency standards** (Data transparency, Fiscal transparency and Monetary and financial transparency)
- **Financial sector standards** (Banking supervision, Securities market regulation, Insurance regulation, Payment systems and Anti-money laundering) **and**
- **Market integrity standards** (Corporate governance, Accounting and Auditing, and Insolvency and creditor rights).

- Countries such Nigeria, Malaysia and the Mauritius now have arrangements whereby a wider selection of stakeholders other than accountants, including representatives from a cross-section of the market and other interests; have a meaningful role in financial reporting infrastructure via a Financial Reporting Council's arrangement.

APRIL 3, 2006
www.time.com AOL Keyword: TIME
SPECIAL REPORT GLOBAL WARMING
TIME
BE WORRIED. BE VERY WORRIED.
Climate change isn't some vague future problem—it's already damaging the planet at an alarming pace. Here's how it affects you, your kids and their kids as well
EARTH AT THE TIPPING POINT
HOW IT THREATENS YOUR HEALTH
HOW CHINA & INDIA CAN HELP SAVE THE WORLD—OR DESTROY IT
THE CLIMATE CRUSADERS

Enforcement

Enforcement is considerably more complicated than establishing a strong regulator. Some of the elements of an enforcement regime include:

- Sound systems of corporate governance.
- Self-enforcement by companies during the preparation of financial statements.
- approval of financial statements (by audit committees, Board of directors and Annual General Meetings of Shareholders).

- Statutory audit of financial statements.
- Analysis provided by the public and press.
- Market forces that can punish companies for poor disclosure.
- Institutional oversight system.
- Courts; through sanctions and/or complaints.

WHAT ARE THE EXPECTATIONS FROM COMPANIES?

TIME
Trying to Leave Wall Street
After the triumphs of *Evita* and *Cats*, Andrew Lloyd Webber brings *Phantom* to Broadway
Magician Of the Musical

IFRS – Practical Issues

High-level IFRS impact assessment

- ***Identifying the key impacts of IFRS throughout your organization.***

  Focusing not only on accounting and systems impacts, but also on impacts in such areas as income taxes, sales contracts, loan agreements and employee compensation arrangements. Also to be considered is the application of IFRS by subsidiaries (for companies with global operations).

- ***Determining project interdependencies and lead-times*** by mapping the necessary implementation actions and evaluating the time needed to complete such actions.
- ***Estimating resource needs:*** an estimate of the time and resources needed to complete the company-specific roadmap designed to enable an orderly migration to IFRS, while anticipating and mitigating risk, and facilitating greater value for the organization.

- ***Assess the effectiveness of general computer controls that impact on external financial disclosures.***
- General IT controls relate to:

1. Information technology control environment
2. Programme development
3. Programme change
4. Access to programmes and data
5. Computer operations.

Prepare for Dual reporting

The approach will require GAAP reconciliation through either of two options:

- The traditional *IFRS first-time adoption reconciliation.*
- One requiring that step plus an *ongoing unaudited reconciliation* of the financial statements from IFRS to National GAAP.

NATIONAL SUPPORT FOR EFFECTIVE TRANSITION

- Public sensitization
- Passage of Financial Reporting Council Bill
- IFRS for SMEs: Consultation with NACCIMA
- Creation of IFRS Academy
- NUC to update syllabus of Tertiary institutions.
- Creation of a dedicated Website
- Review existing legislation that are inconsistent with effective implementation of IFRS
- Update of Information Technology (IT) Systems and Chart of Accounts in the public sector.

Working on tertiary institutions

- Linkage and awareness programme
- Course content for Tertiary institutions
- Train the Trainers

…On Auditing firms and Entities

- Technical Partners Forum
- Liaison meetings

WHAT ARE REGULATORS TO CONSIDER NOW?

Primary regulators are to shape their jurisdictional entities' perspective of IFRS by opening discussions with the management of such entities on the potential risks and benefits of IFRS.

SET THE TONE

(by raising the following key questions).

- **Has management aligned key stakeholders?**
- **What is management doing about communications?**
- **What steps are being taken to educate the organization?**

Non Technical accounting issues

Set up help desk to assist in assessing other issues like *tax*, internal processes and controls, *regulatory and statutory reporting*, technological infrastructure, and organizational issues

Focus on the process.

- Regulators are to focus on overseeing company's approach, timeline, and remotely; budget for transition.
- Regulators are expected to encourage management to consider short and long-term planning issues in determining what the company needs to do now versus later.

CEO
GETTING THERE
FROM HERE

Factors that will guarantee success

- **The right skills**
- **The right equipment**
- **The right mindset**

CONCLUSION

- There are world-wide emerging pressures with growing competition, globalisation and technological innovations which will, if it has not, compel market operators to change.

At such, a higher standard of financial disclosure and better information for market participants (capable of underpinning disclosure-based regulation and better ability to attract and monitor listings by foreign companies) are now unavoidable.

These are the new roads to capital that are capable of promoting economic growth.

THANK YOU