



The Nigerian **ACCOUNTANT**

THE OFFICIAL JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

JANUARY/MARCH, 2015

Vol.48, No.1



Managing the Impact of **Declining** **Oil Prices**



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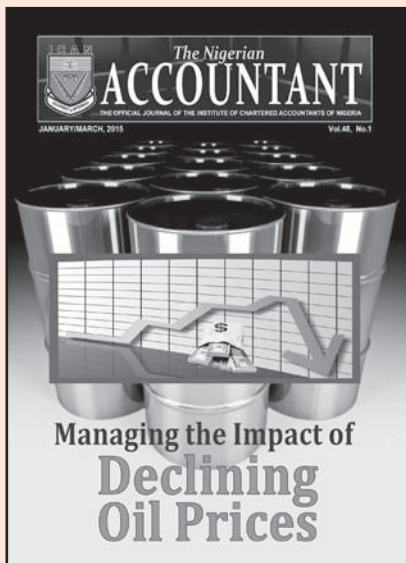
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From The Editor

It is a known fact that this is not the best of time for Nigeria's economy. Prior to the downward trend in the oil price at the international market, the country has been undaunted with problems of *Boko Haram* insurgency, Ebola Virus Disease and several other challenges that had taken a toll on the socio-political and economic welfare of the nation.

The recent fall in oil prices has no doubt affected the nation negatively due to the fact that the Nigerian economy is solely oil dependent. Our cover article entitled "*Managing the Impact of Declining Oil Prices*" by Uyi Akpata delved into what should be done in the face of such decline in the major revenue source of the country.

He explained that though the fall in the oil prices had negatively affected the country in many ways but quickly expressed optimism that there is no reason for panic as Nigerian companies are believed to be resilient enough to weather the storm after a while.

According to him, this is not a new experience since the country has gone through a similar situation in 2008 when oil prices fell to \$38 and \$40 per barrel and emerged stronger from it. He expressed confidence that the country and the economy would ultimately benefit from the current drop in oil prices as it would lead to economic diversification.

The 19th edition of the World Congress of Accountants (WCOA) themed "*Learning from the Past: Building the Future*", organised by the International Federation of Accountants (IFAC) and hosted by the Italian Institute of Chartered Accountants, Rome, has come and gone but its sweet memory still lingers. The Institute's Deputy Registrar, Technical Services, Mr. Abel Asein served our readers the reminiscences of the well attended conference by participants from about 140 nations around the world.

Merger, no doubt, is one of the best practices in the business world today. Our article entitled "*Mergers in Professional Service Firms*" written by Dr. Ben Ukaegbu examines some of the issues surrounding mergers and acquisitions in Professional Service Firms (PSFs). He explained how and why professional firms choose to merge or acquire the assets and liabilities of another firm as well as the outcomes of such mergers.

News about the Institute is also reported to keep you abreast of the activities within and outside the Secretariat. Therefore, we urge to make the best of this edition. Your articles are welcomed too.

The *Nigerian Accountant* team wishes you a prosperous 2015.

Your comments on this edition are welcome. Please write to: corporateaffairs@ican.org.ng or aowolabi@ican.org.ng

Harmattan and Your Health

By MURTALA UMAR

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Man as a product of the environment, is affected, both negatively and positively, by the environment just as the environment is in turn influenced by him. Climate, of all the environmental factors, is the most important, affecting health indirectly through its influence on plants, animals, insects and microbes, and directly by taxing the body's physiological reserves.

Climate chiefly determines the distribution, type and density of vegetation, including crops. It influences the range of animals that can be hunted or tended. It controls the growth and distribution of microbes and insects that may transmit them or may act as pests. Thus, wealth, nutrition, education and development, and their interaction with health, depend to a large extent on climate.

Harmattan according to the American Heritage Dictionary of the English Language: Fourth Edition 2000, may have originated from the Arabic word: *HARAM*, which literally means; the evil thing. This origin may not be unconnected with the adverse effect of this weather especially in the Sahara. The Harmattan is a dry and dusty wind blowing northeast and west off the Sahara into the Gulf of Guinea between November and March (winter). It is considered a Natural Hazard.

On its passage over the desert, it picks up fine dust particles (between 0.5 and 10 micrometres). When the Harmattan blows hard, it can push dust and sand all the way to South America. In some countries in West Africa, the heavy amount of dust in the air can severely limit visibility and block the sun for several days, comparable to a heavy fog. The effect caused by the



“Excessive sneezing, cough and catarrh are some of the symptoms common to most people. The Harmattan period is not the best of weathers for people with pre-existing chronic chest infection”

dust and sand stirred by these winds is known as the harmattan haze, and costs airlines millions in cancelled and diverted flights each year.

The harmattan, despite its adverse health effects, is not without some

health benefits to man. For example, the low temperature associated with it is unfavourable for breeding of mosquitoes, thus reducing the incidence of malaria. The skin, the eyes and the respiratory tract directly communicate with the atmosphere but the latter via the nose and mouth, are most vulnerable to the adverse effects of this weather. The skin is usually dry with accompanying cracking of the lips, sole of the feet and even the skin itself. The body extremities such as the hands and feet are sometimes too cold to generate unpleasant symptoms. Babies and the elderly are particularly prone to hypothermia (core body temperature below 35 degrees centigrade) due to sub optimal temperature regulating mechanism. The skin can be kept healthy by topical application of oily creams and weather friendly dressing. This is perhaps the best time to explore the cultural advantage of wearing *babban riiga* and suits, as it pleases one, to keep warm.

As we use various means depending on our socio-economic status to keep our homes warm, extra caution must be taken to prevent fire accidents. The hospitals in the northern part of this country usually record increase in fire accidents in this period of the year. At this juncture, one would want to call on the government and all concerned citizens to come to the aid of the homeless people, the mentally ill and the sane whom poverty has rendered homeless in cities like Lagos and Abuja. The need for shelter cannot be overemphasised at any time, talk less of this cold dusty period.

The eyes are directly exposed to the harsh weather especially the dust particles carried by the wind. Thus itching,

unpleasant body sensation and redness may be common especially in individuals with allergic eye disease. Proper eye hygiene in form of washing with clean water, reduced exposure to dust and protective spectacles, are advocated.

The respiratory system, because of its direct communication with the atmosphere, is heavily and badly affected. The respiratory tract has got a defensive mechanism that stops harmful particles in the air from getting to the lungs. This defense may however be overwhelmed by the concentration of the pollutants in the atmosphere, depending on the health status of a person or owing to a small sized particles that escape entrapment. The resultant effect is damage to the system predisposing to infection.

Excessive sneezing, cough and catarrh are some of the symptoms common to most people. The Harmattan period is not the best of weathers for people with pre-existing chronic chest infection. Worthy of mention is asthma, a chronic (long-term) disease that makes it hard to breathe due to inflammatory congestion in the lower respiratory tract. These groups of patients should pay special attention to their health, taking all possible and practicable measures to reduce exposure to the dusty atmosphere in addition to having their inhaler with them all the time. The epidemic of meningococcal meningitis usually experienced between February to May in the 'meningitis belt', northern Nigeria inclusive, is an aftermath of harmattan.

The dry, cold and dusty wind associated with Harmattan also triggers sickle cell crises in affected individuals. Sickle cell anaemia is a genetic disease in which the red blood cells become sickle under a condition of low oxygen tension leading to blockage of small blood vessels. The reduced blood supply to the tissues results in pain especially from the bones. The blood oxygen is usually reduced in extremes of temperatures, cold in this case. 'Sicklers' as patients are often referred to, should be vigilant and keep warm as much as possible to prevent crises. Because of the dusty atmosphere, there is need to imbibe healthy food preservation culture especially food hawkers such as fruits and soya sellers to prevent food borne diseases. Fruits and vegetables should be properly washed before eating. Our drinking water containers should also be properly covered.

The Harmattan is a natural hazard that we have to contain. That notwithstanding, man's alteration of his natural environment, help fuel these natural hazards with attendant health consequences. Desert encroachment by human activities in form of deforestation must be discouraged by the relevant authorities.

It is not enough to observe ceremonial tree planting campaigns yearly without devising a means of nurturing them. Alternative means of fuel such as coal would go a long way in reducing the societal demand for fire wood for cooking. Environmental sanitation and enacting and enforcing laws to regulate environmental pollution from industrial by products are all measures that will minimise the adverse health effect of this natural hazard.

Indeed, there is no weather that would fully be accepted by all humans no matter how favourable it is. God in his wisdom alternate weathers to suit all his creatures and not only man. Our challenge is to live to adapt to the not too favourable weather by adopting personal and collective measures to maximise the health benefits accrued to it and minimise the opposite. ●

* Sourced from the Internet

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Authors wishing to have their articles published in *The Nigerian Accountant* and *ICAN Students' Journal* are advised to adopt the following guidelines:

1. Articles must be well researched on contemporary issues in the field of: **Accounting; Audit; Investigations; Forensic Accounting; Taxation and Fiscal Policy Management; Consultancy; Information Communication Technology; Insolvency and Corporate Re-engineering; Public Finance; Corporate Finance; Banking; Insurance; Manufacturing; Capital Market.**

Articles from other disciplines e.g. **Health/Medicine; Agriculture; Engineering; Education; Religion; Fashion; Construction; Oil and Gas;** etc, are welcome.

Opinion articles would also be accommodated.

2. All articles should be typed on standard A4 paper and must not exceed twenty pages in 12-point Time Roman font and double spacing.

3. The title page should include the title and author's contact information (no other page should include author's information).

4. The second page should include the title and an abstract of not more than 150 words.

5. The research paper must be properly referenced. The American Psychological Association style should be used in the following format:

a) In-text referencing: Author's name and year of work e.g. **Lucey (1997)** or **(Lucey, 1997)** at the end of sentence. Page numbers must be included for direct quotations e.g. **(Lucey, 1997, p.8).**

b) List of references: Arranged in alphabetical order in the author-date format, e.g.

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Lucey, T. (1997), *Management Information Systems* (8th ed.), London: Letts Educational.

Journal Article Reference

Wainer, H. (1997), *Improving Tabular Displays: With NAEP Tables as Examples and Inspirations*, *Journal of Educational and Behavioural Statistics*, 22, 1-30.

Internet Reference

Baker, F.M. & May, A.J. (2007), *Survey Research in Accounting*. Unpublished manuscript retrieved January, 2008 from <http://www.maybaker.org/journals/webref.html>.

6. Every page must be numbered.

7. Two **Hard copies** of the paper should be delivered to the **Editor, Corporate Communications & Marketing**, The Institute of Chartered Accountants of Nigeria, Plot 16, Idowu Taylor Street, Victoria Island, P.O. Box 1580, Lagos, while the **Soft copy** saved in **Microsoft Word 2007** should be forwarded to corporateaffairs@ican.org.ng, dmuyiwa@ican.org.ng and aoololabi@ican.org.ng



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
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An ICAN Advocacy Paper

Cushioning Oil Price Shock: Rethinking Policy Alternatives for Nigeria

1.0 PREAMBLE

1.1 November 2014 ended with benchmark crude oil (Brent) dipping below \$70/bbl. This price level is the lowest in five years, tumbling 39 per cent since June 2014 when it reached \$115/bbl. The Coordinating Minister of the Economy, Dr. Ngozi Okonjo-Iweala has reassured Nigerians that “there is no cause for alarm” and that action plans are in place to deal with every possible scenario. While the Institute commends the scenario approach, it however sees opportunity in the unfolding development for the authorities to rethink policy alternatives in the long-term public good.

1.2 The Governor of the Central Bank of Nigeria (CBN), Godwin Emefiele in the last week of November announced far-reaching monetary policy adjustments. In plain language, he tightened bank liquidity and increased the cost of money in the economy while effectively devaluing the Naira (local currency) by eight per cent. Given that over the past four months nearly \$12 billion have been spent in propping up the local currency, there are signs that the dwindling oil revenues are already taking their toll on the country’s economic management.

1.3 Beyond the Coordinating Minister’s reassurance, it is well-known that there has been substantial depletion in the Excess Crude Account (ECA). Sustaining a sizeable Sovereign Wealth Fund has proved a Herculean task for the Federal authorities against the backdrop of pressure from State governments. Now, a season of discontentment stares at us all.

1.4 Petroleum product subsidies have been predicated on the price of oil. The Petroleum Product Pricing Regulatory Agency (PPPRA) has responsibility for determining the level of subsidy in conjunction with the Nigerian National Petroleum Corporation (NNPC). This may indeed be an opportunity to display transparency by publicly establishing the current price of petroleum products in a low oil price scenario.

1.5 At times like this, the Institute of Chartered Accountants of Nigeria (ICAN) as a professional body wishes to put on record its views for the good of the public. This advocacy paper – which is by no means exhaustive – attempts to focus on a few areas that may require policy rethink in the light of current developments.

2.0 FISCAL POLICY

2.1 In the face of external shock, which the current five-month decline in oil prices represent, Nigeria needs to look to its internally generated revenues and at the efficacy of collection. These tend to be driven by fiscal policy, which relative to its African peers have been static. Algeria, Angola, Egypt, Morocco and South Africa, are all higher than Nigeria in the government revenue to gross domestic product (GDP) league table. **These countries all generate between 20 and 40 per cent of their GDPs from government revenue** (such as enhanced value added tax). Nigeria

generates only 12 per cent, despite being Africa’s largest economy.

2.2 This trend suggests that a large head room exists between what has been achieved and what is potentially achievable. However, the conditions must be right to generate more government revenue. The conditions include greater transparency and accountability. There must be visible evidence of revenue spent for the public good and regularly fine-tuned fiscal policies.

2.3 The well-intentioned Petroleum Industry Bill (PIB) was meant to consolidate 15 different pieces of legislation and improve the fiscal regime in the petroleum sector. After more than eight years, the PIB seems stuck in the bureaucratic mill. Reports have it that more than \$100 billion of potential investments have been deferred or lost as a result of the delay. **The Institute is of the opinion that fiscal elements of the Bill should be passed piecemeal before the end of the current administration in the interest of the public good.** That will not only help Nigeria’s international reputation but provide the needed additional revenue to cushion the current oil price shock.

2.4 For example, international oil companies (IOCs) have substantially moved away from Nigeria’s onshore and shallow waters to offshore deepwater, a process accelerated by the ongoing IOC divestments. They have equally moved away progressively from joint ventures with the national oil company (NOC) to the more autonomous production sharing contracts (PSC) or arrangements. **Under many of the PSC arrangements, the royalty requirement is zero per cent in deepwater. Nigeria loses significant sums through that single source. The Institute is of the opinion that Nigeria does not need a PIB to block this fiscal policy defect.** The lack of clarity on “gas that belongs to the Nigerian National Petroleum Corporation (NNPC)” in deepwater blocks under PSC is at best dysfunctional. Nigeria potentially suffers significant losses as result of this lack of clarity, which has lasted decades.

3.0 ENERGY SECURITY POLICY

3.1 Despite the plummeting oil prices and the displacement of Nigeria’s light, sweet crude and liquefied natural gas (LNG) from the United States of America courtesy of the tight oil shale gas revolution, Nigeria still remains an important global oil and gas supplier. Nigeria is today the leading supplier of crude oil to India and a key supplier of LNG to Japan and South Korea. Nigeria is still Africa’s leading exporter of both crude oil and LNG.

3.2 This global importance may shortly be grossly undermined by the continued absence of a robust energy security policy. For example, Nigeria should not be importing petroleum products in the quantum and manner it currently does. The sums spent each year in importing petroleum products can build several refineries. Subsidies alone exceed \$5 billion each year. It clearly looks like the proverbial “cutting one’s nose to spite one’s face.”

3.3 With oil prices plunging by nearly two-fifths in five months, the Petroleum Products Pricing Regulatory Agency (PPPRA) should publish the current petroleum products' prices based on the prevailing low oil prices. Indonesians are currently saving 30 per cent of their \$21bn subsidy. In the opinion of the Institute, Nigerians ought to be saving significantly. The process for re-adjustment of the pump price is a matter of public interest. Dwindling oil prices are like double-edged sword. Persevering Nigerians should not only feel the pains but also enjoy the gains.

3.4 Confronting "leakages" in every form, both in and outside the petroleum sector, is fundamental to energy security in Nigeria. Upstream, crude theft is widespread and increasingly brazen, and now approaching pre-Amnesty scale. Downstream, product thieves are tirelessly compromising product pipelines, often resulting in explosions, pollution and needless loss of lives. Forthrightly preventing these leakages could save up to 20 per cent of avoidable revenue losses. Sanctioning bad behaviour is critical to energy security.

4.0 REINFORCING PRUDENCE: SAFEGUARDING "RAINY-DAY FUNDS"

4.1 "The shrewd one sees the danger and conceals himself," wrote the wise king. The scriptural injunction is timeless. The accounting profession, which the Institute represents, subscribes to the virtue of prudence. Without prudence, individuals and societies alike cannot achieve sustainable prosperity, let alone sustainable development.

4.2 For a country such as Nigeria, dependent on a wasting asset such as oil, a "rainy-day fund" is mandatory. Spirited efforts over the years have been resisted by those more interested in the short-term rather than the medium and long-term. The Excess Crude Account (ECA) reached \$22bn during the four years to 2007. From around \$11.5bn in January 2013, the ECA is today around a paltry \$4bn, and declining. The Sovereign Wealth Fund (SWF) managed by Nigeria Sovereign Investment Authority (NSIA) – established 2012 – is valued at \$1.35bn. Meanwhile, relatively smaller oil-rich African economies have more substantial assets: Algeria – \$77bn, Libya – \$66bn and Angola – \$5bn (established same year as Nigeria).

5.0 CASE FOR DIVERSIFICATION

5.1 The re-based Gross Domestic Product (GDP) shows that the Nigerian economy has diversified considerably, with oil accounting for only 14.4 per cent. Non-oil exports have grown. However they have not grown as fast as they should to provide adequate cushion to absorb oil price shock. Oil still accounts for some 90 per cent of foreign exchange earnings.

5.2 There is a strong case for diversification not just outside petroleum but within the petroleum sector. Nigeria's last refinery was built in 1987, some 27 years ago. Consider the extent of growth in Nigeria's population and petroleum product demand in those 27 years. Every litre of imported petroleum product provides jobs for foreigners in other countries and involves double-freight costs. Petrochemicals and fertilizer plants provide significant value added and private-sector led expansion are in order.

5.3 Nigeria should create an enabling environment for creating exportable value for goods and services. Nigeria's non-oil minerals are under exploited. These minerals include coal, tin, gold, copper and several others. The time to exploit them is now, with appropriate legislation in place. The Nigerian Content drive should extend beyond the petroleum sector. The successes recorded in agriculture need to be sustained and emphasis placed in areas of distinctive competence.

6.0 IMPROVEMENT IN QUALITY AND REDUCTION IN COST OF GOVERNANCE

6.1 The 2014 Ibrahim Index of African Governance (IIAG) ranked Nigeria as one of the lowly performing governments in Africa. Nigeria scored 45.8 percent in comparison with the African

average rating of 51.5 per cent. She ranked 37th out of 52 countries in the overall governance scale. It is noted that the country also ranked lower than the West Africa regional average which is 52.5 per cent. Based on the ratings, the country performed below par in areas including safety and the rule of law, personal safety and national security. The country also needs to improve her performance in human rights, sustainable economic opportunity and human development.

6.2 The democratic governments in Nigeria since 1999 have talked about the country's high cost of governance. However, rather than reducing the cost, every new government appears to be increasing the cost further than it inherited from its predecessor. Now that the country is experiencing dwindling trend in its income generation, the time to act is now. The jumbo pay to the members of the National Assembly, the amount incurred in keeping many government aides, the overlapping government agencies that increase the cost of governance, spending based on political rationality at all levels of governance with minimal effectiveness (e.g., spending billions of Naira to buy kerosene stoves for distribution to women) are examples of areas where the government can cut down on the costs of governance. This is particularly significant as the Federal and State Governments have been borrowing consistently to fund their largely recurrent expenditure.

7.0 STRENGTHENING ACCOUNTABILITY FOR THE PUBLIC GOOD

7.1 The late management guru, Peter F. Drucker was right when he said: "Where there is no accountability, there would be no progress." **With growing impunity and brazenness in the Nigerian society, the need to build enduring institutions that reinforce good governance and values, cannot be overemphasised.**

7.2 The Institute is committed to promoting the highest ethical and professional standards among members. It also has stepped up its role as a catalyst for enlightened leadership, greater transparency and accountability and increased focus on the public good.

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Registrar

Lagos: 8th December, 2014.



President of ICAN, Mr. Chidi Ajaegbu (right); Executive Director, Stanbic IBTC, Mr. Obinnia Abajue; 1st Deputy Vice President of ICAN, Deacon Titus Soetan; and Registrar/Chief Executive of ICAN, Mr. Rotimi Omotoso at the presentation of Credit Card for ICAN members by Stanbic IBTC Bank

Stanbic IBTC Bank Launches Credit Card for ICAN Members

Stanbic IBTC Bank has launched a credit card scheme for members of the Institute. The service allows fellows and associates of the Institute a standby credit at no interest. Fellows of ICAN can access up to N400,000 (four hundred thousand Naira for 55 days while associates can access up to N150,000 (one hundred and fifty thousand Naira) for the same duration.

At the presentation of the product in Lagos, the President of the Institute Mr. Chidi Ajaegbu said the initiative would promote commerce and growth of businesses as well as enhance patronage by benefiting members of the Institute. He added that Stanbic Bank was providing the product without any form of collateral. This, in his view, was a demonstration of the confidence the bank has in the honesty and integrity of accountants.

He said that subscription to the product was voluntary and implored members who would want to take advantage of it to live up to expectation in terms of proper utilisation and prompt repayment.

Mr. Ajaegbu described the credit card launching as historic because it marked a new level of relationship between ICAN and Stanbic IBTC which had been on for over 20 years.

In his own remark at the product launch Stanbic Bank's Executive Director, Private and Personal Banking Mr. Obinnia Abajue described the product as a first of its kind, where a professional institute would partner with a bank to provide a credit scheme to its members through a credit card and pointed out that there were no hidden charges attached.

He pointed out that the credit card is a more efficient way to spend than even debit card and for which reason the bank has made it interest free. "The credit card is an unsecured product; we do not ask anything for it", he said.

ICAN, NNDC to Set Up More Study Centres in Northern States

The Institute and the New Nigeria Development Company Ltd are setting up more ICAN-NNDC Study Centres in all the 19 states of the North in a bid to improve the quality of accounting education in the Northern part of the country under the ICAN Students Special Project (SSP) scheme.

A new agreement was signed recently by ICAN President Mr. Chidi Ajaegbu and NNDC Group Managing Director Dr. Ahmed M. Muhammed to strengthen an existing partnership and take the scheme to 16 more states in the region.

The SSP was introduced to NNDC by ICAN in 2006 and both parties entered into a Memorandum of Understanding (MoU) which led to the establishment of three ICAN/NNDC Study Centres in Kaduna in 2007 and Ilorin and Kano in 2008.

Since inception of the project to May 2014 the three centres have produced a total of 539 chartered accountants with Kaduna centre accounting for 211 while Ilorin and Kano accounted for 137 and 191 respectively.

Under the enhanced agreement, the NNDC/ICAN Study Centre which took off in three states about seven years ago has now been expanded to all the 19 states in an attempt to address the lopsided



ICAN President, Mr Chidi Ajaegbu laying the foundation of a lecture theatre donated to Northwest University, Kano by ICAN

nature of students' enrolment and performance in accounting examinations in the area.

The agreement also provides that ICAN will continue to set standards tailored to the peculiarities of NNDC locations to ensure continuous implementation of the goals and objectives of setting up the centres. It will also manage the centres and give periodic financial and operational situation reports on them.

On its own part, the NNDC will mobilise adequate number of students for each diet of ICAN examination as well as provide incentives to students to promote their sustained interest in the programme.

Some states in the North have since indicated their interest in partnering with ICAN and NNDC to establish the ICAN-NNDC Study Centres in their states, among them are Sokoto, Katsina, Gombe and Jigawa States where work has reached advanced stage of completion. However, the centre in Sokoto will also cater for students in the surrounding states of Kebbi and Zamfara while the one in Gombe will cater for students in Adamawa, Bauchi and Taraba in addition to Gombe.

The Study Centre is part of the Institute's Students Special Project, an initiative that seeks to increase the number of Chartered Accountants in educationally disadvantaged areas of the country and the first set of model centres for the Northern states were set up in collaboration with NNDC in Kaduna (in 2007) as well as Kano and Kwara (in 2008).

Outside the NNDC states, centres were also set up in two Southern States of Bayelsa and Cross River in 2007 and 2008 respectively under a collaborative arrangement with their state governments. Centres in the Southern states which are slated for commissioning soon include those in Abia, Anambra and Imo.

ICAN Explores Not-for-Profit Reporting

In order to enhance the capability of Not-for-Profit-Organisations (NfPOs) and attract resources through transparent and reliable financial reporting, the Institute held a seminar recently as part of its social responsibility.

Speaking at the event, the President of the Institute, Mr. Chidi Ajaegbu said that the recent growth of NfPOs has been attributed to the desire by independent private entities to assist their governments to provide education, health, water and safety facilities, protect the environment against pollution and degradation



Mr Chidi Ajaegbu with the Managing Director of NNDC after the signing of the agreement

hence the need to identify what they are and how they operate.

He noted that with accountancy entity concept, NfPOs are independent entities that exist under the law for promotion of public good and societal advancement.

According to the Ajaegbu, leaders of NfPOs owe it to the society to be accountable and operate in the best interest of the society. His words, "Therefore, leaders of NfPOs owe the society a measure of accountability for the huge resources they attract in the name of charity or public good. Except they regularly give their stewardship report to their stakeholders, in a structured and uniform format, their altruistic intentions would be misinterpreted as expropriation by another means."

"Here lies the need for standard setters to evolve a suitable financial and non-financial reporting framework that will define the nature of their stewardship reports. Such an accountability

framework, which will help to raise and sustain the confidence of their benefactors, must start with record keeping and compliance to best practices in Corporate Governance," he added.

Member Firms Parley on Joint Audit of Quoted Companies

The Institute has continued its efforts to promote joint audit of public listed companies as a strategy to enhance competence of members in practice. Under the emerging arrangement, the big four accounting firms are to share the audit and the attendant revenue with small and medium sized practices (SMPs).

When the arrangement is firmly in place, publicly listed companies will no longer be audited by a single firm but by a



Registrar/CE, Mr. Rotimi Omotoso (left); Past President, Mr. Ayo Oni; the 50th President, Mr. Chidi Ajaegbu and Council member, Alhaji Rasak Jaiyeola at ICAN's workshop on Financial Reporting for Not-for-Profit Organisations

minimum of two and one of which would be a small or medium sized firm. Some SMPs are also being encouraged to merge in order to enjoy the associated synergies and economies of scale.

At a recent forum of firms, the President of ICAN, Mr. Chidi Onyeukwu Ajaegbu said the “advantages of joint audit include improved assurance services, enhanced capacity building, employment and empowerment of more chartered accountants in Nigeria.” He however implored those that will take the merger option to seek out partners whose expertise are in areas different from theirs so as to bring diversification into the scheme. He enjoined the forum to “engage in purposeful and pragmatic debate that will enable the Council reach very persuasive and mutually beneficial conclusions on these issues for the greater glory of the accountancy profession in Nigeria.”

Though no agreement on modalities of the scheme has been reached at the two meetings held so far, there are strong indications that deliberations are on the right track and a working paper would soon be developed.

ICAN Vows to Join Forces Against Corruption in Nigeria

The Institute of Chartered Accountants of Nigeria (ICAN) has re-affirmed its resolve to join forces with the government to fight corruption and other sharp practices in the country.

ICAN’s position was made known in the keynote address by its 50th President, Mr. Chidi Ajaegbu, during an anti-corruption workshop organised by the Inter-Governmental Relations



Registrar/CE, Mr. Rotimi Omotoso (left); Past President, Mrs. Ibironke Osiyemi; ICAN 50th President, Mr. Chidi Ajaegbu; and Council member, Mazi Nnamdi Okwuadigbo at ICAN’s workshop on merger of small and medium-sized firms

Committee (IGRC) of the Institute themed “*Enhancing Transparency for Sustainable Future*,” held recently in Abuja.

According to Ajaegbu, the workshop was part of ICAN’s social responsibility to Nigerians and designed not only to beam a searchlight on the malaise of corruption that has eaten deep into the nation’s fabric, but also to join forces with government to fight the evil in both low and high places.

“Without doubt, many senior Nigerian citizens must today be genuinely concerned not only about the general decadence in our social value system and the current wide-spread lackadaisical attitude of youths to work, but the scorn in which the dignity of labour is held.”

“It is common today for wealth to be unduly celebrated irrespective of the source, with the euphemistic expression of he/she has arrived. Indeed, the African values of hard-work, honesty

and integrity are daily sacrificed on the altar of urbanity and avarice. The efforts of our heroes past are being eroded with impunity before our own eyes,” he stated.

He continued that the need for Nigeria as a nation to be rid of corruption could not be over-emphasised, lamenting that the frequent classification of Nigeria by Transparency International (TI) as one of the most corrupt countries in the world, calls for concern and action by the government, the entire citizenry and indeed professionals who represent the ideals of accountability and transparency.

He therefore called for setting of an appropriate tone at the top and urged government to urgently develop the political will to legally sanction all culprits of corruption as a measure of deterrence to others.

“Sadly, the current situation where some corrupt persons are only harassed,



Chairman, Inter-governmental Relations Committee of ICAN, Mrs. Comfort Eytayo; ICAN President, Mr. Chidi Ajaegbu and Director, Treasury, Office of the Auditor-General of the Federation, Mr Timothy Osonuga during the anti-corruption workshop in Abuja

harassed, detained for a couple of days and then released to enjoy their loot is bound to encourage others. Therefore, the war against corruption should be seen as a collective responsibility rather than that of the government or its agencies alone," he affirmed.

Nigerian Army Accountants to be Trained on IPSAS

Following Nigeria's adoption of the International Public Sector Accounting Standards (IPSAS) as a framework for financing reporting in the public sector, the Institute of Chartered Accountants of Nigeria (ICAN) has put in place strategies to train Accountants including those in the military on the implementation of the new standards.

This was disclosed by ICAN President, Mr. Chidi Ajaegbu during his courtesy visit to the Chief of Army Staff, Lt-Gen. Kenneth Minimah, in Abuja recently.

Ajaegbu disclosed that since there was a need to strengthen the mutual relationship between ICAN and Nigerian Army for the greater glory of the Nigerian nation, the Council of the Institute has approved the donation of additional laptops to the Nigerian Army School of Finance and Administration.

"These standards are not easy to implement. I am delighted to inform you that our Institute as a world class professional body has put in place, through its Faculties and Members' Education and Training departments, strategies to train accountants and users on the implementation of the new standards. I seize this opportunity to invite the Nigerian Army to take advantage and benefit from ICAN's expertise on the implementation of IPSAS," he submitted.

In his response, the army Chief expressed gratitude to ICAN for its magnanimity on computer donation and offer to train its personnel on the implementation of IPSAS. He promised to ensure that necessary steps are taken to make the project a success between ICAN and the Nigerian Army.

Uniben Lecture Theatre Named After Aghaowa

The Institute has named the Lecture Theatre it donated to the accounting department of the University of Benin (UNIBEN) after Chief Garrick Aghaowa, the oldest living member of the Institute in Benin.

This pronouncement was made by the president, Mr. Chidi Onyeukwu Ajaegbu when he visited Pa Aghaowa's Benin City home with some Council members to mark his 98th birthday. He said that the entire membership of the Institute owe it a duty to immortalise the pioneers



ICAN President, Mr. Chidi Ajaegbu and members of his entourage during the courtesy visit to the Chief of Army Staff, Lt-Gen. Kenneth Minimah (middle) in Abuja

who sacrificed so much to set the standards that current members of the Institute are advancing.

Pa Aghaowa is the first cost accountant in West Africa and the pioneer bursar of Uniben. He was among the 14 pioneer members of the Institute. The Lecture theatre which is under construction is one of the five being provided by ICAN to universities across the country as part of its efforts to enhance accounting education.

Looking very strong and elated, Chief Aghaowa said he was very grateful to God and to the Golden Jubilee President for making out time to honour him as he marked his 98 years on earth, noting that the birthday was unique and special to him because it was on a Sunday.

Recalling how he became educated at a time that going to school



Pa Aghaowa (left) with ICAN President, Mr. Chidi Ajaegbu

was difficult, Pa Aghowa said it was an act of God. He said, "I believe that whatever a person would be in life has been arranged by God. It was my brother who was meant to go to school but God maneuvered things in my favour and I got a scholarship."

Though his education was briefly interrupted because the scholarship was terminated after the missionaries who funded it left, his quest for education made him to proceed to Benin City where he found another benefactor who assisted him to continue.

Pa Aghaowa who was once described as "one whose heart is bigger than him" was at various times the first Chairman of ICAN Benin & District Society, Member of the defunct Bendel State House of Assembly and Acting Bursar at the University of Lagos.

He gave credit to the visionaries who founded ICAN such as Mr. Akintola Williams and Mr. F.C. Coker; among others who gave their time and resources to the lay a solid foundation for the Institute.

Ajaegbu Now CIS Fellow

Mr. Chidi Onyeukwu Ajaegbu, FCA, President of the Institute has been inducted fellow of the Chartered Institute of Stockbrokers (CIS). Ajaegbu's investiture was part of the highlights of the 2014 annual stockbrokers conference and dinner held in Lagos recently.

Mr. Ajaegbu who has been involved in capital market activities including stockbroking, investment management and stock exchange regulation for over 22 years became an associate of CIS in August 2000. He became a member of the National Governing Council of the Nigerian Stock Exchange between 2005 and 2008 during which he served in the Finance and General Purpose Committee.

He trained and qualified as a Chartered Accountant in Binder Balogun & Co. (BDO) 1984–1988. He holds a Masters degree in Banking and Finance from the University of Lagos and a Diploma in Psycho Physiological Detection of Deception from the American International Institute of Polygraph (Stockbridge, Atlanta Georgia, USA).

He is the Founder/Pioneer Chief Executive Officer of Mutual Alliance (member of the Nigerian Stock Exchange), and Heritage Capital Markets Ltd. (another dealing member firm of the Nigerian Stock Exchange). He is currently the CEO of Heritage Capital Markets Ltd.

Experts Outline Future of CFOs

Personal agenda, market regulation, ethical orientation and competence have been described as the key factors that will shape the future relevance of Chief Financial Officers following the adoption of International Financial Reporting Standards (IFRS) in the country.

Speaking on the "issues, challenges and strategies for the Nigerian CFO," at a recent members forum organised by the Faculties Directorate of the Institute as part of the Institute's continuous learning programme, Mr. George Onekhena, Deputy Commissioner for Insurance Finance & Administration at the National Insurance Commission said that the CFO would remain relevant and sought after in the changing business environment and averred that the professional must adapt to changes through continuous learning in order to have the competence to seize emerging opportunities.

"As the business environment continues to change at an ever-increasing rate, keeping pace with business and financial

developments and trends has become vital to being able to provide the higher level of service that organisations now expect of financial professionals", he said.

In his opening remark, ICAN President Mr. Chidi Onyeukwu Ajaegbu explained that the essence of IFRS is to raise the quality of financial reporting and promised that the Institute would continue to work with the Financial Reporting Council of Nigeria (FRC) to ensure that ICAN members are not short-changed.

He said that the Institute takes financial reporting very seriously as it is one of the main areas of accountancy practice for which reason it was recently elevated to the status of a full Faculty.

Dwelling on the "Implications of the Financial Reporting Council Act No. 6 of 2011 for External Auditors and Assurance Providers," Mr. Obazee Jim Osayande, the Executive Secretary and Chief Executive Officer of Financial Reporting Council of Nigeria (FRC) said the Act has brought some key changes to financial reporting that would benefit the economy and the financial professional in particular.

He pointed out that 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.

The FRC boss revealed that the body has embarked on the registration of professionals (including accountants and actuaries), inspection of accounting firms and assurance providers and is also ensuring compliance with the national code of corporate governance as part of its oversight functions adding that this would create jobs for the real professionals and strengthen accounting and finance professions in the country.

He observed that foreign Investors are already reacting positively to movement towards IFRS adoption in Nigeria as they expect it to have positive cash flow effects. These effects could include reduced contracting costs or reduced scope for managerial rent extraction associated with greater financial reporting transparency.

ICAN Sets Up N50m Whistleblowers' Protection Fund

As part of strategies to ensure high moral, financial, ethical and legal standards by members in the discharge of their duties, the Council of the Institute of Chartered Accountants of Nigeria (ICAN), has established a Whistleblowers' Protection Fund.

The aim of the Fund, which has an initial take off capital of N50million, is to protect ICAN members and the Public from any form of reprisals or victimisation when an alarm is raised on financial impropriety by public or private establishments, individuals or groups within the country.

The Fund is also to assist whistleblowers in litigation expenses reasonably incurred and to assist members of the Institute to discharge their professional duties without fear of being victimised.

The Council of the Institute considers whistle blowing as a crucial instrument to detect and report corruption, fraud and mismanagement in the public, private and non-profit sector.

In disclosing wrongdoing, whistleblowers often take high personal risks. They may face retaliation, dismissal or even physical danger. Many a times, a disclosure on corruption is often not appropriately followed-up by the concerned authorities. Whistleblowers have a critical role to play in the protection of the

public interest. The establishment of this fund is part of ICAN's mandate to protect the public interest, promote integrity and accountability, which are crucial conditions for democracy, the rule of law and sustainable development.

Prior to the establishment of the Whistleblowers' Protection Fund, ICAN has been in the forefront of supporting its members who blew the whistle with funds to pay their legal fees. ICAN also acts as observer or interested party in whistleblower related law suits involving its members. However these measures have not proved sufficient to ensure comprehensive and effective protection of members as they often end up being victimised.

ICAN Signs MOU with ONECCA to Certify Accountants in Cameroon and Provide Technical Assistance

The Institute of Chartered Accountants of Nigeria (ICAN) has signed a Memorandum of Understanding (MOU) with Ordre National des Experts Comptables du Cameroun (ONECCA) to help train and certify professional accountants in Cameroon as well as provide technical assistance to the Cameroonian body.

Essentially, by virtue of the signed MOU, ICAN will help ONECCA to develop its own professional examination and certification programmes as well as build capacity for an operational secretariat.

ONECCA, which currently does not have a professional examination scheme of its own will be assisted by ICAN to acquire technical expertise which will enable it run its own certification examinations locally in due course. Under the arrangement, ICAN will initially assist in developing a syllabus for the Cameroonian Institute, set the questions and assist in grading answer scripts. It will also groom ONECCA personnel to eventually manage the process on their own.

During the conduct of its own examinations in Cameroon in the interim, ICAN will send its staff invigilators along with the examination papers and return the answer scripts to Nigeria for marking. ONECCA, on its own part, will help manage ICAN's professional examinations in Cameroon.

In the same vein, ICAN will provide a seamless on-line registration facility for students in Cameroon and also assist ONECCA develop tuition centres and provide both the study materials to be used and the resource persons that will run revision classes. In this regard, ONECCA will identify specific areas or topics on which ICAN will train the local trainers as well as actively market for students and create awareness for ICAN professional examinations among the Cameroonian populace and prepare the students.

ICAN will also help the Cameroonian body build technical resources to enable it discharge its mandate of regulating the accounting profession in the Central African country effectively. This will entail sharing its technical resources with ONECCA and helping in developing a technical resource base especially in the areas of research and publication of technical papers.

With regard to helping build an operational secretariat, ICAN will assist ONECCA develop an organisational structure, define functions, develop work manuals and train staff. ●

FROM OTHER BODIES

IFAC Elects New President

The International Federation of Accountants (IFAC), the global organisation for the accountancy profession, has announced the election of its President, Olivia Kirtley of the United States, for a two-year term ending in November 2016. Ms. Kirtley is the first female President of IFAC, as well as the first from business and industry rather than public accounting. The IFAC Council also announced the election of Rachel Grimes of Australia as Deputy President, a position previously held by Ms. Kirtley.

"This is an exciting time for IFAC with challenges and opportunities for the profession at every level. As President, I look forward to engaging with member bodies and our many stakeholders as we seek ways to advance the impact and value of our profession, and in serving the public interest," Ms. Kirtley said.

Ms. Kirtley, a Certified Public Accountant and Chartered Global Management Accountant, is a non-executive director of US Bancorp, Papa John's International, and ResCare, Inc. She began her career with an international accounting firm, followed by 20 years of executive management positions with a publicly traded global manufacturer and subsequent joint venture of Emerson Electric Co. and Robert Bosch GmbH. She is a former Chair of the American Institute of Certified Public Accountants (AICPA) and the AICPA Board of Examiners.

Ms. Kirtley is a recognised advocate for strong corporate governance and was named by the National Association of Corporate Directors (NACD) Directorship 100 as one of the top corporate directors and governance professionals in the US. First elected to the IFAC Board in 2007, Ms. Kirtley became Deputy President in November 2012.

She has chaired the Planning and Finance Committee, Constitution Review Working Group, and a task force for enhancing service to professional accountants in business, in addition to being a member of the Nominating Committee, Regulatory Liaison Group, and the independent Task Force on Rebuilding Public Confidence in Financial Reporting.

Ms. Grimes is CFO Technology at Westpac, a multinational financial services firm; she previously served as Director of Mergers and Acquisitions. She has more than 24 years of experience across the financial services sector, at Westpac/BT Financial Group as well as at PwC. A member of Chartered Accountants ANZ and CPA Australia, Ms. Grimes has served the Australian accounting profession over a significant period. She was elected to the Board of the Institute of Chartered Accountants Australia in 2006 and was appointed President in 2011. Ms. Grimes became a member of the IFAC Board in November 2011. As Deputy President, she will chair the Planning and Finance Committee; previously she was a member of this committee, as well as the former Governance and Audit Committee.

Commenting on the leadership transition, outgoing IFAC President Warren Allen said, "As I hand over the presidency to Olivia, I know that I will be leaving IFAC in the most capable of hands. She has been a great source of support for me during my term, and was a leader on key initiatives that have enhanced and will sustain the accountancy profession and help to transform IFAC into a more responsive and sustainable organisation."

“Rachel’s experience in the financial services industry, focusing on acquisitions, accounting processes, and technology, and the need for global policies that enhance transparency, together with her experience as a volunteer leader of a major member body, will be an asset in the Deputy President’s role,” Mr. Allen added.

IFAC Admits New Board Members

The IFAC Council has elected five new members to the IFAC Board: Raphael Ding (Hong Kong), Richard Petty (Australia), Kumar Raghu (India), Shinji Someha (Japan), and Joy Thomas (Canada). The IFAC Council also re-elected Ahmadi Hadibroto (Indonesia) and Masum Turker (Turkey). These members add to the diversity of the IFAC Board — in gender, geography, and professional experience.

The IFAC Council also admitted three new associates: the Chamber of Authorised Auditors of Republic of Serbia, the Indonesian Institute of Public Accountants, and the Non Profit Audit Association “Sodruzhestvo” of Russia. Two existing associates were admitted as members: the Association of National Accountants of Nigeria and the Institute of Certified Management Accountants of Sri Lanka. Additionally, IFAC admitted the Dutch Institute of Management Accountants as a member.

IAESB Finalises Standard on Professional Competence of the Audit Engagement Partner

The International Accounting Education Standards Board (IAESB) has published *International Education Standard (IES) 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements* (Revised).

The revised IES focuses on the professional competence requirement for engagement partners who have responsibility for audits of financial statements. The IES is primarily aimed at IFAC member bodies, but recognises the shared responsibilities of engagement partners, public accounting firms, and regulators as part of the system of quality control for engagement teams performing audits of financial statements. It will also be of interest to employers, regulators, government authorities, educational organisations, and any other stakeholders who support the learning and development of professional accountants.

The IAESB recognises that continuing professional development is critical to develop and maintain competence of professional accountants performing the role of engagement partner. Accordingly, the IAESB has specified the learning outcomes to be achieved for the professional competence of an engagement partner, including learning outcomes in the areas of technical competence, professional skills, and professional values, ethics, and attitudes. As the career of an engagement partner progresses, practical experience also becomes increasingly important in maintaining and further developing the necessary depth and breadth of professional competence.

“To protect the public interest, engagement partners need to have the necessary skills and competencies to perform their roles effectively,” said Prof. Peter Wolnizer, IAESB Chair. “The public has a right to expect that engagement partners continue to develop

and maintain their professional competence so that they can be relied upon to competently perform audits of financial statements throughout their careers.”

With the publication of IES 8, the IAESB has now completed the redrafting and revising of all eight IESs. IES 8 builds upon educational requirements of redrafted IES 7, *Continuing Professional Development*, revised IES 2, *Initial Professional Development – Technical Competence*; IES 3, *Initial Professional Development – Professional Skills*; IES 4, *Initial Professional Development – Professional Values, Ethics, and Attitudes*; IES 5, *Initial Professional Development – Professional Experience*; and IES 6, *Assessment of Professional Competence*.

Evolving Practice Monitoring to Improve Quality in A & A Engagements

A new approach to practice monitoring for the future aims to deter and prevent quality issues in accounting, auditing, and attestation engagements with the help of a new technological tool has been created for peer reviewers and firms.

The AICPA is developing a concept for the future of practice monitoring as part of its Enhancing Audit Quality initiative. The AICPA has released a concept paper describing a vision for the future of practice monitoring and is seeking feedback on that vision.

Under the concept that the Institute is crafting, peer reviewers and firms would use a new practice-monitoring technology platform — which has yet to be developed — to expand the benefits of the current peer-review program while embracing technological innovation, risk management, and timely transparent results.

The new approach and technology would enable firms to monitor themselves and see if they are meeting quality targets. In addition, peer reviewers who evaluate the quality of accounting, auditing, and attestation engagements would be able to conduct more comprehensive analyses and provide more timely feedback.

“Peer review is at the heart of the profession’s commitment to enhancing the quality of accounting and auditing services. It has evolved over the course of 35 years to ably serve the profession and the public,” AICPA President and CEO Barry Melancon, CPA, CGMA, said in a news release. “The concept paper, provocative by design, presents a significant leap forward in practice monitoring. It challenges the profession and its stakeholders to imagine a more timely and transparent process that offers insights into quality, in some instances even before an engagement is completed.”

The concept for peer review will change and evolve as a result of feedback, but the principles of the vision call for audit effectiveness to be enhanced by:

- Highlighting potential quality risk indicators and detecting engagement issues earlier.
- Reviewing all firms that perform accounting, auditing, and attestation engagements.
- Monitoring all engagements subject to review.

As currently envisioned, five activities would form the basis of practice monitoring:

- Continuous analytical evaluation of engagement

performance.

- Human review when system-identified concerns are raised.
- Involvement of external monitors when necessary.
- Periodic inspection of system integrity.
- Oversight of the system's operating effectiveness.

A self-monitoring tool is being developed based on some of the principles. The tool will be pilot-tested by a select, voluntary group of small, medium, and large firms.

That tool, after modification based on the pilot, will provide the basis for a more permanent program that would apply to all firms in the future.

The new model would provide potential and existing clients, users of financial statements, regulators, and others a means to understand the quality of a firm's services. Meanwhile, internal users would be able to monitor, via a dashboard, the status of the firm's engagement activities and compliance with metrics pertaining to the areas that are subject to monitoring.

The current concept calls for cumulative results of engagement quality indicators to generate ratings that would display for firm management and external stakeholders the firm's participation in the program, the extent of services, and certain performance metrics. ●

How Firms Can Use Social Media More Effectively

By KEN TYSIAC

Firms can improve their effectiveness on social media with better training and tools, and by adopting written social media policies and monitoring metrics, says the 2014 Social CPAs Survey, *How Accounting Firms Use Social Media Today*.

The report, produced by consultancy Social CPAs, Inovautus Consulting, and the Association for Accounting Marketing, can be downloaded for free. "Overall, I think firms are progressing in social media, but I'll say I was a little bit surprised that we weren't further along," survey co-author Sarah Johnson Dobek, founder and president of Inovautus Consulting, said in an interview. "I think there are a lot of things that firms could be doing that are easily accomplishable that they're just not doing."

The survey provides segmented results for 395 respondents, who hailed from accounting firms and state CPA societies, or were vendors or consultants to accounting firms. Eighty-five percent of the respondents were from accounting firms.

Respondents are infrequent posters on social media, according to the survey. The average weekly posting rate for firms using the following platforms was just 1.7 times for Google Plus, 3.1 times for LinkedIn, 3.4 times for Facebook, and 5.7 times for Twitter.

Firms need to increase the frequency of their posts, consultants say. Dobek, for example, advises posting to Twitter 15 times per week. Barry MacQuarrie, CPA, the founder of Social CPAs, said many firms build profiles on LinkedIn, for example, but then don't spend much time using the platform to connect.

"What I tell people is that making connections and staying involved with other people is a constant process," MacQuarrie said. "Each time you're meeting someone, connect with them on LinkedIn and learn about them and see if you can share ideas and share content, share information and help them. Active connecting, active engagement, is a huge piece of being proficient with social media."

Firms seeking to improve their social media effectiveness, according to MacQuarrie and Dobek, can do so by:

Training: Half of the survey respondents said they provide their employees no training in use of social media. "I talked with some CPAs about LinkedIn, and they were asking, 'Why would you need training on LinkedIn? Everybody knows how to use it,'" MacQuarrie said. "And I think the perception is, much like Excel, if

I know 10% or 20% of Excel, I feel like a power user. And I have no idea what I don't know."

Adopting a formal, written social media policy: Just 45% of respondents said their firm or organisation has a written social media policy. MacQuarrie said firms would not be able to operate without a policy around how they prepare tax returns or perform audits. So why should social media be any different? Legal counsel should be consulted in creating the policy, Dobek said, because regulations vary from state to state. MacQuarrie said the policy should cover both what firm personnel shouldn't do and best practices for what they should do in order to get the most out of social media in a productive, safe way.

Using tools: Sixty percent of respondents post directly to social media sites. But free or cost-effective tools exist that can help firms manage their social media activity more efficiently and effectively. "Most firms are still not leveraging tools that allow them to leverage their social media accounts for \$5 or \$10 a month," Dobek said. "Firms either don't know about them or just aren't investing in tools that are going to allow them to get more out of it."

Monitoring analytics: Just half of respondents look at their web and social media analytics at least monthly, and 25% never look at their analytics, according to the survey. Firms and organisations may require training to understand all the analytics that are available to them, MacQuarrie said. Once they receive this training, it can be possible to understand the return on investment (ROI) of certain activities on social media. "People believe there is no way to measure ROI [in social media], but there are some analytics that you can measure and monitor and use," he said.

Taking a deliberate approach: When firms and CPAs realise they are behind the curve in their use of social media, they tend to take on too much in an attempt to catch up, Dobek said. She advises taking a deliberate approach, learning how to use social media appropriately, and putting together a plan for it. "You actually have to be actively engaged with the network you're on and the community you're building. And that takes time, and that takes strategy, and you can't be afraid to hire somebody to do it. I think they think social media is easy because it appears easy and there are a lot of people on Facebook, but there is a lot more behind it and in getting results and ROI than just posting a profile." ●

Amosun Asks Politicians to Adopt ICAN's Rancour-Free Succession Plan

The Executive Governor of Ogun State and a Fellow of the Institute, Senator Ibikunle Oyelaja Amosun has applauded Mr. Chidi Onyeukwu Ajaegbu for providing ICAN Council and its entire membership with visionary and purposeful sense of direction through exemplary leadership.

Governor Amosun made this statement during a courtesy call on him by the President and some members of Council while on official visit to Abeokuta and District Society. The Governor expressed support to the Institute's proposal for joint audit of big quoted companies and called on stakeholders to give the proposal a chance of implementation, explaining that such arrangement will deepen the professional skills of members within the knowledge industry.

Speaking on the importance of members' contributions to the socio, economic and political development of the country, the Governor affirmed that Chartered Accountants are good managers of financial and human resources.

He equally spoke on the high examination standards put in place by the Institute as the hallmark of respect for its graduates in the comity of professional bodies in Nigeria. The Governor promised to redeem his earlier pledge to donate a befitting building that will serve as the ICAN Secretariat in the State soon.

In his response, the President said the Institute has embarked on the construction of Lecture Theatres in selected tertiary Institutions across the country and revealed that Ogun State owned Olabisi Onabanjo University, Ago-Iwoye was being considered as one of the tertiary institutions that would benefit from the project in 2015.

He called on the Governor to fast track the employment of more Chartered Accountants into the state and also sponsor members in the state's public service to the various professional activities of the Institute in order to up skill them.

The President and his entourage also used the opportunity of being in Ogun State to pay courtesy visits to the Rector of Moshood Abiola Polytechnic, Professor Oludele Adelanwa Itiola and his academic faculty as well as the paramount ruler of Egbaland, His Royal Majesty Oba Adedotun Gbadebo.

The official visit to the ancient city of Abeokuta was rounded off with a dinner hosted in honour of the President by members of the District Society.

ICAN Does Not Stress Students — Ajaegbu

The Institute of Chartered Accountants of Nigeria (ICAN) has debunked insinuation in some quarters that it subjects its students to undue stress by making its examinations difficult to pass.

The Institute explained that it only strives to conform to its enabling Act and follows international standards in order to produce world class chartered accountants.

This explanation was given by the 50th President of the Institute, Mr. Chidi Ajaegbu during the induction of 511 new members of the Association of Accounting Technicians in West Africa (AATWA) held recently in Lagos.

The ICAN president advised the inductees to continue to tread on the path of professionalism in order to become full-fledged members of the Institute hence they should be prepared to progress to the qualifying examinations.

While congratulating the new AAT members, Ajaegbu said it was a remarkable occasion for them as it marks the beginning of an inseparable relationship with the Institute and the highly revered accountancy profession in Nigeria and in West Africa, noting that it is an honourable professional career path that offers them self-fulfilment, social respect and unrestricted prestige.

He implored them not be found wanting in the course of their job. "As an accounting technician, you must strive to perform your duties in accordance with acceptable technical standards irrespective of the sector of the economy in which you are employed or engaged as an entrepreneur", he said pointing out that accountants are "trained to function effectively in both the public and private sectors of the economy. You must not collude with anyone either to cheat or defraud your employer. You are expected to be above board in all you do. You must not tamper with your employers' funds, temporarily borrow them or use the cash entrusted to your care, to settle claims,

no matter how legitimate."

He further explained that only by observing the norms of the profession would they be able to contribute to the sustenance of the leadership role of accountants in corporate governance both in the public and the private sectors of the nation.

Ajaegbu Says ICAN, NIPSS Are Global Brands

The President of ICAN, Mr. Chidi Onyeukwu Ajaegbu has described the Institute as a global brand which has contributed tremendously to the advancement of national interest just like the National Institute for Policy and Strategic Studies (NIPSS).

Ajaegbu made this statement when he paid a courtesy visit to NIPSS Director General, Prof Tijjani Muhammed-Bande during a two-day tour of Jos & District Society of ICAN. He suggested that more Chartered Accountants should be engaged in NIPSS to enable them use their professional skills to support the Institution.

Welcoming the ICAN team, the Director General of NIPSS, Prof Tijjani Muhammed-Bande said the partnership of the two bodies could not be overemphasised, because it was important to join hands to fight the vices besetting the country particularly corruption.



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New Council Members Take Oath of Office

The six government nominees appointed into the Council of the Institute have been sworn in. They are **Mr. Tayo Phillips, Mr. Sam Onyebuchi Onukwe, Hon. Nasiru Muhammad, Mr. Ibrahim Madugu Abdullahi Babayo, Mr. Samuel Ukura and Mrs. Hilda Ozoh Ofure.**

► **Mr. Tayo Phillips** is an alumnus of the University of Lagos where he holds a Masters degree in Business Administration. He is a seasoned Chartered Accountant since 1986 and a Fellow of the Institute of Chartered Accountants of Nigeria. He has been a member of the Governing council of the same Institute since 2005. He is a Certified Forensic Accountant and Certified IFRS practitioner. He was an examiner of the professional examination of ICAN for over 20 years. His over 30 years professional career cuts across diverse sectors of the economy including professional accounting practice, multinational corporations and consulting. He was an Audit Manager with UTC Plc and in Rank Xerox, he was Chief Accountant, Finance controller, Executive Director Finance and Administration and ultimately the Managing Director of the world's reprographic giant.



Phillips

He attended and participated in several training executive development programs in and outside Nigeria. He became the pioneer Managing Director of Systems Derivatives Limited, an IT based company before assuming the role of Managing Consultant with TP Consulting, a multidisciplinary firm of Consultants. His service to the Institute include among others, Chairmanship of the Annual Accountants' Conference for a record three years that witnessed unprecedented innovations to the program. Chairmanship of the Accounting Technician Scheme for West Africa (ATSWA) and Chairman Harmonisation and Implementation committee that introduced ATSWA examination to Sierra Leone and Liberia. He served as a consultant/committee member on some World Bank IDf funded projects in both Nigeria and West Africa sub region. He was the Chairman of the ICAN/ICAEW Twinning arrangement that gave birth to the new professional examination structure and syllabus. He was appointed by the Federal Government to serve on the Governing Board of the Financial Reporting Council of Nigeria. Tayo is widely travelled, plays Golf and loves reading at his leisure.

► **Sam Onukwue** is an Accountancy graduate of Yaba College of Technology, Yaba, Lagos and holds an MBA from the University of Lagos as well as an MSc. (Corporate Governance) from Leeds Metropolitan University, Leeds, UK. He is a Fellow of the Institute of Chartered Accountants of Nigeria as well as the Chartered Institute of Stockbrokers. He began his career with the Central Bank of Nigeria where he left in 1989 as Assistant Bank Examiner. He joined Ivory Merchant Bank Ltd as pioneer Financial Controller.

He resigned in 1994 as Assistant General Manager to pursue a career in Stock broking. He joined the firm of Thomas Cook Global Financial Services and resigned from the Group in 2002 to establish Mega Equities Ltd – a stock broking and financial services firm. He was the pioneer Managing Director/CEO. In 2005 he was appointed Executive Director (Operations) of Citizens International Bank Ltd by the Central Bank of Nigerian at the peak of the consolidation policy of the Central Bank. He, along with other colleagues were able to successfully effect the merger of the bank with five other banks into Spring Bank Plc. After the successful merger of the banks, he continued on the Board of Spring Bank Plc. as Executive Director, Operations, up till 2006 when he left and returned to Mega Equities Ltd.

He is currently the Chief Executive Officer of Mega Capital Financial Services Ltd – an investment banking firm and dealing member of the Nigerian Stock Exchange. He currently serves on the board of Investors Protection Fund of the Nigerian Stock Exchange, Eastern Branch Council of the Nigerian Stock Exchange, Champion Breweries Plc and Shongai Packaging Ltd, among others. He is the current Treasurer of Association of Stock Broking Houses of Nigeria.

► **Hon. Nasiru Muhammad** attended Masallachi Primary School, Kano and Gwazo Secondary School. He started work as a Clerk at Zonal Education Office, Gwarzo, Kano State in 1981 after his School Certificate and moved to Nigeria Arab Bank Ltd in 1982 in Kano Municipal.



Muhammad

He attended Ahmadu Bello University Zaria and graduated with a BSc. in Accounting. Having observed his mandatory NYSC at BARC Farms Ltd, Jos, Plateau State, he was employed by the National Council for Arts and Culture, Lagos in 1990 as Council Accountant but left for NICON Insurance Corporation in 1991 where he remained till 2007. While at NICON Group, he worked as Accountant, Auditor, Finance and Investment Trustee, Technical and General Accountant as well as Staff Pension Officer. He later joined politics and contested as a Member of House of Representatives for Abuja Municipal/Bwari Federal Constituency and won the April 2007 General Elections. He later set up a Consulting Firm – Integrity Network Resources Ltd.

► **Mr. Babayo Ibrahim Madugu Abdullahi** attended Kings Comprehensive College, Gboko, Benue State for his secondary



Onukwe

education. He attended University of Maiduguri and obtained a Bachelor's degree in Accounting with a Second Class Upper division in 1989. He became an associate of the Institute in 1991 and a Fellow in 2000. He proceeded to University of Lagos for his Master in Business Administration (MBA) in 1996. He also attended courses and training at Harvard Business School (2008); Kellogg School of Management (2009); IMD Lausanne Switzerland (2011); Wharton Business School, University of Pennsylvania, USA

(2012) and Stanford Graduate School of Business (2013). Apart from having a robust working experience, he is also a member of Chartered Institute of Taxation of Nigeria and London-based Institute of Islamic Banking and Insurance.

After the oath of office had been administered, the ICAN President welcomed the five members who joined Council for the first time to their first meeting, except Mr. Tayo Phillips who had been there before.

He encouraged all of them to contribute robustly to deliberations on Council and join all other Council members in the quest to bring continuous improvement to the development of the profession and the Institute.

► **Mr. Samuel Tyonongo Ukura** attended Gyel Commercial College, Buruku, Jos, between 1970 to 1974 where he obtained West African School Certificate before proceeding to the Advance Teachers College, Kano, between 1975 to 1978 for his National Certificate in Education. Between 1981 and 1984, he was at Bayero University, Kano, where he obtained a Bachelor's Degree in Accounting with Second class upper division. From 1989 to 1990, he studied at the University of Nigeria, Nsukka (Enugu Campus) for Masters in Business Administration (MBA) specialising in Accountancy.

He equally obtained his Masters of Science Degree in Banking and Finance from UNN in 2012. Mr. Ukura is a Fellow of the Institute of Chartered Accountants of Nigeria (ICAN), FCA, and member Chartered Institute of Taxation of Nigeria (CITN). He is the current Auditor General for the Federation.

► **Mrs. Hilda Ozoh** is the Chief Compliance Officer of Linkage Assurance Plc. She is an accounting graduate and holds a Master's degree in Business Administration. She is a Fellow of the Institute of Chartered Accountants of Nigeria.

After graduation, Mrs. Ozoh has worked in various capacities at Obiora Monu & Co, Chartered Accountants, Abacus Merchant Bank, Nigeria Unity Line (a shipping company and government parastatal), New line Insurance (as the Financial Controller), Central Insurance Company (as the AGM Finance & Investment)



Abdullahi



Ukura



Ozoh

and has over 20 years experience in the Insurance industry.

She was the Chairperson of the Accountants Technical Committee of Nigeria Insurance Association (NIA) and a former executive member of the Association of Pension Funds & Investment Managers (APFIM). She is the Treasurer of Nigeria Employers' Association of Banks, Insurance and Allied Institutions and presently an executive member of the Society of the Women Accountants of Nigeria. ●



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Reminiscences of 19th IFAC WCOA, Rome, Italy

Preamble

The 19th Edition of the World Congress of Accountants (WCOA) organised by the International Federation of Accountants (IFAC) and hosted by Consiglio Nazionale dei Dottori Commercialisti e degli Experti Contabili of Italy (simply, Italian Institute of Chartered Accountants) took place between November 10–13, 2014 at the historic Auditorium Parco Della Musica, Rome commissioned in 2002. The complex was built in the area where the 1960 Summer Olympics Games were held. Although it was the 19th IFAC WCOA, the Congress with the theme “*Learning From the Past: Building the Future*” was actually the 110th Anniversary since the first Congress (attended by 80 delegates) was held in Missouri, USA in 1904. Italy was delighted to host if only to honour Luca Paciolo, the father of modern Accountancy who developed the double entry booking system in 1494.



ICAN Registrar, Rotimi Omotoso (left); 2nd Deputy Vice President of ICAN, Ismaila Zakari; ICAN Vice President, Olufemi Deru; ICAN Past President, Catherine Okpareke; ICAN President, Chidi Ajaegbu; ICAN Past President, Lateef Owoyemi; Immediate Past President of ICAN, Kabir Mohammed; 1st Deputy Vice President of ICAN, Titus Soetan and ICAN's Deputy Registrar (Technical Services), Abel Asein at the WCOA

Participation

Graced by four past presidents of IFAC, the event was attended by almost 4,000 delegates from 140 nations and from all the continents of the world. The WCOA has become not only a befitting testimony of the close affinity between professional accountants worldwide but also, as refreshing as it was educating both to the old and young. Nigeria had the largest contingent of over 1,000 professional accountants followed by the host country, Italy with 550. Five other countries had barely 100 delegates. The applause of Nigeria's huge delegation had hardly died down when the master of ceremony, Jim Sylph, called for a minute silence in honour of school children savagely killed earlier in the day by a suicide bomber (dressed in school uniform) in Potiskum, Yobe State, Nigeria.

Opening Ceremonies

Described as the most highly IT-driven WCOA ever organised, the Opening Ceremonies were shown live in five halls in the

Complex as no hall could possibly accommodate the huge audience. The aesthetics of the huge screen was impressive and awe-inspiring as IT expertise was brought to bear on proceedings. Although English was the main medium of communication, translation was done in five major languages including Mandarin. Ear phones were freely provided at the entrance for those who had need for them.

While welcoming delegates, Mr. Warren Allen, the outgoing IFAC President, observed that the 4-yearly event was the Olympics of the Accountancy Profession driven, not by the spirit of competition but by the desire to collaborate, share ideas and experiences that can advance the course of the profession. In his words, “collaboration, not competition brought us together. We are here to communicate not compete.” He charged the audience to look beyond today's work, learn from the past and build the future of our dream.

Since today's students are tomorrow's professionals, he urged everyone to lift higher the banner of the Accountancy Profession in their various jurisdictions to attract the best and brightest

into the profession. While noting that Chartered Accountants facilitate clients' access to credit, he urged them to impress on their clients the need to pursue profit in business with ethical dispositions. He also invited the Congress delegates to discuss the critical issues of taxation and policies associated with the operations of Multinational Corporations (MNCs). He concluded by stressing the need for accountability in public and private sectors as well as the imperative of moving towards Integrated Reporting.

The Director General of the Italian Treasury, Prof. Vincenzo La Via also addressed the delegates during the opening ceremony. The thrust of his presentation was the importance of Accountancy to the drive for poverty reduction. According to him, the Accountancy Profession is crucial to countries and industries. Where the values of Accountancy are imbibed and practiced, accountability and transparency will occur and so, resources will be judiciously used. Therefore, accountability and transparency hold the ace or solution to poverty. He urged the delegates to leave the congress with new ideas and new thinking and consider how they can continue to contribute not only to global economics but also affect public sector for the development of society.

ICAN as WCOA Academic Partner

It was a day of glory for the Institute as its 50th and Golden Jubilee President, Mr. Chidi Onyeukwu Ajaegbu, FCS, MBF, Dip. in Polygraph, FCA was invited, during the opening ceremonies, to present prizes to the joint winners of the Academic Research Award, held for the first time by IFAC WCOA. The Academic Partner Prize which was sponsored by ICAN was jointly won by Professors Klaus Backhaus and Hans-Jurgen Kirsch and Dr. Christina Rossinelli, all of University of Muster with their winning research titled, *"Future Perspectives on the Auditing Profession – A Scenario Analysis."* The Congress brochure had the article and five others commended for their originality and contributions to knowledge. These were selected from a list of 40 articles whose abstracts were previously accepted by the 7-man Scientific Committee. In the words of the Golden Jubilee President, the Prize, *"is a crystallisation of our strategic vision over the years and a concrete way of showing our commitment to the development of the Accountancy Profession in Africa's most populous nation and biggest economy and indeed, the whole world."* Throughout the 4-day Congress, the ICAN banner was on display in the main hall as Academic Partner. This publicity bliss was complimented by the ICAN Exhibition Stand strategically located at the entrance through which many visitors obtained information about the



ICAN President Mr Chidi Ajaegbu presenting the Academic Award sponsored by ICAN to the winners at the congress

Institute and the profession in Nigeria.

The imperial sponsors of the global event, CGMA (i.e. product of the merger of CIMA, UK and AICPA), were given some time to address the audience. Their message was that holders of the CGMA qualifications will remain not only business leaders but also global citizens as they will continue to be in high demand by discerning investors and users of accounting services.

Ian Ball, former IFAC CEO was honoured with IFAC Gold Service Award for his invaluable contributions to the Accountancy Profession prior to and during his 10-year tenure as IFAC CEO. He is currently the CEO of CIPFA. The opening ceremonies closed with musical entertainment by Italy's best known Jazz artist while refreshments were served.



ICAN President Mr. Chidi Ajaegbu with the immediate Past President of IFAC, Mr. Allen Warren at the WCOA

Technical Sessions

A total of three plenary and 32 workshop (in 5-concurrent) sessions were held during the four-day Congress. ICAN provided two resource persons for the workshop sessions (Jim Obazee, FCA and Daniel Lanre Monehin, FCA). Most of the sessions were devoid of formal paper presentations. Each of the technical sessions had four discussants with one moderator who introduced the subject of discourse and also invited the discussants to, in turn, share their experiences on specific issue(s) arising from the subject matter. The moderator led each resource person to react to assertions or perspectives. Interventions of participants were through internet, Android or Blackberry accessories. Unique passwords were pre-sent to all delegates to access the Wi-Fi services at the Congress

venue. Questions or comments from the audience were to be sent electronically to designated emails for each session. This way, time was managed very efficiently while frivolous questions and otiose comments were obviated.

The technical session on **Strengthening and Transforming the Accountancy Profession** which was dedicated to South Africa's Thuthuka Bursary Fund (TBF) Model for strategically growing the Accountancy Profession in post-Apartheid years was, for me, most memorable. Preceded by a 10-minutes film show of the Apartheid struggle and Nelson Mandela's election as South Africa's first black President, the TBF presentation took the form of a panel discussion anchored by Ms Chantyl Mulder, Senior Executive, Professional Development, Transformation and Growth at SAICA. Also on the panel were Terence Nombembe (SAICA CEO), Sizwe Nxasana (TBF Chair), Mark Bower (Board member: Edcon Holdings Limited), and Tokelo Sekese, a beneficiary of the TBF.

This was a model financed by private sector, donor agencies and managed by the government in which the best and brightest candidates were selected on merit, admitted into Accountancy programmes of accredited universities with all expenses paid. The Thuthuka Model students were paid stipends (bursary awards) as additional incentives and were required to attend extra lectures each weekend, work in groups, support each other, teach accounting and mathematics in secondary schools during holidays, get involved in NGOs to support community development, exhibit special demeanour as future community leaders, etc. The private sector supported the initiative because of their quest for black professional accountants needed to drive the country's development in the post apartheid years. A proud product of the Model, Tokelo Sekese, shared her emotional experience with the audience. As a result of the Model, the percentage of black professional accountants had grown from 2% to over 28% since 1996. Given that it takes at least seven years from the date of admission to university to produce a chartered accountant in South Africa, this is a remarkable feat. According to Fayezeul Choudhury, Chief Executive Officer of the IFAC, the global body "believes a strong accountancy profession strengthens organisations and advances economies. A key role of our member organisations is actively to contribute to the development of the profession. The Thuthuka initiative is a good example of how a creative approach and a persuasive value proposition creates stakeholder interest, a necessary component for a successful development initiative."

Visit to Nigerian Ambassador to Italy

The Golden Jubilee President, Mr. Chidi Onyeukwu Ajaegbu, FCS, MBF, Dip. in Polygraph, FCA, led a delegation to pay a courtesy call on the Nigerian Ambassador to Italy, His Excellency Amb. Eric Tonye Aworabhi. After brief introductions, the President apprised the Ambassador about ICAN, its role in IFAC and the importance of WCOA to all professional accountants worldwide. While regretting the Embassy's inability to elaborately host the ICAN



ICAN President, Mr Chidi Ajaegbu (left); new President of the International Federation of Accountants (IFAC), Mrs Olivia Kirtley; ICAN Past President, Major-General Sebastian Owuama (rtd); and ICAN Registrar, Mr Rotimi Omotoso, shortly after the election of Kirtley as the IFAC President in New York

delegation, the Ambassador was full of praise for the Institute for its numerous achievements globally and for finding time within the very busy schedule of the Congress to visit the Nigerian house. Describing Italy as the Museum of World History, he urged ICAN to strive to preserve its rich history as Italy has done. He noted that the Institute had been using ICAN before US President Barrack Obama adopted it as his campaign slogan in 2008! The President thanked the Ambassador for the compliments and his hospitality. The delegation, which comprised Otunba Femi Deru (VP), Otunba A.L.A. Owoyemi (PP), Dr. (Mrs.) C.G. Okpareke, mni (PP), Alhaji Kabir A. Mohammed, mni (IPP), Deacon Titus A. Soetan, (1st DVP), Alhaji I.M. Zakari, mni (2nd DVP), Mr. Wale Raji (Council member), Mr. Rotimi Omotoso, Registrar/Chief Executive, Abel Aig. Asein, Deputy Registrar, Technical Services, Mr. Mukaila Lawal, Assistant Director, Financial Services, Mrs. Bunmi Owolabi, Senior Manager, Communication and Marketing and Lekan Oseni, Personal Assistant to the President, was well received and the interaction was very productive.

Closing Ceremonies

It was a great outing for the Accountancy Profession with nearly

“The WCOA has become not only a befitting testimony of the close affinity between professional accountants worldwide but also, as refreshing as it was educating both to the old and young”

4,000 professional accountants gathered to learn from the past and build the future. During the closing ceremonies, the veteran Kenyan, Mr. Ndung'u Gathinji, FCA was honoured with the IFAC Robert Sempier Award for immense contributions to the Accountancy Profession including serving IFAC in various capacities for over 23 years. According to the IFAC President, "Mr. Gathinji has worked tirelessly to promote the accountancy profession in Kenya and Africa. His pioneering efforts to launch the Pan African Federation of Accountants, Institute of Certified Public Accountants of Kenya, and the former Eastern, Central, and Southern African Federation of Accountants have ensured that the value of the profession has been understood and embraced in Africa in a way that would have been otherwise impossible. Mr. Gathinji is a recognised leader and passionate activist for the profession and I am both honoured and delighted to present him with this award." The IFAC Robert Sempier Award was created by the IFAC Council in 1991 to honor the contributions of Robert Sempier, IFAC's first executive director. Previous award recipients have been Bob Sempier (1992), Gordon H. Cowperthwaite (1997), Sir Bryan Carsberg (2002), Marilyn Pendergast (2006), and Robert Mednick (2010).

Mr Gathinji's acceptance speech was not only moving, inspiring and filled with anecdotes, it brought history to life as he told the unusual story of his tortuous journey to the Accountancy Profession and IFAC. In closing, he raised a lot of issues including the need for an African to be considered fit to occupy the position of IFAC President in the near future. He got a standing ovation.

First Female IFAC President Elected

Ms Olivia Kirtley, the newly elected first female President of IFAC was introduced to the audience. Ms Kirtley is an American and also the first president elected from business and industry, rather than public accounting, and will hold the position of president for a two-year term ending in November 2016. Kirtley was first elected to the IFAC board in 2007, rising to the post of deputy president in 2012. A certified public accountant and chartered global management accountant, Kirtley is also non-executive director of US Bancorp, ResCare Inc. and Papa John's International. With a long-standing background in accounting and management, she is a former chair of the American Institute of Certified Public Accountants (AICPA) and the AICPA board of examiners.

In her inaugural address, she commended her predecessors in office for their contributions to the global Accountancy Profession and the immense roles that IFAC has been playing not only as a global voice for the profession but to support PAOs to deliver on their public interest mandate. She cited the Rwandan experience where the war decimated the accounting professionals to only 45 in 2008 and without a PAO. In 2014, that is within eight years, that number, she noted, had grown to 285 supported by a vibrant PAO. Today, Rwanda is one of the fastest growing countries in Africa. She happily noted that ICPA, Rwanda was admitted a member of IFAC in 2012! She announced that, with the support of donor agencies,

three countries will be financially and technically supported by IFAC in the next two-three years to up their games: Ghana, Rwanda and Uganda. An MoU has been signed with their PAOs under IFAC's Memorandum of Understanding for Strengthening Technical Capacity of PAOs. She appreciated the UK DFID for providing £5 million (British pounds sterling) for this purpose.

She urged all PAOs to support civil society to drive development even in the midst of challenges and opportunities. She stressed that hard choices may need to be made to sustain the towering image of the profession. She assured that IFAC will remain resolute

“The thought of when Africa will host the WCOA and/or produce the IFAC President remains, to me, an enigma but realisable dream. I am persuaded that Africa can do it. Yes, we can”

as a voice of the profession irrespective of the disruptive changes occasioned by technology and increasing sophistry of clientele. The professional accountant, according to her, must be IT savvy and know that data is not knowledge. They must be the voice of reason and drive inclusive policies and initiatives for a better society. She made allusion to the 3G printing technology exhibited during the Congress as an indication of innovations that lie ahead. Accordingly, she urged all not to take anything for granted but anticipate changes particularly because Accountancy is transiting from the position of navigation to occupying the driver's seat. She informed the audience that IFAC

has created a **Knowledge Gateway** to support members and encouraged all to take advantage of the unique opportunity to network with colleagues from all over the globe.

She called for reforms in government accounting taking a cue from China (with its 14 million professional accountants) and New Zealand as this was critical not only to economic prosperity but also, would make concealment of fraud increasingly difficult. Governments, she said, must be made accountable, the same way companies are held accountable. After all, accrual accounting is about telling the truth. It is in this respect that IFAC, according to her, launched the campaign titled, **"Accountability Now"** to underscore the fact that public accountability is a major part of the public interest mandate of the profession. In closing, she urged all, "not only to know, but to apply, learning is not enough, but we must do; it is time to get onto the train of integrated reporting and integrated thinking. Although individually, we may be ordinary, but collectively, we can achieve extraordinary things". Finally, she announced that Sydney Australia will be the next host of the IFAC WCOA.

Conclusion

As we set to conclude the 19th Olympics of the Accountancy Profession and depart Rome, Italy, the thought of when Africa will host the WCOA and/or produce the IFAC President remains, to me, an enigma but realisable dream. I am persuaded that Africa can do it. Yes, we can. ●

*** Mr. Abel Aig. Asein, BSc (Econs.), MBA, AMNIM, CFE, FCCA, ACA is the Deputy Registrar, Technical Services, The Institute of Chartered Accountants of Nigeria.**

Business Re-organisation in Nigeria: Key Tax Considerations and Common Pitfalls

By KENNETH ERIKUME

According to the popular saying, change is the only constant thing in life. This is true, especially in business. Organisations have to continuously re-examine their legal and operating structures to ensure they are fit for purpose and are able to compete favourably in the modern business world. This review often results in some internal, and sometimes, external restructuring activities.

Considering the renewed focus on Africa as the next investment frontier, and given that Nigeria is the largest economy on the continent, investors with operations in Nigeria may find it inevitable to restructure their businesses for various reasons. Whatever the motive, business executives must be aware of the possible tax implications before taking the leap.

Business re-organisation usually takes the form of internal restructuring or mergers and acquisitions (M&A). Internal restructuring could involve changes to the functions, assets and risks of different operating units within the organisation or entities within a group. For example, centralisation of procurement, changes to holding company location, central treasury function, shared services centre and so on. M&A essentially deal with the buying, selling, dividing and combining of different entities that can help an enterprise reposition for sustainable growth.

The distinction between a “merger” and an “acquisition” has become increasingly blurred especially from a financial reporting viewpoint. However, from a regulatory perspective, the difference has not completely disappeared. Generally, a merger is a legal consolidation of two companies into one entity either through a scheme of arrangement or a scheme of merger.

Under a typical scheme of arrangement, the net assets and business of a company (say A Limited) is transferred to another company

(B limited). In this regard, company B’s identity is retained while company A is liquidated. However, under a scheme of merger, companies A and B combine into one. By so doing, both companies lose their individual identities for a new company to emerge which may well be named AB Limited. On the other hand, an acquisition occurs when one company takes over another and establishes itself as the new owner. The target company still exists as a separate legal entity.

“Generally, a merger is a legal consolidation of two companies into one entity either through a scheme of arrangement or a scheme of merger”

The Nigerian Situation

Re-organisations in Nigeria are highly regulated. Entities that want to merge require some forms of notification and approval from the Federal Tax Authority – the Federal Inland Revenue Service (FIRS), and other regulators such as the Securities and Exchange Commission (SEC). The FIRS would usually request for a security or guarantee from any of the parties to the merger in respect of any established or potential tax liabilities.

Also, a court approval is required for a

merger of all listed and large private companies. In practice, the entire process takes between 6 to 12 months to complete. On the other hand, these requirements are less stringent in the case of an acquisition.

Investors will typically consider the alternatives of either a share or an asset deal. In a share deal, the buyer buys shares of the target company. Since the company is acquired intact as a going concern, this form of transaction carries with it all known and inherent liabilities and other risks of the target entity. These risks are thus transferred to the acquirer as all shareholders share proportionately in the residual risks or rewards of the companies they own.

In contrast, the investor simply buys the business or net assets of the target company in an asset deal. This is usually done through a special purpose vehicle that can start the business on a clean slate. This may leave the target company as an empty shell depending on the relative scale of the deal.

Driving Factors

Re-organisations are becoming increasingly common in the Nigerian business terrain due to a number of factors. These include minimum capital requirements stipulated by regulators in some sectors, local content regulations, deals and transactions around disposal of onshore oil and gas assets by international oil companies, divestment by government from power assets, divestment from passive assets by telecommunications companies, sale of rescued banks, disposal of non-banking subsidiaries by financial groups and so on.

In the past, many investors did not pay sufficient attention to the tax issues when undertaking a re-organisation exercise. The result is usually tax inefficiency, and loss of shareholder value due to unanticipated tax costs. The importance of a robust tax due diligence and planning in a re-organisation cannot be over-emphasised and sometimes, tax issues can be a deal breaker.

Key Tax Considerations and Common Pitfalls

The FIRS will be interested in whether a re-organisation would lead to tax base erosion and possible tax revenue leakage. This, in many cases, means that affected companies may have to pay more taxes where there is no specific waiver in the law.

Generally, where assets are being transferred from one legal entity to another, certain tax liabilities may arise such as Value Added Tax (VAT), Capital Gains Tax (CGT), Stamp Duty, and claw-back of capital allowances.

In the case of a share deal, there is no VAT, no CGT and claw-back of capital allowance is not applicable but may be subject to a nominal stamp duty payment.

In deciding which option to take, investors need to balance the almost tax free share acquisition approach with the potential legacy risks of the target. Another downside is that the investor in a share deal does not get tax deduction for his investment given that the

tax base of the underlying assets remains the same.

Certain provisions exist in the tax law to eliminate or significantly reduce the tax costs in an internal re-organisation. This however requires specific approval of the FIRS which cannot be guaranteed. Another key consideration for internal structuring is transfer pricing (TP) especially between separate legal entities within a group. This is particularly the case given that the TP regulations in Nigeria are applicable to cross border and domestic related party transactions alike.

In summary, the decision as to which approach to use from a buyer's perspective is determined by how much historic liabilities are within the business, how to minimise the applicable transfer taxes to the seller, and how to maximise tax deductibility of acquisition costs. Some structuring possibilities are available to mitigate transaction taxes and other commercial non-tax liabilities.

A major pitfall to bear in mind is the creation of a holding company or intermediate parent companies. This could

New companies may apply for tax incentives such as "pioneer" status incentive which confers corporate income tax exemption on such companies for up to five years. This incentive also needs to be carefully planned otherwise it may result in an overall tax cost rather than tax benefit

happen where a special purpose vehicle (SPV) is set up in Nigeria to acquire the shares of a Nigerian target company. Generally, Nigerian holding structures create significant tax leakages. This is because holding companies are exposed to 'excess dividend tax' on any income that has not been subject to corporate income tax such as capital gains and tax exempt income like dividends. The effect of this rule is that intermediate or ultimate holding companies that earn dividend from other Nigerian operating companies or capital gains from the disposal of shares will be caught by the excess

dividends tax when they further distribute such profits.

Another peculiar issue in respect of intermediate holding companies is minimum tax. The minimum tax provision requires income tax to be calculated based on other parameters such as net assets, for businesses with low or no taxable profits. However, companies that have 25% direct foreign equity are exempt from minimum tax. The effect is that the operating company may be exposed to minimum tax because its shares are held 100% by a Nigerian intermediate holding company.

Added to this is the commencement rule. Setting up a new SPV as a result of a re-organisation in whatever form could lead to double taxation (effectively up to 60%) of the profits of at least 12 months in the first three tax years due to the application of commencement rules.

New companies may apply for tax incentives such as "pioneer" status incentive which confers corporate income tax exemption on such companies for up to five years. This incentive also needs to be carefully planned otherwise it may result in an overall tax cost rather than tax benefit. ●

*** Mr. Kenneth Erikume is Director, Tax & Regulatory Services, PwC Nigeria.**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

**IN THE ACCOUNTANTS' DISCIPLINARY TRIBUNAL
HOLDEN AT VICTORIA ISLAND, LAGOS**

CHARGE NO: ICAN/LEG/DT/13840/2010

Between:

ICAN.....COMPLAINANT/RESPONDENT

and

MOHAMMED ABDULLAHI BULAWA.....RESPONDENT/APPLICANT

RULING

The Respondent was charged before this Tribunal on a two (2) count charge as follows:

1ST COUNT

STATEMENT OF OFFENCE

PROFESSIONAL MISCONDUCT contrary to Paragraph 13.6 of Chapter 13 of the Rules of Professional Conduct for Members and punishable under the said Rules and Section 12 (1) of the ICAN Act Cap. 185 Laws of the Federation of Nigeria, 1990.

PARTICULARS OF OFFENCE

That you MOHAMMED ABDULLAHI BULAWA (M), between 4th February 2008; 16th December 2008; 3rd September 2009; 9th October 2009 and 3rd December 2009 and subsequently having properly been invited by the Institute, refused/neglected and failed to appear before the Investigating Panel of the Institute thereby committing an offence contrary to Paragraph 13.6 of Chapter 13 of the Rules of Professional Conduct for Members and punishable under Section 12 (1) (a) of the ICAN Act Cap 185 LFN, 1990.

2ND COUNT

STATEMENT OF OFFENCE

INFAMOUS CONDUCT contrary to Paragraph 2.1 of Chapter 2 of the Rules of Professional Conduct for members and punishable under the said Rules and Section 12(1)(a) of the Institute of Chartered Accountants of Nigeria Act Cap 185 LFN, 1990.

PARTICULARS OF OFFENCE

That you MOHAMMED ABDULLAHI BULAWA (M), between 28th March 2002 and 16th January 2003 in the course of your duty as a Chartered Accountant altered the amounts in words and in figures on cheques belonging to Abuja Securities and Commodity Exchange Plc, your employer, after the cheques had been duly signed and left in your custody for release to the beneficiaries thus, defrauding your said employer to the tune of N2.25 million (Two million, two

hundred and twenty-five thousand Naira) thereby committing an offence contrary to Paragraph 2.1 of Chapter 2 of the Rules of Professional Conduct for Members and punishable under Section 12 (1)(a) of the ICAN Act Cap.185 LFN 1990.

At the trial, the prosecution called two witnesses through whom it tendered Exhibits MB1 – MB11 and closed its case. Thereafter, the Respondent, through his Counsel, made a “no case” submission.

In the no case submission dated 25th September 2014, Counsel for the Respondent argued that the Respondent did not get the invitation of the Investigating Panel until he saw a publication that was made on the 31st of January 2006 inviting him to the Panel meeting and that the Respondent had entered an appearance via a letter dated February 10, 2006 and marked as Exhibit MB8 wherein he cited a change of address and ill health as the reasons for his failure to appear at previous meetings.

It is on record that the matter was initially referred to the Tribunal by the Investigating Panel on the ground that the Respondent refused to appear before the Panel. The matter was however, referred back to the Panel by the Tribunal as the Tribunal was of the view that the Respondent should be given ample time to appear before the Panel and state his case.

Upon inviting the Respondent to the Panel meeting on November 5, 2009 and 3rd December 2009, the Panel was constrained to refer the matter again to the Disciplinary Tribunal for disciplinary action in compliance with already established rules under Paragraph 13.5 of Chapter 13 of the Rules of Professional Conduct for members, taking into cognizance the provisions of paragraphs 13.3 and 13.4 which require the Panel to avail the Respondent ample opportunity to defend himself.

In the case of **OSSAI EMEDO & ORS VS. THE STATE** (2003)1 WRN 20, the Supreme Court held that:

“There are many decisions of this court warning against the discharge of accused persons after a submission of no case to answer, particularly when it is

clear from the evidence adduced that the facts disclose some explanation which the accused has to make in view of what the prosecution has so far established from evidence."

The Panel acted properly in bringing this matter before the Tribunal as required under the clear provisions of Paragraph 13.5 read in conjunction with Paragraphs 13.3 and 13.4 of the Rules of Professional Conduct for members. The Panel could not have left the matter hanging perpetually as S.m11(2) of the ICAN act mandates the Panel to refer cases to the Disciplinary Tribunal where they are of the view that a prima Facie case was found against the Respondent. Consequently, the Respondent/Applicant's submission in respect of the 1st Count is overruled.

On the 2nd count, the Respondent/Applicant's Counsel had argued that the nature of the offence against the Respondent/Applicant bothers on Fraud and Forgery which are criminal in nature and provided for under the Criminal Act, Section 465, and punishable under Section 467 of the same Act. He posited that the Tribunal has no jurisdiction over criminal matters.

The prosecution on the other hand argued that the Tribunal did not intend to determine the criminal liability of the Respondent but it is more interested in deciphering whether the act he was accused of is reprehensible under the abundant provisions of Chapters 14-19 of the ICAN Rules of Professional conduct which mandated the Institute to enforce good ethical standards and also whether the acts complained of are capable of bringing the Institute to disrepute in the eyes of the public.

The Tribunal reviewed the arguments posited by the counsel for the Respondent and the Prosecutor and is constrained to agree with the position of learned Counsel for the Respondent/Applicant. Indeed, the Respondent was clearly charged with defrauding his employer, which is a criminal offence. Though, there are serious ethical issues in the allegation raised, the Tribunal cannot proceed to determine whether the Respondent's conduct is in breach of the Rules of Professional Conduct without first determining if indeed the Respondent is guilty of the crime.

The Supreme Court, in the case of **ILYASU SUBERU VS. THE STATE** (2010) 5 NSCR 86 at 111 stated that:

"The purport of a no case submission when made on behalf of an accused person is that the trial court is not called upon at that stage to express any opinion on the evidence before it. The court is only called upon to take note and to rule accordingly that there is before the court no legally admissible evidence linking the accused person with the commission of the offence with which he is charged."

This Tribunal is of the opinion that, where an act which amounts to infamous conduct or professional misconduct also constitutes a crime (as in this case) it would be neater to subject the Respondent to the Institute's disciplinary process only after conviction by a court of competent jurisdiction. Section 36(5) of the Nigerian Constitution 1999 as amended guarantees the presumption of innocence of everyone accused of criminal offence(s) in Nigeria until a court of competent jurisdiction declares otherwise. Similarly Section 191(3) of the Nigerian Criminal Procedure Code provides that:

"Notwithstanding the provisions of sub-section 2 of

this section, the Court may after hearing the evidence for the prosecution, if it considers that the evidence against the accused is not sufficient to justify proceeding further with the trial, record a finding of not guilty in respect of the accused without calling upon him to enter his defence. Such an accused person shall be discharged."

In the case of **OSSAI EMEDO & ORS VS. THE STATE** (Supra) the Supreme Court held that the decision to uphold or reject a no case submission should depend upon whether the evidence is such that a reasonable tribunal might convict and whether it would be safe to convict on the evidence as it stands.

Having listened to the Respondent's counsel and submissions of the prosecution, this Tribunal is of the view that there is nothing before it to show that the Respondent/Applicant has been found guilty of the alleged criminal acts by a court of competent jurisdiction. There is ample evidence before this Tribunal that the Complainant never reported this matter to the police, let alone filling a criminal action against him in court. This Tribunal is therefore constrained to hold that there is no basis for him to be tried on the 2nd Count when the alleged offence has not been established against him. In our opinion, the prosecution has not established a prima facie case against the Respondent/Applicant with respect to count two (2).

Accordingly, the Respondent's submission with regard to the 2nd Count is upheld.

However, the Tribunal is of the view that the first Count cannot stand on its own as the gravamen of this complaint is based on Count 2. Since count 2 of the charge failed, there is nothing upon which count 1 can stand as it is not possible to put something on nothing. It will crumble like a pack of cards. Since this Tribunal cannot make inquiries into the criminality of the allegation against the Respondent, it reasonably follows that it cannot enquire again into the reason for his non appearance before the Panel as this is a jurisdictional matter.

In the case of **JOSIAH AYODELE ADETAYO & 2 ORS VS KUNLE ADEMOLA**, the Supreme Court stated that:

"The question of jurisdiction strikes at the root of any cause or matter and consequently raises the issue of competence of the Court to adjudicate in the particular proceedings."

"The jurisdiction of any Court is derived from the statute creating the Court or from any other statute specifically conferring such jurisdiction on the Court."

It therefore follows that the Accountant's Disciplinary Tribunal, set up by the ICAN Act cannot determine cases that bother on criminality as the Act did not confer such jurisdiction on it.

As a precursor to this reasoning, the Respondent is hereby discharged.

This shall be the decision of this Tribunal and this shall be published in the Institute's journal.

Dated this 28th day of November 2014

CHIDI ONYEUKWU AJAEGBU, FCS, MBF, FCA
Chairman, Accountants' Disciplinary Tribunal

Corporate Performance and Corporate Social Responsibility

By NDUKWE O. DIBIA

*The objective of the study is to examine the relationship between corporate social responsibility and corporate performance using a panel data research design and a scope period of 2008-2011. The study used secondary data from only audited financial statements and footnotes of the sampled companies for 40 companies selected using the simple random sampling. The study made use of generalised least squares regression analysis as the data analysis method. We specified three models for the study. **Model 1** examines the impact of Corporate Social Responsibility Disclosure on Return on equity, **Model 2** examines the impact of Corporate Social Responsibility Disclosure on Return on Assets while **Model 3** examines the impact of Corporate Social Responsibility (CSR) Disclosure on Firm growth. The Panel EGLS (Fixed effects) estimation shows that we find some evidence that corporate social responsibility specifically has a significant effect on corporate performance though the effect is mixed. The policy implication that follows is the challenge of ensuring credibility of CSR disclosures as it may tend to be selective and as such difficult to determine whether such disclosures are anything more than corporate branding.*

Key words: Corporate Social Responsibility, Corporate Performance, Fixed Effects Regression.

1. INTRODUCTION

The relation between corporate performance and corporate social and environmental reporting by corporations has become an important research area as we are faced with the reality that contemporary corporate social and environmental reporting practices has drifted and evolved within a system skewed towards the spirit of free-market individualism without effective state direction. Hence companies may rationalise and be interested in maximising their CSR reporting practices in relation to how it impacts on its corporate performance. Why we argue that CSR reporting should not be subjected to purely cost-benefits considerations as if it were strictly an "investment-returns" situation, we find that however, this is the perception of most corporations. Although it is not a new concept, Corporate Social Responsibility (CSR) remains an interesting area of discourse for academics and an intensely debatable issue for business managers and their stakeholders. The Commission of the European Communities in 2001 defined corporate social responsibility as the integration of social and environmental concerns by companies in their business operations and in their interaction with their stakeholders on a voluntary basis. It is related to complex issues such as environmental protection, human resources management, health and safety at work, relations with local communities, relations with suppliers and consumers. Corporate Social Responsibility (CSR) reporting has attracted much attention over the past three decades (Smith, 2003). By reporting CSR information, a firm addresses the information needs of stakeholders and provides a basis for dialogue between the firm and its stakeholders. Gelb and Strawser (2001) argue that a greater level of reporting is itself a form of socially responsible behaviour. Branco and Rodrigues (2006) note that Corporate Social Responsibility is now seen as a source of competitive advantage and not as an end in itself. Specifically, CSR may signal to the market that the firm is social and environmentally responsible and may create goodwill for the firm leading to positive effects for firm financial performance. Bowen (2000) in this regards, identified that corporations engage and report their CSR activities in order to increase their social visibility and to improve stakeholder relations as it creates promotional opportunities for the firm. Furthermore,

many CSR activities are made on the basis of presenting corporations in a positive light and providing reputation effects that improves on how the organisation is perceived. In addition, Roberts and Dowling (2002) explains that corporate social responsibility initiative can lead to reputation advantage which could result to improvement in investment trust, new market opportunities, and positive reactions on capital market which ultimately enhance organisation's financial position.

The nexus between CSR and corporate performance is complex and its complexity is confirmed by the empirical literature in the field which does not provide clear cut results. In favour of a positive link are those studies showing that: i) Costs of having a high level of CSR are more than compensated by benefits in employee morale and productivity (Soloman and Hansen, 1985); ii) CSR is positively associated with financial performance (Pava and Krausz, 1996 and Preston and O'Bannon, 1997); iii) Positive synergies exist between corporate performance and good stakeholders relationships (Stanwick and Stanwick, 1998; Verschoor, 1998); iv) Change in CSR is positively associated with growth in sales and returns on sales are positively associated with CSR for three financial periods (Ruf *et al.*, 2001). On the negative side, we have contributions of Preston and O'Bannon (1997), Freedman and Jaggi (1982), Ingram and Frazier (1983) and Waddock and Graves (1997). Inconclusive results are those of McWilliams and Siegel (2001), Anderson and Frankle (1980), Freedman and Jaggi (1986) and Aupperle, Carroll and Hatfield (1985). Thus, this study fills this gap by examining the relationship between corporate social responsibility reporting and corporate performance in Nigeria.

2. OBJECTIVE OF THE STUDY

The major objective of this study is to examine the impact of corporate social responsibility on corporate performance.

3. HYPOTHESES

H1: Corporate social responsibility disclosure on employee welfare and training has no significant effect on corporate performance.

H2: Corporate social responsibility in form of monetary gifts and donations and community development activities has no significant effect on corporate performance.

H3: Corporate social responsibility disclosure in the form of Conformity to environmental and other governmental policies has no significant effect on corporate performance.

4. LITERATURE REVIEW

Corporate Social Responsibility

Although it is not a new concept, corporate Social Responsibility (CSR) remains an emerging and elusive idea for academics and a contested issue for business manager and their stakeholders owing to the range of contrasting definitions and often convoluted by varying use of terminology, the notion of CSR has led to the emergence of variety of practice (Crane and Motten, 2004; Welford 2004; Habisch and Jonker, 2005). In brief, the concept of Corporate Social Responsibility encompasses many dimension of business activity ranging from the social to economic and to the environmental.

According to Business for Social Responsibility (BSR, 2006), corporate social responsibility is defined as "achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment." McWilliams and Siegel (2001:117) describe CSR as "actions that appear to further some social good, beyond the interest of the firm and that which is required by law."

According to Lea (2002), Corporate Social Responsibility (CSR) can be roughly defined as the concern in business operations, including environmental dealings with stakeholder. Corporate Social Responsibility is about businesses and other organisation going beyond the legal obligations to manage the impact they have on the environment and society. In environmental particularly, this could deal with how organisations interact with their employees, supplier, customer and the communities in which they operate, as well as the extent they attempt to protect the environment.

According to Foran (2001), Corporate Social Responsibility can be defined as the set of practices and behaviours that firm adopt toward their labour force, toward the environment in which their operations are embedded, toward authority and towards civil society. Andersen, (2003) defines Corporate Social Responsibility broadly to be about extending the immediate interest from oneself to include one's fellow citizens and the society one is living in and is a part of today, acting with respect for the future generation and nature.

Corporate Social Responsibility and Corporate Performance

Luce, Barber and Hillman, (2001) studied the relation between CSR enterprise appeal to employees and a firm's public profile. They claim that a firm's reputation has a positive influence on the relation between CSR and appeal. Short-term studies based on abnormal return measure (Posnikoff, 1997) and on market actions (Moskowitz, 1972) showed a positive relation between performance and CSR.

Griffin and Mahon (1997) looked at the chemical industry and found that high CSR was linked to high financial performance and that low amounts of CSR reporting was linked to lower financial performance for the firm. Griffin and Mahon's empirical study was one of only a handful of studies that was industry-specific. Industry is a moderating variable. However, the internal validity of this empirical research was low as Griffin and Mahon only studied six firms.

Joyner and Payne (2002) also found a positive correlation between reporting CSR with performance and firm value. Joyner and Payne

noted the difficulty of measuring the benefits of CSR. There were also limitations as only a small sample of two firms was studied in detail, so their results could not be generalised adequately. The authors also saw some indication of a time lag between when CSR was reported and the financial benefits seen. These findings conflict with the results of Spicer (1978) who found that the financial benefits were short lived.

Wright and Ferris (1997) discovered a negative relationship; Posnikoff (1997) reported a positive relationship, while Welch and Wazzan (1999) found no relationship between CSR and financial performance.

Several studies find a positive relationship between environmental practices or performance and financial performance (for instance, Konar and Cohen, 2001; King and Lennox, 2001), but others results appear to be negative or non-significant (Barla, 2007; Filbeck and Gorman, 2004). The same type of results may be found for social and business behaviours performance measures. Interestingly also, research has tended to provide more consistent results and show preliminary evidence of a bi-directional causality, namely from financial to social and environmental performance (Scholtens, 2008; Margolis *et al.* 2009).

5. METHODOLOGY

The research design adopted for the study is the cross-sectional research design. The population of the study is made up of all the companies listed on the Nigerian Stock Exchange. Each company in the population must have finished its obligation in delivering annual report of the year ended 2011. However, considering the near impracticality of observing the entire population, the simple random sampling technique was utilised in selecting a sample size. A sample size of 40 companies will be selected and utilised for the study. Secondary data was used for the study. The secondary data was retrieved from financial statements and footnotes of the sampled companies. Previous studies, (for instance, Thompson and Zakaria, 2004; Abu-Baker and Naser, 2000) argue that annual reports are broadly viewed as the main official and legal document, which are produced on a regular basis and act as an important place for the presentation of a firm’s communication within political, social and economic systems and are the most publicised by companies. Therefore, in line with the afore-listed prior studies, this study is restricted to CSR disclosures in annual reports. In the extraction of the data to be used for the analysis, majority of studies on corporate social responsibility disclosure especially in the emerging capital markets, use content analysis from annual reports. The use of content analysis method in the study was based on its popularity and suitability in measuring a company’s CSR disclosure in audited annual reports (Adler, 1999). In line with Al-Tuwaijri *et al.*, (2004) content analysis is utilised in extracting the data. Content analysis involves using quantitative disclosure measures with denoted weights for different CSR disclosure items. These are based on the perceived importance of each item to various user categories, which also marks the greatest weight ‘3’ for quantitative disclosures, Marking the next highest weight ‘2’ for non-quantitative but specific information related to these indicators. Lastly, common qualitative disclosures receive the lowest weight ‘1’. Firms that do not disclose any information for the given indicators receive a zero score. The study will make use of ordinary least squares regression analysis as the data analysis method.

6. MODEL SPECIFICATION

In line with the findings of Owolabi (2010) about the nature and extent of what constitutes corporate social responsibility disclosure in amongst Nigerian companies we therefore specify the model for the study.

The basic model for the study specifies corporate performance (COP) as a dependent function of corporate social responsibility (CSR). Thus the specification is:

$$COP = F (CSR) \text{ ----- (1)}$$

$$COP = \beta_0 + \beta_1 CSR + \mu \text{ ----- (2)}$$

However, the model is re-specified to examine the effect of selected variants of CSR activities often reported in financial statements on specific corporate performance indices:

$$ROE = \beta_0 + \beta_1 CSRWT + \beta_2 CSRMD + \beta_3 CSREGP + \mu \text{ ----- (3)}$$

$$ROA = \beta_0 + \beta_4 CSRWT + \beta_5 CSRMD + \beta_6 CSREGP + \mu \text{ ----- (4)}$$

$$GROWTH = \beta_0 + \beta_7 CSRWT + \beta_8 CSRMD + \beta_9 CSREGP + \mu \text{ ----- (5)}$$

Aprori expectation: $\beta_1 - \beta_6 > 0$

Where COP = corporate performance

CSR = corporate social responsibility (CSR)

ROE = Return on equity

ROA = Return on assets

GROWTH = Change in total assets

CSRWT = Corporate social responsibility disclosure on employee welfare and training

CSRMD = Corporate social responsibility in form of monetary gifts and donations and community development activities.

CSREGP = Corporate social responsibility disclosure in the form of Conformity to environmental and other governmental policies.

Table 1:
Operationalisation of Variables (Corporate Performance Measures)

Variable	Measurement	Source
Return on equity	ROE is equal to a fiscal year's net income (after preferred stock dividends but before common stock dividends) divided by total equity (excluding preferred shares), expressed as a percentage	Waddock and Graves (1997), Preston and O'Bannon (1997)
Return on assets	It is given by the ratio between net income and total assets	McWilliams and Siegel (2001), Luce Barber and Hillman (2001)
Growth	Change in total assets	Gonthier-Besacier and Schatt, 2007

Table 2:
Operationalisation of Variables (Corporate Social Responsibility Measures)

Variable	Measurement	Source
Corporate social responsibility	CSRH = Corporate social responsibility disclosure on employee welfare and training CSRMD = Corporate social responsibility in form of monetary gifts and donations and community development activities CSRH = Corporate social responsibility disclosure in the form of Conformity to environmental and other governmental policies	Owolabi (2010) Cormier <i>et al</i> , (2004) and Ismail and Ibrahim (2009)

7. PRESENTATION AND ANALYSIS OF DATA

Table 3:
Descriptive Statistics

	ROE	ROA	GROWTH	CSRMD	CSREGP	CSRWT
Mean	16.404	7.002	14.119	9689226	0.633	0.6175
Median	12.8	5.57	7.195	1012000	1	0
Maximum	290.47	49.04	380.6	3.65E+08	1	1
Minimum	-658.12	-37.06	-80.29	0	0	0
Std. Dev.	55.781	10.302	33.776	33566985	0.483	0.924
Jarque-Bera	193023.7	235.952	85319.25	76608.31	68.188	74.348
Probability	0.00	0.00	0.00	0.00	0.00	0.00
Observations	400	400	400	400	400	400

Source: Eviews 7.0

Where:

ROE = Return on equity

ROA = Return on asset

GROWTH = Growth

CSRWT = Corporate social responsibility disclosure on employee welfare and training

CSRMD = Corporate social responsibility disclosure in form of monetary gifts and donations and community development activities.

CSREGP = Corporate social responsibility disclosure in the form of Conformity to environmental and other governmental policies.

Table 3 presents the result for the descriptive statistics for the variables. As observed, ROA has a mean value of 16.404. The maximum, minimum and median values stood at 290.47, -650.12 and 12.8 respectively. The standard deviation is 55.781 while the Jacque-Bera statistic of 193023.7 alongside its p-value ($p = 0.00 < 0.05$) indicates that the data satisfies normality and as well as the unlikelihood of outliers in the series. ROA shows a positive mean of 7.002 and standard deviations of 10.302. The maximum, minimum and median values are 49.04, -37.06 and 5.57 respectively. The Jacque-Bera statistic of 235.952 alongside its p-value ($p = 0.00 < 0.05$) indicates that

the data satisfies normality. Growth measured as change in total assets has a mean value of 14.119 and a standard deviation of 33.776. The maximum, minimum and median values are 14.119, -80.29 and 7.195 respectively. The Jacque-Bera statistic of 85319.25 alongside its p-value ($p = 0.00 < 0.05$) indicates that the data satisfies normality. The mean for corporate social responsibility disclosure in form of monetary gifts and donations and community development activities (CSRMD) is 9689226. The standard deviation of 7241.559 is large and suggests that the spread of CSRMD is unlikely to exhibit considerable clustering around the sample average. The maximum, minimum and median values are $3.65E + 08$, 0 and 101200 respectively. The Jacque-Bera statistic of 76608.31 alongside its p-value ($p = 0.00 < 0.05$) indicates that the data satisfies normality. As observed, corporate social responsibility disclosure in the form of Conformity to environmental and other governmental policies (CSREGP) has a mean value of 0.633 which suggest that about 63.3% of the companies in our sample make disclosures with regards to conformity with environmental/governmental policies. The standard deviation is 0.483 while the Jacque-Bera statistic of 68.188 alongside its p-value ($p = 0.00 < 0.05$) indicates that the data satisfies normality and as well as the unlikelihood of outliers in the series. We also observed that about 61.75% of our sample engages in corporate social responsibility disclosure on employee welfare and training (CSRWT) as indicated by the mean of 0.6175 with a standard deviation of 0.924. The Jacque-Bera statistic of 74.348 alongside its p-value ($p = 0.00 < 0.05$) indicates that the data satisfies normality.

Table 4:
Pearson Correlation Result

	ROE	ROA	GROWTH	CSRMD	CSREGP	CSRWT
ROE	1	0.251	0.041	0.009	0.053	-0.103
ROA		1	0.008	0.022	0.197	-0.206
GROWTH			1	0.040	0.028	0.147
CSRMD				1	0.172	0.018
CSREGP					1	-0.127
CSRWT						1

Source: Eviews 7.0

From **Table 4** above, the correlation coefficients of the variables are examined. A positive correlation is observed between ROE and ROA ($r = 0.251$). GROWTH is observe to correlate positively with ROE ($r = 0.041$). ROE appears to also correlate positively with CSRMD ($r = -0.009$), CSREGP ($r = 0.030$) and negatively with CSRWT ($r = -103$). ROA is also observed to correlate positively with GROWTH ($r = 0.041$), CSRMD ($r = -0.022$) and CSREGP ($r = 0.197$). We also observe that ROA correlates negatively with CSRWT ($r = -0.206$). Growth is observed to be positively correlated with EGPL ($r = 0.028$). We also find that a positive correlation exist between CSRWT and GROWTH ($r = 0.147$), CSRMD is seen to correlate positively with CSREGP ($r = 0.172$) and CSRWT ($r = 0.018$). From the evaluation of the correlation coefficients, we find that none of the variables exhibit any evidence of strong collinearity and as such the challenge of multicollinearity may be unlikely when conducting the regression analysis.

Table 5:
Regression Assumptions Test

	MODEL 1	MODEL 2	MODEL 3
<i>Variance Inflation Test (Centered VIF Values)</i>			
CSRMD	1.481	1.140	2.856
CSREGP	5.336	1.703	8.56
CSRWT	9.434	1.72	2.762
<i>Breusch-Godfrey Serial Correlation LM Test:</i>			
P(f-stat)	0.221	0.219	0.322
<i>Heteroskedasticity Test: Breusch-Pagan-Godfrey</i>			
P(f-stat)	0.724	0.715	0.404
<i>Ramsey RESET Test</i>			
P(f-stat)	0.589	0.387	0.342

Source: Researcher's Computation (2013)

Table 5 shows the regression assumptions test for models 1–3. As observed, the variance inflation factor (VIF) shows how much of the variance of a coefficient estimate of a regressor has been inflated due to collinearity with the other regressors. Basically, VIFs above 10 are seen as a cause of concern (Landau and Everitt, 2003). As shown in the table, none of the variables appear to have VIF’s values exceeding 10 and hence none is dropped from the regression model. The performance of the Ramsey RESET test showed high probability values that were greater than 0.05, meaning that there was no significant evidence of miss-specification. The Breusch-pagan-Godfrey test for heteroscedasticity was performed on the residuals and the results showed probabilities in excess of 0.05 which suggest the absence of heteroscedasticity in the residuals. The Lagrange Multiplier (LM) test for serial correlation indicates that the probabilities (Prob. F, Prob. Chi-Square) exceeded 0.05 suggesting the absence of serial correlation in the model.

Table 6:
Return on Equity and Corporate Social Responsibility Disclosure (Model 1)

POOLED OLS			PANEL OLS (RANDOM EFFECTS)		PANEL OLS (FIXED EFFECTS)	
Variable	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	17.328	0.018	20.138	0.000*	21.300	0.000*
CSRMD	7.41E-10	0.995	9.39E-09	0.925	-4.32E-08	0.000*
CSREGP	-0.007	0.948	0.052	0.991	-0.075	0.945
CSRWT	3.108	0.694	-2.777	0.453	-3.910	0.025*
R ²	0.05		0.21		0.876	
ADJ R ²	0.04		0.17		0.832	
F-Stat	3.258		0.195		20.38	
P(f-stat)	0.012		0.899		0.000	
D.W	2.039		2.28		2.25	
Hausman test	0.00					

Source: EvIEWS 7.0 * significant at 5% ** significant at 10%

Table 6 shows the result for Model 1 which examines the impact of Corporate Social Responsibility Disclosure on Return on Equity. As observed, The Panel OLS (Fixed effects) estimation shows an R² value of 0.876 which suggests an 87.6% explanatory ability of the model for the systematic variations in the dependent variable with an adjusted value of 0.832. The F-stat (20.38) and p-value (0.00) indicates that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected at 5% level. For an evaluation of the effects of the explanatory variables on Return on Equity, we examine their slope coefficients. As observed, the mean for corporate social responsibility disclosure in form of monetary gifts and donations and community development activities (COMMDEV) appeared negative (4.32E-08) and significant at 5% (p = 0.00). Corporate social responsibility disclosure in the form of Conformity to environmental and other governmental policies (EGPL) also appeared negative (0.028) and significant at 5% (p = 0.025). The effect of corporate social responsibility disclosure on employee welfare and training (EMPWT) appeared negative (-0.075) and statistically insignificant at 5% (p = 0.945). The D.W statistics of 2.25 indicates the absence of serial correlation of the residuals in the model.

Table 7:
Return on Asset (ROA) and Corporate Social Responsibility Disclosure (Model 2)

PANEL ELGS (FIXED EFFECTS)			PANEL OLS (RANDOM EFFECTS)		POOLED OLS	
Variable	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	7.768425	0.000*	6.650	0.000*	8.459	0.000*
CSRMD	-5.59E-09	0.268	-9.28E-09	0.624	-1.44E-08	0.508
CSREGP	0.698305	0.000*	2.745	0.003*	1.051	0.439
CSRWT	-0.53848	0.663	-1.2028	0.453	-0.626	0.639
AR(1)	0.067137	0.000*				
R ²	0.94		0.02		0.360	
ADJ R ²	0.92		0.014		0.349	
F-Stat	20.38		2.515		33.084	
P(f-stat)	0.000		0.05		0.00	
D.W	2.25		1.4		1.7	
Hausman test	0.031					

Source: EvIEWS 7.0 * significant at 5% ** significant at 10%

Table 7 shows the result for Model 2 which examines the impact of Corporate Social Responsibility Disclosure on Return on Assets. As observed, The Panel EGLS (Fixed Effects) estimation shows an impressive R^2 value of 0.94 which suggests that the model explains about 94% of the systematic variations in the dependent variable with an adjusted value of 0.92. The performance of corporate social responsibility disclosure measures reveals that corporate social responsibility disclosure in form of monetary gifts and donations and community development activities (CSRMD) appeared negative (-5.59E-09) and insignificant at 5% ($p = 0.268$). Corporate social responsibility disclosure in the form of Conformity to environmental and other governmental policies (CSREGP) appeared positive (0.698) and significant at 5% ($p = 0.000$). The effect of corporate social responsibility disclosure on employee welfare and training (CSRWT) appeared negative (-0.538) and statistically insignificant at 5% ($p = 0.663$). The F-stat (20.38) and p-value (0.00) indicates that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected at 5% level. The D.W statistics of 1.7 indicates the absence of serial correlation of the residuals in the model.

Table 8:
Firm Growth and Corporate Social Responsibility Disclosure (Model 3)

PANEL EGLS (FIXED EFFECTS)			PANEL OLS (RANDOM EFFECTS)		POOLED OLS	
Variable	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	8.879	0.000*	7.460	0.000*	5.993	0.000*
COMMDEV	-5.02E-08	0.074**	2.89E-08	0.021*	4.17E-08	0.000*
EGPL	5.0304	0.000*	3.249	0.00*	3.618	0.000*
EMPWT	0.904	0.422	4.3808	0.129	1.105	0.000*
R ²	0.65		0.021		0.56	
ADJ R ²	0.54		0.013		0.52	
F-Stat	5.57		2.34		1.55	
P(f-stat)	0.00		0.07		0.04	
D.W	2.39		1.54		1.9	
Hausman test	0.00					

Source: EvIEWS 7.0 * significant at 5% ** significant at 10%

Table 8 shows the result for Model 3 which examines the impact of Corporate Social Responsibility Disclosure on Firm growth. As observed, The Panel EGLS (Fixed effects) estimation shows an R^2 value of 0.65 which suggests that the model explains about 65% of the systematic variations in the dependent variable with an adjusted value of 0.54. The performance of corporate social responsibility disclosure measures reveals that corporate social responsibility disclosure in form of monetary gifts and donations and community development activities (CSRMD) appeared negative (-5.59E-09) and significant at 10% ($p = 0.072$). Corporate social responsibility disclosure in the form of Conformity to environmental and other governmental policies (CSREGP) appeared positive (5.0304) and significant at 5% ($p = 0.000$). The effect of corporate social responsibility disclosure on employee welfare and training (CSRWT) appeared positive (0.904) and statistically insignificant at 5% ($p = 0.422$). The F-stat (5.57) and p-value (0.00) indicates that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected at 5% level. The D.W statistics of 2.39 indicates the absence of serial correlation of the residuals in the model.

8. FINDINGS

The empirical study results on the link have never been in agreement, as some studies determined negative correlation, some determined positive correlation, while others determined no correlation at all. In this study we find that the relationship between CSR disclosures and corporate performance tend to vary with respect to the particular type of disclosure that is examined. This may suggest that not all disclosures are equally relevant in influencing corporate performance and the reasons for this are quite varied and may depend largely on how stakeholders interpret CSR disclosures especially for developing economies. Interestingly, the study found that in model of all the three measures of corporate social responsibility disclosure examined, corporate social responsibility disclosure in the form of Conformity to environmental and other governmental policies (CSREGP) appeared to be significant at 5% and positive when regressed on ROA and FIRM GROWTH. Corporate social responsibility disclosure of employee welfare and training (CSRWT) also appeared positive but not significant when regressed on FIRM GROWTH. We also found that corporate social responsibility disclosure in form of monetary gifts and donations and community development activities (CSRMD), disclosure in the form of Conformity to environmental and other governmental policies (CSREGP) and disclosure on employee welfare and training (CSRWT) all appeared negative when regressed on ROE. The study found that measures of corporate social responsibility disclosure exert significant impacts on corporate performance though the findings seem to be mixed. Our findings is supported by those of Okafor and Oshodin (2012), McWilliams and Siegel (2001), Anderson and Frankle (1980), Freedman and Jaggi (1986), and Aupperle, Carroll and Hatfield (1985).

9. CONCLUSION AND POLICY IMPLICATION

Our work has tried to verify whether certain corporate performance measures can be affected by a firm's social responsible behaviour. The novelty of our analysis comes from its disaggregation of CSR disclosures into three variants based on the analysis of audited corporate financials. We have analysed some simple descriptive statistics and we have used cross section and panel data econometrical approaches, to verify whether corporate social responsibility disclosure could affect corporate performance measures. The study found that measures of corporate social responsibility disclosure exert significant impacts on corporate performance though the findings seem to be mixed. The recommendation is that the challenging situation is the issue of weakness of state policy in the development of effective and enforceable CSR management framework especially in most developing countries. Thus, CSR reporting has developed rather voluntarily and this implies that companies can choose what to disclose and may even decide not to. The policy implication in this regards involves the need for effective regulation of CSR practices of companies in Nigeria. In addition, there is the issue of credibility of CSR disclosures. One problem with CSR disclosure is that the information reported may tend to be selective and as such it is difficult to determine whether such disclosures are anything more than corporate branding and is motivated to enhance corporate image. Hence there is the need for external verification of CSR claims and disclosures as well as ascertaining the reliability and authenticity of CSR representation in the accounting record.

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Mergers in Professional Service Firms

By **BEN UKAEGBU**

Introduction

This paper examines the motivations for, and some of the issues surrounding mergers and acquisitions in Professional Service Firms (PSFs). Of particular interest is how and why professional firms choose to merge or acquire the assets and liabilities of another firm. We shall develop a typology of rationales for merger, based on a historical analysis of mergers and acquisitions in the global accounting firms. The intention of our discussion is to build upon and expand the knowledge which has considered the form, operation and outcomes of Merger and Acquisitions (M&A) between professional firms, and to draw some conclusions about how and why M&A activity occurs between them.

Our starting point is to outline the defining characteristics of PSFs, paying particular attention to the nature of their work and the professional human resources they deploy. Having established a working definition of what they are and how they operate, we argue that PSFs' characteristics raise distinctive managerial challenges which shape the kinds of organisational arrangements that are appropriate to professional activity. Our focus then turns to an examination of the evolution of a significant transnational professional industry – accountancy – during a period of intense consolidation, in order to identify the factors which motivate PSFs to integrate their activities with partners. Finally, we shall apply the analysis of the industry to develop a typology of merger motivations for PSFs and conclude with a discussion of the issues raised by our examination.

The Nature of PSFs

PSFs are important organisations in an economy in that they provide particular, value added advice and services to both public and private organisations. They are composed primarily of professional individuals, that is, individuals holding a designated professional qualification (e.g. a lawyer, an accountant, an architect), or having specific high value skills

or expertise (e.g. a management consultant). The term PSF has therefore been applied to among others, accounting firms, law firms, management consulting firms, engineering firms, architectural practices and investment banks.

There appears to be a general support for the assertion that PSFs constitute a distinct category of organisations (e.g. Abbott 1988; Greenwood *et al*, 2005; Malhotra *et al*, 2006), with organisational and contextual characteristics which make them extremely challenging to manage. For Lowendahl (2000), they are 'substantially different from ... traditional manufacturing firms'. Maister (2003) maintains that PSFs are so different that to apply theories from other forms of organisations is 'not only inapplicable... but may dangerously be wrong'. These assumptions are not unreasonable given that studies have confirmed PSFs use particular organisational and governance arrangements which differ from those of other organisations e.g. Greenwood and Empsons 2003; Malhotra *et al*, 2006. Despite these dissimilarities, the majority of research evidence in the M&A literature has largely failed to recognise that PSFs differ in unique and consistent ways from traditional organisations such as manufacturing firms or other labour or capital intensive entities.

There are however, other reasons to examine in details the nature of PSFs. PSFs are significant in the modern economy because they facilitate commercial exchange and the application of expert knowledge for business (Lorsch and Tierney 2002; Greenwood *et al*, 2006). A number of the largest European and US PSFs in the legal, accounting, consulting and investment banking sectors have transformed themselves into multinational practices by way of organic growth, and mergers and acquisitions. Consequently, many have become 'mega firms' which have established an industry-dominant position in a global context (Lowendahl 2000). These 'global PSFs' employ over 6 million people and generate annual fees of over US\$30 billion in revenue.

Further, PSFs are exceptional form of knowledge-intensive

organisation and are seen as firms of the future; exemplars for the structural and management issues which may soon confront other types of organisation in a knowledge-based economy (Gardner *et al*, 2008).

The Task and Resource Characteristics of PSFs

In view of the size and significance of PSFs, there is a growing interest on how PSFs function (Greenwood *et al*, 2006; Lorsch and Tierney, 2002; Morris and Empson 1998). This enquiry frequently implies that PSF share distinctive and task and resource characteristics which shape their organisational arrangements, including their governance structures and decision-making processes. Significantly, researchers have noted that professionals are hard to direct because they enjoy high levels of autonomy within their working environment, which allows them wide discretion in the manner in which they carry out their tasks, manage their work, and develop their client relationships (DeLong and Nanda 2003). In the largest firms, traditional authority and reward systems have become more problematic as these firms may have many hundreds of owner-partners. This implies that collective-decision-making has become virtually impossible and the delegation of authority to designated professionals, committees, and task forces has become inevitable. In these firms, managing professional human resources has been described as 'cat-herding' (von Nordenflycht, 2010: 160).

One of the distinctive characteristics of PSFs is that they are critically dependent on their ability to recruit, motivate, and retain a highly educated (professional) workforce in order to ensure their survival and growth (Scott, 1998). These professionals are critical assets, they embody, operate, and translate the knowledge and expertise inherent in the firm's output. However, as individuals, they are also highly mobile; although they are repositories of the firm's expert knowledge and social capital, professionals can easily leave the firm and exploit their knowledge assets elsewhere (Levinthal and Fichman 1988; Broschak, 2004). Disruptions to a PSF's structure, culture or management – such as those which occur during a merger or acquisition – can cause mass employee defections, increase turnover rates, and decrease levels of employee satisfaction and morale (Ashkanasy and Holmes 1995; Empson 2000). Thus, a significant challenge for the managers of PSFs is not only to pursue and secure client work and the professionals who will perform it, but also to secure the ongoing commitment and direction of their staff. Balancing the needs and demands of highly educated professionals with a firm's requirements for growth and efficiency is a complex task (Teece, 2003). In particular, managers of PSFs must recruit professional staff of appropriate quality, provide incentives for them to perform well, and satisfy their need for developmental and promotional opportunities.

Over the past few decades, PSFs have also been subjected to a variety of pressures (Greenwood and Suddaby 2006). Deregulation, technological advances, growing global competition and increasing globalisation of client firms have all been significant forces in transforming PSFs into multinational organisations. Insurance, advertising, law, and consulting firms have all responded to clients' demands that they become

international organisations and provide a consistent and coordinated global service (Aharoni 1999; Aharoni and Nachum 2000). Together, these resource and contextual characteristics raise important managerial challenges which are not typically found in non-professional organisations.

Organisational Form: PSFs and Non-PSFs

Researchers and theorists argue that one of the most significant responses by PSFs to the unique challenges they face is their adoption of 'partnership' as a dominant organisational structure (Gilson and Mnookin 1989; Greenwood and Empson 2003; Maister 1993). Partnerships emphasise collegial forms of governance rather than more formal systems such as those observed in corporations of equivalent size and complexity. Although not universally used, partnerships remain dominant in some professional sectors notably law and accounting. It is proposed as an appropriate governance structure for delivering the necessary degree of autonomy required to motivate professionals (Tolbert and Stern, 1991).

A partnership is a specific kind of organisation, where ownership is vested in a group of professionals who are also managers and practitioners within the firm (i.e. the 'partners'). Each partner shares in the profits of the firm but is also responsible for its business debts, taxes and other legal liabilities, including misdemeanours of other partners in the firm. Unlike a company, a partnership does not have total limited liability, it does not have shareholders, and it is not subject to the kinds of reporting requirements that companies have to meet such as the publication of annual reports and accounts.

The partnership form is highly institutionalised in several PSF sectors, not least because it is a governance mechanism which encourages partners to maintain the quality standards of the collective whole, since each partner is at risk for the actions of any other partner that exposes the firm to financial or legal liability (Greenwood and Empson, 2003). Professional partnership structures embody notions of peer control and bonding between owner-employees, which establish strong social norms of mutual support and sanction, and discourage free riding or the maximisation of individual interests (Empson 2007). The challenge of retaining valuable human resources and providing them with incentives to stay and perform well is also addressed by offering individuals the prospect of becoming a partner and therefore of sharing in the firm's profits (Gilson and Mnookin 1989; Starbuck 1992; Sherer 1995). It is also important to note that not all professional firms are the same and use the same organisational arrangements. In recent years, for example, many PSFs have grown in size and complexity, resulting in the abandonment of traditional partnership structures, which imply unrestricted personal liability on the part of the partners, in favour of limited liability partnerships (Empson 2007). This conversion means that members of the firm are able to restrict their personal liability to their capital contribution to the business, whilst still being organised as a traditional partnership.

In some sectors, such as consulting and architecture, there are no legal or regulatory requirements to be constituted as a partnership, and firms have tended to be organised as companies, either private (McKinsey & Co.) or publicly quoted companies (e.g. Accenture), with limited liability (McKenna 2006; Winch

and Schneider 1993). Notwithstanding these differences, research has shown that these firms often imitate the cultural and governance structures of traditional partnership forms in order to address the managerial challenges associated with knowledge-intensive inputs and outputs (Empson and Chapman, 2006). Further, there is anecdotal evidence to suggest they retain the 'ethos' of a partnership in their internal and external relationships, and still embrace the values of peer control and professional self-monitoring (Empson 2007). The implications of this are that professionals – whether as partners or employees – are frequently able to exercise their preference for autonomy and are often prepared to oppose decisions which attempt to merge or otherwise reorganise the firm, and may do so even if their opposition will have negative consequences for them by undermining the firm's ability to increase profits (Morris *et al*, 2010).

Approach to M&A

Notwithstanding the growth of research into the organisational arrangements of PSFs (Nelson, 1988, Greenwood *et al*, 1990), there is only a limited understanding of why and how mergers and acquisitions are undertaken between these firms. Previous studies indicate that PSFs often face difficulties in harmonising the direction and culture of a newly created organisational context during the post-merger integration process. In particular, the merging partnerships face a number of difficult integration issues as a result of the inherent and unique structural and ownership characteristics of PSFs. Given that these firms are dominated by strong willed and individualistic professionals, studies find that the key challenge of the integration process is to negotiate issues of organisational fit and status differences. Greenwood, *et al* (1994) found that members of merging firms were frustrated by differences in beliefs and values between them, resulting in increased turnover rates and resistance by partners to new procedures and integration measures. Similarly, a study by Empson (2000) found resistance to integration amongst professionals within a merged firm, who refused to share knowledge and expertise with their new colleagues because they did not believe they would receive knowledge of equal or greater value in return, a feeling of 'we are better than them'.

Whilst previous studies highlight gloomy situations arising from culture clashes and dissatisfaction of partners and staff as a result of mergers, their human focus fails to consider the economic and strategic reasons for joining with, or acquiring another professional firm. These strategic and economic reasons for mergers of PSFs become the focus of the next section.

Underlying Rationale for Mergers

Having established that PSFs have distinctive managerial challenges and organisational arrangements, we adopt a historic lens in order to assess how changes in the wider business, social and political landscape over the last 30 years have affected the professional service sector. The purpose is to discern the kind of drivers that have brought about changes in the merger and acquisition behaviour of PSF. It is to be noted that the shrinkage of the 'big-eight' in the 1980s to the present 'big-four' was largely due to the forces of globalisation and transnational growth,

which opened up new international markets. The new markets resulted in more complex financial markets and the rise of a new generation of knowledge and technology driven industries. In the face of such rapid changes, the very largest PSFs have to adapt, growing rapidly in both the scale and scope of services they offer, in order to keep pace with clients' demands (Aharoni and Nachum, 2000). It is necessary to discuss further some of the drivers of mergers in PSFs.

International Clientele in New countries

With the changing business landscape, many clients of PSFs seek overseas markets as a source of new revenues and other expansion opportunities compelling PSFs to respond to the needs of these clients. In 1985, the European Union announced measures that would by 1992, allow the free movement of goods, services and capital between member states and harmonise their various fiscal, legal, and administrative systems. It was clear to the then 'Big Eight' that this new market provided significant opportunities for client growth, and they would need to prepare for these new demands. This opportunity is available to Nigerian PSFs with the creation of ECOWAS and the ongoing discussion of African Monetary Union. In the main, companies move into foreign markets either by creating a subsidiary in the new market, acquiring a local company or teaming up with a local ventures. For PSFs, a merger with a local firm, or with an existing international firm with a local presence offer the best way to keep pace with the growing reach of their clients.

Size and Scope to Service Clients' Needs

Modern clients of PSFs are becoming larger, so larger number of professionals are required to service their needs but the necessary growth in professionals may not be achieved by recruitment and organic growth of the firm. Further as clients begin to demand more varied or sophisticated advice, in the form of tax, management, human resources and technology consulting, PSFs must be prepared to provide these services. The biggest accounting firms recognised that their future growth lay in non-audit services and importantly, big accounting firms gain consultancy business from organisations who were not existing audit clients.

Need and Desire to 'Play in the Big League'

For leading PSFs, be it in accounting, law or management consultancy, there is a strong need and desire to remain amongst the elite, and firms will take whatever steps they can to ensure they do not fall out of that nomenclature. Big league firms in all PSF fields can look to attract the biggest and most valuable clients, and can expect to charge the highest fees. They can look to attract the brightest and most talented to come and work for them, either as graduate recruits because they can offer the best training and brightest prospects, or as lateral recruiter because they can offer lucrative salaries and the most prestigious and challenging work.

Strength in Numbers – 'Eat or Be Eaten'

PSFs continually face threats from competitors. These threats can come in the form of the loss of clients to a rival or where a competitor has the ability to offer a unique service or a wider

variety of services to a client. When two competitors merge, the new firm might have larger numbers of professionals to work for a client, or be able to provide better geographical reach. Again, because PSFs are critically dependent on their ability to motivate and retain their highly educated and skilled workforce, the loss of individuals or client teams to competitors can be very damaging. Therefore firms will attempt to grow, and damage each other, by poaching talented individuals or groups from others through offers of more money or incentives, challenging or prestigious assignments.

Accessibility to Capital

Access to capital of any form of business is of vital importance and PSFs are no exceptions. As the leading PSFs have increased in size over the last 30 years, in terms of partners, number of offices and revenues, they have been able to leverage their growing financial muscle to negotiate better commercial terms with banks to finance their growth and activities. With annual revenues in the billions of any currency, the leading firms became comparable in size to some of the world's largest companies, and lenders are willing to compete for their business. When lending to traditional industries, lenders can look to protect their interests by taking collateral securities in the form of fixed assets or products until the redemption of the debt. However, PSFs do not generally possess tangible assets, so the situation is different. The value in a PSF lies in the size of its revenue stream from client work, and also in the 'depths' of the pockets of the partners. Therefore, the larger the PSFs, the more likely it is to be able to negotiate better commercial terms for its borrowing.

Conclusions and Policy Implications

We have reviewed the form and nature of the PSFs and discussed some of the rationales merger has taken place in this business segment. Even though the approach is historical in nature, these facts are germane and relevant in today's professional settings and will continue to be drivers for mergers in the future.

M&A in profit-making entities is a strategic business choice, especially in an unregulated market. It is entirely the business vision of the leaders that determines the choice. However, business history has shown that environmental factors – new markets or new frontiers; size and scope of clients' need; quality of service delivery; elite group membership and accessibility to capital are some of the major determinants of mergers and acquisitions in professional service firms. In the last 30 years, the top global accounting firms strink from being the 'Big-8' to 'Big-4'. This outcome was not as a result of legislation passed in Congress (US) or Parliament (UK) but business driven by some of the factors discussed in this paper.

While mergers and acquisitions in PSF cannot be decreed or legislated in an unregulated jurisdiction, changing business landscape are likely to compel leaders of PSF to take a serious view of M&A. Failure to react may lead to what Porter (1985) in "Five Competitive Forces" refers to as "stuck in the middle", not one thing or the other. The danger of being stuck in the middle includes not offering high value for money and distinctive service one gets from a differentiated business or offer the low prices that come from buying from the cost leader. Stuck

in the middle comes from trying to compromise and it creates a muddle. A muddle for one's client, who do not really know what the business stands for (tax; audit; IT services or forensic accounting) or what to expect from the PSF. It is also a muddle for professional employees who may not understand their work priorities which are crucial in career development.

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The Changing Nature of Auditors' Report

By **ABEL AIG. ASEIN**

Preamble

In 2009, the Honourable Justice Abang of the Federal High Court in a case instituted by Mazi Okechukwu Unegbu against KPMG Professional Services and Guinness Nigeria PLC declared that chartered accountants should no longer sign audited financial statements in the name of their practising firms but in their individual names. In other words, an engagement partner should sign the audit opinion in his own name! Relying on the precedent set by the Supreme Court in 2007 in the case of Okafor vs. Nweke where it was declared that a law chamber cannot swear to an affidavit, the learned Justice Abang had established that it was not the firm that was inducted as a chartered accountant by the ICAN governing Council and so could not sign any audited statement.

This revolutionary judgement has unwittingly put a question mark on the subsisting International Standards on Auditing (ISA) 700 and the Nigerian Standards on Auditing 28 which require auditors to sign audited financial statements in the name of their firms. The situation is further compounded by the requirement of Financial Reporting Council (FRC) of Nigeria that only professionals (in this case chartered accountants) registered with it, can sign audited statements. Interestingly, FRC is also registering practising firms.

Although the case is on appeal at the instance of the Big 4 firms and ICAN (it requested to be joined), the Securities and Exchange Commission (SEC) and Corporate Affairs Commission (CAC) had written to the Institute to request it to compel its members to obey the decision of the High Court since the Appellate Court also declined to issue a stay of execution of the judgement of the lower court pending the determination of the appeal. As a result, the Institute has gone ahead to issue a statement on how audited statements are to be signed (*See Appendix 1*). While compliance is not difficult, the question arises as to who was actually appointed as the auditor — the practising firm or the individual chartered accountant? From practice, the practising firm, rather than the individual, is often appointed as auditors by companies. Should the individual sign and take responsibility on behalf of the firm? Since chartered accountants often practise through the vehicle of partnership and therefore are collectively liable, is the proposed change not just a storm in a tea cup?

The above developments bring to the fore the changing nature of the auditors' report. Over the years, this one-page document, which the public only see as the external auditor's work, has undergone a lot of changes driven by the dynamics in standards, legislation or lately, by judicial pronouncement. The manner in which it should be signed and issued have become subject of debates. The objective of this write-up is to review these changes and situate them in the dynamism of legislations and the business environment in Nigeria in which external auditors perform their duties. It will also strive to review the propriety or otherwise of such changes. Lastly, it will also review the current best practice in the context of the European Commission Green Paper on Audit Policy issued in October, 2010 and value propositions of audit opinion envisaged by the ISA 700 (Revised) Exposure Draft issued by the International Federation of Accountants (IFAC)'s International Audit and Assurance Standards Board (IAASB) in July, 2013. It would also draw conclusions and make recommendations.

Phases of Auditors' Report

The Audit Opinion

Under the Anglo-Saxon dispensation in which ownership is separated from control, corporate entities engage external auditors, as part of their statutory obligations, to carry out examination of their books and affirm if the financial statements conform with the identified financial reporting framework as well as convey a true and fair view of the state of affairs of the entity during a specified period. As the medium through which he expresses his opinion (or if the circumstances require, disclaims an opinion), the one-page document is the

credence that external auditors lend to financial statements prepared by the Board and Management of corporate entities. The auditor's attestation helps to give these stewardship reports (i.e., financial statements) the desired credibility.

Pre-1977 Period

This period covers the formative years of The Institute of Chartered Accountants of Nigeria, a 250-member strong professional accountancy body which was established by the Act of Parliament no. 15 of 1965 and charged with the pioneering responsibility of setting standards and regulating the practice of accountancy in Nigeria. Chartered accountants, all trained abroad, grew over time with over 65% of them engaged in sectors other than professional practice (Anibaba, 1990). During this decade, less than 20 candidates had sat for and passed the ICAN qualifying examinations moderated by the Institute of Chartered Accountants in England and Wales up to 1974.

Business activities and transactions were not huge as the economy was just emerging from effects of the 30-month civil war. Indeed, government business was the real business as most of the enterprises were government-owned. For instance, at the height of regulation of the economy in the 1970s, available data indicate that federally-owned parastatals involved about 140 enterprises spread over agriculture, mining, manufacturing, transport, banking and other commercial enterprises. The Nigerian Enterprises Promotion Decree of 1972 changed the paradigm when it forcefully transferred ownership of all foreign-owned companies to Nigerians (Sanusi, 1988) making the preparation of audited accounts more obligatory. The main business legislation was the Companies Act 1968. Indeed, the 1968 Act was the first Nigerian Companies Act to make mandatory provisions in respect of the form of financial statements. Before then, it was left to the articles and memoranda of associations of businesses to make necessary provisions as to accounts to be produced. Some sectors of the economy were however subject to additional legislations because of their peculiar nature, e.g., Banking and Insurance sectors. Under the Companies Act 1968, provisions were made for the keeping of proper accounts and the publication of such accounts based on the U.K. Companies Act 1948. The Act, for the first time, at Section 154(1) provided for the appointment of only persons with professional accountancy qualification as auditors. Before then, anybody, whether qualified as a professional accountant or not could be appointed as an auditor even of a giant company (Anibaba, 1990, p.108).

Fraud, when it occurred, was minor defalcation and audit was actually done 100 percent! No sampling. Transactions were thoroughly checked by auditors. During this period, there was no IFAC, the global body that now sets various standards adapted or adopted for use in different jurisdictions. While the International Accounting Standards Committee tried to develop accounting standards for use in UK, many Nigerian chartered accountants who trained in such environment imported their practices (including auditing practices) into Nigeria. This was the practice in many Commonwealth countries.

The audit opinion prior to the period 1977 clearly had defined characteristics which need to be recalled. During the period, the role of external auditors was clearly to affirm compliance to company and other laws as well as the selected accounting framework, if any. The firm signed the audit opinion by inserting only its name. A sample of the auditor's report signed by Z.O. Ososanya & Co (Chartered Accountants) in 1973 makes an interesting example here:

**NATIONAL INSURANCE CORPORATION OF NIGERIA
AUDITORS' REPORT
ON THE ACCOUNTS OF
NATIONAL INSURANCE CORPORATION OF NIGERIA**

"We report that we have audited the accounts of the National Insurance Corporation of Nigeria established under Decree No. 22 of 1969 for the financial year which ended 31st December, 1972 and that we have obtained all the information and the explanations required for the purposes of our audit. Proper books of Accounts and Records have been kept as required by Section 24(1) of the said Decree and in accordance with the provisions of the Insurance Companies Act of 1961 and the Regulations of 1968 in the manner so required. This report is meant to be read in conjunction with our General Report dated 30th May, 1973 made pursuant to Section 24(3) (a) of the said Decree No. 22 of 1969 and which is attached to the Accounts. In our opinion and to the best of our information and the explanations given to us, the Balance Sheet and the Accounts read in conjunction with our General Report referred to above present a true and fair view of the state of affairs of the Corporation as at 31st December, 1972 and of the Profit made during the financial year which ended on that date."

Lagos
30th May 1973

Z.O. OSOSANYA & CO
(Chartered Accountants; Auditors)

The above report titled, *"Auditors' Report on the Accounts of National Insurance Corporation of Nigeria"* was not addressed to anyone! The name of the client was written twice in the heading. Could these be because, at that time, NICON was wholly owned by the government? No reference was made to sampling, definition of purpose of audit, auditor's independence and the nature of the financial reporting framework as we have them today. Allusion was made to the Management Letter prepared by the Auditors which was captioned "General Report" and it was signed by the firm of Z.O. Ososanya & Co. Nothing was said about the ownership of the financial statements or responsibility for its presentational faithfulness. It would also be interesting to know from practitioners of the era what they meant by, "...to the best of our information..." rather than "to the best of our knowledge." It should be noted that the opinion also confirmed the profit made by the firm during the period.

The above audit opinion issued by the firm of Messrs Z.O. Ososanya & Co appears wordy and for a layman, interpretation of its import must have been a challenge. Compare this to the 3-sentence Auditors' Report issued by Peat, Marwick, Cassleton Elliott & Co (Chartered Accountants), later known as KPMG Nigeria, to the members of R.T. Briscoe Nigeria Limited in 1977:

**REPORT OF THE AUDITORS
TO THE MEMBERS OF R.T. BRISCOE NIGERIA LIMITED**

"We have examined the accounts set out on pages 18 to 25 and have obtained all information and explanations which we considered necessary. Proper books have been kept and proper returns have been received from branches and the accounts, which are in agreement therewith, comply with the requirements of the Companies Decree 1968. In our opinion, the balance sheet and profit and loss account together with the notes on the accounts give respectively a true and fair view of the state of the company's affairs at 31st March, 1977 and of the profit for the year to that date."

Lagos, Nigeria
16th August, 1977

Peat, Marwick, Cassleton Elliott & Co
(Chartered Accountants)

The inferences that can be drawn from the above include the fact that auditors of the era issued their opinions not only in diverse ways but also, the wordings of the opinion were peculiar to each firm and they sometimes vary from one engagement to another. This can be attributed to the lack of auditing standards on how this should be done. Auditing then was largely perceived as a professional service carried out to confirm compliance to (or breaches of) various pieces of legislation as can be gleaned from references to various laws enacted by the military government at the time.

Indeed, Section 155 (1) of the 1968 Companies Decree provided that, "the auditors shall report to the members on the accounts examined by them and on every balance sheet, every profit and loss account and all group accounts laid before the company in general meeting during their tenure of office, and the report shall contain statements as to matters mentioned in Schedule 9 of this Decree."

The Period between 1978 and 1990

This period can be segmented into two phases: the phase without sampling (no reference was made to sampling in audit opinion) and the phase characterised by sampling and sharing of responsibilities between the board and external auditors. In the late 70s and early 1980s, it appeared that external auditors carried out 100 percent checks and issued their statements to confirm this. If any sampling took place, the audit opinion was silent on this. For instance, the firms of Price Waterhouse and Co and Balogun, Ayanfalu, Badejo & Co as joint auditors to National Electric Power Authority issued the following report in 1978:

**REPORT OF THE AUDITORS
TO THE BOARD OF DIRECTORS OF
NATIONAL ELECTRIC POWER AUTHORITY**

"We have examined the balance sheet and the related statement of income and earned surplus and notes set out on pages 26 to 36 which are in agreement with the books and have obtained all the information and explanations which we considered necessary for our audit."

Proper books of accounts have been kept and in our opinion, the balance sheet and the related statement of income and earned surplus together with the notes to the accounts give a true and fair view of the state of affairs of the Authority as at 31st March 1978 and of the surplus and funds provided and applied for the year ended on that date."

Price Waterhouse & Co
Chartered accountants
Lagos Nigeria

Balogun, Ayanfalu, Badejo & Co
Chartered Accountants
27th September 1978

The above report was addressed to the board of directors since NEPA was a public sector organisation managed on behalf of the Nigerian people by a Board appointed by the Federal government. It also made allusion to the surplus earned from operations since it was not set up to make profit. Interestingly, the report affirmed that the body provided adequate information to support the funds it received from the government and how it was applied. But it was silent on the other expenditure of the body although this can be inferred from the keeping of proper books of accounts mentioned above.

The report issued by Akintola Williams & Co in 1982 in respect of the Central Bank of Nigeria, another public sector entity, makes an interesting reading:

**CENTRAL BANK OF NIGERIA
AUDITORS' REPORT**

"As auditors appointed under Section 44(1) of the CBN Act (Chapter 30), we have examined the above Balance Sheet and Income and Expenditure Account and Notes 1(a) to 1(i) and 2 which are in agreement with the books of account."

We have obtained all information and explanations we considered necessary and in our opinion, proper books of account have been kept. During and at end of the year there was a breach of Section 28 of the CBN Act, 1958 as amended by Section 3 of the 1967 Act, relating to the minimum level of external assets Bank is expected to maintain relative to its total demand liabilities."

To the best of our knowledge and from our examination of the books and records, no contravention of the Prices and Income Guidelines has come to our notice in respect of the year ended 31st December, 1982. In our opinion, these accounts together with the Notes thereon show a true and fair view of the state of the Bank's affairs at 31st December, 1982 and of the Operating Surplus ascertained and apportioned in the

manner indicated for the year ended on that date."

Lagos, Nigeria
25th February, 1983

Akintola Williams & Co
Chartered Accountants

The above opinion provided the basis on which the auditor derived the authority to audit the accounts of CBN, probably because, as a public sector institution, the office of the Auditor-General for the Federation ought to have audited the accounts. It was difficult to establish whether the engagement letter was issued for this job by the CBN to Akintola Williams & Co. The report was not addressed to anyone or to the board as was done in the case of NEPA above. The statement provided information on the breaches committed by the apex bank based on its own law but was silent on penalties imposed, whether it was paid by the bank or how the breaches were subsequently addressed.

In the private sector, the opinions issued by auditors were slightly different. For instance, the firm of Messrs Price Waterhouse & Co (Chartered Accountants) as it then was, issued a report dated February 28, 1980 to members of Pharma Deko Limited (formerly Parke, Davis and Company Nigeria Limited) as follows:

**AUDITORS' REPORT
TO MEMBERS OF
PHARMA DEKO LIMITED
(formerly Parke, Davis and Company Nigeria Limited)**

"In our opinion, the accounts on pages 7,8 and 13 and the notes on pages 9 to 12 give a true and fair view of the company's affairs as at 30 November 1979 and of the profit and source and application of funds for the year then ended in accordance with the historical cost convention of accounting.

To the best of our information and from our examination of the books and records, no contravention of the Prices and Incomes Policy Guidelines has come to our attention during the year ended 30 November 1979.

We have obtained all the information and explanations which we considered necessary. In our opinion, the company has kept proper books and the accounts, which are in agreement with them and with the information and explanations, give in the prescribed manner the information required by the Companies Decree 1968."

PRICE WATERHOUSE & Co
Chartered Accountants

LAGOS, NIGERIA
28 February 1980

It is instructive to observe that the above statement/opinion started with the auditors' opinion paragraph rather than the work done which formed the basis of the opinion as the previous specimen indicated. It did not also mention the issue of sampling, purpose of audit, auditor's independence and responsibilities. The expression, "...to the best of our information..." also featured. What was audited was the "accounts" rather than "the financial statements". It was addressed to the members of the company.

The firm of Peat, Marwick, Ani, Ogunde and Co (later known as KPMG Nigeria) issued a statement on February 18, 1983 to the members of John Holt Limited in which reference was made to examination of financial statements rather than "accounts" which it used earlier or the "books and records" used by others. It also changed from, "...to the best of our information" to "...to the best of our knowledge..." The auditors also mentioned, "state of **financial** affairs of the company," rather than the popular phrase, "state of affairs of the company." This clearly affirms that the audit was only in respect of the financial statements and that nothing was done in respect of internal control and corporate governance beyond what was required to form the published opinion. See the following sample statement:

**AUDITORS' REPORT
TO THE MEMBERS OF JOHN HOLT LIMITED**

"We have examined the financial statements set out on pages 12 to 20 and have obtained all the information and explanations which we considered necessary. Proper books have been kept and proper returns received from branches and the financial statements are in agreement therewith, comply with the requirements of the Companies Act 1968.

To the best of our knowledge and belief, the group complied with the guidelines of the Productivity, Prices and Incomes Board during the period covered by these accounts.

In our opinion, the financial statements which have been prepared on the basis of the accounting policies set out on page 15 together with notes Nos. 1 to 13 on the accounts, give a true and fair view of the state of the financial affairs of the company and, so far as concerns members of the holding company, of the group at 30th September, 1982 and of the profit and source and application of funds of the group for the year ended on that date."

Lagos
18 February 1983

Peat, Marwick, Ani, Ogunde and Co
Chartered Accountants

Yet a year earlier, the firms of Oni, Lasebikan & Co (in association with Ernst & Whinney) and Duro Ogboye & Co (Chartered Accountants) issued a joint report to the members of Dunlop Nigeria Industries Limited dated 26th February, 1982 which presents marked difference thus:

**JOINT AUDITOR'S REPORT
TO THE MEMBERS OF
DUNLOP NIGERIA INDUSTRIES LIMITED**

"We have examined the Financial Statements of Dunlop Nigeria Industries Limited set out on pages 8 to 10 and items 1 to 16 of the Notes to Financial Statements set out on pages 13 to 16 which have been prepared under the Historical Cost Convention modified as explained in the notes on accounting policies, and have obtained all the information and explanations we considered necessary.

In our opinion proper books of accounts have been kept and the Financial Statements which are in agreement therewith, give a true and fair view of the state of the Company's financial affairs at 31st December, 1981 and of the loss and changes in financial position for the year then ended, and comply with the Companies Act 1968.

We have also reviewed the Current Cost Financial Statements set out on page 11 and item 17 of the Notes to Financial Statements set out on pages 13 to 16 which restate the results of the Company for the year ended 31st December, 1981 and financial position at that date to include adjustments for the effects of inflation.

In our opinion these Financial Statements have been properly prepared in accordance with the basis described in the notes on accounting policies. To the best of our knowledge and belief the Company complied with the guidelines of the Productivity, Prices and Incomes Board during the year ended 31st December, 1981."

Oni, Lasebikan & Co (Chartered Accountants)
(in association with Ernst & Whinney)
Lagos

Duro Ogboye & Co
(Chartered Accountants)
26th February, 1982

The above was a marked departure from other reports in many respects. Beside the fact that it was addressed to the members of the company, it clearly stated the basis of the financial statements as the Historical Cost Convention; the firms also signed the accounts in addition to putting its names (*see scanned copy in Appendix 2*). It also contained information on asset revaluation due to impact of inflation.

From the various Auditors' statements or opinions above, some common characteristics can be identified:

1. Most of the statements were simply titled, "Reports of the Auditors." No reference was made to independence of the auditors.
2. Only the names of the firms were affixed. No signature of any partner was indicated.
3. Some auditors' reports were addressed to members of the company while one was addressed to the Board of directors.
4. While some audits were concluded in six months some others were concluded in three months.
5. Formats of Auditor's opinions were as diverse as the number of external auditors in existence.
6. Some used the phrase, "...to the best of our information..."
7. Some used the expression, "state of affairs of the company" while some used, "state of financial affairs of the company."
8. No stamp and seal of ICAN were affixed.
9. Compliance with Companies Act 1968 and Productivity, Prices and Incomes Board Guidelines was emphasised because of the policy of price control in an era of high inflation. The records from CBN show that inflation reached 32.6% in 1975 and organisations were required to comply with the directives of Price Control Board and external auditors were expected to ensure compliance.

The foregoing era therefore was characterised by lack of uniformity in the nature or format of audit opinions issued by auditors engaged in the audit of companies either in the public or private sectors. It is safe to infer that each firm complied with the practices of the international networks to which they were affiliated. Those not affiliated adopted the practices of jurisdictions where its founders trained. It is fair to say that the Institute which could have provided direction was not technically capable, during its formative years, to do this. It was to address this incapacitation that the Institute's governing Council established the Auditing Standards Committee (ASC) in 1989. The activities of ASC and its accounting counterpart, the Nigerian Accounting Standards Board (NASB), were subsequently influenced by the membership and active participation of ICAN in IFAC formed in the then West Germany in 1977. Indeed, ICAN served in some of IFAC committees including International Accounting Standards Committee (Mohammed, 2014).

Audit Opinion Post-1990 to 2000

The lack of uniformity in the format of audit opinion was one of the major issues that led to the establishment and inauguration of the Auditing Standards Committee (ASC) by ICAN Council in July 1989. The main objective of the ASC was to prepare standards and guidelines on auditing as was being done for accounting standards by the NASB set up earlier in 1982 by the ICAN Council. The Committee was to prescribe the basic principles and practices which members were to follow when carrying out an audit. It is instructive to mention that the creation of the ASC led to the issuance of two guidelines in early 1990s as follows:

- Auditing Guidelines on Engagement Letter (AG I).
- Auditing Guideline: Prospectus and the Reporting Accountant (AG II).

In addition to these two guidelines, the ASC also issued a Preface to Auditing Standards and Guidelines in which it defined what audit is and the responsibility of the Auditor to exclude "search for fraud." While agreeing that the auditor can search for fraud under a separate engagement, the Preface clearly stated that, "the responsibility for the prevention and detection of fraud and irregularities is that of

management who may obtain reasonable assurance that this responsibility has been discharged by establishing an adequate system of internal control." The Preface also indicated that guidelines to be issued by ASC must conform with those issued by IFAC and **where a conflict arises, the ASC guideline will prevail!** Although this was a bold and audacious statement, the ASC, regrettably, did not muster any muscle to be independent of the Institute like the Nigerian Accounting Standards Board (NASB) which was subsequently taken over in 1992 by the government. It remained a sub-committee of the Professional Practice Monitoring Committee till date, although with a different designation as Nigerian Auditing Standards Committee (NASC).

The promulgation of the Companies and Allied Matters Act of 1990 marked a clear watershed in the nature of audit opinion during this period. In fact, Section 359(1) of CAMA 1990 provides expressly that *"the auditors of a company shall make a report to its members (shareholders) on the accounts examined by them, and on every balance sheet and profit and loss account, and on all group financial statements copies of which are to be laid before the company in a general meeting during the auditors' tenure of office."*

The Act also put an official and legal seal on the issue of sampling. For instance, Section 360(1) of the Act provides that *"it shall be the duty of the company's auditors, in preparing their report, to carry out such investigations as may enable them form an opinion as to the following matters whether:*

- *Proper accounting records have been kept by the company and proper returns adequate for their audit have been received from branches not visited by them;*
- *The company's balance sheet and (if not consolidated) its profits and loss account are in agreement with the accounting records and returns.*

According to this section, if auditors receive adequate information from branches NOT visited by them, they could issue their opinions since such opinions are intended to show the correspondence of the information to the economic activity it purports to describe and the objectivity exercised by management when processing it. In other words, it encourages sampling as it permits the auditor to rely on information provided by head office in respect of a branch not visited by the auditors.

The use of the word **investigations** by CAMA 1990 is curious as it is not synonymous with auditing. Investigation is a much more detailed examination of books and records and it is usually a subject of separate engagement. Indeed, Section 157 of the 1968 Companies Decree made it a distinct assignment which should be carried out, at the instance of the Commissioner, by one or more competent inspectors on the payment of one hundred Nigerian pounds. The resultant report would also be submitted, through the Registrar, to the Commissioner. There is no audit opinion which states that the auditor has investigated the accounts or financial statements of an entity. Lord Cadbury even referred to the audit process as an *external and objective check* and not investigations. According to the Cadbury's Committee on **the Financial Aspects of Corporate Governance** set up in U.K. stated in its 1992 Report chaired by Lord Cadbury, *"the audit provides an external and objective check on the way in which the financial statements have been prepared and presented, and it is an essential part of the checks and balance required... Audits are a reassurance to all who have a financial interest in companies, quite apart from their value to boards of directors."* It is safe to say that investigation is the domain of Forensic Accounting.

Since the enactment of CAMA, 1990, the content of the audit opinion has changed considerably. For instance, in August 1995, the firm of Messrs KPMG Peat Marwick Ani Ogunde & co(chartered accountants) issued the following report:

**REPORT OF THE AUDITORS
TO THE MEMBERS OF
ROYAL EXCHANGE ASSURANCE NIGERIA PLC**

"We have examined the financial statements set out on pages 15 to 28 which have been prepared on the basis of the accounting policies set out on pages 13 and 14.

Proper books of accounts have been kept by the company in accordance with generally accepted accounting principles and the financial statements which are in agreement therewith comply with the requirements of the Insurance Decree, 1991, the Companies and Allied Matters Decree, 1990 and relevant statements of accounting standards issued by the Nigerian Accounting Standards Board.

In our opinion and based on the information and explanations given to us, the financial statements give a true and fair view of the state of the company's financial affairs at 31st December, 1994 and of the profit and cash flow for the year ended on that date."

KPMG Peat Marwick Ani Ogunde & Co
(Chartered Accountants)
29, August, 1995
Lagos, Nigeria

The above opinion referred to the law governing the insurance sector, the CAMA which specified the nature and format of accounts to be prepared and the standards including generally accepted accounting principles issued by the NASB which define the way accounting transactions are to be treated and reported in financial statements. In the opinion, the auditor's responsibility to ensure that clients complied with relevant legislations was also affirmed. So unlike the pre-1990 statements, uniformity was brought into the preparation of financial statements as well as the audit opinion. However, no reference was made to the auditing standards used by the firm while

carrying out this audit engagement which was signed eight months after the company's year end. As an international network, it is safe to assume that the firm may have used ISAs issued by IAASB of IFAC in an effort to provide reasonable assurance to stakeholders. In the view of Lee (1976) **the major objective is to ensure that shareholders are presented with credible information which they can use with a reasonable assurance that it has been prepared honestly and with due care.**

Audit Opinion Post-2000

The period after the dreaded millennium bug of year 2000 was characterised by a lot of corporate governance breaches and corporate failures. In spite of the use of standards (both accounting and auditing), the spate of corporate collapse increased. In fact, it was alleged that many corporate entities collapsed soon after they were given "clean bills of health" by external auditors. The Enron, WorldCom, Tyco, Lehmann Brothers, Merry Lynch saga in USA, the Parmalat crisis in Italy, Royal Bank of Scotland, Bank of Credit and Commerce International, Oceanic Bank, etc, in Nigeria, the global economic meltdown of 2007/2008, etc, impacted significantly on the nature of audit opinions. These entities were all audited by reputable firms of chartered accountants shortly before they collapsed. Interestingly, no external auditor was found guilty by any court in the discharge of his professional duty in all the aforementioned cases because the ISA 240 – Fraud and Error – reinforced their role when it noted that the duty of the auditor was just to plan and carry out its duty to prevent or detect fraud. According to this standard, it was not the duty of external auditor to detect fraud. Through the adoption of professional scepticism, he could detect fraud during the ordinary course of his engagement. These crises gave rise to the issue of expectation gap which relates to the perception of users of financial statements on the responsibility of the auditor to detect fraud or not.

With this development and in order to properly assign responsibilities to everyone in the financial reporting chain, the nature of audit opinion had to be significantly changed again. Indeed, each paragraph was devoted to providing specific information. For example, the following is an auditor opinion issued by the joint auditors of Union Bank PLC in 2004:

REPORT OF THE JOINT AUDITORS TO THE MEMBERS OF UNION BANK OF NIGERIA PLC

We audited the financial statements of Union Bank Nigeria PLC as at 31 March, 2004 set out on pages 29 to 58 which have been prepared on the basis of accounting policies on pages 29 and 30.

Respective Responsibilities of Directors and Auditors

In accordance with the Companies and Allied Matters Act 1990, the Bank's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with the International Standards on Auditing issued by the International Federation of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts of disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations, which we considered necessary to provide us with sufficient evidence to give a reasonable assurance that the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and assessed whether the bank's books of accounts had been properly kept. We obtained all the information and explanations we required for the purpose of our audit and have received proper returns from branches not visited by us. An analysis of insider related credits as required by the Central Bank of Nigeria is as set out in Note 6.4 in accordance with Circular BSD/1/2004.

Contravention

During the year ended 31 March 2004, the Bank contravened certain sections of the Central Bank of Nigeria circular. The particulars thereof and the penalties paid thereon are set out on Note 31.

Opinion

In our opinion, the Bank has kept proper books of accounts and the financial statements are in agreement with the books. The financial statements drawn up in conformity with the generally accepted accounting standards in Nigeria, give a true and fair view of the state of affairs of the Bank as at 31 March 2004, the profit and cash flow for the year ended on that date, and have been properly prepared in accordance with the provisions of the Banks and Other Financial Institutions Act, 1991; and relevant circulars issued by the Central Bank of Nigeria; and the Companies and Allied Matters Act, 1990.

Signature
Akintola Williams Deloitte & Touché
(Chartered Accountants)
Stamp

Lagos, Nigeria
18 June 2004

Signature
Oyelami Soetan Adeleke & Co
(Chartered Accountants)
Stamp

The above joint auditors' opinion expressly specified the work done, the period covered by the audit, the responsibilities of the Board and Management as well as the External Auditors as provided in the Companies and Allied Matters Act 1990. Under *Basis of Opinion*, it defined and explained the thrust of audit. It is important to mention that the statement alluded to audit, "as an examination, on test basis, of evidence relevant...." The joint auditors also provided an insight into the methodology including sampling and the standards (ISAs) they used in carrying out the engagement. For instance, they said, "we planned and performed our..., We also evaluated the overall adequacy of the presentation of information...." With these, they were able to detect non-compliance with CBN circular, the penalties paid and thereafter, expressed unqualified opinion on the state of affairs of the bank, its compliance with CAMA, 1990, BOFIA 1991 and the other various CBN Circulars. The use of ISAs was particularly justified because of Akintola Williams Deloitte & Touché (AWDT)'s international affiliation coupled with the fact that ICAN had not issued its Nigerian Standards on Auditing (NSAs) at the time. The process for the issuance of NSAs commenced in 2005. The joint auditors signed the opinion in the names of their practising firms, affixed ICAN stamps and the seals of the engagement partners. It is instructive to mention that as part of its strategies to check quackery in the profession, the Council in 2004 introduced the stamps and seal which are to be used by members in practice to authenticate their work.

However, the title of the audit opinion did not talk about independence of the auditors nor were the names of the engagement partners disclosed. It did not also say anything about the state of the bank's internal control and the accounting standards used by the bank in preparing the audited financial statements.

The USA Sarbanes-Oxley Act 2002

One piece of legislation that redefined the nature of audit opinion was the Sarbanes-Oxley (SOX) Act 2002 enacted by the USA Congress in 2002 in the wake of the Enron, WorldCom, Tyco, etc, saga. In line with SOX Act, the Chief Finance Officer and the Chief Executive officer are required to sign the financial statements to affirm that they (financial statements) do not contain any error or misrepresentation. In effect, they are to expressly take full responsibilities for the presentational faithfulness of the financial statements. In fact, SOX actually requires Chief Executive Officers (CEOs) and Chief Finance Officers (CFOs) to swear on oath before a notary that to the best of their knowledge, their financial statements contained neither an "untrue statement" nor omit any "material fact." This was in response to the legal pleas by Jeffrey Skilling of Enron and Bernie Ebbers of WorldCom that they had no idea what their CFOs were doing with the financials. Yet a few of the CFOs pleaded that they acted under pressures from their CEOs.

Another major impact of the SOX Act on audit opinion is the requirement that external auditors are required to express opinion on the adequacy or otherwise of the internal control system of their client as part of the normal audit engagement. This provision is now part of the Nigeria's Investment and Securities Act 2007 (see Section 60–64) and the Financial Reporting Council (FRC) of Nigeria Act, 2011. Till date, the format of the report to be issued has not been released either by the Securities and Exchange Commission or the Financial Reporting Council (FRC) of Nigeria. It is now common to find auditors expressing opinion on internal control system of their clients as part of their risk assessment procedures.

It was in response to the provisions of SOX Act 2002 that the IFAC IAASB recently revised ISA 240: The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements.

The ISA 240, which is the equivalent of The Nigerian Standard on Auditing (NSA) 5: The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements as well as the USA Statement of Auditing Standard 99, has stressed not only the difference between "Fraud and Error," but it also states in no uncertain terms that, "when obtaining an understanding of the entity and its environment, including its internal control, the auditor should consider whether the information obtained indicates that one or more fraud risk factors are present". This new mandate has implications for auditors and indeed, the Accountancy Profession in general. The format of audit opinion has also changed to reflect this new paradigm.

In August 2013, the USA PCAOB (a creation of SOX Act 2002) also issued an exposure draft titled, "*The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*" in an effort to further enhance the auditor's reporting model. Although the proposed auditing standard will retain the pass/fail model in the existing auditor's report, it would provide additional information to investors and other users of financial statements about audit and the auditor. As proposed by PCAOB, the auditor reporting standard would require the following:

- Communication of critical audit matters as determined by the auditor.
- The addition of new elements to the auditor's report related to auditor independence, auditor tenure, and the auditor's responsibilities for and the results of the auditor's evaluation of other information outside the financial statements.
- Enhancements of existing language in the auditor's report related to the auditor's responsibilities for fraud and notes to the financial statements.

According to the PCAOB Chair, Mr James Doty, the proposed changes will make the auditor's report more relevant to investors. In his words, "more robust audit reports that demonstrate the strength and value of the audit also should lead to better public awareness of an application of auditors' skills and insight." Making the auditor's report simpler and responsive to the needs of stakeholders is at the heart of its changes in many jurisdictions. As the last bullet point above indicates, the language of the auditor's report is largely perceived to be evasive, standardised and legalistic with too many provisos and caveats. Phrases used such as 'reasonable assurance' and 'material misstatement' could be interpreted as a get out clause for auditors. The auditor's report, according to critics, was better at telling users what an audit is not, rather than what it is. According to this school of thought, users want individual, company-specific commentary rather

than the boiler plate report they were getting. They want information on issues such as risk and uncertainty, the resolution of material issues, different accounting treatments considered, among others.

The European Union (EU) Green Paper

While external auditors are still grappling with the challenges of compliance with the provisions of USA SOX Act 2002 and Nigeria's ISA 2007, the European Commission issued its Green Paper on Audit Policy in October 2010. This paper was to stir up debate on the role of audit in corporate governance and to address any expectation gap between auditors and stakeholders in the context of regulatory reforms occasioned by recent financial institutions crisis. The objectives of the Green paper include:

- Determining whether there are possible ways to reduce any gap between what investors expect from an auditor and what the auditor actually delivers, and whether the role of auditor should be revisited;
- Exploring possible ways to improve the auditors' communication to stakeholders and regulators on what work they have carried out and what they have "discovered" during their audit;
- Examining whether there are conflicts of interest in the current system e.g., when a firm both audits a company's results and offers it consultancy services; if so, what would be the appropriate manner to eliminate such intrinsic conflicts of interest so as to ensure complete auditor independence;
- Ensuring effective and independent supervision throughout the EU;
- Identifying if the current system entails any systemic, "too large to fail" risks because of the concentration in the audit market. What impact would the failure of one of the big audit firms have on the rest of the financial system? How could such accumulation of such risks be addressed?
- Improving the internal market of audit by ensuring further mobility for audit professionals and firms within the EU, possibly by creating a European Passport in this area;
- Addressing the proportionality of the application of regulatory requirements to reduce administrative burden for SMEs, where possible.

Although it was designed to set the tone for the future of audit, the EU Green paper raised a lot of fundamental issues which impacted the Discussion Paper issued by IAASB in June 2012 and titled, "Improving the Auditor's Report." According to the Chair of the Board, Prof Arnold Schilder, the auditor's report "is the primary means of communication with an entity's stakeholders". He describes it as "a short, standardised report that describes the financial statements subject to audit, the audit itself and the respective responsibilities of management and the auditor" and lastly, the auditor's opinion. He noted that while the auditor's opinion is valued, many perceive that the auditor's report could be more informative. A quality audit, according to him, should be accompanied by an informative auditor's report that delivers value to the entity's stakeholders. In essence, the discussion paper, like the EU Green paper, is desirous of seeing an improved communication between the external auditors and its stakeholders. Such improved communication should be explicitly evidenced in the nature of the audit opinion. In other words, the audit opinion should tell all the story of the work done. In June 2013 the Financial Reporting Council issued a revised version of International Standard on Auditing (UK and Ireland) 700 — the fourth time it has been revised since its issue in 2004 to underscore the severity of the issue of auditors' communication with stakeholders.

With this FRC-issued revised ISA, which is effective for accounting periods beginning on or after 1st October 2012, auditors in UK are now required to report in their own words and must:

- Provide an overview of the scope of the audit, showing how they addressed the risk and materiality considerations;
- Describe the risks that had the greatest effect on, the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team; and
- Provide an explanation of how they applied the concept of materiality in planning and performing the audit.

It is hoped that these changes will enhance the transparency of the auditor's report and lead to better communication with investors. However, there is a fear that, over time, standardised language will gradually increase again. To a certain extent, this is to be expected. For any particular company, key risks are likely to be similar from year to year, and thus disclosures may be repeated. Provided this is an accurate reflection of the auditor's considerations, this is not necessarily a problem.

It is instructive to mention that dissatisfaction with the current audit report is not unique to the UK. In March 2012 the Singapore Institute of Directors and ACCA held roundtable discussions on enhancing the value of audit. The feeling was that directors would like to see more subjective statements from the auditors including their assessments of the overall control environment and the 'tone at the top.' At an ACCA roundtable in the Caribbean in April 2013, delegates discussed how the addition of an 'Auditor Commentary' in the audit report would improve its relevance and communicative value. While it was seen to be beneficial, concerns were expressed about the impact on length and complexity and the potential for misinterpretation. Users may find it challenging to understand technically difficult matters and to interpret the qualitative descriptions arising from subjective judgments made by the auditor.

Given the series of changes introduced to achieve quality audit, it is only fair that the auditor's report should explain the work done and to shine light on key matters based on the auditor's work. What is obvious from the various issues raised in the aforementioned discussion paper is that the *status quo* is not an option. There is need to improve the auditor's report in line with the expectations of stakeholders. It is notable that "the call for change initially came primarily from institutional investors and financial analysts who are looking to auditors to

help assist in navigating increasingly complex financial statements and point out the areas on which the auditor's work effort was focused — particularly on the subjective matters within the financial statements."

In the light of the discussions, it was suggested that the Auditor's Report should have paragraphs on the following issues: Opinion; Basis of Opinion; Going Concern; Auditor's Commentary on critical issues (like pending/outstanding litigation, goodwill, valuation of financial instruments, audit strategy relating to the recording of Revenue, Receivable Accounts and cash receipts); involvement of other auditors; other information (e.g. chairman's statement, business review, etc); responsibility of those charged with governance and the auditor's report on other legal and regulatory requirements. An illustration of a possible improved auditor's report in an IFRS environment is in the **Appendix 3**.

Proposed Template for Today's Auditor's Report

The proposed ISA 700 (revised) titled, "Forming an Opinion and Reporting on Financial Statements" drew copiously from the aforementioned discussion paper. It indicated that the Auditor's Report, which must be in writing, should contain sections on the following subheads:

- Title showing that it is the report of an independent auditor.
- Addressee: it shall be addressed, as appropriate, based on the circumstances of the engagement.
- Auditor's opinion including a section with the heading "Opinion".
- The Auditor's Report shall:
 - Identify the entity whose financial statements have been audited;
 - State that the financial statements have been audited;
 - Identify the title of each statement comprising the financial statements;
 - Refer to the notes including the summary of significant accounting policies; and
 - Specify the date of, or period covered by, each financial statement comprising the financial statements.
- Basis of Opinion which indicates the responsibility of the auditor and the fact that the audit was conducted in line with ISA and that sufficient appropriate evidence was obtained by the independent auditor.
- Going Concern as provided in ISA 570.
- Key matters must be communicated by the auditor in the auditor's report in line with ISA 701.
- Other information as provided in ISA 720.
- Responsibility for the financial statements — the report shall include a section with a heading using the appropriate term to describe those responsible for the preparation of the financial statements and for such internal control as they deem necessary.
- Auditor's responsibility for the audit of the financial statements.
- The auditor shall also state the objectives of audit which is to obtain assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to error or fraud.
- The auditor's report shall also indicate that the auditor exercises professional judgement and maintains professional scepticism throughout the planning and performance of the audit.
- The auditor's report shall also indicate that the auditor is required to communicate with those who have governance responsibilities regarding planned scope and timing of audit, significant audit findings including any significant deficiencies in internal control.
- The name of the engagement partner shall be included in the auditor's report for audits of financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant security threat to the individual.
- The auditor's report must be signed by the engagement partner who must be an ICAN member.
- The auditor's report shall name the location in the jurisdiction where the auditor practices.
- The auditor's report shall be dated not earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements.

Thus, the major additions of this ISA 700 (revised) ED to subsisting standards on auditor's report are clearly in the areas of who signs the auditor's report and how; disclosure of name of engagement partner; auditor's commentary on the business environment, the efficacy or otherwise of internal control systems, etc. These changes explain why, as indicated at the beginning of this paper, the ICAN governing Council recently issued a statement on how audit opinions are to be signed and by whom. This Council position is therefore in tandem with the provisions of this Exposure Draft (ISA 700 revised). What is yet to be resolved is the impact of the series of changes on auditor's scale of fees. As a professional, the auditor should earn economic rewards for his services, which in this case, are becoming more demanding, complex and risky. Although the liability of auditors can be mitigated by indemnity insurance or limited by agreement with the board with prior approval from the shareholders, according to the UK Companies Act 2006, the client should be prepared to pay more for better services. To ensure this, the ICAN governing Council revised its Scale of Professional Fees in April 2014. Efforts are currently on to officially gazette the Scale.

CONCLUDING REMARKS

The auditor's report, as the medium through which he communicates with stakeholders, has undergone, as shown above, a lot of changes which are largely in response to the increasing sophistry of the stakeholders, changes in legislation and business dynamics. In many jurisdictions, the view is rife that the auditor must, by himself, tell the story of what he did throughout the engagement. This is

compounded by the fluidity of the scope of audit which makes commentary on information technology, internal control systems, financial instrument valuation methodology, etc, mandatory. Thereafter, he would explicitly take ownership of the report with all its associated risks. This explains why ICAN now requires its members in practice to have indemnity insurance as a precondition for practice licence renewal. Thus, the one-page audit statement often read at Annual General Meetings is now perceived to be grossly inadequate and unreflective of the quality and quantum of work done. In other words, its present format does not communicate full value to stakeholders. The proposed ISA 700 (revised) when issued by IAASB will, hopefully and largely, meet this huge expectation gap at a cost to clients.

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APPENDIX 1:
**ICAN STATEMENT ON LICENCE TO PRACTISE AND THE SIGNING OF
AUDITED ACCOUNTS BY CHARTERED ACCOUNTANTS**

The Institute of Chartered Accountants of Nigeria refers to the recent circulars from Securities and Exchange Commission and Corporate Affairs Commission, both on the mode of signing audited accounts and financial statements examined by Chartered Accountants.

The circulars were premised on the decision of the Court of Appeal in the case of *Unegbu Vs KPMG & Anor* wherein the court ruled that Reports on audited accounts and financial statements examined by Chartered Accountants must be signed specifically by the Audit Partner who reviewed the accounts. This is contrary to the current practice by which a partner signs in the name of the Firm. This decision was based on the 2007 Supreme Court decision in the case of *Okafor Vs Nweke* which laid a new precedent on signing of legal documents.

Mazi Unegbu had sued KPMG and Guinness in the Federal High Court Lagos in 2009 stating that the audited accounts for the 2008 financial year was not properly signed and as such should be discountenanced.

The current position is that the Institute issues *Licence to Practise* to its members who are qualified to practice and only those members with *Licence to Practise* can examine Financial Statements and sign the Auditor's Report.

The Institute also adopted and adapted auditing Standards issued by the International Federation of Accountants (IFAC) to guide its members on their examination and review of financial statements. The adapted standards are coded in the *Nigerian Standards on Auditing* (NSA).

NSA 28 makes provision for signing of the Auditor's report and it states in paragraph 16.1 and 16.2 that:

"The Auditor's Report should be signed."

"The Auditor's signature should be in the name of the audit Firm together with the official seal of the Chartered Accountant signing the Report."

In December 2013, the Court of appeal delivered its ruling refusing to grant the application filed by KPMG for stay of execution of the Federal High Court judgement.

Based on this ruling, both SEC and CAC wrote to the Institute requesting it to direct its members to comply with the decision of the court as reports not signed in line with the judgement would be rejected.

The International Federation of Accountants (IFAC) has just released an exposure draft (ISA 700 Revised) on the mode of signing audited accounts which states in Paragraph 42:

"The name of the engagement Partners shall be included in the Auditor's report for audits of financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant security threat to the individual."

This position is in line with the High Court judgement and the directive of the regulatory bodies.

Based on the foregoing, the Institute's Governing Council deliberated on the issues and approved the following for immediate implementation:

- a. Individual members would be issued with Licence to Practise;
- b. Every member licensed to practise will apply for renewal;
- c. Renewal of Licence would be granted only after a successful practice monitoring/peer review exercise;
- d. Members can only be Partners in one firm at any point in time;
- e. Seals would be issued to individual members;
- f. The new Licence will have a validity period of three (3) years;
- g. Individual Partners will sign the Auditor's report for and on behalf of the firm, e.g.

Signed

Jibodu Musa Okoro, FCA,

FRCN No.

For: ABX and Co


Chartered Accountants

The signature, ICAN Seal, ICAN Stamp and FRCN No should belong to Mr J.M. Okoro, FCA who now signs as the engagement Partner.

ROTIMI A. OMOTOSO, MBA, FCA

Registrar/Chief Executive

APPENDIX 2:



Report of the Joint Auditors

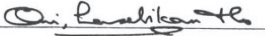
to the Members of Dunlop Nigerian Industries Limited

We have examined the Financial Statements of Dunlop Nigerian Industries Limited set out on pages 8 to 10 and items 1 to 16 of the Notes to Financial Statements set out on pages 13 to 16 which have been prepared under the Historical Cost Convention modified as explained in the note on accounting policies, and have obtained all the information and explanations we considered necessary.


In our opinion proper books of account have been kept and the Financial Statements which are in agreement therewith, give a true and fair view of the state of the Company's financial affairs at 31st December, 1981 and of the loss and changes in financial position for the year then ended, and comply with the Companies Act 1968.

We have also reviewed the Current Cost Financial Statements set out on page 11 and item 17 of the Notes to Financial Statements set out on pages 13 to 16 which restate the results of the Company for the year ended 31st December, 1981 and financial position at that date to include adjustments for the effects of inflation. In our opinion these Financial Statements have been properly prepared in accordance with the basis described in the notes on accounting policies.

To the best of our knowledge and belief the Company complied with the guidelines of the Productivity, Prices and Incomes Board during the year ended 31st December, 1981.



ONI, LASEBIKAN & CO.
In association with Ernst & Whinney
Chartered Accountants



DUORO OGBOYE & CO.
Chartered Accountants

26th February, 1982.

APPENDIX 3:

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company (or Other Appropriate Addressee)
Report on the Financial Statements

Opinion

In our opinion accompanying financial statements present fairly, in all material respects, (or give a true and performance fair view of) the financial position of ABC Company (the Company) as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs). The financial statements comprise the statement of financial position as at December 31, 20X1, the statement of comprehensive income statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

Basis for Opinion

We have audited the accompanying financial statements in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibility section of our report. In performing our audit, we complied with

relevant ethical requirements applicable to financial statement audits, including independence requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

As part of our audit of the financial statements, we have concluded that management's use of the going concern assumption in the preparation of the financial statements is appropriate. Material Uncertainties Related to Events or Conditions that may cast significant doubt on the company's ability to continue as a going concern.

Based on the work we have performed, we have not identified material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern that we believe would need to be disclosed in accordance with IFRS. Because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

The responsibilities of management with respect to going concern are described in a separate section of our report.

Auditor Commentary

Without modifying our opinion, we highlight the following matters that are, in our judgment, likely to be most important to users' understanding of the audited financial statements or our audit. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures.

Outstanding Litigation

The Company is exposed to various claims and contingencies in the normal course of business. We draw attention to Note ---, which describes the uncertainty related to an environmental claim regarding a business that was sold by the Company in 20X0.

Goodwill

As disclosed in Note---, in 20X0, the Company acquired a significant operation in (location). Goodwill attributable to this acquisition is XXX, which is material to the financial statements as a whole. The annual impairment test, as described in the Company's summary of significant accounting policies, is complex and highly judgmental. Due to the current economic conditions as discussed on page X of Management Commentary, there is significant uncertainty embedded in the future cash flow projections used in the impairment calculation. The Company performed this testing as at (date). No impairment was recognised because the recoverable amount of the unit to which the goodwill was allocated marginally exceeded its carrying value at that date. The Company has disclosed that a decline of Y% in the fair value of this unit would have a material negative effect on the Company's statement of financial position and statement of comprehensive income, but would not impact its cash flow from operations.

Valuation of Financial Instruments

The Company's disclosure with respect to its structured financial instruments is included in Note ----. Due to the significant measurement uncertainty associated with these instruments, we determined that there was a high risk of material misstatement of the financial statements related to the valuation of them. As part of our response to this risk, our firm's valuation specialists developed an independent range for purposes of evaluation the reasonableness of management's fair value estimate, which was determined through its use of a model. Management's recorded amount fell within our range.

Audit Strategy Relating to the Recording of Revenue, Accounts Receivable and Cash Receipts

During the year, the Company implemented a new system to record revenue, accounts receivable and cash receipts, which involved the introduction of new accounting software. The new system centralises processes and related internal control for five of the Company's seven operating segments. These processes and controls are significant to our audit of the financial statements because they affect a number of material financial statements accounts. We discussed the effect of the new system implementation on our audit strategy with those charged with governance, including our consideration of the work that had been performed on the new system by the Company's internal audit function. Our audit strategy included supporting our understanding of the design of the new system through discussion with relevant personnel; testing the effectiveness of key controls; and testing the transfer of balances to the new accounting ledgers.

Involvement of Other Auditors

At our request, other auditors performed procedures on the financial information of certain subsidiaries to obtain audit evidence in support of our audit opinion. The work of audit firms with which we are affiliated constituted approximately (percentage of audit measured by, for example, audit hours) of our audit and the work of other non-affiliated audit firms constituted approximately (percentage of audit measured by, for example, audit hours) of our audit. Our responsibilities for the audit are explained in the Auditor's Responsibility section of our report.

Other Information

As part of our audit, we have read (clearly identify the specific other information read, e.g., the Chairman's Statement, the Business Review, etc) contained in (specify the document containing the other information, e.g., the annual report), for the purpose of identifying whether there are material inconsistencies with the audited financial statements. Based upon reading it, we have not identified material inconsistencies

between this information and the audited financial statements. However, we have not audited this information and accordingly do not express an opinion on it.

Respective responsibilities of Management (Appropriate Title for Those Charged with Governance), and the Auditor

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. (Those charged with governance) are responsible for overseeing the Company's financial reporting process.

Management's Responsibilities Relating to Going Concern

Under IFRSs, management is responsible for making an assessment of the Company's ability to continue as a going concern when preparing the financial statements. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Under IFRSs, the Company's financial statements are prepared on a going concern basis, unless management either intends to liquidate the Company or to cease trading, or has no realistic alternative but to do so.

IFRSs also require that, when management is aware of material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, management disclose those uncertainties in the financial statements.

Auditor's Responsibility

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism through the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the group to express an opinion on the group financial statements. We are responsible for the direction, supervision and performance of the group audit engagement and remain solely responsible for our audit opinion (This is applicable to group audits only).
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with (those charged with governance) regarding, among other matters, the planned scope and timing of the audit, the significant audit findings, and any significant deficiencies in internal control that we identify during our audit. We also communicate with them regarding all relationships and other matters that we believe may reasonably be thought to bear on our independence (Last sentence for listed entities only).

Report on Other Legal and Regulatory Requirements

The form and content of this section of the auditors' report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards. Depending on the matters addressed by other laws, regulations or national auditing standards, national auditing standard setters may choose to integrate reporting on these matters with reporting as required by the ISAs (shown in the Report on the Financial Statements section).

The engagement partner responsible for the audit resulting in this report is (name).

(Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction).

(Address)

(Date)

* Mr. Abel Aig. Asein, BSc (Econs.), MBA, AMNIM, CFE, FCCA, ACA is the Deputy Registrar, Technical Services, The Institute of Chartered Accountants of Nigeria. He can be reached through aaasein@ican.org.ng or aigasein@yahoo.com

Managing the Impact of Declining Oil Prices

By UYI AKPATA

"You never know who's swimming naked until the tide goes out."

– Warren Buffet

Is there a perfect storm gathering?

The economic outlook for Africa's largest economy appears to be gloomy occasioned by the recent free fall in oil prices. With *Boko Haram* insurgency in the North East of the country, the Ebola Virus Disease still a potent threat across the West Africa sub-region and the inactivity and uncertainties usually associated with impending general elections, there are genuine reasons for apprehension in the polity.

In recent months, the price of crude oil has fallen 30% to below \$80 per barrel, with little signs of a rapid rebound. As a consequence, we have seen a flurry of activities in response to the impact this has had on the economy. Notably:

► The Nigeria Stock Exchange All Share Index and Market Capitalisation dropped by 4.11% to close at 33,926.18 and N11.241trillion respectively for the week ended Friday, 21 November, 2014. International news agency, Reuters reported the



selling off of Nigerian stocks valued at 101.2 billion naira (\$583.6 million) by foreign investors in October following the drop in the oil price.

► The Excess Crude Account has shrunk to about \$4bn. Already, the squeeze from lower oil prices is rippling through the fiscal system, with some states reportedly unable to meet their wage bills and making demands for more funds from the excess crude account.

► The country's foreign reserve dropped to \$36.5 billion, down 18.3 % from a year ago and continues to fall.

► The Federal Government has revised the 2015-2017 Medium Term Expenditure Framework (MTEF), proposing a new benchmark of \$73 per barrel of crude for the 2015 budget as against the earlier proposed figure of \$78.

► The Naira band has been devalued and is now to exchange at N168 to the US Dollar from N155. An almost 8% decline.

► Monetary Policy Rate (MPR) increased by 100 basis points from 12% to 13%.

► Cash Reserve Ratio (CRR) on private sector deposits increased to 20% (from 15%) while that for public sector deposits was maintained at 75%.

Are there enough reasons to panic?

The answer is no. While the next 1-2 years are likely to be challenging, PriceWaterhouseCoopers (PwC) believes that the Nigerian economy as well as Nigerian companies are resilient enough to weather the challenge of lower oil prices. It must be noted that this is not an entirely new experience as the country has been through a similar situation in 2008 when oil prices fell to \$38 and \$40 per barrel and emerged stronger from it. One of the positive outcomes of that experience was the strengthening of the risk management system of banks which has positioned them to cushion the impact of the current situation on the financial system. We are confident that the country and the economy would ultimately benefit from the current drop in oil prices especially as it presents an opportunity for economic diversification.

What should companies operating in Nigeria expect?

► Nigeria relies heavily on imports of both consumer and investment goods. The continued downward pressure on the naira threatens to stoke inflation by pushing up cost of imports. This will inevitably put severe pressure on both margins and volumes.

► Nigerian firms that are exposed to foreign denominated loans will have to pay more in Naira to service those loans. Loans borrowed outside of Nigeria at variable rate have a portion of credit risk included in the interest rate currently hence current economic realities will increase credit risk thereby increasing interest rate payable by the companies. In addition, loans

“The Excess Crude Account has shrunk to about \$4bn. Already, the squeeze from lower oil prices is rippling through the fiscal system, with some states reportedly unable to meet their wage bills and making demands for more funds from the excess crude account”

denominated in other currencies will have earnings impact as International Financial Reporting Standards (IFRS) requires gains or losses on these monetary items on reporting date should hit profit or loss account.

► A lot of Nigerian banks have opted in recent times to go for cheaper foreign denominated debt instruments, some of these have been collateralised against bonds and debt instrument assets sitting on the balance sheet. With the devaluation of naira, the lenders will likely ask them to pledge more of these assets. In addition, if these assets qualify for Tier II, the lender may ask for stricter rules surrounding these assets affecting the banks capability of having these assets form part of their Tier II capital and subsequently cause the bank to be unable to meet minimum capital requirements.

► For Nigerian Financial Services entities exposed to foreign currency loans

extended to customers, the result is that the fair value of the loans will now be lower than their carrying amounts, and this is a disclosure requirement under IFRS. The loans will also be under collateralised, which may force banks to demand more collateral and higher interest rates. This will have a cyclical effect in the economy.

► Rising interest rates will result in lower fair values for financial instruments measured at fair value. Such fair value losses are recognised immediately in profit or loss if the financial instruments are classified as at fair value through profit or loss. If the financial assets are classified as available for sale, the fair value losses will reduce equity affecting the overall health of the balance sheet of companies. In addition, due to the absence of a deep market, and regulatory restrictions to the trading of debt instruments in the Nigeria stock market, liquidity pressure will be heightened following Nigerian companies increased credit risk. The implication of this is that more companies may fail due to lack of cash.

► For foreign firms that have invested in Nigeria, they will find the value of their investments immediately reducing along with earnings. However such firms may find it cheaper to fund day to day requirements such as the decrease in USD as a result of the

“Nigerian firms that are exposed to foreign denominated loans will have to pay more in Naira to service those loans. Loans borrowed outside of Nigeria at variable rate have a portion of credit risk included in the interest rate currently hence current economic realities will increase credit risk thereby increasing interest rate payable by the companies”

devaluation.

► The ability of some Nigerian companies to pay dividends may be affected as well.

► Governments at all levels will get more aggressive on taxation. This has been the experience in other countries that have had similar experiences. Already in Nigeria, the Government has indicated its intention to increase focus on non-oil revenue sources and tax luxury products. There would be increased scrutiny of the tax compliance of companies and of their owners. Many companies hit by exchange losses may still have huge current tax bills where the exchange losses remain unrealised at reporting date.

How Companies could respond?

To weather the storm and perhaps emerge from it stronger, companies operating in Nigeria should pay attention to the following:

► **Make sure your financing is in place.** It is important to secure your projects longevity by extracting long term funding commitments which are matched to the project horizon.

► **Verify your business partners.** Businesses need stable, well-financed suppliers that will be able to cope with reduced system liquidity. Similarly, you need customers that can pay and who will pay on time. Being able to do this reduces risk significantly.

► **Watch the economic signs carefully and perhaps seek expert guidance before taking decisions.** You must note that making complex business decisions in an environment of extreme uncertainty comes with significant risk. It is thus a good time to get reliable information on market intelligence and trends analysis.

► **Understand how the oil price decline will affect the actions of the public sector.** As mentioned above, we expect an increased focus on taxation and other non-oil revenue sources. Companies should immediately engage policy makers to ensure a balance in Government reaction. After all, taxes can only be collected if businesses are making profits and creating jobs.

► **Cash in on opportunities created.** For example imported raw materials will become expensive, thus presenting an opportunity for Nigerian businesses to explore local alternatives.

► **Review your cost structure.** Companies should take another look at their cost structure and identify/implement efficiency measures. This is especially critical for businesses with products that experience a drop in demand following price increase. For companies that can easily increase prices, there is a need to monitor the market dynamics as well as competitor activity before making the move.

► **Working capital management will be key.** In particular, businesses with shipments in transit which were secured in foreign currencies but with expected revenues in Naira must immediately start looking at their balance sheet and how to manage inventory, payables and receivables.

What Can the Government do?

As challenging as the new environment will be for the private sector, it is likely to be even more challenging for the public sector

who will struggle to make adjustments following the painful exposure of their over-reliance on oil revenue. PwC's position is:

► **Make the strong move towards diversification.** The talk of focusing on non-oil revenue sources has been in the front burner for a while now. Significant progress has already been made in agriculture, and the nation is on the cusp of major gains in manufacturing and solid minerals. Governments need to now redouble their efforts and put in place the necessary measures towards full economic diversification.

► **Economic diversification will require significant foreign investment, both from the private sector and from development**

finance institutions. Nigeria needs to make sure it is an attractive destination – this will require continued work on issues like anti-corruption, security, infrastructure and having the right regulations in place.

► Governments at all levels, especially the states and local governments, need to focus on increasing their non-oil revenue and building their internally generated revenue levels. The reality is that the days of complete dependence on federal allocations earned from oil are over. Making this move will require investment in systems

that track companies and individuals, as well as the political will on the part of the leaders to implement.

► **Power is the key.** The Government needs to continue to push through with the implementation of the Power roadmap and show the will to make the additional changes needed for the power sector to deliver. The Nigerian economy can only reach its potential when power supply is stable.

► This is perhaps a good opportunity to put in place an Africa focused hedging or currency volatility insurance. Institutions like the World Bank and African Development Bank may need to consider collaboration with central banks across the continent to see how these products can be created at least to maintain or reduce any adverse downsides to private sectors and Foreign Direct Investment.

Emerging from the storm stronger

We at PwC have long predicted that the high oil price regime is not sustainable. With the recent falling price trend, we believe this is an enormous opportunity for Nigeria and Nigerian businesses to move beyond the over-reliance on oil — with all the problems it has brought — and build a truly diversified economy that works for all of her citizens.

Nigeria continues to be a very attractive place to invest not because it is an oil producer, but because of the immense size of its domestic market and the extraordinary commercial energy of its people which remains largely untapped. It is time to tap into these potentials for long-term economic stability. Getting a grip of the situation, however, will require tough decision making on the part of both Government and businesses with an emphasis on strategic planning and fiscal discipline. ●

*** Mr. Uyi Akpata is Country Senior Partner, PwC, Nigeria.**

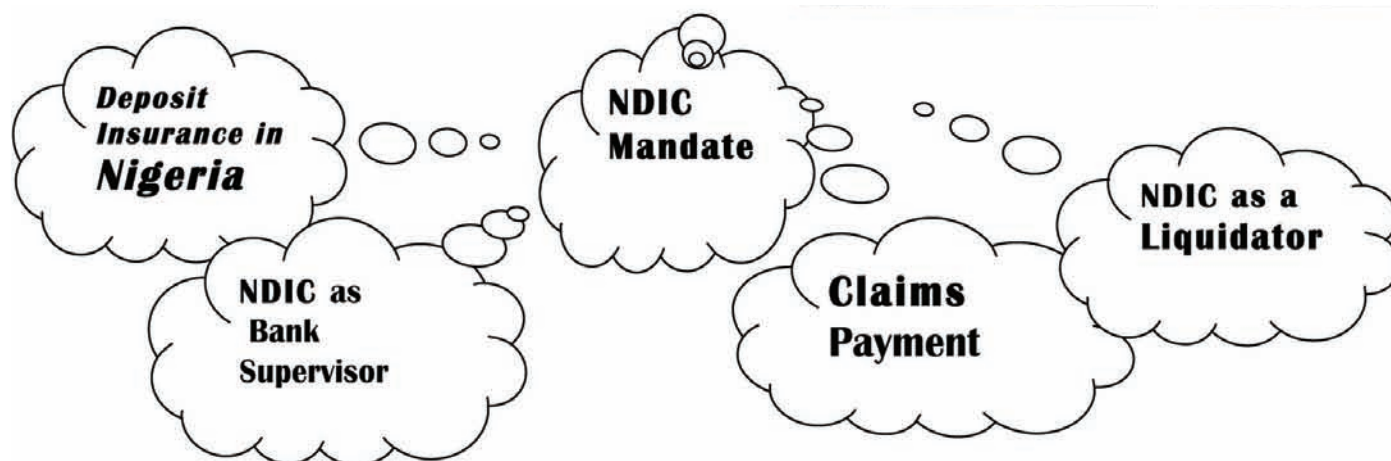
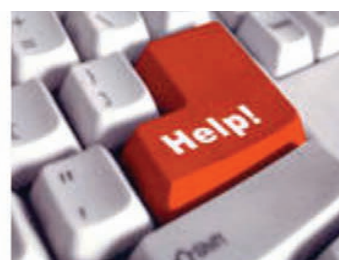
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