

AUDIT CHECKLIST ON COMPANIES AND ALLIED MATTERS ACT (CAMA)/FINANCIAL REPORTING COUNCIL (FRC) OF NIGERIA ACT

Client:

Prepared by:

Period:

Reviewed by:

Narration	Shown in draft A/C?		Why not shown
	Yes	No	
<i>SCHEDULE 2 (Sections 120,335, and 337)</i>			
FORM AND CONTENT OF COMPANY'S FINANCIAL STATEMENTS			
PART 1			
General information to be disclosed, general rules and formats.			
Are the following matters disclosed:			
A. GENERAL INFORMATION			
1. Information on the financial liquidity, profitability and viability of the company?			
2. The name of the company (reporting entity)?			
3. The period of time covered?			
4. A brief description of its activities?			
5. Its legal form?			
6. Its relationship with its significant local and overseas suppliers (if any) including the immediate and ultimate parent, associated or affiliated company?			
7. Balance Sheet (Statement of Financial Position)?			
8. Profit & Loss Account or Income Statement (Statement of Comprehensive Income)?			
9. Notes to the financial statements (comprising a summary of significant accounting policies and other explanatory notes)?			
10. Statement of Changes in Equity?			
11. Cash flow statement (Statement of Cash Flows)?			
12. Statement of Value Added?			
13. Five Year Financial Summary?			
14. Financial implication of inter-company transfer and technical management agreements between the company and its significant local and overseas suppliers (if any) including its immediate ultimate, associated, and affiliated company?			
15. Corresponding figures for the preceding period (all comparatives)?			
Narration	Sho wn		Why not shown

	in draft A/C?		
SCHEDULE 2	Yes	No	
GENERAL RULES			
1. Does the balance sheet (Statement of Financial Position) format conform with the formats in Schedule II of the Act (CAMA) and (IAS 1)?			
2. Does the profit and loss account (Statement of Comprehensive Income) format conform with the formats in Schedule II of the Act (CAMA) and (IAS 1)?			
3. Is the format consistent with the previous year?			
4. If format is changed, has the particulars of change and the reasons for the change been disclosed in a note?			
5. Have you confirmed that the following matters are not treated as assets in the company's balance sheet (Statement of Financial Position):			
a. preliminary expenses?			
b. expenses or and commission on any issue of share or debentures?			
c. research and development costs?			
6. Does the profit and loss account (Statement of Comprehensive Income) show:			
a. the profit or loss before taxation?			
b. amount transferred to/from reserve?			
c. aggregate amount of dividends paid?			
7. Where previous year's figure in the balance sheet (Statement of Financial Position) or profit and loss account (Statement of Comprehensive Income) has been adjusted for comparative purpose, have the reason for adjustment been stated in a note?			
PART II ACCOUNTING PRINCIPLES AND RULES			
A. ACCOUNTING PRINCIPLES			
1. Are the accounting principles in accordance with:			
(a) generally accepted accounting principles (IFRS)?			
(b) Accounting Standards laid down by the Nigerian Accounting Standards Board (FRC)?			
2. - Is there any departure from the accounting principles adopted in the previous year?			
- Has the reason for and effects of such departures been stated in a note to the accounts?			
			Why not shown

B. HISTORICAL COST ACCOUNTING RULES		
1. Are the amounts shown in respect of the following, in accordance with the historical cost accounting rules (set out in paragraphs 17 – 28 of Schedule 2 of CAMA)?		
(a) fixed assets (Property, Plant & Equipment & other non-current assets)?		
(b) current assets?;	current	
(c) miscellaneous and supplementary provision?;	miscellaneous	
(d) assets included at a fixed amount?	asset	
C. ALTERNATIVE ACCOUNTING RULES		
1. Are intangible assets, other than goodwill included at their current cost?		
2. Are tangible fixed assets (Property, Plant & Equipment & other non-current assets) included at a market value (fair value) determined as at the date of their last valuation or at their current cost?		
3. Are investments included at:		
(a) market value (fair value)?		
(b) directors' valuation where directors valuation has been used?		
(c) current cost?		
(d) has the particulars of the method of valuation and the reasons been disclosed in a note to the accounts?		
(e) realization (settlement) value		
(f) present value		
4. Are stocks included at their current cost?		
5. Are the depreciation rules applied in relation to the value determined in 3 above?		
6. Is additional information provided in the notes in case of departure from historical cost accounting rules?		
7. Is the revaluation reserve properly determined in accordance with paragraph 34 of Schedule 2 of CAMA?		
PART III - NOTES TO THE ACCOUNTS		
1. Are the accounting policies disclosed?		
2. Share capital and debentures		
Are the following information given in respect of the share capital?		
(a) The authorized share capital?		
(b) Where shares of more than one class have been allotted, the number and aggregate nominal value or shares of each class allotted?		
3. In the case of any part of the allotted share capital that consists of redeemable shares are the following information given:		
(a) the earliest and latest dates on which the company has power to redeem those shares?		
(b) whether those shares must be redeemed in any event or are liable to be redeemed at the option of the company or of the shareholder?		

(c) whether any (and, if so, what) premium is payable on redemption?		
4. If the company has allotted any shares during the financial year are the following information given:		
(a) the reason for making the allotment?;		
(b) the classes of shares allotted?; and		
(c) the price to be paid for the shares allotted?		
5. If the company has issued any debenture during the financial year to which the accounts relate, are the following information given?		
(a) the reason for making the issue?		
(b) the classes of debentures issued?		
(c) as respects each class of debentures, the amount issued and the consideration received by the company for the issue?		
(d) particulars of any redeemed debentures which the company has power to reissue?		
(e) Nominal amount of the debentures held by nominee and the amount at which they are stated in the accounting records?		
6. Fixed Assets (Property, Plant & Equipment & other non-current assets)		
Does the balance sheet (Statement of Financial Position) contain the following information?		
(a) the “appropriate amounts” that is, purchase price or production cost or any other basis e.g. current cost or valuation in respect of that item as at the date of the beginning of the financial year and as at the balance sheet (Statement of Financial Position) date respectively?		
(b) the effect on any amount shown in the balance sheet (Statement of Financial Position) in respect of that item of:		
i. any revision of the amount in respect of any assets made during that year?;		
ii. acquisitions during that year;		
iii. disposals during that year; and		
iv. any transfers of assets of the company to and from that item during that year.		
(c) the cumulative amount of provisions or depreciation or diminution in value of assets included under that item;		
(d) provisions made in respect of the financial year;		
(e) adjustment made in respect of any such provisions during that year.		
(f) any other adjustments made in respect of any such provisions during that year.		
(g) decommissioning liabilities included in the cost of that item		
(h) componentization of that item		
7. Where any fixed assets (Property, Plant & Equipment & other non-current assets) are included at valuation, are the following information given:		
(a) the years (so far as they are known to the directors) in which the assets were severally valued and the several values?		
(b) in the case of assets that have been valued during the financial year, the name of the persons who valued them or particulars of their		

qualification for doing so and (whichever is stated) the basis of valuation used by them?			
8. In relation to land and buildings, are the following information stated			
(a) how much of the amount is ascribable to land held under statutory right of occupancy and how much to land held under a sublease?			
(b) how much of the amount ascribable to land held under a sublease is ascribable to land held on long lease and how much to land held on short lease?			
(c) a separation between Land and Buildings.			
9. Investments			
Does the balance sheet (Statement of Financial Position) show the following –			
(a) listed investments?			
(b) amount ascribable to investments listed on a recognized stock exchange and other listed investments?			
(c) aggregate market value?			
(d) both market value and stock exchange value?			
10. Reserves and provisions			
Where any amount is transferred, are the following information shown?			
(a) the amount of the reserves or provisions as at the date of the beginning of the year and as at the balance sheet (Statement of Financial Position) date respectively?			
(b) any amount transferred to or from the reserves or provisions during that year?			
(c) the source and application respectively of any amount so transferred?			
(d) particulars of other provisions?			
11. Provision for taxation			
Does the account show provisions for taxation other than deferred tax?			
12. Indebtedness			
Are the following shown:			
(a) aggregate amount payable otherwise than by instalments and due for payment within five years?			
(b) aggregate amount payable by instalments and due for payment after the end of the financial year?			
(c) terms of payments or repayment and the rate of interest?			
(d) if the number of debts is excessive, general indication of the terms of payment and the rates of any interest?			
(e) aggregate amount of debts in respect of which any security has been given?			
(f) nature of securities?			
(g) Dividends?			
i. the amount of the arrears?			
ii. period for which the dividends are in arrears according to			

their classes if any?

13. Guarantee & other financial commitments

Are the following disclosed –

- (a) Particulars of any charge on the assets to secure liabilities of any person and the amount so secured?
- (b) contingent liability?
 - i. amount or estimated amount of that liability?
 - ii. legal nature?
 - iii. security provided?
- (c) Capital expenditure?
 - i. Contracted?
 - ii. authorized, but not contracted?
- (d) Pension?
 - i. commitments included under any provision?
 - ii. commitments not provided for?
 - iii. payable to past directors?
- (e) Financial commitments (separately disclosed)?
 - i. not provided for;
 - ii. relevant to assessing the company's state of affairs
- (f) Commitments taken on behalf of –
 - i. any holding company or fellow subsidiary?
 - ii. any subsidiary?

14. Miscellaneous matters

Are the following disclosed –

- (a) particulars of any asset for which there is no record of price or production cost, but for which the value on or after its acquisition have been used?
- (a) Aggregate amount of outstanding loans in respect of financial assistance by the company for purchase of its own shares?
- (a) Aggregate amount of dividend recommended for distribution?

15. Information supplementing the profit and loss account (Statement of Comprehensive Income). (Schedule II Paragraph 52 of CAMA)

Are the amounts mentioned below stated in a separate statement of certain items of income and expenditure?

- (a) Interests or similar charges on loans and overdrafts
 - i. repayable otherwise than by instalments;
 - ii. repayable within five years
 - iii. repayable by instalments before the end of the financial period
- (b) amounts respectively set aside for redemption of share capital and

of loans		
(c) income from listed investments		
(d) rents from land after deduction of ground rents, rates and other outgoings.		
(e) hire of plant and machinery		
(f) remuneration of the auditors		
(g) taxation –		
i. basis on which charge was computed		
ii. special circumstances affecting liability in respect of taxation of profits, income or capital gains;		
iii. charge for income tax;		
iv. double taxation relief;		
v. charge for taxation imposed outside Nigeria on profits,		
vi. particulars of tax on extra-ordinary profit.		
(h) Turnover (Revenue) showing		
i. amount attributable to each line		
ii. amount of profit and loss before tax attributable		
iii. portions derived from and outside Nigeria		
(i) Staff –		
i. average number of persons employed;		
ii. wages and salaries paid and payable		
iii. pension costs;		
(j) miscellaneous matters state:		
i. prior year income or charges		
ii. extra-ordinary income or charges		
iii. exceptional items		
(k) general –		
i. basis of translation of foreign currencies;		
ii. comparative figures given		
iii. where amounts is not comparable, has it been adjusted and the reasons for adjustment given		
PART IV - SPECIAL PROVISIONS WHERE THE COMPANY IS A HOLDING OR SUBSIDIARY COMPANY		
(A) Company's own financial statements		
1. Where a company is a holding company or a subsidiary of another body corporate, does the balance sheet (Statement of Financial Position) in relation to group of companies include:		
i. amounts attributable to dealings with or interests in any holding company or fellow subsidiary?;		
ii. amounts attributable to dealings with or interests in any		

subsidary?		
2. Amounts of the shares and debentures of the company held by its subsidiaries or their nominees?		
(B) Consolidated accounts of holding company and subsidiaries		
Do the consolidated accounts combine the information contained in the separate accounts of the holding company and the subsidiaries?		
(C) Group financial statements not prepared as consolidated financial statements.		
Does the financial statements give the same equivalent information as that required to be given by the consolidated financial statements?		
(D) Provisions of general application		
1. Where the company is a holding company and either		
(a) does not prepare group accounts?; and		
(b) prepares group accounts which do not deal with one or more of its subsidiaries		
i. the reasons why the subsidiaries are not dealt in group accounts?;		
ii. statement showing any qualifications contained in the reports of the auditors of the subsidiaries which if not for the note, would have been referred to in the qualification?		
iii. aggregate amount of the total investment of the holding company in the shares of the subsidiaries?		
2. Where a company has subsidiaries whose years did not end with that of the company		
(a) the reasons why the company's directors consider that the subsidiaries' years should not end with that of the company?		
(b) the dates of which the subsidiaries' year ending last before that of the company?		
(c) the date immediately following the last statements when the accounts will be consolidated or be reclassified where appropriate as investment properties (long term investments)?		
SCHEDULE 3		
MISCELLANEOUS MATTERS TO BE DISCLOSED IN NOTES TO COMPANY FINANCIAL STATEMENTS		
PART 1 - PARTICULARS OF SUBSIDIARIES		
In the case of each subsidiary –		
i. name		
ii. registered office address		
iii. if incorporated outside Nigeria country in which it is incorporated.		
iv. In relation to shares of each class of the subsidiary held by the company, the identity of the class and nominal value of shares held.		
PART II - SHAREHOLDINGS IN COMPANIES, ETC. OTHER THAN SUBSIDIARIES		
1. If the company holds shares of any class in the equity share capital of		

another body corporate exceeding in nominal value 20 per cent of the nominal value of the allotted shares of that class, are the following stated		
i. name of that other body corporate?		
ii. if incorporated in Nigeria, that part of Nigeria in which it is registered?		
iii. if incorporated outside Nigeria, the country in which it is incorporated?		
iv. the identity of the class and proportion of the nominal value of the allotted shares of that class represented by the shares held?		
v. accounting treatment, that is the equity or costs?		
2. Has the same information (i – v) above been stated in the notes to accounts in respect of the following situation:		
(a) the company holds shares in another company (not a subsidiary) in excess of 10% of that company's share?		
(b) the company holds shares in another company (not a subsidiary) in excess of 10% of its assets?		
(c) where information is not stated in the notes, has relevant conditions for omission of such information being fulfilled according to part II of schedule 3 of CAMA?		
PART III - IDENTIFICATION OF ULTIMATE HOLDING COMPANY		
If at the end of its financial year the company is the subsidiary of another corporate, are the following stated –		
(a) name of the body corporate regarded by the directors as being the company's ultimate holding company?		
(b) country of incorporation?		
PART IV - CHAIRMAN'S AND DIRECTORS' EMOLUMENTS, PENSIONS AND COMPENSATION FOR LOSS OF OFFICE		
1. Emoluments		
(This should include; as a director of the company, its subsidiaries or otherwise in connection with the management of the affairs of the company with subsidiaries)		
i. aggregate amount of directors' emoluments;		
ii. includes emoluments paid or payable;		
iii. distinguished between emoluments in respect of services of a director and other emoluments		
Notes: A company which is neither a holding company nor a subsidiary of another body corporate need not comply with 2 and 3 below, except if the emoluments exceed N120,000 as respects a year.		
2. With respect to all directors -		
i. the number (if any) who had no emoluments;		
ii. whose several emoluments amounted to not more than ₦10,000;		
iii. successive integral multiples of N10,000;		
3. Emoluments waived		
i. the number of directors who have waived rights to receive emoluments;		

ii.	aggregate amount of those emoluments		
4.	Pensions of directors and past directors		
i.	aggregate amount of directors' or past directors' pensions;		
	Distinguish as to: -		
ii.	pensions in respect of services as director; whether of the company or its subsidiary;		
iii.	other pensions		
5.	Compensation to Directors for loss of office		
	aggregate amount of any compensation to directors or past directors in respect of loss of office distinguished as in (4ii and iii) above		
PART V - PARTICULARS RELATING TO NUMBER OF EMPLOYEES REMUNERATED AT HIGHER RATES			
	To be shown –		
i.	each pair of adjacent points on a scale whereon the lowest points is N60,000		
ii.	succeeding ones are successive integral multiples of ₦10,000		
Note:	The following persons emoluments shall not be taken into account for the above –		
(a)	directors		
(b)	persons who worked wholly or mainly during that year outside Nigeria.		
SCHEDULE 4			
PARTICULARS IN COMPANY FINANCIAL STATEMENTS OF LOANS AND OTHER TRANSACTIONS FAVOURING DIRECTORS AND OFFICERS			
PART 1 - DIRECTORS - MATTERS TO BE DISCLOSED			
	The particulars required to be disclosed:–		
(i)	a statement of the fact either that the transaction, arrangement or agreement was made or subsisted during the year;		
(ii)	the name of the person for whom it was made;		
(iii)	where that person is or was connected with a director of the company or its holding company, the name of that director.		
(iv)	in case of transactions or arrangement with the company where a director had, directly or indirectly, a material interest, the name of the director and the nature of that interest;		
(v)	in the case of a loan or agreement/arrangement for a loan, the following:		
	• principal and interest at the beginning and end of the year;		
	• maximum amount of that liability during the year;		
	• due interest yet to be paid;		
	• provision made.		
(vi)	In the case of a guarantee or security, the following: -		

<ul style="list-style-type: none"> • the amount for which the company was liable under the guarantee or security at the beginning and at the end of the year; • the maximum amount for which the company may become so liable; and • any amount paid and any liability incurred by the company for the purpose of fulfilling the guarantee or discharging the security 		
PART II - OFFICERS OF THE COMPANY – MATTERS TO BE DISCLOSED		
(i) a statement of the fact that the transaction, arrangement or agreement was made or subsisted during the year;		
(ii) the aggregate amounts outstanding at the end of the financial year and/or transactions, arrangements and agreement; and		
(iii) the number of officers for whom the transactions arrangements and agreements were made		
SCHEDULE 5		
MATTERS TO BE DEALT WITH IN DIRECTORS’ REPORT		
PART 1 - MATTERS OF A GENERAL NATURE		
1. Asset Values		
If, in the case of such of those assets as consist in interests in land, their market value (as at the end of the year) differs substantially, from the amount at which they are included in the balance sheet (Statement of Financial Position), the difference with such degree of precision as is practicable should be disclosed.		
2. Directors’ interests		
<ul style="list-style-type: none"> ➤ Nature of related party relationships and transactions ➤ Amounts of outstanding balances including guarantees ➤ Provisions and expenses recognised for bad and doubtful debts on outstanding balances ➤ Key management personnel and compensation 		
3. Charitable gifts - Money given for charitable purposes		
4. Miscellaneous		
Directors’ report contains the following:-		
(i) important events affecting the company or any of its subsidiaries which have occurred since the end of the year;		
(ii) an indication of likely future developments in the business of the company and of its subsidiaries;		
(iii) an indication of the activities (if any) of the company and its subsidiaries in the field of research and development;		
(iv) names of distributors of the company’s products; and		
(v) particulars of donations and gifts made for any purpose		
(vi) implementation of corporate governance code in Nigeria		

PART II - DISCLOSURE REQUIRED BY COMPANY ACQUIRING ITS OWN SHARES, ETC		
5.	The directors' report with respect to the year states –	
(i)	The number and nominal value of the shares so purchased, the aggregate amount of the consideration paid by the company for such shares and the reasons for their purchase;	
(ii)	the number and nominal value of the shares so acquired by the company, acquired by another person in such circumstances and so charged respectively during the year;	
(iii)	the maximum number and nominal value of shares which, having been so acquired by the company, acquired by another person in such circumstances or so charged (whether or not during that year) are held any time by the company or that other person during the year;	
(iv)	where the number and nominal value of the shares of any particular description are stated in pursuance of any of the preceding subparagraphs, the percentage of the called up shares of the description represented;	
(v)	where any of the shares have been so charged, the amount of the charge in each case;	
(vi)	where any of the shares have been disposed of by the company or the person who acquired them in such circumstances for money or money's worth the amount or value of the consideration in each case: and	
(vii)	the excess of the selling price over the purchase price of each share resold or the excess of the cost over the selling price which was taken to capital reserve.	
PART III - EMPLOYMENT AND EMPLOYEES		
1.	How many disabled persons were employed during the year and describing the policy which the company has applied during the year?	
2.	Health, Safety and Welfare at work of Company's employees Arrangement in force in the year for securing the health, safety and welfare at work of employees of the company and its subsidiaries, and for protecting other persons against risks to health or safety arising out of or in connection with the activities at work of those employees.	
3.	Employee involvement and Training A statement describing the action that has been taken during the year to introduce, maintain or develop arrangements aimed at –	
(i)	providing employees systematically with information on matters of concern to them as employees;	
(ii)	consulting employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests;	
(iii)	encouraging the involvement of employees in the company's performance through an employees' share scheme or by some other means; and;	
(iv)	achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company	
4.	A statement showing the arrangements made or facilities provided by the	

company for the training of employees during the year.			
SCHEDULE 6 (Section 359 of CAMA)			
MATTERS TO BE EXPRESSLY STATED IN AUDITORS REPORT			
1. Have all information and explanations necessary for the purpose of the audit been provided?			
2. Have proper books been kept by the company?			
- Are we satisfied with the records kept at branches visited?			
- Have we received adequate returns in respect of branches not visited?			
3. Financial statements			
- Are the company's Balance Sheet and Profit and Loss Account in agreement with the underlying records?			
- Do the financial statements give the information required and show a true and fair views of :			
(a) the state of affairs as at year end?			
(b) the profit or loss for the year			
4. In the case of a holding company submitting group financial statements, have the group financial statements been properly prepared to give a true and fair view of the state of affairs and profit or loss of the holding company and its subsidiaries and associates dealt with?			

GENERAL INFORMATION FROM IAS 1

1. Whether the financial statements are for an individual entity or group?
2. Whether the financial statements stated the currency used?
3. Whether the financial statements stated the level of rounding used, e.g. thousands or millions?

4. Statement of Financial Position - Minimum Line Items: Assets

- Property, plant and equipment
- Investment property
- Intangible assets
- Financial assets
- Investments accounted for using the equity method
- Biological assets
- Inventories
- Trade and other receivables
- Cash and cash equivalents
- Tax assets (current & deferred separately)
- Assets held for sale (in accordance with IFRS 5)
- Trade and other payables
- Provisions
- Financial liabilities
- Tax liabilities (current & deferred separately)
- Liabilities included in disposal groups classified as held for sale (IFRS 5)
- Non-controlling interests (presented within equity)
- Issued capital and reserves attributable to owners of the parent
- Further sub-classifications of line items as required by other accounting standards
- Information on each class of share capital

- Details about the nature and purpose of each reserve within equity

5. Statement of Comprehensive Income

- **Must present all non-owner changes in equity ("comprehensive income") using one of two formats:**
 - As a single statement of comprehensive income or
 - As two statements: a separate income statement and statement of comprehensive income
- **Subtotals may be added when relevant to an understanding of financial performance**

Single Statement

Statement of comprehensive income	
Revenue	1000
Costs	(500)
Tax	<u>(200)</u>
PROFIT FOR THE YEAR	300
Other comprehensive income	150
Tax	<u>(50)</u>
TOTAL COMPREHENSIVE INCOME	<u>400</u>

Two Statements

Income Statement for the year	
Revenue	1000
Costs	(500)
Tax	<u>(200)</u>
Profit for the year	300

Statement of comprehensive income	
Profit for the year	300
Other comprehensive income	150
Tax	<u>(50)</u>
Total comprehensive income	<u>400</u>

❖ Statement of Comprehensive Income - Minimum Line Items

- Revenue
- Finance costs
- Share of profit or loss of associates & joint ventures accounted for using equity method
- Tax expense
- Single amount comprising profit or loss of discontinued operations and gain or loss on measurement to fair value less costs to sell or on disposal of assets
- Profit or loss
- Each component of other comprehensive income classified by Nature
- Share of other comprehensive income of associates and joint ventures accounted for using the equity method
- Total comprehensive income
- Allocations of profit for the period
- Profit or loss for the period
- Attributable to non controlling interests and attributable to owners of the parent
- Total comprehensive income for the period
- Attributable to non controlling interests

- **Attributable to owners of the parent**
- **Includes:**
 - Profit or loss for the period, plus
 - Other comprehensive income recognised in that period
- **Profit or Loss for the period**
- All items of income and expense in a period must be recognised in profit or loss unless an IFRS requires or permits otherwise
- Presentation of income or expenses as extraordinary items is not allowed

- **Other Comprehensive Income** comprises items of income and expense, including reclassification adjustments, that are not required or permitted to be recognised in profit or loss
- Components of other comprehensive income include:
 - Changes in revaluation surpluses (IAS 16 & IAS 38)
 - Actuarial gains and losses on defined benefit plans (IAS 19)
 - Gains and losses from translating financial statements of a foreign operation (IAS 21)
 - Gains and losses on remeasuring available-for-sale financial assets (IAS 39)
 - Effective portion of gains/ losses on hedging instruments in a cash flow hedge (IAS 39)
- An analysis of expenses recognised in profit or loss, **classified by nature of expense or function** whichever is reliable and more relevant
- If classified by function, disclose information on the nature of expenses-including cost of sales, depreciation, amortisation and employee benefits expense
- Nature is more useful in predicting future cash flows

❖ **Nature of Expense Method**

Revenue	XXXX
Other income	XXXX
Changes in inventories	XXXX
Raw materials used	XXXX
Employee benefits expenses	XXXX
Depreciation and amortisation expense	XXXX
Other expenses	<u>XXXX</u>
Total expenses	<u>XXXX</u>
Profit	<u>XXXX</u>

❖ **Function of Expense Method**

Revenue	XXXX
Cost of sales	<u>(XXXX)</u>
Gross Profit	XXXX
Other Income	XXXX
Distribution Cost	(XXXX)
Administrative cost	(XXXX)
Other Expenses	<u>(XXXX)</u>
Profit	<u>XXXX</u>

❖ **Material Items**

- **Separate disclosure of material items of income or expense items should be presented in the Statement of Comprehensive Income or in the Notes by their nature and amounts and shall be disclosed separately**

- **Material, if omissions or misstatements of items could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements**
- **Examples:**
 - **Write downs of inventories or property, plant and equipment**
 - **Restructuring expenses**
 - **Litigation settlements**
 - **Disposal of investments/ PPE**
 - **Reversal of provisions**

6. The Statement of Cash Flows

- **Gives information about the historical changes in cash and cash equivalents of an entity**
- By means of a Statement of cash flows we can classify cash flows during the period into:
 - Operating activities
 - Investing activities
 - Financing activities
- ❖ **Operating activities**
 - Principal revenue-producing activities
 - Other activities that are not investing or financing
- ❖ **Investing activities**
 - Acquisition and disposal of long-term assets and other investments not included in cash equivalents
- ❖ **Financing activities**
 - Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity
 - Report operating activities using either:
 - **Direct method** (Preferred method) where major classes of gross cash receipts and gross cash payments are disclosed; or
 - **Indirect method** where profit or loss is adjusted for:
 - ✓ non-cash items
 - ✓ Deferrals or accruals of receipts or payments
 - ✓ Items of income or expense associated with investing or financing cash flows

7. The Statement of Changes in Equity Comprises:

- ❖ **Total comprehensive income for the period**
 - **Showing separately total amounts attributable to: -**
 - **Owners of the parent**
 - **Non-controlling interest**
- ❖ **For each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing changes resulting from:**
 - **Profit or loss;**
 - **Each item of other comprehensive income; and**
 - **Transactions with owners in their capacity as owners**

8. Notes

Notes should:

- **Present information about the basis of preparation of the FS and specific accounting policies used**
- **Disclose information required by IFRSs that is not presented elsewhere in the Financial Statements**

- Provide additional information that is not presented elsewhere in the FS which is necessary for a fair presentation
- Be presented in a systematic manner
- Cross-referencing system
- Summary of accounting policies should disclose:
 - Measurement basis (bases) used in preparing the financial statements – HC, CC, NRV, FV
 - Other accounting policies used that are relevant to an understanding of the financial statements
 - Judgements made by management in process of applying accounting policies that have a significant effect on amounts recognised in the financial statements (SPE, Financing/revenue etc, risk & rewards)
 - Key assumptions concerning future and other sources of estimation uncertainty
 - Detail of their nature
 - Carrying amounts
 - Disclosures
 - Dividends proposed or declared before the financial statements were authorised, but not recognised as a distribution during the period
 - Cumulative preference dividends not recognised
 - Legal corporate information if not disclosed elsewhere
 - Domicile and legal form of the entity
 - Country of incorporation
 - Address of registered office
 - Description of nature of entity's operations and principal activities
 - Name of parent and ultimate parent of group
- The measurement basis used in the preparation of the financial statements
- Judgements that have been made in applying an entity's accounting policies
- Assumptions that an entity has made over the uncertainty of making estimations
- Earnings per share (EPS)
- Declared dividend per share

THE FRC ACT - PERTINENT REGULATORY ISSUES

1. Internal and information systems controls in reporting entities

Section 7 (f) states that the Council shall have powers to “**require management assessment of internal controls, including Information Systems controls with independent attestation**”.

2. Certification of Financial Statements and Ethical Issues within reporting entities

Section 7 (2g) states that the Council shall have powers to “**require code of ethics for financial officers and certification of financial statements by Chief Executive Officers and Chief Finance Officers**”.

3. Financial and Operational Disclosures

Section 7(2h) requires entities to provide real time disclosures on material changes in financial conditions or operations.

4. Punishment for mis-statement in financial reports – CEOs and CFOs

The Council has powers to pronounce forfeiture, by CEOs and CFOs, of certain bonuses received from the company and profits realized from the sale of company shares owned by them, where the company is required to prepare an accounting restatement.

5. Promotion of Education, Research and Training

Monitor and promote education, research and training in the fields of accounting, auditing, financial reporting and corporate governance.

6. External Auditors – Practice monitoring (independence and objectivity issues)

The Council shall receive qualified reports together with detailed explanations for such qualifications **within 30 days** from the date of such qualification.

Such reports shall not be announced to the public until all accounting issues relating to the reports are resolved by the Council.

7. S. 44 (2) states that a **professional accountant shall not, in his report, express an opinion unless he has complied with the auditing standards that may be issued by the Council** or relevant professional bodies and **adopted by the Council** from time to time.

8. S. 61 (3): The Council shall **require** evidence of a **second partner review and audit approach** that registered professional accountants adopted on quality control.

9. S 60: The Council, or any officer authorized by it, in writing **may review the practice of an auditor** and may for that purpose:

(a) inspect any relevant book, document and record in the possession, or under the control of the auditor, his partner or employee and make copies of, or take any abstract of, or extract from any such book, document and record in relation to a company under investigation subject to the consent of the public interest entity ; and

(b) seek information or clarification from any partner or employee of the professional firm.

10. S. 61. (1): **Annual quality reviews (inspections)** shall be conducted for professional accountants that audit more than 20 public interest entities; all others shall be conducted every three years and the Council may order a special inspection of any professional accountant at any time.

11. S. 61 (2): The Council shall require registered professional accounting firms and other professionals to maintain for a period of not less than 6 years, **audit working papers and other information related to any audit report**, in sufficient detail to support the conclusion reached in the report.

12. Power to make rules and regulations

The Council may **issue rules and guidelines** for the purpose of implementing auditing and accounting standards. **(repeated verbatim in S. 53 of FRC Act).**

13. S. 30 (1): The Council shall **make and issue such rules or ethical codes** of practice to establish its procedures and policies for the purpose of monitoring registered auditors and other professionals rendering services to Public Interest Entities.

Examples of recent rules and regulations include:

- (a) **that CFOs must be professional accountants meaning they must be a member of a professional accounting body registered in Nigeria by an Act of National Assembly;**
- (b) **that Chairmen of audit committees must be professional accountants meaning they must be a member of a professional accounting body registered in Nigeria by an Act of National Assembly; and**

- (c) requirements for reporting entities to submit IFRS readiness documents.

14. Compliance Monitoring

S. 28: The Directorate of Inspection and Monitoring shall **monitor compliance** with auditing, accounting, actuarial and valuation standards and guidelines reviewed and adopted by the Council.

15a. Registration of Professionals – accountability and transparency

S. 41.

- (1) The Council shall maintain a register of professionals.
- (2) A person shall not hold any appointment or offer any services for remuneration as a professional for public interest entities, unless he is registered under this Act.
- (3) A person who wishes to be registered shall make a written application to the Council in a prescribed form.
- (4) An application made under subsection (2) of this Section shall be accompanied by such fees and such information as the Council may from time to time determine.
- (5) A person who contravenes subsection (2) of this section commits an offence and is liable on conviction, to a fine not exceeding N500,000.00 or to imprisonment for a term not exceeding 6 months or both.

15b. Registration of Professionals – sanctions for failure to register

S. 43.

- (1) No registered professional shall employ a person who has been suspended from practice, unless the Council has consented to such employment.
- (2) The Council, or any officer authorized by it, in writing may **seek further information or clarification** from any other person or institution with relevant information and such director, employee, professional accountant, institution and other person shall **comply**.

16. Dealing with conflicting provisions in extant laws - S. 59

- (a) **The accounts, financial reports or annual returns and other documents required under the following Acts, or amendments thereafter, shall be adopted for that purpose by the Council:**
 - **Banks and other Financial Institutions (Amendment) Act CAP. B3 LFN, 2004**
 - **Companies and Allied Matters Act CAP. C20 LFN, 2004**
 - **Investments and Securities Act CAP. I24 LFN, 2004**
 - **Insurance Act CAP. 117 LFN, 2004**
 - **Pension Reform Act No. 2, 2004**
 - **Federal Mortgage Bank of Nigeria Act, CAP. F16 LFN, 2004**
- (b) Where there is any conflict between the financial reports or annual returns and other documents required or prepared in fulfillment of the relevant Sections of the Acts listed above and other Acts which deal with financial reporting, the standards and guidelines adopted for that purpose by the Council shall to the extent of the inconsistency, prevail