IFRS Implementation: The Journey So Far - The Auditor’s Perspectives
Agenda

1. Overview of IFRS Reporting Framework
2. Journey of IFRS in Nigeria
3. IFRS Implementation and entities’ business
4. Benefits derived from IFRS Implementation
5. The Challenges of implementing IFRS.
6. Key success factors for IFRS implementation
7. The Auditor’s Perspectives
Overview of IFRS Reporting Framework
Origin of IFRS

A single set of global accounting standards has been under development for over three decades since the International Accounting Standards Committee (“IASC”) was first established in 1973. Today, this suite of standards comprises International Accounting Standards (“IASs”) first issued by the IASC and, subsequent to April 2001, IFRS issued by the IASC’s successor, the International Accounting Standards Board (“IASB”), as well as interpretations of those standards.

The IASB’s mission includes the development of “a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in financial statements and other financial reporting….” The IASB seeks to “bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.”

It wasn’t until 2005, with the advent of the European Commission’s requirement for public companies reporting within the European Union (“EU”) to prepare consolidated financial statements compliant with IFRS, that IFRS began to be widely applied around the world, and the IASB could be said to have moved significantly to achieving its goal. Australian and other standard setters soon followed the EU and today over 100 countries either require or permit the use of IFRS for public company reporting.
Financial statements are prepared and presented for external users by many entities around the world.

These different circumstances have led to the use of a variety of definitions of the elements of financial statements: for example, assets, liabilities, equity, income and expenses. They have also resulted in the use of different criteria for the recognition of items in the financial statements and in a preference for different bases of measurement.

**IASB Mission**

- development of “a single set of high quality, understandable and enforceable global accounting standards.
- bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards
Journey of IFRS in Nigeria

The Nigerian Accounting Standards Board (NASB) responsible for the Statement of Accounting Standards (SASs) has been changed to the Financial reporting council (FRC) in order to enable them perform their duties in line with IFRS.
FRC Roadmap

2010
- Awareness
- Assessment
- Legislative changes
- Training
- Planning/ Impact analysis
- Transition adjustments/ Opening BS (listed & SPE’s)

2011
- Transition adjustments
- Prepare IFRS Opening Statement of Financial Position (SFP)
- “Dry Runs” for Listed & SPE’s
- Prepare comparative figures

2012
- IFRS/Quarterly reporting by listed & SPE’s
- Audit procedures
- Investors communications
- PIE’s prepare opening SFP & comparative figs
- Dry Runs’ for PIE’s
- SME’s commence transition planning

2013
- IFRS/Quarterly reporting by PIE’s
- Audit procedures
- PIE Investor communications
- Compliance monitoring for Listed & SPE’s
- SME’s prepare opening SFP & comparative figs
- PIE/SME Investor communications
- Dry Runs’ for SME’s

2014
- IFRS reporting by OTHER SME’s
- Audit procedures
- Investor communications
- Compliance monitoring

Alignment with other initiatives and training for appropriate personnel
Realisation and standardisation of statutory reporting
Impact of IFRS on Entities’ Business
Impact of IFRS on Entities Business

The adoption of IFRS impacted all aspects of operations, decision-making and communications that are dependent on or based on reported financial results.

IFRS impact on entities business are summarized below:
- Accounting and reporting systems
- Information systems
- Internal controls
- Availability and capability of resources
- Corporate income taxes
- Education and training
- Communication requirements (Stakeholder communications)
- Project management
Impact on External Financial Reporting

Impact on bottom line.

Transitional impact on bottom line.

There were changes in companies earnings and financial position especially as a result of new accounting requirements for transactions such as:

- Accounting for defined benefit Post Employment Benefit schemes
- Impairment testing of both tangible and Intangible assets.
- Valuation of goodwill.
- Componentization of Property, plant and Equipment.
- Valuation of financial instruments
-Derivative accounting
- Accounting for Insurance contracts etc.
Impact on External Financial Reporting

Impact on disclosures:

- Reviews of the financial statements of listed and significant public interest entities reveals that financial disclosures under IFRS increased by upwards of over 50% over prior Nigerian GAAP levels because their starting point was significantly different.

- Increased transparency and comparability

- Improved levels of disclosure have been noted in the first IFRS financial statements reported by PIEs.

- Risk Management disclosures which is not a common feature of Nigerian GAAP reporting
Impact on Information Systems

Robust and Adaptable Information System Requirement

- In most cases, current information system required upgrade or replacement to support IFRS reporting.

- Changes to core systems and the general ledger (including chart of accounts) to capture required data and produce IFRS results.

- The capability of the system to produce dual financial statements during the transition year, while maintaining overall system security and reliability.

- Expanded IFRS disclosures and presentation led to additional data collection needs

- Short-term Excel-based solutions may not be viable for the long term (unless Nigerian GAAP vs. IFRS differences are clearly inconsequential)

- Timeliness of availability of information and data quality is important for future reporting
Impact on Internal Control

<table>
<thead>
<tr>
<th>Management need to pay more attention to Internal Controls</th>
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<tbody>
<tr>
<td>• Management need to ensure the control environment continues to support accurate and timely reporting within an IFRS environment</td>
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<tr>
<td>• Entity and process level controls, disclosure controls and IT controls need to be aligned with IFRS requirements</td>
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<tr>
<td>• Changes made to the internal controls over the financial reporting process will need to be re-documented for entity personnel and CEO/CFO certification purposes</td>
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<tr>
<td>• Accounting policies and procedure manuals need to be updated to reflect new accounting IFRS accounting policy choices</td>
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<tr>
<td>• Disclosure controls and procedures need to be revised and enhanced</td>
</tr>
<tr>
<td>• The changeover to IFRS need to be captured within the CEO and CFO certification of internal controls</td>
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Impact on Accounting Resources and Taxation

Some of the key impacts include:

<table>
<thead>
<tr>
<th>Accounting Resources / Capabilities</th>
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<tbody>
<tr>
<td>• Management, the Audit Committee, the Board and all members of the finance team will need to invest time in understanding IFRS requirements</td>
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<td>• Employees throughout the organization need to be trained to meet changed technical knowledge needs and to facilitate implementation of revised business processes and procedures</td>
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<table>
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<tr>
<th>Corporate Income Tax</th>
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<tbody>
<tr>
<td>• Differences in accounting basis for assets / liabilities will result in changes to future taxes</td>
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<tr>
<td>• A tax specialist will likely be needed to assess the impact on current and future taxes</td>
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<tr>
<td>• Management must remain current on the IFRS impact on Nigerian tax reporting and related tax filings</td>
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Impact on Treasury & Financing and Compensation plans

Some of the key impacts include:

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<thead>
<tr>
<th>Treasury and Financing</th>
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<tr>
<td>• Changes in ratios and balances potentially impact compliance with covenants; begin discussions with financial lenders to renegotiate the debt covenant terms, if necessary</td>
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<tr>
<td>• Contracts will need to be reviewed to identify potential issues (such as embedded derivatives or onerous contracts)</td>
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<tr>
<th>Compensation Plans</th>
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<tr>
<td>• Incentive or bonus plans linked to profitability, earnings or share prices may be affected if these metrics change under IFRS</td>
</tr>
<tr>
<td>• Increased volatility will make profit-based compensation less predictable and compensation plans may need to be renegotiated/reworded</td>
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Impact on Stakeholder and Investor Communication

Some of the key impacts include:

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<tr>
<th>Stakeholder / Investor Communication</th>
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<tr>
<td>• Training members of the Audit Committee.</td>
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<tr>
<td>o Members should have sufficient knowledge about IFRS to be able to evaluate management’s assessments and selection of accounting policies.</td>
</tr>
<tr>
<td>o Training will need to focus on maintaining a level of financial literacy in the context of financial reporting in accordance with IFRS</td>
</tr>
<tr>
<td>o The impact of IFRS conversion on the CEO/CFO certification process will need to be considered</td>
</tr>
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</table>

Any business function required to prepare or is impacted by financial information has the potential to change.
Industry and Sector Related Issues – Financial Institutions
Lack of Understanding of Road Map

Lack of sufficient understanding by entities as to which stage they fall e.g. Micro finance banks, Mortgage Institutions, Stock broking firms, Investment entities and Pension funds.

The above in conjunction with nonchalance by some led to late start and a hurried transition lacking some of the vital ingredients of a proper IFRS implementation.
Reconciling Regulatory Requirement

The challenge of reconciling regulatory requirements to IFRS requirements e.g. prudential guidelines versus IFRS impairment methodology; 5 year financial summary and other insurance entity disclosures

The fundamental change in measurement and disclosures under IFRS created some challenge for some entities as they lacked the proper guidance on what is now required by regulators.
Challenge of impairment for Financial Instruments

Generally determination of impairment for financial instruments was a key area of challenge for a number of banking entities transiting to IFRS. IAS 39 incurred loss methodology was/is a nightmare to many as the requirement assumed the prior keeping of historical loan records. The Methodology also requires significant statistical calculations.
Lack of data to meet IFRS disclosures

The lack of data was the singular biggest challenge to financial institutions transiting to IFRS

IFRS recognition, measurement and disclosure (IFRS 7) requirements demanded enormous information from entities. Entities that lack this culture prior to now encountered enormous challenge
Determination of effective interest rate

Effective Interest Rate

Determination of Effective Interest Rate (EIR) which was not a practice under previous GAAP.

This is one area that required bank to adjust loan systems or procure an entirely new system. Many entities still have the challenge of not being able to report their interest revenue based on the effective interest rate.
Fair valuation of financial instruments

Available for Sale classification of unquoted equity instruments triggered fair valuation

Determining fair values for unquoted equity instruments and some other financial instruments was an area of challenge because of its heavy reliance on models and management judgments.
Group accounts and Goodwill

IFRS 3 goodwill or bargain purchase determination and group consolidation still a challenge.

Many group entities still have challenges with group accounts right from business combination, goodwill determination to consolidation elimination procedures and impairment of goodwill.
Fair valuation of intangibles for IFRS 3

IFRS 3 require that the fair values of the net assets of the investee including intangibles should be measured at fair value.

Valuation of intangibles is outside the scope of traditional accounting. Entities engaging in business combination where intangibles have been identified may require the help of experts to carry out such valuation.
IBNR estimation for insurance accounts

Estimation of Provisions for Incurred but not reported (IBNR) Claims (Non-life Business)

Like loan impairment for banks insurance entities are required to build models that depended heavily on statistics to be able to estimate IBNR claims.
IFRS requirement for LAT

Liability Adequacy Test

Requirement under IFRS for liability adequacy test (LAT) both for life and non-life business.

LAT is an assessment of whether the carrying amount of an insurance liability needs to be increased (or the carrying amount of related deferred acquisition costs or related intangible assets decreased), based on a review of future cash flows.
Other challenging insurance issues

- Estimation of Provisions for Unexpired Risk (URR). This measurement and disclosure requirement was new to insurance entities.

- Appropriate premium recognition principles under IFRS led to a number of insurance entities carrying out an adjustment to comply.

- There was also the need for insurance entities during the transition to revisit their insurance pricing policies.
Recognition of reinsurance assets

Separate recognition of Reinsurance Assets, measurement and Impairment testing.

The requirement to separately recognize reinsurance assets implied that such assets are to be tested for impaired and charged as appropriate.
Industry and Sector Related Issue – Consumer Business, Energy and Resources.
Roadmap to Nigerian IFRS adoption

Lack of road map understanding.

Some entities were not sure as to what phase they fall into. Quite a number of entities in the telecoms business had concluded that they fall into Phase 2, however due to the fact that they submit returns to a regulator, it turned out that some should be Phase 1.
Componentisation.

The requirement to identify and depreciate significant components in accordance with their useful lives implied that entities had to come up with a method of allocating the cost to each component and in some cases the existing records did not reflect the cost of each component.
Defined Benefit Obligations (Gratuity)

Manufacturing companies have hundreds of staff making the actuarial valuation more cumbersome.

- Required basis for making actuarial assumptions
- Ascertaining the funding status of Defined Benefit Obligations (DBO)
- As a result a lot companies have decided to switch from defined benefit plan to defined contribution plan due to the exposure of the employers to unlimited liabilities regardless of their contributions to the plan.
Impairment.

When indicators of impairment exist, entities are required to determine the recoverable amount by determining the fair value less disposal costs or the value in use. Where no active market exist for such assets, the process becomes highly judgemental.
Roadmap to Nigerian IFRS adoption

Separating the cost of land from the cost of the building.

It is common for land and buildings’ purchase price to be agreed in total, however for depreciation purposes the two should be separated which makes the process subject to management judgement.
Roadmap to Nigerian IFRS adoption

Loans from government or government agencies.

The government avails loans at below market rates to entities in specific industry sectors. This would qualify as government grant under IAS 20. Determining the value of the government grant requires management judgement as to what would be the market rate specific to the entity given its own risk profile.
Roadmap to Nigerian IFRS adoption

Intercompany loans.

It is common for entities in the same group to lend to each other on terms that do not reflect market conditions. IAS 39 requires all financial instruments on initial recognition to be at fair value. Restating these intercompany loans to market values requires management judgement regarding the borrowing rates specific to the entity.
## Roadmap to Nigerian IFRS adoption

<table>
<thead>
<tr>
<th>Biological Assets</th>
<th>Fair Value.</th>
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<tr>
<td></td>
<td>IAS 41 requires biological assets to be carried at fair value. The determination of fair values for biological assets is complex and requires significant management e.g. determining the fair values of fruit trees or plantations or animals that haven’t yet reached maturity age at which they are usually sold</td>
</tr>
</tbody>
</table>
Inventory

- Determination of net realizable value
- Distinction between major spares and other tools
- Inclusion of property plant & equipment items in inventory goods in transit.
- Costing of by-products
Roadmap to Nigerian IFRS adoption

Recognition and Impairment.

IFRS 6, allows entities to continue with their current accounting policies which gives rise to differences in how entities account for similar assets making comparison difficult in some cases. Impairment for these assets also require significant management judgement.
First Time Adoption

- Preparation of IFRS financial statements is a huge task. Staff of Consumer business & Energy companies usually struggle to prepare this under the NGAAP and are usually guided by the auditors.

- IFRS FS first time adoption requires knowledge on application of the IFRS 1 guide. A lot of times people confuse an IFRS accounting policy with IFRS 1 policy options.

- Retrospective application of IFRS accounting policies has also been a challenge in terms of applying it on practical bases.
Sustaining IFRS reporting.
Roadmap to Nigerian IFRS adoption

**Directors and Audit Commitees.**

There is need for directors and audit committee members to understand the requirements of IFRS. Given the significant judgements involved, they need sufficient knowledge in IFRS reporting to be able to review and challenge management judgement.

It may be necessary to ensure that audit committees have at least one professional accountant.
Roadmap to Nigerian IFRS adoption

Practical experience.

There is need for finance staff to have practical IFRS experience and reduce reliance on external consultants.
Ongoing training.

IFRS is dynamic and standards are revised and new ones issued periodically hence finance staff should remain up to date with changes in IFRS, calling for entities, accountancy bodies and individual accountants to have ongoing training programs.
Appreciation of IFRS.

IFRS financial statements requires input from line managers that are not in finance e.g Human Resources, Engineers, Actuaries, Lawyers, Risk Managers. All these need to have an appreciation of IFRS reporting.
Benefits Derived from IFRS Implementation
Benefits of IFRS Reporting – Our experience

The key benefits include, among others:

- Enabled us to understand the global marketplace, access world capital markets and promote new businesses.
- It helped us consider making some strategic improvements to our finance systems and processes.
- It helped us provide more consistent and robust financial and non-financial information that improved our stakeholders understanding of our business.
- Allowed our company to benchmark itself against its peers throughout the world.
- It allowed our investors and others to compare the company's performance with competitors globally.
- It helped our company to have a competitive advantage in negotiations with credit institutions and accordingly cost of borrowings are reduced.
The Challenges experienced in Implementing IFRS
## Common Challenges Experienced by Entities

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Description</th>
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<tbody>
<tr>
<td>Unsophisticated accounting systems and poor record keeping</td>
<td>For most companies, the ability to provide accurate historical data necessary for performing certain key requirements of IFRS reporting is scarce. This has made providing the necessary disclosures required for IFRS reporting an arduous task.</td>
</tr>
<tr>
<td>Lack of sufficient technical expertise</td>
<td>Most Company accountants lack the required skill for IFRS reporting. Most average accountant lack understanding of advanced financial management techniques for instance financial instruments valuation, impairment analysis.</td>
</tr>
<tr>
<td>Regulatory Timeline</td>
<td>The timeline given for the conversion of PIEs that reported IFRS 31st December, 2012 was too short. The announcement was made in September 2010 giving listed companies three months to start IFRS reporting and data keeping.</td>
</tr>
<tr>
<td>Inertia to Change</td>
<td>Reluctance to change is pervasive across entities especially those that perceive the IFRS reporting framework as costly and time consuming resulting in late start and its consequent demerits.</td>
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## Entity Specific Challenges

<table>
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<tr>
<th>Category</th>
<th>Description</th>
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<tbody>
<tr>
<td>Getting the right balance for key judgment areas</td>
<td>IFRS gives a lot of choices in accounting policies and also some numbers require significant judgments and estimates e.g. impairment and provisions. Getting management not to be too conservative or being aggressive has been a key challenge.</td>
</tr>
<tr>
<td>Lack of documented risk management framework</td>
<td>Most entities lack a documented risk management framework data helps to identify, assess and disclose the risk exposure of the company. This has led to haphazard information on the necessary IFRS disclosure.</td>
</tr>
<tr>
<td>Systems or Software cost</td>
<td>New accounting requirement for componentization, impairment, discounting, fair value accounting etc require additional software or tool that comes at no small cost.</td>
</tr>
<tr>
<td>Fair Valuation</td>
<td>The need for fair valuation of an entity’s assets require the expertise of a professional. The cost of engaging such experts is a challenge for most entities.</td>
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Key success factors for IFRS Implementation
Key Success Factors...

a) **Start early**- Define the big issues early and prepare for its impact on the entity’s business.

b) **Engage the right people**: Entities that lack in-house capacity for implementation should consider employing an IFRS consultant.

c) **Board and Audit Committee Buy-in**: Management commitment to a successful implementation process is crucial throughout the implementation period.

d) **Training**- Management of an entity need to identify and train key staff members across functions to equip them for implementation process.

e) **Project Management Office**- The need for a technical team that would monitor the effective implementation of IFRS is also a factor that was considered by some entities.

f) **Communication**- Effective communication of policies and procedures becomes necessary for the sustainability of IFRS in an entity.
The Auditor’s Perspective
What Auditors Should Expect from Management

1. Clarification of directors’ responsibilities
The directors will need to review the impact on the business and ensure that there are appropriate plans to train the staff, update the accounting systems, and implement changes in reporting encompassing all significant business units.

To assess IFRS readiness of entities, FRC has requested a list of documents to submitted by the respective entities. It is the duty of management to ensure that such documents are filed with FRC to avoid sanction(s).
3. Identify gaps between current accounting policies and IFRS

It is important that the transition process starts with a comprehensive comparison between the business’ current accounting policies and the requirements of IFRS. Some policies will need to change and new policies will need to be set. Management will have a choice in the selection of some policies. Companies should also assess the financial impact of the accounting policy changes so that informed decisions can be made.

4. The need for specialist expertise

Apart from the IFRS consultants that may be engaged (where management does not have the expertise to handle the project), management would require other specialists’ expertise in valuation of property, plant and equipment, defined benefits obligations, financial instruments etc.
What Auditors Should Expect from Audit Committees.

1. The audit committee’s responsibilities
The audit committee will need to make recommendations to the board concerning the approval of IFRS compliant interim and full year financial statements. This will require them to consider both the overall effectiveness of the company’s implementation plan and whether its normal responsibilities in relation to financial statements has been satisfied. The audit committee may wish to formally clarify its role in the transition process and the degree of involvement it needs to have in the detailed considerations.

2. Training
The audit committee should satisfy itself that there are sufficient skilled staff with the relevant knowledge in place to take the company through the transition process. It should also ensure that its own members receive the necessary training so that they fully understand the transition process and are able to properly discharge their responsibilities.
What Auditors Should Expect from Audit Committees… (contd.)

3. Other considerations

The audit committee should identify the matters that it anticipates will affect its consideration of financial statements prepared in accordance with IFRS. This will normally include:

- the selection and adoption of IFRS compliant accounting policies;
- the impact of IFRS on areas of accounting involving significant levels of judgement;
- the clarity and compliance of disclosures and explanations relating to the implementation of IFRS; and
- compliance with IFRS accounting standards and other regulatory requirements.
What Auditors Themselves Should Consider

1. **Requisite knowledge**
   The complexity of the transition to IFRS will increase the level of audit effort required to reach a conclusion on the first IFRS financial statements. Audit firms need to ensure that they have sufficient appropriately skilled resource, amongst both audit engagement partners and audit staff.

2. **Audit documentation needs to provide a clear audit trail of the judgements and conclusions reached**
   Firms will need to consider whether their approach and audit work programmes need to be amended and updated for an IFRS environment.
   The transition to IFRS will require auditors to place more reliance on the work of experts in more complex areas such as valuations of employee share options or non-traded financial instruments. They will therefore need to obtain sufficient appropriate audit evidence of the work that has been carried out by the experts and how they have arrived at their judgements. Auditors will need to assess the adequacy of the judgement made by the experts for the purposes of an audit. The impact of this assessment will need to be recorded clearly.
3. Assistance with IFRS transition
Auditors may be asked by management to give assistance with their IFRS transition project as a separate engagement to the audit.
Areas where auditors can possibly assist their clients’ transition to IFRS include:
• providing training on IFRS;
• commenting on areas where changes in accounting policy or disclosure are likely;
• assisting with preliminary diagnosis of the impact on financial reporting and accounting systems;
• providing technical guidance on IFRS standards and advising on the interpretation of IFRS;
• reviewing and discussing transition project scope including roles and responsibilities; and
• reviewing early draft IFRS financial statements
The Financial Reporting Council

<table>
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<tr>
<th>Function</th>
<th>Description</th>
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<tr>
<td>Protect investors and other stakeholders interest</td>
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<tr>
<td>Guidance on issues relating to financial reporting and corporate governance;</td>
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<tr>
<td>Ensure good corporate governance practices in the public and private sectors</td>
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<tr>
<td>Ensure accuracy and reliability of financial reports and corporate disclosures</td>
<td></td>
</tr>
<tr>
<td>Harmonize activities of relevant professional and regulatory bodies as relating to Corporate Governance and Financial Reporting.</td>
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<tr>
<td>Issue rules and guidelines for the purpose of implementing auditing and accounting standards</td>
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The Financial Reporting Council

The Council’s functions (Cont.)

- Develop and publish accounting and financial reporting standards, and ensure their consistency with IFRSs
- Review, promote and enforce compliance with the accounting and financial standards
- Receive and review copies of annual reports and financial statements of public interest entities (PIEs), and qualified reports where necessary
- Maintain a register of professional accountants and other professionals engaged in the financial reporting process
- Specify in the Reporting Standards, minimum requirements for recognition, measurement, presentation & disclosure

require code of ethics for financial officers and certification of financial statements by C.EOs and CFOs.
The Financial Reporting Council


CEO – Jim Obazee

7 Directorates

Directorate of Accounting Standards – Private Sector
Directorate of Accounting Standards – Public Sector
Directorate of Auditing Practices Standards
Directorate of Actuarial Standards
Directorate of Inspection and Monitoring
Directorate of Valuation Standards
Directorate of Corporate Governance
The functions of the Directorate of Inspection and Monitoring include:

- Monitoring of compliance with auditing, accounting, actuarial and valuation standards and guidelines reviewed and adopted by the Council

- Recommendation through the Technical and Oversight Committee, sanctions for the Council’s approval

- Implementation of sanctions and fines approved by the Council.
Financial Provisions

The Council is empowered to collect annual levies into a fund to be established as follows:

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<tr>
<th>Category</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Every registered professional</td>
<td>Not less than N5,000 annually</td>
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<tr>
<td>Publicly quoted companies</td>
<td>Based on market capitalization as follows:</td>
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<tr>
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<td>Less than N1 billion – the lower of 0.1% of market cap or N250,000,</td>
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<td></td>
<td>N1b ≤ N500b - the lower of 0.04% of market cap or N2,000,000</td>
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<tr>
<td></td>
<td>More than N500b – N5,000,000</td>
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<tr>
<td>Unquoted PIEs</td>
<td>Based on annual turnover as follows:</td>
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<tr>
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<td>N25m ≤ N50m – N5,000</td>
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<tr>
<td></td>
<td>N50m ≤ N500m – N20,000</td>
</tr>
<tr>
<td></td>
<td>N500m ≤ N1b – N50,000</td>
</tr>
<tr>
<td></td>
<td>N1b ≤ N10b – N100,000</td>
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<tr>
<td></td>
<td>More than N10b – N1,000,000</td>
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</table>
Financial Provisions

**Penalty**

Penalty for non-payment of the annual levy is 10% of the amount due for every month of default cumulatively for up to 10 months, and thereafter, prosecution and upon conviction, a fine of not more than 3 times the amount due (including default penalties). In the case of a company, the CEO shall in addition be liable to a fine of not more than N500,000 or prison term of not more than 6 months.

**Implications**

Chances are that many entities are unaware of these provisions in the Act. We must therefore ensure that adequate provisions/accruals are made in the financial statements. We could also highlight the consequences of non-compliance in our insights letter to management.
## Professionals & Audit report

### Registration of professionals

- **Section 41** of the Act provides that a person shall not hold any appointment or offer any service for remuneration as a professional for PIEs unless he is registered under the Act.
- Penalty for non-compliance is a fine not exceeding N500,000 or imprisonment for a term not exceeding 6 months.

### Audit report & opinion

- the auditor shall express a clear, written opinion on the financial statements he has audited.
- as to whether it gives a true and fair view of the state of affairs of the entity, and complies with the provisions of the Act or any other relevant enactments.
Where the auditor becomes aware of a material irregularity in the course of his audit, he is required by the Act to report such irregularity to the CEO of the PIE and all Board members, giving particulars of the irregularity.

He is also required to notify the Council of the irregularity within 30 days of notifying the CEO and Board.

Sub-section 3 of this section requires a separate report from the professional accountant (auditor) on the consistency of Directors’ disclosure on compliance with the Code of Corporate Governance with the requirements of the Code.

Our audit opinion would require revision to incorporate compliance with the FRC Act by our clients.

The report on corporate governance disclosure is a new requirement from auditors.
Section 58

- This section empowers the Council to review the financial statements or reports filed by PIEs with a government department or authority to determine compliance with the Act. In doing so, the Council is empowered to seek information from any director or employee of the PIE, the PIE’s auditors, or any other person or institution with relevant information. Such persons shall comply.

Implications

- Audit working papers could be requested for review by the FRC in pursuit of their duties and in exercise of their powers.

PIEs that file financial statements and reports with any government department or authority are also required to file a copy of such financial statements and report with the Council within 30 days.
Practice Review of Professional Accountants

Section 60

The Council is authorized under this section to inspect any relevant book, document and record in the possession of the auditor, partner or employee and make copies or take extracts of such record, book or document in relation to the investigation of a company, subject to the consent of the PIE.

The Council is also empowered to conduct annual quality review (inspection) of professional accountants that audit more than 20 PIEs or a special inspection of a professional accountant at any time. Others shall be inspected every 3 years. The retention period of audit working papers is stated as not less than 6 years. Evidence of second partner review and quality control approach shall be required during inspections.

Implications

Although the Council has right of access to working papers during inspection or investigation, the consent of the entity is required before granting such access.
Sanctions for non compliance

This section states that any person who fails to comply with the prescribed statement of accounting and financial reporting standards developed by the Council or any decision of the Council to the effect of such non-compliance by a PIE commits an offence and is liable on conviction to a fine not exceeding N10,000,000 or prison term not exceeding 2 years or both.

<table>
<thead>
<tr>
<th>Restatement</th>
<th>The PIE so sanctioned is required to re-state its financial statements within 60 days of service of notice, and re-submit same to the Council and all relevant government departments or authority requiring such reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fine</td>
<td>Failure to comply with the notice is an offence liable on conviction to a fine not exceeding N20,000,000 and a re-statement of the financials within 30 days of the conviction</td>
</tr>
<tr>
<td>De listing from FRC register</td>
<td>in addition to the fine and imprisonment mentioned above, de-listing from the Register of Professionals by the Council</td>
</tr>
</tbody>
</table>
Public Interest Entities are defined to mean governments, government organizations, quoted and unquoted companies and all other organizations which are required to file returns with regulatory authorities. This excludes private companies that routinely file returns only with the Corporate Affairs Commission and the Federal Inland Revenue Service.
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