

OPENING REMARKS BY ANYAHARA, IHEANYI, PhD OF THE FINANCIAL REPORTING COUNCIL OF NIGERIA, AT THE INTERACTIVE SESSION ON AUDIT REGULATIONS 2020 ORGANISED BY THE INSTITUTE OF CHARTERED SECRETARIES AND ADMINISTRATORS OF NIGERIA ON WEDNESDAY, APRIL 14, 2021

Background

Let me start by appreciating every one of you on this platform today for sacrificing your time and comfort to be part of this exercise. I see your effort today as investing towards having more enduring credible corporate reporting regime that enhances capital formation, growth and preservation.

Our collaboration with the Institute of Chartered Secretaries and Administrators of Nigeria (ICSAN) is further being strengthened by this engagement which the Institute is hosting. I appreciate the doggedness of the President of the Institute, Mr. Bode Ayeku, who initiated this engagement and persistent follow up to ensure that the engagement holds.

Today's webinar is the 5th in the series since January 25, 2021 when the Audit Regulations were approved by the Honourable Minister of Industry, Trade and Investment. Many more of the engagement have been scheduled in the Council's spirit of transparency and openness.

The equity and credit markets (Capital markets) are among the most efficient markets the world over but particularly in the economically developed world. One reason for the efficient operation of these markets is the public availability of creditable financial statements to stakeholders and the confidence in these statements by those using them as a basis for their investment and credit decisions. In the past decades, events posing potential serious threat to the efficient

functioning of these markets have been the growing incidence of fraudulent financial reporting.

The investing public roundly blame the accounting and auditing profession. Of course, you are very much aware that there is therefore, constant beaming of spotlight on the financial reporting supply chain. According to IFAC 2009, "The financial reporting supply chain refers to the people and processes involved in the preparation, approval, audit, analysis and use of financial reports. All the links in the chain need to be of high quality and closely connected to supply high quality financial reporting."

There are two major categories of Financial Reporting Supply Chain

- People; and
- Processes
- People can further be classified into two major groups:
 - **Internal**
 - Members of Board of Directors
 - **Audit Committee**
 - Chief Executive Officers, Chief Finance Officers, Internal Auditors, Internal Control
 - Preparers
 - **External**
 - Auditors
 - Actuaries
 - Valuers
 - Regulators (NAICOM, CAC, SEC, NSE & **FRC**)

- Other Stakeholders (users, analysts, etc)

A further analysis of the parties involved in the financial reporting supply chain will reveal the significant and critical role the Audit Committee members play. **The Companies and Allied Matters Act 2020 in section 404 (2) requires that “auditors shall in the case of public company, make a report to audit committee which shall be established by the public company”.** Furthermore, Section 404(4), CAMA 2020 states “the audit committee shall examine the auditor’s report and make recommendation thereon to the annual general meeting as it may deem fit”. **Still on CAMA 2020, Section 404 (5) requires that “all members of the audit committee shall be financially literate, and at least one member shall be a member of a professional accounting body in Nigeria established by an Act of the National Assembly”.**

In line with the above, Audit Regulations came into being to further give effect to the above in line with FRC mandates.

You will all agree with me that regulation of financial reporting in Nigeria was on self-regulation or at most regulation at the professional organizational level which has been on persuasive approach. This approach is no more acceptable globally hence the advent of Financial Reporting Council or its equivalent globally to provide independent oversight over financial reporting.

Generally, strong independent public oversight is required because it helps to create and maintain trust in the work of auditors by providing safeguards for companies and investors. This, among other things, account for the enactment of the Financial Reporting Council Act, 2011.

Firstly, a few words about the Financial Reporting Council (FRC)

- A regulatory agency of the Federal Government that **promotes trade and investment** in Nigeria **by ensuring high standards of financial reporting and corporate governance.**
- Maintains independent public oversight of **Accounting, Auditing and Financial Reporting and Corporate Governance** of public interest entities by setting, monitoring and enforcement of compliance with related standards.
- Advises government on accounting, financial reporting and corporate governance matters with commensurate powers to do all things connected with above functions.

The Council has been very resolute and committed in driving its vision of being **the conscience of regulatory assurance in financial reporting and corporate governance in Nigeria.**

By its establishment, the FRC has oversight powers covering:

- Ethics;
- Corporate Governance;
- Accounting Standards;
- Auditing Standards;
- Practice Review and Quality Assurance;
- Audit Reports;
- Other Professionals; and
- All Financial Reporting issues.

As you are aware, one of the objects of the Council as stipulated in Section 11 (a) of the Financial Reporting Council Act, 2011 is to “protect investors and other stakeholders’ interest” which is at the heart of every shareholder and everyone here today, I presume. Therefore, I make

bold to say that we are partners in progress and therefore should work closely to see that the Audit Regulations 2020 are effectively implemented.

THE JOURNEY TO THE AUDIT REGULATION

The Financial Reporting Council of Nigeria (“FRC” or “the Council”), in line with one of her strategic priorities to advance its agenda for the sustenance of a stronger regulatory regime for statutory audits and related services in Nigeria, inaugurated an Audit Regulations Working Group (WG) in October 2018 to advise and assist the Council on technical matters relating to the regulation of audit and assurance services.

The membership of the group comprises of 14 members drawn from the following relevant stakeholders:

- ✓ The Big 4 Audit Firms;
- ✓ Medium size Audit Firms;
- ✓ Forum of Small and Medium Size Practitioners (SMPs);
- ✓ Office of the Auditor General for the Federation;
- ✓ Nigerian Accounting Association (NAA);
- ✓ Attorney-General of the Federation/ Minister of Justice;
- ✓ Securities and Exchange Commission;
- ✓ Institute of Chartered Accountants of Nigeria (ICAN); and
- ✓ Association of National Accountants of Nigeria (ANAN).

The purpose of the Working Group (WG) is to provide Technical Assistance to the Council in its development of rules and regulations for statutory audits in Nigeria (Audit Regulation). Accordingly, the Working Group is to assist the Council with the following tasks:

- Assess the current state of audit regulation in Nigeria and identify relevant gaps, as compared with the audit regulation environment in the EU, US and key economies in the African Continental Free Trade Area (AfCFTA).

- Develop requirements for (i) registration, (ii) withdrawal of registration and (iii) maintenance of up to date register of auditors;
- Develop requirements for regulation of other accountants and professionals providing assurance services in the financial reporting and auditing process;
- Develop guidelines for the practice reviews and inspections provided for in Sections 60 and 61 of the FRC Act 2011 and for monitoring, compliance with the Audit Regulations, including any required arrangements for delegation of such supervisory tasks to Recognised Supervisory Bodies; and
- Develop requirements for the conduct of the different types and aspects of audit and assurance engagements.

OBJECTIVES OF THE AUDIT REGULATION 2020:

The following are the objectives of the Audit regulation:

- ✓ To provide legal and regulatory framework for minimum practice guideline for auditors in Nigeria and to give effect to the provisions of the Act;
- ✓ To ensure that all activities of Registered Auditors and other professionals in the financial reporting process are regulated with a view to sustaining best ethical practices capable of promoting quality audit services;
- ✓ To regulate and ensure that all registered auditors carry out their professional duties in a manner to earn the trust of clients and promote the image of the profession and the country;
- ✓ To ensure that Recognised Supervisory Bodies (RSBs) comply with these regulations through a well-defined delegated arrangement; prescribes penalties for non-compliance with these Regulations.

- ✓ The Audit Regulation Working Group (ARWG) was inaugurated on October 2018 and met severally and presented an Draft Exposure Draft
- ✓ The Technical and Oversight Committee of the Board (TOC) met severally on the documents and approved the Exposure Draft(ED)
- ✓ The Audit Regulations ED exposed for 2months
 - Several engagements with relevant stakeholders including meeting the forum of the big 4 Audit Firms
- ✓ ARWG met and considered the inputs including those from the big 4 Audit firms
- ✓ The Technical and Oversight Committee of the Board met and considered the final document
- ✓ The Governing Board of FRC considered the document as recommended by TOC and approved it.
- ✓ The Board approved document was transmitted to the Honourable Minister, FMITI
- ✓ Final Approval by the Honourable Minister of Industry, Trade and Investments on January 25, 2021.

AUDIT REGULATION 2020: Application and Scope

Audit regulation is applicable in the Federal Republic of Nigeria to regulate all statutory Auditors, other assurance providers and audit committees. It however does not apply to Auditors-General. (OAuGF is a constitutional body and the Supreme Audit Institution of Nigeria by virtue of Section 85(6) and 125(6) of the Constitution).

The financial crisis has demonstrated that robust and transparent audit practices need to be embedded in all organisations. Obviously, the

Audit Regulation is an enabler for re-establishing the much-needed trust in financial reports. There is, therefore, a clarion call for strict compliance with the regulation by all concerned. This will orchestrate the need for a re-evaluation of remuneration structures; board level expertise and training; risk management, sustainability, etc. With pandemic, this regulation providing increased transparency for investors and other stakeholders, are expected to be in high demand. However, assurance by independent qualified professionals to enhance the credibility of corporate reporting will need to be pursued with vigour by all affected professionals.

Our engagement with members of Shareholders Association is strategic as we decided to use today's exercise, to personally and specially request that your associations devote considerable time to consider the Audit Regulation for a meaningful and quality contribution towards effective implementation of the Audit Regulation. The Audit Regulation is very strategic in the quest to Nigeria joining the league of global community that have effectively set up Independent Audit Regulators.

One of the critical concerns on the implementation of the Audit Regulations is the capacity. We are currently discussing with development partners in this regard. I am pleased to inform you that the Council has received positive assurances from some bodies internationally and locally to deploy resources to assist and such will be extended to your association. This is an area your associations need to partner with the Council to build the required capacity.

We appreciate the relevant stakeholders for the tremendous support the Council has received so far especially since the Audit Regulations was released. Our engagements so far include, Big four audit firms, Small and Medium Practice, Shareholder's Association, Internal

Auditors. Some firms have also provided platforms for the Council to discuss the Audit Regulations with their staff and clients while the two professional accounting organisations have included the Regulations in their ongoing mandatory continuing education. We plan to commence training on the implementation of the Audit Regulations next quarter especially audit firms, audit committee members, shareholders, Board members, internal auditors and assurance practitioners.

We are of the view that the Council collaboration with all stakeholders with will result in a seamless implementation of the Regulations. Finally, we shall commence Quality Control Review in 2022 in line with the transition programme.

The Council therefore solicits for your support in the implementation of the regulation.

Thank you for your attention and God bless.