



FINANCIAL REPORTING COUNCIL OF NIGERIA

Federal Ministry of Industry, Trade and Investment

In accordance with Section 8(2), 30 and 53(2) of the Financial Reporting Council Act No. 6 2011 (FRC Act), the Council hereby issues the following rules:

Rule 1: Financial Reporting Council's certification requirement for Chief Executive Officers and Chief Financial Officers

To give effect to the provisions of Section 7 (2g) of FRC Act regarding certification of financial statements by Chief Executive Officer (CEO) and Chief Financial Officer (CFO), persons holding the position of CEO and CFO of an entity are required to certify the annual report, financial statements, accounts, financial report, returns and other documents of a financial nature indicating their Financial Reporting Council (FRC) registration numbers. Accordingly, the CFO providing certification shall be a professional member of an accounting body established by Act of National Assembly in Nigeria.

The indication of individual FRC registration number vouches the integrity of the annual report, financial statements, accounts, financial reports, returns and other documents of a financial nature.

Rule 2: Financial Reporting Council's Certification requirement for Professionals engaged in financial reporting process: External Auditors, Officers of Reporting Entities and Other Professionals providing assurance to reporting entities.

Sections 7, 8, 30, 41, 42 and 44 of the Financial Reporting Council Act No. 6 2011, recognises the importance of assurance opinion expressed by diverse professionals engaged in the financial reporting process relating to financial



statements, accounts, financial reports, returns and other documents of a financial nature.

A professional, for the purpose of FRC registration, refers to any person whose education and training allow for his judgement to be relied upon and possesses certification issued by a recognised professional body or association and is currently working or wishing to work in Nigeria.

To give effect to the above named Sections, especially Section 30 of the said Act, Council also recognises that professional accountants and/or auditors by their training are expected to rely on expert opinion issued by a professional(s), who is a member of a recognised professional body, whose professional judgement has financial reporting implications.

In view of this, Council hereby directs:

- a) Any professional providing assurance or certifying any part of an annual report, financial statements, accounts, financial report, returns and other documents of a financial nature, shall certify by indicating his or her name and FRC registration number;
- b) A reporting entity shall disclose the details of any professional providing any form of assurance service on the accounts, financial statements and other documents of a financial nature as part of notes to the financial statements. The details to be disclosed shall include the name of the professional, name of the professional firm or entity and the FRC registration number of the professional and firm as well as a summary of the service(s) rendered;
- c) Any person attesting, as Chairman of Audit Committee, to annual report, financial statements, accounts, financial report, returns and other documents of a financial nature, shall be a professional member of an accounting body established by Act of National Assembly in Nigeria.



Rule 3: Provision of “Audit” and “Non-Audit” Services

In compliance with the provisions of the Companies and Allied Matters Act, Cap C20, LFN, 2004, the amount paid by an entity to its external auditor(s), as remuneration, is disclosed as a separate line item in the notes to the financial statements of the entity.

Potential threats to the audit firm’s independence and objectivity frequently arise when an audit firm and/or its related entity (*an entity in which at least a partner or a key management staff of the audit firm is also a partner or director*) also provides non-audit services to their audit clients.

New developments in business, the evolution of financial markets, rapid changes in information technology, and the consequences for management and control, make it difficult to draw up an all-inclusive list of situations where provision of non-audit services to an audit client could create threats to independence and objectivity of the external auditor(s).

Where an audit firm and/or its related entity offer non-audit service(s) to an audit client, the audit client (that is the entity) shall disclose the details of such non-audit services and the applicable fees paid thereon in the notes to its financial statements. Where no non-audit service has been provided in the year, that fact shall also be disclosed.

The audit firm shall, for the purpose of audit quality control examination by our Council, document that these services were carried out with the consent of the audit engagement partner who shall have ensured that the non-audit service(s) are not prohibited and pose no threat to the audit firm’s independence and objectivity.



Rule 4: Transactions requiring registration from statutory bodies such as the National Office for Technology Acquisition and Promotion.

Following the High Court judgement against the applicability of **Rule 4**, the Rule is no longer in force and is hereby taken down.

Rule 5: Submission of financial statements for which External Auditors express opinions other than unqualified opinion.

The Council hereby draws attention of external auditors to Section 8(1) (n) of the FRC Act No. 6 of 2011 which states that the Council shall “receive copies of all qualified reports together with detailed explanations for such qualifications from auditors of the financial statements within a period of 30 days from the date of such qualification and such reports shall not be announced to the public until all accounting issues relating to the reports are resolved by the Council”.

Accordingly, Council hereby clarifies that reports required in accordance with the above named section are all reports (emphasis of matter, qualified, adverse, disclaimer, etc) other than unqualified reports issued by External Auditors on an annual report, financial statements, accounts, financial report, returns and other documents of a financial nature.

Rule 6: Non-submission of Financial Statements within the stipulated time as required by the Act.

The Council hereby draws attention of preparers to Section 8(1) (d) and Section 58(3) of the FRC Act No. 6 of 2011. The said sections state as hereunder:

- a) **Section 8(1d):** “The Council shall receive copies of annual reports and financial statements of Public Interest Entities from preparers within 60 days of the approval of the Board”.
- b) **Section 58(3):** “Where a public interest entity files any financial statements and report with any government department or authority, the entity shall also file a copy of the financial statements and reports with the Council within 30 days, in such manner as may be set out in the rules of the Council”.



Accordingly, relevant entities who fail to comply with the above-named sections shall be liable to civil, administrative and criminal sanctions within the latitude of the Financial Reporting Council of Nigeria Act 2011.

Rule 7: Other National Disclosures

In addition to the requirement of International Financial Reporting Standards (IFRS) which is the current financial reporting framework in Nigeria, Council hereby directs that Statements of Value Added and Five-Year Financial Summary shall be included as supplementary information to the financial statements as "Other National Disclosures".

Rule 8: Functional and Presentation Currencies

- a) In line with the provisions of International Financial Reporting Standards (IFRS), entities are faced with two matters in terms of the currency in which their financial statements are presented.
- b) First is the determination of their functional currency which is the currency of the primary economic environment in which an entity operates. Determination of functional currency is based on prescribed principles contained in IAS 21 paragraphs 9 to 14 and it is not a matter of an accounting choice.
- c) Second is the presentation currency. Presentation currency is the currency in which the financial statements are presented. Determination of presentation currency is a matter of an accounting choice as an entity may present its financial statements in any currency other than its functional currency.



- d) Given that there are situations where companies operating in Nigeria, as do in other countries, are exposed to economic conditions whereby, for instance, sales prices of their goods and services are determined by forces of demand and supply of a foreign country, financing costs are foreign denominated, labour, materials and other costs of providing goods and services are foreign denominated etc., it is factual that such companies will have functional currencies other than the Nigeria Naira. Examples include operators in the oil and gas sector as well as some multinational companies in Nigeria.
- e) One of the objectives of IAS 21 is to provide guidance on how to translate financial statements (prepared using a functional currency, e.g. the Dollar) into a presentation currency (for statutory financial reporting purposes). IAS 21 therefore aptly envisages situations where jurisdictions may require presentation of financial statements in currencies other than the entity's functional currency.
- f) In accordance with Section 8(p) of the Financial Reporting Council of Nigeria Act, 2011, our Council is empowered to "specify in the accounting and financial reporting standards, the minimum requirements for recognition, measurement, presentation and disclosures in annual financial statements, group annual financial statements or other financial reports which every public interest entity shall comply with in the preparation of financial statements and reports."
- g) The Council hereby specifies that the presentation currency for all general-purpose financial statements in Nigeria is the Nigerian Naira. This includes, but not limited to, statements filed for all statutory purposes and



- h) those presented to directors, shareholders, creditors and all other stakeholders.
- i) Instances where an entity is of the opinion that stakeholders shall be better informed if it also includes an annexure containing its Statement of profit or loss and other comprehensive income, Statement of financial position and the Statement of cash flows prepared in its functional currency, such an entity is allowed to include such annexures to its financial statements as supplementary information just as it is currently a requirement of the Council for the Statement of Value Added and Five-year Financial Summary to be included as "Other National Disclosures".
- j) If an entity takes the option to disclose the supplementary information in "8" above, it shall also disclose, as part of that supplementary information, the exchange rates applied in translating its assets, liabilities, income and expenses for the period.
- k) This is the current position on the subject matter and all reporting entities and external auditors are to take note and ensure strict adherence.

Consequently, certifications that do not comply with the Council's pronouncement as stated above shall be deemed as non-compliance with the Council's rule and capable of rendering the financial statements misleading. Appropriate penalties as provided for in the FRC Act, 2011 and the FRC Guidelines/Regulations for Inspection and Monitoring of Reporting Entities 2014 shall apply.

Additionally, a professional, registered with the FRC, that vouches for the integrity of an annual report, financial statements, accounts, financial reports, returns and other documents of a financial nature by



indicating his/her FRC number, shall take necessary steps to ensure that the integrity of the said documents are protected; otherwise the individual(s) that attested to the said statements with his/her FRC

registration number shall be liable to civil, administrative and criminal sanctions within the latitude of the Financial Reporting Council of Nigeria Act 2011.

Rule 9: Application of International Standard on Auditing (ISA) 701 (Communicating Key Audit Matters in the Independent Auditor's Report) in Nigeria.

In accordance with Sections 8(2), 30 and 53(2) of the Financial Reporting Council (FRC) of Nigeria, Act No. 6, 2011,(FRC Act,2001) the Council hereby issues Rule 9.

1. Rule 9 relates to the application of ISA 701 by independent Auditors in Nigeria.
- 2. SCOPE OF ISA 701:**
 - a).This International Standard on Auditing deals with the auditor's responsibility to communicate key audit matters in the auditor's report. It is intended to address both the auditor's judgment as to what to communicate in the auditor's report and the form and content of such communication.
 - b).The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency **(and insight)** about the audit that was performed. Communicating key audit matters provides additional information to "intended users" of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Communicating key audit matters may also assist "intended users" in understanding the entity and areas of significant management judgment in the audited financial statements.
 - c).The communication of key audit matters in the auditor's report may also provide "intended users" a basis to further engage with



management and those charged with governance about certain matters relating to the entity, the audited financial statements, or the audit that was performed.

d). Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole.

Communicating key audit matters in the auditor's report is not:

(i) A substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;

(ii) A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with ISA 705 **(Modifications to the Opinion in the Independent Auditor's Report -Revised)**;

(iii) A substitute for reporting in accordance with ISA 570 **(Going Concern -Revised)** when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern; or

(iv) A separate opinion on individual matters.

e). This ISA applies to audits of complete sets of general purpose financial statements of listed entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report. This ISA also applies when the auditor is required by law or regulation to communicate key audit matters in the auditor's report. However, ISA 705: (Revised) prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation.

3. COMPLIANCE:

Independent Auditors shall comply with the provisions of ISA 701 for audits of financial statements for periods ending on or after December 15, 2016.



4. APPLICATION:

This rule shall be applied by auditors of all:

- (i) Listed entities (as defined by ISA)
- (ii) Public companies (as defined by Companies and Allied Matters Act CAP C20, LFN 2004)
- (iii) Banks (excluding micro finance banks)
- (iv) Insurance companies (excluding Health Management Organisations)
- (v) Mutual Funds
- (vi) Pension Funds
- (vii) Private companies that are holding companies of any of the above entities.

5. Auditors of listed companies are to apply this Rule for audit of financial statements for periods ending on or after December 15, 2016; while auditors of all other entities listed in paragraph 4 above shall apply this Rule for audit of financial statements for periods ending on or after June 30, 2017.

6. Instances where the auditor modifies his opinion in accordance with ISA 705 (Revised), the auditor shall comply with the provisions of Sections 8(1)(n) and Section 45 of the FRC Act, 2011.

7. In accordance with paragraph 14 of ISA 701, the auditor shall describe each key audit matter in the auditor's report unless:

- (a) Law or regulation precludes public disclosure about the matter; or
- (b) In extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. This shall not apply if the entity has publicly disclosed information about the matter.

In these instances, the FRC shall be notified in writing by the auditor(s) providing details of such matter(s) before the audit is concluded.

Rule 10: Statutory Audit Committee and other Board Committee(s) responsible for Audit

Every public interest entity shall notify the Council of changes in Audit Committee(s) membership during the year stating reasons for such changes.



Rule 11: Restriction of Auditor’s Logo, Brand, and other forms of Identities in their Clients’ Annual Financial Reports.

In accordance with Sections 26(e), 30, 46, and 53(2) of the Financial Reporting Council (FRC) of Nigeria Act No. 6, 2011, the Council hereby directs that inputting auditor’s name, logo, brand, or any form of identity on any page of the annual reports and financial statements other than the opinion report pages should henceforth be discontinued, failing which appropriate sanctions shall apply.