



RULE 12: AUDIT TRANSPARENCY REPORT

To give effect to the provisions of sections 8(2), 30, 53(2) of Financial Reporting Council Act No. 6 of 2011 and Regulation 31 of Audit Regulations 2020, the Council hereby issues **Rule 12: AUDIT TRANSPARENCY REPORT**.

Commencing from January 2023, transparency reporting shall be compulsory for Audit Firms that audit and/or provide other assurance services for Public Interest Entities (PIEs).

The first audit transparency report (hereinafter referred to as “**Transparency Report**”) is required for the audit firms that audit and/or provide other assurance services for Public Interest Entities (PIEs) for the 2022 fiscal year-end of the firms.

Audit transparency reports

This Rule summarises the requirements for transparency reports. It explains:

- what is a transparency report and why are these reports important •
- when the report must be published
- what information must or may be included in a transparency report
- whether information can be included from reviews by FRC and other bodies
- what happens if a report contains misleading information
- what relief is available from the transparency report requirements.

What is a transparency report?

This is a report published and lodged with the Council by audit firms that audit and/or provide other assurance that focuses on the firm’s audit practices, policies, and programs put in place to support audit quality.

Transparency Reports generally contain information relating to legal structure and ownership, governance structure, internal quality control system, quality assurance, education and independence practices, firm revenue information, partner remuneration and lists of PIE and non-PIE audit clients.

It should be noted that if a partnership is part of a network of affiliated audit firms, the requirement applies to each individual partnership (i.e. each partnership must prepare and lodge a separate transparency report).

Why are transparency reports important?

Auditors are ‘gatekeepers’ and have a critical role in ensuring that Nigerian and Foreign Investors can be confident and well informed based on the information content of the transparency reports. High-quality audits support the quality of financial reports, promote confidence, informed investors and ensure fair and efficient markets.

Transparency reports help to inform the market about audit firms and audit quality. Transparency about indicators of audit quality may encourage audit firms to increase their focus on audit quality and may also provide information to assist those responsible for selecting an audit firm.

When must the report be published?

Transparency reports must be published annually on the auditor's website for the 12 months commencing on 1st January, within four months after the end of the reporting year. The first transparency report is required for the 2022 fiscal year-end of the firms. The report must be lodged with FRC before being published on the auditor's website.

What information must be included?

Transparency Reports generally should contain information relating to legal structure and ownership, governance structure, internal quality control system, quality assurance, education and independence practices, firm revenue information, partner remuneration and lists of PIEs of the audit firm.

A transparency report must contain the information prescribed by this Rule.

This information is summarised in Table 1 below.

A transparency report may omit information otherwise required if the inclusion of the information is likely to result in unreasonable prejudice to the auditor. If material information is omitted, the report must mention what is omitted. Given the nature of the information required, the Council expects that information would rarely be omitted on the basis of this exemption.

Table 1: Information that must be included in a transparency report

<p>Prescribed information for all auditors that are required to publish transparency reports</p>	<p>The report must include:</p> <ul style="list-style-type: none"> • if the auditor belongs to a network, a description of: <ul style="list-style-type: none"> – the network – the legal arrangements of the network – the structural arrangements of the network • a description of the auditor's internal quality control system • a statement that sets out the auditor's independence practices in the relevant reporting year • the name of each body that is authorized to review the auditor (e.g. FRC or a professional accounting body) and the date of the most recent review of the auditor conducted by the body. • a description of the statutory auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Audit Regulation 2020. • information about the total turnover of the statutory auditor or the audit firm relates to the relevant reporting year, divided into the following categories: <ul style="list-style-type: none"> – revenue from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity; – revenues from the statutory audit of annual and consolidated financial statements of other entities; – revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and – revenues from non-audit services to other entities. <p>A breakdown of revenue from the non-audit service should be provided.</p>
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Additional information for audit firms that are required to publish transparency reports	<p>For audit firms the report must also include:</p> <ul style="list-style-type: none"> • a description of the firm's: <ul style="list-style-type: none"> – legal structure – ownership – governance structure • a statement by the firm's administrative body or management body on the effectiveness of the functioning of the internal quality control system in the relevant reporting year • the date on which the firm most recently conducted an internal review of its independence compliance • a statement about the firm's policy on the minimum amount and nature of continuing or other professional education that professional members of an audit team must undertake during the relevant reporting year • information about the basis for remuneration of the firm's partners.
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What other information may be voluntarily included?

Auditors may voluntarily include additional information about audit quality in a transparency report. Such information must not be presented in a misleading manner.

Table 2 sets out some examples of such additional information that may be voluntarily included as part of a Transparency Report.

Table 2: Additional information that may be included in a Transparency Report

Network policy monitoring	<p>If the auditor belongs to a network, the report may include information about the degree to which the network sets policy and monitors compliance and structural arrangements in the network, including the degree of authority the network has over the audit firm.</p>
Actions to improve and maintain audit quality	<p>The report may include information about how the auditor (for example):</p> <ul style="list-style-type: none"> • promotes, evaluates and monitors professional scepticism and compliance with auditing standards • promotes a culture of audit quality (e.g. messages from leadership focusing on audit quality, education initiatives, key focuses in quality reviews, and encouragement of consultation on complex audit issues) • ensures that partners/directors, staff and experts with appropriate experience and expertise are assigned to audit engagements having regard to, for example, workload, technical competence, and audit, industry and other relevant experience • approaches supervision and review, including the extent of partner/director involvement in working with audit teams in the planning and execution of audits, and the extent of real-time or post-completion quality reviews of engagements

	<ul style="list-style-type: none"> holds partners/directors and leadership accountable for audit quality, including how performance is measured on audit quality, how such performance is assessed, and the extent to which this affects remuneration.
Internal Indicators of audit quality	<p>The report may include indicators of audit quality used by the firm. However, if quantitative input measures of audit quality are referred to in a transparency report, the reasons why those measures are considered appropriate, the impact of measuring each particular aspect of audit quality, any limitations of those measures, and the results of applying such measures should be provided. Limitations might include matters such as:</p> <ul style="list-style-type: none"> the measures do not directly measure the quality of the audits performed a measure typically provides information relating to only one aspect of the inputs to achieving quality audits and there are many factors affecting audit quality different quantitative results for a particular measure may be appropriate in different circumstances (e.g. different partner-to-staff ratios may be appropriate depending on the factors such as the nature, size and complexity of audit engagements). <p>Notes: Measures should be presented on a comparable basis from year to year. If the auditor chooses to discontinue, amend or replace any measure previously included in a transparency report, the previous measure should generally also be included with the reasons for the change.</p>
Findings from the FRC inspections	<p>The report may include the firm's actions to address overall themes about the quality of audits by firms generally, as identified in the most recent public audit firm inspection report issued by FRC.</p> <p>For example, <i>Audit inspection programs</i> concerned the sufficiency and appropriateness of audit evidence, the application of professional scepticism, and the extent of reliance that can be placed on experts and other auditors.</p>
Findings from external reviews	<p>The report may include areas for improvement derived from reviews by other relevant external bodies on audit quality—for example:</p> <ul style="list-style-type: none"> significant recommendations to improve education, quality control, auditor independence, compliance with auditing standards, professional scepticism, sufficiency and appropriateness of audit evidence, the use of and reliance on experts and other auditors, and other matters remedial actions undertaken by the auditor in response to the review. <p>Generally, a report should not refer to the external review or the source of the areas for improvement. The permission or consent of any external body should be obtained before specifically referring in the transparency report to a review by an external body. Any limitations in the scope of the external body's review should be stated in the report.</p>

The Council will continue to monitor developments in relation to reporting information about individual firm audit quality.

What about information from reviews by FRC and other bodies?

Under section 60 of the FRC Act, transparency reports are only required to give the name of each body that is authorised to review the auditor (e.g. FRC or a professional accounting body) and the date of the most recent review conducted by the body, but not the findings from such reviews.

To reduce the risk that a transparency report is misleading, it should include a statement that the reader should not make any assumptions about the scope of, or findings from, any FRC review. A similar statement may be necessary for reviews by other external bodies.

Confidentiality provisions in part 7.3 of **Operational Guidelines for Inspection and Monitoring of Auditors, Other Assurance Providers and Audit Committee 2020** limit the Council's ability to release the results of inspections of individual audit firms.

Firms may distribute the inspection report within their national or international networks. However, it is not intended to be distributed to any other party or quoted or summarised by the firm in transparency reports or other publications. If the firm wishes to share any findings in the inspection report with other parties (e.g. in a transparency report), it should notify the Council in writing at least two business days before doing so.

Firms may refer to areas for improvement derived from the Council's private reports on the firm without identifying the source of those matters. In limited cases, the Council may consent to a transparency report referring to specific areas for improvement identified in the Council's most recent inspection of an audit firm. When seeking consent, a firm should provide the proposed text for inclusion in the transparency report to FRC's Executive Secretary/Chief Executive Officer.

What happens if a report contains misleading information?

A person is guilty of an offense if, in a document required by the FRC Act or lodged with Council, they make or authorize the making of a statement that to the person's knowledge is false or misleading in a material respect, or the person omits or authorizes the omission of any matter or thing without which the document is to their knowledge misleading in a material respect. Part 8 of Operational Guidelines for Inspection and Monitoring of Auditors and Other Assurance Providers and Audit Committee prescribes the appropriate sanction for submitting misleading information to the council.

To reduce the risk that a transparency report is misleading, Council hereby directs that the report should present information that:

- is clear, useful and presented in sufficient detail to be meaningful to the likely users of the report
- is based on fact
- is unbiased, not oriented towards marketing or selling services, is concise/specific to the firm and avoids the use of boilerplate language
- is timely, accurate and complete
- if any quantitative input indicators relating to audit quality are provided, sufficiently explain the limitations of those indicators
- if any findings from audit quality reviews are included, provide a true depiction of those findings (i.e. results should not be presented to give a more favourable picture than is reported by the reviewers, whether through selective reporting of results or other means)

- if any remedial actions are outlined in response to findings about improving audit quality, make it sufficiently clear that the actions may not be directly comparable with other firms because of differences in circumstances (e.g. some findings may be specific to a firm).

The Council intends to review selected transparency reports. The Council may seek further information and explanations where, for example, aspects of a report appear to be inconsistent with the knowledge and experience obtained from the Council's inspections of audit firms and other activities.

What relief is available?

If an auditor lodges with the Council a written application for late submission of its transparency report before the deadline for its submission, the Council may make an order:

- extending the deadline or
- relieving the auditor from compliance with all or certain specified requirements for the publication, lodgment and content of a transparency report.

The application must be signed in accordance with the requirements of the Council.

Important notice

Please note that this information sheet is a summary giving you the basic information you need. It is not a substitute for professional advice.

For further information, contact FRC on Tel: (234) 9088999802.

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