



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.



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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