

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC) Nigeria

ACCOUNTING AND AUDITING

June 17, 2004

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PREFACE

In the wake of financial crises in late 1990s, the international community emphasized the major role that the observance of international standards and codes of best practices can play in strengthening national and international financial systems. The international community called for the preparation of *Reports on the Observance of Standards and Codes (ROSC)*, an assessment of the degree to which an economy observes internationally recognized standards and codes. The Executive Boards of the World Bank and the International Monetary Fund (IMF) recognized a group of twelve areas with their associated standards that are deemed to be important for the institutional underpinning of macroeconomic stability and are central to the operational work of the two institutions. The ROSC Accounting and Auditing (ROSC A&A) review is part of this joint initiative of the World Bank and the IMF.

The ROSC A&A review (a) assesses the strengths and weaknesses of existing institutional frameworks that underpin financial accounting and auditing practices; (b) determines the comparability of national accounting and auditing standards with internationally recognized standards, International Accounting Standards (IAS) and International Standards on Auditing (ISA); (c) examines the degree of compliance with national accounting and auditing standards; and (d) evaluates the effectiveness of enforcement mechanisms for ensuring compliance with existing national standards, rules, and regulations. The final draft report is submitted to the country authorities for comment, approval and permission to publish. Once agreed, the report is published on the World Bank's Website. An overview of the ROSC A&A program and a detailed presentation of the methodology are available at http://www.worldbank.org/ifa/rosc_aa.html.

This Nigeria ROSC A&A was prepared by a team from the World Bank between November 2003 and March 2004. The team comprised Ed Olowo-Okere (AFTFM), Adenike Mustafa (AFTFM), Gert van der Linde (AFTFM), and Zubaidur Rahman (OPCFM). The review was conducted through a participatory process involving various stakeholders, including Nigeria Accounting Standards Board, Corporate Affairs Commission, Securities and Exchange Commission, Nigeria Stock Exchange, Central Bank of Nigeria, Nigeria Deposit Insurance Commission, Institute of Chartered Accountants of Nigeria, Association of National Accountants of Nigeria, as well as a number of auditing firms and leading commercial banks. The Country Director for Nigeria, Mark Tomlinson, and the Manager, Regional Financial Management, Anthony Hegarty, ensured that appropriate procedures were followed in carrying out the review and that adequate arrangements for quality assurance were maintained.

A Country Stakeholders Workshop was held on September 13, 2004, in Lagos. The findings and recommendations contained in this report were discussed, and from them a country action plan was agreed upon. The Annex to this report shows the Country Action Plan matrix. The assistance rendered by the Nigeria authorities and country stakeholders during the review and stakeholders workshop is greatly appreciated by the World Bank.

EXECUTIVE SUMMARY

This report provides an assessment of accounting and auditing practices within the context of the Nigerian institutional framework to ensure the quality of corporate financial reporting. There is a multiplicity of laws and bodies for the regulation of accounting, financial reporting, and auditing requirements of companies, including differential financial reporting requirements for small companies. However, the accounting and auditing practices in Nigeria suffer from institutional weaknesses in regulation, compliance, and enforcement of standards and rules.

Although Nigerian Accounting Standards (SAS) have been based on International Accounting Standards (IAS), SAS have not been reviewed or updated in line with current IAS, and in many cases there are no equivalent SAS to current IAS. Compliance with more lenient national accounting standards is achieved, however with some exceptions.

National auditing standards do not exist; auditors are advised to follow International Standards on Auditing (ISA) although such compliance is not mandatory, and there appears to be inadequate adherence to auditing standards and professional ethics. Furthermore, ethical codes for auditors in Nigeria are not in line with international requirements. Except within the banking sector, monitoring and enforcement mechanisms are very weak. These factors, as well as poor accounting education and training, have contributed to weaknesses of the financial reporting and auditing regime.

The policy recommendations provided in this ROSC &A report focus on improving the statutory framework, strengthening enforcement mechanisms, upgrading professional education and training, and enhancing capacity of regulatory and professional bodies. A major recommendation is that an independent oversight body—Financial Reporting Council—should be established. The Financial Reporting Council would be responsible for adoption, monitoring, and enforcement of IAS-based and ISA-based financial reporting by public interest entities. In addition, current arrangements will need to be reviewed to develop a simplified financial reporting framework for small- and medium-size enterprises.

I. INTRODUCTION

1. This review of accounting and auditing practices in Nigeria is part of a joint initiative of the World Bank and the International Monetary Fund (IMF) to prepare Reports on the Observance of Standards and Codes (ROSCs). The review focuses on the strengths and weaknesses of the accounting and auditing environment that influence the quality of corporate financial reporting. International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS)¹ and International Standards on Auditing (ISA) serve as benchmarks for assessing both mandatory requirements and actual practices.

2. Nigeria, with an estimated population of over 130 million, is the largest market for goods and services in Africa. Its gross domestic product was US\$46.4 billion in 2003. There are 90 commercial banks and 106 insurance companies. The active Nigerian Stock Exchange has 210 listed companies with a combined market capitalization of Nigerian Naira (NGN)1.3 trillion (about US\$10 billion) as at December 31, 2003. Although the economy is essentially based on crude oil, efforts are being made to diversify into agriculture, gas, solid minerals, and manufacturing. In the early 1990s, there was a major upset in the financial sector involving the collapse of several financial institutions. This had devastating effects on investors' confidence.

3. Nigeria is making efforts to attract foreign investments into the economy. Foreign direct investments in Nigeria exceeded US\$1 billion in 2002. International investors require comparable financial information from countries competing for foreign investments. This requires that Nigerian corporate sector comply with globally acceptable standards and codes. Nigeria has created a statutory framework to regulate business activities, including the establishment of regulatory institutions to enforce standards and codes. A major obstacle to enforcement of standards has been corruption. Since the country returned to democratic rule in 1999, specific laws have been enacted to tackle this problem.²

II. INSTITUTIONAL FRAMEWORK

A. Statutory Framework

4. **There is a multiplicity of laws and bodies for the regulation of accounting, financial reporting, and auditing requirements of companies.**³ Despite the efforts that

¹ Within this report, IAS refers to all standards and related interpretations issued by the former International Accounting Standards Committee (IASC), and the IFRS and related interpretations issued by IASC successor, the International Accounting Standards Board (IASB).

² Corrupt Practices and Other Offences Act of 2001, and the Economic and Financial Crimes Commission Act of 2002.

³ Laws include Nigerian Stock Exchanges Act (1961), Institute of Chartered Accountants of Nigeria Act (1965), Nigerian Deposit Insurance Corporation Act (1988), Companies and Allied Matters Act (1990), Banks and Other Financial Institutions Act (1991), Association of National Accountants of Nigeria Act (1993), Investments and Securities Act (1999), Securities and Exchange Commission Rules and Regulation (1999), Nigerian Insurance Act (2003), and Nigerian Accounting Standards Board Act (2003).

have been made to minimize inconsistencies among the provisions of these laws, they have led to a situation where several bodies review and approve the audited financial statements of some companies before they are published. In some cases, the regulators have differed in their assessments of the quality of financial statements. There is a need, therefore, to streamline financial reporting and auditing requirements, harmonize regulatory arrangements, and codify them as a separate law.

5. **The main legal framework for corporate accounting and auditing practices in Nigeria is the Companies and Allied Matters Act (1990).** This omnibus legislation, the Companies and Allied Matters Act (CAMA), has voluminous provisions that include requirements for auditing, disclosures, and preparation and publication of financial statements. It also provides for the Registrar of Companies at the Corporate Affairs Commission to monitor compliance with these requirements and specifies penalties—although outdated—for companies and their officers in cases of noncompliance. The auditor is liable for negligence if, as a result of failing to discharge the fiduciary duty properly, the company suffers loss or damage.

6. **Differential financial reporting requirements for small and other companies exist.** The Companies and Allied Matters Act prescribes the format and content of company financial statements and disclosure requirements in copious details. In certain instances, CAMA requirements are not in line with IAS/IFRS.⁴ It requires that financial statements comply with the Statement of Accounting Standards (SAS) issued by the Nigerian Accounting Standards Board (NASB) and that the audit be carried out in accordance with generally accepted auditing standards.⁵ It furthermore requires submission of audited financial statements to the Corporate Affairs Commission within 42 days of the annual general meeting and publication of audited financial statements by all public limited liability companies in at least one national daily newspaper. Less stringent requirements exist for “small companies.”⁶ CAMA requires that the directors of a small company may deliver modified statements to the Corporate Affairs Commission, including only a modified balance sheet⁷ that contains accounting policies but excludes

⁴ For example, CAMA requires a profit and loss account rather than an income statement, a statement of source, and application of funds instead of a cash flow statement, and contains no requirement for statement of changes in equity. A statutory regulation issued in 1998 requires companies to publish “Statement of Cash Flow” instead of “Statement of Source and Application of Funds.” Although the regulation has not yet been published, companies have complied with it.

⁵ In the absence of an authoritative clarification of what is meant by “generally accepted,” different auditors use their own judgment in deciding the applicable standards.

⁶ A small company is so designated if (a) it is a private company with share capital, (b) the amount of its annual turnover is not more than NGN2 million or such amount as may be fixed by the Corporate Affairs Commission, (c) its net asset value is not more NGN1 million or such amount as may be fixed by the Commission, (d) no members are foreign, (e) no members are a government or a government corporation or agency or its nominee, and (f) the directors among them hold not less than 51 percent of its equity share capital.

⁷ The following need not be delivered: profit and loss account; director’s report; particulars of directors’ emoluments, pensions, and compensation for loss of office; particulars in company financial statements of loan; and other transactions favoring directors and officers.

notes and a special auditor's report.⁸ Compliance with accounting and auditing standards is required to the extent modified by the CAMA provisions.

7. **The Companies and Allied Matters Act provides for appointment, remuneration, rights, functions, powers, and termination of auditors and the establishment of an audit committee.** The CAMA requires each company to establish an audit committee and defines its composition, functions, and powers. The audit committee reviews audited financial statements and reports to the shareholders. It comprises half of its members from among shareholders, and internal members should be non-executive. The CAMA specifies the auditors' qualifications and the process of their annual appointment at the annual general meeting. Prospective auditors must be members of the Institute of Chartered Accountants of Nigeria (ICAN) and be licensed to practice as an auditor.⁹ The auditor has a statutory duty to report to the audit committee and to report on compliance with disclosure requirements relating to remuneration of directors and certain highly paid staff.

8. **The Securities and Exchange Commission (SEC) and the Nigeria Stock Exchange regulate financial reporting and disclosures by listed companies.** The SEC regulates securities market participants under the Investments and Securities Act of 1999 and the Securities and Exchange Commission Rules and Regulations (1999). The Nigerian Stock Exchange, a self-regulating organization established by the Nigerian Stock Exchange Act of 1961, supports the Securities and Exchange Commission, supervises the securities market operations, and regulates the second-tier capital market. Occasionally, there are conflicts between the SEC and Stock Exchange with respect to the authority to discipline erring companies; there is a need to review relevant legislation to clarify roles and powers. Audited financial statements must be filed with the SEC, Stock Exchange, and the Corporate Affairs Commission and be approved by the Stock Exchange before publication in newspapers within three months after the year-end. The Investments and Securities Act requires every market participant to maintain accurate and adequate records of its affairs and transactions, but it does not specify the standards to follow in preparation of financial statements, as companies have to comply with CAMA requirements and follow NASB-issued accounting standards.

9. **The Central Bank of Nigeria is the main statutory regulator of banks and nonbanking financial institutions under the terms of the Banks and Other Financial Institutions Act (1991).**¹⁰ The Banks and Other Financial Institutions Act contains provisions on financial reporting by banks in addition to CAMA requirements. The Banks Act requires banks to submit audited financial statements to the Central Bank of Nigeria for approval before publication in a national daily newspaper within four months of year-end. The governor of the Central Bank may order a special examination of a bank's

⁸ Special auditor's report refers to entitlement to modified accounts, and modified accounts are properly prepared in accordance with CAMA provisions. The full text of the auditor's report need not be delivered.

⁹ In the case of a new appointment, remuneration and removal, there must be a report from the company's audit committee.

¹⁰ Banks are also subject inter alia to Companies and Allied Matters Act (1990), the Nigerian Deposit Insurance Corporation Act (1988) and the Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Act (1994).

books and affairs for any variety of reasons. Auditors of banks have a legal duty to report certain matters, including contraventions of legislation and irregularities, to the Central Bank.

10. **The National Insurance Commission regulates financial reporting practices of insurance companies under the Nigerian Insurance Act of 2003.** Audited financial statements are submitted to the National Insurance Commission within 6 months of year-end, and published in newspapers. Compliance with ICAN auditing standards is a legal requirement. In addition, the auditor is legally required to certify the solvency of the insurer and approve the margin of solvency required under the Act. The Act does not adequately provide mechanisms to enforce compliance, other than to state that the National Insurance Commission is responsible for the administration and enforcement of the provisions of the Nigerian Insurance Act.

11. **The statutory framework for the accountancy profession includes the Institute of Chartered Accountants of Nigeria Act (1965) and Association of National Accountants of Nigeria Act (1993).** The Companies and Allied Matters Act, as amended, allows only ICAN members be appointed statutory auditors. Other than the ICAN Act, there are no further legal requirements relating to the registration of auditors, licensing requirements, and disciplinary matters.

12. **Not all regulators have a statutorily mandated role in the appointment and termination of auditors in regulated industries.**¹¹ The Central Bank of Nigeria approves the appointment¹² and termination of a bank's auditors under the Banks and Other Financial Institutions Act. Regulators of the insurance industry and securities market have no involvement in auditors' appointments, but must be notified of (as opposed to approve) the termination or resignation of auditors. There are no provisions in the CAMA and other laws and regulations on joint audits or rotation of auditors.

B. The Profession

13. **The Institute of Chartered Accountants of Nigeria is the dominating accountancy body in Nigeria.** There are two accountancy bodies in Nigeria: ICAN and the Association of National Accountants of Nigeria (ANAN). They are in essence self-regulating; both memberships elect Governing Council members. In the case of ICAN, the Government of Nigeria appoints five members to the 25-member Council; however ICAN nominates the appointees whom the Government confirms. There is no separate statutory regulator of the audit profession. ICAN acts as both an examining body for awarding chartered accountant certification and the licensing authority for members engaged in public auditing practice. Its members are recognized under the Companies and Allied Matters Act as the sole auditors of company accounts. ICAN is a member of the International Federation of Accountants (IFAC), and it has strong international foundation and relationships.¹³ Both ICAN and ANAN recognize some foreign

¹¹ Approval of auditors' appointments and terminations by regulators in regulated industries may be valuable in providing assurances with regard to capacity and independence of the auditor; and in the case of termination, to ensure that auditors are not removed for frivolous reasons.

¹² The Central Bank and ICAN compile a list for auditors who are qualified to audit banks.

¹³ It was founded by Nigerian members of the Institute of Chartered Accountants in England & Wales, the Association of Chartered Certified Accountants, and the Chartered Institute of Management Accountants.

professional accountancy bodies.¹⁴ With these foreign professional bodies, those members who live in Nigeria normally apply for ICAN membership; they are admitted after undergoing a one-week intensive program plus an oral examination covering the Nigerian corporate and tax laws.

14. **ICAN members dominate accounting and auditing services in the private sector while ANAN members are mostly employed in the public sector.** ICAN and ANAN operate in different constituencies. The ICAN designation is the most sought after in both private and public sectors. As of December 2003, there were 17,500 ICAN members and 5,136 ANAN members who work mostly in the civil service. Although the CAMA (1990, as amended) restricts audit of companies to Chartered Accountants whose activities are regulated by the ICAN Act, ANAN members do work as statutory auditors of some companies.

15. **ICAN's capacity should be strengthened.** ICAN's lack of financial resources leaves the organization without the appropriate infrastructure to properly carry out all its functions. ICAN has a well-organized secretariat, but also relies heavily on volunteer members. There is very weak capacity for research, audit standards setting, as well as monitoring and enforcement of compliance with standards.

16. **There is a shortage of qualified accountants in the private sector, although competition exists in the audit market.** There are 500,000 registered companies¹⁵ and 17,500 ICAN members (a significant disparity even taking into account that not all companies may necessarily need a professional accountant). When nonqualified persons are employed in accounting positions, this can have a negative impact on the quality of financial statements. Even though only 4,500 ICAN members are registered as auditors, competition in the audit market is causing flight away from the practice. It appears that some companies are not obtaining statutory audits nor adhering to the legal requirements to file annual audited accounts. (Also refer to paragraph 30).

17. **The larger firms audit most of the listed companies in Nigeria.** The Big 4 international accounting firms audit about 90 percent of listed companies while the 15 national firms with international affiliation audit the remaining 10 percent.

18. **The Nigerian professional accountants' Code of Professional Conduct needs updating and mandatory application.** All ICAN members are expected to follow ICAN's Code of Professional Conduct despite having no obvious legal requirement or guidance for its mandatory application in Nigeria. Issued in 2000, ICAN's Code needs updating in vital areas, like auditor's independence,¹⁶ to bring it in line with the IFAC

¹⁴ Among these are the Association of Chartered Certified Accountants, the Institute of Chartered Accountants in England & Wales, the Chartered Institute of Management Accountants, the American Institute of Certified Public Accountants, and the Chartered Institute of Public Finance and Accountancy.

¹⁵ Most of the 500,000 registered companies, of which 210 are listed companies, are active.

¹⁶ The existing independence rules are clearly breached. The same auditor is allowed to prepare and audit the financial statements due to a lack of qualified accountants and most company directors lack accounting and auditing knowledge, skills, and experience. Auditors accept all services (except those for which the auditors have no expertise) as long as there are separate engagement letters. The ICAN Code also provides that where work is subject to a contingency fee, percentage or similar basis, the capacity in which a member has worked and the basis of his remuneration should be made clear in any document prepared by the member in anticipation that a third party may rely on it. The ICAN Code does not adopt

Professional Code of Ethics, which was significantly revised in 2003. Other areas needing review are application of principles to specific situations, professional competence and responsibilities regarding the use of nonaccountants, and activities incompatible with the practice of public accountancy. ANAN requires its members to comply with its Professional Code of Ethics, but this code needs complete revision in line with IFAC requirements.

19. **Nigeria has not yet experienced any litigation against auditors.** Although the Companies and Allied Matters Act provides for the right of the company or shareholder to sue the auditors for negligence in the case of loss or damage, there are no reported cases of litigation against auditors and audit firms. Professional indemnity insurance is not compulsory. The CAMA precludes audit firms from becoming limited liability companies. Audit firms are either partnerships or sole proprietorships, and auditors are jointly and severally liable. With the deregulation of the economy and the rise in foreign and domestic investments, litigations against auditors for professional negligence may be more prevalent.

C. Professional Education and Training

20. **A registered auditor must have acquired appropriate higher education, obtained practical experience, and passed the ICAN examination to obtain a license to practice.** To qualify as a chartered accountant (i.e., an ICAN member), 30-months supervised skilled training is required. This training must be in an audit environment. The chartered accountants, who want to be in public practice, need to obtain ICAN's practicing licenses and get it renewed annually.

21. **Professional education has weakened over the last two decades.** ICAN's main professional entry requirement is in line with IFAC, and tertiary institutions are assessed for accreditation to meet the same requirements. ICAN's qualifying examination¹⁷ syllabus covers all areas recommended by IFAC International Education Guideline (IEG) 9, *Prequalification Education, Assessment of Professional Competence and Experience Requirements of Professional Accountants*; however the information technology content is still deficient. A review of the syllabus is currently being undertaken to ensure alignment with IFAC.¹⁸ Generally since the late 1980s, lack of investment in education, low quality of educators, and diminution in the value system at tertiary institutions have adversely affected the quality of education. Where national accounting and auditing standards are not available, international standards should be taught. However, most educators have neither professional qualifications nor necessary practical experience. Unavailability of affordable, up-to-date learning materials further hampers education.

22. **Educational institutions in Nigeria do not teach professional values and**

a conceptual approach to independence; threats to independence (in terms of self interest, self review, advocacy, familiarity, and intimidation) are missing. And safeguards capable of eliminating these threats or reducing them to an acceptable level are not stated as under the IFAC Code.

¹⁷ ICAN's examinations were conducted by the Institute of Chartered Accountants in England & Wales from 1965 until 1978.

¹⁸ The syllabus is reviewed every five years; more regular reviews would ensure timely changes that reflect amendments to the International Education Standards.

ethics as separate subjects in pre-qualification academic educational programs. These subjects are specific requirements in IFAC International Education Standard (IES) 4, *Professional Values, Ethics, and Attitudes*. There is a perception in Nigeria that some professional accountants ignore ethical dimensions and conflicts and do not comply with the Code of Conduct.

23. **Although the practical experience requirement is adequate, the mechanism for assessing this experience gained by prospective professional accountants is inadequate.** Practical experience leading to qualification as a professional accountant should be conducted under an approved practical training provider. ICAN does not have the resources to monitor the quality of practical training. In practice, ICAN enforces the 30-months practical experience requirement by requiring the supervisor/principal to attest to the trainee's completion of the relevant work schedule by entry in the trainee logbook.

24. **The qualifying examination processes of ICAN and ANAN differ.** For example, it is possible in three years after graduation for a nonaccounting graduate to become a registered ANAN member.¹⁹ ANAN has accredited some universities and polytechnics that do not meet ICAN requirements for accreditation.

25. **Continuing professional education is compulsory, but is not effectively monitored and enforced for members not in public audit practice.** ICAN members are expected to accumulate 60 credit hours of continuing professional education in two years, with at least 50 percent through structured programs. ICAN organizes the structured programs but does not update members with international developments in accounting and auditing. Large companies are allowed to organize in-house ICAN-approved courses. A member may lose registration (and practicing license in the case of auditors) by failing to acquire at least 50 percent of the required credit hours during the two-year window.

26. **The best students are generally not retained in the accountancy profession.** The low financial reward is a disincentive for young people to continue working in accounting firms, even though the audit profession is seen as a stepping-stone into senior management positions in the corporate sector. Many high-quality graduates who have qualified as chartered accountants are not choosing careers in accountancy.

D. Setting Accounting and Auditing Standards

27. **The Nigerian Accounting Standards Board sets local accounting standards under the Nigerian Accounting Standards Board Act of 2003.** Originally established in 1982 as a private sector initiative housed in ICAN, NASB became a government agency in 1992 and reports to the Federal Minister of Commerce. Its membership includes representatives of government and relevant interest groups. An adequate due process is followed in standardsetting. Although the NASB-issued standards have statutory backing, the body itself operated without an enabling legal authority until the

¹⁹ Currently, ANAN admits graduates of accounting and other social science disciplines (especially business and economics) into its accountancy college for a 9-months program. After this program, students are expected to undergo a 2-year Accountant-in-Training (AIT) in any sector of the economy before enrolment as an ANAN member.

2003 enactment of the NASB Act.

28. **NASB lacks adequate resources to fulfill its mandate.** As a government agency, NASB has relied mainly on government subventions and has been exposed to serious budgetary constraints that prevented it from discharging its statutory role and affected its effectiveness. Legislation now allows NASB to earn income outside the government. There is a dire need to hire additional staff, retrain existing staff, offer attractive remuneration packages, and procure equipment.

29. **Although ICAN is mandated to issue Nigerian Auditing Standards, no standards have been issued.** The ICAN Act of 1965 mandated ICAN to set auditing standards. Due to lack of capacity, ICAN has not issued any auditing standards, although some guidelines have been issued.²⁰ In addition, none of the 15 International Auditing Practice Statements issued by IFAC has been adopted in Nigeria. ICAN has advised its members to use International Standards on Auditing in their engagements, but has not yet issued a definitive statement instructing members to adopt International Accounting Standards.

E. Ensuring Compliance with Accounting and Auditing Standards

30. **No effective mechanism exists to monitor and enforce requirements for accounting and financial reporting provided for in the Companies and Allied Matters Act (1990).** The CAMA empowers the Registrar of Companies at the Corporate Affairs Commission to regulate compliance with its financial reporting presentation requirements. There is however no capacity at the Corporate Affairs Commission to effectively fulfill this function. It is a legal requirement to file a copy of the audited financial statements and directors' report with the Commission. There is however no rigorous enforcement of timely filing. Financial statements of non-listed public and private companies are not readily available. It seems most companies simply do not comply with the filing requirements, and sanctions are not applied. There are significant weaknesses in the enforcement mechanism, which is accentuated by a degree of corruption and poor recordkeeping by the Corporate Affairs Commission. CAMA requires that the audit committee review audited financial statements and report to the shareholders. However, authorities and others have not assessed the effectiveness of audit committees, making their capacity to monitor unknown.

31. **The Securities and Exchange Commission is not yet effective in monitoring compliance with financial reporting requirements and enforcing actions against violators.** On behalf of the SEC, the Nigerian Stock Exchange monitors compliance with financial reporting requirements of companies whose equity or debt securities are publicly traded. The SEC's capacity to effectively monitor compliance with accounting standards is inadequate, but it is currently under re-organization. There have been a few instances where companies have been suspended from the Nigerian Stock Exchange for

²⁰ About 3 decades ago, ICAN issued two audit guidelines: "Guidelines on Engagement Letters" and "Guideline for Prospectus and Reporting Accounts." Recently, ICAN established the Public Practice Section to develop auditing guidelines for practitioners. The Section has so far issued two sets of guidelines, "Guidelines on Audit Working Papers" and "Guidelines on Planning and Performance."

breach of financial reporting requirements.²¹ However, SEC enforcement is weak, and administrative sanctions and civil penalties are not adequate to deter noncompliance.²²

32. **The Nigerian Stock Exchange approves annual financial statements of the listed companies before publication.** The Nigerian Stock Exchange reviews submissions by companies for compliance with the listing requirements, which include accounting standards and disclosure required under CAMA. The audited financial statements of a listed company are only published after approval of the Stock Exchange, and de-listing is the only sanction for noncompliance.

33. **Banks are the most regulated organizations in Nigeria, however outdated sanctions and reduced capacity diminishes the effectiveness of monitoring and enforcement with financial reporting requirements.** The Central Bank of Nigeria regulates accounting requirements for prudential regulatory reporting and general-purpose external financial reporting of banks, as well as nonbanking financial institutions. In the early 1990s, as a result of the distress in the banking sector, the Failed Bank Decree was promulgated which set the stage for the trial of several bank executives, officials, and directors. Some of the cases are still in court. At present the Central Bank of Nigeria issues guidelines in consonance with Nigerian Accounting Standards, and reviews and approves the audited financial statements for compliance before they are published. Although capacity exists in the Directorate of Banking Supervision and the Directorate of Banking Examination (Inspection) to monitor and enforce bank-related accounting and auditing requirements, the capacity did not quite keep up with the rapid growth of the banking sector. Occasionally, the Stock Exchange and Central Bank have divergent views on the approval of financial statements of listed banks. In such cases, the statements are not published until they receive the approval of both. Banks' auditors have a legal duty to report such matters as contraventions of legislation and irregularities to the Central Bank. The Governor of Central Bank may order a special examination of a bank's books and affairs for a variety of reasons; an audit report other than unqualified would attract such an investigation. Sanctions available under the Banks and Other Financial Institutions Act include fines, imprisonment, and suspension or revocation of license.²⁴ Examples of sanctions imposed to date relate to both management issues and financial reporting issues. Regulation and monitoring of financial reporting of unlisted nonbanking financial institutions is ineffective due to a lack of capacity.

34. **The National Insurance Commission lacks capacity to monitor compliance with financial reporting requirements of insurance companies.** The National Insurance Commission was reorganized a few years ago. Its current efforts are geared toward ensuring companies meet a prescribed capital base and the requirements for submission of annual returns. Enforcement and compliance departments are being organized. Available sanctions for noncompliance seem satisfactory, but have not yet been instituted.

²¹ Statistics are not available, suspensions usually publicized in newspapers.

²² Effective administrative sanctions could include for example restatement of financial statements at the cost of the company and/or appropriate fines.

²⁴ Where applicable, offenders may also be tried under Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Act (1994).

35. **The Nigerian Accounting Standards Board is mandated to monitor and enforce compliance with accounting standards; however, it lacks capacity.** Although the Companies and Allied Matters Act requires that companies comply with standards issued by NASB, the NASB was only statutorily empowered under the 2003 NASB Act to monitor and enforce compliance with accounting standards. The NASB Act also prescribes sanctions for noncompliance. However, NASB lacks financial and human resources and still has to develop the infrastructure for monitoring and enforcing compliance with accounting standards.

36. **No effective and efficient institutional arrangement exists to ensure compliance with auditing standards and the professional code of ethics.** ICAN's capacity to effectively monitor and enforce compliance with auditing guidelines,²³ and its code of ethics is weak. However, it does enforce compliance with its code of ethics by disciplining errant members. The Accountants' Investigation Panel is complaint-driven rather than pro-active with regard to its monitoring function. There is reluctance to report cases of negligence to ICAN or to sue for damages in the court of law. ICAN has made arrangements for an external quality review of accounting firms through its Public Practice Section. ICAN members act as volunteer reviewers. However, the Public Practice Section is new and not yet operational and lacks the infrastructure to perform its functions effectively.

37. **The legal process is very slow, which discourages regulators from taking any legal recourse in enforcing compliance with accounting, auditing, and financial reporting requirements.** The process of adjudicating on cases in Nigerian courts is so slow that regulators are discouraged from seeking support from the courts and law enforcement agencies in enforcing sanctions. Besides, the penalties specified in the Companies and Allied Matters Act that can be administratively applied for various noncompliance issues are too weak compared to the gravity of offences.

III. ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED

38. **There are gaps between the local and international accounting standards.** There are many areas of accounting issues covered by IAS/IFRS that are yet to be addressed by NASB. Also, some current IAS-based national standards were effective at the time of their issuance; but some IAS have since either been revised or withdrawn. The Nigerian Statements of Accounting Standards (SAS) seem incomplete as an authoritative guide to the preparation of financial statements. The NASB does not have a work plan to harmonize its SAS with IAS.²⁴ To date, the NASB has issued 21 SAS compared with 41 IAS. The international equivalents of certain national standards have been withdrawn while 20 active IAS have not been reflected in the SAS.²⁵ Four SAS exist with no

²³ No audit standards have been issued, and compliance with ISA is not compulsory.

²⁴ Before the stakeholders workshop of September 2004, the Council of NASB has evolved a strategy to achieve convergence with IAS/IFRS.

²⁵ IAS where no equivalent SAS exists are *Framework for preparation and presentation of financial statements*; IAS 14, *Segment Reporting**; IAS 18, *Revenue*; IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*; IAS 22, *Business Combinations*; IAS 23, *Borrowing Costs*; IAS 24, *Related Party Disclosures**; IAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries**; IAS 32, *Financial Instruments: Disclosure And Presentation*; IAS 34,

international equivalent.²⁶ There is no local standard based on agriculture (i.e., an equivalent of IAS 41), despite the prominence of agricultural sector in Nigeria. The omission of a *Framework for Preparation and Presentation of Financial Statements* is especially detrimental as there are several areas where no local standards exist, and the framework should guide the setting of relevant and reliable accounting policies in such circumstances.²⁷ Moreover, NASB has not prepared any equivalent Standard Interpretations Committee (SIC) interpretations issued by the IASB other than an implementation guide on Accounting for Leases.

39. **Over the past years, extensive revisions have been made to IAS that are not reflected in existing SAS.** Large sections and paragraphs in IAS cannot be found in the SAS, particularly with respect to the six IAS that have been superseded by new standards. The assumption of some users and practitioners that SAS materially conform to IAS is not correct. Differences relate broadly to scope, level of detail in content, and disclosure requirements. Some of these differences are shown in Box 1.

Box 1. Selected differences between national and international standards

<p>Presentation of financial statements. These IAS requirements are omitted from SAS: statement of changes in equity, distinction between current and noncurrent classifications, information to be presented on the face of the balance sheet, income statement and notes to the financial statements and their structure, true and fair override, restricted cash, concession arrangements, and development stage enterprises.</p> <p>Cash flow statement. There is no provision that the interest and dividends received and paid by financial institutions should be classified as operating activities.</p> <p>Fundamental errors and changes in accounting policies, changes in accounting estimates. These concepts are not addressed in the local standards.</p> <p>Income taxes. Recognition of current taxes not addressed in SAS, and required disclosures are very limited. There is a divergence in the recognition of a deferred tax on loss carry-forward and in the treatment of differences associated with investments in subsidiaries, branches, and associated companies.</p> <p>Property, plant, and equipment. Provisions regarding the initial measurement are omitted.</p> <p>Inventory. Limited disclosures required. The allocation of fixed overheads to each unit of production is not based on the normal production capacity.</p> <p>Effect of changes in foreign exchange rates. Local standard based on an outdated IAS version, the treatment of foreign operations is substantially different.</p> <p>Leases. A lease in favor of a contractor financing the development of landed property is excluded from the scope of the local standard. A specific standard relating to the exploitation of oil has been issued, which was excluded from the scope of IAS.</p> <p>Disclosure in financial statements of banks. IAS requires disclosure of any amounts set aside for general banking risks as appropriations of retained earnings, while the SAS requires a mandatory provision to be raised.</p>

*Interim Financial Reporting**; IAS 35, *Discontinuing Operations*; IAS 36, *Impairment of Assets*; IAS 37, *Provisions, Contingent Liabilities and Contingent Assets**; IAS 38, *Intangible Assets*; IAS 39, *Financial Instruments: Recognition And Measurement*; and IAS 41, *Agriculture*. (*) designates that the NASB is working on Exposure Drafts on these issues.

²⁶ Local standards where no international equivalents exist include SAS 14, *Accounting in the Petroleum Industry Upstream Activities*; SAS 17, *Accounting in the Petroleum Industry- Downstream Activities*; SAS 16, *Accounting for Insurance Business*; and SAS 20, *Abridged Financial Statements*. As the Nigerian economy is essentially based on crude oil and gas, it is suggested that the NASB monitors the furthering of the IASB's exposure draft 6 *Exploration for and Evaluation of Mineral Resources* in order to harmonize with the international standards once issued.

²⁷ NASB recently introduced the “framework for preparation and presentation of financial statements” into its work program.

40. **NASB has issued accounting standards for the oil and gas sector.** The petroleum industry occupies a strategic position in the Nigerian economy, as the nation's major foreign exchange earner.²⁸ The major players in both upstream and downstream of the oil and gas sector have foreign parent companies with varied accounting practices. In an effort to harmonize these practices and make the companies comply with uniform acceptable accounting standards, the NASB issued SAS 14 and 17 for upstream and downstream activities, respectively. The IASB has not yet issued any IAS/IFRS on oil and gas accounting.

41. **Many preparers and auditors of financial statements claim that they use IAS/IFRS in areas where there are no national standards.** There is no legal requirement for compliance with IAS/IFRS. The Nigeria Accounting Standards Board also does not require the adoption of international standards in areas where it has not issued standards. However, in the relative vacuum left by the NASB, and probably under the pressure from the market, preparers of financial statements have attempted to fill the gap by applying some IAS/IFRS. However, where the local standard is in conflict with an international standard, the local standard takes precedence. It should be noted that where companies claimed compliance with IAS/IFRS, such a claim, according to IAS 1, denotes full compliance with all requirements of IAS/IFRS and related interpretations.²⁹

42. **There are some compliance gaps with the national standards.** Compliance gaps refer to the differences between local accounting standard and actual practice. The review of published financial statements, conducted by the ROSC team for this assessment, revealed some compliance gaps. The review involved an examination of 45 sets of financial statements of listed companies (including 8 banks and 2 insurance companies). Most entities reviewed complied with the limited number of national disclosure requirements (financial statements have been reviewed by one or more regulators before they were published). In many cases it was found that the national accounting standards were supplemented with certain disclosures from international standards.³⁰ In some of the auditors' reports, there was no identification of the accounting and auditing standards used to evaluate fair presentation of the financial statements. Issues identified in the review include:

- ***Disclosures by some companies are inadequate.*** Cash flow statements of most entities reviewed did not show the reconciliation of amounts in the statements with the equivalent items reported in the balance sheets. Some entities did not disclose earnings per share in their financial statements. One of the entities reviewed did not indicate the accounting policies that were relevant to the financial statements.

²⁸ Oil and gas revenue accounts for more than 80 % of Nigeria's foreign exchange earnings.

²⁹ For example, IAS 10 *Events After the Balance Sheet Date* is generally complied with in Nigeria, except that an announcement of a dividend relating to the financial year just ended is not treated as a non-adjusting event as required by IAS. In such an instance IAS compliance cannot be claimed.

³⁰ Issues such as Related Parties Transactions and Segment Reporting feature in the financial statements of entities. The compliance gap with respect to International Accounting Standards was not specifically tested.

- **Most entities did not disclose their relationships with related local and overseas suppliers or customers.** Most entities did not disclose their immediate and ultimate parent, associated or affiliated companies, and their relationships with significant local and overseas suppliers or customers.

43. **There are well-known cases where financial statements did not fairly present the company's financial condition with fraudulent intentions.** In one case, it was stated in the auditor's report that the cost of an investment in shares was included in the value of fixed assets, thereby reducing the tax liability. In another case, a number of transactions, including substantial loans, were omitted from the financial statements. This fact was discovered when a due diligence audit was done in preparation for privatizing the company. A review of some companies that failed due to liquidity problems and bad management practices showed that they were involved in fraudulent practices, including manipulation of accounts.

44. **Although banks generally comply with national accounting standards, concerns exist regarding contravention of the provisions of the Bank and Other Financial Institutions Act.** In a recent report, the Central Bank and Nigerian Deposit Insurance Corporation, the regulators of banking institutions, indicated that transparency and disclosures by banks were inadequate, and that banks exhibited weak risk management and weak governance practices that delay early detection of problems and timely resolution of errors.

IV. AUDITING STANDARDS AS DESIGNED AND AS PRACTICED

45. **The degree of compliance with standards varies depending on resources available to firms.** The large firms and some medium-size firms that audit multinationals appear to comply better with international standards, as they routinely train their staff and standardize their procedures to maintain the quality of audits. Other medium and small firms are unable to attain and maintain this standard, inter alia due to the unaffordable cost of skills development.

46. **In general, actual standards applied do not comply with international standards on auditing and professional accountants code of ethics.** Observations on such noncompliance are set out below:

- In several cases (mostly in small and medium enterprises and audit firms), due to a lack of qualified accountants and pressure on audit fees, the auditors also prepare the same financial statements that they audit. This fact is not normally disclosed in the audit report. The situation where auditors audit financial statements that they prepared is a serious violation of the auditors' independence rule.
- Due to a combination of weak accounting culture and pressure exerted by clients due to relatively low audit fees and competition in the audit market, some auditors refrain from applying rigorous audit procedures in order to obtain sufficient, appropriate audit evidence that supports their opinion on the fair presentation of financial statements. As a result, the integrity of the financial statements may be compromised, notwithstanding good presentation and disclosures in accordance

with accounting standards.

- Quality control arrangements appear to exist only in the big multinational firms. While quality control arrangements vary widely and are generally unsatisfactory among medium-size firms, they do not exist among the sole proprietorships.
- Unless associated with the international network of accounting firms, most audit firms have no access to quality practice-oriented manuals.
- Most firms have limited access to technical expertise to assist with queries.
- Generally, medium and small audit firms do not have skills for auditing in a computer information systems environment.

V. PERCEPTION OF THE QUALITY OF FINANCIAL REPORTING

47. Although most interviewees rated the presentation and disclosure in financial statements as good, many of them, who included lenders, financial advisers, and financial analysts, held the view that the statements are not free from bias and errors. Generally, the financial statements are not regarded as credible. A due diligence review on enterprises to be privatized by the Bureau for Public Enterprises corroborated this view. For medium-size and listed companies, the perception of quality of financial statements is influenced by the company's auditor, with more reliance being placed on the affiliates of large international firm networks. There is a perception that multinational companies prepare relatively better-quality financial statements. The following factors were cited as factors contributing to unreliable financial statements:

- ***Auditors are sometimes unreliable.*** The public cannot understand the immediate liquidation of a company that had been given an unqualified audit report. Auditors and clients sometimes engage in accounting and auditing practices that hide the real financial condition and operating performance.
- ***Audit committees of several companies are not effective.*** It is believed that many committee members are not fully equipped to perform their function.

48. **Users incorrectly perceived local standards to be comparable to international standards.** Users believe that only slight improvements are needed in design and practice of the local accounting and auditing standards to be comparable with the international standards.

49. **Some regulators are disappointed with the audit quality.** Recently, the Central Bank of Nigeria and the Nigerian Deposit Insurance Corporation have urged close collaboration between the regulators and the auditors. These regulators were baffled by the irregularities in certain banks' records that were not discovered by their external auditors. It was inferred that the auditors hesitated to qualify their reports, although they acknowledged a few cases of qualified opinions, withdrawals of unqualified opinions, and some resignations by auditors. The two regulators were also unhappy with the level of collaboration between the auditors and regulators³¹

50. **Stronger enforcement mechanisms coupled with prosecution for errant**

³¹ Section 29(1) to (10) of the Banks and Other Financial Institutions Act of 1991 and ISA250 provide for collaborations between the auditors and regulators.

parties would improve the quality of financial statements. Users called for a stronger regulatory regime with effective enforcement mechanisms for ensuring compliance with accounting and auditing standards and the requirements on auditor’s professional ethics. It was suggested that misstatements in financial statements were important enough to warrant prosecution of offenders.

VI. POLICY RECOMMENDATIONS

51. The policy recommendations benefited from valuable inputs from the country stakeholders. These recommendations may serve as useful inputs for preparing and implementing a country action plan for accounting and auditing reforms in Nigeria.³²

52. **Raise awareness of investors, directors, managers, and auditors to improve the degree of compliance with financial reporting requirements by publicly traded companies.** Issues to be addressed include the importance of financial statements, importance of compliance with accounting and auditing requirements, the meaning and impact of qualifications in the audit report, as well as the responsibilities of stakeholders. Efforts should also be made to present international developments on improving transparency of corporate financial reporting, new dimensions of regulatory regimes affecting accounting and auditing, and the role of transparent financial reporting in attracting both strategic and portfolio foreign investments. The Government, Securities and Exchange Commission, Nigerian Stock Exchange, and NASB should consider introducing and publicizing prestigious annual awards in various sectors for the most excellent financial statements.

53. **Fully issue the existing IAS/IFRS as SAS.** NASB should immediately issue as Exposure Draft, obtain feedback from stakeholders, and issue the following as SAS: (a) all IAS/IFRS of which there are no SAS equivalents; and (b) all IAS that have been revised after the equivalent SAS were issued.

54. **Improve the statutory framework of accounting and auditing to protect the public interest.** This recommendation might necessitate amending the Nigerian Accounting Standards Board Act into a Financial Reporting Act. Provisions on accounting, auditing, and financial reporting for general-purpose financial statements³³ in various laws and regulations³⁴ should be revised to conform to the proposed Act. The remainder of the recommendations has been drafted to set out principles that should be observed in the new regulatory structure.

55. **The proposed Financial Reporting Act should incorporate the following key**

³² See the Annex for the Country Action Plan matrix.

³³ General-purpose financial statements are intended to meet needs of users who cannot have reports tailored to specific information needs. These users include creditors, suppliers, the media, employees and Inland Revenue Service. Regulators such as those in the banking, insurance, and securities and exchange markets would specify additional regulatory reporting requirements.

³⁴ Laws and regulations to be revised include the Companies and Allied Matters Act (1990), the Banks and Other Financial Institutions Act (1991), the Nigerian Stock Exchanges Act (1961), the Investments and Securities Act (1999), the Securities and Exchange Commission (Rules and Regulation) (1999), the Nigerian Insurance Act (2003), the Nigerian Deposit Insurance Corporation Act (1988), the Institute of Chartered Accountants of Nigeria Act (1965), and the Association of National Accountants of Nigeria Act (1993).

recommendations:

- ***Full convergence of SAS with IAS/IFRS, full adoption of ISA without modifications, and mandatory observance of these standards.*** With respect to accounting standards, it should involve arrangements for the Nigeria standardsetter to issue SAS on any issue being concluded by IASB almost at the same time. It should make the related interpretations issued by the IASB as legally enforceable standards applicable to the preparation of the entity's own and group's consolidated financial statements for all public interest entities,³⁵ including Government Business Enterprises.³⁶ The audit of financial statements prepared by public interest entities should be carried out in accordance with ISA and other related IFAC-issued pronouncements. Also, the proposed Act should require that the local code of ethics be fully comparable with the IFAC Code of Ethics for Professional Accountants.
- ***Agree upon a simplified financial reporting framework for small and medium enterprises.*** Although the Companies and Allied Matters Act (1990) already provides simplified financial reporting requirements for small companies, it is suggested that a differentiation of financial reporting requirements be based on public interest entities and others. All of other companies but the micro-enterprises³⁷ may then be subjected to a simplified financial reporting framework. Financial reporting requirements in the Act should be reviewed to keep abreast of global developments in this regard. Until finalization of the IASB project, the Accounting by Small and Medium Entities and in Emerging Economies, the national accounting standardsetters should agree on standards for small- and medium-size enterprises. Once the international standard is available, national standards should conform to the international standards. Reasons for any necessary derogation would need justification.

56. **Establish an independent body to set, monitor, and enforce accounting and auditing standards and codes.** The proposed Financial Reporting Act should establish a

³⁵ Public interest entities may be defined by the nature of their business, their size, and their number of employees; or by their corporate status by virtue of their range of stakeholders. Examples of public interest entities might include banks, insurance companies, investment funds, pension funds, medical schemes, listed companies, and large enterprises. The large enterprises may be defined as follows: individual enterprises and groups of enterprises that meet two of the three following thresholds should be considered as public interest entities—(a) total number of employees exceeding [a number to be decided in consultation with various stakeholders]; (b) total assets on the balance sheet exceeding [amount to be decided in consultation with various stakeholders]; and (c) total turnover exceeding [amount to be decided in consultation with various stakeholders].

³⁶ In accordance with International Public Sector Accounting Standards (IPSAS) issued by IFAC Public Sector Committee, Government Business Enterprises should comply with IAS. A Government Business Enterprise is defined in IPSAS to mean an entity that has all the following characteristics: (a) is an entity with the power to contract in its own name; (b) has been assigned the financial and operational authority to carry on a business; (c) sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery; (d) is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and (e) is controlled by a public sector entity.

³⁷ The definition of micro-enterprises (i.e. the smallest enterprises) in the context of financial reporting will need to be developed.

new independent oversight body, the Financial Reporting Council, that is accountable to the Finance Minister. The proposed Council would be empowered to monitor and enforce accounting and auditing requirements with respect to general-purpose financial statements. In order to ensure proper factual and perceived independence on the Council, there should be a mixture of professional accountants and nonaccountants in the governing body of the Council. Practicing auditors should not dominate the Council. Members of the governing body may be drawn from the appropriate government ministries, Securities and Exchange Commission, Nigerian Stock Exchange, Central Bank of Nigeria, ICAN, the legal profession, and academia. All stakeholders, in particular the Government, should assure adequate funding for the Council. The Financial Reporting Council should focus on the following activities:

- ***Setting accounting and auditing standards.*** The Council would adopt, without modification, all IAS/IFRS, ISA, and IFAC-issued Code of Ethics for Professional Accountants. In addition, it will develop standards on relevant topics not addressed in international standards and develop implementation guidelines on practical application of IAS/IFRS and ISA in Nigeria. The Council should also be entrusted with the responsibility of prescribing accounting and auditing requirements for small- and medium-size enterprises. A unit of the Council might be entrusted with the task of preparing and disseminating standards and related implementation guidelines.³⁸
- ***Monitoring compliance with accounting standards.*** A monitoring unit of the Council should be responsible for identifying and forwarding findings on noncompliance to the enforcement unit along with recommendations on the sanctions for infractions. Adequate legal backing will be necessary for effective monitoring activities. The monitoring unit should have experienced staff (full-time or part-time) with capacity to conduct in-depth reviews of financial statements. The policies and procedures for carrying out monitoring activities would be developed by the unit and approved by the Council's governing body.
- ***Licensing of auditors.*** The Council would maintain a register of auditors and audit firms approved to audit public interest entities. A designated unit of the Council would develop the policies and procedures for accreditation of auditors to comply with the IFAC-issued International Educational Standards and to be approved by the Council's governing body.
- ***Practice review for auditors of public interest entities, investigating complaints and assessing stakeholders' and public's interest.*** A designated monitoring and investigative unit would be responsible for carrying out practice reviews for auditors and audit firms that service public interest entities. The practice review would evaluate an audit firm's quality assurance arrangements, its audit approach, and the working papers with regard to selected audit engagements. Valid complaints against auditors and audit firms would also be investigated. In the case

³⁸ Special units within the Council might be necessary to cover accounting standards, small and medium enterprise, auditing standards, ethics, etc. The composition of each unit will vary depending on the task.

of material infractions, this monitoring and investigative unit would recommend appropriate actions to the enforcement unit for implementation. In addition, this unit would oversee activities undertaken by ICAN and other professional bodies (including investigation, disciplining of members, monitoring of quality assurance arrangements, training, qualification process, and registration) to assess whether the interests of stakeholders and the public at large are being appropriately protected.

- ***Enforcing sanctions for violations.*** The Council’s enforcement unit would determine appropriate actions against violators of standards and codes. In addition to resorting to the national legal system, the unit should be empowered to impose administrative sanctions against management of entities, auditors, and audit firms. The enhanced administrative sanctions would facilitate enforcement without depending fully on the lengthy legal process. The administrative sanctions recommended by the enforcement unit should be discussed and approved by the Council’s governing body.

57. **Strengthen professional education and training.** The following steps should be taken to address weaknesses in professional education and training arrangements:

- ***Continuing professional education (CPE).*** The professional accountancy bodies should align their CPE requirements with IFAC guidelines. They should review their arrangements for enforcing compliance with CPE requirements. The accounting and auditing oversight body should regularly review the arrangements of professional bodies to enforce CPE requirements.
- ***Business ethics.*** Business ethics should be taught as a separate subject in undergraduate accounting and business programs. Moreover, the professional qualifying examinations should include a paper on business ethics.
- ***IAS/IFRS and ISA.*** Revisions to university accounting curricula should enable students to gain exposure to practical IAS/IFRS and ISA application . A training-of-trainers program should be launched for selected academicians to update knowledge on practical IAS/IFRS and ISA application. Training programs should be arranged to help corporate accountants and practicing auditors gain exposure to accounting and financial reporting practices that are in accordance with IAS/IFRS. Training programs specifically designed for the practicing auditors should focus on the practical aspects of ISA and IFAC-issued Code of Ethics for Professional Accountants.

58. **Improve ICAN’s capacity to comply with the IFAC membership obligations.** The ICAN should update the Nigerian Code of Ethics in line with the IFAC Code. It should require firms to implement a quality control system in accordance with the IFAC International Standard on Quality Control. The ICAN should develop its own quality assurance system to ensure that auditors comply with applicable auditing and ethical standards and independence requirements. The system should include performance evaluation of ICAN members with regard to compliance with applicable auditing

standards and code of professional ethics. Global developments in accounting and auditing must be reflected in the education and training arrangements by ICAN on a timely basis. The training curriculum and professional examination system should be improved to conform fully to IFAC International Education Standards. The ICAN needs more rigorous arrangements to regularly monitor quality of practical training provided by authorized training providers.

59. **Strengthen ANAN's capacity to comply with IFAC requirements for professional accountancy bodies.** This would include improvements in its qualification process, CPE requirements, and professional code of ethics. Also, it would involve implementing a quality control system for members and putting in place necessary structures to monitor compliance.

60. **Strengthen capacity of the regulatory bodies and review adequacy of statutory enforcement provisions.** Take necessary steps to strengthen capacity of the regulators (including Registrar of Companies at the Corporate Affairs Commission, Securities and Exchange Commission, National Insurance Commission, and Non-Bank Financial Institution Office in the Central Bank of Nigeria) that enables them to effectively deal with accounting and financial reporting practices of the regulated entities. Revise legislation to provide for effective sanctions and penalties to remove the requirement for approval of financial statements by regulators prior to publication and to clarify the roles of the Nigeria Stock Exchange and Securities and Exchange Commission in monitoring and enforcement.

ANNEX
Nigeria Report on Observance of Standards and Codes – Accounting & Auditing Review
Country Action Plan

(Agreed at the Stakeholders Workshop organized by NASB, in collaboration with the World Bank, on September 13, 2004 in Lagos.)

<i>No.</i>	<i>Actions</i>	<i>Implementation</i>			
		<i>Led by</i>	<i>With support from</i>	<i>Start date</i>	<i>End date</i>
1	Raise awareness (by means of workshops and seminars) of investors, directors, managers and auditors to improve the degree of compliance with financial reporting requirements by public interest entities.	Regulatory bodies; FRC on regular basis once established		2005	Ongoing
2	Improve the statutory framework of accounting and auditing to protect the public interest				
	Amend the Nigerian Accounting Standards Board Act into a Financial Reporting Act. (The Act should adopt the organizational structures of the UK FRC but include a Public Sector Board)	NASB	Regulatory bodies (SEC, NSE, CBN)	October 2004	September 2005
	Revise provisions on accounting, auditing, and financial reporting for general-purpose financial statements in various laws and regulations to conform to the proposed Act.	Regulatory Bodies	NASB	October 2005	September 2006
3	Fully issue the existing IAS/IFRS as SAS	NASB	SEC and NSE	October 2004	September 2005
4	Fully introduce existing ISA	ICAN	SEC and NSE	October 2004	March 2005
5	Nigeria accounting standardsetter issues SAS on any issue being concluded by IASB almost at the same time.	NASB/FRC	SEC and NSE	October 2004	Ongoing
6	Nigeria auditing standardsetter issues ISA as soon as they are published by IFAC.	FRC	ICAN	October 2004	Ongoing
7	Introduce simplified financial reporting framework for small and medium enterprises	NASB/FRC		October 2004	Ongoing
8	The professional accountancy bodies should align their CPE requirements with IFAC guidelines	ICAN & ANAN		October 2004	March 31 2005
9	Business ethics should be taught as a separate subject in undergraduate accounting and business programs	Nigerian Accounting Association	NASB, SEC, NSE; professional	October 2004	Jan 31 2005

<i>No.</i>	<i>Actions</i>	<i>Implementation</i>			
		<i>Led by</i>	<i>With support from</i>	<i>Start date</i>	<i>End date</i>
		(NAA)	bodies to make this accreditation requirement		
10	Professional qualifying examinations should include a paper on business ethics	ICAN		October 2004	Jan 31 2005
11	University accounting curricula should be revised to enable students gain exposure to practical applications of IAS/IFRS and ISA	NAA	NASB, SEC, NSE; professional bodies to make this accreditation requirement	October 2004	March 31 2005
12	Improve ICAN's capacity to comply with the IFAC membership obligations.	ICAN		October 2004	December 31 2005
	ICAN should update the Nigerian Code of Ethics in line with the IFAC Code.				
	ICAN should require firms to implement a quality control system in accordance with the IFAC International Standard on Quality Control.				
	ICAN should develop its own quality assurance system to ensure that auditors comply with applicable auditing and ethical standards and independence requirements.				
13	Strengthen capacity of the regulatory bodies and review adequacy of statutory enforcement provisions. These bodies include Registrar of Companies at the Corporate Affairs Commission, Securities and Exchange Commission, Nigeria Stock Exchange, National Insurance Commission, and Non-Bank Financial Institutions Office in the Central Bank of Nigeria.	The regulatory bodies	NASB	January 2005	Ongoing
14	Strengthen ANAN's capacity to comply with IFAC requirements for professional accountancy bodies.	ANAN	NASB	January 1, 2005	December 31, 2005

ACRONYMS AND ABBREVIATIONS

A&A	Accounting and Auditing (ROSC module)
ANAN	Association of National Accountants of Nigeria
CAMA	Companies and Allied Matters Act (Nigeria)
CPE	Continuing professional education
FRC	Financial Reporting Council (proposed)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAN	Institute of Chartered Accountants of Nigeria
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISA	International Standards on Auditing
NASB	Nigerian Accounting Standards Board
ROSC	Reports on Observance of Standards and Codes
SAS	Statement of Accounting Standards (Nigeria)
SEC	Securities and Exchange Commission
CBN	Central Bank of Nigeria
NSE	Nigerian Stock Exchange