The Institute of Chartered Accountants of Nigeria (ICAN)

Ilupeju/Gbagada & District Society

FRC Audit Regulations 2020 – Implications for Professional Accountants

By

Jamiu Olakisan (HND, B.Sc., ACS, FCA, FCCA)

21 November 2021

Contents

INTRODUCTION

INTRODUCTION

"The financial reporting supply chain refers to the people and processes involved in the preparation, approval, audit, analysis and use of financial reports. All the links in the chain need to be of high quality and closely connected to supply high quality financial reporting"

IFAC 2009

INTRODUCTION (CONTD.)

There are two major categories of Financial Reporting Supply Chain

- People; and
- Processes

People can further be classified into two major groups:

Internal

- ✓ Board of Directors
- ✓ Audit Committee
- ✓ CEO, CFO, Internal Audtors
- ✓ Preparers (Accountants)

External

- ✓ Auditors
- ✓ Actuaries
- ✓ Valuers (Real estate and others)
- ✓ Regulators (CBN, NAICOM, PENCOM, CAC, SEC, NSE & FRC)
- ✓ Other Stakeholders (users, analysts, etc)

RELEVANT PROVISIONS OF FRC ACT 2011

ROLE OF FRC UNDER FRC ACT OF 2011

RELEVANT PROVISIONS OF ACT 2011

Section 8

- (1) The Council shall:
  (a) …………………..
  (h) promote compliance with the adopted standards issued by the International Federation of Accountants and International Accounting Standards Board;
  (j) conduct practice reviews of registered professionals;
  (l) enforce compliance with the Act and the rules of the Council on registered professionals and the affected public interest entities
  (r) …………………….

- (2) The Council may issue rules and guidelines for the purpose of implementing auditing and accounting standards.

RELEVANT PROVISIONS OF ACT 2011 (CONTD.)

Section 23 - The Council shall, for the purpose of this Act, establish the following Directorates and any other Directorate the Council may deem necessary-

a) Directorate of Accounting Standards-Private Sector ;
b) Directorate of Accounting Standards-Public Sector;
c) Directorate of Auditing Practices Standards;
d) Directorate of Actuarial Standards;
e) Directorate of Inspections and Monitoring;
f) Directorate of Valuation Standard; and
g) Directorate of Corporate Governance;

Section 73 – The Minister may, on the advice of the Council, make such regulations as in his opinion are necessary or expedient for giving full effect to the provisions of this Act and for the due administration of its provisions.

OVERVIEW OF FRC AUDIT REGULATIONS 2020

OVERVIEW OF FRC AUDIT REGULATIONS 2020

- Approved by the Minister for Industry, Trade and investment on 25 January 2021

- Became effective from January 2021

- Applicable to the following:
  - ✓ Auditors
  - ✓ Audit Committee Members
  - ✓ Other Assurance Service Providers

- To be read in conjunction with all applicable Laws, Regulations, Codes, Rules, Standards, Guidelines for Inspection and Monitoring Procedure for Auditors, Audit Committee Members and Other Assurance Providers, Instrument of Delegation with Relevant Professional Bodies and requirements in relation to Audit in Nigeria.

- Does not apply to the office of the Auditors-General except appointed external auditors of public sector entities.

OVERVIEW OF FRC AUDIT REGULATIONS 2020 (CONTD.)

- The Regulations have seven parts including schedules as follows:
  - ✓ Part I – Objectives and application
  - ✓ Part II – Registration requirements
  - ✓ Part III – Audit execution
  - ✓ Part IV – Enforcement and Compliance
  - ✓ Part V – Quality Assurance
  - ✓ Part VI – Audit Committee
  - ✓ Part VII – Miscellaneous Provisions

OVERVIEW OF FRC AUDIT REGULATIONS 2020 (CONTD.)

Part I – Objectives and application

The objectives of these Regulations are to-

a) provide a regulatory framework for auditors in Nigeria and to give effect to the provisions of the Act;

b) ensure that all activities of Auditors, Audit Committee members and other Assurance Service Providers are regulated with a view to sustaining best ethical practices capable of promoting quality audit services;

c) regulate and ensure that all Auditors, Audit Committees and Other Assurance Service Providers carry out their duties in a manner to earn the trust of users of financial statements and promote the image of the profession and the country;

d) guide Relevant Professional Bodies (RPBs) in undertaking their responsibilities under these Regulations; and

e) prescribe penalties for non-compliance with these Regulations.

OVERVIEW OF FRC AUDIT REGULATIONS 2020 (CONTD.)

Part II – Registration Requirements

- The following must register from the commencement of the Regulations:
  - ✓ Auditor
  - ✓ Audit Firm
  - ✓ Audit Committee Member
  - ✓ Other Assurance Services Provider

- Specific requirements exist under section 4 of the Regulations for Auditors, Audit Firms, Audit Committee Members and other Assurance Services Providers.

- Conditions for Deregistration of Auditors, Audit firms, Audit Committee Members and other Assurance Service Providers exist under Section 5 of the Regulations.

OVERVIEW OF FRC AUDIT REGULATIONS 2020 (CONTD.)

Part III – Audit Execution

- Statutory Audits and Other Assurance Services to be performed based on ISAs, Professional Codes of Ethics and other related Standards issued IFAC.
- FRC May issue Audit Procedures or Requirements in addition to the ISAs under certain circumstances.
- Auditors are permitted to provide other services to audit clients as approved by thee Board of Directors on the recommendation of Audit Committee subject to IESBA's Code of Ethics for Professional Accountants including International Independence Standards.
- A limit on permissible non-audit services of not more than **80%** of the annual audit fees paid for the statutory audits in the prior year.
- Specific responsibilities of auditors – Section 8
- Organisation of Audit work – Section 10
- Audit Reporting – Section 11
- Statutory Audits of consolidated financial statements – Section 12
- Retention of documentation by the Auditors – (13) – Minimum of 6 years

OVERVIEW OF FRC AUDIT REGULATIONS 2020 (CONTD.)

Part III – Audit Execution (Contd.)

- Rotate both the Audit Firms and Engagement Partners
- Audit firms shall be retained for no longer than 10 years continuously
- A joint audit arrangement shall be for a maximum period of 15 years
- A 7 year cooling-off period shall elapse before an audit firm or any member in its network can be re-appointed as the statutory auditor.
- Mandatory rotation of engagement partner after a maximum of 5 years.

OVERVIEW OF FRC AUDIT REGULATIONS 2020 (CONTD.)

Part IV– Enforcement and Compliance

- Monitoring of Auditors
- Enforcement of Regulations
- Procedure for Regulatory Sanction and Appeal
- Administrative Sanctions
- Publication of Sanctions and Measures
- Enforcement of Sanctions
- Recovery of Financial Penalties

OVERVIEW OF FRC AUDIT REGULATIONS 2020 (CONTD.)

Part V – Quality Assurance

- Internal Organisation of Auditors covering:
  - ✓ Policies and procedures
  - ✓ Internal Control Quality
  - ✓ Organisation and Administration
  - ✓ Remuneration
- Quality Assurance Systems for Auditors
- Delegation arrangements for supervisory tasks

OVERVIEW OF FRC AUDIT REGULATIONS 2020 (CONTD.)

Part VI – Audit Committee (Both Statutory and Board Audit Committees)

- Qualification of Audit Committee Members
- Appointment and composition of the Committee
- Duties and Responsibilities of Audit Committee
- Sanctions for Audit Committee Members
- Internal Audit Function

OVERVIEW OF FRC AUDIT REGULATIONS 2020 (CONTD.)

Part VII – Miscellaneous Provisions

- Power to Make Guidelines
- Transitional provisions and support structure
- Transitional Arrangements for Mandatory audit firm rotation for PIEs
- Interpretation
- Citation
- Schedules

OVERVIEW OF FRC AUDIT REGULATIONS 2020 (CONTD.)

Schedule of Quality Review

- Quality reviews (inspections) shall be conducted:
  - ✓ **Annually** for every audit firm that audit more than 20 Public Interest Entities (PIEs);
  - ✓ All others shall be conducted **every three** years and
  - ✓ Each engagement partner shall be reviewed at least every **6 years**

- The Council may at any time call for a special investigation or review of any firm or engagement partner, either due to audit failure or any notified breach of these Regulations;

OTHER DOCUMENTS PUT TOGETHER BY THE AUDIT REGULATIONS WORKING GROUP

- Operational Guidelines for Inspection and Monitoring of Auditors, Other Assurance Providers and Audit Committee Members 2020.

- Instrument of Delegation.

QUALITY REVIEW

- Audit Quality Review (AQR) Team
- Enforcement Committee
- Technical and Oversight Committee

POSSIBLE SANCTIONS

- Restrictions and /or Conditions
- Regulatory Penalty – i.e. – Financial
- Suspension of Registration
- Withdrawal of Registration

IMPLICATIONS FOR PROFESSIONAL ACCOUNTANTS

IMPLICATIONS FOR PROFESSIONAL ACCOUNTANTS

- Financial burden to register and maintain registration
- Financial burden from sanctions
- Financial burden from regular review by regulators
- More background scrutiny
- Regular review of work done for quality
- The need to regularly upskill
- Increased reputational risk
- Risk of deregistration
- Job opportunities for those who have adequately developed themselves
- More stringent ethical and other codes to be complied with
- The need to be more thorough in the conduct and review of assurance engagement and to be more quality conscious
- Increased reporting to FRC by auditors
- More professionals to be captured in FRC’s net

BENEFITS OF THE AUDIT REGULATIONS

BENEFIT OF THE AUDIT REGULATIONS

- Increased quality of financial reporting
- Improved quality of audit practice
- Opportunities to provide other assurance services
- Job opportunities for professional accountants
- Business opportunities for professionals
- Improved coordination among regulators
- Increased level of compliance with relevant laws and regulations
- Increased recognition of the country's financial and audit practice by external stakeholders.
- Enhanced independence of external auditors
- Better decisions by users of financial statements

Thank You

QUESTIONS