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**Intergovernmental Working Group of Experts on  
International  
Standards of Accounting and Reporting  
(ISAR)**

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**Agenda item 3. Practical implementation of compliance  
monitoring and the enforcement of accounting and audit  
requirements for high-quality reporting**

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*Practical implementation of the monitoring of  
Compliance and Enforcement of accounting and audit  
requirements for high quality reporting*

by



OBAZEE JIM OSAYANDE

*Which mischiefs are we trying to cure? OR The role of monitoring of compliance and enforcement*

- ✓ protection of investors and other stakeholders' interest.
- ✓ Safeguarding good corporate governance practices in both public and private sectors of the economy.
- ✓ *ensure accuracy and reliability of financial reports and corporate disclosures, pursuant to the various laws and regulations currently in existence in the jurisdiction.*
- ✓ *Etc.*
- ✓ **THE OBJECTIVE MUST BE CLEAR**

## *Implementing an effective compliance monitoring and enforcement mechanism: Core Elements*

- ✓ There must be an economic institution *that is established to persuade the legal foundation* of the policy:
  - *Legislation: FRC Act, Sarbanes Oxley Act, South Africa Auditing Profession Act, India Companies Act, etc*
- ✓ Sound statutory systems of financial/corporate governance:
  - Self-enforcement by companies during the preparation of financial statements.
  - approval of financial statements (by audit committees, boards of directors and Annual General Meetings of Shareholders).
  - Statutory audit of financial statements.
  - Analysis provided by the public and press.
  - Market forces that punish companies for poor disclosure.
  - Institutional oversight system/Inspection guidelines.
  - Courts; through sanctions and/or complaints.
  - Reward: Integrated reporting.

# *Good Practices in providing Funding for Enforcement Institutions*

- The funding practice must be such that can protect the independence of the institution.
- ✓ In my Jurisdiction:
  - a) Every registered professional pays a certain amount annually;
  - b) Every publicly quoted company, pays an amount based on its market capitalization, annually;
  - c) Every public interest entity, other than those covered by paragraph (b) above, pays an amount based on its annual turnover.
  - d) Budgetary allocations and subventions from the Federal Government.
  - e) Fines and penalties imposed by the FRC.
  - f) Fees charged for services rendered by the FRC.
  - g) rents, fees and other internally generated revenues. Etc
- ✓ USA

The issuer Accounting Support Fees

- ✓ UK

## *Challenges to be taken into account:*

### **Regulation will not be effective if:**

- there are no proper “rules of conduct of business regulation” to encourage information disclosure, honesty and integrity, fair business practices; competence; and accountability.
- there is weak enforcement which fails to impose sanctions for non-compliance or penalise defaulters;
- the system permits regulatory forbearance because of political pressures;
- the legal framework does not support the enforcement of contracts;
- accounting, auditing, valuation, actuarial and other professional standards are not uniform, or are weak and unreliable.
- The ability of the prominent few to flout the law demoralizes those charged with enforcement and creates a culture in which legal observance is optional.
- ❖ For Public sector reporting, Political buy-in is a sine qua non.
- ❖ For proper monitoring of non-financial information, the enabling law of the regulator MUST provide a cover (Section 28 (4) of the FRC Act, 2011)
- ❖ For Small and Medium-sized entities, a modified approach is required: IFRS for SMEs, SMEGA Level 3, encourage establishment of pressure groups/shared service.

# *More Guiding principles for Financial Reporting Audit Quality Assurance?*

- ✓ Recognise that there are more than four accounting firms, in your jurisdiction, providing audit and/or assurance and non-audit services.
- ✓ Prepare your mind that a sizeable number are professing without:
  - minimum of three full time Partners;
  - minimum of ten qualified professional staffs (including Partners);
  - evidence of registration of all qualified professional staff with relevant regulators;
  - existence of registered Partnership Agreement;
  - existence of a Practice Manual, developments in financial reporting and their professional world;
  - existence of a professional indemnity insurance;
  - evidence of use of standard Audit Management Software (ASM);
  - career development plan for promoters of the firm and/or their professional staff.
  - minding to separate audit from non-audit services...and may sometimes rent their signatures.
  - Minding their risk when accepting any engagement and signing off without proper documentation.
- ✓ The Financial Reporting Regulator needs to open more liaison rooms with the big 20, Professional Accounting Organisations and relevant regulatory bodies.

## *Good Practices in addressing challenges to effective national MCE&E*

- Synergies between prudential oversight and other sectors.
- ✓ Establish systems, schemes or engage in any relevant activity, either alone or in conjunction with any other organization or agency, whether local or international, for the discharge of monitoring functions.
- ✓ **Regulators are expected to, generally, collaborate and be there to administer the law as it applies to entities within the boundaries of their enabling laws. They can:**
  - encourage the development of extra-legal or alternative avenues for dispute resolution;
  - establish market-based but independent dispute resolution systems; and
  - treat the maintenance of in-house regulators complaints systems as a non-negotiable component of collaboration.
- ✓ The aim in these cases is that disputes never get to court because they are fairly settled long before there is need.



## *How can ISAR assist?*

- ✓ Publish your work on “Guidance on Good Practices” and give it wide distribution.
- ✓ Invite countries, with weak practices, to make presentations on the subject in ISAR workshops.
- ✓ Encourage regional collaboration by initiating ISAR regional outreaches where those with acceptable practices (international/within the region) are invited to make presentations.
- ✓ Make it an agenda subject whenever ISAR is having seminars with political governance.
- ✓ Encourage cross border cooperation: *IFIAR...plus.*
- ✓ Etc.... But, *financial support should be least considered.*

## *Conclusion*

“Professional maturity is achieved when the regulator and the regulated agree to postpone immediate pleasures or pains in order to plant and nurture eternal values”

*Jim Obazee*

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*THANK YOU*

