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.
“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