



A Guide to Implementing Internal Controls over Financial Reporting in Nigeria

August 2021

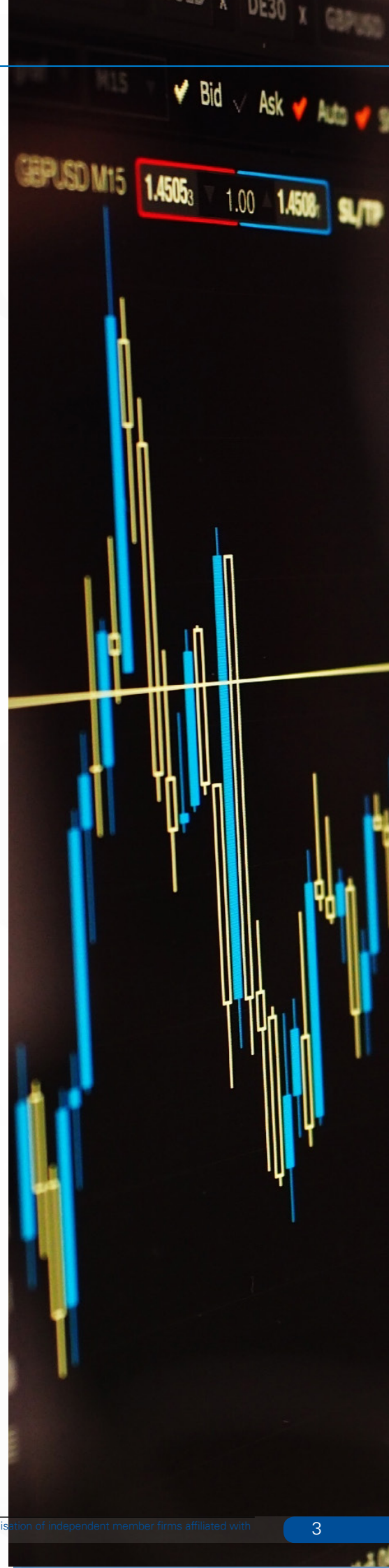
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Glossary

Board	Board of Directors
CEO	Chief Executive Officer
CFO	Chief Finance Officer
COSO	Committee of Sponsoring Organisations of the Treadway Commission
ELC	Entity Level Controls
FSLI	Financial Statement Line Items
ICFR/ICOFR	Internal Control over Financial Reporting
ISA	Investments and Securities Act, 2007 (in Nigeria)
NCCG	Nigerian Code of Corporate Governance
PCAOB	Public Company Accounting Oversight Board
RCM	Risk and Control Matrix
SEC	Securities and Exchange Commission of Nigeria
SoX Act	Sarbanes-Oxley Act, 2002 (in United States)
The Guideline	Guidance On The Implementation Of Sections 60 – 63 Of The Investments And Securities Act 2007
TLC	Transaction Level Controls
U.S SEC	Securities and Exchange Commission of the United States of America

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Foreword

Now, more than ever before, it has become essential for companies to take an active approach to improving the reliability of their financial reporting by strengthening internal controls that prevent fraud and misstatements.

The Investment and Securities Act (ISA) of 2007 established the Securities Exchange Commission of Nigeria (SEC) as the apex regulatory body for the Nigerian capital market. SEC oversees the activities of public companies and enforces compliance with the provisions established in the Act. Sections 60 - 63 of the Act highlights the corporate responsibility of public companies regarding the establishment of an internal control system and filing of a report on the effectiveness of its internal control system.

Over the past few years, the SEC observed that public companies were not complying with the above-mentioned provisions of the Act noting that the root cause for non-compliance was the absence of a framework to guide practitioners and the management of public companies.

In order to ensure compliance, SEC released a guideline and has adopted the COSO Framework (or any other suitable, recognized control framework that is established by a body or group that has followed due-process procedures, including the broad distribution of the framework for public comment) to provide guidance on the implementation of Sections 60 – 63 of the ISA.

To gain more understanding of the current state of awareness and implementation of the framework as well as the challenges companies face in implementation, we facilitated a webinar on 30 June 2021 during which we surveyed 106 respondents from public and private companies in Nigeria. The respondents were majorly Finance, Internal Audit, Risk and Control professionals of organisations across various sectors.

This publication provides a snapshot of the current state of awareness and implementation of internal control over financial reporting. The findings are compelling: we noted that 36% of respondents were not aware of the Guideline from SEC. Although 64% of respondents claim to be aware of the SEC guideline and framework for implementation, only 12% of these have commenced activities for implementing the requirements for their organisation. 52% of respondents who are aware of the Guideline but are yet to commence any implementation attributed the major challenge facing implementation to the need for clarity on the steps to take in implementing the guideline.

Consequently, this publication seeks to enlighten stakeholders on how their organisations can approach the implementation of the SEC Guideline on internal control over financial reporting (ICFR) to better manage risks, enhance performance and demonstrate compliance with Sections 60- 63 of the Investment and Securities Act of 2007 (ISA).

Based on our experience, we have also included a Frequently Asked Questions (FAQs) section which helps to answer specific and prevalent questions.



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Current State Assessment of ICFR in Nigeria

Current State Assessment of ICFR in Nigeria

Globally, the benefits and expectations of ICFR has been a burning topic among various regulatory bodies, lawmakers, and industry experts. On the local scene, this has contributed immensely to the formulation of relevant and applicable laws and policies within the last two decades.

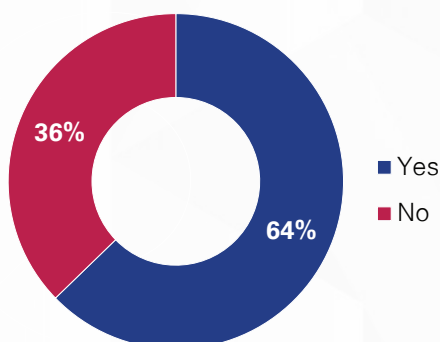
On 30 June 2021, KPMG surveyed 106 key stakeholders on their respective organisation's awareness and compliance with the requirements of Sections 60 - 63 of the Investment and Securities Act (2007).

“Where are organisations in their implementation of ICFR?”

The respondents cut across several industries and consist of management and non-management staff within the accounting, finance, and internal control/audit functions. 56% of the organisations represented were public companies while 44% were private. Sectors represented in the survey include telecommunications, financial services, consumer & industrial markets; energy & natural resources.

Organisation's awareness and implementation of the requirements of the Act

1. Is your organisation aware of the Guideline and framework on the Implementation of Sections 60-63 of the Investment Securities Act 2007?

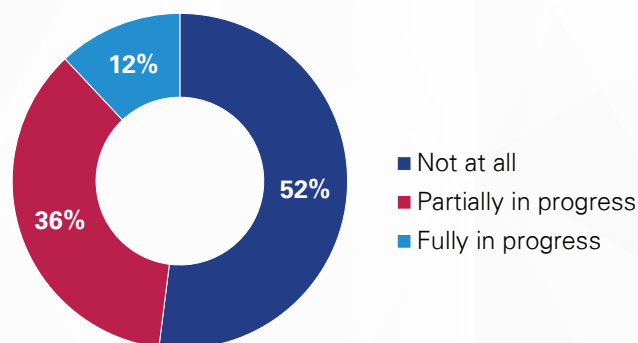


The SEC set up a committee to develop the Guidance on the implementation of Sections 60 - 63 of the Investment and Securities Act. The Guideline was to provide more clarity to public companies on the implementation of the Act and was published on 31st March 2021.

The Guideline covers certification in annual or periodic reports, the duty of directors on internal controls, management's annual assessment of, and report on the company's Internal Control over Financial Reporting and the duty of auditor to report on internal controls of public companies.

It also covers auditor independence issues, material weaknesses in Internal Control over Financial Reporting, method of evaluating, and the location of the report in annual financial statements and registration by auditors of public companies.

2. If yes, have you implemented the requirements for your organisation?



We observed that 64% of respondents are aware of the Guideline and framework surrounding the ICFR provisions of the Act. However, only 12% of the respondents who are aware of the Guideline signified that their respective organisations have fully implemented the requirements of the Act.

Considering that a major percentage of respondents are public organisations and the SEC requires that such companies report on compliance in their 31 December 2021 annual report, companies may not be ready to comply before the deadline given by the SEC. This prompted us to probe into the possible challenges preventing implementation and noted varying responses as shown below:

What are the challenges preventing implementation?

Lack of Clarity and Understanding

52%

Knowledge gap

20%

Human resource constraints

16%

Others

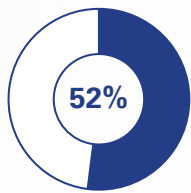
8%

Cost constraints

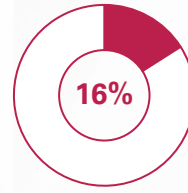
4%

The follow-up question above, administered via the survey gives insight into the possible root cause. Majority of the respondents indicated Lack of awareness (52%) and knowledge gap (20%) as the major challenges preventing implementation. In assessing the perceived benefits that organisations feel they would derive in implementing the Act, majority of the respondents (52%) only believe that they would achieve better compliance with policies and procedures. This means that organisations may not be well aware of the other benefits of implementation as indicated in a later part of this publication.

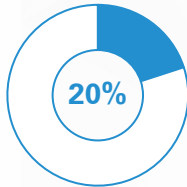
What benefits are anticipated as a result of implementation?



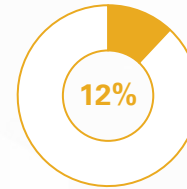
■ believe that they would achieve better compliance with policies and procedures



■ are convinced that they would achieve better reporting



■ think they would achieve better accountability



■ Anticipate better business performance

Overall, the survey reveals a significant gap in the awareness and implementation of the Act, as a significant percentage of the respondents - who happen to be major stakeholders - opined that their organisations were either unaware of the requirements of the Act, have failed to kick start the implementation process, or have partially implemented the requirements of the Act.

Consequently, efforts need to be intensified by regulators to sensitise the policy addressees about its existence and its detailed requirements. On the part of the industry players, the key responsible officers should seek a deliberate approach to engage subject matter experts to assist with facilitating and fast tracking the sensitization and implementation process. A second part of the survey assessed the level of preparedness to implement ICFR:

Business processes and controls documentation are critical components of ICFR. Do Organisations have their business processes and controls documented?

59%

Are fully in the process of documenting their processes and controls

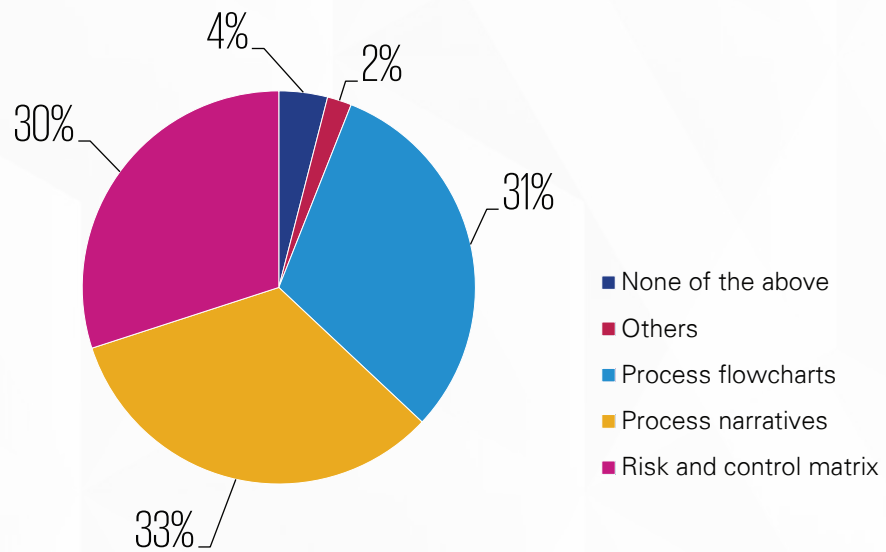
33%

Are partially in the process of documenting their processes and controls

8%

Have not begun the process of documenting their processes and controls

For Organisations that are partially in process or fully in process, what is the extent of documentation in place?



A review of the respondents' feedback revealed that 59% of the organisations represented are fully in the process of documenting their processes and controls. In addition to this, 30% of the total respondents revealed that they were at the Risk and Control Matrix phase of the documentation process.

Compared to the responses received from the first part of the survey, this reveals a good level of awareness with respect to the need to have process and control documentations in place.

Organisations require a high level of agility and adaptability to operate in a volatile, uncertain, complex, and ambiguous (VUCA) environment, which is subject to rapid environmental and regulatory changes. If a business must thrive, its managers, owners and directors should prioritise a clear and complete process and control documentation. Amongst many other benefits, this would serve as a key requirement for testing effectiveness of controls, ascertain level of compliance as soon as regulatory requirements and policies are signed/passed into law. If need be, professional expertise should be sought in achieving and fast tracking this.



Setting the Context on the Implementation of ICFR

Setting the Context on the Implementation of ICFR

Internal Control over Financial Reporting (ICFR) refers to the people, systems and processes in an organisation established to provide reasonable assurance that the applicable corporate policies and reporting frameworks are being complied with.

Some of the global corporate scandals that occurred in the 2000s could be attributed to weaknesses in financial reporting and accounting practices. This led to the enactment of legislations by several jurisdictions to enhance transparency and uphold the integrity of financial markets.

For instance, the U.S. Congress passed the Sarbanes-Oxley (SoX) Act in 2002 to protect investors from fraudulent financial reporting by corporations, mandated strict reforms to existing securities regulations and imposed tough new penalties on lawbreakers. The SoX Act came in response to financial scandals in the early 2000s involving publicly traded companies such as Enron Corporation, Tyco International PLC, and WorldCom. These high-profile corporate failures shook investors' confidence and questioned the reliability of public companies' financial reporting leading to a demand for an overhaul of decades-old regulatory standards.

In Nigeria, the Federal Government of Nigeria also passed the amended Investments and Securities Act (ISA) in 2007 as part of its efforts to reform corporate financial reporting and restore investor confidence.



Following the amended ISA in 2007, the regulator of the capital market in Nigeria, SEC, was given a broader oversight mandate on the activities of public companies which included enforcement of compliance with the provisions established in the Act. Specifically, Sections 60 - 63 of the Act highlights the corporate responsibility of public companies to establish an internal control system and report on the effectiveness of same. While these requirements have been in existence since 2007, most public companies found it challenging to implement as there was no prescribed framework or guideline.

Consequently, SEC set up a Committee to facilitate industry-wide consultations and review practices of other jurisdictions. This culminated in the development of the Guidance on the Implementation of Sections 60-63 of the Investments and Securities Act which was released in March 2021.

To safeguard the integrity of the Nigerian capital market, the Guideline sets new norms for public accounting firms, corporate management and boards of directors for financial reporting. Financial statements are used by boards, management, investors, market analysts, creditors and other stakeholders to evaluate a company's financial health and earnings potential; hence it is crucial that they are fair and free from any material misstatements.

It is pertinent to note that the Guideline also provides a good starting point to enable private companies also implement ICFR. Beyond the strategic benefits that ICFR presents, all private companies are also required to comply as Section 11.4.7.3 of the NCCG 2018 and Section 405(b) of CAMA 2020 currently requires each Audit Committee to ensure the development of a comprehensive internal control framework for the company, obtain appropriate (internal and/or external) assurance and report annually in the company's audited financial report, on the design and operating effectiveness of the company's internal controls over the financial reporting systems.

The Guideline requires organisations to evaluate the effectiveness of internal control over financial reporting on a suitable, recognized control framework that is established by a body or group that has followed due-process procedures. This procedure should include a broad distribution of the framework for public exposure and comment. The COSO Framework satisfies this requirement and is recommended for ICFR assessment. Most importantly, the internal control framework should show the interaction between the main components of internal control and help organisations to ensure none of the critical components that make up a robust control system is missing.

The overarching intent is to improve Internal Control over Financial Reporting by improving the accuracy and reliability of corporate disclosures in financial statements; thereby protecting management, directors, investors and other stakeholders.

Section 60 - 63 of the Act in Brief



Section 60(2)

The **Chief Executive Officer** and **Chief Financial Officer** or officers or persons performing similar functions to personally certify the accuracy of the financial statements prepared by the Company.



Section 61 (1)

A public company shall establish a system of internal controls over its financial reporting (ICFR) and security of its assets and it shall be the responsibility of the Board of Directors to ensure the integrity of the company's financial controls and reporting



Section 61 (2)

The **Directors** of a public company shall report on the effectiveness of the company's internal control system in its annual report.

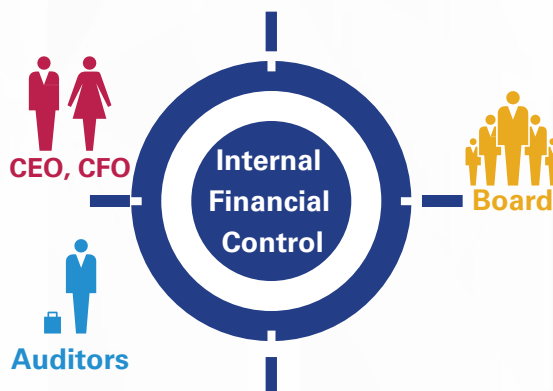


Section 62

The **Auditor** of a public company shall, in his audit report to the company, issue a statement as to the existence, adequacy, and effectiveness or otherwise of the internal control system of the public company.

Key responsibilities of Management, Board and Auditors for internal control system

- Ensure adequacy and operating effectiveness of controls
- Perform annual assessment, report on effectiveness of controls and disclosure of material weakness (if any)



- Establish system of internal controls over financial reporting and security of assets
- Satisfy themselves on the robustness of internal controls framework
- Ensure integrity of the company's financial control and reporting

- Issue a report on existence, adequacy and effectiveness of internal control system of the public company

Implementation of ICFR - Common Myths and Realities

There are common myths that surround the implementation of the requirements of the Act with respect to ICFR. These myths may have well contributed to the lack of awareness of the requirements of the Act and we have addressed them below:



- ✗ "My auditor is solely responsible for ICFR"
- ✗ "The quarterly review by the internal auditors can meet this ICFR requirement"
- ✗ "Our management letter from the external auditor is sufficient to comply with the SEC requirement"
- ✗ "Our system of internal control is robust and we do not require any assessment"
- ✗ "We are required to send our Gap analysis report to SEC in compliance "
- ✗ "Implementing ICFR is a fault-finding exercise"



- ✓ ICFR is the responsibility of management, and its effectiveness has to 'be' certified by the CEO and CFO"
- ✓ "The effectiveness of ICFR has to be evaluated using the standard framework – COSO/Other recognizable framework"
- ✓ "The effectiveness of ICFR has to be evaluated using the standard framework – COSO/Other recognizable framework"
- ✓ "COSO brings a comprehensive approach to evaluating the effectiveness of ICFR and compliance is a continuous process with annual certification".
- ✓ "External auditor provides independent assurance on management's attestation of the effectiveness of ICFR to be submitted to SEC"
- ✓ "It is an activity aimed at strengthening the control environment"

Why ICFR?

From our experience, we have outlined below some of the key benefits of implementing internal control over financial reporting. The benefits are applicable to both public and private companies:

Serves as an early warning system to prevent and detect fraud and other unlawful acts

Ensures that financial records are accurately recorded and presented in the financial statements

Ensures compliance with applicable local legislations

Ensures timely preparation of financial statements

Ensures that assets are efficiently and effectively deployed to prevent misappropriation or theft

Ensures that errors and omissions are reduced to the barest minimum

Improves investors' confidence on the reliability of financial information produced

Allows for effective monitoring of the achievement of operational goals and objectives



Implementing Internal Controls over Financial Reporting

Implementing ICFR

The Role of Internal Control

In this section, the role of internal control is represented by the Internal Control Framework developed by COSO. The COSO Framework is the most widely recognised and implemented framework for assessing internal control. It was first developed, published in the year 1992 and recently updated in 2013. Therefore, it gives comprehensive knowledge on the subject. The COSO framework satisfies the SEC's criteria and may be used as an evaluation framework for the purposes of management's annual internal control evaluation requirements.

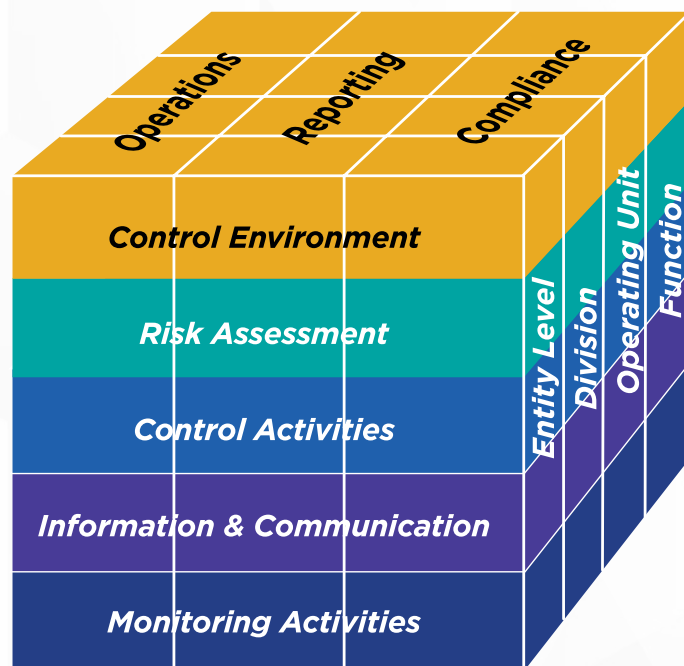
Other known frameworks exist: CoCo (Criteria of Control) by the Canadian Institute of Chartered Accountants (CPA Canada); The Turnbull Report by The Financial Reporting Council in UK and J-SOX by Business Accounting Council of the Japanese Financial Services Agency. These frameworks tend to be mostly implemented in their countries of origin. (Graham, 2015; Schell, n.d.; Lexology.com, 2008). However, their objectives and framework for internal control are typically similar.

As it is stated in COSO definition, internal control is a process that assures achievement of the following objectives:

- Operational – Efficient and Effective Operations
- Reporting - Reliable Financial Reporting
- Compliance – with Laws and Regulations



The COSO framework



The five (5) main components of the framework are highlighted below:

- **Control environment** - what kind of message the board and management sends to its employees about the importance of internal control?
- **Risk assessment** - management performs risk assessment; they put the effort where their greatest risk is; risks for which internal controls are set up must be relatable to the risks and everyday problems of employees
- **Control Activities** - actual controls that are in place, for example, segregation of duties and authorisation of transactions.
- **Information and Communication** - how are the results and to whom are the results communicated in the organisation? How the departments communicate between each other? Is it internal communication (within organisation) and external? (to shareholders)
- **Monitoring** - how are the controls monitored by management; regular monitoring to uncover issues and ensure that the problem is communicated, and solutions are found; an answer to dynamically changing environment.

17 principles under the five (5) components of the COSO framework

Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring Activities
Demonstrates commitment to integrity and ethical values	Specifies suitable objectives	Selects and develops control activities	Uses relevant information	Conducts ongoing and/or separate evaluations
Exercises oversight responsibility	Identifies and analyses risk	Selects and develops general controls over technology	Communicates internally	Evaluates and communicates deficiencies
Establishes structure, authority and responsibility	Assesses fraud risk	Deploys through policies and procedures	Communicates externally	
Demonstrates commitment to competence	Identifies and analyses significant change			
Enforces accountability				

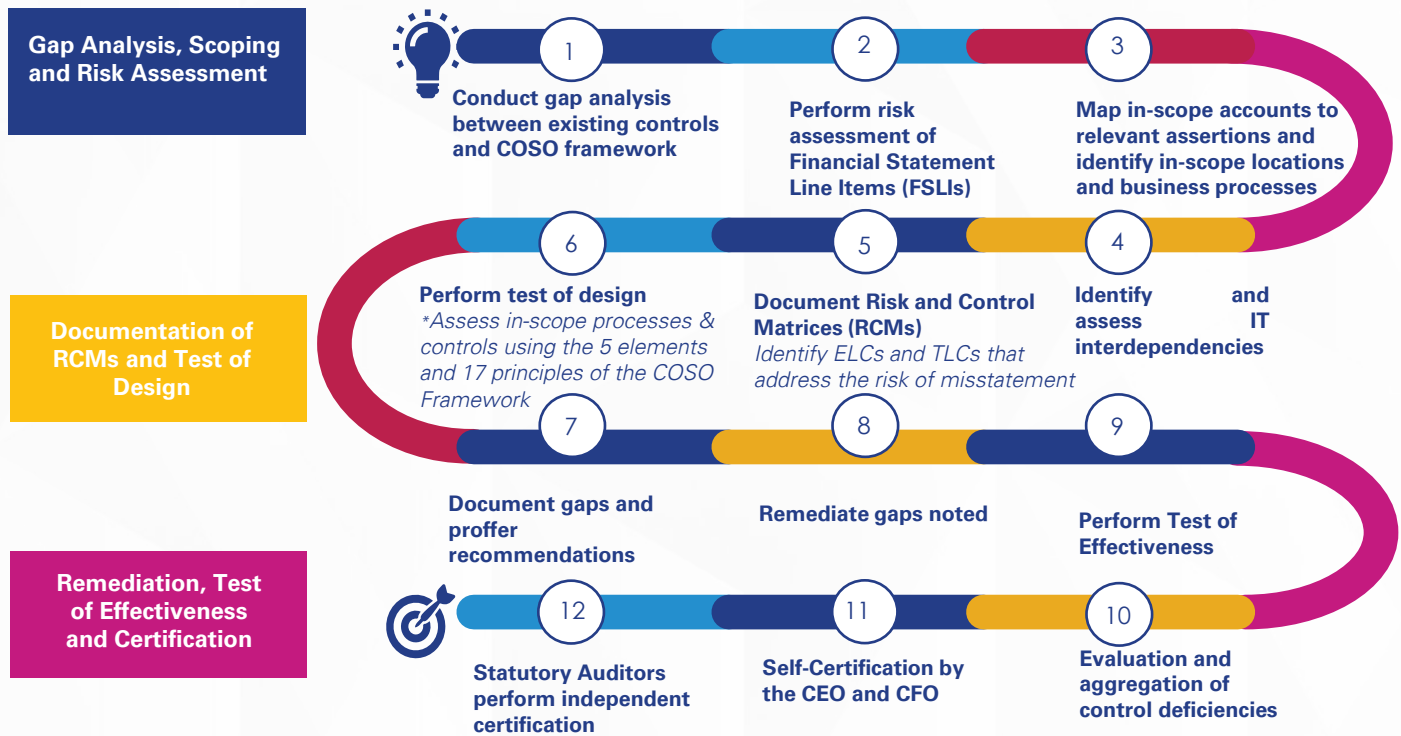
Material weaknesses in Internal Control Over Financial Reporting (ICFR)

In the Guidance to implementing Sections 60 – 63 of the ISA, a material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

The PCAOB highlighted the following as indicators of material weaknesses in internal control over financial reporting:

- Identification of fraud, whether or not material, on the part of senior management;
- Restatement of previously issued financial statements to reflect the correction of a material misstatement;
- Identification by the auditor of a material misstatement of financial statements in the current period in circumstances that indicate that the misstatement would not have been detected by the company's internal control over financial reporting; and
- Ineffective oversight of the company's external financial reporting and internal control over financial reporting by the company's audit committee.

Procedures for Implementing ICFR



There are three (3) broad stages in implementing ICFR:

1. Gap Analysis, Scoping and Risk Assessment;
2. Documentation of RCMs and Test of Design;
3. Remediation, Test of Effectiveness and Certification;

1. Gap Analysis, Scoping and Risk Assessment

This stage intends to answer the following questions:

- What FS accounts pose a higher risk of misstatement?
- Which assertions for those accounts pose a higher risk of misstatement?
- Should all regions and processes be included in the testing and monitoring program?
- Can Entity Level Controls (ELCs) be relied upon to sufficiently reduce the risk?
- Which control activities sufficiently address the risk of misstatement to a particular relevant assertion?
- Which IT systems does management rely upon for financial reporting?
- How does management structure a control testing and monitoring program to focus testing and resource allocation on higher risk areas?

Relevant assertions to be identified for the higher and moderate risk accounts include:

- Existence or occurrence
- Completeness
- Valuation or allocation
- Rights and obligations
- Presentation and disclosure

Based on the identified in-scope accounts, Management needs to determine those systems that management relies upon for financial reporting.

Key components of this step include:

- Identification of critical systems
- Identification of IT general controls for the in-scope systems and determination of how the systems apply

2. Documentation of Risk and Control Matrices (RCMs) and Test of Design

This stage involves understanding processes to identify and assess entity-level controls. It also involves identifying transaction level controls which are controls that affect a particular transaction or group of transactions and which address the risk of misstatement.

Examples of Entity-Level Controls include direct group-level reporting controls or indirect soft controls.

Examples of Transaction Level Controls include regular bank reconciliation, approval requirement for new vendors and segregation of accounts payable transaction processing from bank reconciliations.

Management needs to identify those controls that sufficiently address the risk of misstatement to the relevant assertions for the significant accounts by utilising information obtained through discussion with key stakeholders, process narratives, flowcharts and process walk-throughs.

Performing the test of design would involve tests to determine if entity-level and transaction-level controls exist and can be relied upon to sufficiently mitigate the risk of misstatement to a relevant financial statement assertion.

To perform the test of design, there is a need to determine the nature, timing, extent and responsibility for each control and develop a test plan. Subsequently, a review of relevant documents and walk-through should be done to determine if documented controls are designed in a manner that would prevent or detect an error or misstatement.

3. Remediation, Test of Effectiveness and Certification

At this stage, the gaps identified from the test of design should be documented and remediated. Subsequently management needs to allocate resources and perform a test of effectiveness of both the existing and newly designed controls; particularly around areas whose risk are assessed to be beyond acceptable risk appetite or the auditor's threshold.

Key components of the test of effectiveness include:

- Determining sample size methodology
- Determining methodology to evaluate deficiencies (deficiency, significant deficiency, material weakness)

Performing the test of effectiveness of control would involve tests to determine whether controls are operating as prescribed and whether the persons performing the control have the necessary authority and competence to perform the control effectively.

After performing the test of effectiveness, management needs to aggregate the control deficiencies identified based on likelihood and potential magnitude of misstatement; and then report on their assessments of ICFR in addition to a self-certification by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

Sample deliverables from the overall remediation, testing and certification process would include:

- Remediated control design gaps
- Documented testing plan and procedures
- Control effectiveness review report
- CEO and CFO certification report on ICOFR

Key points to note when implementing or improving your organisation's ICFR



Focus on material risks - plan and scope your ICFR efforts accordingly.



Use a structured approach for planning, updating, improving, monitoring and reporting on ICFR - and stick to it.



Monitoring is key - what gets monitored gets managed

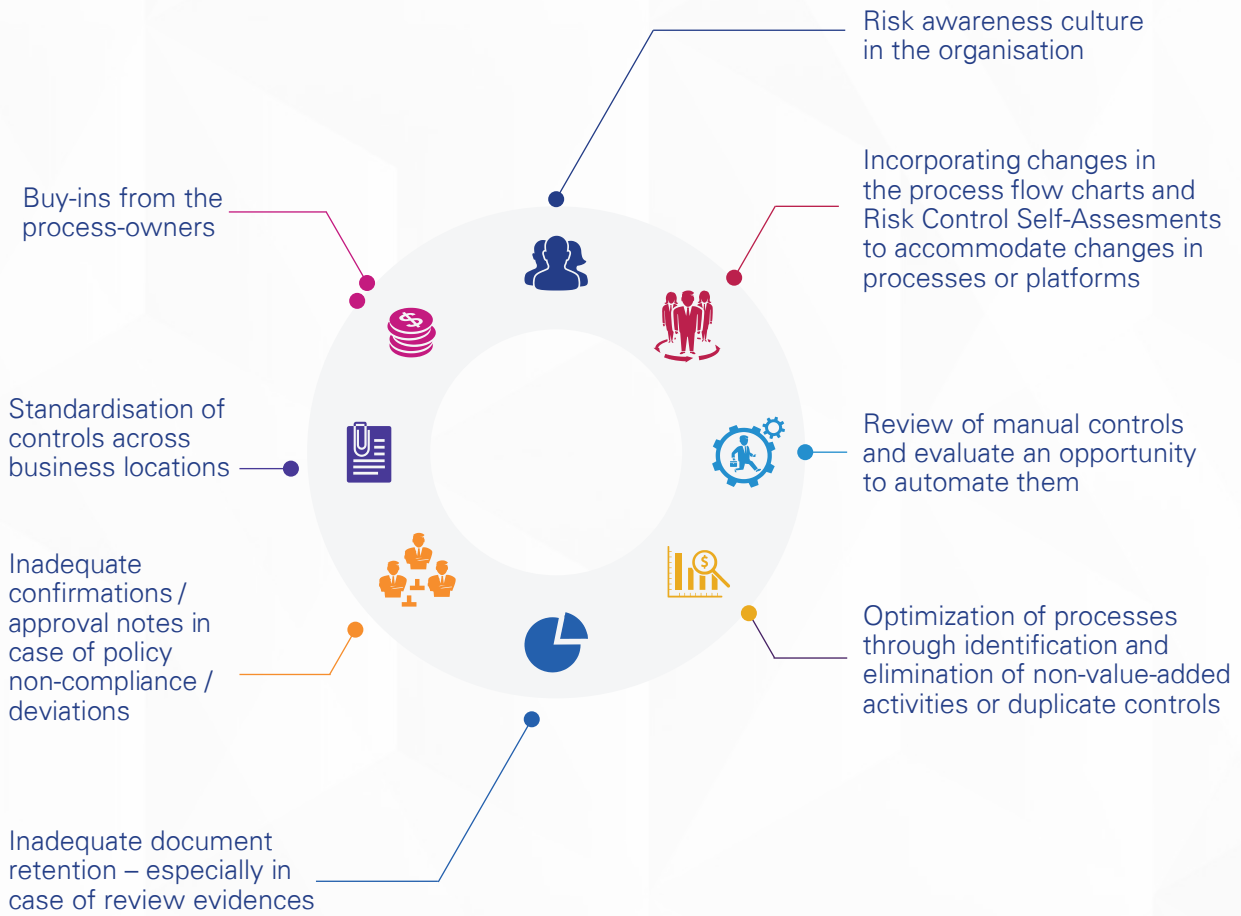


Aim to integrate ICFR into the overall governance and operations of the business



Communicate - when roles, responsibilities and how to perform tasks are understood and agreed, ICFR is more likely to survive and thrive in the business

Key areas of considerations in implementing ICFR



Challenges in Implementing ICFR



Defining materiality



Performing scoping and risk assessment



Collaborating with external auditors



Assessing IT interdependencies



Business control and financial reporting control



Documenting and storing evidences

Based on our experience in implementing ICFR locally and globally, we have identified the following challenges that organisations may face when undergoing this process:

- **Defining materiality:** since materiality is key to the process of implementing ICFR, a proper approach should be taken in defining materiality thresholds. This way, defining a materiality threshold that is too high such that it excludes essential items or one that is too low and includes too many non-essential items can be prevented.
- **Performing scoping and risk assessment:** Scoping is essential to driving efficiency in ICFR implementation and focusing on what matters based on risk and materiality exposures; especially given the short timeframe of 31 December 2021 for compliance.
- **Collaborating with external auditors:** As the external auditors provide an opinion on the entire ICFR framework, there is a need to carry them along during the implementation process, particularly in agreeing to the materiality threshold that has been defined as well as in determining areas that should be within scope in the process.
- **Assessing IT interdependencies:** This may easily be overlooked in when designing the risk and control matrix or prove challenging when implementing ICFR.
- **Separating business controls from financial controls :** In implementing ICFR, focus should be on controls that would contribute to appropriate financial reporting and not on the entire business controls within the organisation. Care must be taken to properly assess and differentiate these controls to ensure the efficiency of the process.
- **Documentation and storing evidences:** This is essential given that the documentation made during the process would be presented to the auditors and any other regulator that may want to validate the assessments that have been made.



Conclusion

Conclusion

In the face of unprecedented rapid change in our external environment and its impact on the operations of businesses resulting from the pandemic, adequate ICFR goes a long way to combat fraud, improve the reliability of financial reporting, and retain investor confidence.

Embracing the changes that have occurred and managing downside risks should be a continuous Management focus in addition to the compliance requirements of Sections 60 - 63 of the Investment and Securities Act





Frequently Asked Questions (FAQs)

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1. Are private entities expected to comply with the requirements of Sections 60-63 of the ISA?

The requirements of the ISA pertain to public companies. However, it is pertinent to note that the Guideline also provides a good starting point to enable private companies also implement ICFR. Beyond the strategic benefits that ICFR presents, all private companies are also required to comply as Section 11.4.73 of the NCCG 2018 and Section 405(b) of CAMA 2020 currently requires each Audit Committee to ensure the development of a comprehensive internal control framework for the company, obtain appropriate (internal and/or external) assurance and report annually in the company's audited financial report, on the design and operating effectiveness of the company's internal controls over the financial reporting systems. Ultimately when it comes to ICFR, the focus should be on the benefits that would be derived from implementing the initiative.

2. Is compliance to the Guideline mandatory for capital market operators?

The Guideline is mandatory for capital market operators covered by the Investment and Securities Act (ISA) 2007. However, every organisation can benefit from implementing the Guideline.

3. What department is primarily responsible for implementing ICFR?

The requirement is for the CFO to certify the financial statement which makes the role responsible for championing the implementation of ICFR. Primarily, the CEO and CFO are joint owners of the controls over financial reporting and must be involved in the benchmark exercise as well as redesign of the controls and performance of walkthroughs. However, test of operating effectiveness can be done by Internal audit as part of their annual testing procedures. The Internal control and audit functions are also expected to play a significant role in the continuous monitoring of ICFR.

4. What is the extent of the role of the internal control function in ICFR?

Typically, we see it in the scope of the second line of defense which is the risk management function to document the risk and control self-assessment and identify risks in general and ICFR is a subset of this. In an organisation where there is an existing robust second line of defense and where the third line of defense (internal audit) performs independent tests on information from the second line, there is no need to reinvent the wheel.

5. Must the ICFR assessment be performed by external consultants?

The Guideline states clearly that the ICFR assessment is the responsibility of management. The onus then lies on management to determine whether the organisation has the required resources (skill, time, and tools) in-house to successfully provide this service or if there would be a need to outsource it.

6. Can the external auditor also assist in carrying out the implementation of ICFR?

Section 1.5 of the Guideline warns that management and auditors are mindful of existing regulations with respect to provision of non-audit services to an audit client. Existing regulations do not permit external auditors to perform management responsibilities. Therefore, the auditor can only provide attestation on the work done by both management and other consultant as attesting on work carried out by itself would amount to a conflict of interest.

7. What specifically is the role of the external auditors in the implementation of ICFR?

In implementing ICFR, there is need to apply materiality principles and in doing that there is need to consult with the auditors to ensure that the thresholds align. Essentially, the auditors need to be carried along throughout the process so that controls around their reviews are fully covered.

8. Is it a must to use the COSO Framework?

Being a widely used framework, the Guideline satisfies COSO as acceptable. However, by no means is that the only framework that is accepted by SEC. The Guideline gives a leeway for organisations to use any fit for purpose framework, provided that the organisation declares in its annual report the framework used.

9. What is the concept of material gap with COSO?

Most organisations have developed their internal control internally, and sometimes without reference to any framework. Looking at the COSO, the framework has 17 principles and 5 major components. Starting with considering how internal controls have been developed and benchmarking this with COSO, it is possible that there would be gaps in that process and these need to be identified. Matching these gaps to the risk categories of the control would help determine the materiality of the gap. Hence, it would be important to relook the controls to ensure they are well designed to provide reasonable assurance on the integrity of the process.

10. Can ISO 31000 Risk Assessment Framework be considered?

In implementing ICFR, organisations need a framework against which to benchmark their controls. SEC does not mandate the use of any particular framework but notes that COSO satisfies its criteria since it was established by a body that has followed due-process, including a public exposure of the draft for comments. Consequently, organisations can choose to use any leading robust framework so long as it satisfies SEC’s requirements. However, the ISO 31000 Framework is for Enterprise Risk Management not specifically Internal Control. More so, it states that the standard should not be used for certifications, hence it may not be applicable for ICFR assessment.

11. Can Multinational corporations who have frameworks for meeting the requirements of SoX Act adopt this for ICFR?

Yes. The SEC Guideline acknowledges that there are several frameworks that can be used if the framework is fit for purpose and the organisation discloses the framework used in its annual report.

12. What is inferred by Control testing documentation?

A part of the ICFR process is for management to carry out control testing and actually retain evidence of everything tested. There is expected to be a risk and control matrix (RCM) where all the controls are documented. For every control line item in the matrix there is a corresponding test sheet that contains information on the samples tested, sample selection criteria, test procedures, etc. All these put together form the control testing evidence/documentation.

13. The Guideline was issued during the financial year, how are Companies expected to fully comply?

Though the Guidelines has only just been released, it has been a requirement by the ISA Act since 2007 but Companies were not complying in the absence of the Guideline. The requirement to comply is effective immediately for year ending 31 December 2021. There are only a few months until year end and Companies need to comply and ensure that the relevant controls are kept in place as there is now a Guideline in place.

14. How can organisations with operations outside Nigeria ensure compliance especially with controls that require physical activities, e.g. stock counts particularly in countries where there is a lockdown?

In implementing controls, organisations need to first determine how material the activities are towards their financial statement. If they are material, then such organisations need to find a means to set up teams to have the controls in place at their international sites to ensure they are in full compliance.

15. What is the deadline for compliance and how can management ensure readiness?

The Guideline requires that management undertakes a self-assessment of the design and effectiveness of its key controls within 90days prior to the year-end i.e. in October while the auditors perform the independent attestation at year end. To meet up with these deadlines, management is encouraged to start now with the benchmark exercise and remediation of gaps noted.

16. How cost effective is the use of automation tools for ICFR?

KPMG’s automation tools for ICFR are cloud-based tools customized to individual organisations depending on the organisation’s size and needs. Typically, the tools attract a one-time cost and, in some cases, periodic maintenance cost specific to individual solution.



How We Can Assist

How We Can assist

How can KPMG help?

Our local and global experience with companies domiciled or affiliated with jurisdictions such as USA, India and Zambia have shown that the initial implementation and adoption of a recognized internal control framework is one of the most significant transformation projects companies may undertake with respect to financial reporting and requires a significant level of effort, expertise and involvement of various stakeholders.

For an ICFR program to fulfill its potential benefit to the company, it is necessary to think through the compliance requirements and the external auditor’s needs. It is however equally important to:

- Understand what the company’s key stakeholders most expect from the ICFR program
- Determine how well the program is currently meeting expectations in each program pillar
- Outline a roadmap to prioritise where the program needs to change to better meet expectations.

The roadmap should align with the company’s overall ICFR strategy and include a strong and effective financial statement risk assessment process. With the right roadmap, a company will be on a path to ICFR that not only fulfills compliance requirements, but also does what the key stakeholders most need it to—at a reasonable cost.

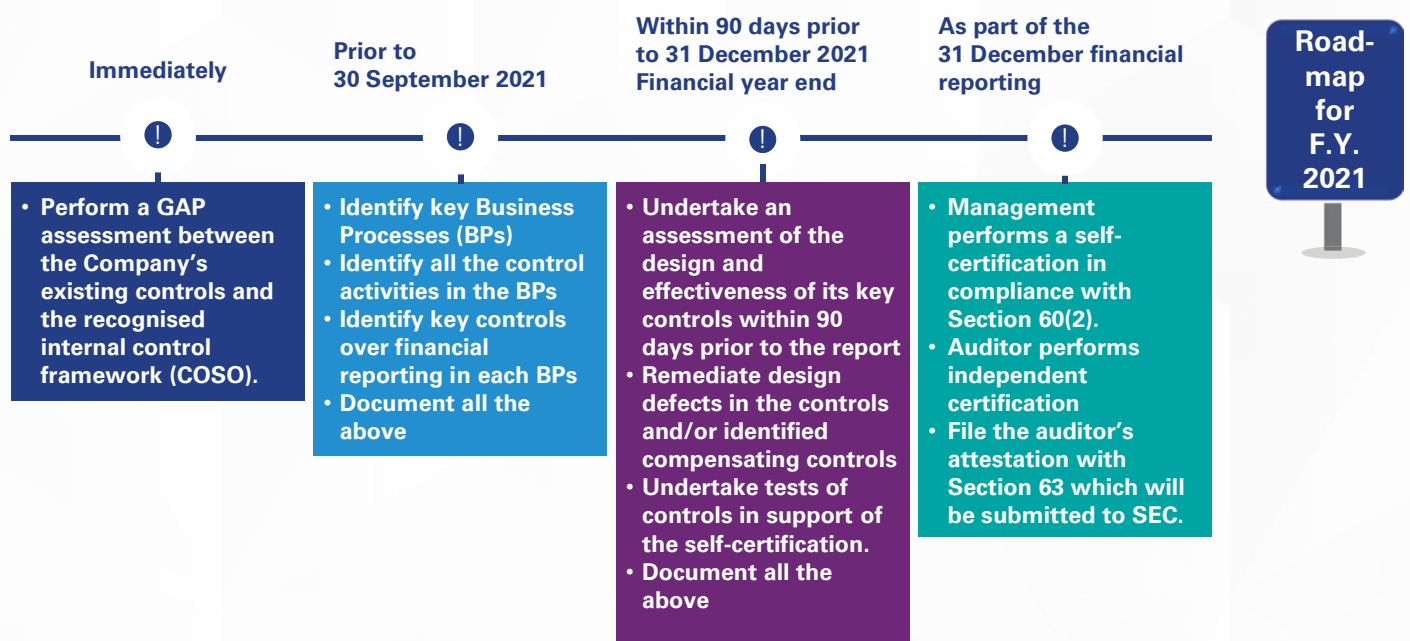
KPMG helps its clients through planning, scoping, risk assessment, documentation of controls, test of control design & operating effectiveness, training and establishment of a sound ICFR program.

The roadmap should include:

1. Getting familiar with the ICFR using COSO 2013 or any other applicable framework as a baseline
2. Conducting a gap/impact assessment between the company’s existing controls and the recognised internal control framework
3. Developing and executing an ICFR implementation plan for annual ICFR assessment
4. Facilitating broad awareness, training and capacity building
5. Driving continuous improvement

We have designed the roadmap below based on the timeframe indicated in the Act. The proposed roadmap can be reviewed to ensure it is fit-for-purpose for your organisation and **with less than 6 months** before the required certification, **the time to act is now.**

Illustrative Roadmap for Compliance – Financial Year 2021



Our value proposition to you



Our experience and capability

We bring a multi-disciplinary **team of Subject Matter Experts and practitioners with deep knowledge and experience in Internal Controls Over Financial Reporting** garnered through exposure on similar projects both locally and globally. We are able to bring our experience to bear in delivering value-adding results. Leveraging our deep experience and expertise, we can assist you to comply with the requirements of the Guideline through a:

Gap assessments of current ICFR against recognised framework (such as the COSO 2013 Framework) and addressing those gaps,

Design and documentation of the company's risks and internal controls for ICFR compliance

Periodic testing of internal controls to support your Management's attestation in the financial statements for ICFR compliance

Review of your overall governance, entity-level controls and risk management function etc. besides process-level controls to provide a holistic assurance.

We apply a **business centric approach** with special focus on strategic risks, revenue leakages, regulatory compliance, and process efficiencies. We shall provide relevant **industry insights to benchmark your policies**, processes and internal control as well as recommend improvements in the control environment and process efficiencies



Approach and Methodology

We apply a **comprehensive and integrated end to end approach from mobilisation and planning to management discussion and gap reporting**. The scope covers one-time activities to ongoing activities that are prepared on a continuous basis.

The evaluation of the internal control framework will be done vis-à-vis the recognised **COSO framework and principles. We shall benchmark the processes and controls with leading practice and industry requirement.**

We work shoulder to shoulder with management to ensure that all identified gaps are remediated ahead of the required self-assessment and independent assurance by your external auditors



High Performing team with global and local experience.

We bring a combination of globally and locally trained personnel with **extensive knowledge and expertise in assisting clients with the implementation and evaluation of internal controls, performing risk-based audits, control evaluations and governance and risk advisory services**, and have certifications and exposures to key players within the industry.

Our Business Sector Heads and Tomi Adepoju, the Head of our Internal Audit, Governance, Risk and Compliance Services (IA & GRCS) will have overall responsibility for the project. They have extensive experience in the provision of advisory and assurance services on Internal Controls across various industries.

In addition, Ayo Othihiwa, the Head of our Financial Services Industry Line of Business, was a member of the Committee set up by the SEC that drafted the Guidance to the Implementation of Sections 60-63 of the Investments and Securities Act and he has a deep understanding of the implementation requirements.

Our team also comprises of individuals from our KPMG India practice who have deep expertise in assisting clients implement and evaluate ICFR projects in the Asia and EMA jurisdictions.

The team will adopt a collaborative and proactive approach that challenges status quo and provide insights gathered both locally and globally from many years of cumulative experience.



Technology enhancement and automation.

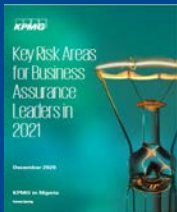
We have a customised solution that includes a proprietary **KPMG ICFR cloud-based tool** that will enable a standardised and automated testing approach and increase the transparency and reliance on the results.

It allows for continuous monitoring (through **the dashboard and automated notifications**). The benefits of an **expanded risk coverage and a repository of testing documents over time** will deliver value to your business.

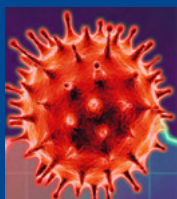
Our vision is to deliver a high-quality technology-driven service on time and with **minimal disruption to your business**. At the same time, we will capture and share insights on global best practice that have wider business benefits.

KPMG Nigeria Thought Leadership

Below are some of the thought leaderships developed by KPMG Nigeria on Risk and Control



Key Risk Areas for Business Assurance Leaders in 2021 – The Governance, Internal Audit, Risk and Compliance Practice of KPMG in Nigeria published the “Key Risk Areas for Business Assurance Leaders in 2021” thought leadership highlighting key areas of focus related to risks which Business Assurance functions should consider in developing their assurance plan and priorities for the year 2021. Click on [**Key Risk Areas for Business Assurance Leaders in 2021**](#) for access



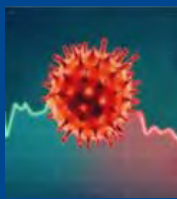
Navigating the Pandemic -Top 10 Considerations for Business Assurance Leaders – While we are hopeful that Nigeria and the world at large will emerge stronger from this significant challenge, we recognise that there are some key questions that require immediate response and action from Business Assurance Leaders which comprise Heads of Internal Audit, Risk Management, Internal Control and Compliance functions. Click on [**Navigating the Pandemic**](#) for access.



Top 10 Business Risks in 2020/2021 –The Risk Consulting Practice of KPMG in Nigeria published the “Top 10 business risks” report of 2020/21 highlighting the risks that are uppermost in the minds of Nigerian Business Executives. Click on [**Top 10 Business Risks in 2020/2021**](#) for access.



Remote Auditing for Internal Auditors – The Governance, Internal Audit, Risk and Compliance Practice of KPMG in Nigeria published the “Remote Auditing for Internal Auditors” where we share some insights we hope will help you to adapt your internal audit process to cope with the different challenges of remote auditing. Click on [**Remote Auditing for Internal Auditors**](#) for access.



COVID-19 a business impact series –To help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat, please review timely insights from KPMG business leaders. Click on [**COVID-19 –A Business Impact Series**](#) for access.



Navigating the pandemic; A board lens – Navigating the uncertainty of a pandemic crisis requires organisations to focus on people, cashflow and operations while keeping sight of the bigger picture. Click on [**Navigating the pandemic; A board lens**](#) for access.



On the 2019 Audit Committee Agenda – Drawing on insights from our interactions with audit committees and business leaders over a twelve-month period, we highlighted six items that audit committees should keep in mind as they consider and carry out their agendas: Click on [**On the 2019 Audit Committee Agenda**](#) for access.



Enhancing the strategic value of IA –This KPMG survey revealed that Chief Financial Officers and Audit Committee Chairmen (executive stakeholders) envisage a more strategic role for Internal Auditors than the auditors see for themselves, and it is up to Internal Auditors to take the initiative and broaden their responsibilities. Click on [**Enhancing the strategic value of IA**](#) for access.

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