

Impact Analysis of the Financial Reporting Council of Nigeria (Amendment) Act, 2023 on Businesses

November 2023

Introduction

The Financial Reporting Council of Nigeria (Amendment) Act 2023 ("the Act" or "Amended Act") introduces several modifications to some of the provisions of the FRCN 2011 Act ("the Principal Act"). These amendments are designed to advance transparency, accountability, good governance, and sustainable development within Nigeria's business sector.

In this publication, we have outlined the major developments that would have significant impacts on businesses in Nigeria.

1. Expansion of the PIE definition

The Financial Reporting Act (as amended) has provided a refined definition of Public Interest Entities (PIEs) to include

- government and government organizations;
- listed entities of any recognized exchange in Nigeria;
- non-listed entities that are regulated;
- public limited companies;
- private companies that are holding companies of public or regulated entities;
- concession entities;
- privatised entities in which government retains an interest;
- entities engaged by any tier of government in public works with annual contract sum of NGN 1 billion and above, and settled from public funds;
- licenses of government; and
- entities that have an annual turnover of NGN 30 billion and above.

Prior to this amendment, PIEs were described as government, government organisations, quoted and unquoted companies and other organizations required by law to file returns with regulatory authorities with the exclusion of private companies that only file to Corporate Affairs Commission and Federal Inland Revenue Service, this created ambiguity and was subject to interpretation.

2. National repository for general purpose financials

The Act establishes a national repository where public interest organizations can electronically submit their general-purpose financial accounts. This creates a central database for PIEs financials and to revolutionize the reporting process.

3. Revised annual levies and introduction of remittance timeline

The Act revises annual levies and introduces due dates for remittances. For professionals, the minimum annual levy is set at not less than N10,000, with a 60-day remittance window beginning on January 1st. For PIEs, the payment structure is adjusted based on market capitalization and turnover thresholds, with a 120-day remittance period following the financial year-end.

Default in remitting annual levies within the due dates, is set to attract a 10% penalty of the overdue amount per month of default or sanctions as prescribed by the Financial Reporting Council of Nigeria ("the Council").

4. Annual registration of Professional

The provision of the principal act which established a validity period of two (2) years for renewal of registration of Professionals that hold appointment or offer any service for remuneration for public interest entities has been modified under the amended act, Professionals are now required to renew registration with the Council annually

and failure to comply with this requirement shall attract a penalty of N5 million and/ or imprisonment for a term of six (6) months.

5. Sanctions for non-compliance

Under the amended act, failure of a PIE to comply with the prescribed statement of accounting and financial reporting standards developed or adopted by the Council attracts a fine or penalty of N10 million or any amount as may be prescribed by the Council, or imprisonment for a term not exceeding two (2) years upon conviction. Failure of a PIE to restate and resubmit its financial statements within 60 days of notice by the Council shall result to a penalty of N25 million or any amount as may

be prescribed by the Council. Furthermore, failure of a PIE to adhere with the final decision of the Council on its failure to comply with financial reporting, auditing and accounting standards, the PIE shall be liable to a penalty of N50 million, or any amount as may be prescribed by the Council and restate within 30days.

6. Monitoring of financial statements and report

The Act requires annual reports and financial statements of PIEs are submitted to the Council within 60 days of the PIEs' Board approval, while financial statements and report of PIEs filed with any government department or authority should also be filed with the Council within 30 days.

Impact on Businesses

These substantial changes to the FRCN Act, notably the expanded definition of Public Interest Entities, necessitate a proactive approach from entities that qualify as PIEs under the Amended Act.

To meet regulatory requirements and maintain compliance, these entities must consider the following:

- a. Registration of the entity with the council
- b. Registration of the CFO and CEO with the Council, and disclosure of their FRC numbers on relevant financial documents as required by Rule 1 of the FRC Rules.
- c. Adherence to various provisions of the FRCN standards (see list below), encompassing auditing, accounting, financial reporting, and corporate governance guidelines.
 - FRC Rule
 - Audit Regulations, 2020
 - Nigerian Code of Corporate Governance (2018)
 - Financial Reporting Council of Nigeria (Amendment) Act, 2023
 - Regulations for Inspection and Monitoring of Reporting Entities.
- d. Reporting on internal control over financial reporting in annual reports, aligning with the Financial Reporting Council (FRC) guidance on management reports on internal control over financial reporting.
- e. Assessment of the effectiveness of the internal audit function at least once every three (3) years by a qualified independent reviewer.

- f. Conducting an annual evaluation of the Board's performance, that of its committees, the Chairman and individual Directors. This shall be facilitated by an independent external consultant at least once in three (3) years.
- g. Notifying the Audit Quality Review Team of the Council where there has been a statutory change of auditors as required by the Audit Regulations, 2020. Compliance with the Amended Act is essential for PIEs and professionals, ensuring they remain in favourable standing with the FRCN, while promoting transparency and good governance within Nigeria's corporate landscape.





How KPMG Can assist Entities align with these changes:

Navigating the regulatory landscape and implementing these regulatory developments may pose challenges for PIEs, especially entities that now qualify as PIE under the amended act. KPMG is positioned to assist companies align their operations to meet the regulatory developments from the amended act, through:

- Statutory audit.
- Regulatory compliance assessment.
- Governance and reporting framework enhancement.
- Corporate governance evaluation.
- Preparation of financial reports in accordance with regulatory requirements standards.
- Assessment of the effectiveness of the internal audit function.
- Compliance training and capacity building for the board, internal audit, and compliance functions.
- Internal Control over Financial Reporting.

Contact us



Oluwafemi Awotoye

Partner & Head

Audit – Department of Professional Practice (DPP)

E: oluwafemi.awotoye@ng.kpmg.com



Bimpe Afolabi

Partner

Internal Audit | Governance, Risk & Compliance Services

E: bimpe.afolabi@ng.kpmg.com



Adegoke Oyelami

Partner

Audit – Consumer Markets

E: adegoke.oyelami@ng.kpmg.com

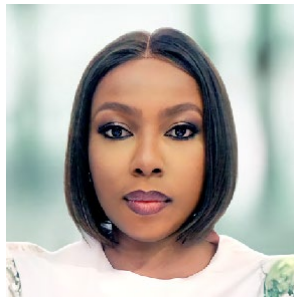


Seun Olaniyan

Associate Director

Internal Audit | Governance, Risk & Compliance Services

E: oluwaseun.olaniyan@ng.kpmg.com



Theodora Obiajulu

Assistant Manager

Internal Audit | Governance, Risk & Compliance Services

E: theodora.obiajulu@ng.kpmg.com



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