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NIGERIAN ACCOUNTING STANDARDS BOARD

PUBLIC NOTICE ON THE GUIDELINES/REGULATIONS FOR THE NIGERIAN ACCOUNTING STANDARDS BOARD'S INSPECTORATE UNIT, 2005

This is to bring to the notice of all registered corporate entities, users and preparers of financial statements and the general public that the guidelines/regulations aimed at effective implementation of Nigeria's Accounting Standards have been gazetted by the Nigerian Accounting Standards Board (NASB), an agency of the Federal Government of Nigeria charged with the responsibility, amongst others, to develop and publish in the public interest, accounting standards to be observed in the preparation of financial statements vide Act No. 22 of 2003.

2. As contained in the Federal Republic of Nigeria Official Gazette No. .... Vol. ...... of .... 2005, and to be effective from .... day of .... 2005, the Nigerian Accounting Standards Board Inspectorate Unit, an integral part of the Board shall enforce compliance with the standards developed and reviewed by the Board, impose such sanctions as may be prescribed by the Board from time to time and perform such other functions as the Council or Board may assign to it from time to time.

3. Kindly find below the guidelines/regulations for your information and compliance.

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NIGERIAN ACCOUNTING STANDARDS BOARD ACT, (No. 22 of 2003)

NIGERIAN ACCOUNTING STANDARDS BOARD INSPECTORATE UNIT

GUIDELINES/REGULATIONS 2005

Commencement : *4th August*, 2005

In exercise of the powers conferred upon it by section 30 of the Nigerian Accounting Standards Board Act, 2003 and of all other powers enabling it in that behalf, the Nigerian Accounting Standards Board, with the approval of the Honourable Minister of Commerce, hereby make the following Regulations :

1. The powers of the Inspectorate Unit derive from Section 21 of the NASB Act, No. 22, 2003 (the Act is available in pd. format in the Board's website, www. nigasb.org). Legally, the Inspectorate Unit's authority extends to the statutory accounts of all companies and organisations which are prepared under the Companies and Allied Matters Act, No. 1, 1990. This means that all entities that apply any Statement of Accounting Standards in the preparation and presentation of its financial statements are within the ambit of the authority of the Inspectorate Unit. **P. wers and Scope.**

Contents of matters to be brought to the attention of the Board.

2. Matters may be brought to the attention of the Board as a result of the following :
   * a review of financial statements selected for that purpose by the Inspectors ;
   * a complaint (such as from a regulator, individual or corporate entity) ;
   * a qualified report (in accordance with section 6 (*f*) of the Act) ; and
   * public comments (such as press commentary).

Secretariat of the Board to refer matter to the Inspectorate Unit.

3. When any such matter comes to the attention of the Board, the Secretariat acknowledges receipt and refers it to the Inspectorate Unit. The Unit determines whether there is a *prima facie* case for the Board to pursue. Thereafter, the Unit considers the matter(s) drawn to its attention, but may also inquire into other issues relating to other relevant Statements of Accounting Standard (SAS).

Inspectors to recommend course of action.

4. The Inspectors provide a preliminary analysis of each matter brought to the Board's attention. This analysis will detail all areas where there appears, *prima facie*, to be a matter of non-compliance with Statement of Accounting Standards (SAS) and the requirements of the Act. The analysis will also include a recommendation as to a course of action.

Board to inform complainant of course of action.

5. Where the Board determines that the issue(s) raised does not warrant an enquiry, the complainant is informed of that fact. If the Board decides to pursue the enquiry, such a complainant is informed accordingly. He may also be advised of the final outcome of the case. Where additional information is required to decide whether an enquiry should be opened, the Secretariat may write to the Managing Director of the company asking for such information. The additional information provided by the company is analysed by the Inspectorate team and those others with whom the team chooses to consult.

Board to constitute Panel.

6. Where the Board decides to open an enquiry, a Panel of Inspectors is constituted and an Inspector writes to the Managing Director of the company concerned, copying its auditors. This letter refers to the authority of the Panel, identifies the relevant accounts and indicates the respects in which there is, or may be, a question of whether the accounts comply with the requirements of the Act, including applicable Statements of Accounting Standards. The letter will indicate the date and time of the meeting with the Panel.

7. The Panel may, in the course of its inspection extend or vary the ambit of its enquiries. When such a decision is made, it informs the company as soon as possible.

Meetings.

8. A number of meeting may be held with the company during an enquiry. The Panel identifies the purpose of each meeting, notifies the company of any specific points it wishes to cover and introduces Panel members attending the meeting. Where practicable, at the end of every meeting, it also indicates next possible steps for which the company may want to prepare.

Reasons for Meetings.

9. The meeting may be held for any one or more of the following reasons :
   * explain the Panel's preliminary view ;
   * hear further explanation of the matter(s) at issue ;
   * discuss the Panel's concerns ;
   * discuss the appropriateness of the accounting treatment ;

* explain the Panel's requirement to effect remedial action ; or
* hear final explanation prior to issuing a letter of warning, modality for correcting an error, order to withdraw and amend financial statements, restatement or notice of intention to prosecute.

10. The company's representation must include one or more members of its management who have requisite authority to commit the company to a required course of action. It should also include the Engagement Partner of the company's external auditors. Company's representation.

11. Inspectors may require a company to produce documents or other evidential material that may shed light on the appropriateness of an accounting treatment (section 22 (2)). Power to request documents.

12. Failure to attend or honour an invitation to a meeting, or a request to furnish information, amounts to wilful obstruction or delay of an Inspector, (Section 24 (1)). Failure to honour invitation or to produce documents.

13. Where necessary, subject to considerations of confidentiality, the Panel may seek and receive representations from third parties where it appears that they may have useful information. Similarly, it may seek further information from a complainant if it believes that he may have other relevant information. Third Party representation.

14. In a situation where an issue of non-compliance cannot be resolved in a meeting or the Board is of the opinion that an issue requires an in-depth inspection or inquiry, an on-site inspection may be necessitated. Two or more Inspectors may be sent to the organisation to review the issue. The company is immediately notified and a date for the on-site inspection is agreed. A letter to such effect is written to the Managing Director of the company informing him of the Board's intention to carry out an on-site examination. Within seven (7) working days, the company must inform the Board of its readiness to receive the Inspectors on the agreed date. On-site Inspection.

15. The Inspectorate Unit has statutory powers to impose sanctions as may be prescribed by the Board (S.21 (*b*)). The appropriate sanctions/penalties are arrived at after due consideration of the nature and materiality of the contravention of the applicable Statements of Accounting Standards or requirements of the Act. Imposition of Sanctions.

16. When the Panel and the company's representatives, including its external auditors agree that a matter(s) is material (a substantial likelihood that a reasonable investor would consider it important in making investment decisions) but not too misleading, the company and the auditing firm will be penalised and the materiality will determine the penalty. When company and auditing firm will be penalized.

17. There are five categories of non-compliance situations that may be material without rendering the financial statements totally misleading. In such situations, the Board may impose sanctions as follows : Categories of non-compliance.
    * Type 1 non-compliance (₦0.5m) ;
    * Type 2 non-compliance (₦1.5m) ;
    * Type 3 non-compliance (₦2.5m) ;

- Type 4 non-compliance (₦3.5m) ; and
- Type 5 non-compliance (₦5m).

Correctable contraventions.

18. In a case where contravention or non-compliance is material but not too misleading, the error(s) may be corrected in the following year's financial statements. The external auditors will write to the Board confirming the understanding reached at an Inspectorate meeting. Thereafter the Board shall communicate its approval to the company.

Inspection time to be surcharged.

19. The time spent in discovering the errors on non-compliance will be charged to the company by way of management time at ₦250,000 (two hundred and fifty thousand naira) only per hour. The hours are calculated at the Inspection meeting. However, if the Inspectors have to carry out on-site inspection, the company shall pay Inspection fee of ₦500,000 (five hundred thousand naira) only per day.

Rectification of accounts.

20. Where the Panel and the company agree that accounts are to be rectified by way of revision or restatement, the directors shall effect a full revision of the accounts and not by way of supplementary notes. The procedure for the restatement of financial statements is as stated hereunder :

    The organisation shall publish, within 7 days from the date of the Board's final notice, in at least two widely read national newspapers (full page), that the affected financial statements have been withdrawn for non-compliance with Statements of Accounting Standards (SAS).

    The Board shall immediately post the information on its website and inform other regulatory agencies that the defective financial statements have been withdrawn for restatement, giving reasons.

    The organisation shall thereafter republish the financial statements, as amended in the same form as the earlier prints, and circulate same to the stakeholders, regulatory agencies and other persons to whom the defective financial statements had been earlier circulated, drawing their attention to any matters of emphasis.

    The organisation shall enclose, to all recipients of the financial statements, a reconciliation of the amendments made to the withdrawn financial statements.

Institution of proceedings.

21. The Engagement Partner and Panel shall monitor the company's revision of the defective accounts. If the company fails to carry out the revision in the manner agreed as acceptable to the Panel within 60 days, the Panel may institute administrative, civil or criminal proceedings in accordance with Section 23 of the Act.

Alternative corrective action.

22. In some cases, the Panel may accept alternative corrective action as may be, by prosecuting the directors or other offenders. For example, a corrective statement published by the company either separately or, if time permits, in the next interim report, together with a corrective statement in the following year's annual accounts and adjustment of the relevant comparative figures. The corrective action is acceptable to the Panel depending on the circumstances of each individual case. The following, among other factors, will be taken into account :

- nature and effect of the defect ;

* the need to protect users of accounts ;
* the need to correct/prevent a false impression ; and
* the timing of the company's reporting cycle.

23. In all circumstances, the penalty will be communicated to the company, and must be paid before the decision of the Board is communicated to the company. If a company rejects the sanction imposed by the Board, it will imply that such a company has accepted to restate the defective financial statements within 60 days from the date of sanction.

Implications of rejection of sanction.

24. Where the company declines to adopt voluntary rectification of the defective financial statements, and the Panel, having heard the company's explanation, concludes that the matter represents a serious breach of accounting requirements, the company and its external auditors are informed accordingly. The Board explains in writing that it intends to institute a legal action under Section 23 of the Act within 14 days. This letter, will among other things, set out the grounds on which the Board believes the accounts are in breach of the Act and applicable accounting standards.

Notice of intention to institute legal action and application to court.

25. If at the end of the notice period, the company still fails to accept the Board's position, the Secretariat informs the Governing Council of the Panel's decision.

26. When the Board decides to institute legal action against a company, the Secretariat notifies all relevant regulatory agencies of the pending action, and subsequently, of the outcome of the case.

Notice to relevant regulatory agencies.

27. The Board shall also make a public announcement in its website and such other media, as it may deem necessary, of the pending action.

Public Announcement.

28. The Board or its Inspectorate Unit does not operate a system of advance clearance and would, therefore, not be able to give advice to a company or its auditors as to whether, in the opinion of the Board, a particular accounting treatment would or would not meet the requirements of the Act or any of the Statement of Accounting Standards.

Advance clearance.

29. In the limited circumstances, the Board could grant audience to a company or its auditors to give clarification on paragraph(s) of its Statement of Accounting Standards or explain the concession provision contained in an Accounting Standard.

When clarification may be given.

30. Board grants appointment for clarification on the payment of a non-refundable fee of ₦50,000 (fifty thousand naira) only. The management time spent by the Board during such meetings also attracts ₦100,000 (one hundred thousand naira) only per hour. This amount is subject to review, from time to time, by the Board.

Fees payable for clarification.

31. The Board may request that the partner in charge of the audit be present at such meetings.

SOME ACCOUNTING AND DISCLOSURE ANOMALIES DISTINGUISHED BY TYPE

Type 1 Non-compliance

1.1. Departure from a requirement of Generally Accepted Accounting Principles (GAAP) with inadequate, incomplete and misleading disclosure, such as in the treatment of bridging costs claims.

1.2. No disclosure of staff costs.

1.3. Offsetting of interest received and paid or dividend paid and received in a Statement of Cash Flows.

1.4. No classification of expenses, especially in Accounting for Insurance business.

1.5. Failure to disclose any analysis of expenditure either according to nature or function.

1.6. Comparatives changed without the required disclosures (i.e. when a presentation or classification is amended, the comparative amounts is supposed to be reclassified to ensure comparability disclosing the nature, amount and reason for the reclassification).

1.7. Failure to provide a split between current and non-current assets and liabilities, or to classify investments into short terms, long term and investment properties.

1.8. No disclosure of accounting policies for accounting for certain significant transactions. This includes :

* manner of measurement or valuation of investments ;
* manner in which assets and liabilities in foreign currencies are accounted for (conversions and translations) ;
* accounting policies for deferred taxes, taxation, off balance sheet engagements, valuation methods adopted in arriving at the values of stock, depreciation, leases, employees' retirement benefits, etc.

1.9. No proper reconciliation of the tax charge or deferred taxes, appearing in the income statements.

1.10. Failure to present basic and diluted earnings per share on the face of the income statement and the historical financial summary with equal prominence.

Type 2 non-compliance.

2.1. Wrong or inappropriate treatment of items in the Financial Statements rectified by disclosure of the accounting policies adopted or by notes or explanatory materials in the same Financial Statements.

2.2. Crediting of accumulated depreciation associated with the revaluation of property, plant and equipment, to income or retained profit.

2.3. Various errors and anomalies in the Statement of Cash Flows, e.g. the inclusion of non-cash flow items in the statement.

2.4. No accounting policy with respect to funding of employees' retirement benefits and non-disclosure in the notes to the accounts of its existence, accounting and provisions.

2.5. Failure to include an accounting policy for off balance sheet engagement and to disclose the methods used to recognize income thereon.

2.6. Failure to include a separate Life Balance Sheet in a Composite Business Undertaking.

2.7. Failure to show an analysis of the portfolio of investments where the main business of the enterprise is the holding of investments.

2.8. Failure to state the accounting policy for accounting for costs incurred and the manner of disposing of capitalized costs in respect of activities involving oil and gas exploration, development and production.

2.9. Failure to show the required highlights in a Statement of Cash Flows and to show, by way of note, a reconciliation of the amounts in a Statement of Cash Flows with equivalent items reported in the Income Statement or the Balance Sheet.

2.10. Failure to disclose the make up of "other assets" and "other liabilities" when either of them consists of major balances or major items.

3.1. Presentation of interim financial statements based on estimates of annual performance rather than actual results. Type 3 non-compliance.

3.2. Failure to disclose the accounting policy with respect to treatment of foreign currency conversions and translations, the treatment given to foreign exchange gains or losses, restriction on repatriation of investments or returns thereon to Nigeria, the amount of gains or losses on foreign currency conversations and translations deferred.

3.3. Failure to include in the Notes to the Accounts, post Balance Sheet rate movement on foreign exchange transactions that have significant impact on the Profit and Loss Account and the Balance Sheet.

3.4. Failure to provide or make full provision for deferred taxation.

3.5. Omission of Revenue Account for each class of insurance business undertaken or inadequate, incomplete and misleading disclosure in a published Revenue Account.

3.6. Failure to disclose the gross investment in leases under proper classification, the break down of the net investment in leases, the basis used to allocate the income thereon ; and for assets under operating lease, the amount of assets under each category and accumulated depreciation at the balance sheet date.

3.7. Failure to include the identified statements required to be disclosed in Abridged Financial Reports.

3.8. Presentation of adjusted EPS where the financial statements have been adjusted as a result of the introduction of fresh capital.

3.9. Failure to provide the relevant disclosures in the Financial Statements of Broker/Dealers, Capital Market Underwriters, Discount Houses and Finance Houses.

3.10. Failure to compute Deferred Taxes using the liability method or to present deferred tax balance in the relevant section of the Balance Sheet.

Type 4 non-compliance.

4.1. Amortisation of past service costs associated with employees' retirement benefits when a pension or retirement scheme is neither newly introduced nor an improvement made on an old scheme.

4.2. The publication of Abridged Financial Statements by an enterprise whose financial statements for the period are qualified by its auditors.

4.3. Incomplete or inadequate or misleading disclosures in the Revenue Account and Profit and Loss Accounts of an Insurance Company.

4.4. Failure to separately disclose the operating results of non-core businesses owned by companies operating in the downstream sector of the petroleum industry.

4.5. Misleading disclosure in accounting for leases.

Type 5 non-compliance.

5.1. Failure to comply with the provision of the NASB Act, No. 22 of 2003.

5.2. Various contraventions with Statements of Accounting Standards, including

* Accounting policies inconsistent with actual treatments in the financial statements ;
* Errors and anomalies in the notes on property, plant and equipment ;
* Errors and anomalies in a Statement of Cash Flows ;
* Other accounting anomalies apparent from the financial statements.

5.3. Omission of a principal statement in the set of financial statements such as the omission of the Balance Sheet, Income Statement or the Statement of Cash Flows.

5.4. Omission of the Auditors' report in the financial statements or the inclusion of a corrupted copy in the financial statements or other similar variant of auditors' report.

5.5. Preparation of financial statements, or part thereof, in line with foreign Statements of Accounting Standards where a national pronouncement exists.

Citation.

These regulations/guidelines may be cited as Nigerian Accounting Standards Board Inspectorate Unit Guidelines/Regulations 2005.

MADE at ABUJA this 4th day of AUGUST, 2005.

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Honourable Minister,
Federal Ministry of Commerce

EXPLANATORY NOTE

(*This note does not form part of the above Regulations but is intended to explain its purport*).

These Guidelines/Regulations provide for the Inspectorate Unit of the Nigerian Accounting Standards Board to enforce compliance with the developed standards, impose sanctions and perform other functions for the Board.