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ASSOCIATION OF NATIONAL ACCOUNTANTS OF NIGERIA
Founded in 1979 and chartered by Act No. 76 of 1993

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Our Ref: **Your Ref:** August 7, 2014

Dear Sir,

Please find the Draft Response of ANAN to the exposure draft on the proposed changes to certain provisions of the Code: Addressing Non-Assurance Service for Audit Clients.

Association of National Accountants of Nigeria is very pleased to comment on the above mentioned Exposure Draft.

Association of National Accountants of Nigeria (ANAN) is a statutorily recognized professional accountancy body in Nigeria. The body is charged among others, with the duty of advancing the science of accountancy.

The Association was formed on 1st January, 1979 and operate under the ANAN Act 76 Cap A26 of 1993 LFN 2004, working in the public interest. The Association regulates its practicing and non-practising members, and is overseen by the Financial Reporting Council of Nigeria.

ANAN members are more than 21,000, they are either FCNA OR CNA and are found in business, practice, academic and public sector in all the States of Nigeria and Overseas. The members provide professional services to various users of their services.

ANAN is an Associate of the International Federation of Accountants (IFAC), Member of the Association of Accountancy Bodies in West Africa (ABWA), the International Association for Accounting Education & Research (IAAER), and the Pan African Federation of Accountants (PAFA).

RESPONSE TO THE EXPOSURE DRAFT ON CHANGES TO CERTAIN PROVISIONS OF THE CODE OF ADDRESSING NON-ASSURANCE SERVICE FOR AUDIT CLIENTS

(A) SPECIFIC COMMENTS

(1) Section 290.172 – Emergency Provisions

ANAN believes that there is no need or basis for the retention of the emergency exception pertaining to book-keeping and taxation services for Public Interest entities. Any Public Entity should be able to employ competent Professional Accountants to carry out this *"primary function"*.

(2) <u>Management Responsibilities</u>

Paragraph 290.162

ANAN believes that the change to "*decisions*" enhance the clarity of a management responsibility because the word significant when properly dissected denotes the fact of materiality in the audit parlance – thus asserting the fact that some decisions are so paltry the effects of which might not be felt on the overall performance of the organization whereas "*decisions*" simply means all decisions that concern the running of the organization and does not exclude any whether material or not.

(3) <u>Paragraph 290.163</u>

Yes, it is the view of ANAN that it does enhance the responsibility of Management thus making them accountable for whatever goes wrong in the system as a result of their actions or inaction.

The examples in paragraph 290/163 are very appropriate.

(4) <u>Paragraph 290.163</u>

The paragraph is very clear to an average knowledgeable professional accountant.

"If a member of Management leads in taking a decision, the concomitant consequence is the responsibility of management and not that of the Audit firm".

This is not ambiguous.

(5) <u>Paragraph 290.163</u>

Yes; it is a clear *"cavet emptor"* for engagement team not to dabble into taken decisions for Management whether material or not.

(6) <u>Paragraph 290.163</u>

Yes, ANAN believes that it does.

The changes proposed to section 291, specifically, the addendum clauses to a large extent enhance the clarity of Management responsibility. Especially the last of the three clauses that says that *"ensuring that the client's management accepts responsibility for the actions to be taken arising from the results of the service"*.

The examples are quite appropriate because it spells out the decisions that *"Management should not farm out, shark or overlook as being too paltry"*.

Yes, the mode at which they were highlighted makes their understanding very clear and unambiguous or subjective.

(7) <u>Routine Mechanical</u>

It is the view of ANAN that the code of ethics is meant for some category of people even though others not so intended may access and digest it, but a prerequisite knowledge is rightly assumed here which makes the explanation clear enough and thus seem require no further explanation/clarification.

(8) **<u>Paragraph 290.164.8</u>**

The meaning and identification of *"Source Document"* seems clear with the use of the word *"Originating Data"* as opposed to *"Processed Data"* Originating Data can only mean a primary data inputted into the process in the first instance. But may require further clarification or explanation because of the technical nature, and the legal interpretation of electronic documents because some documents entail *"multi-stage"* data processing cycles.

(9) **<u>Section 291</u>**

ANAN believes the proposed changes to section 291 especially the additional requirements which states that: - *"Client's Management designates and individual preferably within Management, who possess suitable skills, knowledge and experience to be responsible at all times for the clients decisions …….."* and the others actually enhanced the clarity of Management responsibility.

(10) The examples given of management's responsibilities in paragraph 291.144 seem appropriate in ANAN's view.

(11) The said relocation as far as ANAN is concerned does not change the level of clarity in any way.

(B) <u>GENERAL COMMENTS</u>

(a) <u>SMPs</u>

ANAN is of the view that since the reclassification only affects public interest entities that should; with all intent and purposes have policies that encompasses the responsibilities listed in the proposed new code of professional ethics as a matter of necessity, therefore the proposed changes would not have any negative effect on their practice. It is only SMEs that usually outsource most of the non-assurance services due to lack of fund to engage competent professionals or space to accommodate them.

Besides, even when activities are known as Management responsibilities, as long as the decision to hire professionals for such assignments was not instituted initiated or taken by the SMPs there would be no negative impact.

(b) <u>PREPARERS (INCLUDING SMEs)</u>

Generally, it is our considered opinion in ANAN that, SMEs would take the proposed changes as one of the annual reviews that IESBA normally undertake to improve the credibility of financial statements and to caution Accountants when undertaking any professional assignment; be it assurance or non-assurance service.

The practical impact that we envisage is that it requires preparers to be more cautious of the limit of their responsibility and what they can do in proxy on behalf of their clients. But for users, it will enhance the level of their confidence and dependability on Audit financial statements.

(c) <u>DEVELOPING NATIONS</u>

Our comment in this regard is that the proposed changes is not of national significant but rather a structural corporate issue since the changes do not have any statutory implications neither do they impose additional financial burden on either the Public Interest Entities that are intended nor on the jurisdiction where the changes would be implemented.

(d) <u>TRANSLATION ISSUES</u>

The translation issues that we would like the IESBA to consider further elaborating for comprehension and correct perception purposes by stakeholders are: -

1. Issues of *"significant decisions"* as opposed to just "decision" which sounds more encompassing and very elaborate and technical.

2. Source document – There is need for a specific definition of what constitutes *"source document"* in relationship with electronic mode of processing and generating documents both "*primary*" and "*secondary*" to avoid ambiguity especially in the eyes of the law. Apart from the aforementioned, we do not envisage any misconception of any other intention of the IESBA that may be misconstrued by stakeholders.

(e) <u>EFFECTIVE DATE</u>

There is already a *"pre-issuance date"* knowledge of the proposed changes by the PAOs to be affected by the proposed changes who may have before the issuance date begin to sensitize their members with the intended changes. Therefore the 12 months effective date after the issuance date is a complete financial year cycle which we consider to be adequate.

It is not even unlikely that as a result of the continuous research and IESBA and changes in need for more precautionary guidelines further changes would not take place. Thus allowing for more than a financial year cycle may not be ideal.

Our conclusion is that the 12 months effective date after the issuance date is very appropriate.

Yours faithfully,
ASSOCIATION OF NATIONAL ACCOUNTANTS OF NIGERIA

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