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Financial Reporting Council of Nigeria and the Future of Accounting Profession in Nigeria

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Abstract Following the spate of financial scandals and the global financial crises implicating accountants and accounting practice, the global accounting community responded through the International Financial Reporting Standards (IFRS) and the Financial Accounting Standards Board (FASB in the USA) by substantially raising the levels of ethical and reporting conduct. Correspondingly, there has been a raft of national corporate governance initiatives and legislations designed to evolve efficient professional accounting practice, especially in processing of financial information and related financial reports. This is the contextual genesis of the Financial Reporting Council (FRC) Act No. 6 of 2011. In effect, the Act was Nigeria's response to this global concern with the aim of providing a comparative institutional governance mechanism to address the challenges that prospectively define the future of accounting profession in Nigeria. The Act marked the end of voluntary self-regulation of professional accountancy bodies and the beginning of formal, mandatory oversight under the ambit of the Financial Reporting Council. The FRC Act was designed to reshape the Nigerian accounting profession and practice through the trichotomy of regulatory mandate: (a) monitoring professional service areas from the platform of professionalism and legislation, (b) aligning these services with international best practices, and (c) improving investor confidence. Five years after its operational commencement, it is apropos to appraise its efficacy. The operational dynamics of the FRC are already having a significant impact on the Nigerian accounting profession.

Keywords Audit Expectation gap, Financial Reporting Council, Future of Accounting Profession, Nigeria

1. Introduction

The spate of corporate scandals in the late 1990s to early 2000s, which culminated in the dizzying collapse of Enron Corp, WorldCom and several national and international companies, not only implicated the accounting profession but also *de facto* led to the failure of one of the five largest audit and accountancy partnerships in the world, Arthur Andersen. Prior to Enron's bankruptcy filing in December 2001, the firm was widely regarded as one of the most innovative, fastest growing, and best managed businesses in the United States. Just as the world was grappling with the challenges of the raft of corporate governance failures created by these scandals and bankruptcies, the global economy was visited by the 2008/2009 financial crises. These events shook the global foundation of integrity upon which both business and the accounting profession are founded. These events also exposed the effects of corporate managers' egregious obsession with pursuit of profit maximization. These global accounting scandals presented the most audacious opportunity for the birth, in the United States, of the Sarbanes-Oxley Act of 2002, which brought into effect the Public Company Accounting Oversight Board (PCAOB). The regulation, which has forced the profession to rethink its most fundamental principles and practices, is being replicated in many countries. In Nigeria, the Financial Reporting Council (FRC) Act No. 6 of 2011 was promulgated for that purpose. The defunct Nigerian Accounting Standards Board was thus replaced by the Financial Reporting Council of Nigeria.

Three important responsorial upshots were discernible. First, the Sarbanes-Oxley Act of 2002 was created in the U.S. to strengthen disclosure and increase the penalties for financial manipulation. Second, these events raised global consciousness of degeneration of business ethics. In response, the global accounting community responded through the International Financial Reporting Standards (IFRS) and the Financial Accounting Standards Board (FASB in the USA) by substantially raising the levels of ethical and reporting conduct. Third, and very importantly, corporate boards of directors were required to inject greater independence in its membership composition, thereby ensuring greater monitoring through greater audit and assurance mechanisms, and quickly penalizing and replacing

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errant managers. These reactive measures were also necessary to plug loopholes that companies have used in the past to circumvent accountability.

Certainly, the events of 2002 were not without precedent. About 70 years earlier, Ivar Kreuger's investment scam at Swedish Match Company inspired the US Congress to pass the U.S. Securities Acts of 1933 and 1934. These landmark laws required corporations to publish annual audited financial statements and created the Securities and Exchange Commission to regulate financial reporting. Remarkably, accounting gained prominence as a profession after the 1929 stock market crash as an institutional means of protecting investors through oversight audits. According to Previt and Merino (1979), "*the leaders of the profession sought to convince both businessmen and politicians that a strong, independent accounting profession could prevent future abuses*". These efforts culminated in the profession being asked to be the watchdog for public interest. The expectation is that the accounting profession will come out of each crisis better strengthened to serve the public effectively.

The FRC Act marked the end of voluntary self-regulation of professional accountancy bodies and the beginning of formal, mandatory oversight. Five years after its commencement, it is apropos to appraise the efficacy of the Act. This paper is the first known attempt at assessing the structural attributes and efficiency consequences of the Act, especially as it (the latter) contains several contentious sections which form the nucleus of the change agents. Besides, in recent times, the performance programmes of the Council have attracted a cacophony of public reactions. The first salvo of the Council's 'superpower' was its report that formed the kernel of the suspension and eventual removal of the Governor of Central Bank of Nigeria in 2014. More recently, the Council suspended the Board of Directors of Stanbic-IBTC Bank over perceived infractions in their published annual reports. Public commentaries have been very critical of the overreaching structure and functions of the Financial Reporting Council of Nigeria. However, among the factors on which there appears to be developing a general consensus about the Council's functionality are: (1) external oversight, (2) credible financial reporting, and (3) external auditors. Beyond these general propositions, a consensus on the powers and role of the Financial Reporting Council of Nigeria is lacking.

The rest of the paper is organized as follows. Some background to the study of accounting profession is briefly reviewed in Section 2. Of the five dimensions for describing accounting profession, attributes of commitment to upholding public trust are the most foundational, least well understood and probably the most contentious. The specific relevance of upholding public trust is developed in the context of expectation gap effect on auditing in Section 3. A prospective view of accounting is outlined in terms of the historical challenges and threats to the future of accounting profession in Section 4. Informed by, and determined to overcome, the challenges and threats, the FRC legislation was enacted in 2011. Some pertinent provisions of the FRC Act and their consequences for future development of the accounting profession in Nigeria are sketched in Section 5. Concluding remarks follow.

2. Accounting as a Profession

Williams (1981) describes accounting as "a unique profession, which does not advocate, heal or counsel; nor does its primary obligation run to those who retain its services". The power of accounting or accountancy, in relation to the other social sciences and in relation to the provision of economic information to permit informed judgments and decisions by users of the information, is to be traced in no small part to its unremitting emphasis on net benefit analysis. Yet, because the atmosphere of accountancy (that is, managing, updating, correcting, and reporting) is intended to make allowance for professional (and attitudinal) interactions and the system's consequences that are associated therewith, this responsibility or task is one that must be neutral and seen to be so. In other words, accountancy practice should not cause systemic or organizational inefficiency by distorting the structure of economic information disseminated: it must be free from bias, either deliberate or systematic. Deliberate bias is implicit in circumstances and conditions where management intentionally misstates financial statements or external auditors intentionally look away from egregious distortions in the financial statements of audited companies. On the other hand, systematic bias is imputed where accounting systems develop an inherent tendency of favouring one outcome over the other over time, either due to cultural or religious beliefs, customs or clash of civilizations.

Ironically, accounting regulation and practice are somewhat strengthened after each major scandal. The Securities Act of 1933, which was a response to the 1930 financial crisis and the Great Depression, compelled the US Government to pass a legislation in 1934 to strengthen the securities law and for the first time to create a separate agency, the Securities and Exchange Commission, as the first major significant step towards protecting investors' interests in the US. The legislation, which was akin to the British Companies Act, was meant to prevent fraud based on the fallout of Kreuger's frauds that came to light few weeks after his suicide in 1932. The discovery that no independent party had ever been granted access to Krueger and Toll's accounting records led the U.S. Congress to conclude that requiring public corporations to open their books to auditors was a reasonable safeguard against future frauds (Clikeman, 2008). The author concluded that "in the end, Congress decided to rely on private firms of accountants as the first line of defense against fraudsters such as Ivar Kreuger."

The importance of accounting profession's work in the protection of investors makes it a public interest-oriented vocation. The essence of public trust in the accounting profession and the need to consciously maintain that trust became evident with the outcry and steps taken during and after the recent accounting scandals and financial crisis. However, it is obvious that during the last decade much has occurred to challenge the credibility and trust which the profession has enjoyed. Apart from the scandals and crises that threw up such challenges as the independence of auditors and the reversal of the much-vaunted self-regulation of the profession, other significant challenges that have confronted the profession in recent times include:

(a) the continuing relevance of some accounting principles,
(b) global convergence of accounting standards,
(c) accounting for changing prices,
(d) expectation gap of auditor's role, and
(e) corporate governance and risk management practices, especially in the financial sector.

From Cogan's (1953, 1955) definition of a profession, Zebley (1956) generated five specific attributes of public accounting profession, namely:

(a) the determination of pre-requisites of education and training for entrance to the profession;
(b) the matters covered by rules of professional conduct;
(c) commitment to upholding public trust;
(d) the development of generally accepted accounting principles (GAAP) and auditing standards (GAAS); and
(e) general participation in the advancement of the capacity to serve.

While these five attributes are intrinsic and germane to the accounting profession, it is the third attribute - commitment to upholding the public trust - that has evoked much controversy and is the springboard for the perceived public expectation gap in the auditor's role. The polemic between upholding public trust and fulfilling public expectation is a foundational issue in the architecture of financial reporting and regulation and warrants some illumination. We briefly examine in the next section the historicity of the expectation gap argument as a premise to understanding the logic of the emerging regulatory architecture in the accounting profession.

3. Expectation Gap Effect on Auditing

The history of accounting (and auditing) profession has been characterized by expectation gaps and dysfunctional assumptions. This development is based on the hypotheses about the effects of the political process on accounting practice which are predicated on the assumption of "*nonzero information, lobbying, and coalition costs*" (Watts & Zimmerman, 1986). The political process impinges on, and affects auditing by arousing spectres of expectation gap. As the authors observe, some effects occur through regulation (such as licensing of professional accountancy firms); others occur through threatened regulation (such as revolutionary or corrective legislations). The economic theories of the political process of regulation adopt the self-interest perspective that assumes politicians' utility maximization. First, there is the gap between what auditors believe and do in auditing financial reports and what users of financial reports believe auditors should do in the conduct of audit.

The gap derives from the fact that the audit franchise was never formally negotiated but evolved over time in response to the development of enterprise and increasing dispersion of equity ownership. A transactional interpretation of audit is an implicit concession to bounded rationality associated with contractual incompleteness and imperfections of internal labour market structures (Williamson, 1975). The joint effects of bounded rationality, on the one hand, and contractual imperfections and incompleteness in the audit market, on the other hand, might have contributed to the notion of audit expectation gap. In the main, this gap resonates in the following four key areas: reporting, assurance provision, regulation and liability, and audit independence (See http://icaew.com/~/media/Files/Technical/Audit-and-assurance/audit-quality/audit-quality-forum/expectation-gaps.pdf). Of these four, the most critical and most focused area of public interest is the assurance being provided.

The debate about audit expectation gap has proceeded along the dichotomy of powerful demand and supply constituencies. The demand perspective comprises the public or society. Their concern revolves around two issues. The first is what society expects of auditors and what can reasonably be expected of them to accomplish. This is the 'reasonableness gap' (ICAEW, 2006). The second is what society can reasonably expect of auditors and what it perceives they actually deliver. This is the 'performance gap' (ibid.), and can be decomposed into (a) deficient standards gap, which is the gap between the responsibilities that society reasonably expects auditors to perform and auditors' actual responsibilities under statute, and (b) deficient performance gap, which is the difference between the expected standard of performance of auditors and the actual performance of responsibilities by auditors (ibid).

The foregoing redounds to the historical expectation of auditors' role in deterring and detecting financial statement fraud. The historical question has been: Do auditors have a responsibility for detecting fraud in the companies they audit? The public obviously thinks so. However, for long, accountants and auditors, especially in the U.S. have resisted the responsibility. So, the expectations gap has been a contentious issue in Accounting since the 19^{th} century England (Teo and Cobbin, 2005). The expectation gap scenario still persists in present day America. This is echoed in the remark of William Parrett (CEO of Deloitte Touche Tohmatsu) that: while "it's extremely difficult for the auditor to find a collusive fraud", investors nevertheless expect them to do so (Taub, 2005).

The expectation gap was first identified in the auditing literature by Chris D. Liggio (1974) who defined it as: *"the difference between the levels of expected performance as envisioned by the independent accountant and by the user of* *financial statements …"*. In 1978, the Cohen Commission on auditors' responsibilities presented the expectation gap as the gap between the public expectations and needs, and the expected accomplishment of the auditors. Monroe and Woodliff (1993, 1994) defined the expectation gap as the difference between the beliefs of auditors and those of the public concerning the auditors' responsibilities and duties. In 1992, the American Institute of Certified Public Accountants (AICPA) defined the expectation gap as "the difference between what the public and financial statement users believe auditors are responsible for and what auditors themselves believe their responsibilities are. Jennings, Kneer, and Reckers (1993) aver that the expectation gap represents the difference between the public expectations about the responsibilities and duties of the auditing profession and what the auditing profession actually does and provides. Porter (1993) defines the 'expectation-performance gap' as the gap between the expectations of society about auditors and the performance of auditors. All these conceptual discussions centre on one thing, and that is that 'audit expectation gap' is the difference between the actual performance of an auditor and the expectations of the users of audit reports.

How much this constituted a problem was difficult to assess because the accounting profession was largely in denial of it. Tweedie (1987) brought the realism to accounting discourse by characterizing the expectation problem thus: The public appears to require:

1. A burglar alarm system *(protection against fraud)*
2. A radar station *(early warning of future insolvency)*
3. A safety net *(general re-assurance of financial well-being)*
4. An independent auditor *(safeguards for auditor independence)*, and
5. Coherent communications *(understanding of audit reports)*".

It was Tweedie's contention that these public expectations were above what auditors did, which formed the basis of the current expectation gap debate. He then posited that it was clear that the basic tenets of an audit were misunderstood. But early auditing literature shows that it is the auditing profession that first raised this expectation of users. The antecedent to the expectation gap is traceable to the treatise on auditing by Lawrence Robert Dicksee in 1892. Dicksee's book, which was the first major auditing textbook, defined auditing to include "*the detection of fraud, technical errors and errors of principle*". He saw *"the detection of fraud as a most important portion of the auditor's duties …*"

Dicksee identified what is playing out today in the accounting and auditing profession, in terms of public expectation and the perceived gap in auditor independence. Precisely, Dicksee averred that "*the auditor who is able to detect fraud is – other things being equal – a better man than the auditor who cannot*" (1892, 1904). Dicksee's position on the comprehensive role of the auditor was in sharp contrast to Robert Montgomery[1] who argued that the detection of fraud is a secondary audit objective. For much of the 20th century, U.S. auditors tried to evade responsibility for detecting fraud committed by their clients. The arguments on the 'limits of accountability' (Messner, 2009) and 'the limits of transparency' (Roberts, 2009) for auditors, adumbrate America's position on the role of auditors. Both Messner and Roberts are emphatic on the principles of accountability and transparency in audit work. For example, Messner argues that more accountability is not "always and unambiguously desirable". On his part, Roberts asserts that "the ideal of a complete transparency is an impossible fantasy". Both scholars believe that the implementation of these ideals would cause more harm than good. Messner unequivocally concludes that accountability and transparency, depending on the dose, can be "dangerous".

This disposition to the 'limits of accountability' and 'the limits of transparency' for auditors was maintained by successive editions of *Montgomery's Auditing Theory and Practice*. From 1912 through 1957, these editions placed less emphasis on auditors' role on fraud detection. In fact, the 1940 edition of the book disclaimed responsibility for fraud, on the premise that searching for irregularities would "require an examination of such detail that its costs … would be prohibitive" (Nouri and Lombardi, 2009). This position was however contradicted by U.S. SEC in its report on McKesson & Robbins[2]. These contradictions marked the beginning of the expectations gap between the self-defined responsibilities of public accountants and public and regulatory expectations.

With the passage of time, it would appear that the 1912 observation of Montgomery in his seminal book on auditing (1912) that the fundamental significance of public trust in the accounting profession and the need to work tirelessly to maintain that trust is as germane today as it has been ever since. Coleman, Kreuze and Langsam (2004) aptly captured the image of the profession thus: "today the accounting profession is also branded", where branding in this context refers to superficial burnishing without necessarily deep-rooted values. With the unfolding in late 2001 to mid-2002 of the ignominious role of accountants in the

[1]Robert Hiester Montgomery (Sept, 21, 1872 - May 2, 1953) was an American accountant and educator, co-founder of PricewaterhouseCoopers, and two-term President of the American Institute of Certified Public Accountants (AICPA). In 1912, Montgomery in response to the gap in auditing textbook, wrote *Auditing: Theory and Practice*, which became the first American book on auditing. Earlier in 1905, Dicksee and Montgomery had co-authored a manual guide for auditors with the object of identifying the critical dimensions for characterizing auditor's role in both UK and USA. Other authors joined Montgomery in the book re-titled *Montgomery's Auditing*. After Montgomery's death, it is still being published. The interested reader is referred to *Montgomery's Auditing*, (12thed.) by O'Reilly, McDonnell, Winograd, Gerson, and Jaenicke (1998).

[2]The McKesson & Robbins, Inc. scandal of 1938 was one of the major financial scandals of the 20th century, which led to significant corporate governance and auditing reforms in the U.S. The SEC required public companies to have audit committees of outside directors; it further required that the appointment of auditors be approved by the shareholders. The AICPA then adopted audit standards requiring auditors to verify accounts receivable and inventory.

global scandals, the transgressions and fraudulent behaviours dragged the profession into disrepute and opprobrium. Thus, the image of the accounting profession had been so battered that "it not only faced disgrace but also the loss of its reputation" (Ibid.).

The foregoing is the antecedent context in which the Financial Reporting Council (FRC) Act No 6, 2011 came into being. The FRC Act both repealed the Nigerian Accounting Standards Board (NASB) Act and replaced it with a new set of rules. The Act also established the Council as a unified independent regulatory body for accounting, auditing, actuarial, valuation and corporate governance. As such, the FRC Act is designed to reshape the Nigerian accounting profession and practice through the trichotomy of regulatory mandate: (a) monitoring the aforementioned professional service areas from the platform of professionalism and legislation, (b) aligning these services with international best practices, and (c) improving investor confidence. The next section of the paper evaluates some of the salient provisions of the Act in terms of their impact on the accounting profession in Nigeria. Also, the paper assesses the readiness of the environment with respect to adjusting to the changes envisaged in the Act.

4. The Futurity of Accounting upon the Present

The accounting profession has historically continued to exhibit learning attributes from each episodic scandal. For example, following the Great Depression and associated market challenges of 1929 to 1939, the US SEC created the audit committee as a key element in corporate governance. A leading role of the audit committee, as enshrined in the SEC code, was to strengthen the independence of the external auditor. From the US SEC regulation of 1933 to the Sarbanes-Oxley Act of 2002, there have been successive considerable refinements of corporate governance codes and legislations, all in a bid to learn and operationalise *ex post* lessons of past mistakes.

Nigeria is not left out of such revolutionary corrective legislations. Unfortunately, many of these corporate governance infractions, such as financial statements fraud and other corrupt tendencies, are not well-documented and publicized in Nigeria, like most Sub-Saharan African countries, as in the advanced countries. Thus, the NASB Act No 22 of 2003 (in the mold of the Sarbanes-Oxley Act) and the Asset Management Corporation Act of 2010 (as a regulatory response to the egregious buildup of toxic assets or nonperforming loans by banks) are regulatory measures to improve corporate governance sequel to each major crisis. For instance, the NASB Act No 22 of 2003 was a Nigerian response to the Enron crisis while the Asset Management Corporation Act of 2010 was in the aftermath of the 2008 financial crisis.

Similarly, regulatory bodies promulgate rules from time to time to guide financial reporting with operational and governance consequences on the accounting profession. The Financial Reporting Council Act No. 6 of 2011 clearly contains provisions that significantly affect the Nigerian accounting profession in particular and conduct of business and corporate governance in general. Events over the years affirm the observation of John H. Zebley, Jr that "accounting in all its phases will continue to be in the forefront in the future provided that members of the profession meet with patience the challenges that arise from it day-to-day and resolve them after careful consideration and with foresight" (1956). Zebley dichotomized the thematic challenges into (a) those arising within the profession, and (b) those initiated outside the profession. Although differing in details, Uche (2002) had equally argued that the development of professional accounting in Nigeria is beset by endogenous and exogenous threats.

4.1. Challenges

The recurring features of most corporate scandals are (i) the incriminating evidence of accountants and/or external auditors, and (b) the challenges imposed on the profession. Williams (1981) corroborates these challenges as follows: "*indeed, there are a number of important challenges facing the accounting profession today*…". Interestingly, most of the challenges identified by Zebley 60 years ago (in 1956) are still confronting the profession today. However, Zebley's challenges differ from those outlined by Williams (1981) except on accounting principles and standard setting. Pondering the future of the accounting profession, the American Assembly (2003) isolated 12 critical challenges facing the profession. These are summarized as follows:

4.1.1. Regulation and Oversight in Flux

The audit oversight and regulation is preoccupied with the incidence and ramifications of exactitude and precision in an audit. However, this concept is, as *The Economist* magazine characterized it, "a little more than a brittle illusion". Thus, evolving regulatory initiatives must first confront the important issue of attitudinal change: the cognition that audits are not a precise phenomenon and cannot be as exact and accurate as investors have expected and/or would like them to be.

4.1.2. The Value of the Audit

Independent audit of a company's financial statements is a requisite component of a good system of corporate governance and financial reporting. Thus, the public and corporate audit committees may be demanding a level of certainty and precision of those audits that is unrealistic, while auditors' best professional judgment must play a greater role in those audits.

4.1.3. Structural Challenges Facing the Accounting Profession

To remain a profession, auditors need to address issues ranging from the potential problems or conflicts created by the consolidation of their industry to the need to restore their credibility to attract the ‘best and the brightest’ of college graduates.

4.1.4. Setting Achievable Goals

The adoption of IFRS as an acceptable principles-based global financial reporting framework put paid to the historical use of national GAAP, which is rules-based. Although very few countries, such as the USA, still use GAAP, these countries are at best at a transition stage. The conceptual argument of which accounting standards, rules based or principles based, offered more or less judgment was unnecessary because all standards are based on principles. To the extent that every accounting standard, or any standard at all, is predicated on principles that guide professional conduct or practice, both IFRS and the U.S. GAAP are based on rules.

4.1.5. What Should Financial Reporting Look Like in the Future?

There is palpable anxiety among accounting professionals and standard setters on what the future of financial reporting will look like. The reality is that the future is being constructed with vestiges of the past and present accounting standards and practices wagging to determine the future. The perimeter of residual interests and emerging concerns comprises four key components, namely (i) increased regulatory compliance requirements, (ii) globalized accounting standards, (iii) greater disclosures, and (iv) streamlined communication of financial results. Financial statements of the future will be more flexible and adaptable to various uses and user-groups, including industries. They will also include qualitative (non-financial) information. Correspondingly, the audit of the future will be based on a variety of information and differential economic circumstances to make judgments on transactions and asset valuations. Like financial reporting, auditing and audit report of the future will differ with industry and circumstances.

4.1.6. Improving Auditing and Financial Reporting Standards

As a corollary to the future look of financial reporting, new standards will be needed to support future financial reporting and attestation frameworks. As mentioned in 5 above, the financial report of the future will be both quantitative and qualitative in nature. That is to say that the information content of future look of financial reporting will be both financial and non-financial in nature. Accordingly, the nature of attestation services (audit) of the future will be a package of financial and non-financial. Thus, providing independent opinion on published financial and non-financial reports will warrant a different structure, different from the present structure of attestation. Improving future auditing and financial reporting standards will also warrant new auditing standards, concrete in substance and flexible to accommodate the emerging needs of diverse stakeholder groups and interests.

4.1.7. Licensing Issues: More Firms, More Depth

Another major challenge is one that requires enlargement or deepening of accounting and attestation services of the accounting profession. At the moment, the consolidation of professional accounting services industry is prohibitively costly; which explains why there is only a limited handful of comparatively global accounting firms – the Big Four. These global accounting firms with offices across the world enjoy virtual monopoly of accounting and auditing services, especially in the large corporate segment of professional accounting services and audit market. Unfortunately, there is at present no antitrust policy against the continued dominance of the profession by the Big Four and the associated monopoly problems. While the existence of these dominant firms (a) may be anticompetitive, (b) crowds out small and medium size accounting firms, (c) results in resource misallocation, and (d) may be difficult to correct, it nevertheless presents a challenge to professional bodies and regulatory agencies. Remedies for structural and professional dominance will possibly dominate future regulatory and policy conversations. Mainly, this is because uncontested market, industry or professional services dominance (1) is contrary to prevailing social norms, (2) undermines public and investor confidence in a free enterprise economic system, and (3) may be sufficiently serious to offset prospective economic, political and social gains.

4.1.8. Changing the Current Regime

The future of professional accounting practice will rely more on judgments and less on rules. Therefore, changing the current regime will require fresh insights into how increased judgmental disposition can juxtapose a more transparent, open and effective financial reporting system. In the words of the American Assembly (2003), "… *if auditors are allowed, even required, to use more judgment, to change the format of financial statements and the nature of attestation standards – not to mention making changes in their audit opinions – regulators must bring a greater degree of rationality to the issue of auditor liability*".

4.1.9. Adjusting Auditing Practices

There is a growing discontent with the nature and culture of compensation for professional accounting services, especially among the large accountancy and auditing firms. This is due largely to the scandalous evidence incriminating accountants in fraudulent financial reporting and other egregious corporate governance infractions, which were thought to have contributed to the collapse of Enron, WorldCom, etc. The unremitting emphasis on generating new businesses, expanding the scope of consultancy services, and cross-selling of non-audit services should give way to a different incentive structure. As an alternative, the American Assembly suggests that the accounting profession should establish a different system of incentives, "*one that rewards an increase in the quality of the auditing process by, for example, awarding bonuses to those partners who perform top-quality audits*". This new compensation structure could incorporate rewards for generating new business; however, this should be limited to or based on the audit quality.

4.1.10. Reinvigorating Audit Committees

The large-scale corporate scandals and corporate failures precipitated the strident calls for robust corporate governance systems across the spectrum of economic organizations. In taking a look at the future of the accounting profession, the American Assembly underlines the centrality of audit committees in promoting efficient corporate governance. Because of the huge expectations from audit committees, public commentaries suggest a virtual consensus among analysts, business leaders, and regulators that its members must display a high level of financial literacy, have a deep understanding of the company's business, and apply a greater degree of scrutiny, particularly when the external audit firm provides non-audit services.

4.1.11. Preparing the Next Generation of Professionals

The 21st century globalization has already altered the landscape of economic activity and governance. To be sure, the future marketplace will require the accountant to possess a different skill set from the present traditional accountant. The future world will be largely technology driven. As such, the accounting profession will be at risk of declining competitiveness due to low levels of accounting education and professional development. Especially, in developing countries, most public sector accountants are nominally so, without corresponding technical depth or degree of professional or intellectual profundity. Accounting professionals should have a strong background in economics, finance, communication, and information communication technology (ICT), all of which will be defining components in preparing their future work as auditors and accountants. In addition to good college or university education with a strong understanding of both the theory and practice of business and finance, new entrants into the accounting profession must have demonstrable skills and capacity to excel in the broad discipline of accounting and finance. With this background, other idiosyncratic skills such as auditing are best learnt on the job.

4.1.12. Development of Directors

Appointment into a board directorship is not an all-comers affair and cannot also be taken for granted. In the increasing era of globalization juxtaposing advances in ICT, corporate boards face a new world of corporate governance. The dynamics of globalization compel both first-time and old directors to keep abreast of and custom-design the following policy issues for their particular boards: broad and specific issues in corporate governance, strategy, financial markets and their functions, risk management, performance measurements, and executive compensation and incentive structures. The atmosphere of these and their ramifications underscore the need for continuing education for board of directors.

4.2. Threats

As accounting irregularities and scandals manifest, it is important to examine whether the various accounting professions perceive these as a challenge and to ascertain other challenges and threats that may be potent but not adequately exposed. A related issue is how these will impact on the future of the profession. However, the real threat is not in the virtual monopoly of the profession by any accountancy body but in the lack of intellectual leadership in the profession, especially in Nigeria and other Sub-Saharan African (SSA) countries. Critics, though, argue that the virtual monopoly makes the accountancy body membership blasé and unmotivated to solve the problems confronting the profession.

The threats to the future of accounting profession can be isolated from the following sources:

(a) Globalization: Increasingly, businesses are turning to globalization to reap the wider benefits that it brings. With globalization, the landscape of economic activity and accounting practice has witnessed dramatic changes, and has correspondingly taken accountants along at warp speed. In addition to its many benefits, globalization paradoxically has its discontents, which essentially constitute threats to the profession. Within the range of professional competency, Tachie (2010) identifies three groups of accountants to whom globalization is a threat. These are: (a) those working for (or providing outside services to) foreign-owned companies; (b) accountants working for (or providing outside services to) locally-based enterprises that are expanding internationally; and (c) accountants whose knowledge, skills, and abilities limit them to performing only low-value, compliance-oriented tasks. He further identifies two groups of accountants who are most likely to profit from increased globalization. These are (a) accountants who expand their financial accounting knowledge, skills, and abilities so as to gain mastery of changing local and International Accounting Standards (IAS); and (b) those who complement their compliance-oriented knowledge, skills, and abilities with the performance-oriented knowledge, skills, and abilities of management accounting.

(b) The cold war against the universal acceptance of, and efforts towards, IFRS as a single set of high quality standards whose objective is to make the global market more efficient through consistent and comparable financial statements.

(c) Generational Gap: The erosion of ethics and slide into the trough of anomie in the profession. This aspect of accounting history started with trust as duty in a fiduciary relationship within the audit franchise. Some commentators fear that the emergence of a crackpot sect in the profession borne out of the acquisitive society who joined the profession recently is incapable of subordinating their quest for instant gratification to the public trust. This generation sees commitment to ethics not as a fundamental duty but as a supererogation. They are the generation that has turned "creative accounting" into a profession within the accounting profession.

(d) Duplicate Regulation: The tussle for hegemony among 'gatekeepers', namely, those with some form of watchdog role in the financial reporting framework, e.g., the Securities and Exchange Commission, the Stock Exchange, accounting profession, standards setters, legislature, and, to some extent, the academia. They must see the commonality of their goals and demonstrate candor by yielding to common purpose of ensuring a robust framework for responsible financial reporting, instead of engaging in internecine bickering over irrelevant leadership posturing.

(e) The Return of Non-audit services: severance of consulting services that amount to executive management function of clients from the repertoire of services offered by audit firms was aimed at improving their independence. Since after Sarbanes-Oxley Act in 2002, some accounting firms and their protagonists have launched back intellectual and philosophic arguments against restrictions to audit services despite empirical evidence that in all the egregious cases of financial reporting scandals, weak auditor independence, particularly with low-visibility conflict of interest scenario, contributed immensely, sometimes most profoundly, to auditor compromise and acquiescence that resulted in fraudulent financial reporting (Coffee, Jr, 2006).

(f) Degrading Standards in Education: Many commentators and analysts (Financial Research Associates, 2009) have observed that there are "*massive institutional pedagogical gaps and dysfunctions in accounting education*" that affect the quality of graduates feeding the cycle of accounting manpower in the profession. Due to lowering of standards and inadequate investment in education, especially in SSA countries, students pass through accounting programs reading sketchy lecture notes as their main source of knowledge, then go on to prepare for professional examinations by reading hurriedly-collated study packs that do not cover necessary scope in accounting education. The Big accounting firms, professional bodies and government have so far failed in the moral duty to provide financial and research support to accounting teachers and students. The result is a generation of accountants who, even if they have good intention, lack the superior competence necessary to face the complex challenges of financial reporting in a sophisticated capitalism.

Till date, the profession is facing many of these challenges and threats. This is the historical context underpinning the enactment of the Financial Reporting Council of Nigeria (FRC) law. The litmus test for the FRC therefore lies in its capacity to overcome the threats and challenges and to usher a sustained regime of better professional accounting practice and improved financial reporting environment. That is the benchmark against which the success or failure of the FRC is to be measured or judged.

5. FRCN and Future of Accounting Profession in Nigeria

The Financial Reporting Council Act No. 6 of 2011 was signed into law on June 3, 2011 by the President of the Federal Republic of Nigeria, Dr. Goodluck Jonathan. As already mentioned, the Act marked the end of voluntary self-regulation of professional accountancy bodies and the beginning of formal, mandatory oversight under the ambit of the Financial Reporting Council. The attempt of this section is to evaluate the powers and functions of the Council, especially as conferred under Sections 7 and 8 of the FRC Act. These powers are both new in the history of regulation of professional bodies in Nigeria and are a source of tension.

Some Change Agents Contained in the Law

We now sketch the pertinent agents of change, especially in the areas of inspection and monitoring, as a prelude to how they have shaped or are expected to shape the future of accounting profession in Nigeria.

5.1. Registration of Professionals

This may be seen as the most controversial of the provisions of the Act in the sense that it empowers the Council to register all professionals who wish to hold any appointment or offer professional services for remuneration in public interest entities. Any professional whose activities impact on the financial reporting processes of a public interest entity cannot effectively carry out his/her duties unless s/he is registered under the FRC Act. This obligation is covered under Sections 8(1f), 33 and 41 of the FRC Act. However, skeptics, like Nairametrics in its posting of 27 February 2013, argue that the FRC Act is draconian and places too much power on the Council (http://nairametrics.com/draconian-law-every-professional-in-nigeria-must-register-with-the-financial-reporting-council/). The Act requires that all professionals be registered with and by the FRC, although some, such as accountants, argue that being licensed and regulated by a professional accountancy body, it is superfluous to seek yet another licensing or registration. Clearly, the FRC law is not only central to the performance of the accounting profession but also affects professionals in other disciplines who seek to work for large organizations or the so-called public interest entities (PIE)[3].

The FRC makes its registration mandatory for a variety of reasons. First, it is the underlying force of the Council's other regulatory authority -- such as to require compliance with its auditing standards and to conduct inspections. Second, FRC's registration serves as a filter -- albeit a crude one -- for who should and should not be engaged in professional services in Nigeria. The affirmative context of this is that it is probably only in Nigeria and in a few SSA countries that a foreigner can claim to be a professional and start practising without being properly licensed by relevant local professional bodies, the exception being the legal profession. Until recently, Nigerian professional accountants did not enjoy reciprocal recognition conditioned to a stimulus that evoked respect from similar bodies elsewhere. For example, there is no reciprocal arrangement between Nigeria and other countries in the recognition of professional accountants, as is common in other jurisdictions, such as among developed countries and between them and other countries. Arguably, Nigerians feel shortchanged when holders of foreign professional certificates work into Nigeria's labour market without being subjected to the same laborious local certification as Nigerians are subjected to in foreign countries. To be sure, members of the Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN) are not readily admitted into the work place abroad without corresponding professional certification in the host country. The registration of professionals in Nigeria is designed to correct this anomaly: no person is registered with a foreign professional certificate without a professional certification from a local accounting body. Moreover, FRC certification is to provide the desired databank for government in ascertaining the exact number of professionals involved in the financial reporting chain.

The objective of financial reporting is to provide information useful to various users for decision-making processes. In a globalized world of integrated economies and markets, such information must be neutral, reliable, and must portray financial results in an accurate and faithful manner. On their own, financial reports may be somewhat negligible unless users have confidence that this is in fact the case. Without a doubt, reliable financial reporting with reliable auditing plays a critical role in establishing and maintaining the confidence of the public (investors, other stakeholders, and government).

This is the context in which accountants have been singled out for blame in the wake of every global financial crisis and associated corporate failures and scandals. The argument is thus: if the investing public does not have confidence in financial reports, the value of the latter is grossly eroded. However, because there are other professionals whose inputs to the financial reporting chain are significant, it may be jurisprudential to assess their involvement relations and thus appropriate their level of complicity - omission or commission – in the event of corporate scandals and failures. This way, the burden of corporate failure may be viewed from a wider optical prism than from the narrow lens of accounting and accountants.

5.2. Professional Discipline

Another important upshot of the FRC registration is that professional accountants will henceforth be under a new disciplinary regime. However, there appears to be some level of public discontent and apprehension towards this new regime of professional discipline. The apprehension relates to the functions of the Council under Section 8 in terms of its disciplinary powers. In the main, these include:

(a) Sections 8(1b): review, promote and enforce compliance with the accounting and financial reporting standards adopted by the Council;
(b) Sections 8(1j): conduct practice reviews of registered professionals;
(c) Sections 8(1l) enforce compliance with the Act and rules of the Council on registered professionals and the affected public interest entities;

In one of the very first activities in the exercise of its mandate, the FRC ordered the Institute of Chartered Accountants of Nigeria to stop its 2012 Annual General Meeting (AGM) due to perceived corporate governance breaches. http://www.vanguardngr.com/2012/05/financial-reporting-council-stops-ican-agm. This singular action, unprecedented in the history of accounting profession in Nigeria, signals the potency of the law if its implementation is effectively and fairly sustained. Also, in 2015, the FRC announced the suspension of registration of some key officers of StanbicIBTC Bank Plc including the Chairman and the Group Managing Director along with the engagement of a Partner of KPMG Professionals (the External Auditors to the bank) over misleading financial statements. The FRC further directed the directors of the bank to withdraw the financial statements for the years ended December 31, 2013 and 2014, and restate them in accordance with the provisions of Section 64 (2) of the Financial Reporting Council of Nigeria Act No. 6, 2011 and Regulation 21 of the Financial Reporting Council of Nigeria – Guidelines/Regulations for Inspection and Monitoring of Entities, 2014 (see, https://drive.google.com/file/d/0BxB1-bqcIt35aHh 2OX BF NFBneWM/view? pref=2 & pli=1). While these actions have the potency to instill discipline in the accounting profession in Nigeria, however, most of the Council's work will appear to be remedial – aimed at helping professionals and firms raise their standards and strengthen their quality controls. When serious violations of the law or professional standards are uncovered, the Council is obliged to act.

[3]Public Interest Entities (PIE) refers to governments, government organizations, quoted and unquoted companies and all other organizations which are required by law to file returns with regulatory authorities and this excludes private companies that routinely file returns only with the Corporate Affairs Commission and the Federal Inland Revenue Service.

5.3. Require Management Assessment of Internal Controls, Including Information Systems Controls with Independent Attestation

This is another salient but powerful agent of change which potentially has a significant impact on the accounting profession. Ordinarily, external auditors are expected to assess the effectiveness of extant internal control system so as to determine the level of reliance to be placed on it and invariably the extent of work to be done. There has been no published evidence to suggest the contrary in auditors' work schedule. The FRC is empowered to demand independent attestation to the effectiveness of internal control and information systems control in line with Section 7(2f) of its enabling Act. There are three different attestations in financial statements required, namely: a) assurance attestation, b) internal controls and information systems controls attestation, and c) corporate governance attestation. While these attestations may be costly to undertake, their importance and benefits are expected to offset or outweigh their cost implications. Because this area will require extra care and due diligence by professionals, it presents a strong agent of change for the accounting profession in Nigeria. Attestation to the effectiveness of the internal controls and information systems presupposes proper ex ante checks. Considering the timelines in submission of financial statements to regulatory agencies and stakeholders by companies, the Council is fine-tuning the rules to ensure that there is no overlap.

5.4. Require Code of Ethics for Financial Officers and Certification of Financial Statements by Chief Executive Officer and Chief Financial Officer

Section 7(2g) obligates the Council to require that all financial statements be jointly certified by the entity's Chief Executive Officer (CEO) and Chief Financial Officer (CFO). This is part of the global effort to inject confidence in published financial reports, hold the two key corporate officials responsible for corporate disclosures or omission to disclose, and enhance good corporate governance. The above requirement is bound to evoke greater accountability and better corporate governance practice because failure to ensure certification of financial statements with utmost care will lead to "*forfeiture, by Chief Executive Officers and Chief Financial Officers, of certain bonuses received from the company and profits realized from the sale of company shares owned by them, where the company is required to prepare an accounting restatement*." In effect, these corporate executives are mandated to have a close and effective supervision of not only the processes leading to the preparation of financial statements but also the final output – the financial statements themselves. The consciousness of personal accountability for egregious financial statements will exert more pressure on the profession and thus enhance the credibility of financial statements.

5.5. Practice Review of Professional Accountants

Section 60(a) empowers the Council to inspect any relevant book under the control of the auditor, partner or employee and extracts, make copies from any such book, document and record in relation to a company under investigation subject to the consent of the public interest entity (PIE). Section 61 deals with frequency of the practice review, which is to be done annually for professional accountants that audit more than 20 PIEs while others shall be conducted every three years. The FRC may however order a special inspection of any professional accountant any time.

5.6. Inspection and Monitoring

The provisions of the FRC Act further envisaged the probability of non-compliance and therefore allowed for modalities to ensure effective compliance with the establishment of the Directorate of Inspection and Monitoring (Section 23). The functions of the Directorate, which will potentially reshape the future of accounting profession in Nigeria, are specified in Section 28(1) of the Act. Precisely, the Directorate of Inspection and Monitoring is empowered to:

(a) Monitor compliance with auditing, accounting, actuarial and valuation and guidelines reviewed and adopted by the Council;
(b) Recommend through the Technical and Oversight Committee sanctions as may be necessary for the Council's approval; and
(c) Implement sanctions and fines as approved by the Council in sub-section (1) (b) of this section;

Sections 60 to 67 deal with practice review of professional accountants, frequency of practice reviews, powers of investigation, obstruction of the inspector, sanction for non-compliance by FRC, etc. These provisions are designed to empower the FRC to carry out external oversight on the accounting profession and thereby jettison the internal regulation, which had hitherto prevailed over the years. The overarching purpose is to instill professional discipline, strengthen the ethical practices of the profession, and ensure that accountants carry out their duties with due care and professionalism, in the context of very prohibitive sanctions.

6. Conclusions

Although corporate financial reporting would appear to have significantly improved through the inspection and monitoring activities of the defunct Nigerian Accounting Standards Board (NASB) despite the shortcomings of the law, the FRC is expected to restore the lost glory of the accounting profession through effective implementation of the provisions of the Act in an enhanced regulatory framework. The ubiquitous provisions of the FRC Act have already raised eyebrows among the professions. This notwithstanding, the emboldened Financial Reporting Council is expected to strengthen the integrity of the accounting profession and instill greater confidence in and reliability of financial reports.

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