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An in-depth analysis of the evolution and challenges of financial reporting in Nigeria

Echegu Darlington Arinze, Aleke Jude Uchechukwu and Alum Benedict Nnachi

Department of Publication and extension, Kampala International University, Uganda
darlington.echegu@kiu.ac.ug nzeechegu@gmail.com
ORCID: 0009-0002-6644-1709

ABSTRACT

The evolution of financial reporting in Nigeria has been influenced by a combination of legal systems, global standards, and emerging trends. This article will demonstrate the financial reporting environment in Nigeria in detail such as regulatory bodies, accounting standards, reporting requirements for different entities, tax implications, auditing techniques, corporate governance principles, and emerging issues. The chapter discusses a paradigm shift towards IFRS that took place in 2012, and the obstacles companies faced in adjusting their systems to international norms. The role of regulators, like Federal Republic of Nigeria Financial Reporting Council (FRCN) and Securities and Exchange Commission (SEC), and the impact of legislative amendments, such as Companies and Allied Matters Act (CAMA) 2020, is also looked into in this research. In addition, the article discusses the specific problems encountered in the oil and gas, finance, and telecommunications industries, highlighting the unique accounting issues and regulatory requirements. Furthermore, the ethical side of financial reporting is included, namely honesty, openness, and whistle blowing. We utilised relevant published data (2004–2014) from diverse, reliable databases. The outcome is a clear depiction of the need for joint initiatives by regulators, firms, professional bodies and stakeholders to tackle the challenges present in Nigerian financial reporting and create a climate of transparency and reliability.

Keywords: Financial Reporting, Nigeria, International Financial Reporting Standards (IFRS), Corporate Governance, Auditing Practices, Taxation,

INTRODUCTION

The financial reporting environment in Nigeria is a mixture of legislative frameworks, international standards, and emerging trends. The Federal Republic of Nigeria Financial Reporting Council (FRCN), Securities and Exchange Commission (SEC) and the International Financial Reporting Standards (IFRS) determine the business rule to be observed by Nigerian businesses. The adoption of IFRS in 2012 was crucial, as it put Nigerian accounting processes at the global standard mark [1]. Nevertheless, this transformation is a complex process which needs a lot of training, technology updates, and appropriate internal control systems. The legal framework of the regulatory framework is based on the Companies and Allied Matters Act (CAMA) which was revised in 2020. The compliance with CAMA 2020 standards makes the corporate governance transparent and new standards would be adopted. The report requirements are different for different organizations, such as publicly listed companies, SMEs, non-profit organizations, and government bodies. The nature of tax as an element of financial reporting lies in its power to rule over the provision of financial information, tax-related matters, and disclosures. Following tax rules not only ensures the financial data to be correct but also prevents penalties and upholds stakeholders' trust. The behavior of auditors is under the control of professional bodies such as the Institute of Chartered Accountants of Nigeria which focus on independence, professionalism and ethical behavior [2]. Auditors follow the rules of accountancy to ensure that the statements are free of fraud or error. The corporate governance principles guarantee the transparency, honesty, and responsibility in the financial reporting. Board of directors is responsible for the financial reporting, internal controls, shareholder interests. However, the development of efficient reporting standards in Nigeria is faced with problems like poor enforcement, data shortage, and the complexity of digital and sustainability issues. In order to tackle these challenges, governments, businesses, professional organizations, and other players in the industry must work in collaboration to develop a culture that values openness, reliability, and responsibility [3].

Overview of Nigerian Financial Reporting Framework: The financial reporting in Nigeria is supervised by various organizations such as the Federal Republic of Nigeria Financial Reporting Council (FRCN), the Securities and Exchange Commission (SEC), and the International Financial Reporting Standards (IFRS). The FRCN is responsible for the development and publication of accounting standards, the monitoring of compliance with these standards, and the maintenance of the quality of financial reporting in Nigeria. It has a range of implications such as improvement of corporate governance and accountability rules in Nigeria's companies [4]. The SEC, which is also known as the Securities and Exchange Commission, has the mandate to protect publicly listed companies listed on the capital market and to ensure that all listed businesses adhere to the required disclosures. The SEC cooperates with other regulatory bodies to ensure that the reporting requirements and procedures are in line with the international best practices. In 2012, Nigeria transitioned to IFRS in a bid to embrace globally accepted accounting standards. This shift was made to ensure that credible shared financial data was available in a global compatible format, increase the access to global financial instruments, and continue attracting foreign investors. This would facilitate international business and investment. During the IFRS adoption in Nigeria, organizations had to harmonize their national accounting policies, processes, and formats with IFRS. The entities holding these positions have to pass trainings, change systems, and revise their internal control mechanisms to comply with IFRS principles. It also involved the development of the local equivalents of IFRS to adapt the accounting practices or requirements. Compliance with continuous enforcement of the regulations is no exceptions for any businesses in Nigeria (in the public and private sectors, listed and unlisted companies, small and medium enterprises, etc.). FRCN and SEC implement measures of surveillance, inspection, and enforcement to ensure compliance with IFRS accounting standards. Non-compliance may lead to penalties, sanctions, or damage to a company's reputation.

Legal and Regulatory Environment: The Companies and Allied Matters Act (CAMA) is the principal law that guides the registration, regulation and operations of business enterprises in Nigeria. It was introduced in 1990 and has been amended several times to suit the changing economic conditions and global standards of excellence [5]. The Act influences the way financial reporting is done in Nigeria by mandating corporate bodies to prepare and present their financial statements in line with Section 331. Furthermore, the Act defines the responsibilities and roles of directors, auditors, and other officers who should adhere to ethical principles and guidelines. The Companies and Allied Matters Act, 2020 (CAMA 2020) was signed into law in Nigeria in 2020. The Act was designed to achieve objectives like better transparency, ease of regulatory procedures, and increased business in Nigeria. The novel Act includes electronic filing, virtual meetings, and disclosure of beneficial ownership, which have the effect of the process of financial reporting. Regulations and accounting standards compliance is one of the key functions of the regulatory authorities. The Federal Republic of Nigeria Financial Reporting Council (FRCN) is the main regulatory body in Nigeria, which is responsible for unified accounting principles, the development of standards, the monitoring of adherence, and the enforcement of rules to guarantee the accuracy and reliability of financial information. Financial Reporting and Compliance Network (FRCN) audits, investigates and sanctions individuals or organizations guilty of breaching accounting principles or other fraudulent activities. The primary regulator of the capital market in Nigeria is the Securities and Exchange Commission (SEC) which performs a very critical role of fostering transparency and shielding investors. Companies listed on the public stock exchange must meet the listing requirements, which include financial reporting standards, periodic financial and non-financial reporting duties, and significant information disclosure. The SEC regularly inspects and audits the financial statements filed by the listed firms to make sure they are in line with accounting standards and securities law [6]. Additional regulatory bodies, such as the Central Bank of Nigeria (CBN), may also have oversight over businesses' and sectors' respective entities and the FRCN and SEC. These authorities may be involved in maintaining compliance with the issues highlighted above.

Accounting Standards in Nigeria: In 2012, Nigeria adopted the International Financial Reporting

Standards (IFRS) as the standards for financial reporting [7]. The adoption was driven by the need for high-quality, comparable financial information, improved access to the global capital market, and attracting foreign investment. The IFRS strategy brought Nigeria's accounting system closer to international best practices, making international transactions and investments easier to undertake. The implementation of IFRS in Nigeria involved a phased strategy, with companies either adjusting from the previous Nigerian Generally Accepted Accounting Principles (NGAAP) to conform with IFRS or having it applied directly. Companies underwent thorough training, system upgrades, and internal control modifications to meet the standards of IFRS. Regulatory bodies like the Financial Reporting Council of Nigeria (FRCN) provided guidance and support during this period. The implementation of IFRS has led to more transparency, uniformity, and comparability of financial information, making it crucial for investors, analysts, and other stakeholders to acquire reliable financial data. However, IFRS has also had challenges in the country, particularly in areas such as revenue recognition, fair value assessment, and financial instruments. The adoption of IFRS has brought about the adaptation of international accounting standards by Nigerian businesses, as they now use the National Government Accounting Practices (NGAAP) as their accounting framework [8]. This has helped companies converge their accounting policies, procedures, and reporting formats into the standard format promoted by IFRS. However, the adoption of IFRS does not add much value to the financial reporting of businesses in Nigeria. While the adoption aims to foster convergence towards IFRSs all over the country and ensure uniformity of financial reporting, it does not add much value to the financial reporting of businesses in Nigeria [9]. Efforts were made to harmonize the transition from NGAAP to IFRS, with regulatory agencies like the Financial Reporting Council of Nigeria (FRCN) providing guidance and assistance to businesses. Overall, the adoption of IFRS has brought about significant advantages for Nigerian businesses, but it also presents challenges and opportunities for further development in accounting knowledge and skills.

Financial Reporting Requirements for Different Entities: Nigerian financial reporting regulations are regulated by regulatory agencies like the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE), with the aim of safeguarding investors' confidence in stock markets while ensuring fairness and transparency [10]. Public firms operating on the Nigerian capital market must report their financial statements in a way that complies with the International Financial Reporting Standards (IFRS) and is of approved standards in Nigeria. Publicly traded companies must always submit to the standard transparency rules in annual reports, which include the balance sheet, statement of earnings, cash flow statement, and statement of owner's equity. Notations pertaining to the financial statements should state accounting policies used transactions between linked parties, contingent liabilities, and other material disclosures. The management commentary should include a performance analysis of the company's financials, strategic activities, risks, and outlook forecast for the near future [11]. Quarterly reporting is required for both public and private companies, with interim financial reports providing full access to current financial data. The Financial Reporting Council of Nigeria (FRCN) sets financial reporting standards for companies like SMEs and private organizations, with some SMEs considering simpler reporting frameworks or local accounting standards. The reporting of monetary accounts and other relevant brands must be in compliance with the set rules and regulations of FRCN, with exceptions or exemptions suggested based on the size, nature, and complexity of the institution being assessed. The Saudi Arabia Financial Reporting Standard for Small and Medium-sized Entities (NFRS for SMEs) was created due to the efforts of the FRCN, providing SMEs with a lower requirement for disclosure and simpler accounting practices. Specific reporting requirements for government entities and non-profit organizations are also in place, with the Nigerian Statement of Accounting Standards for Not-for-Profit Organizations (NSA NPO) discussing various reporting levels that non-profit organizations should maintain. In Nigeria, the Nigerian public sector accounting standards control the financial reporting procedures implemented among public institutions, with the Office of the Accountant General of the Federation (OAGF) overseeing compliance with numerous laws and regulations at the public sector level. Institutions or non-profit entities are required to ensure accountability and transparency in their disclosure processes, providing clear and accurate financial information to stakeholders, funders, and the general public to prove their efficient resource utilization and mission objectives.

Taxation and Financial Reporting: Tax on Income from Corporations (CIT) is a legal document in Nigeria that sets the tax rate for companies, which is based on taxable earnings. This income is different from accounting profits due to discrepancies in legislation and accounting standards. Value-added tax (VAT) is a tax on the supply of goods and services in Nigeria, and registered companies are mandated to deduct and collect it on qualified transactions. Withholding tax (WHT) is a tax paid on wages or salary before the money is paid to the employee by their employer. All payments to maintenance services providers, contractors, or suppliers are duty to withhold tax at a rate determined by the source country. WHT is both a cost and a liability in the context of financial reporting activities. The effectiveness of the Nigerian system in tax laws in understanding, measuring, and disclosing items relating to tax in financial statements has an impact on financial reporting. Businesses must ensure that their financial statements comply with tax legislation to guarantee their obligation to pay taxes and any liabilities they may have. To be in compliance with Nigerian tax rules, businesses must accept tax rules based on the taxable earnings they computed. The current tax for the reporting period is reported as a deduction in the income statement, ensuring that anticipated taxes for the given period are captured. Assets and liabilities related to deferred taxes exist due to temporary differences between accounting profit and taxable profit, which will be reversed in the future. Deferred tax components must be expressed in the published financial report and given the appropriate nature and amount explanations in the notes accompanying the financial statements when required. The effective tax rate, which is the ratio of the total tax cost to the accounting profit before tax, is the rate of tax that businesses have to publicly disclose [12]. With substantial tax liability related to the company, investors and other firm stakeholders can gain insights into the company's tax payment methods and how those factors affect the firm's financial performance using the Effective Tax Rates. Management should determine whether deferred tax assets should be recorded based on the reality level of future profits being generated, which are no longer relevant at the time of valuation. Once recognized, all transitory differences subject to taxation are looked at and double-entry booked. Alterations to the tax rates may have a bearing on the classification of deferred tax assets and liabilities. Companies are required by law to display the nature and amount of any changes in their books as due to deferred tax, along with the reasons for unrecognised deferred tax assets, the amount of recognized deferred tax assets, and the expiration dates of tax loss carry forwards.

Auditing Standards and Practices: The Institute of Chartered Accountants of Nigeria (ICAN) is responsible for regulating auditing standards in Nigeria, known as the Nigerian Standards on Auditing (NSAs) [13]. These regulations are drawn from generally accepted auditing standards and tailored to the Nigerian business environment. It is essential for auditors to conduct their audits in a style matching professional standards and ethics, which can be achieved by following specific guidelines and standardized procedures. Other relevant entities, such as the Association of National Accountants of Nigeria (ANAN) and the Audit Regulatory Board (ARB), may adopt auditing standards or recommendations and introduce them to their members. These national oversight authorities, in addition to the International Certified Accountants Association (ICAN), are already in place across Indonesia. One of the main purposes of the guidelines is to guarantee that practices conducted within different professional bodies and industries are of the same quality and issues [14]. Auditors play a crucial role in ensuring compliance with accounting regulations and standards. They maintain conformity with accounting standards, such as the International Financial Reporting Standards (IFRS) or the Nigerian Generally Accepted Accounting Principles (NGAAP), by reviewing financial statements in accordance with the applicable accounting framework. They also observe any and all regulations, ensuring compliance with tax laws, provisions of company law, regulatory filings, and other legal obligations that can affect both financial reporting and management of business operations. Fraud and error detection and prevention are also essential for auditors in Nigeria. They stress the unearthing of money laundering activities, false entries, and irresponsibility that may undermine the credibility and honesty of financial accounts. In case of suspicion of fraud or financial statements, auditors carry out risk assessments, analytical methods, and substantive testing to verify the accuracy of the financial statements. For auditors in Nigeria, reporting requirements include providing a report from the auditor, evaluating the fairness and reliability of financial accounts, providing various forms of opinions, reporting on internal control systems and publicly traded corporations subject to regulatory authorities' monitoring, and defining a procedure for efficiency audits. Special reporting requirements may arise, such as providing reports on specific problems such as fraud investigations, regulatory compliance questions, or other important events impacting an entity's financial status or operations. By adhering to these guidelines, auditors can ensure that their audits are conducted in a manner that aligns with professional standards and ethical practices [15].

Corporate Governance and Financial Reporting: Corporate governance practices in Nigeria are governed by various legal rules, principles, and policies aimed at increasing transparency, accountability, and integrity in corporate undertakings [16]. The Companies and Allied Matters Act (CAMA), the Code of Corporate Governance of the Securities and Exchange Commission (SEC), and other laws constitute the basic legal framework for corporate governance. Corporate governance practices emphasize the importance of board independence, composition, and surveillance by audit committees. Independent directors play a crucial role in overseeing the process of oversight and providing assistance with strategic planning. The audit committees monitor financial reports, internal controls, and external auditing operations, ensuring the accuracy and honesty of financial reports. The internal control system is essential for efficient corporate governance, which allows for accurate and true reporting of financial information [17]. Internal controls and procedures are meant for fraud prevention and assurance of authentic and complete financial information. Companies in Nigeria are required to have a corporate governance statement as part of their annual reports, which focuses on issues such as board composition, structure of other committees, director independence, compensation rules, and risk management practices. Diversification of the board and independence is also required, with businesses required to publicize information about the composition of their boards, including the number and type of directors, their demonstrated competency, and whether or not directors are added to or removed from the board. Disclosure of board director independence is also required, highlighting the proportion of independent directors who are not-affiliated members of the board and any affiliations that may potentially impair their independence. The audit committee is mandated to report to shareholders through the annual report, providing specific information about the committee's actions, responsibilities, and actions taken to safeguard financial reporting and internal control. Adherence to the Codes of Professional Corporate Governance is expected of Nigerian companies, with compliance statements appearing on business sites to let the public know whether the organization has implemented the principles and recommendations of the applied standards. The board of directors plays a crucial role in promoting the reliability and accuracy of financial information and safeguarding the interests of shareholders. They make final decisions on the company's affairs, set strategic direction, develop goals, and culture, which must be taken seriously for accountability, honesty, and openness. Control of the financial reporting process is another responsibility of the board of directors. Through civil functioning of auditors, internal audit functions, and contacts with management and external auditors, directors are tasked with oversight and maintenance of financial reporting-related activities. Boards of directors take responsibility to shareholders when they interact with them through AGMs, interim reports, and other communication media. Financial reporting in Nigeria faces several challenges, including a lack of appropriate enforcement mechanisms for regulatory conditionals, building capacity concerns, the complicated nature of the regulatory environment, corporate governance and transparency, and the availability of physical and technological resources. The failure to enforce the law is a significant issue, as there is a lack of adequate resources, capacity, and supervision avenues. Building capacity is another major problem, especially for smaller businesses and non-profit organizations with limited human resource base. The shortage of training and information to obtain the right resources is another major problem encountered by organizations when producing accurate and credible financial statements [18]. The complex regulatory environment in Nigeria is very complex and changing rapidly due to changes in laws, rules, and accounting standards. Companies may have difficulties in interpreting and implementing new rules, leading to discrepancies and inaccuracies in the reporting of financial information. Corporate governance and transparency are also crucial issues in Nigeria's financial reporting. Issues of connected-part transactions, such as accounting earnings, and failure to be transparent can kill investor trust in and for financial statements.

Challenges and Emerging Issues: The uptake of automated financial reporting systems and digital tools may be slow in rural areas with minimal technology infrastructure and limited access to technology [19]. This could lead to miscalculations or delays in the posting of profits or losses. Trends and developments in financial reporting practices are only beginning to emerge, such as reporting on sustainability, integrating financial and non-financial information about a company's performance, and enhancing financial reporting through the use of technology like artificial intelligence, data analytics, and cloud computing. These advancements can create higher operability, accuracy, and transparency in business activities. Automation of tasks like data input and reconciliation can reduce human errors and free up resources for analysis and decision-making. Distributed ledger technology (DLT) and blockchain technology can enhance the trustworthiness of financial reporting, transparency, and security by allowing for timely verification of financial data. This lowers the risk of fraudulent actions and makes financial statements more trustworthy. The increasing demand for higher-level disclosures in financial reporting is driven by factors such as climate change risk, cybersecurity, and supply chain resilience [20]. This has led to a pressing need for industry to improve their disclosures, making them more understandable and exhaustive on emerging risks and their potential effects on future financial performance and sustainability. Technology and digitalization have influenced the procedures used for financial reporting. Automation allows for increased efficiency in operations, leading to lower process costs and improved efficiency. Data analytics technologies enable organizations to use high-speed processing tools for large volumes of financial data and make data-based decisions, enhancing risk assessment, fraud detection, and performance analysis. Real-time reporting allows businesses to be constantly in the process of obtaining and resolving financial data, enabling stakeholders to track the most up-to-date information about the company's financial standing. This allows for faster reactions to changing business conditions and informed decisions. Enhanced accountability and transparency in the organization are also enhanced by technology. Digital platforms enable CFOs to provide key financial metrics, disclosures, and performance indicators in real-time, easing the build-up of these crucial traits. Overall, automation, data analytics, and real-time reporting are key factors in improving financial reporting efficiency, transparency, and accountability. The oil and gas industry in Nigeria has unique accounting issues due to its complex processes, including exploration, production, refining, and distribution. Accurate forecasting of revenue streams is crucial for businesses in this industry, as it involves capitalization and depletion of reserves. The Nigerian government enforces various regulations, such as the Petroleum Act and the Nigerian Oil and Gas Industry Content Development Act, which require companies to meet reporting requirements [21]. The banking sector faces accounting challenges, such as loan impairment and regulatory compliance. Nigerian banks must follow IFRS 9 Financial Instruments, which involve evaluating loan rates based on historical performance, economic status, and borrower quality. The Central Bank of Nigeria (CBN) establishes prudential rules for banks, such as Basel Accords and the Banking Supervision Framework of Nigeria, which stipulate risk management techniques, capital adequacy ratios, liquidity requirements, and reporting duties. These policies aim to protect issuers from various types of risk exposure. The telecommunications industry faces accounting issues such as revenue recognition, network infrastructure, and subscriber acquisition expenses. Recognizing revenue can be complicated due to billing arrangements, service bundling, and long-term contracts. Performance obligations and revenue recognition criteria are assessed without leaving behind. To compute the strictness of network infrastructure assets, appropriate depreciation tools, usefulness of service time, and impairment evaluating criteria are necessary. The Nigerian Communication Commission (NCC) regulates the telecommunications sector, responsible for licensing criteria, guidelines for spectrum allocation, and consumer protection measures [22]. All rules and regulations in the sector are corporately governed by sector-specific rules, such as the Afghan National Broadband Plan and the Nigerian Communications Act. Companies in the telecommunication industry are required to adhere to regulatory reporting obligations, including the production of financial statements, market performance reports, subscriber statistics, and compliance attestations.

Ethical Considerations in Financial Reporting: Integrity in ethical financial reporting is based on honesty, fairness, and ethical values. This involves the ability and willingness to be honest, follow accepted behavior and norms, and behave ethically. Accountants should be impartial and independent in their decisions and judgments to avoid conflicts of interest, prejudice, and undue influence. Competence in the profession and respect for the law are essential for accounting professionals to ensure timely and reliable financial information. Keeping things private is crucial for maintaining the security of findings from bank accounts and keeping customer personal and bank details confidential. Accountants must ensure that they only disclose sensitive information to authorized persons for legal purposes. Transparency is essential for honest and ethical financial reporting, and companies need to be highly communicative in their financial statements, notes, and other forms of communication. Accounting professionals are responsible for maintaining integrity and transparency of financial reporting by maintaining conformity with standards and regulations, practicing scepticism and independent professional judgment, making ethical decisions based on ethics, and disclosing misconduct and the act of whistleblowing [23]. They must consider the impact of these decisions on shareholders, the image of their profession, and public belief in the financial market. Disclosure of misconduct and the Act of Whistleblowing allows professionals to voice their concerns either within the company or outside to regulatory authorities or professional groups. Some ethical dilemmas in the field of financial reporting in Nigeria include manipulation of financial statements, transactions involving related parties, prostitution and corrupt practices, and trading on inside information. Manipulation of financial statements can lead to misleading investors and stakeholders about the company's finances, reducing the credibility and transparency of financial reporting [24]. Transactions involving related parties can create conflicts of interest and misuse of company funds, affecting employee trust and raising doubts about the sponsorship structure. Prostitution and corrupt practices can also influence accounting processes, financial reporting, and regulatory results. Professional accountants are known to hold truth and integrity as the guiding principles of their actions. Insider trading, where accountants have access to secret financial data, should not be illegal or improper by rendering information elsewhere than it should be.

CONCLUSION

The Nigerian financial reporting system is governed by various bodies, including the Federal Republic of Nigeria Financial Reporting Council (FRCN), Securities and Exchange Commission (SEC), and International Financial Reporting Standards (IFRS). The adoption of IFRS in 2012 aimed to enhance transparency, comparability, and accessibility of global financial markets. However, challenges such as staff training and system modifications were a burden for firms. The Companies and Allied Matters Act (CAMA) 2020 improves corporate governance, promotes disclosure, and strengthens corporate governance. Financial reporting requirements vary across entities, such as publicly traded firms listed on the Nigerian Stock Exchange (NSE), privately held companies, small and medium-sized enterprises (SMEs), non-profit organizations, and government agencies. It is crucial for companies to follow regulatory requirements to secure shareholders' confidence, take responsibility, and practice openness in financial reporting. Taxation significantly affects financial reporting, as rules guiding tax-related items guide reporting, disclosure, and handling of tax items. Observance of tax rules helps avoid fines, ensure accurate financial reporting, and maintain stakeholder confidence. Accounting professional bodies like ICAN in Nigeria and similar organizations should establish guidelines, regulations, and procedures for auditing that uphold independent auditing, ethical conduct, and professional conduct. Corporate governance standards in Nigeria are developed through regulatory frameworks and codes of conduct, supporting openness, accountability, and honesty in financial reporting. Boards of directors have a fundamental duty to govern financial reporting activities, maintain internal check and balance systems, and arouse shareholder interests. Despite progress, the Nigerian financial reporting model faces numerous challenges, including lack of effective enforcement mechanisms, capacity-building concerns, complex regulations, and emerging issues like digitalization and sustainability reporting. To overcome these challenges, regulators, firms, professional groups, and other stakeholders must work together to promote an open, transparent, and trustworthy environment.

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