

Audit & Accounting Alert Newsletter

ISSUE 1 | JANUARY 2022

At-A-Glance

For years, the government of China has repeatedly thwarted attempts by the Public Company Accounting Oversight Board (PCAOB) to review auditor workpapers from audits of Chinese companies. Once again, the PCAOB has been forced to threaten these companies with delisting or prevention from listing on the financial markets. This issue highlights the latest action recently announced.

Our Worldwide Update is again split into two sections. The first covers COVID-19 news from organizations across the globe, while the second covers other news.



Gerald Herter - Editor

Chinese Companies Risk Loss of Listing on Wall Street

China continues to resist accountability of auditors



The refusal of China to allow access to the workpapers of Chinese company auditors was first reported on in this publication's initial year, 2012. Since then, every time there appears to be a breakthrough, China ultimately backs out. The latest crack in China's resistance came in August 2020. In response to pressure from a Presidential Working Group, as reported in our September 2020 issue, China proposed to allow U.S. regulators to audit its state-owned enterprises (SOEs), but would insist on editing some information for national security reasons. Under the proposal, U.S. authorities would pick one of China's SOEs for a trial joint inspection.

Apparently, China's proposal did not come to fruition. On December 16, 2021, the PCAOB issued a Determination Report under the auspices of the Holding Foreign Countries Accountability Act (HFCAA) that stated:

- A determination that the Board is unable to inspect or investigate completely registered public accounting firms headquartered in mainland China of the People's Republic of China ("PRC")¹ because of a position taken by one or more authorities in mainland China ("the Mainland China Determination"); and
- A determination that the Board is unable to inspect or investigate completely registered public accounting firms headquartered in Hong Kong, a Special Administrative Region and dependency of the PRC, because of a position taken by one or more authorities in Hong Kong ("the Hong Kong Determination").

The HFCAA had been enacted unanimously by the United States Congress in December 2020, requiring listed companies to make certain disclosures if the PCAOB has been unable to inspect the company's foreign public auditing firm. The company must document to the Securities and Exchange Commission (SEC) and disclose in its annual report that it is not owned or controlled by a foreign government, as well as details of any amount of such ownership and/or certain relationships with the Chinese Communist Party. If the PCAOB is unable to inspect the auditor for three consecutive years, the company is to be banned from trading its securities.

The PCAOB's Determination Report got the attention of the Chinese government. Only two days later, the South China Morning Post (SCMP) reported that the China Securities Regulatory Commission (CSRC) released a statement that "the relevant regulators of China and the US have started the negotiations over the regulatory cooperation issues [and] have made some progress." Even so, the CSRC contended that talks had been ongoing. As our articles have shown over the past ten years, this may be the case, but such talks have been essentially unproductive.

In a separate SCMP January 3, 2022 article, the United Kingdom's Financial Reporting Council (FRC) also challenged the claims of the PCAOB, claiming that "Hong Kong has always allowed the PCAOB access to its auditors and their working papers." As the auditing regulator for Hong Kong, the FRC has gotten more active with investigations in the past year, having been granted broader powers.

The importance and urgency of full transparency and access to the audit workpapers of Chinese company auditors was strikingly displayed by the collapse of Luckin Coffee Inc in May 2020. The Beijing based company had only been listed on NASDAQ for a year when the discovery of accounting and financial statement fraud led to the company's delisting. After settling with the SEC in December 2020 and declaring bankruptcy in February 2021, the court approved a restructuring plan in December 2021.

With China having emerged as such a dominating player on the world financial scene, the expectation is that the requirement for full auditor inspections to assure quality audits will finally be taken seriously.

Further details can be found at [Rule Governing Board Determinations Under the Holding Foreign Companies Accountable Act](#), [Open Your Books or Be Delisted: SEC Finalizes Rules for Non-PCAOB Compliant Foreign Companies](#) and [China, US regulators start talks on audit inspection of Chinese companies on American exchanges amid moves to delist these firms](#).

Worldwide Update



Periodic roundup of recent and upcoming actions and activities by auditing and accounting organizations throughout the world.

COVID-19 Related

International

IASB – International Accounting Standards Board (www.ifrs.org)

- Coronavirus Information and resources – link – <https://www.ifrs.org/news-and-events/2020/03/the-coronavirus-and-the-foundations-work/>

IFAC – International Federation of Accountants (www.ifac.org)

1. COVID-19 Resources from IFAC's Network – link - <https://www.ifac.org/knowledge-gateway/series/COVID-19-resources-ifacs-network>

ACCA – Association of Chartered Certified Accountants (www.accaglobal.com/)

- Coronavirus Information and resources – link - <https://www.accaglobal.com/us/en/cam/coronavirus.html>
- Update on the Coronavirus and Impact for Association Activities – link - <https://www.cimaglobal.com/Members/Update-on-Coronavirus/>

VRF- The Value Reporting Foundation (www.thevrf.org)

1. The Value Reporting Foundation is the result of the merger of the International Integrated Reporting Council and the Sustainability Accounting Standards Board on June 9, 2021.

World Economic Forum – (www.weforum.org)

1. The COVID Action Platform – link - <https://www.weforum.org/platforms/covid-action-platform> - focuses on three priorities: 1. Galvanize the global business community for collective action. 2. Protect people's livelihoods and facilitate business continuity. 3. Mobilize cooperation and business support for the COVID-19 response.

Africa, Europe, India, and the Middle East (AEIME)

FRC – Financial Reporting Council of the UK (www.frc.org.uk)

- FRC guidance for companies and auditors during COVID-19 crisis – link - <https://www.frc.org.uk/covid-19-guidance-and-advice>.

ICAEW - Institute of Chartered Accountants in England and Wales (<https://www.icaew.com/>)

1. Coronavirus – updates – link - <https://www.icaew.com/insights/coronavirus>.

1. *No new developments*

Americas, Asia, Australia and New Zealand (AAANZ)

AICPA – American Institute of Certified Public Accountants (www.aicpa.org)

1. AICPA Coronavirus (COVID-19) Resource Center – link - <https://www.aicpa.org/news/aicpa-coronavirus-resource-center.html>

FASB – Financial Accounting Standards Board (www.fasb.org)

1. FASB Response to COVID-19 – link - <https://www.fasb.org/COVID19>

GASB – Governmental Accounting Standards Board (www.gasb.org)

1. GASB Response to COVID-19 – link - <https://www.gasb.org/COVID19>

COSO - The Committee of Sponsoring Organizations of the Treadway Commission (www.coso.org)

- *No new developments*

PCAOB – Public Company Accounting Oversight Board (www.pcaob.org)

1. PCAOB Response to COVID-19 – link - <https://pcaobus.org/Pages/response-to-COVID-19.aspx>

SASB – Sustainability Accounting Standards Board (www.sasb.org)

1. See The Value Reporting Foundation above.

SEC – Securities and Exchange Commission (www.sec.gov)

1. SEC Coronavirus (COVID-19) Response – link - <https://www.sec.gov/sec-coronavirus-COVID-19-response>

CAANZ - Chartered Accountants Australia and New Zealand (<https://www.charteredaccountantsanz.com/>)

1. Financial Reporting and Audit Guide: Financial reporting and audit issues stemming from COVID-19 – link - <https://www.charteredaccountantsanz.com/tools-and-resources/client-service-essentials/reporting/financial-reporting-and-audit-guide-financial-reporting-and-audit-issues-stemming-from-covid19>

Other Updates

International

IASB – International Accounting Standards Board (www.ifrs.org)

- *No new developments*

IFAC – International Federation of Accountants (www.ifac.org)

- **Technology is a double-edged sword with both opportunities and challenges for the accountancy profession**, paper published December 20, 2021, “examines the impact of rapid technological change and the importance of ethical leadership from the lens of the professional accountant. It also provides practical guidance to both professional accountants and professional accountancy organizations.”

ACCA – Association of Chartered Certified Accountants (www.accaglobal.com)

- *No new developments*

CIMA – Chartered Institute of Management Accountants (www.cimaglobal.com)

- *No new developments*

VRF - The Value Reporting Foundation (www.thevrf.org)

- *No new developments*

World Economic Forum – (www.weforum.org)

- **Crypto-impact-and-sustainability-accelerator**, formed January 14, 2022, “designed to harmonize, enhance, and advance crypto-enabled ESG efforts across the globe.”

Africa, Europe, India, and the Middle East (AEIME)

FRC – Financial Reporting Council of the UK (www.frc.org.uk)

- **Creating positive culture – opportunities and challenges**, report published December 9, 2021. “Aligning culture with purpose, values and strategy can strengthen a company’s business model, help to better manage resources and be more equipped to face future challenges.”

ICAEW - Institute of Chartered Accountants in England and Wales (<https://www.icaew.com/>)

1. *No New Developments*

EC – European Commission (<https://ec.europa.eu/>)

1. *No New Developments*

EFRAG – European Financial Reporting Advisory Group (www.efrag.org)

1. *No New Developments*

Americas, Asia, Australia and New Zealand (AAANZ)

AICPA – American Institute of Certified Public Accountants (www.aicpa.org)

- *No New Developments*

FASB – Financial Accounting Standards Board (www.aicpa.org)

- **Exposure Draft - Liabilities—Supplier Finance Programs (Subtopic 405-50) Disclosure of Supplier Finance Program Obligations**, issued December 20, 2021, “to help investors and other allocators of capital better consider the effect of supplier finance programs on a buyer’s working capital, liquidity, and cash flows.” The comment period ends March 21, 2021.
- **FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting— Chapter 4, Elements of Financial Statements, and Chapter 7, Presentation**, issued December 22, 2021. Chapter 4 “defines elements of financial statements to be applied in developing standards for both businesses and not-for-profit entities.” Chapter 7 “identifies factors for the Board to consider when deciding how items should be displayed on the financial statements.”

GASB – Governmental Accounting Standards Board (www.gasb.org)

- *No new developments*

COSO - The Committee of Sponsoring Organizations of the Treadway Commission (www.coso.org)

1. *No new developments*

PCAOB – Public Company Accounting Oversight Board (www.pcaob.org)

- *No new developments*

SASB – Sustainability Accounting Standards Board (www.sasb.org)

- *No new developments*

SEC – Securities and Exchange Commission (www.sec.gov)

- *No new developments*

Additional A&A News

[Profession intensifies diversity efforts with new CAQ initiative](#)

[Optimize Your Capacity with Process Documentation](#)

[Audit chiefs see corporate governance declining](#)

[2021: How the accountancy industry adapted to change and uncertainty](#)

[Growing Advisory While Keeping Compliance's Value](#)

[New Digital Asset Reporting Requirements are Coming](#)

[Accounting Today's complete coverage of the coronavirus impact](#)

[Accountancy Age's Resource on UK regulations on accountancy during coronavirus](#)

[California CPA Society Coronavirus Resources and Information](#)

[Accountingweb's Coronavirus Content Series](#)

[Accountancy Daily Corona Virus Resources](#)

[China Briefing's Coronavirus Insights for Your Business in China](#)



Audit & Accounting Alert is a publication of Integra International intended to highlight emerging issues in the profession. The goal is to give Integra members an awareness of developments impacting the practice of Audit & Accounting enabling them to stay on the forefront of industry trends. This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

Editor Gerald E. Herter

Email: gerry.herter@integra-international.net

www.Integra-International.net

© 2021 Integra International. All Rights Reserved.

If you wish to stop receiving email from us, you can simply remove yourself by visiting <http://members.integra-international.net/members/EmailOptPreferences.aspx?id=60826092&e=khoray@g3cpa.com&h=26d3289043a4cebaff4a17a50e60e12a9bff1e57>.