

Audit & Accounting Alert Newsletter

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At-A-Glance

While environmental, social, and governmental (ESG) issues have grown in the public arena over the past decade, efforts by the financial and accounting community to address the subject have been fragmented and lacking a central focus. Applying quantifiable numerical measures to ESG concepts has proven more challenging than for more traditional financial reporting standards. Nevertheless, with the establishment of the International Sustainability Standards Board, the International Accounting Standards Board has decided that the time has come to get involved. Also, with governmental bodies enacting legislation, companies will no longer be able to avoid ESG reporting. In this edition, these new developments are highlighted.

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

Non-Financial Reporting Takes Center Stage

Environmental, Social and Governmental (ESG) issues gain
prominence



Up until recently, reporting on so called “non-financial” ESG issues was seen widely as beyond the purview of accountants. Accurate and consistent reporting in this arena has been an elusive target, consequently relegating the topic to the fringes. Difficulties in identifying and quantifying relevant factors has only led to confusion and delay. Meanwhile, the challenges experienced just in trying to develop standardized financial accounting measures have dominated the focus of accounting boards. Though fairly well resolved at this point for major topics, financial reporting standards have taken decades to work out.

But with the multi-faceted complexities of functioning in today’s world, investors, regulators, and other stakeholders are demanding greater attention to non-financial factors that can seriously impact an organization’s operations and even existence in the near and long term future.

Without a central focus on ESG, various groups have separately devised a diversity of frameworks and guidelines, exacerbating the confusion. Finally, in November, the IASB announced the formation of the International Sustainability Standards Board (ISSB) with the intention to “to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies’ sustainability-related risks and opportunities to help them make informed decisions.” The announcement was the culmination of comprehensive efforts to bring together the diverse groups into a joint effort. Also released at this time were prototypes for general sustainability disclosures and climate-related disclosures that were an outgrowth of an earlier prototype released in December 2020.

The announcement could not have been more timely, as government agencies are now issuing new regulations. As of this month, April 2022, the United Kingdom requires large companies to include disclosures in financial reports that address climate-related risks and opportunities, following recommendations published in 2017 by the Taskforce on Climate-related Financial Disclosures (TCFD). Also, the US Securities and Exchange Commission (SEC) on March 21, 2022, proposed a rule that would require filers to include a note in audited financial statements about climate-related risks that could materially impact financial condition and profitability, as well as specific information on greenhouse gas emissions and other climate-related financial metrics. The proposal will have a two-month comment period.

If the SEC rule becomes effective in December 2022, disclosure compliance for larger filers would generally occur in the 2023 fiscal year and in fiscal 2025 for smaller filers. Greenhouse gas (GHG) emissions have been divided into three categories. Scope 1 includes direct GHG emissions from an entity’s operations. Scope 2 includes indirect GHG emissions generated by an entity’s consumption of purchased energy. Scope 3 includes all other indirect GHG emissions. Smaller filers would be exempt from Scope 3 disclosures. The audit requirement applies to Scopes 1 & 2 and occurs a couple years after initial disclosure compliance.

The ISSB did not take long to offers its first two proposals for standards. On March 31, 2022, exposure drafts were issued covering general sustainability-related disclosure requirements and climate-related

disclosures. The proposals follow the lead of the TCFD guidelines and the November 2021 prototypes. The general standard is a catchall set of requirements for disclosing material sustainability-related risks and opportunities that have not been covered by a specific ISSB standard. The second standard proposal is the first to address a specific issue, namely climate change. As stated in this proposal:

“The Exposure Draft was developed in response to calls from users of general purpose financial reporting for more consistent, complete, comparable and verifiable information, including consistent metrics and standardised qualitative disclosures, to help them assess how climate-related matters and the associated risks and opportunities affect:

- an entity’s financial position and financial performance;
- an amount, timing and certainty of the entity’s future cash flows over the short, medium and long term and, therefore, the assessment of enterprise value by users of general purpose financial reporting; and
- an entity’s strategy and business model.”

The climate standard proposal provides details organized by governance, strategy, risk management, and metrics and targets. For example, in the area of metrics and targets, how an entity measures, monitors, and manages its risks are to be disclosed by cross-industry categories (such as greenhouse gas emissions), industry specific categories, metrics used to measure progress toward mitigation, and targets for mitigation.

Major industries are working to stay ahead of the new reporting requirements. Companies, such as Salesforce, Microsoft, Amazon, and Google, have released or are developing platforms and products to help customers facilitate the process and quantification necessary for disclosing sustainability. In April, 2022, Microsoft rolled out the first application of its [Microsoft Cloud for Sustainability](#), an extensible software-as-a-service solution designed to record, report, and reduce organizational environmental impact through automated data connections and actionable insights. Microsoft is partnering with consulting firm, Accenture, and others, to apply these tools.

With the backing of the IASB, the new sustainability standards provide a strong case for focusing ESG efforts in a unified direction going forward. Nevertheless, there is still a long way to go. There will be spirited discussion surrounding the new proposals over the coming months. The SEC climate change proposal alone is over 500 pages, making it one of the largest events toward corporate regulation ever. Criticism of the SEC’s proposal has already arisen from both sides of the aisle in the US Senate. Before either the accounting standards or the governmental regulations are approved, significant revisions will likely be incorporated that enhance the initial offerings. That is to be expected. Then further standards and rules on specific ESG categories and ongoing improvements will guide developments as superior technologies and methodologies emerge in coming years.

Further details can be found at [ISSB publishes draft proposals for global sustainability disclosures](#) and [SEC Statement on the Enhancement and Standardization of Climate-Related Disclosures for Investors](#).

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)

- 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/>

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

- 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)

- 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)

- 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/>)

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

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

- *No new developments*

Americas, Asia, Australia and New Zealand (AAANZ)

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

- 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)

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

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

- 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)

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

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

- See The Value Reporting Foundation above.

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

- 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/>)

- 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)

- **Exposure Draft - IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information**, released March 31, 2022. Comment period ends July 29, 2022. See article in this issue for details.
- **Exposure Draft - IFRS S2 Climate-related Disclosures**, released March 31, 2022. Comment period ends July 29, 2022. See article in this issue for details.

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

- **Auditing Accounting Estimates - ISA 540 (Revised) Implementation Tool**, released April 5, 2022, “designed to assist practitioners in the implementation of ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures.”
- **Anti-Money Laundering, The Basics, Installment 8: Crime Trends**, released March 28, 2022, “provides professional accountants with a better understanding of how money laundering works, the risks they face, and what they can do to mitigate these risks and make a positive contribution to the public interest.”
- **Exploring the IESBA Code, A Focus on Technology - Artificial Intelligence**, resource published March 18, 2022, highlights “the relevance of the Code’s fundamental principles and its conceptual framework to addressing ethics issues that might arise when artificial intelligence (AI) is used or implemented by professional accountants.”

- **International Public Sector Standards Board – Exposure Draft (ED) 82, Retirement Benefit Plans**, issued April 1, 2022, “to propose the accounting, presentation, and disclosure requirements for the financial statements of a retirement benefit plan.” Comment period ends August 1, 2022.

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.*

IIRC - International Integrated Reporting Council (www.theiirc.org)

- See The Value Reporting Foundation above.

World Economic Forum – (www.weforum.org)

- *No new developments.*

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

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

- *No New Developments*

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

- *No New Developments*

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

- *No New Developments*

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

- *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)

- **Financial Instruments—Credit Losses - Troubled Debt Restructurings and Vintage Disclosures, ASU No. 2022-02**, issued March 31, 2022, “intended to improve the decision usefulness of information provided to investors about certain loan refinancings, restructurings, and writeoffs.” Effective generally in 2023.
- **Derivatives and Hedging - Fair Value Hedging—Portfolio Layer Method, ASU No. 2022-01**, issued March 28, 2022, “intended to better align hedge accounting with an organization’s risk management strategies. Effective generally for public entities in 2023 and for others in 2024.

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

- *No new developments*

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)

- **Auditing Considerations Related to the Invasion of Ukraine**, Spotlight Document released March 31, 2022, “highlights important considerations for auditors of issuers and broker-dealers as they plan and conduct audits in this evolving environment.”

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

- *No new developments*

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

- **Proposed Rule 2022-46, The Enhancement and Standardization of Climate-Related Disclosures for Investors**, published March 21, 2022. See article in current issue for details. Comment period will end around May 20, 2022.

Additional A&A News

- [Investors warn European companies over climate accounting](#)
- [Using the 5 V's of big data to embrace finance digital transformation](#)
- [Twenty Years Later, Accountants Burned By Enron Scandal Outperform Peers](#)
- [One year anniversary of BEIS audit reform whitepaper sparks industry frustration](#)
- [The auditor in 10 years](#)
- [How the war in Ukraine affects auditors' responsibilities](#)
- [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.

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