

Audit & Accounting Alert Newsletter

ISSUE 7 | JULY 2022

At-A-Glance

While the wheels of government tend to move slowly, the United States Sarbanes-Oxley Act was passed within a year of the Enron accounting and audit failure. The United Kingdom took more time, assessing the audit marketplace and public expectations along with what went wrong in the Carillion failure of 2018, before putting forth comprehensive audit reforms in May 2022. This issue of the Audit & Accounting Alert highlights the new proposed legislation.

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

Audit reform coming to the United Kingdom

Years-long efforts proposing a stronger new regulator finally
approved for legislation



The need for audit reform is an ever present and ongoing process, marked from time to time with earthshaking events that propel the cause forward. For the United States, the Enron scandal, made public in October 2001, was one such event. The losses were so massive, and the accounting control breakdowns were so widespread that major action was demanded and necessary. The American government acted swiftly and thoroughly, enacting the Sarbanes-Oxley Act (SOX) by July 30, 2002.

The rapid development of SOX was made possible by the presence of an internationally respected internal control framework originally produced in 1992 by the American organization known as COSO. The COSO framework became the gold standard of SOX and has been continually updated and integrated over the years to cover needs in the ESG and enterprise risk management arenas, as well as for the digital environments of blockchain, cybersecurity and artificial intelligence. Subsequently, COSO and SOX were imitated around the world, such that global audit reform began with Enron.

Almost a generation passed after SOX before similar problems in the United Kingdom culminated in the Carillion collapse in January 2018. In contrast to the rapid response to Enron, the British approach to addressing needed reforms has been more slowly methodical and deliberate. That mindset is apparent even now with the latest developments.

After several studies and lists of recommendations, an actual plan of action has finally been put forward on May 31, 2022, with a set of proposals issued under the title **Restoring trust in audit and corporate governance**, *Government response to the consultation on strengthening the UK's audit, corporate reporting and corporate governance systems*. Even though legislation will be drafted based on the proposals, some critics are concerned that certain provisions simply call for more study, while others may fall short of the hoped-for strong steps of enforcement accomplished in the Sarbanes-Oxley legislation.

The key provisions cover the following areas:

- A new regulator
The Audit, Reporting and Governance Authority (ARGA) will take the place of the Financial Reporting Council (FRC). ARGA is to have stronger powers and funding than the FRC, however required legislation for its establishment is not expected prior to 2024.
- Recognising the public interest in large private companies' reporting
Privately owned companies with 750+ employees and over £750 in annual turnover/revenue will come under some of the reporting and audit requirements currently applied to public companies (PIEs).

- Internal controls
A statement by directors will be required as to the effectiveness of internal controls. However, mandatory assurance by an auditor will not be required.
- Fraud
A statement by directors will be required as to the steps taken to prevent and detect material fraud. Auditor requirements are not changed.
- Dividends
Companies will be required to disclose distributable reserves, which will be subject to audit. Directors will need to make a statement attesting the legality of dividends.
- Changes to reporting requirements
A new Resilience Statement will be required that consolidates issues of risk, going concern, and viability. Also, a new Audit and Assurance Policy will disclose how a company addresses assurance of information and whether and when additional assurance is needed.
- Supervision of corporate reporting
ARGA is given complete review authority over companies' annual report and accounts.
- Enforcement of directors' corporate reporting and audit-related duties by ARGA
ARGA will have the authority to investigate and sanction company directors with regard to their statutory duties over corporate reporting and auditing matters. However, ARGA will not have prosecutorial authority.
- Improving the informativeness and quality of audit
ARGA will be given responsibility to consider improvements to audit quality and consult with professional bodies for their input. Also, ARGA will determine qualifications and register audit firms.
- Boosting resilience, competition and choice in the audit market
Managed shared audits will be required whereby an audit firm will need to utilize a competitor to audit a portion or subsidiary of an audit client. ARGA will have authority to institute market share caps when necessary to avoid excessive market concentration. Also, ARGA can require operational separation within audit firms, and can monitor the health of audit firms and the profession.
- Other legislative proposals
Various other provisions will seek to oversee the accounting and actuarial professions and give ARGA other powers.

Though some may have wanted more far-reaching measures, these new provisions, when enacted into law, will put forth a clear step in the right direction for the furtherance of audit reform. The Financial Reporting Council issued a position paper on July 12, 2022, that lays out its plan for supporting the reforms and the ARGA. As the Paper states, "That work includes revising existing codes, strengthening auditing and accounting standards, setting expectations to drive behavioural change ahead of statutory powers, and the development of guidance to address issues set out in the Government Response. In particular, the Position Paper sets out proposed changes to the UK Corporate Governance Code. This will provide a stronger framework for reporting on the effectiveness

of internal controls and Board responsibilities for expanded sustainability and ESG reporting, and new guidance on enhanced resilience statements and fraud reporting by directors.”

Other countries in Europe are not immune to audit failures and the need for extensive audit reform. The 2020 collapse of Wirecard, the German payment processing company, as a result of ineffective internal controls, will likely lead to major overhauls in that country and the European Union. Also, at the firm level, indications are that Ernst & Young, the Wirecard auditor is, among other things, changing auditor procedures to allow more time for audit staff to complete audit work without the amount of budget pressure that has been traditionally applied.

Further details can be found at [Restoring trust in audit and corporate governance](#).

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 will be consolidated into the IFRS Foundation as of August 1, 2022.

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)

- *No new developments.*

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

- **The International Auditing and Assurance Standards Board (IAASB) - Exposure Draft, Proposed Narrow Scope Amendments to: ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements; and ISA 260 (Revised), Communication with Those Charged with Governance, as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)**, issued July 6, 2022, “will help operationalize recently approved changes to the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) related to listed and public interest entities. The changes to the IESBA Code require firms to publicly disclose when the independence requirements for public interest entities have been applied in an audit of financial statements.” The comment period ends October 4, 2022.
- **International Ethics Standards Board for Accountants (IESBA) - Staff Questions & Answers to the Revised Non-Assurance Services Provisions of the Code**, published July 11, 2022., “to assist national standards setters, IFAC member bodies and professional accountants (PAs) in public practice (including firms) as they adopt and implement the revisions to the non-assurance services provisions of the IESBA International Code of Ethics for Professional Accountants (including International Independence Standards)[™] (the Code).”

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

- **Internal control and the Transformation of Entities**, survey report published July 6, 2022, jointly by ACCA, the Internal Audit Foundation, and IMA (Institute of Management Accountants). “The findings show that the continued effects of the pandemic, the turbulent economic climate, regulation, and data and technology are all presenting organisations with unique challenges for their internal control activities. The lack of appropriately skilled staff was highlighted by 50% of respondents as a challenge, and 41% said technological advances are compromising existing internal controls. Nearly a third (32%) said a lack of executive emphasis on internal controls was also impacting the management of internal control. Respondents were also asked the purpose of internal control in an entity, with 88% saying it minimises risk, 84% cited prevention of fraud, and 77%, the protection of assets. The poll also shows that most respondents - 80% - say they agree or strongly agree that they need to apply their internal control framework to non-financial and ESG reporting... The report also makes numerous recommendations and actions to improve internal control listed under headlines about the main drivers of change - such as strategic, transformation, people, processes, technology, and data.”

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

- *No new developments.*

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

- The Value Reporting Foundation will be consolidated into the IFRS Foundation as of August 1, 2022.

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

- See The Value Reporting Foundation above.

World Economic Forum – (www.weforum.org)

- **A Blueprint for Equity and Inclusion in Artificial Intelligence**, white paper released June 29, 2022. “In this report, the World Economic Forum Global Future Council on Artificial Intelligence for Humanity has identified gap areas and opportunities to make AI more equitable and inclusive for all. Designed with an inclusive methodology, this blueprint aims to guide organizations in achieving equitable and inclusive artificial intelligence outcomes through each step of the AI lifecycle and for the AI ecosystem as a whole.”

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

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

- **Professional Judgement Guidance**, published June 23, 2022, “includes a framework for making professional judgements and a series of illustrative examples. If applied widely, the guidance will improve audit quality by enhancing the consistency and quality of professional judgement exercised by auditors. The guidance will be of particular use for auditors and central technical teams but will also have wider interest for those interested in audit quality, such as audit committee members and investors.”
- **Guidance on the Strategic Report**, updated on June 16, 2022. Part of the company annual report, “the strategic report should provide a company’s shareholders with a holistic and meaningful picture of a company’s business model, strategy, risks, development, performance, position and future prospects including relevant non-financial information.” The guidance was updated “to incorporate climate-related financial risks and opportunities, among other items.”

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)

- **2022 The State of Risk Oversight: An Overview of Enterprise Risk Management Practices - 13th Edition**, research report released June 29, 2022, in partnership with North Carolina State University, “reveals that executives believe risk volumes and complexities remain high, giving ongoing concerns related to the war in Ukraine, rising inflation, the war for talent, lingering supply chain disruptions, ransomware threats, and a host of other triggers. Recent realities are revealing a need for real change in how organizations oversee the constantly evolving risk landscape.”

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

- **Fair Value Measurement (Topic 820) - Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions- an Amendment of the FASB Accounting Standards Codification – ASU 2022- 03**, issued June 30, 2022. “The amendments in this Update clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The amendments in this Update also require the following disclosures for equity securities subject to contractual sale restrictions: 1. The fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet 2. The nature and remaining duration of the restriction(s) 3. The circumstances that could cause a lapse in the restriction(s).” Effective generally beginning in 2024 for public entities and in 2025 for other entities.

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

- **Concepts Statement No. 7 - Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements - an amendment of GASB Concepts Statement No. 3**, issued July 7, 2022, “primarily intended to provide the GASB with criteria to consistently evaluate future requirements for notes to financial statements in the standards-setting process. They also may help stakeholders to understand the fundamental concepts underlying note disclosure requirements contained in future GASB pronouncements.”

- **Exposure Draft - Certain Risk Disclosures**, issued June 30, 2022, “would require governments to disclose essential information about risks related to a government’s current vulnerabilities due to: (1) Certain concentrations, and (2) Certain constraints common in the governmental environment.” The comment period ends September 30, 2022.
- **Statement 101: Compensated Absences**, issued June 16, 2022, “details the circumstances under which governments will be required to recognize a liability for compensated absences and provides guidance for measuring that liability. The general approach for measurement is to use an employee’s pay rate as of the financial reporting date.” Effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.
- **Statement 100: Accounting Changes and Error Corrections an amendment of GASB Statement No. 62**, issued June 13, 2022, “provides more straightforward guidance designed to lead to information that is easier to understand and more reliable, relevant, consistent, and comparable across governments for making decisions and assessing accountability.” Effective for fiscal years beginning after June 15, 2022.

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 Release No. 2022-002 - Planning and Supervision of Audits Involving Other Auditors and Dividing Responsibility for the Audit with Another Accounting Firm**, issued June 21, 2022, “designed to improve the quality of audits in these circumstances by increasing the lead auditor’s involvement in and evaluation of the work of other auditors, and to align the applicable requirements with the PCAOB’s risk-based supervisory standards.” Effective for fiscal years ending on or after December 15, 2024, pending SEC approval.

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

- [The state of risk oversight: Why structure but also agility matter](#)
- [EY break-up plan could see firm lead industry shake-up](#)
- [FASB is Going to Do a Little More Research on Hedge Accounting, Statement of Cash Flows](#)
- [IAASB proposes narrow scope amendments to operationalise changes to the IESBA code](#)
- [U.S.-China talks over delisting stocks hinge on redacted audits](#)
- [A sharper focus on ESG](#)
- [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](#)



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=khora@3cpa.com&h=26d3289043a4cebaff4a17a50e60e12a9bff1e57>.