

Audit & Accounting Alert Newsletter

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At-A-Glance

Along with the other tensions between China and the United States, a decades-long dispute over inspection of Chinese company auditors by the Public Company Accounting Oversight Board (PCAOB) has resisted resolution despite ongoing attempts. Now a newly signed statement of protocol seeks a rapid and comprehensive approach to break the impasse, so that Chinese companies can avoid delisting from American stock exchanges. This issue covers the highlights.

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

China Agrees to Inspection of Audit Workpapers by US Authorities

Unprecedented access, if realized, will avoid delisting of
Chinese companies on American stock exchanges



In 2020, after years of fruitless efforts to gain cooperation from China, the United States government enacted a law that would ban Chinese securities from trading on American exchanges if the PCAOB is unable to inspect such companies' auditors for three consecutive years. With time running out, the Chinese government appears to have finally consented to join the rest of the world and allow the examinations with little restriction.

Nevertheless, any optimism expressed over the new agreement should be exercised with restraint based on past experience. In the first place, the agreement is in the form of a "statement of protocol," which the PCAOB indicates is just a "first step toward opening access for the PCAOB to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong completely, consistent with U.S law." What is different from past failed accords is a lack of significant restrictions on the nature of the inspections.

In a Fact Sheet, the PCAOB sets out the following three key provisions of the agreement:

1. The PCAOB has sole discretion to select the firms, audit engagements and potential violations it inspects and investigates – without consultation with, nor input from, Chinese authorities.
2. Procedures are in place for PCAOB inspectors and investigators to view complete audit work papers with all information included and for the PCAOB to retain information as needed.
3. The PCAOB has direct access to interview and take testimony from all personnel associated with the audits the PCAOB inspects or investigates.

These provisions are in line with those that other public firms around the world have been required to comply with since the implementation of the Sarbanes-Oxley Act of 2002, which proceeded from the Enron scandal of 2001.

China's obsession with secrecy had pushed the US to put in place the Holding Foreign Countries Accountability Act (HFCAA) in 2020 that would have caused delisting of noncompliant companies starting in 2024. Anticipating that action, several major state controlled Chinese companies have voluntarily begun the process of delisting, while Alibaba Group Holding Ltd., the large China-based e-commerce technology firm, is considering listing on the Hong Kong exchange. An August 12, 2022, Bloomberg article speculates that the state controlled Chinese companies that are delisting may be ones that China has had the secrecy concerns about. Consequently, with those firms out of the way, possibly China is not as concerned about accepting the new compliance protocol.

China's level of compliance with the new agreement will be known within a few months, since the PCAOB is required to report its satisfaction by the end of 2022. Consequently, the PCAOB is not

wasting any time, having already made selections of companies to inspect, and sending inspectors to Hong Kong in September to start the work. Curiously, Alibaba is one of the first companies selected for review.

Relations between China and the US have been increasingly strained in recent months. Therefore, Congress does not appear inclined to take lightly any indication of noncompliance with the new protocol. In fact, legislation has been under consideration this year that would move up the date for delisting companies in violation from 2024 to 2023. Meanwhile, the SEC has indicated support for the new statement of protocol. Also, the Acting Chief Accountant for the SEC, Paul Munter, on September 6, 2022, issued a letter with a warning. Some Chinese companies have been hiring US audit firms as their lead auditor to establish the appearance of compliance with HFCAA. Those companies and their audit firms are put on notice that they must still comply with all record access requirements, even when the US audit firm employs Chinese auditors to perform audit procedures for subsidiaries or other parts of the Chinese company's audit. The US audit firm must have access to and communicate with the predecessor and currently employed Chinese audit firms' personnel, as well as review their audit documentation without restriction. Otherwise they risk enforcement action from the PCAOB or SEC.

Further details can be found at [PCAOB Signs Agreement with Chinese Authorities, Taking First Step Toward Complete Access for PCAOB to Select, Inspect and Investigate in China.](#)

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>
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Other Updates

International

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

- *No new developments.*

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

- *No new developments.*

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

- *No new developments.*

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

- *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.*
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Africa, Europe, India, and the Middle East (AEIME)

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

- **Restoring Trust in Audit and Corporate Governance**, position paper issued July 22, 2022, “setting out the next steps to reform the UK’s audit and corporate governance framework. The paper follows the Government Response to the consultation on strengthening the UK’s Corporate Governance, Corporate Reporting and Audit systems, including the creation of the Audit, Reporting and Governance Authority (ARGA), to replace the FRC.”

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*
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Americas, Asia, Australia and New Zealand (AAANZ)

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

- **Auditing Standards Board – Statement on Auditing Standards (SAS) 148 - Amendment to AU-C Section 935.** issued August 11, 2022. SAS 148 updates the appendix to AU-C Section 935, “AU-C Sections That Are Not Applicable to Compliance Audits,” and makes conforming changes to this standard in response to the issuance of SAS 142, *Audit Evidence*, and SAS 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

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

- **Exposure Draft - Investments—Equity Method and Joint Ventures (Topic 323) Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method,** issued August 22, 2022, “would allow reporting entities to elect to account for their tax equity investments using the proportional amortization method if certain conditions are met, regardless of the program from which the income tax credits are received. The election would be on a program-by-program basis. The proposed amendments would also require disclosures to enable financial statement users to better understand the nature and effects of the entity’s investments that generate income tax credits and other income tax benefits.” Comment period ends October 6, 2022.

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)

- **Statement of Protocol,** agreement signed August 26, 2022, “with Chinese Authorities, Taking First Step Toward Complete Access for PCAOB to Select, Inspect and Investigate in China.” See above article for details.

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

- [ISSB must consider “burden” of complex standards for SMEs](#)
- [How to get your firm started with ESG](#)
- [FASB narrows digital asset project to focus on crypto](#)
- [Cybersecurity Best Practices: Disclosure Requirements for Risk Management, Strategy, and Governance](#)
- [From the FBI files: Forensic accountants crack major fraud cases](#)
- [Fraud is suspected: Now what?](#)
- [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](#)

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