

Audit & Accounting Alert Newsletter

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At-A-Glance

With the multiple challenges of COVID, Ukraine, inflation, and impending recession facing the world today, accountants need to assess the effects of these diverse factors on the realm of financial reporting. A number of recent studies analyze the results of surveys delving into these issues. This edition of the Audit & Accounting Alert highlights several of them.

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

Accountants Need to Adapt to a Changing Landscape

A number of new surveys reveal the new realities and proposed
course corrections



The current world landscape is characterized by upheaval and disruption, and accountants are not immune to the impact. That is an underlying theme running through recent reports that queried professionals in public practice and private industry over the past two years. Sponsors of selected reports were the United Kingdom's Financial Reporting Council (FRC), The Financial Executive Institute's Financial Education & Research Foundation (FERF), Accountancy Age, and software producers OneStream, LeaseQuery, and IRIS.

Major factors contributing to the situation are the COVID pandemic, Ukraine war, inflation, and impending recession. While maneuvering through these challenges, firms are finding increasing difficulty hiring adequate staff to handle the workload.

Amidst the turmoil, the FRC's Annual Review of Corporate Reporting 2021/22, published on October 27, 2022, reported both progress and shortcomings in the companies under its purview. As the UK's primary overseer of UK corporate reporting, the FRC was pleased with the overall quality of financial reports, noting that there were fewer specific concerns than had been raised in the prior year. Improvements were singled out in climate change reporting, in addition to the areas of judgements and estimation uncertainty, impairment of non-financial assets, alternative performance measures (APMs) and revenue, all of which play an important role during these difficult times. Nevertheless, the FRC was not satisfied in such areas as financial instruments, deferred taxes, and cash flow statements, as well as with the increased number of restatements that resulted from this year's reviews. Also, the FRC enumerated key disclosure expectations for the coming year, emphasizing the importance of clarity, completeness, conciseness, and transparency.

Meanwhile, FERG on November 7, 2022, released its Annual Public Company Audit Fee Study, which reported an increase in audit firm fees of 2.5% in 2021 over 2020. Sponsored by the Center for Audit Quality, the study queried public company financial professionals, audit firm partners, and data from SEC reports, to gain a sense of the status of the relationship between financial reporting and auditing.

The overall impression was that the effectiveness and value of the relationship has held up well during the pandemic thanks to good communication and innovation, adapting and adjusting as needed to the shifting onsite, hybrid and remote working environments. The fee growth was attributed to acquisitions, organizational structure changes, proliferation of Special Purpose Acquisition Companies (SPAC), and changes in internal controls for financial reporting (ICFR). Recognizing the increasing complexities of business processes, accounting professionals readily employed data analytics, new technologies, and specialists to assure a robust approach to risk assessment and testing methodologies.

The Accountancy Age publication employed IRIS Software Group to produce Spotlight on Accountancy: The Age of Digitalisation, showing how the 248 surveyed UK firms were dealing with the issues through technology. The results in this report were more cautious than those in the FERF study, finding agreement that accountants need to keep up with the rapid technological changes, but also that many were struggling to do so. The high cost of technology and increasing shortage of available staff tend to slow the pace of change, especially at smaller firms. These firms need to overcome those challenges to avoid losing the ability to compete with firms that are keeping pace during an age of ongoing change.

The dark side of the fast-moving digital world brings risks from new innovations that arise before adequate regulations can be put in place. The latest example is the breakneck speed with which the FTX cryptocurrency exchange grew from its founding in 2018, only to collapse suddenly in 2022. Reminiscent of the Enron scandal at the start of the 21st century, fraudulent activities resulting from massive internal control failures led to billions of dollars of losses, despite FTX's having been audited by California based Armanino, LLP and the New Jersey office of Prager Metis CPAs, LLC,

OneStream Software surveyed over 650 finance executives from North America and Europe to gauge how they are coping and what directions they are pursuing under the circumstances. Most CFO's anticipate a recession that will last through 2023, with more than half planning price increases and a significant number driving more efficient operations and slower hiring. Even so, there is considered a need to look beyond the recession, to position for growth by maintaining investments in areas such as advanced technology, ESG (environmental, social, governance), and DEI (diversity, equity, inclusion).

Finally, LeaseQuery surveyed over 200 accounting professionals in the United States to ascertain how they were compensating for labor shortages using technology to improve efficiency and accuracy in their work. In fact, the survey found that the top priority was accuracy/compliance, with lower costs and faster delivery underscored to a lesser degree. A substantial majority consider themselves behind or in

the developing process, while most are operating in the cloud or plan to in the near future. The biggest challenges were seen as convincing people to change their ways and then go through the process of adoption and training. Cost was cited as a lesser factor.

Further details can be found at [FRC publishes Annual Review of Corporate Reporting](#) and [CFOs Say Economic Disruption is 2023's Biggest Challenge](#).

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*
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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)

- **The International Auditing and Assurance Standards Board (IAASB) - Exposure Draft, Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISA**, issued October 24, 2022, proposes to “clarify ISA 500’s purpose and scope and explain its relationship with other standards; provide a principles-based approach to considering and making judgments about information intended to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained; modernize ISA 500 to be adaptable to the current business and audit environment, while considering scalability for different circumstances, including the entity and the auditor’s use of technology, such as automated tools and techniques; and emphasize the role of professional skepticism when making judgments about information intended to be used as audit evidence and evaluating the audit evidence obtained.” The comment period ends April 24, 2023.
- **International Ethics Standards Board for Accountants (IESBA) - Staff Questions & Answers - Ethics Considerations in Sustainability Reporting, Including Guidance to Address Concerns about Greenwashing**, released October 21, 2022., “spotlights key provisions in the [IESBA] Code that apply in preparing and presenting sustainability information. It emphasizes the professional accountant’s obligation to be straightforward and honest and refrain from being associated with information that is misleading or false, including in situations where they might experience pressure to do so.”
- **International Public Sector Accounting Standards Board (IPSAS) - , Exposure Draft, Reporting Sustainability Program Information —RPGs 1 and 3: Additional Non-Authoritative Guidance**, issued November 3, 2022, “proposing additional guidance on how two previously published Recommended Practice Guidelines (RPGs) can be applied now by governments and public sector entities to report on sustainability program information.” The comment period ends January 16, 2023.

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

- **Professional scepticism and cognitive biases in audit**, report published on November 2, 2022, by ACCA, in collaboration with the Hellenic Accounting and Auditing Standards Oversight Board (HAASOB), “sets out some of the recurring issues around auditors exercising professional judgement and scepticism within auditing.”

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 Practical Guide For Business Air Pollutant Emission Assessment**, published November 10, 2022, “to help businesses deliver on their commitments to reduce air pollution across value chains and get ahead of sustainability reporting standards.”
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Africa, Europe, India, and the Middle East (AEIME)

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

- **Annual Review of Corporate Reporting 2021/22**, published October 27, 2022. See article in this issue for details.

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)

- **Exposure Draft - Business Combinations—Joint Venture Formations (Subtopic 805-60) Recognition and Initial Measurement**, issued October 27, 2022, “intended to (1) provide investors and other allocators of capital (collectively, investors) with more decision-useful information in a joint venture’s separate financial statements and (2) reduce diversity in practice in this area of financial reporting” Comment period ends December 27, 2022.
- **Exposure Draft - Concepts Statement No. 8, Conceptual Framework for Financial Reporting Chapter 2: The Reporting Entity**, issued October 18, 2022. “The new chapter would be similar to the rest of the framework in that it establishes concepts that the Board would use in developing standards of financial accounting and reporting. It would provide the Board with a framework for developing standards that meet the objective of financial reporting and enhance the understandability of information for existing and potential investors, lenders, donors, and other resource providers of a reporting entity” Comment period ends January 16, 2023.

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)

- *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

- [How Ethical Accounting Protects Consumers and Encourages Growth](#)
- [Firms must open clients' eyes to cyber](#)
- [Fraud risk applies to all CPA firm services](#)
- [How good they think their tools are can impact](#)
- [Upskilling required by firms to offset 'threat' of accounting](#)
- [Accountancy firms warned not to cut back on](#)
- [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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