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## Audit & Accounting Alert Newsletter

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### At-A-Glance

Having been in place for a year now, the International Sustainability Standards Board (ISSB) has issued the first two standards in its effort to formalize reporting criteria for non-financial measures that impact company operations. While environmental, social, and governmental (ESG) reporting issues are continuing to advance internationally, they have generated ongoing controversy while attempting to move forward in the United States. This issue highlights the new standards, covering overall reporting considerations and the specific climate-related issues, as well as some of the discord.

Also, our Worldwide Update covers news from organizations across the globe.



**Gerald Herter - Editor**

## New Guidance Spotlights International Sustainability Reporting Standards

First international standards poised for issuance in June



A year ago, the Audit & Accounting Alert reported on the formation by the International Accounting Standards Board (IASB) of a new organization, the International Sustainability Standards Board (ISSB). The ISSB was designed to provide for the sector of sustainability reporting, the credibility and uniformity that the IASB has done for overall financial reporting. That organization is now on target to issue its first two standards for implementation in June.

Judging by the rapid proliferation of reporting in this area, standardization is desperately needed to give the various stakeholders reliable information by which to evaluate and compare efforts to address environmental, social and governmental (ESG) matters.

Current financial data is no longer adequate in order to assess a company's ability to last into the foreseeable future. ESG considerations may reveal critical factors that need to be taken into account. Consequently, a set of standards is needed to coalesce the numerous differing approaches to presenting the ESG data in a format that is broadly understood and accepted.

The exposure drafts issued on March 31, 2022, are titled IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.

IFRS S1 sets out the primary information that needs to be disclosed for a complete presentation of sustainability matters. As in basic financial statements, materiality is a determining element. Materiality is calculated in relation to the impact of sustainability matters on overall enterprise value, which goes beyond just financial amounts to include all factors affecting an organization's existence and operations in the world.

IFRS S2 has a similar goal as IFRS S1, but with specific attention to how matters of climate impact are assessed, measured, monitored, and managed.

Metrics and criteria are to be established that enable sustainability and climate matters to be comparably and consistently presented from period to period.

The comment period for the exposure drafts ends on July 29, 2023. The ISSB has set a goal of the end of the year for issuing the final standards.

While the international community appears to have embraced sustainability issues and the need for reporting standardization, ESG has proved to be a controversial topic in the United States. As reported in the April 2022 A & A Alert, the United Kingdom now has climate disclosure requirements in place,

while an SEC rule proposed March 21, 2022, is scheduled to be finalized in April 2023. However, a divided US Congress leaves the future of ESG reporting up in the air.

A major area of ESG in the SEC rule, greenhouse gas (GHG) emissions, has 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. While Scopes 1 and 2 can generally be quantified without difficulty, Scope 3 is much more elusive. The SEC is considering modifying or eliminating Scope 3 for now. While environmentalists favor Scope 3, the business and investor communities are against the provision, citing the cost and difficulties of accumulating necessary data.

While the effects of climate can have significant impact on business results, the identification and measurement of the factors involved, and the role that climate changes play, will take much more development in coming years to gain widespread support and acceptance.

Sustainability in the financial sector is another area that requires ongoing attention in order to maintain a stable economy. The recent increase of bank failures in the United States points out a shortcoming, where attention has been diverted from basic financial standards to focus more on other issues, such as ESG. A return to more robust oversight is needed to address weaknesses before they become critical. Also, some institutional investors have chosen not to incorporate ESG guidelines in portfolio management, since they were shown to provide lower returns than other approaches.

Further details can be found at [SSB ramps up activities to support global implementation ahead of issuing inaugural standards end Q2 2023](#) and [First global sustainability standards approach the finish line](#).

## Worldwide Update



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

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### International

IASB – International Accounting Standards Board ([www.ifrs.org](http://www.ifrs.org))

- **Disclosure Initiative—Targeted Standards-level Review of Disclosures**, published March 8, 2023, Project Summary and Feedback Statement that is “to enable stakeholders to enhance their use of judgement when preparing disclosures in financial statements and provide more useful information for investors.”

IFAC – International Federation of Accountants ([www.ifac.org](http://www.ifac.org))

- **The State of Play: Sustainability Disclosure & Assurance 2019-2021 Trends & Analysis**, survey report published February 15, 2023, in conjunction with ACCA and AICPA “captures and analyzes the extent to which companies are reporting and obtaining assurance over their sustainability disclosures, which assurance standards are being used, and which companies are providing the assurance service...analysis indicates that while the frequency of reporting ESG information is very high and the incidence of assurance is on an upward trend, there continues to be a meaningful difference between reporting and assurance rates.”
- **The International Ethics Standards Board for Accountants (IESBA) - International Code of Ethics for Professional Accountants (including International Independence Standards)**, revised code issued February 28, 2023, “to address holistically the various independence considerations in an audit of group financial statements. The revisions also deal with the independence and other implications of the changes made to the definition of an engagement team in the Code to align with changes to the definition of the same term in the International Auditing and Assurance Standards Board’s (IAASB) International Standards on Auditing (ISAs) and International Standards on Quality Management (ISQMs).” Effective generally in 2024 with early adoption permitted.

#### **ACCA – Association of Chartered Certified Accountants ([www.accaglobal.com](http://www.accaglobal.com))**

- **Sustainability assurance – rising to the challenge**, report published February 28, 2023, “provides an overview of the current landscape for sustainability assurance, a fast-growing area for professional accountants and others, and introduces the extant standard and guidance for sustainability assurance published by the International Auditing and Assurance Standards Board (IAASB). It also discusses the skills and competencies required for undertaking sustainability engagements.”
- **The State of Play: Sustainability Disclosure & Assurance 2019-2021 Trends & Analysis** – see IFAC.

#### **CIMA – Chartered Institute of Management Accountants ([www.cimaglobal.com](http://www.cimaglobal.com))**

- **The State of Play: Sustainability Disclosure & Assurance 2019-2021 Trends & Analysis** – see IFAC.

#### **World Economic Forum – ([www.weforum.org](http://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](http://www.frc.org.uk))**

- **Thematic Review: IFRS 9 Banking Audit Methodology and its Application**, review report published February 24, 2023, “to promote continuous improvement in the quality of the audit work performed over the accounting and disclosure of financial instruments, with a focus on the audit of Expected Credit Losses (ECL) for larger banks, by providing auditors and audit committees with examples of good audit practice and common audit challenges.”

#### **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](http://www.efrag.org))**

- **Basis for conclusions ('BfC') to supplement the draft ESRS (European Sustainability Reporting Standards)** published March 10, 2023, “illustrates the objective and context of the draft standards, the process followed in their preparation, the reasons to include in the standards a disclosure requirement, when relevant the alternative considered, the references to other standard-setting initiatives or European or other relevant regulations and, where appropriate, the argument supporting the need for granular guidance.”

- **Where is Corporate Reporting heading?**, conference summary report, published February 15, 2023, highlighting “the new trends in the Environmental, Social, and Governance (ESG) revolution and the growing emphasis on the connectivity between sustainability and financial reporting.

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

### AICPA – American Institute of Certified Public Accountants ([www.aicpa.org](http://www.aicpa.org))

- **Auditing Standards Board – Statement on Auditing Standards (SAS) No. 149, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)**, issued March 6, 2023, “provides a risk-based approach to planning and performing a group audit...also better aligns the standard with other recently issued SASs and clarifies the interaction between the SAS and other AU-C sections.” Effective for audits of group financial statements for periods ending on or after December 15, 2026.
- **Auditing Standards Board – Statement on Quality Management Standards (SQMS) No. 3, Amendments to QM Sections 10, A Firm’s System of Quality Management, and 20, Engagement Quality Reviews**, issued March 6, 2023. “The amendments to QM sections 10 and 20 conform certain terms to language used in SAS No. 149 and provide guidance on differentiating between a resource and an information source.” Effective concurrently with the effective dates provided in QM sections 10 and 20.

### FASB – Financial Accounting Standards Board ([www.aicpa.org](http://www.aicpa.org))

- *No new developments*

### GASB – Governmental Accounting Standards Board ([www.gasb.org](http://www.gasb.org))

- *No new developments*

### COSO - The Committee of Sponsoring Organizations of the Treadway Commission ([www.coso.org](http://www.coso.org))

- *No new developments*

### PCAOB – Public Company Accounting Oversight Board ([www.pcaob.org](http://www.pcaob.org))

- **Investor Advisory: Exercise Caution With Third-Party Verification/Proof of Reserve (PoR) Reports**, published March 8, 2023, “because of concerns that investors and others may place undue reliance on PoR Reports, which are not within the PCAOB’s oversight authority. Importantly, investors should note that PoR engagements are not audits and, consequently, the related reports do not provide any meaningful assurance to investors or the public.” These reports relate “to certain crypto entities (e.g., crypto exchanges, stablecoin issuers).”

### SASB – Sustainability Accounting Standards Board ([www.sasb.org](http://www.sasb.org))

- *No new developments*

### SEC – Securities and Exchange Commission ([www.sec.gov](http://www.sec.gov))

- *No new developments*

## Additional A&A News

- [Cybersecurity for CPAs: Delayed reactions](#)
- [Changes abound – adapting to the new audit landscape](#)



- [SEC Is Focusing on Earnings Manipulation by Companies](#)
- [How CPAs are leveraging technology to improve efficiency.](#)
- [Four Steps for Controlling Source Documents](#)
- [Be Serious About AI, Not Amused](#)
- [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](#)
- [Accountancy Daily Corona Virus Resources](#)
- [China Briefing's Coronavirus Insights for Your Business in China](#)
- [Accountingweb](#)



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