

Audit & Accounting Alert Newsletter

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At-A-Glance

While COVID-19 may have put a damper on some activities, the pandemic also created a new opportunity for corrupt activities, as well as inadvertent breakdowns in financial reporting matters. Consequently, global regulators and watchdogs have issued reports and standards to address these concerns. This issue of the Audit & Accounting Alert looks at recent efforts by the International Federation of Accountants (IFAC), Public Accounting Oversight Board (PCAOB), and Securities and Exchange Commission (SEC) to tackle the challenges.

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



Gerald Herter - Editor

Fighting Corruption and Illegal Acts

Renewed tactics for an age-old battle



The International Federation of Accountants (IFAC) promotes worldwide advocacy for the accounting profession, while the Public Accounting Oversight Board (PCAOB) oversees audits of public companies. In the past year, these organizations along with Cornerstone Research have issued reports of efforts to crack down on corruption. The IFAC report led to a workbook for professional accountancy organizations (PAO), while the PCAOB proposed a replacement to its auditing standard relating to illegal acts, and Cornerstone reported on Securities and Exchange Commission (SEC) initiatives.

In September 2022, IFAC issued its *Action Plan for Fighting Corruption and Economic Crime*, which asserted that any hope of attaining the United Nation's sustainable development goals by 2030 would require a concerted effort to reduce the substantial financial impact of fraudulent endeavors. The plan consists of five pillars that can be applied to any society:

1. Harnessing the Full Potential of Education and Professional Development
2. Supporting Global Standards
3. Contributing to Evidence-based Policymaking
4. Strengthening Our Impact through Engagement and Partnership
5. Contributing Our Expertise through Thought Leadership and Advocacy

The plan goes on to show specific ways the accounting profession can play a role in advancing these goals. For example, emphasis is placed on the importance of attaining specialized education, embracing the breadth and depth of worldwide standards, taking an active role in the development of effective and appropriate policies, working with others toward common goals, and applying the uniquely placed knowledge and wisdom of the accounting profession to the challenging task at hand.

To support this effort, IFAC, in May 2023, published *Global Fight, Local Actions: Anti-Corruption Advocacy Workbook for PAOs*. This resource will facilitate the process by giving accounting leaders the background and tools needed to gain the familiarization necessary to move forward expeditiously.

The PCAOB approach was through its rulemaking procedure. The Board's current standard, AS2405, *Illegal Acts*, goes all the way back to 1977 with a revision in 1988. Originally enacted by the AICPA, the standard was adopted on a temporary basis shortly after the PCAOB was established in 2002.

On June 6, 2023, PCAOB issued Release No. 2023-003, proposing *Amendments to PCAOB Auditing Standards related to a Company's Noncompliance with Laws and Regulations And Other Related Amendments*. This Release replaces AS2405 and amends AS 2110, *Identifying and Assessing Risks of Material Misstatement*, while rescinding another standard and related interpretations.

The proposed standard states that the auditor's objectives are to:

• Identify laws and regulations with which noncompliance could reasonably have a material effect on the financial statements,

b. Based on the laws and regulations with which noncompliance could reasonably have a material effect on the financial statements, assess and respond to the risk of material misstatement of the financial statements due to noncompliance with those laws and regulations,

c. Identify whether there are instances of noncompliance with laws and regulations that have or may have occurred, and

d. When the auditor identifies or otherwise becomes aware of information indicating that instances of noncompliance have or may have occurred, evaluate and communicate such instances of noncompliance (regardless of whether the effect of the noncompliance is perceived to be material).â€œ

Generally, the auditor must have an awareness of the companyâ€™s direct and indirect legal obligations, perform a risk assessment to determine the potential magnitude of failure to meet the obligations, carry out inquiries and other procedures to establish whether the company has fulfilled the requirements, and then take appropriate action based on the results.

Cornerstone Research published its annual review for 2022, *SEC Accounting and Auditing Enforcement Activity*, in May 2023. Enforcement actions increased 55% over the prior year. Actions relating to restatements of financial statements and internal control weaknesses were noted to be the highest in recent years. Granted, the presence of the coronavirus pandemic most likely played a role. Nevertheless, ongoing and renewed vigilance is necessary to maintain confidence in the financial reporting system and keep corruption in check.

Further details can be found at [Global Fight, Local Actions: Anti-Corruption Advocacy Workbook for PAO](#), [Statement on Proposal to Amend PCAOB Auditing Standards Related to a Companyâ€™s Noncompliance with Laws and Regulations and Other Related Amendments](#), and [SEC Accounting and Auditing Enforcement Activity](#).

Worldwide Update



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

International

IASB â€œ International Accounting Standards Board (www.ifrs.org)

- **Exposure Draft - International Tax Reform - Pillar Two Model Rules, Amendments to the IFRS for SMEs Accounting Standard**, issued June 1, 2023. â€œThe proposed amendments would introduce a temporary exception to accounting for deferred taxes arising from the implementation of the Pillar Two model rules; introduce targeted disclosure requirements in periods when Pillar Two legislation is in effect; and clarify that â€œother eventsâ€™ in the disclosure objective for income tax include enacted or substantively enacted Pillar Two legislation. The comment period ends July 17, 2023.

- **Supplier Finance Arrangements â€œ Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosures**, issued May 25, 2023, â€œto enhance the transparency of supplier finance arrangements and their effects on a companyâ€™s liabilities, cash flows and exposure to liquidity riskâ€œThe amendments supplement requirements already in IFRS Accounting Standards and require a company to disclose: the terms and conditions; the amount of the liabilities that are part of the arrangements, breaking out the amounts for which the suppliers have already received payment from the finance providers, and stating where the

liabilities sit on the balance sheet; ranges of payment due dates; and liquidity risk information.â€ Effective for annual reporting periods beginning on or after January 1, 2024.

- **Income Taxes â€ Amendments to IAS12 â€** issued May 23, 2023. â€The amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Developmentâ€™s (OECD) international tax reform. The OECD published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. More than 135 countries and jurisdictions representing more than 90% of global GDP have agreed to the Pillar Two model rules. The IASB has taken urgent action to respond to stakeholdersâ€™ concerns about the uncertainty over the accounting for deferred taxes arising from the implementation of the rules. Effective immediately, but disclosures required for annual reporting periods beginning on or after January 1, 2023.
- **Exposure Draft - Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates - IFRS Sustainability Disclosure Standard**, issued May 11, 2023, â€sets out the methodology proposed by the ISSB for amending SASB Standards metrics to enhance their international applicability. This Exposure Draft also includes the proposed approach for updating the digital SASB Standards Taxonomy to reflect amendments made to the SASB Standards.â€ The comment period ends August 9, 2023.

IFAC â€ International Federation of Accountants (www.ifac.org)

- **The International Public Sector Accounting Standards Board (IPSASB) â€ a) Updated Conceptual Framework: Chapter 5, Elements in Financial Statements; b) International Public Sector Accounting Standard (IPSAS) 47, Revenue; and c) IPSAS 48, Transfer Expenses**, issued May 31, 2023, â€update and simplify existing principles, while filling gaps in the IPSAS literature, resulting in more consistent guidance for IPSAS users and better support for implementation globally. Informed by stakeholder feedback and refinement over the course of several years, the pronouncements introduce: A single up-to-date source of guidance applicable to all revenue transactions across the public sector; and A new straightforward accounting model for the recognition and measurement of transfer expenses in the public sector. The effective date for both IPSAS 47 and IPSAS 48 is January 1, 2026, with earlier application permitted. Updates to the Conceptual Framework are effective when published.
- **The International Public Sector Accounting Standards Board (IPSASB) â€ a) Updated Conceptual Framework: Chapter 7, Measurement of Assets and Liabilities in Financial Statements; b) International Public Sector Accounting Standard (IPSAS)â€ 45, Property, Plant, and Equipment, and c) IPSAS 46, Measurement**, issued May 29, 2023, â€provide simplified, more consistent guidance addressing key conceptual challenges and practical implementation issues identified by the public sector community by introducing: Straight-forward principles for initial and subsequent measurement, that apply throughout IPSAS and align with the Conceptual Framework; and Enhanced property, plant, and equipment guidance that also clarifies the recognition and measurement of infrastructure and heritage assets.â€ The effective date for both IPSAS 45 and IPSAS 46 is January 1, 2025, with earlier application permitted. Updates to the Conceptual Framework are effective when published.
- **The International Public Sector Accounting Standards Board (IPSASB) - Reporting Sustainability Program Informationâ€ Amendments to RPGs 1 and 3: Additional Non-Authoritative Guidance.**, issued May 9, 2023, provides â€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.â€ Effective immediately.

IFR4NPO - International Financial Reporting for Non-Profit Organisations (www.ifr4npo.org)

- *No new developments.*

IOSCO â€ International Organization of Securities Commissions (www.iosco.org)

- *No new developments.*

ACCA â€ Association of Chartered Certified Accountants (www.accaglobal.com)

- **Reporting of R&D: Disclosure without recognition?** - research report published May 24, 2023, by ACCA and the University of Glasgow Adam Smith Business School, â€investigates how R&D is currently being reported by listed organisations across the world,â€ and makes recommendations for improvements.

CIMA â€ Chartered Institute of Management Accountants (www.cimaglobal.com)

- *No new developments.*

World Economic Forum â€ (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)

- **Audit Committees and the External Audit: Minimum Standard**, issued May 22, 2023. – The primary objective of Standard is to enhance performance and ensure a consistent approach across audit committees within the FTSE350. – The Standard is issued for voluntary adoption until formal legislation is passed requiring compliance.

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

- **Continuing Professional Development (CPD) Regulations** updated May 18, 2023, requiring members to – complete at least 20 CPD hours annually, of which a proportion must be verifiable; undertake at least one hour of ethics training each year; keep a record of their CPD hours so they can be inspected on request by ICAEW’s Quality Assurance Department. –

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

- **European sustainability reporting standards – first set**, proposed May 18, 2023. – Mandatory reporting standards will ensure that companies are fully transparent about their impact on people and the environment, as well as about the risks they face from climate change and other issues. They will be a key tool to combat greenwashing. These standards will also help companies to communicate and manage their sustainability performance more efficiently. Comment period ends July 10, 2023.

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

- **Accounting for Variable Consideration – From a purchaser’s perspective**, summary report published May 26, 2023, – examines different directions for requirements in relation to: – When to recognise a financial liability within the scope of IAS 32 Financial Instruments: Presentation/IFRS 9 Financial Instruments for variable consideration that will depend on the purchaser’s future actions (– the liability recognition issue –). – Whether (and if so, when) changes in the estimate of a liability for variable consideration should either: (i) result in updating the cost of the acquired asset that is held by the purchaser; or (ii) be recognised in profit or loss (– the measurement of the acquired asset issue –). –

Americas, Asia, Australia and New Zealand (AAANZ)

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

- **Financial Institutions Overview of Certain A&A Risks**, practice aid published June 21, 2023, to – alert practitioners to possible trouble spots that may require special attention as audits, reviews, and other engagements are performed. –
- **Accounting for and auditing of digital assets**, practice aid published June 13, 2023, – offers important and up-to-date information about how to account for and audit digital assets. –
- **Financial institutions overview of certain A&A risks**, Center for Plain English Accounting report published June 21, 2023, to – alert practitioners to possible trouble spots that may require special attention as audits, reviews, and other engagements are performed. –

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

- **Concepts Statement No. 8, Conceptual Framework for Financial Reporting ter 2: The Reporting Entity**, issued June 8, 2023. – The new chapter is 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.
- **Exposure Draft - Compensation – Stock Compensation (Topic 718) - Scope Application of Profits Interest Awards**, issued May 11, 2023, – intended to improve generally accepted accounting principles (GAAP) by adding illustrative guidance to help entities determine whether profits interest and similar awards should be accounted for as a share-based payment

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)

- **Inspection Observations Related to Public Company Audits Involving Crypto Assets**, spotlight report published June 14, 2023, highlights certain responsibilities under PCAOB standards for auditors of public companies and brokers and dealers¹ transacting in or holding crypto assets, our inspection observations related to crypto assets, and important reminders for auditors when performing audits of public companies or broker-dealers, where activities associated with crypto assets are material to the financial statements.
- **Amendments to PCAOB Auditing Standards related to a Company’s Noncompliance with Laws and Regulations And Other Related Amendments, Release No. 2023-003**, issued June 6, 2023. See article in this issue 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

- [Your Firm and Your AI \(Artificial Intelligence\) Tools](#)
- [ESG an “immense” market for mid-tier accounting firms to tap into](#)
- [The economic potential of generative AI: The next productivity frontier](#)
- [Accountants help small biz navigate economic uncertainty](#)
- [The Five Opportunities That Make Accountancy a Passport to Meaningful Careers in the Private and Public Sectors](#)



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.

Editor Gerald E. Herter

Email: gerry.herter@integra-international.net

www.Integra-International.net

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