

# Audit & Accounting Alert Newsletter

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## At-A-Glance

A typical financial audit includes tests of sample transactions selected in accordance with generally accepted auditing standards (GAAS). Since the items tested are usually only randomly selected samples, when a discrepancy occurs, the auditor needs to explore further to determine the extent and magnitude of the error. This further testing is called a root cause analysis. The PCAOB recently released a new publication to assist with the understanding and application of this technique. This issue of the Audit & Accounting Alert highlights the report.

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



**Gerald Herter - Editor**

# Root Cause Analysis — An Effective Practice to Drive Audit Quality

[New PCAOB resource offers guidance](#)



On April 30, 2024, the Public Company Accounting Oversight Board (PCAOB) published **SPOTLIGHT: Root Cause Analysis – An Effective Practice To Drive Audit Quality**. A Spotlight is a publication prepared by PCAOB staff “to help auditors, audit committees, investors, and preparers understand the PCAOB’s activities and observations.”

The initial image the term “root cause” conjures up is that of a tree held up and in place by a network of roots. Roots are unseen beneath the ground, but they play a critical, essential role, allowing a tree to stand and to grow. Applied to the business world, the term implies that there may be a deeper, more pervasive reason for a problem.

Early in my career as an auditor, I was testing the accuracy of a computer report for a parts inventory. The report listed each item along with the quantity, unit cost, and the total cost, which was the result of multiplying quantity by unit cost. As part of my test, I picked a sample and manually recomputed the total cost of several items. To my surprise, an item whose total cost was listed as something like \$23,456, actually recomputed to a total of \$123,456.

I could have just corrected that \$100,000 discrepancy and moved on. But an auditor’s job, when encountering an error, is to look further, to find the “root cause.” Expanding the test, similar errors popped up. The cause appeared to be systemic. By looking at the computer program underlying the report, I discovered that the program only allowed five digits in the place the total was to be displayed. Consequently, any additional digits were just left off, which led to a substantial understatement of the reported inventory totals. My expanded test was a “root cause analysis.”

According to the American Society for Quality (ASQ), the root cause is “the core issue—the highest-level cause—that sets in motion the entire cause-and-effect reaction that ultimately leads to the problem(s). Root cause analysis (RCA) is defined as a collective term that describes a wide range of approaches, tools, and techniques used to uncover causes of problems.”

Put another way by Salesforce’s Tableau platform narrative, “Root cause analysis (RCA) is the process of discovering the root causes of problems in order to identify appropriate solutions. RCA assumes that it is much more effective to systematically prevent and solve for underlying issues rather than just treating ad hoc symptoms and putting out fires. Root cause analysis can be performed with a

collection of principles, techniques, and methodologies that can all be leveraged to identify the root causes of an event or trend. Looking beyond superficial cause and effect, RCA can show where processes or systems failed or caused an issue in the first place.”

Further details can be found at [SPOTLIGHT: Root Cause Analysis – An Effective Practice To Drive Audit Quality](#).

## 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))

- **IFRS 19 - Subsidiaries without Public Accountability: Disclosures**, issued May 9, 2024, “permits eligible subsidiaries to use IFRS Accounting Standards with reduced disclosures.” Effective immediately.
- **Exposure Draft - Contracts for Renewable Electricity**, issued May 8, 2024, “proposing narrow-scope amendments to ensure that financial statements more faithfully reflect the effects that renewable electricity contracts have on a company. The proposals amend IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*.” Comment period ends August 7, 2024.
- **IFRS 18 - Presentation and Disclosure in Financial Statements**, issued April 9, 2024, “introduces three sets of new requirements to improve companies’ reporting of financial performance and give investors a better basis for analysing and comparing companies: Improved comparability in the statement of profit or loss (income statement) ... Enhanced transparency of management-defined performance measures... More useful grouping of information in the financial statements.” Effective for annual reporting periods beginning on or after 1 January 2027, but companies can apply it earlier.

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

- **International Public Sector Accounting Standards Board (IPSASB) - Improvements to IPSAS, 2023**, issued April 30, 2024. “in order to align with amendments to IFRS Accounting Standards based on IASB’s *Narrow Scope Amendments* projects.” Effective for annual financial statements covering periods beginning on or after January 1, 2026 retrospectively in accordance with IPSAS 3. Earlier application permitted.

#### IFR4NPO - *International Financial Reporting for Non-Profit Organisations* ([www.ifr4npo.org](http://www.ifr4npo.org))

- *No new developments.*

#### IOSCO – International Organization of Securities Commissions ([www.iosco.org](http://www.iosco.org))

- *No new developments.*

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

- *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](http://www.frc.org.uk))**

- *No new developments.*

**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))**

- *No new developments.*

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

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

- **Future of Finance 2.0: Re-defining finance for a sustainable world**, white paper published April 21, 2024, to “highlight that accounting and finance is moving away from traditional rules-based approaches and towards a more inclusive, expansive and value-creation mindset better suited for the sustainability challenges of today and tomorrow.”

**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))**

- **SPOTLIGHT: Auditing Considerations Related to Commercial Real Estate**, published May 6, 2024, “to highlight important considerations and examples for auditors relating to CRE, as they plan and conduct audits and reviews of interim financial information.”
- **SPOTLIGHT: Root Cause Analysis – An Effective Practice To Drive Audit Quality**, published April 30, 2024. See article in this issue for details.
- **SPOTLIGHT: Inspection Observations Related to Auditor Use of Data and Reports**, published April 18, 2024, “highlights recent staff observations on the use of IPC [information produced by the company] and information from external sources in the audit.”

**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

[AI and fraud: What CPAs should know](#)

[House approves repeal of SEC crypto rule](#)

[How Do We Drive Relevance in Audit?](#)

[FRC publishes final settlement decision to KPMG on Carillion](#)

[Conducting a meaningful ethics audit](#)

[PCAOB sanctions auditors over audit evidence](#)



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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