FINANCIAL REPORTING COUNCIL

MONTHLY UPDATES (February 2020 to June 2020) – What’s new from the International Federation of Accountants (IFAC)

The main topics for discussion at the IFAC in February 2020 to June 2020 were with respect to:

1. IFAC OUTLINES FIVE FACTORS FOR HIGH-QUALITY AUDIT, ISSUES CALL TO ACTION FOR STAKEHOLDERS IN AUDIT ECOSYSTEM

2. IPSASB ISSUES EXPOSURE DRAFTS ON REVENUE AND TRANSFER EXPENSES

3. NEW REPORT REVEALS THE IDEAL ACCOUNTING PRACTICES FOR GOVERNMENTS TO DELIVER TRANSPARENCY FOR THEIR CITIZENS

4. GLOBAL ETHICS BOARD RELEASES REPORT EXPLORING THE ETHICAL IMPLICATIONS OF TECHNOLOGY FOR ACCOUNTANTS

5. IFAC RELEASES THE THIRD INSTALLMENT OF "EXPLORING THE IESBA CODE"

6. IAASB CONSULTS ON EXTENDED EXTERNAL REPORTING (EER) ASSURANCE

7. BUILDING A COHERENT, GLOBAL APPROACH TO CORPORATE REPORTING

8. MESSAGE FROM THE IPSASB CHAIR ON COVID-19

9. IAASB RELEASES CONFORMING AMENDMENTS THAT ALIGN INTERNATIONAL STANDARDS MORE CLOSELY WITH THE REVISED IESBA CODE

10. IAASB’S NEW STRATEGY AND WORK PLAN FOCUSES ON INCREASED AGILITY, ENHANCED COORDINATION, AND A PRIORITY ON RESPONDING TO EMERGING CHALLENGES

11. IAASB ISSUES SUPPORT MATERIAL FOR AUDIT DOCUMENTATION WHEN USING AUTOMATED TOOLS AND TECHNIQUES

12. IAASB PROPOSES MODERNIZATION OF GROUP AUDITS STANDARD IN SUPPORT OF AUDIT QUALITY
13. IFAC LAUNCHES PRACTICE TRANSFORMATION ACTION PLAN

14. IFAC LAUNCHES SMALL BUSINESS CONTINUITY CHECKLIST

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16. IFAC RESPONDS TO WEF CONSULTATION ON IMPROVING REPORTING FOR ESG AND VALUE CREATION

17. UPCOMING WEBINAR SERIES ON AUDITING IN THE CURRENT ENVIRONMENT – REGISTRATION REQUIRED

18. NEW IPSASB STAFF Q&A ADDRESSES CLIMATE CHANGE

19. IFAC RESPONSE TO THE EUROPEAN COMMISSION’S NON-FINANCIAL REPORTING DIRECTIVE REVIEW

20. GLOBAL COALITION ISSUES GUIDANCE ON HOW BUSINESSES CAN ADOPT A LONG-TERM VALUE CREATION AGENDA
1. **IFAC OUTLINES FIVE FACTORS FOR HIGH-QUALITY AUDIT, ISSUES CALL TO ACTION FOR STAKEHOLDERS IN AUDIT ECOSYSTEM**

High-quality audits are the backbone of the global financial system. Each year, thousands of audits – including over 40,000 audits of public listed companies – make organizations more transparent and trustworthy, help attract investor capital, help secure jobs, and help economies thrive.

The International Federation of Accountants (IFAC) and the global accountancy profession are committed to continuous improvement and recognize the negative consequences of any audit failure. As audit reviews unfold in various national jurisdictions, IFAC is setting out its recommendations for achieving high-quality audits.

“Audits contribute meaningfully to the functioning of organizations, financial markets, and economies. While many thousands of audits are conducted each year without any issues, improvements are needed to ensure consistent high quality,” said IFAC CEO Kevin Dancey. “This, however, cannot be achieved in a vacuum – all participants in the audit and assurance ecosystem must work together in striving to achieve high-quality audits 100% of the time. It is a vital part of our profession’s public interest mandate.”

In order to achieve high-quality audits, IFAC identifies **five essential factors**: the right process, the right people, the right governance, the right regulation, and the right measurement.

IFAC calls on all participants to create an environment that consistently produces high-quality audits. In particular, firms, Professional Accountancy Organizations (PAOs), regulators, audit committees and audit/assurance professionals must work to:

- Approach audits as a value-added service; not as a compliance exercise
- Evolve new assurance services to meet the needs of all stakeholders
- Continue focus on enhancing skills and competencies, adhering to fundamental ethical principles
- Ensure diversity in hiring practices
- Enhance transparency and communication from audit committees, firms, and PAOs
- Adopt a prudential and evidence-based approach to regulation

“As the global voice of the accounting profession, IFAC works in the public interest and focuses on the role of professional accountants in audit and assurance—but always, and necessarily, as partners in a larger ecosystem striving for better outcomes,” said Dancey. “We call on regulators and PAOs to collect, analyze, and publish more and better data—both aggregate and granular—on audit quality with the goal of enhancing transparency and promoting higher audit quality.”
2. **IPSASB ISSUES EXPOSURE DRAFTS ON REVENUE AND TRANSFER EXPENSES**

The International Public Sector Accounting Standards Board® (IPSASB®) has released *Exposure Draft (ED) 70, Revenue with Performance Obligations, ED 71, Revenue without Performance Obligations, and ED 72, Transfer Expenses*. The three exposure drafts are published together to highlight for respondents the linkages between the accounting for revenue and transfer expenses. The three EDs pioneer new approaches for some of the most significant transactions of public sector entities, including inter-governmental transfers and grants for the delivery of key government services to the community by introducing:

- A more straight-forward approach to classifying revenue transactions;
- A new model for the recognition and measurement of revenue; and
- Guidance on transfer expenses, which currently does not exist in IPSAS.

“Sound accounting for revenue is crucial for all governments and other public sector bodies. We are confident that the proposed use of the performance obligation approach in ED 70, together with the updates to IPSAS 23 in ED 71, will improve financial reporting for both users and preparers of public sector financial statements,” said IPSASB Chair Ian Carruthers. “ED 72 complements the other two EDs by proposing guidance for the first time on transfer expenses, which are a major area of government expenditure, often recognized as revenue by other public sector bodies.”

ED 70 is aligned with IFRS 15, Revenue from Contracts with Customers, while extending the income recognition approach in that standard to address common public sector transactions which include performance obligations, including those where the ultimate beneficiary is a third party. It is intended to supersede IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts.

ED 71 is an update of IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers) that addresses some of the issues encountered in its application. Unlike the current revenue standards, which classify revenue based on an exchange or non-exchange distinction, ED 70 and ED 71 differentiate revenue transactions based on whether or not the transaction has a performance obligation, which is defined as a promise to transfer goods or services to a purchaser or a third-party beneficiary. ED 71 also provides public sector-specific guidance on capital transfers for the first time.

ED 72 proposes guidance for transfer expenses, where a transfer provider provides resources to another entity without receiving anything directly in return. In providing guidance for the first time on the expense side of transactions that may be accounted under the revenue EDs by other public sector organizations, ED 72 includes proposals for transactions with and without performance obligations.
3. NEW REPORT REVEALS THE IDEAL ACCOUNTING PRACTICES FOR GOVERNMENTS TO DELIVER TRANSPARENCY FOR THEIR CITIZENS

A report issued jointly by ACCA and IFAC, *Is cash still king?* Maximising the benefits of accrual information in the public sector, not only confirms that a complete public sector transition to accrual accounting will serve the public interest, but also contains 30 specific recommendations to improve accrual implementation.

Good decision-making requires the right information. Given that most government decisions have financial implications, understanding the economic reality of a government’s activities improves the quality of decisions made. By 2023, the number of countries reporting their financial position on an accruals basis is expected to increase from 37 to 98, jumping from 25% to 65% among 150 countries surveyed in the International Public Sector Financial Accountability Index.

These are human consequences that can result – and do result – when governments don’t have the financial information necessary to make the best long-term decisions for their citizens. Cash accounting, which 75 per cent of governments around the world use in some form, does not present the most accurate picture of a government’s financial health, nor does it enable adequately planning for the development, delivery, and maintenance of the services, programmes, and infrastructure on which people rely. And that, in turn, leads to a breakdown of trust in governments.

The report’s author, ACCA’s Head of Public Sector Policy, Alex Metcalfe, said: ‘Moving to accruals needs to be more than a compliance exercise, it should be about making the best use of financial information. The range of benefits highlighted in this report demonstrates the clear upside to implementing accruals in the public sector. We need to ask whether cash is still king, when it comes to financial reporting and budgeting.’

‘The accounting profession’s public interest mandate is nowhere more apparent than in the public sector, where high-quality reporting and budgeting is a prerequisite for government transparency and effective delivery of public services,’ said Kevin Dancey, CEO of the International Federation of Accountants (IFAC). ‘To the finance professionals and public sector decision makers who are leading the transition from cash to accrual accounting, we commend you and support you.’

The benefits and complexity arising from accruals varies by types of adoption. The report notes that:

- Cash accounting and budgeting is the simplest basis but provides the least decision-useful information.
- Accrual accounting combined with cash budgeting is the most complex basis, but it generates information that helps achieve value for money, facilitates public scrutiny, and supports sustainable decision-making.
- Accrual accounting and accrual budgeting creates a ‘medium level of complexity’ and creates consistency. In addition to realising the benefits from implementing accrual
accounting, this environment also puts finance right at the heart of decision making and allows governments to embed effective performance management.

- New, decision-useful information generated by accrual implementation promotes the achievement of value for money and facilitates effective public scrutiny.
- To produce decision-useful information, governments must set objectives; plan; engage stakeholders; create effective systems; and develop the right skills, including internal training beyond preparers.

This report recommends that governments implementing accruals should be:

- Directing independent fiscal policy institutions to assess contingent liabilities and produce recurring fiscal risk reports.
- Implementing accrual budgeting to put finance at the heart of decision-making, while embedding performance management across government.
- Planning to produce a fully consolidated balance sheet that provides a full financial picture of the resources and risks for the public sector. This must include State-owned Enterprises at the whole-of-government level.
- Building political challenges into the implementation roadmap from the beginning (e.g., through a sunset clause requiring the eventual recognition of employee pension liabilities).
- Including groups that provide a constructive challenge function to the reform, such as auditors and legislative committees (e.g. the UK’s Public Accounts Committee).
- Deploying experts centrally to control consulting costs and support implementation across government.

4. GLOBAL ETHICS BOARD RELEASES REPORT EXPLORING THE ETHICAL IMPLICATIONS OF TECHNOLOGY FOR ACCOUNTANTS

The International Ethics Standards Board for Accountants (IESBA) has on 27 February 2020 released its Phase One Report exploring the ethical implications of technology on the accounting, assurance, and finance functions.

The report is the culmination of the first phase of fact-finding work the global ethics standard-setting board initiated in recognition of the pace and magnitude of change caused by disruptive technological innovations. The initial phase of the initiative was led by the IESBA’s Technology Working Group (TWG).

In its findings, the TWG concluded that, generally, the IESBA’s International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) currently provides high level, principles-based guidance for most technology-related ethics issues that professional accountants and firms might encounter. However, the report cites various findings and sets out recommendations grouped into five key topical areas where material in the Code could be enhanced.

“Over the last few years, the pace, significance and complexity of technology advances, such as machine learning, have given rise to new opportunities and challenges for the accountancy profession,” said Dr. Stavros Thomadakis, IESBA Chair, adding “The effective organization and
delivery of services are already undergoing major change. The global accountancy profession will have to recognize and address new ethical challenges in a rapidly changing technological environment. The IESBA Technology Working Group has delivered a comprehensive and informative report in this strategic area. This lays the groundwork for our substantive and timely response to ethical and public interest challenges posed by radical technological change.”

5. IFAC RELEASES THE THIRD INSTALLMENT OF "EXPLORING THE IESBA CODE"

IFAC has on 28 February 2020 released the latest installment of its Exploring the IESBA Code educational series: The Conceptual Framework–Step 2, Evaluating Threats.

Exploring the IESBA Code is a twelve-month series providing an in-depth look at the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code). Each installment focuses on a specific aspect of the Code using real-world situations in a manner that is relatable and practical. Readers will gain a better understanding of the thought process behind important aspects of the Code through storytelling and expert analysis from professionals involved in developing the standards.

The first installment of the Series looked at the Code’s five Fundamental Principles, which establish the standard of behavior expected of all professional accountants. The second installment highlighted the Code’s Conceptual Framework with a focus on identifying threats, while this third installment focuses on how to evaluate those identified threats.

A professional accountant can often come across complex or challenging situations that are not black and white. These challenging situations require ethical considerations, some of which are expressly dealt with in the Code. The unique and informational series was developed by IFAC in collaboration with the International Ethics Standards Board for Accountants (IESBA) to help explain how the Code assists in navigating some of these challenges.

To read and download this and future installments, please visit the IFAC website.

6. IAASB CONSULTS ON EXTENDED EXTERNAL REPORTING (EER) ASSURANCE

Organizations are increasingly reporting about their broader performance or impact (“Extended External Reporting” or “EER”) either voluntarily or as required by law or regulation, and there is a growing demand for assurance engagements on such reporting. In response, the International Auditing and Assurance Standards Board (IAASB) has developed for feedback it’s non-authoritative EER Guidance and is requesting public input by July 13, 2020.

“Extended external reporting and the role it has to play will only continue to grow in importance,” said Tom Seidenstein, Chair of the IAASB. “It’s a very exciting time for the IAASB as the work we’re undertaking today to develop international assurance guidance for non-financial information in the form of EER will, we believe, pave the way for much greater engagement and consistency in this area. We welcome and encourage all feedback during our
comment period, which runs through July 13, and look forward to learning from the comments we receive.”

EER encapsulates many different forms of reporting including, but not limited to, integrated reporting, sustainability reporting and other reporting by entities about financial and non-financial matters, including environmental, social and governance matters, related to an entity’s activities.

The purpose of the IAASB’s Public Consultation on Proposed Guidance, Extended External Reporting Assurance is to promote consistent high-quality application of ISAE 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information so as to:

• Strengthen the influence of EER assurance engagements on the quality of EER reports;
• Enhance user trust in the resulting assurance reports; and
• Engender greater confidence in the credibility of, trust in and reliance upon EER reports by their intended users.

The draft non-authoritative guidance addresses Special Considerations in Performing Assurance Engagements on Extended External Reporting.

7. BUILDING A COHERENT, GLOBAL APPROACH TO CORPORATE REPORTING

Investors, stakeholders, and society at large need to understand the value of companies beyond what they can glean from conventional financial reports – and this need is even more pressing during uncertain times such as the present.

IFAC has on 02 April 2020 published its response to Accountancy Europe’s consultation, Interconnected Standard Setting for Corporate Reporting, which addresses the evolution of standard setting to enhance corporate reporting at the global level.

The current corporate reporting system needs to evolve quickly to deal with the challenge posed by a myriad of different jurisdictional requirements and an absence of widely agreed standards in various areas beyond financial reporting. The result is variable quality and lack of comparability, leading to greater cost and inefficient capital allocation for both companies and investors.

As indicated in the IFAC point-of-view on enhancing corporate reporting, a global solution is needed to achieve relevant, reliable, and comparable narrative information and metrics.

“The current reporting ecosystem does not best serve the interests of capital markets, companies or their stakeholders,” said IFAC CEO Kevin Dancey. “The options set out by Accountancy Europe to change the corporate reporting system are useful for furthering the dialogue toward a global and coherent solution. We look forward to continuing this conversation with key stakeholders.”
In its response to the consultation, IFAC endorsed six recommendations to secure an integrated global reporting structure. These include development of a global approach to international standard-setting, a conceptual framework for corporate reporting, and an oversight structure.

A global approach to these three elements—oversight, framework, and standards—is urgently needed in order to enhance corporate reporting. While this is a challenging time for investors, companies and capital markets, the competition for capital will become more challenging, and the demand for relevant and candid information about organizations will be needed to reliably inform decisions about capital allocation and investor and other stakeholder’s assessments of long-term value creation.

8. MESSAGE FROM THE IPSASB CHAIR ON COVID-19 (published on 07 April 2020)

Dear Colleagues -

The COVID-19 pandemic is presenting unprecedented challenges for us all, from its effects on our everyday lives, to its impacts on the world’s economies.

After we emerge on the other side, one of the legacies of this extraordinary period will undoubtedly be the longer-term financial impacts of the interventions by governments around the world. The unparalleled nature and scale of the fiscal measures being taken in response to COVID-19 reinforce the need for strong Public Financial Management (PFM) to maximize their immediate effectiveness. Strong public accountability for the resources used in fighting the pandemic, through high quality financial reporting, will also be essential to making their overall impact on public sector finances fully transparent.

We at IPSASB are committed to doing our part in supporting a strong global response to the challenges posed by COVID-19. In the short-term, we have marshalled the key financial reporting guidance already available here, and developed a webpage with key resources. Our aim through this is to help you, our stakeholders, understand and report on the economic and financial substance of the COVID-19 related interventions being made by your governments.

We have also transitioned to fully digital platforms for our day-to-day work, and are now working towards our first fully-virtual Board meeting in June. We will continue to monitor developments globally, and will respond to public sector financial reporting needs and priorities as these emerge. Our staff are ready to help with additional guidance wherever possible. By working closely together throughout the coming weeks and months, we can all help overcome the challenges to strong PFM thrown up by the pandemic.

Best wishes,

Ian Carruthers
9. **IAASB RELEASES CONFORMING AMENDMENTS THAT ALIGN INTERNATIONAL STANDARDS MORE CLOSELY WITH THE REVISED IESBA CODE**

The International Auditing and Assurance Standards Board (IAASB) has on 08 April 2020 released **conforming amendments to the IAASB’s International Standards as a result of the recently restructured and revised International Ethics Standards Board for Accountants’ (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)**.

The conforming amendments aim to align the IAASB’s International Standards with the revisions to the IESBA Code, thus ensuring that they can continue to be applied together with the IESBA Code.

“The IAASB and IESBA have prioritized their cooperation and coordination because many jurisdictions use both the IAASB’s International Standards and the IESBA Code. The completion and publication of these conforming amendments fulfills the public interest to ensure that the two sets of standards work in concert,” said Tom Seidenstein, Chair of the IAASB. “These conforming amendments will give jurisdictions yet another reason to adopt and implement both tools to strengthen public confidence in the global auditing and assurance profession.”

The conforming amendments fall under the umbrella of IAASB-IESBA coordination, a strategic commitment of the two Boards to better align for enhanced connectivity and to better serve the public interest.

“I commend the IAASB for completing this necessary project in a timely manner,” said Dr. Stavros Thomadakis, Chairperson of IESBA, adding “Our two boards are committed to seeking alignment in our standards and coordination of our standard-setting activities on issues of common concern to help serve the public interest.”

The conforming amendments to the IAASB’s International Standards become effective as of July 15, 2020.

10. **IAASB’S NEW STRATEGY AND WORK PLAN FOCUSES ON INCREASED AGILITY, ENHANCED COORDINATION, AND A PRIORITY ON RESPONDING TO EMERGING CHALLENGES**

On 15 April 2020, the International Auditing and Assurance Standards Board (IAASB) published its **Strategy for 2020–2023 (the Strategy) and Work Plan for 2020–2021 (the Work Plan)**.

The strategy, developed through extensive external consultation over two years, looks to build sustained trust in financial and other reporting through high-quality audits, assurance, and related services engagements. The IAASB also recognizes the need to address the impact of technology, demands relating to changing reporting needs (including demands in relation to non-financial reporting), and changing expectations for the audit.
“The IAASB recognizes the significant challenges facing the audit profession and the standards that govern it. This Strategy and Work Plan provides an important compass for our organization to address these challenges in a highly responsive and innovative manner,” said Tom Seidenstein, Chair of the IAASB. “We will inevitably need to adapt over the strategy’s four-year period, but the emphasis on the public interest, innovation and agility, and collaboration should remain relevant.”

Consistent with governance requirements, the Public Interest Oversight Board (PIOB), the IAASB’s independent oversight body, concluded at its March 2020 meeting that the IAASB developed its Strategy and Work Plan in accordance with due process and with proper regard for the public interest.

Key IAASB Strategy and Work Plan Elements

The strategy sets three strategic objectives to focus IAASB priorities and resources during 2020–2023:

1. Increase the emphasis on emerging issues to ensure that the IAASB International Standards provide a foundation for high-quality audit, assurance and related services engagements
2. Innovate the IAASB’s ways of working to strengthen and broaden our agility, capabilities, and capacity to do the right work at the right time
3. Maintain and deepen relationships with stakeholders to achieve globally relevant, progressive and operable standards

The Work Plan describes, at the time of the December 2019 approval, how the IAASB intends to increase its focus on emerging issues, while completing the existing work already committed to and underway. In the Work Plan, the IAASB anticipates standard-setting projects on going concern, fraud, and audit evidence, and work to address the needs of auditors of Less Complex Entities, among other topics. To support an evidence-based and structured consideration of new topics, the IAASB Work Plan highlights a new Framework for Activities, comprising several key components, to help the IAASB develop informed and targeted responses to address emerging issues and topics of global relevance.

Impact of the COVID-19 Pandemic on the Strategy and Work Plan

While the IAASB approved its strategy before the pandemic, the three strategic objectives remain relevant. The IAASB has used these strategic objectives to help prioritize its crisis response. For example, the IAASB has developed, and is continuing to develop, guidance on audit considerations in response to the pandemic. The IAASB is enhancing its interactions with national audit standard-setters, regulators, and independent audit oversight regimes.

At the same time, the IAASB recognizes that its Work Plan and timelines may need to adapt as new priorities emerge, the pandemic and associated restrictions impact our ability to work, and stakeholder capacity for change becomes constrained. In the coming weeks and months, the IAASB will consider potential impacts and consult, as appropriate, with the PIOB, the IAASB Consultative Advisory Group, and other stakeholders.
The outcome of IAASB consultations could lead to the reprioritization of topics and changes in the timing of projects and consultation efforts. The IAASB will post any changes on its Website.

11. **IAASB ISSUES SUPPORT MATERIAL FOR AUDIT DOCUMENTATION WHEN USING AUTOMATED TOOLS AND TECHNIQUES**

On 23 April 2020, the Technology Working Group (TWG) of the International Auditing and Assurance Standards Board (IAASB) released non-authoritative support material related to the auditor’s documentation when using automated tools and techniques (ATT), such as data analytics, robotics automation processes or artificial intelligence applications.

The publication intends to assist auditors in understanding how the use of ATT during an audit engagement may affect the auditor’s documentation in accordance with International Standard on Auditing (ISA) 230, Audit Documentation, and the documentation requirements of other relevant ISAs.

The publication does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override International Standard on Quality Control (ISQC) 1 or the ISAs, the texts of which alone are authoritative.

Note: Reading the publication is not a substitute for reading ISQC 1 or the ISAs.

12. **IAASB PROPOSES MODERNIZATION OF GROUP AUDITS STANDARD IN SUPPORT OF AUDIT QUALITY**

The International Auditing and Assurance Standards Board (IAASB) has on 27 April 2020 released the *exposure draft of proposed International Standard on Auditing (ISA) 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

Proposed ISA 600 (Revised) deals with special considerations for audits of group financial statements (group audits). Group audits are often more complex and challenging than single-entity audits because a group may have many entities or business units across multiple jurisdictions, and component auditors may be involved.

“This proposed standard is critically important as many of today’s audits are group audits, including audits of the largest and most complex organizations around the world,” said Tom Seidenstein, IAASB Chair. “The proposed revised standard addresses quality risk issues identified by audit regulators and benefits from the input of a wide range of stakeholders.”

The proposed standard introduces an enhanced risk-based approach to planning and performing a group audit. This approach appropriately focuses the group engagement team’s attention and work effort on identifying and assessing the risks of material misstatement of the group financial statements, and designing and performing further audit procedures to respond
to those assessed risks. The proposed standard recognizes that component auditors can be, and often are, involved in all phases of a group audit. In these circumstances, the proposed standard highlights the importance of the group engagement team’s involvement in the component auditor’s work.

In addition, the proposed standard:

- Clarifies the scope and applicability of the standard.
- Emphasizes the importance of exercising professional skepticism throughout the group audit.
- Clarifies and reinforces that all ISAs need to be applied in a group audit through establishing stronger linkages to the other ISAs, in particular to proposed ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330.
- Reinforces the need for robust communication and interactions between the group engagement team, group engagement partner and component auditors.
- Includes new guidance on testing common controls and controls related to centralized activities.
- Includes enhanced guidance on how to address restrictions on access to people and information.
- Enhances special considerations in other areas of a group audit, including materiality and documentation.

In consideration of COVID-19’s impact, the IAASB is departing from the Board’s normal 120-day comment period for public consultations. Therefore, the exposure draft of proposed ISA 600 (Revised) is open for public comment until October 2, 2020.

The IAASB invites all stakeholders to comment on the Exposure Draft via the IAASB’s website.

13. **IFAC LAUNCHES PRACTICE TRANSFORMATION ACTION PLAN**

IFAC has published a ‘Practice Transformation Action Plan – A Roadmap to the Future’ (the Plan) on 01 May 2020, in New York, which covers four key focus areas for small- and medium-sized practices (SMPs):

- Embrace Change
- Leverage Technology
- Focus on Talent Management
- Evolve the Firm Operating Model and Build Advisory Services

The Covid-19 pandemic is an accelerator for the adoption of technology. Many firms are now operating virtually and supporting employees through flexible work arrangements. These extraordinary circumstances also offer practitioners significant opportunities to adapt and service a rapidly changing world. As trusted business advisers, they are best positioned to provide clients with a range of services to help navigate these difficult and uncertain times.
SMPs may still be in a ‘fire-fighting’ phase but want to be proactive and ready to adapt to radical and unplanned changes. Effective transformation requires strong leadership, new approaches to training and continued learning, and an emphasis on providing relevant, value-added services.

The Plan was developed with advice and guidance from the IFAC SMP Committee and recognizes that every firm will be different. The actions taken will need to be tailored to each firm’s circumstances and objectives to be successful.

We’ve created a dedicated ‘practice transformation’ web page, featuring case studies, examples of how Member Organizations are supporting their firms to innovate and evolve, as well as additional tools and resources.

Now is the time for practitioners to lead and become part of the solution for their clients and for their own future as we enter a whole new world.

14. IFAC LAUNCHES SMALL BUSINESS CONTINUITY CHECKLIST


Small businesses have been disproportionately affected by the COVID-19 pandemic. Most organizations worldwide are small in size, and the importance of small businesses to the global economy is indisputable.

COVID-19 containment measures severely impacted cashflows, disrupted supply chains and put small business survival at risk on an unprecedented scale. Governments worldwide moved quickly to deploy supportive measures for small businesses and entrepreneurs to help them maintain short-term liquidity. However, many are still struggling.

Small- and medium-sized practices (SMPs) have in-depth knowledge of their clients and provide vital guidance for navigating these uncertain times. Research indicates the business advice provided to small businesses from their professional accountant is associated with improved rates of survival, growth, improved decision-making procedures and superior financial performance.

Poor financial management is a leading reason why businesses fail. The Checklist covers key financial management and strategic management tasks, helping businesses to proactively identify and consider essential and timely information.

Many businesses are looking for the “next normal” and a new approach to resilience. Early on, the pandemic accelerated digitization and transformed small businesses responding to drastic consumer behavior shifts. A small businesses ability to survive the current environment, and thrive in the future, will be greatly strengthened by support from their professional accountant.
The Checklist is included on IFAC’s dedicated COVID-19 web page with many other useful resources.

15. IAASB RELEASES COVID-19 RELATED GUIDANCE FOR AUDITOR REPORTING

On 22 May 2020, the IAASB has released COVID-19 Pandemic-related guidance for auditors to consider when issuing an auditor’s report on the completion of the audit of financial statements.

The guidance document can be found on the IFAC website.

In the IAASB’s ongoing response to COVID-19, guidance related to Going Concern and Subsequent Events have also been issued, and more information and helpful links can be found on the IAASB’s COVID-19 Webpage.

16. IFAC RESPONDS TO WEF CONSULTATION ON IMPROVING REPORTING FOR ESG AND VALUE CREATION

To continue the dialogue on corporate reporting and value creation, IFAC has on 11 June 2020 posted a summary of its feedback on the recent World Economic Forum (WEF) consultation “Toward Common Metrics and Consistent Reporting of Sustainable Value Creation.”

It is well acknowledged by investors, business leaders, and other stakeholders that, in addition to financials, effective corporate reporting must also measure value creation, sustainability and environmental, social, and governance factors. Such enhanced corporate reporting is needed to maintain confidence in companies and financial markets, to better meet stakeholder needs, and to inform business planning for long-term success.

The WEF consultation makes a valuable contribution in the dialogue amongst all stakeholders who share a common interest in relevant, reliable, and comparable reporting of this information.

In its consultation response, IFAC focuses on six takeaways to keep the global conversation moving forward:

- Rationalization efforts must work toward a global system. IFAC strongly supports a global approach to ESG metrics and disclosures.
- Timeliness is key. Alignment, harmonization, and convergence must take place before regional or jurisdiction-specific initiatives become standard practice.
- Take a modular approach. Build upon existing high-quality metrics and disclosures.
- There is a role for both standards and frameworks. For example, the Integrated Reporting Framework.
• Assurance is needed to deliver confidence in corporate reporting. Assurance is most effective when applied against metrics and disclosures that follow clear best practices or standards.

• The accounting profession must remain engaged in the conversation. The profession is critical to evidence-based decision making, reliable information gathering, and consistent, comparable corporate reporting—be it ESG-focused or otherwise.

IFAC stands ready, as a global voice and convener of the accountancy profession, to facilitate coordination, assimilation, and convergence in sustainable reporting approaches. IFAC supports the WEF consultation as a catalyst to challenge policy makers, regulators, and ESG metric providers to get the job done, now.

Ongoing and active engagement by the profession—through this initiative and by assisting companies in the implementation of its metrics and disclosures—is an enormous opportunity for the profession to embrace.

17. **UPCOMING WEBINAR SERIES ON AUDITING IN THE CURRENT ENVIRONMENT – REGISTRATION REQUIRED**

IFAC is inviting participants to join its free weekly webinar series focusing on practical audit quality considerations in the pandemic environment.

Occurring over three weeks, each webinar will focus a different phase of the audit:

• **Audit Planning:** Thursday July 9, 7:00 to 9:00 am (EDT)
• **Audit Execution:** Thursday July 16, 7:00 to 9:00 am (EDT)
• **Auditor Reporting and Looking Ahead:** Thursday July 23, 7:00 to 9:00 AM (EDT)

To register, please go on the IFAC website.

Participants will hear perspectives and insights from a variety of audit experts including representatives from the large firms, mid-market firms, the International Auditing and Assurance Standards Board, and IFAC’s Small and Medium Practices Advisory Group.

The webinars will be useful to anyone affected by the impact of the pandemic for any aspect of the audit, including audit practitioners and audit clients, as well as anyone supporting those impacted, such as professional accountancy organizations, training organizations, and academia.

18. **NEW IPSASB STAFF Q&A ADDRESSES CLIMATE CHANGE**

*Climate change* presents an existential threat for individuals, societies and economies. Compounded by the economic losses that the COVID-19 pandemic presents, there is a need for financial reporting and information that provides a clear, forward-looking, long-term view of an
organization’s finances and sustainability – particularly for governments and other public sector entities.

As principles-based standards, governments and public sector entities can apply existing IPSAS literature to report on sustainability issues, including climate change risks, and to communicate progress towards achieving goals such as the SDGs.

To help stakeholders understand how to apply the Board’s current guidance to provide clear, comparable, and relevant information on climate change, the IPSASB Staff have published a Questions & Answers (Q&A) document on 22 June 2020 highlighting the relevant standards and guidance for the public sector. The Staff Q&A addresses key questions such as:

- Is there any existing IPSASB literature relevant to consider for climate change reporting?
- When governments or public sector entities have strategies and programs in place to manage climate change risks, how should these be treated?
- When governments or public sector entities adopt the UN’s Sustainable Development Goals (SDGs), what IPSAS financial reporting guidance should be considered?

The Staff Q&A on Climate Change is intended to help drive transparency and sustainability in reporting on public finances. Further guidance on the recognition, measurement, presentation and disclosure of natural resources is also being considered by the IPSASB as part of its project on Natural Resources.

19. **IFAC RESPONSE TO THE EUROPEAN COMMISSION’S NON-FINANCIAL REPORTING DIRECTIVE REVIEW**

IFAC continues to speak out on behalf of the global accounting profession on the topic of non-financial reporting, most recently in response to the European Commission’s review of the Non-Financial Reporting Directive (NFRD). This review marks another valuable step in the dialogue and evolution toward relevant, reliable, and comparable reporting of non-financial information.

A summary of IFAC’s response is available on its website.

IFAC urges the Commission to adopt a global mindset by engaging input from a broad range of international stakeholders in determining the best way forward. Steps taken must “fit within” a global system and avoid regional regulatory fragmentation.

Non-financial reporting answers the call from investors and other providers of capital for better, broader information about company performance and prospects for value creation, while also helping identify opportunities to support sustainable—and less carbon-reliant—business models. In the post-COVID world, corporate reporting that reflects the needs of a broad range of stakeholders will be particularly important to communicate on an organization’s performance and priorities.
As a Network Partner of the B20, IFAC calls on global bodies—including the G20—to encourage policy-makers, standard-setters, and regulators to facilitate harmonization towards a globally-acceptable approach to reporting ESG metrics and disclosures.

IFAC supports reporting requirements that address both societal and company performance impacts and that anticipate the needs of specific markets. Any jurisdiction-specific reporting requirements need to conform with metrics and disclosures that are part of a globally accepted system so that comparability is achieved.

The accountancy profession is critical to evidence-based decision making, reliable information gathering, and consistent, comparable corporate reporting. Active engagement by the profession on this topic will maximize the benefits of a global solution to non-financial reporting that best serves shareholders and the broader public interest.

As the global voice of the accounting profession, IFAC remains committed to advocating for a comprehensive approach to non-financial reporting through its contributions to global consultations and engagements.

20. GLOBAL COALITION ISSUES GUIDANCE ON HOW BUSINESSES CAN ADOPT A LONG-TERM VALUE CREATION AGENDA

In the wake of unprecedented economic disruption due to the COVID-19 pandemic, many companies are rethinking their fundamentals and assessing how their corporate purpose, strategy and business model will drive long-term success. To support businesses in this uncertain environment, the International Federation of Accountants (IFAC), International Integrated Reporting Council (IIRC), and the Association of International Certified Professional Accountants (the unified voice of the American Institute of CPAs (AICPA) and the Chartered Institute of Management Accountants (CIMA)) has on 25 June 2020 released new guidance for Chief Financial Officers (CFOs) and finance teams to navigate their organizations toward long-term value creation.

“COVID-19 is the greatest threat to value creation we’ve seen in generations. As a result, many companies are juggling a handful of pressing priorities, including protecting cash flows, ensuring long-term value creation, and delivering positive societal impacts,” said IFAC CEO Kevin Dancey. “The CFO and finance function can partner with management to overcome the challenges associated with understanding and driving long-term value creation.”

The report contains actionable insights for CFOs, finance teams, and other business leaders to sharpen their perspective on value creation beyond the financials, including how to:

- Understand the value creation process
- Identify principal opportunities and risks related to the organization’s strategy and business model
- Develop an integrated view of performance and value, incorporating balance sheet, business, and societal perspectives; and
- Drive priorities for value creation into decision making and reporting.
The approach outlined in this report helps CFOs and finance teams to think about how to ensure that all relevant information around performance, opportunities, risks, and trade-offs are available to internal decision-makers, investors, and other capital providers. It also enables the corporate mindset to evolve from shareholder value creation to a longer-term stakeholder value creation perspective.

“With an estimated 80 percent of enterprise value now made up of non-financial assets such as brand recognition, human capital and customer satisfaction, organizations that understand how to create and deliver value will be better positioned to achieve sustainable success,” said Barry Melancon, CPA, CGMA and CEO of the Association of International Certified Professional Accountants. “Accounting and finance professionals are uniquely positioned to bring together the insights and data needed by management teams to inform a value creation agenda, which is particularly important during this time of uncertainty.”

“Business leaders are under growing pressure to marry profit with purpose. A value creation agenda delivers exactly this,” said Charles Tilley, CEO of the IIRC. “Building on the International Integrated Reporting Framework, this new report will guide CFOs to better understand, measure, and report on value creation and impact. The result is comprehensive measurement based on a company’s value drivers that can be used to steer long-term sustainable development.”

For further information: [http://www.ifac.org](http://www.ifac.org)

Financial Reporting Council

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