Internal control effectiveness: who needs to know?
Audit is currently undergoing an unprecedented level of public scrutiny. The expectations of investors and other stakeholders – including employees, customers, suppliers and pension-holders – have increased in recent years, and the purpose, scope and practice of audit need to keep pace.

ICAEW’s Audit and Assurance Faculty is developing a series of thought leadership essays that consider issues directly or indirectly relevant to the international debate about the future of audit. This series is intended to help directors, politicians and policymakers understand the key issues, and it will, among other things, help to inform the development and implementation of recommendations in the UK regarding audit, its regulation and the market for audit services.

The faculty has also published two background papers to support these thought leadership essays:

- **Financial reporting: who does what?** is intended to help readers understand who is involved in the preparation of financial statements, how they are involved, and the role of auditors in challenging those responsible.

- **What auditors do: the scope of audit** explains what auditors do, why audits are necessary and their current limitations, and what auditors do and don’t audit.

These papers are available to all at icaew.com/futureofaudit, and further papers will be issued in the coming months. If you have views on any of them, we would very much like to hear from you. Please email your comments to Katharine.Bagshaw@icaew.com

In June 2019, ICAEW responded to the call for views from Sir Donald Brydon’s Independent Review into the Quality and Effectiveness of Audit. A number of our thought leadership essays, including this one, will be used to highlight and develop the ideas presented in our submission.¹

---

¹ ICAEW representation 64/19 Independent Review into the Quality and Effectiveness of Audit, ICAEW, 12 June 2019.
Contents

INTRODUCTION ........................................................................................................................................... 2
WHAT ARE ‘INTERNAL CONTROLS’ AND WHY DO THEY MATTER? .................................................. 3
WHAT INTERNAL CONTROLS DO WE HAVE ALREADY, AND WHAT ARE THEY SUPPOSED TO DO? ........................................................................................................................................... 4
  1. UK company law requirements: internal controls over accounting records and the preparation of financial statements, and reporting on those controls ................................................................. 6
  2. Corporate governance requirements: internal controls that must be applied by listed companies under the UK Corporate Governance Code, and reporting on those controls ........................................................................ 7
  3. Requirements under the Listing Rules: internal controls over a listed company’s financial position and prospects, and reporting on those controls .............................................................................. 8
SOX AND COSO IN THE USA .................................................................................................................. 9
EXISTING FRAMEWORKS, SOX – OR BOTH? ....................................................................................... 10
SOX AND COSO ELSEWHERE IN THE WORLD ..................................................................................... 12
CONCLUSIONS AND NEXT STEPS ..................................................................................................... 13
Introduction

Reporting on the effectiveness of controls over financial reporting features prominently in the current reviews of UK audit and regulation. Parliamentary hearings and disciplinary cases involving unprecedented levels of fines have generated a great deal of media interest. Recent events suggest that in some cases, controls over financial reporting may not be working, or may have gone wrong. It has been suggested that current requirements should be enhanced, and that directors and auditors should be required to make more explicit statements about internal control effectiveness, perhaps along the lines of the Sarbanes-Oxley regime in the USA.

This is the background to this essay, in which we seek to understand and explain the current position in the UK, compare it with what happens in the USA and elsewhere in the world, set out the case for change, and analyse the options. We anticipate that much of the analysis will resonate in discussions in other jurisdictions.

It is important for businesses and investors that enhancements are proportionate and effective. In developing this essay, we encountered a very wide range of views, and further debate and consultation are essential. The purpose of this essay is to help clear the way for the start of a better-informed discussion.
What are ‘internal controls’ and why do they matter?

Running a business of any size has always, of necessity, involved implementing a system of internal control.

Internal controls are important because they help ensure that a business meets its objectives. Controls designed to ensure that information, including financial information, is timely and accurate are essential to decision-making. Controls over product and service quality deliver sales and satisfied customers. Controls designed to ensure compliance with laws and regulations help ensure that businesses retain the right to operate. Controls are equally important in smaller businesses, but they tend to be more informal, they are less likely to be documented and they often rely to a greater extent on the hands-on, day-to-day involvement of management in running the business.

Financial reporting controls are designed to help ensure that the financial statements give a true and fair view. They are intended to reduce the risk of misstatement associated with the loss or misappropriation of assets. A business cannot prepare financial statements, or prevent or detect the theft of assets, if it fails to control its accounting records. While accurate accounting records cannot prevent theft, they can help deter, detect and correct it.

Financial reporting controls also help to ensure the integrity and usefulness of the financial information produced by a business. They include relatively low-level automated controls that help ensure the completeness and accuracy of routine financial transactions captured by the accounting system; a variety of manual and automated monitoring controls over the information used to manage the business; and higher-level controls to ensure that management does not distort financial reports provided to shareholders or markets.

2 In addition to the financial statements, financial reporting controls may be considered to cover half-year and quarterly reports, market announcements, profit forecasts and profit warnings, and other financial information included in the annual report, such as KPIs.
What internal controls do we have already, and what are they supposed to do?

The main purpose of financial reporting controls is to help ensure that the financial statements give a ‘true and fair’ view, as required by company law and accounting standards, by preventing, detecting and correcting material misstatements, regardless of whether they are due to fraud or error.

Examples of typical financial reporting controls are given in the box below. These examples cover the five components of the COSO framework. Widely used in the USA and elsewhere, COSO is a US-developed internal control framework against which control effectiveness can be assessed. UK and international auditing standards incorporate these five components at a high level in their standard on risk assessment, ISA 315.

**EXAMPLES OF FINANCIAL REPORTING CONTROLS**

- High-level policies and procedures relating to the control environment, including the tone at the top and a company’s culture and values;
- The entity’s risk assessment process, which will have high-level strategic elements, such as horizon scanning, as well as more detailed information-gathering exercises;
- Control activities, designed to ensure that management’s instructions are carried out. They include authorisation controls, reconciliations, performance reviews, physical controls over access to assets and records, and segregation of duties;
- Controls over the information system, to ensure that the right information is captured, processed and disseminated. They include the use of passwords and other controls designed to ensure the integrity of information, such as controls over access to programmes. They also include more detailed controls such as parameter checks; and
- Monitoring controls, which often include reviews of summarised information, and, importantly, the work of internal audit.

No system of control can provide absolute assurance that financial statements are free from material misstatement. Cost considerations, fraud involving collusion and management override of controls, and the potential for human error will always mean that controls may be ineffective, or that effective controls may by circumvented. External and internal audit reduce the risk, but they too are subject to limitations. But this does not mean that effective controls are of little value, or that they cannot be improved.

---

3 COSO is the name given to the framework developed by The Committee of Sponsoring Organizations of the Treadway Commission. While the use of COSO is not mandated by SOX, and other frameworks are permitted, the vast majority of companies reporting in the USA do in fact use the COSO framework.

4 One example of a parameter check would be an automated process which highlighted, in an exception report, any invoice over a certain amount, or any invoice without VAT applied, which would then be reviewed manually before being sent out.
INTERNAL CONTROL EFFECTIVENESS: WHO NEEDS TO KNOW?

FUTURE OF AUDIT

COLLUSION AND MANAGEMENT OVERRIDE

All internal control systems suffer from inherent limitations. One example is the avoidance of ‘segregation of duties’ through collusion.

Segregation of duties is a simple control mechanism applied by many companies in many areas. Employees with access to assets, such as stock and cash, must work independently of those with access to the related records. Access to both would facilitate both theft and the falsification of records to cover it up.

Examples of fraudulent collusion include:

- Collecting wages paid to fictitious staff: staff in HR collude with staff in the payroll department;
- Paying fictitious invoices for small amounts: staff outside the company collude with insiders, who authorise payment; and
- Stealing stock: staff in a warehouse collude with staff in the accounts department, who hide thefts by altering the records.

The risk of fraudulent collusion can be reduced, but it cannot be eliminated cost-effectively, no matter how many people an entity employs and no matter how sophisticated its control systems. Paying fictitious invoices for small amounts is a widespread type of fraud, but the cost of prevention (by means of manual authorisation of every last invoice) would, in many cases, far outweigh expected losses.

It can be hard to segregate duties where there are few employees. In smaller businesses, however, the day-to-day involvement of management often compensates for this; for example, an owner-manager who can observe what people are doing is likely to notice when things go missing.

Management override of controls is a problem for businesses of all sizes. It involves senior management bypassing control processes themselves, or instructing more junior staff to ignore the usual requirements and instead to do as management instructs. Fraud involving management override of controls might involve altering records, omitting procedures or simply ignoring something that should be followed up, such as an overdue debt. Whistleblowing legislation is designed to deal with management override of controls, among other things.

Management override of controls is a common feature of corporate collapses involving fraud, and, as with other types of collusive fraud involving senior management, such frauds can involve substantial amounts.

In the UK, responsibility for the development and maintenance of an appropriate set of controls, including financial reporting controls, lies collectively with the board of directors. The UK corporate governance regime allows and encourages boards to set up audit committees to deal with many of the detailed aspects of that responsibility.

The debate on internal control effectiveness to date has focused, somewhat narrowly, on the requirements of the Sarbanes-Oxley (SOX) regime and, to a lesser extent, on the COSO framework, both of which operate in the USA. SOX is the legislation that makes CEOs and CFOs responsible for internal control, and requires them, and external auditors, to report publicly and annually on internal control effectiveness. COSO is the framework against which internal controls are evaluated.
This focus on the US regime might suggest that there is no similar framework for internal controls or reporting thereon in the UK. Not so: a wide-ranging framework for internal controls, including financial reporting controls, already exists in the UK. It comprises the requirements relating to:

- Adequate accounting records and the preparation of financial statements in UK company law;
- Risk and internal controls within the UK Corporate Governance Code (the UK Code); and
- Internal controls for companies seeking admission to listing under the Listing Rules.

These requirements overlap in some respects, and they apply to different categories of companies, so they, therefore, already have a degree of proportionality. They have, however, grown organically over the years and are clearly in need of streamlining and clarification. There are a number of different ways in which this might be achieved. We explore the options below, and also consider how we might learn from the best elements of the US regime in this area.

We are concerned by suggestions that the UK should simply superimpose the US regime, more or less without modification, on the existing UK regime. This approach has been attempted elsewhere in the world with very limited success. Such an unsophisticated approach seems likely to be suboptimal, costly and less likely to achieve commensurate enhancements to corporate discipline and the quality of internal control than a more considered approach based on the existing UK framework. Abandoning the existing UK framework without considering how it might be enhanced seems equally short-sighted, so we consider, below, how such an enhancement might be achieved.

1. **UK company law requirements: internal controls over accounting records and the preparation of financial statements, and reporting on those controls**

Company law requires all UK companies to maintain ‘adequate’ accounting records – records that are sufficient to enable them to prepare true and fair financial statements.

While the basic requirements for ‘adequate’ accounting records have been in place for decades, and guidance exists, they lack detail. Companies have been required to keep ‘proper books of account,’ ‘proper accounting records’ and now ‘adequate accounting records’ since the Companies Act 1948.

Company law and the Listing Rules require financial statements to be prepared within a specified time-frame, and in accordance with detailed legal requirements and accounting standards. If a company is to keep adequate accounting records and prepare financial statements that give a true and fair view, it will necessarily need to have effective internal controls over the records and the process for preparation.

These requirements could be improved with greater clarity about the linkage between accounting records and the financial statements, and specifically about exactly what is expected of directors. Consideration could be given to how directors can be better motivated to keep adequate records that clearly support the financial statements. It is interesting to note that the long-standing criteria that do exist in UK company law, defining the characteristics of adequate accounting records, are similar to those set out in the SOX legislation as it applies to internal controls.

That auditors report on the truth and fairness of financial statements is widely understood. Less well known is the fact that auditors (but not directors) have long been required to report publicly on the adequacy of accounting records, on a ‘by exception’ basis. This means that if auditors believe that adequate records have not been kept, they are required to say so in the audit report. However, the fact that auditors are required to report on accounting records, but directors are not, seems anomalous.
It seems possible, at least, that if there were clearer and more detailed guidance relating to accounting records, the preparation of financial statements, and the link between the two, some of the misreporting that has given rise to the current reviews of auditing in the UK might have been avoided. It therefore seems likely that there is scope for:

- The section 386 Companies Act requirements for adequate accounting records to be better understood and more rigorously applied by both directors and auditors than they are at present;
- Clearer and more detailed guidance regarding the criteria to be applied in determining the nature and extent of accounting records to be kept, and regarding the link between those records and the financial statements;
- Companies or individual directors, as well as auditors, to report, publicly and annually, whether they have kept adequate accounting records; and
- Reconsideration of the appropriateness of sanctions for non-compliance.

However, if the current requirements are simply ineffective or redundant, consideration should be given to eliminating them.

2. Corporate governance requirements: internal controls that must be applied by listed companies under the UK Corporate Governance Code, and reporting on those controls

The requirements for UK premium listed companies to apply the UK Code and its precursors\(^6\) predate the SOX legislation by a decade, as do the requirements for auditors to report on certain aspects of compliance.

The Financial Reporting Council (FRC) is responsible for the UK Code and associated guidance. Its Guidance on Risk Management, Internal Control and Related Financial and Business Reporting requires boards to ensure that ‘sound’ risk management and internal control systems are in place to manage the principal risks to the business. The UK Code also requires boards to oversee the risk management and internal control systems on an ongoing basis, to review their effectiveness at least annually, and, importantly, to report to shareholders on the results of that review. These reports appear publicly in annual reports and cover the full system of internal control, not just controls over financial reporting, as is the case in the USA.

The UK Code is often described as a ‘comply or explain’ regime, and, as such, it is dismissed as ‘having no teeth’. But ‘comply or explain’ applies only to the Provisions of the UK Code. The Provisions provide detailed and specific suggestions for best practice, which may not be suitable for companies of all types and sizes or in all contexts. Compliance with the UK Code’s Principles – which provide a higher-level outline of good governance – is not optional.

The UK Code states that its focus is on the application of the Principles. The Listing Rules require companies to state – avoiding boilerplate – how they have applied the Principles and to articulate what action has been taken and the resulting outcomes. This requirement is supported by high-quality reporting on the Provisions on a ‘comply or explain’ basis.

---

\(^6\) Including Cadbury (1992) and Turnbull (1999).
‘Comply or explain’ is thus in some respects a misnomer; ‘comply and explain’ might more accurately reflect the objective, especially given that a large number of companies to which the UK Code applies comply with all of its Provisions.

It seems likely that there is scope for the UK Code and associated guidance to be better understood and more robustly applied than they are at present. Active consideration might be given to:

- Enhancing the accountability of directors for the application of the Principles of the UK Code;
- Enhancing the auditor reporting requirements by requiring auditors to report publicly on a wider range of corporate governance statements, and to a greater extent; and
- Streamlining and clarifying the current reporting requirements, which are piecemeal, poorly understood and badly articulated both in the financial statements and in the auditor’s report.

3. Requirements under the Listing Rules: internal controls over a listed company’s financial position and prospects, and reporting on those controls

Any company seeking a listing on a UK market as part of an IPO process is required to perform a thorough due diligence exercise on its internal control system before it is admitted to listing.

The Listing Rules require the directors at companies applying for an IPO (‘applicants’) to establish procedures providing a ‘reasonable basis for them to make proper judgements’ about the company’s ‘financial position and prospects’. Applicants are required to appoint a sponsor,7 and the sponsor is required to make a specific declaration in relation to the directors’ procedures. Sponsors invariably engage reporting accountants for these purposes. The framework used by reporting accountants who report on compliance with this obligation is set out in ICAEW guidance Tech 14/14 CFF: Guidance on financial position and prospects procedures. The reporting on directors’ procedures is no mere formality. If reporting accountants are unable to report, the application is very unlikely to proceed.

Tech 14/14 CFF has been an established part of the UK reporting regime for nearly 15 years. It lists eight high-level areas to be addressed. Together with its precursors, it has been used hundreds of times by UK companies and reporting accountants. In terms of audit, Tech 14/14 CFF is aligned with International Standards on Assurance Engagements.

As with the corporate governance requirements referred to above, this framework covers controls over forward-looking information, as well as a much wider range of controls than those covered by COSO in the USA.

It seems clear that there may be scope for wider use of the criteria set out in Tech 14/14 CFF, relating to a company’s financial position and prospects, on an ongoing basis, and not just when listing for the first time.

Directors and auditors could report annually on internal control effectiveness against these criteria. Indeed, it seems that the current requirements already require ongoing work in this area, but have not, to date, been applied or enforced.

7 Depending on the market on which the listing is sought, this may alternatively be a key adviser, nominated adviser or corporate adviser.
SOX and COSO in the USA

The UK is not short of requirements relating to internal control. UK requirements are wider in scope and cover more forward-looking information than the COSO framework. Nevertheless, there are lessons to be learned from the USA.

Internal controls have a different history there. SOX was passed in the USA in 2002 in reaction to a number of major corporate and accounting scandals, including Enron and WorldCom. At the time, there was no independent regulation of the profession in the USA, unlike in the UK. Auditing standards and oversight had until that point been the responsibility of the accounting profession. The Public Company Accounting Oversight Board (PCAOB) was set up to deal with the perceived failure of self-regulation. SOX was also designed to address ineffective audit committees, conflicts of interest between securities analysts and investment bankers, and the inadequate funding of the SEC. It was enacted shortly after the burst of the internet bubble.

The internal control requirements of sections 302 and 404 of the SOX legislation, and the requirements of the COSO framework are well understood in the USA by a wide range of investors, as well as by directors and regulators. The clarity of these requirements is undoubtedly an advantage, but it has not, of itself, been a guarantor of internal control effectiveness.

Section 302 of the SOX legislation makes the CEO and CFO directly responsible for internal controls over financial reporting (ICFR), and there are criminal penalties for non-compliance. The CEO and CFO are personally responsible for assessing internal control effectiveness and for reporting publicly thereon. Pleas by US CEOs and CFOs, when SOX was introduced in 2002, to the effect that they could not and should not be held responsible for everything that happened within their companies, fell on deaf ears.

SOX built on existing legislation requiring listed companies to maintain systems of ‘internal accounting control’; to provide reasonable assurance that records are sufficient to enable the preparation of financial statements in accordance with US GAAP; and to maintain accountability over assets. SOX added specific requirements for the CEO and CFO to assess the effectiveness of the company’s ICFR and to report publicly on that assessment, and for auditors to report on the effectiveness of ICFR.

Despite the fact that the legislation itself was (and is) perceived as fundamentally sound, implementing SOX proved expensive for US companies in the early years. This was largely due to over-zealous regulation and to implementation at an excessively low level, and because companies initially had little in the way of guidance. It fell to auditors, or rather the US audit regulator, the PCAOB, to fill in the detail. The first auditing standard developed by the PCAOB on this, AS2, drove some of the excess. It was eventually replaced by AS 2201: An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements, which is still in place.

Proponents of SOX-style legislation in the UK emphasise the importance of these initial failures, and the need to focus regulatory efforts on clear requirements in the framework for directors. It is important to remember that UK corporate governance requirements, which predate SOX, make UK boards collectively responsible for internal controls more widely, and not just for internal controls over financial reporting.

Despite the initial problems, it is widely acknowledged that reporting under SOX against the COSO framework eventually resulted in an overall strengthening of ICFR. Many CFOs discovered that some of the controls they had thought were in place and effective were, in fact, not there, or were ineffective or undocumented.
**Existing frameworks, SOX – or both?**

There are substantive differences between the SOX regime and reporting by directors and auditors on internal control in the UK; and there are significant differences between the US and UK business and regulatory environments.

But there is also more commonality than is sometimes acknowledged. The terminology used in UK corporate governance requirements is similar to the terminology used in COSO (COSO was developed at the same time as the Cadbury provisions), and some larger UK companies already have limited SOX-style internal reporting requirements. Furthermore, both systems either implicitly or explicitly require ongoing evidencing of controls by companies – although more so in the USA than in the UK – and both require some element of public, annual auditor reporting.

**SOX, COSO and the UK framework: points of difference**

<table>
<thead>
<tr>
<th></th>
<th>USA</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal controls over:</td>
<td>Financial reporting, under SOX</td>
<td>All internal controls, under the UK Code</td>
</tr>
<tr>
<td>Reporting by:</td>
<td>CEO, CFO (section 302)</td>
<td>The board of directors</td>
</tr>
<tr>
<td>Reporting on:</td>
<td>The effectiveness of controls over financial reporting - supported by documented evidence prepared specifically for these purposes on an annual basis</td>
<td>Compliance with the UK Code: various statements required</td>
</tr>
<tr>
<td>Auditors report on:</td>
<td>The effectiveness of controls over financial reporting (section 404) based on independent testing of internal controls over financial reporting, as required by US auditing standards as part of an integrated audit.</td>
<td>Specific parts of the annual report, outside the audited financial statements, including various directors’ statements. Reporting requirements based on the UK Code, company law, and FRC and other guidance. These require auditors to variously audit, read, review or perform other procedures, many relating to internal consistency and consistency with the auditors’ knowledge of the business, based on the audit.12</td>
</tr>
<tr>
<td>Auditors’ opinion presented:</td>
<td>Separately from the opinion on the financial statements</td>
<td>Within the audit report on the financial statements</td>
</tr>
</tbody>
</table>

---

12 For more details, see Financial reporting: who does what, ICAEW, 2019.
A further difference between the US and UK regimes relates to how misstatements are dealt with. Restatements by listed companies - driven by regulators - are more common in the USA. When a company makes one, it is not unreasonable to enquire as to whether work by the CEO, the CFO or the auditor has been deficient. In the UK, the regime for dealing with misstatements is more high-level and less specific. Enhanced enforcement discipline over financial reporting is actively being considered in the UK.

The SOX legislation appears to have a degree of simplicity and discipline that is lacking in the UK. Despite the fact that these traits are in many respects characteristic of a relatively new regime, and are the result of narrow scoping, we noted, above, the clear need for the streamlining and clarifying of a number of UK requirements relating to internal control. Statements regarding responsibility for internal controls are made annually, clearly and publicly in the USA. This in turn makes accountability when things go wrong much clearer, and much more keenly felt.
SOX and COSO elsewhere in the world

Both SOX and COSO have been influential around the world. Variations on the SOX legislation have been enacted in, among other jurisdictions, Canada, Germany, South Africa, France, Australia, India and Japan. And the UK and international auditing standard on risk assessment, ISA 315, is aligned at a high level with COSO.

The COSO framework, with its five basic components, should in theory be capable of application anywhere, and implementing it in the UK would permit an ‘integrated’ audit of controls over financial reporting, as in the USA.

However, the extensive detail that underpins COSO was developed in and for the USA. If COSO were simply transplanted to the UK, that detail would inevitably, in practice, become the default reference point.

The limited success of SOX and COSO in some jurisdictions has been at least partly due to an all-too-easy underestimation of the importance of differences in the legal, regulatory, business and cultural environments. Reporting on internal controls over financial reporting in the USA is relatively narrow in scope, and boilerplate reporting is common. Some suggest that SOX simply mandates what directors and auditors should already have been doing in any case, as part of the preparation of financial statements.
Conclusions and next steps

Useful lessons about accountability can be learned from the experience in the USA. Improvements in the quality of internal controls have arisen in many respects as a result of clarity about responsibilities for effective internal controls.

The focus on the role and responsibilities of the directors is important, as auditors do not and cannot take responsibility for the controls they report on, and the focus of any change of regime needs to be on directors. Auditors are rightly prohibited from providing services relating to the controls they report on. They cannot do what directors refuse or fail to do. They cannot improve controls, and they cannot help directors do so without compromising their independence. What they can do is to determine, independently, whether directors have done what they are supposed to have done.

The new regulator that seems likely to replace the FRC, the Audit, Reporting and Governance Authority, should be tasked with investigating how the UK framework for public reporting on internal controls by directors and auditors can be developed, and this should include a rigorous consultation process for proposals for change. Consideration of relevant academic research would be helpful, and academics should be involved in further consultations.

ICAEW is ready to explore the key issues in more detail. One or more roundtables with interested parties may be an appropriate starting point, with a view to providing information and insight to the new regulator. Topics for discussion could include:

1. What issues are there to address with regard to internal controls over financial reporting in the UK? Do these issues need to be addressed by clarifying and enhancing the existing UK requirements, by bringing in US-style requirements, or by some combination of the two?

2. Should we enhance directors’ responsibilities for keeping adequate accounting records? In particular, should we require directors to report publicly, annually and explicitly on whether adequate accounting records have been kept? Should we develop greater specificity in the related guidance, and require clearer links between accounting records and the financial statements they support? Should the sanctions for non-compliance with these requirements be reconsidered? Or should the requirements be eliminated?

3. In relation to the UK Code, should we focus the accountability of directors on the application of the mandatory Principles, as well as on the specific Provisions? Should we streamline and clarify the current reporting requirements in both the financial statements and the auditor’s report?

4. Is there scope for wider use of the criteria set out in Tech 14/14 CFF, relating to a company’s financial position and prospects, on an ongoing basis, and not just when listing for the first time? Should directors and auditors report on internal control effectiveness against these criteria on an annual basis?

5. If we need to do more, what can we learn from the US experience? Should we narrow the scope of the current UK reporting requirements to internal controls over financial reporting? Should we consider whether penalties remain appropriate, and whether certain directors should have additional responsibilities? Are the galvanising effects of the criminal offences created by SOX critical to its success? How might we better motivate directors and auditors in other ways?
The ICAEW Audit and Assurance Faculty is the professional and public interest voice of audit and assurance matters for ICAEW and is a leading authority in its field. Internationally recognised as a source of expertise, the faculty is responsible for submissions to regulators and standard setters and provides a range of resources to professionals. It also offers practical assistance in dealing with common audit and assurance problems.

The faculty is producing a series of succinct, high-level thought leadership essays on themes that are relevant to the debate on the future of audit. They are designed to inform the various inquiries relevant to audit and regulation, and to improve the understanding of these by boards, investors, politicians, policymakers and others. These are available at icaew.com/futureofaudit

For more information on the faculty, the current work programmes and how to get involved, visit icaew.com/audit. For information on individual or corporate membership of the faculty, open to all, contact louise.thornton@icaew.com

There are over 1.8m chartered accountants and students around the world – talented, ethical and committed professionals who use their expertise to ensure we have a successful and sustainable future.

Over 181,500 of these are ICAEW Chartered Accountants and students. We train, develop and support each one of them so that they have the knowledge and values to help build local and global economies that are sustainable, accountable and fair.

We’ve been at the heart of the accountancy profession since we were founded in 1880 to ensure trust in business. We share our knowledge and insight with governments, regulators and business leaders worldwide as we believe accountancy is a force for positive economic change across the world.

www.charteredaccountantsworldwide.com
www.globalaccountingalliance.com