ACCA

Advanced Audit and Assurance (AAA)

Pocket Notes

KAPLAN PUBLISHING

Contents

chapter

1

Regulatory environment

In this chapter

- Main sources of regulation.
- Public oversight and corporate governance.
- Audit committees.
- Current issues and developments.

The main sources of regulation

- International Standards on Auditing (ISAs) are issued by the International Federation of Accountants (IFAC) – these provide the basic principles and essential procedures in most audit areas.
  - IFAC issues auditing standards through its standards committee, the International Auditing and Assurance Standards Board (IAASB), whose mission is to establish high quality, assurance, quality control and related services standards to develop the harmonisation process worldwide.
- **ACCA's Code of Ethics and Conduct**
- **IESBA's International Code of Ethics for Professional Accountants**

Public oversight and corporate governance

Corporate governance is about ensuring that public companies are:

- managed effectively
- for the benefit of the company and its shareholders.

Fair appraisal of performance

Fair remuneration and benefits

Support/oversight of management by non-executive directors (NEDs) with sufficient experience and authority

Good corporate governance requires

Fair financial reporting

Constructive relationship with shareholders

Effective management

Sound systems of internal control

Good corporate governance can be enforced:

- by law – e.g. The Sarbanes-Oxley Act, USA
- by agreement through codes of best practice – e.g. UK Corporate Governance Code, or
- through a combination of the two.

Corporate governance in action

Board leadership and company purpose
- Effective board leadership
- Promote long-term sustainable success
- Directors should lead by example

Division of responsibilities
- Independent chair leads the board
- CEO and chair should be 2 individuals
- Board should be balanced
- Half the board should be independent

Composition, succession and evaluation
- Board appointments made by Nomination committee (majority INEDs)
- Appointments based on merit – best person for the job
- Combination of skills and experience
- Annual re-election of all directors
- Chair must be replaced after 9 years

Audit, risk and internal control

- Audit committee should ensure independence of IA and EA functions
- Board should manage risks and oversee internal controls
- Audit committee must be established (min 3 INEDs)
- Chair should not be a member of audit committee
- At least one member with recent and relevant experience

Remuneration

- Remuneration set by Remuneration committee (min 3 INEDs)
- Remuneration should promote long-term sustainable success
- Policy for setting remuneration should be formal and transparent
- No director should be involved in setting their own pay
- Board chair can only be a member of RC if independent on appointment
- Workforce pay should be considered when setting exec pay
- NEDs paid according to time commitments and responsibilities

Audit committees

Objectives

- Increase public confidence in credibility and objectivity of published financial info.
- Assist directors in meeting their responsibilities in respect of financial reporting.
- Strengthen the independence of the external auditor.

Advantages:

- Improve quality of accounting.
- Improved communication between directors, external auditors and management.
- Avoids conflicts between auditors and management.

Main functions include:

- Review of company internal control procedures.
- Review of internal audit function.
- Review of external auditors results to ensure audit has been carried out efficiently, effectively and independently.
- Recommending remuneration and nomination of auditors.
- Reviewing requirements satisfied under UK Corporate Governance Code.

Disadvantages:

- Fear purpose to “catch out” management .
- Overburdening of non-executive directors.
- May lead to “two-tier” board.
- Costly.