

FIGHTING CORRUPTION AND ILLEGAL ACTS

Renewed tactics for an age-old battle

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



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

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

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

*The latest on
this month's issue:*

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

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 Originally enacted by the AICPA, the standard was adopted on a temporary basis shortly after the PCAOB was established in 2002.

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

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

- a. Identify laws and regulations with which noncompliance could reasonably have a material effect on the financial statements,
- b. Based on the laws and regulations with which noncompliance could reasonably have a material effect on the financial statements, assess and respond to the risk of material misstatement of the financial statements due to noncompliance with those laws and regulations,
- c. Identify whether there are instances of noncompliance with laws and regulations that have or may have occurred, and
- d. When the auditor identifies or otherwise becomes aware of information indicating that instances of noncompliance have or may have occurred, evaluate and communicate such instances of noncompliance (regardless of whether the effect of the noncompliance is perceived to be material).

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

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

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