



UK SOX: Implications for new UK guidance for Ireland



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Agenda for today

 UK SOX – What’s been happening?

 Why are we talking about this?

 What should an attestation requirement look like?

 Q&A





UK SOX – What's been happening?

Reviews into the audit profession have called for “UKSOX”



“BEIS should give serious consideration to the case for a strengthened framework around internal controls in the UK, learning any relevant lessons from operation of the Sarbanes-Oxley regime in the USA. The pros and cons of options for change should be analysed and consulted upon, giving special consideration to the importance of proportionality in relation to the size of the company.”

Sir John Kingman
Reviews into the Financial Reporting Council, and auditor procurement and remuneration



“I fully support Sir John Kingman’s recommendations regarding the establishment of ARGA and the need for this to happen quickly. In this Report I have also made suggestions in other areas where Sir John has asked BEIS to take matters forward including in particular his recommendation that consideration be given to a strengthened framework for internal controls reporting, learning relevant lessons from the Sarbanes Oxley regime in the United States.”

Sir Donald Brydon
Review into UK audit standards



“We welcome the Government’s commitment to consider and consult on the possible introduction of a strengthened framework around internal controls on a similar basis to Sarbanes-Oxley. If adapted to the UK regulatory system, a UK equivalent could make a significant contribution to improving the reliability of financial reporting.

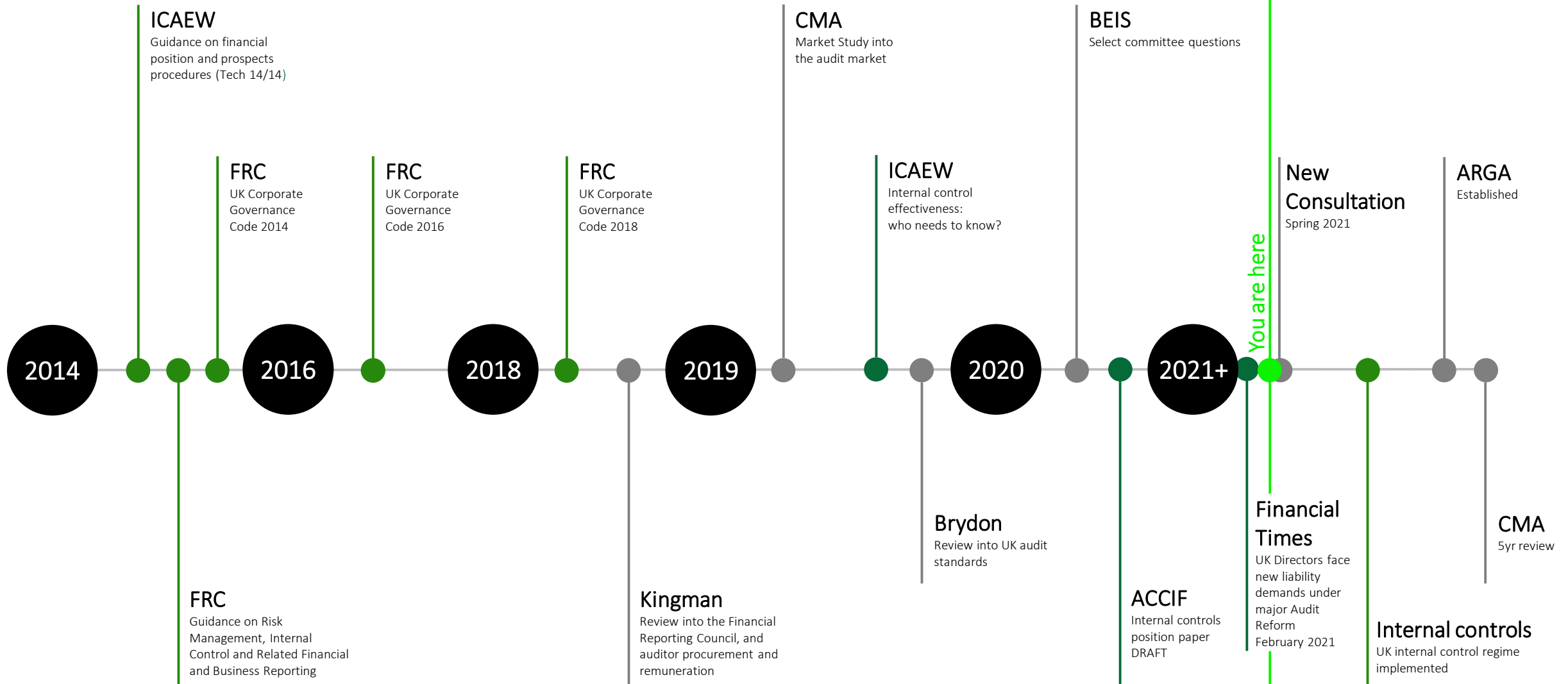
Business, Energy and Industrial Strategy Select Committee
Inquiry into "The Future Of Audit"

Brydon's recommendations

The CEO and CFO provide an annual attestation to the board of directors as to the effectiveness of the company's internal controls over financial reporting and that this attestation be guided by new principles on internal controls reporting to be developed by the Audit Committee Chairs Independent Forum and endorsed by ARGA. [2.8.3]

Companies be required to disclose when any material failure of their internal controls has taken place. A disclosed failure would lead to the CEO/CFO attestation being subject to audit for the following three reporting years. [2.8.4]

Timeline of internal controls guidance and review activities





Why are we talking about this?

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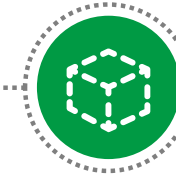
Quality controls over financial reporting gives **transparency to the market** on which companies are well run and which are not. It enhances **trust** in business and gives **confidence** in financial reporting.



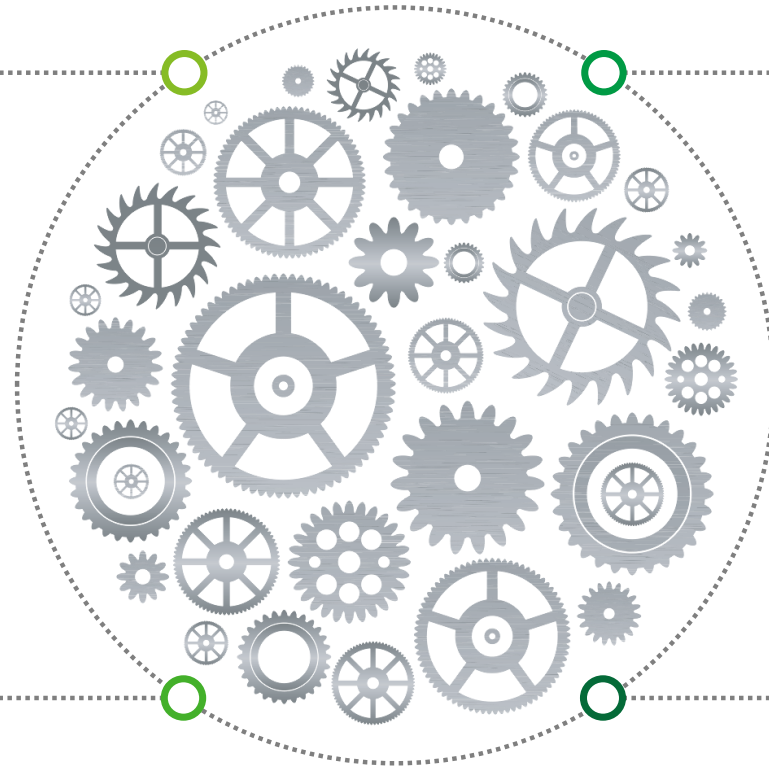
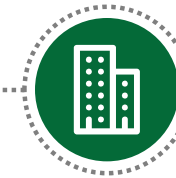
Whilst **the UK already has rules** within the Companies Act and UK Corporate Governance Code, we know from the US that detailed supporting **guidance can prevent challenges**



The **nature** of a company's internal control environment depends on the **business model and the associated risks**. Current focus in financial reporting on principal risks and uncertainties can lead to a **lack of detail on financial risks, fraud risks and mitigating controls**.



Adoption of new UK requirements should happen in a timely manner. To meet stakeholder expectations there must be **pace to the change**. However, change must be pragmatic; giving smaller entities more **time to adapt** and **avoid undue costs**.



How does this impact companies in Ireland?

Listing Rule 6.1.85 of Euronext:

A listed company must ensure that the auditors review the statement relating to the Corporate Governance requirements of the UK Corporate Governance Code before the annual report is published, including paragraph C.2.3.

UK Corporate Governance Code (April 2016), Paragraph C.2.3: The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls.



What should an attestation requirement look like?

A public attestation to the shareholders from the board signed by the CEO/CFO





A risk-based approach

What does this mean?

Any framework to govern a requirement to attest on the operating effectiveness of internal controls over financial reporting will have a strong risk assessment at its core.

The risk assessment should consider:

- The business model
- The principal risk and uncertainties disclosed in the financial statements
- Wider financial reporting and fraud risks

Why is this important?

- To focus on the areas of biggest concern and importance to the company and its stakeholders.
- To avoid a blanket approach across all financial reporting controls.
- To allow a proportionate approach that is easier for smaller and simpler companies to adopt.
- To ensure the requirements give value for the cost necessary to make the disclosures.

What should you be thinking about?

- Is my financial reporting risk register up to date?
- Is there clear evidence that the board has reviewed the risk register and challenged the risk assessment process?
- Can I show how the controls implemented in my business are designed to mitigate the identified risks within financial reporting?
- Can I evidence not just the process level controls, but also the IT controls over relevant applications, databases and IT systems, and wider entity level controls?



Practical guidance

What does this mean?

To allow the directors to form an opinion on the effectiveness of their system of control, there needs to be a framework they can base their opinion on.

To enable trust to be built by investors and other stakeholders, the framework should be internationally recognised and supported by guidance and examples to aid implementation

Why is this important?

- To allow consistent implementation by companies.
- To allow a level playing field for companies.
- To help companies with implementation and explain judgemental areas such as when a control failure becomes reportable.

What should you be thinking about?

- Is my company fully compliant with the current requirements of the UK Corporate Governance code and the Companies Act on an ongoing basis?
- Is my control environment based on an internationally recognised framework?
- Is my internal control environment consistent across my business' divisions and geographies?
- Can I evidence compliance?
- Do I need to issue clarifications or guidance to my business to get consistent adherence to my company's internal control requirements?



Enforced by a strong regulator

What does this mean?

The replacement of the Financial Reporting Council (“FRC”) with the Audit, Reporting and Governance Authority (“ARGA”) is an opportunity to establish better regulation over the corporate world as well as over the external auditors, together with the Financial Conduct Authority as the UK’s securities regulator.

Why is this important?

- Rules and guidance are two key aspects of ensuring the consistent and effective application of the new controls reporting requirement.
- Without strong regulatory oversight it is unlikely that these two aspects alone will guarantee success.
- The requirements for assurance providers should not be used as a way to regulate the actions of directors.

What should you be thinking about?

- How do you want the new requirements to be enforced?
- How will your company respond to the next consultation on the Brydon and Kingman reviews?



Implementation readiness

What does this mean?

An appropriate timescale for implementation should be set at the outset. Smaller companies will need more time to comply than larger ones with more resources.

Larger FTSE entities should expect to be asked to move first.

We recommend that anyone who adopts the UK Corporate Governance Code would be covered over time.

Voluntary adoption of the requirements should be allowed.

Why is this important?

- There must be balance between the desire from stakeholders to move quickly and avoiding undue cost and disruption to smaller entities.
- We anticipate boards would identify a larger number of deficiencies in the early years of adoption. Consideration needs to be given to the lead time before public attestation is required to balance the drive for transparency with the need to maintain confidence in capital markets.

What should you be thinking about?

- Do you have sufficient skills and resources in your team to implement the new requirements?
- Are your IT systems across finance and the wider business up to the task?
- When do you think you will be able to comply?

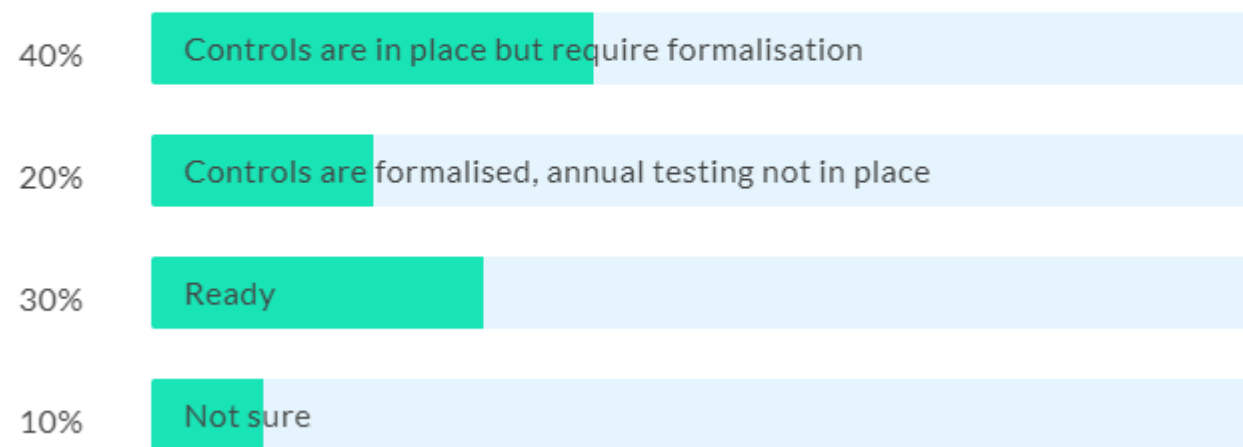


How would you describe your readiness for an internal controls attestation requirement?



1 of 2. How would you describe your readiness for an internal controls attestation requirement?

Multiple choice with single answer





Stakeholder demand-led assurance

What does this mean?

Assurance for the board's attestation should be in line with the company's Audit and Assurance policy.

Brydon recommends this would be put to an annual advisory vote by shareholders for approval at the AGM.

Assurance should be obtained in line with the policy whether the controls are operating effectively or not. We do not believe it is appropriate to wait for a control failure to occur before obtaining independent assurance.

Assurance does not have to be external, it could be provided by the company's internal audit function

Why is this important?

- Companies should be engaging with their shareholders and wider stakeholders to be confident that the assurance the company has across all aspects of its business is consistent with their expectations.
- We do not believe assuring all corporate reporting is the right answer. However, if the market wants assurance the company should meet these expectations

What should you be thinking about?

- What assurance will your stakeholders expect to see over the internal controls attestation?
- Does your company have an Audit and Assurance policy?
- Can you clearly articulate to your stakeholders the business model, the risks this creates, the controls to mitigate those risks and the associated assurance you have?

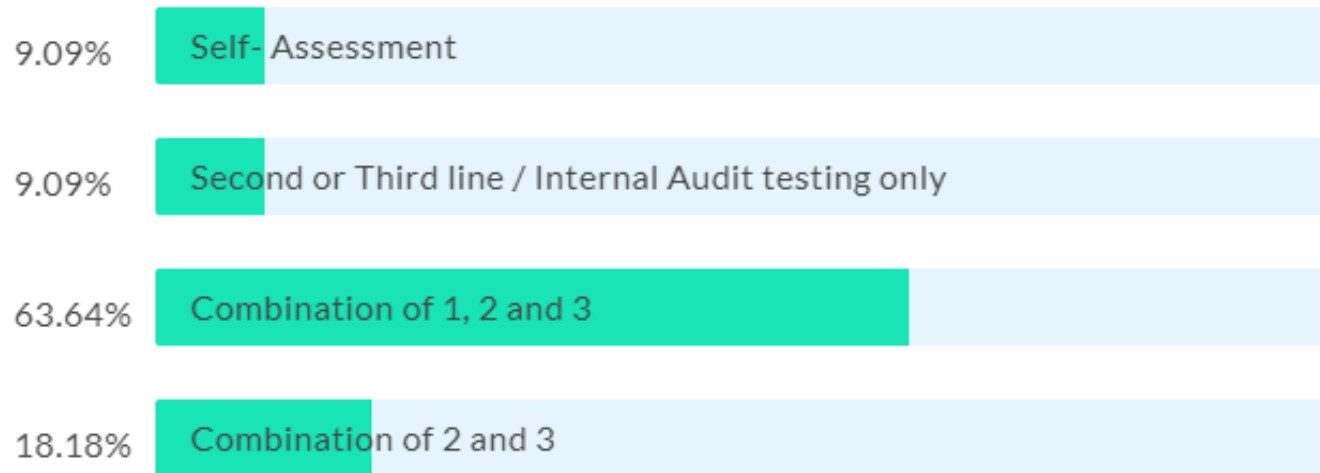


What type of assurance do you think would be required for an effective regime?



2 of 2. What type of assurance do you think would be required for an effective regime?

Multiple choice with single answer



What are other UK businesses doing now?

SOX Scoping – determine the material financial cycles and related IT systems to be included in the SOX Programme

Deloitte can support by:

- › Facilitating workshops with management to determine the scope of the SOX Programme, including IT systems
- › Developing an inventory of IT systems and functionality / input to Financial Reporting

Determine a SOX operational and governance structure appropriate to your organisation

Deloitte can support by:

- › Providing case studies and good practice from your peer group to help you consider different governance and operational structures
- › Helping to establish SOX governance and operational structures, including the development of policies and procedures and setting key responsibilities
- › Providing training to senior management and key staff in relation to UK SOX
- › Helping to set up a SOX monitoring and testing programme, including training key staff in the appropriate testing methodologies, establishing testing programmes and report templates

Embedding UK SOX into other large projects

Deloitte can support by:

- › Providing input to scope the level of risk and controls support that is required in those programmes
- › Risk and control SME input on the development of processes, including the development of “to be” risk and control matrices
- › Identify automation and CCM opportunities
- › Develop a SOX ready programme

Identify technology supports required to facilitate the SOX programme

Deloitte can support by:

- › Facilitating workshops with management on requirements gathering for technology
- › Providing support in relation to identification and selection of appropriate vendors
- › Supporting an IT implementation programme

Closing messages

Act now, be
proactive

Review your
compliance
with the UK
Corporate
Governance
Code

Does your
current
governance
model over
internal control
provide value?

Understand
areas of
challenge within
your business

Have the right
people, tools
and technology
ready for the
change

Deloitte.

Thank you for attending





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