

Update on UK Corporate Reform (Internal Controls)

- June 2022

What you have been asking for?

What is the BEIS consultation?

In March 2021, the UK Government's Department for Business, Energy and Industrial Strategy (BEIS) published a [consultation paper](#) called 'Restoring trust in audit and corporate governance.' This was in direct response to proposed reforms to audit and corporate governance in the UK and is intended to strengthen the framework for corporate governance and audit in the UK.

On 31 May 2022, there was a **press release** issued by the Government to clarify its plans to revamp UK's corporate reporting and audit regime. The **purpose of this publication** is to answer some of the questions that businesses may have from the press release and considerations going forward.

Will the reform apply to my organisation?

The scope of the reforms may apply to **premium listed companies (PLCs)** on the main market of the London Stock Exchange and will be further extended to **large private unlisted companies with more than 750 employees and £750 million annual**

turnover which will be designated as Public Interest Entities (PIEs) that **will need to meet the transparency requirements** set out below.

What are additional requirements of the potential reform for US SOX compliant companies?

For companies who are already complying with US SOX legislation, efforts required for compliance with the proposed UK corporate reporting reforms could be minimal. The audit scope will be expanded beyond financial statements for PIEs to include **non-financial risks (i.e. ESG)** and a requirement to publish how they assure the quality and reliability of information in the annual reports on **climate, risk, and internal controls**.

What will be expected from companies on transparency over risks, internal controls, and dividends?

Directors of premium listed companies will be required to state whether their **internal controls are effective** under the Corporate Governance Code. PIEs will need to explain how they are **identifying and addressing their risks** and in particular those relating to **fraud** prevention and detection. They will also need to publish distributable reserves and confirm the legality of dividends.

Will there be a new legislation and regulatory body to oversee?

The Government has clarified its plans to publish a draft bill on the reforms and the FRC

will consult on amending the Corporate Governance Code to increase transparency on bonus claw backs. A new regulator - **the Audit, reporting and Governance Authority (ARGA)** will be formed to replace the Financial reporting Council, FRC. ARGA will have powers to direct companies to restate accounts and sanction directors who breach their duties of reporting.

When will the reforms come into force?

Whilst the Government has made it clear that reform is under way and announced its intention to publish a draft bill in this parliamentary session, there is **no official timeline** or implementation date suggested in the consultation or in the recent government press release.

What can affected UK organisations do now?

All organisations expected to be in-scope should **prepare now** and establish the right internal controls when they have time and not wait for the 'rush-hour' when the legislation comes into effect. Whilst these new reforms will improve corporate governance and increase investor and public confidence, the advantages of establishing internal controls range far beyond credible financial reporting and compliance. Internal controls **improve process performance** and steer businesses successfully in times of change and disruption. If companies view this as an opportunity to **drive process improvements** and **gain efficiencies** this will help them in realising value from their investments.

Establish Internal Controls

Strong Internal Controls helps organisations **minimise their risk exposure, including risk of financial misstatement and fraud** and helps improve reliability over financial reporting, leading to enhanced investor confidence. Early adopters of strong internal controls frameworks benefit significantly by staying ahead of the regulatory reforms, securing business commitment, generating value, and **reducing the cost of compliance**.

Provide Aligned Assurance

Aligned assurance is used to coordinate assurance efforts within business' assurance functions. With the new reform, it will be imperative that organisations ensure integrated assurance is provided across all three lines of

defence. Aligned assurance is a more comprehensive, efficient, and insightful approach than conventional controls compliance monitoring and testing, especially during times of disruption or change.

Create a Programme Fit for the Future

With the upcoming reforms, organisations will require more resilience to stay ahead of the change. Organisations should have robust mechanisms to monitor and addresses risks to business continuity at the organisation in times of operational disruption. Organisations will need to focus on the risk appetite and tolerance levels of their strategic initiatives and programmes with a clear view on their short, medium and long-term challenges.

Protiviti as a Trusted Business Partner

Control Expertise

Protiviti has assisted over 3,500 global clients on over 15,000 projects to establish and/or sustain their Internal Control programmes. Our experience ranges from “year one” builds to transforming existing Internal Control programmes by ‘lifting and shifting’ entire programmes to minimise the **‘cost of assurance’**. We assist clients in **controls optimisation** and **automation** that can make the programme deliver results with more certainty and efficiency. We have expertise in **automating controls** across multiple ERP environments with **Centres of Excellence in SAP and Oracle**.

Understanding External Auditor Expectations

We **collaborate** with all **the major external audit** to coordinate our clients Internal Controls approach, project planning and execution, as well as control-based testing to **minimise the burden on the business**. We understand the role of the external auditor and can drive the alignment with your external audit team on the Internal control requirements.

Independence

We are not a public accounting firm and, as such, **we do not present any potential**

conflicts of interest to your external auditors now or in the future. We are **objective** in our advice and work as trusted business advisors for companies in a collaborative manner.

Thought Leadership

Protiviti is a **global thought leader** in SOX compliance and COSO. Our SOX publications and global seminars are widely recognised. Our 2021 Global SOX survey results were referenced in the UK Governments BEIS consultation last year. Additionally, Protiviti Senior Managing Director Bob Hirth was the past Chairman of **COSO** and serves as Co-Vice Chair of **SASB** and serves on the **PCAOB Standing & Emerging Issues Advisory Group (SEIAG)**.

Innovation and Enabling Technologies

Our approach to Internal controls is underpinned by our NextGen Internal audit methodology which allows us to leverage a host of technology options to **digitilise internal control programme activities** e.g., **process mining** to understand processes, **automate process flow charting, testing automation** with our inhouse Testing Accelerator Platform (**TAP**)™, and **controls monitoring tools** to validate key control operational effectiveness in real time.

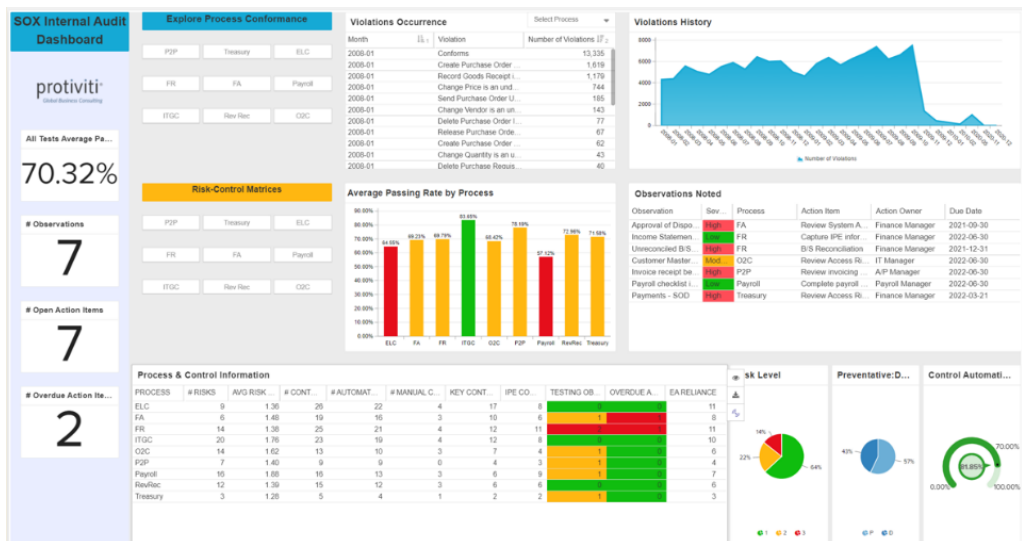
Leverage technology with our Next Generation SOX Toolkit

Control frameworks are often overly complex, expensive, and onerous to a business. We believe in the importance of leveraging enabling technologies to add value to your internal controls programme. Described below are a selection of key technology tools and practice aids that will be very useful to organisations in their journey to establish and sustain internal controls.

Our Comprehensive Risk Assessment tool to scope processes and IT systems

In-Scope Business Unit	In-Scope Processes													
	Purchase-to-Pay	Revenue - Common Processes	Revenue Recognition						Financial Close	Fixed Assets	Payroll & Expenses	Bank & Treasury	Tax	Entity Level Controls
			PRODUCT 1	PRODUCT 2	PRODUCT 3	PRODUCT 4	PRODUCT 5	PRODUCT 6						
B	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
A	N/A	✓	✓	✓	✓	✓	N/A	✓	N/A	✓	✓	✓	✓	✓
K	✓	✓	✓	✓	✓	✓	N/A	✓	N/A	✓	✓	✓	✓	✓
L	N/A	✓	✓	✓	✓	✓	N/A	✓	N/A	✓	✓	✓	✓	✓
V	N/A	✓	✓	✓	✓	✓	N/A	✓	N/A	✓	✓	✓	✓	✓

Automated Testing tool in Celonis



Technology Accelerator Platform (TAP™)

Technology Accelerator Platform

protiviti
Find the Future with Confidence

WELCOME TO TAP

The Technology Accelerator Platform (TAP) provides users with a wide variety of automations to reduce the effort and time requirements associated with many audit processes and other labor-intensive activities.

IT Audit Accelerators

Select

General Audit Accelerators

Select

Business Process Audit Accelerators

Select

Due to Data Privacy risks, only US-based clients should be utilizing the TAP accelerators.

Have an Idea? Submit it to TAP: [Suggestions](#)

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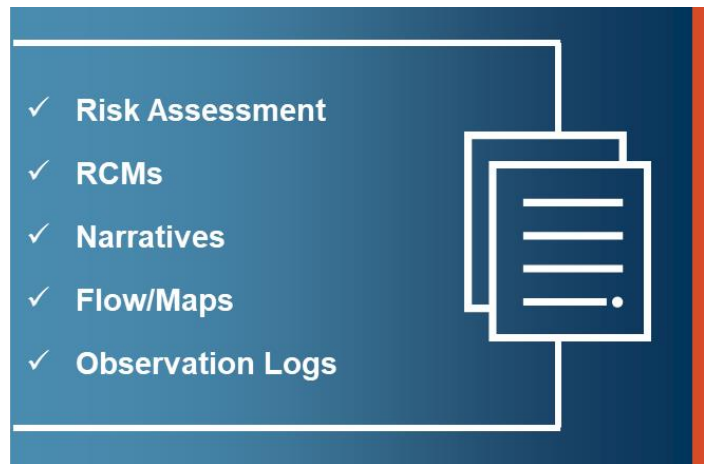
Questions or Issues? Contact us at: CTIC@protiviti.com

Enabled with a Chatbot for Q&A's, and a digital library

SOX Virtual Agent



Digital SOX Library



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