

UK PwC US Centre of Excellence Webcast

Accounting and market update

UK PwC US Centre of Excellence Webcast

November 2021





Welcome!





Introduction to today's speakers



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Today's Agenda



- 01
- 02
- 03
- 04

Welcome

UK market reform

ESG trends

Accounting update

1

UK market

reform



What's happened so far ...

Three independent reviews were carried out in the UK:

'The market structure'

The CMA market study into the statutory audit market

Focused on:

- The selection and oversight of auditors
- High concentration amongst Big Four audit firms resulting in limited choice and a market that isn't resilient
- Audits being performed by firms whose main business is not in audit; and how this could undermine focus on audit quality

'The regulator'

Kingman review of the FRC

Focused on:

- The role and remit of the FRC
- The FRC's regulatory activities
- The accountability of directors and transparency of regulatory review results
- The strength of internal controls over financial reporting

'The audit product'

The Brydon review into the quality and effectiveness of audit

Focused on:

- The needs and expectations of users of audits and how the audit process and product may need to evolve
- The wide-reaching change needed throughout the corporate reporting ecosystem, impacting company boards, executives, investors, regulators, and audit professionals

Culminating in ...

The BEIS consultation – 'Restoring trust in audit and corporate governance'

- 140+ recommendations responding to all three reviews. Deadline for responses was 8 July 2021
- Proposed reform not just of audit but broader corporate governance, reporting and regulation
- A significant focus of the consultation is Public Interest Entities (PIEs)
- Measures that don't directly impact businesses to be implemented more quickly.
- Measures that directly impact businesses will most likely commence later, again with a transition period

The key recommendations from the consultation that impact companies are summarised on the following slides

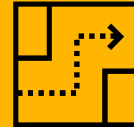
What we're hearing on the key proposals



Public Interest
Entity definition



Audit and
Assurance
Policy



Fraud



Capital
maintenance



Resilience
Statement



Increased
accountability of
directors and
scrutiny of audit
committee

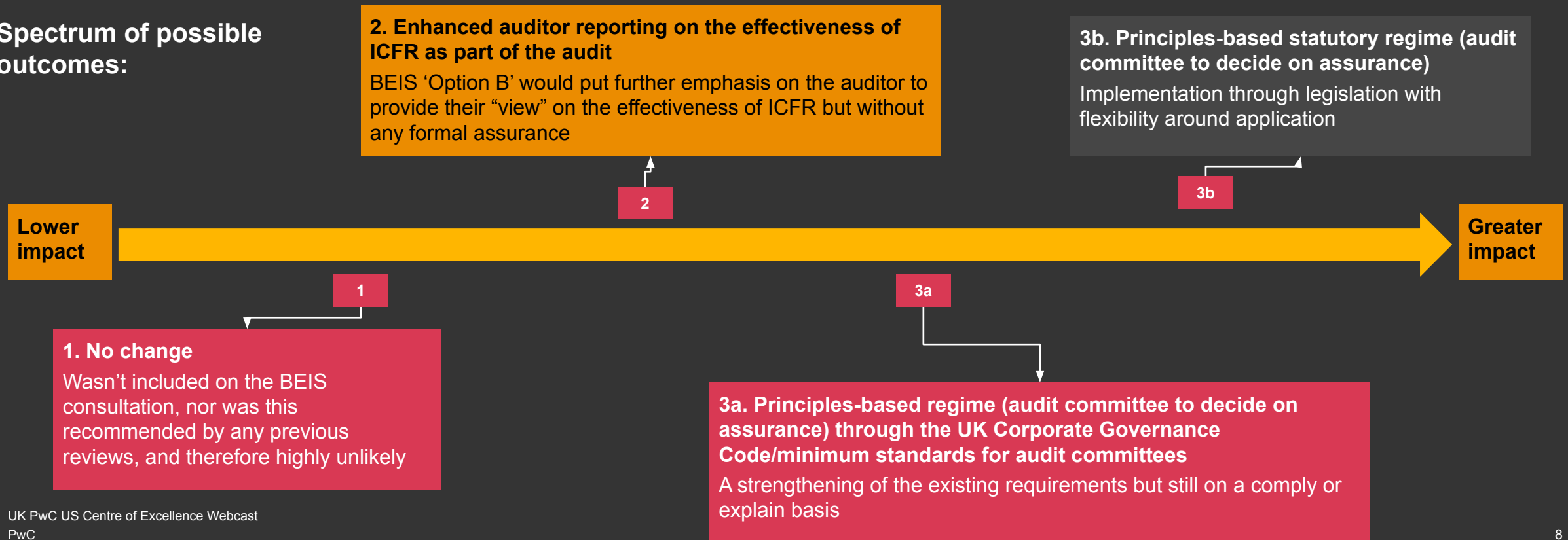


Managed
shared audit

...and a proposal for a strengthened regime for internal controls over financial reporting (ICFR)

Initial proposal – Directors’ statement on the effectiveness of ICFR that explains how they carried out their assessment, the benchmark used and the outcome (with any deficiencies) and whether the controls over ICFR are operating effectively. Assurance may be commissioned by the Audit Committee or could be required if there is a serious failure. Initially applicable to premium listed companies with future expansion to all Public Interest Entities

Spectrum of possible outcomes:



Potential reform timetable



Developments in Europe

- Call for governance reform - also fuelled more recently by Wirecard and recommendations from the PANA and TAXE III Committees
- EU consultation published on 12 November 2021 - responses due 4/2/22 - “**Public consultation on strengthening the quality of corporate reporting and its enforcement**”
- What is covered?
 - All of the aspects of the corporate reporting ecosystem
 - Five sections; the overall framework, corporate governance, audit, supervision of audit and supervision of corporate reporting
- Draft legislation perhaps in December 2022? Legislation not guaranteed - not in the Commission’s 2022 work plan

2

ESG

Trends





ESG trends:
Tracey-Lee Brown



3

Accounting

Reminders





Accounting for

Cloud-based

Computing Arrangements



Cloud computing arrangements

Types of arrangements



Remote access



Service arrangement:
Software, hardware,
middleware, server,
storage ...

Software as a service (SaaS)

- Supplier manages applications, data, middleware, server, storage, runtime, operational systems,
- e.g., salesforce, concur, Cisco WebEx.

Platform as a service (PaaS)

- Supplier provides a platform for software/application creation.
- Customer controls the software/applications.

Infrastructure as a service (IaaS)

- Supplier manages the server, hard drives, storage.
- Customer has control over own systems and application, 'purchase' of resources on-demand without buying hardware outright.



IFRS IC Agenda March 2019

Accounting for 'SaaS'
cloud computing
arrangement

01

**Account as a software lease
under IFRS 16?**

A contract that conveys to the customer only the right to receive access to the supplier's application software in the future is a service contract.



02

**Account as a software
intangible asset under IAS 38?**

The customer receives the service – the access to the software – over the contract term.



03

**Account as a service
contract?**

If the customer pays the supplier before it receives the service, that prepayment gives the customer a right to future service and is an asset for the customer.



IFRS IC Agenda March 2021

Accounting for customisation and configuration for 'SaaS'

Customisation

- Modifying existing software code in the application or writing additional code.
- Change or create additional functionalities within the software.

Configuration

- Setting of various 'flags' or 'switches' within the software.
- Defining certain values or parameters.
- To implement a particular set-up for the software's existing functionality.
- No modification or writing of additional software code, but rather setting up the software's existing code to function in a particular way.

¹The definitions above are described in 2021 IFRIC agenda decision for IFRIC's accounting discussion purposes. The use and interpretation of these terminology might be different to those in contractual arrangements or IT suppliers.



IFRIC Update March 2021



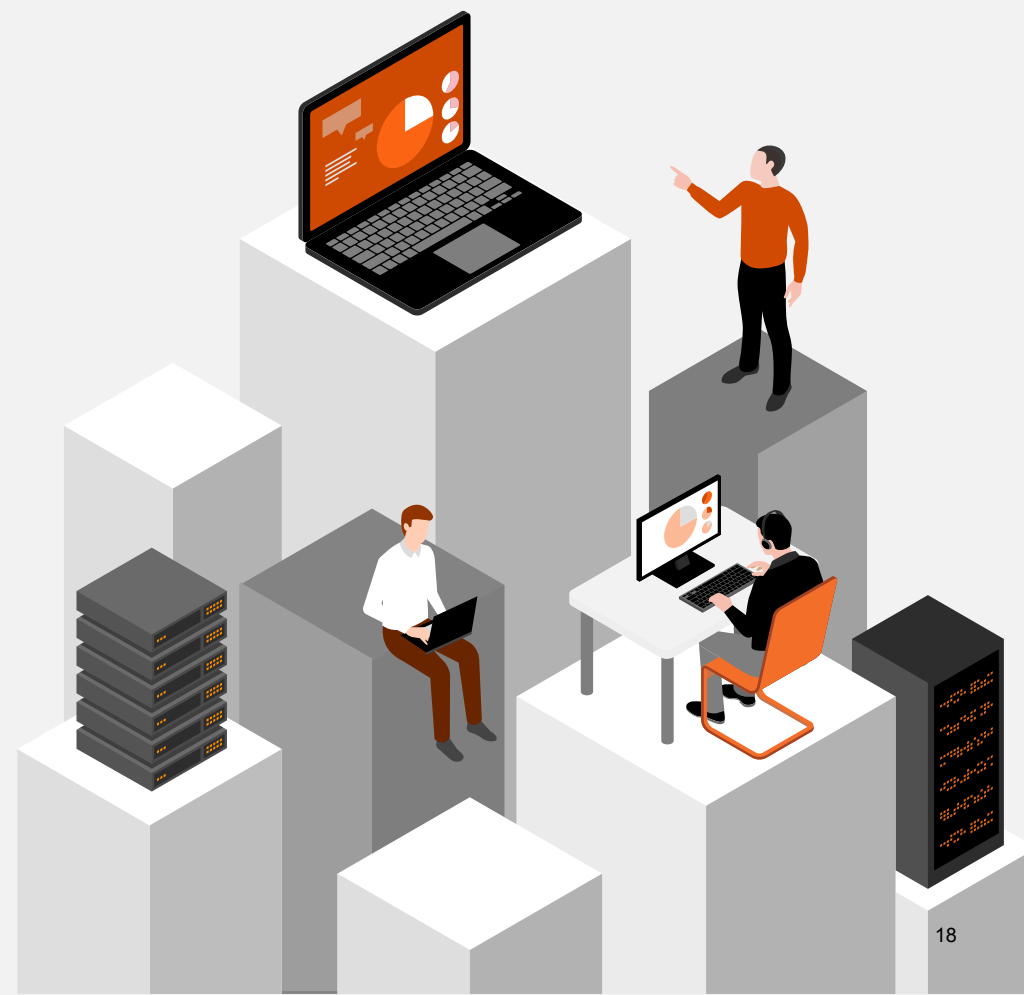
IFRS IC Agenda March 2021

Accounting for customisation and configuration for 'SaaS'

Cloud computing arrangements

Is there an intangible asset?

- Intangible asset recognised if identifiable, controlled by the entity and probable that future economic benefits flow to the entity.
- SaaS generally does not meet definition of intangible asset (see March 2019).
- Other intangible assets might arise in a SaaS implementation (e.g. development of software controlled by the entity that interacts with the SaaS).





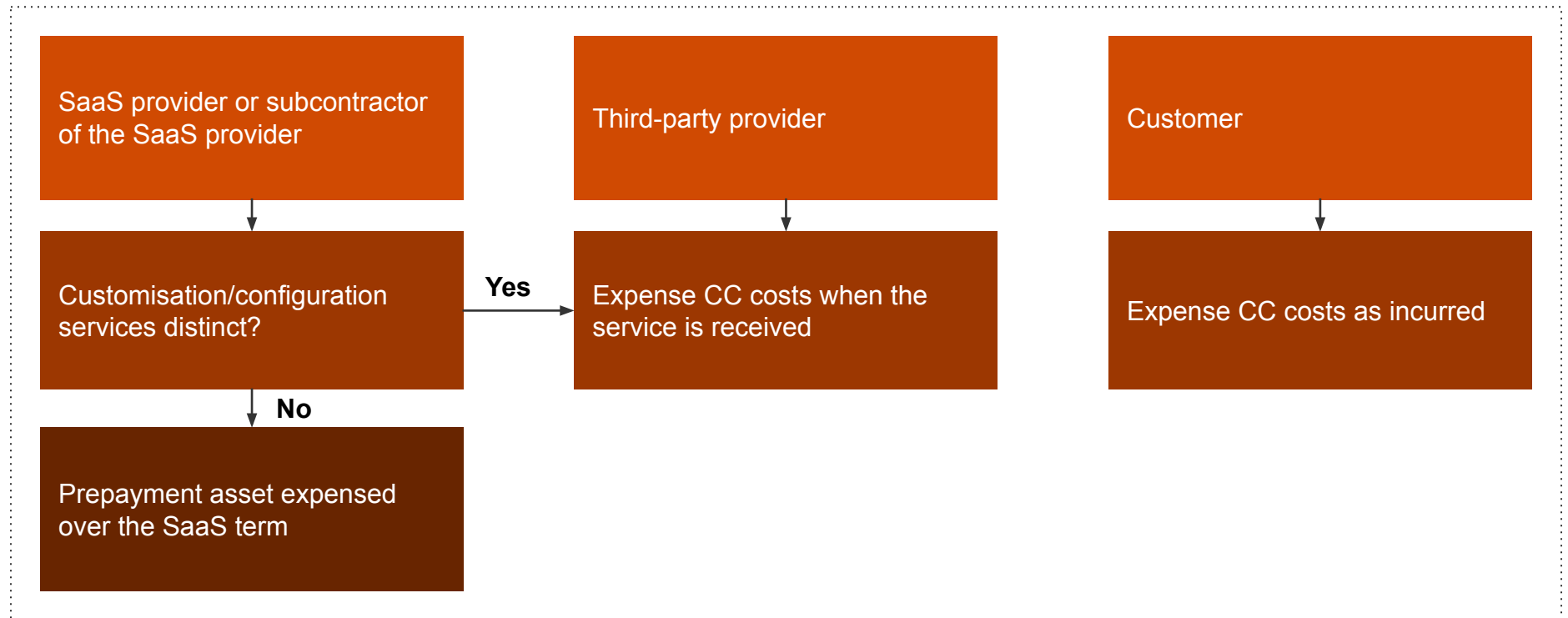
IFRS IC Agenda March 2021

Accounting for customisation and configuration for 'SaaS'

Assessment whether the CC costs should be capitalised as a prepayment or expensed. Where no intangibles recognised in CC activities, assessment.



- Costs of a service should be expensed when service is received (IAS 38 para 54).
- Look to the criteria in IFRS 15: who is performing the service and is the service **distinct** from the SaaS performance obligation.





IFRS IC Agenda March 2021

Accounting for
customisation and
configuration for
'SaaS'

Key judgments:

- What costs result in an asset that is controlled?
- Is the service distinct (refer to IFRS 15)?
- What is a subcontractor?

Change in accounting policy required?

- Retrospectively restate (derecognise) previously capitalised costs.
- Entities have sufficient time to assess and implement any change.
- Disclose process and timing of expected changes.



Cloud computing arrangements

Key takeaways



- Deeper understanding of entity's SaaS projects required.
- The types of activities (and therefore costs) incurred needs to be carefully considered.
- Consider broader impacts on key metrics and stakeholder engagement.

- SaaS license costs will be expensed (unless a prepayment is made).
- Customisation and configuration related to SaaS is likely an expense but in some cases might be a prepayment.
- Facts and circumstances and judgement might be required.



US tax reform:
Kassie Bauman





Q&A session





Future

Webcasts

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Thank you

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