



## Accountancy Forum

Welcome to Reed Smith's Accountancy Forum newsletter. This newsletter covers a range of issues affecting accounting firms, with a core focus on liability and regulatory risk. Please do get in touch with any questions. If there is a particular issue or case that you would like us to cover in an upcoming edition, we would love to hear from you.

### Proposed revisions to the Audit Firm Governance Code – a welcome change?

The Audit Firm Governance Code (the Code) is an important part of the UK regulatory framework around audit. It was created in 2010 and revised in 2016. The primary purpose of the Code is the promotion of audit quality. However, public confidence and trust in audit have been damaged following several high-profile corporate collapses and scandals.

The Financial Reporting Council (FRC) has therefore launched a consultation on proposals to update and strengthen the Code. The proposed '2022 Code' is intended to freshen and sharpen the existing Code, as well as clarify the FRC's expectations – the purpose being to regain the public's trust and ensure that firms are well-governed and provide high-quality audits. The FRC seeks to align the Code with the 2018 UK Corporate Governance Code.

[This article](#) identifies the key proposed changes to the existing Code.

## Case notes

### Privilege is not in the eye of the beholder

The protection of litigation privilege is important for effective internal investigations. However, it only applies where the dominant purpose underlying the investigation is assistance in the conduct of litigation. The recent Court of Appeal Judgment of *Victorygame v Ahujia* illustrates that the court will examine purpose from the point of view of the instigator of a document. As we explore below, this can cause problems when a crisis arises and businesses are in the early stages of fact-finding

Read the full article [here](#).

### High Court guidance on accountants' duty of care when introducing tax schemes

In the recent decision of *Knights v. Townsend Harrison*, the High Court examined the nature of the accountants' duty of care when introducing

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## Our Accountants Liability Practice

From litigation and regulatory defence to reputation management, data security and insurance recovery advice, Reed Smith can help protect your interests. Our lawyers act for 3 of the Big 4 accountancy firms, many of the mid-tier firms and the international networks of accountancy and business advisory firms to which they belong.

clients to complex taxation or investment schemes. As we explore below, the outcome of the case shows that proactive work by accountants in documenting the scope of their retainer is of critical importance in minimising the risk of adverse claims by the client in circumstances where tax schemes are unsuccessful.

Read the full article [here](#).

## Industry news

### FRC publishes 2020/21 annual report

On 23 July 2021 the Financial Reporting Council (FRC) published its [annual report and accounts](#) for 2020/21, and a [detailed summary](#), with the key message that it is on track to become a new, more resilient regulator.

The annual report outlines the FRC's progress against its strategy and plans, and its financial position, whilst highlighting its achievements and the challenges in 2020/21 (including those related to COVID-19). The report also looks forward to 2021/22 and beyond, as the FRC takes steps towards becoming the Audit, Reporting and Governance Authority (ARGA), a new, robust and independent regulator.

The report is lengthy, running to over 130 pages. For ease of reference we set out below a brief summary of the key issues addressed in, or arising out of, the report.

Read the full article [here](#).

### FRC – Annual Enforcement Review 2021

On 29 July 2021, the FRC released its 2021 Annual Enforcement Review.

Last year, in an effort to help improve audit quality, the Financial Reporting Council (FRC) included themes in its Annual Enforcement Review from past audit cases to highlight and raise awareness of the issues that it had seen. The focus last year was on common audit failings. This year, the FRC's focus has been on the improvement of the quality of financial statements, and it has included in its review themes arising from past cases against those responsible for preparing or approving financial statements that form the basis of an auditors' work.

Read the full article [here](#).

### FRC culture conference

As previously highlighted in our June 2021 issue of Accountancy Forum, the Financial Reporting Council (FRC) hosted an international conference in June 2021 entitled "Audit Firm Culture: Challenge. Trust. Transformation" to explore the link between audit firm culture and audit quality, with the objective of accelerating the pace of cultural transformation in the audit profession.

The FRC has now published a [summary](#) from the culture conference, outlining the key themes emerging from each of the five sessions.

Read the full article [here](#).

### FRC publishes annual audit quality inspection results

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On 23 July 2021, the Financial Reporting Council (FRC) published the results of its annual inspection and supervision results for the seven largest audit firms – the Big 4 (PwC, EY, KPMG and Deloitte), plus BDO, Grant Thornton, and Mazars.

Initial press coverage seemed to highlight some of the areas where improvement may still be needed, but behind the headlines, it is clear that progress continues to be made in some areas, and, in particular, the non-Big 4 firms continue to make significant investments in their audit quality to enable them to compete with the Big 4 in larger public interest entity audits.

Read the full article [here](#).



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## HMRC launches consultation on changes to tax basis periods

On 20 July 2021, HMRC announced a consultation into how business profits are taxed for sole traders and partnerships.

The consultation suggests switching to a 'tax year' basis, using the profits for the 6 April to 5 April period as the basis for taxation, rather than the existing system of the financial year ending in the relevant tax year. HMRC estimates that 93 per cent of sole traders and 67 per cent of partnerships already use 5 April or 31 March, so this would only apply to the remainder.

Read the full article [here](#).

## Firm news



### Global Disputes in 2021 - A Renewed Perspective

Our three-day virtual conference explores how people and companies have responded to the pandemic, and discusses what challenges still lie ahead. Watch the program here: [Global Disputes in 2021 - A Renewed Perspective](#).



### Global perspectives - International trends in commercial disputes

In this issue of our Global Perspectives publication, our contributors, all leading practitioners located in Reed Smith offices globally, explore a range of current topics seeing interest and action in the disputes universe.

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