

UK SOx (internal controls)

What does the BEIS white paper mean for you?

What is changing with UK internal controls?

In March 2021, the Department for Business, Energy & Industrial Strategy released a paper: [Restoring trust in audit and corporate governance](#). This sets out a package of measures aimed at improving the UK's audit, corporate reporting and corporate governance systems. The paper runs to 232 pages and is wide-reaching, including introducing a UK controls framework and there is an expectation that Directors will take personal accountability for related disclosures as well as facing possible clawbacks and malus of bonuses for corporate failures.

This document summarises the key internal control options put forward together with our view as to next steps:



Option A

Require an explicit directors' statement about the effectiveness of the internal control and risk management systems (similar to SOx 404a)

Currently there is no specific UK requirement for Boards to report whether they consider the control system to be adequate or effective. The paper proposes strengthening the framework by imposing specific disclosure / reporting requirements on the CEO and CFO or the Board collectively.

These requirements could be implemented via changes to the Code or through legislation.



Option B

Require auditors to report more about their views on the effectiveness of companies' internal control systems

Under this option, the auditors would be required to report on the work they already undertake to understand the company's internal control systems, but without requiring a formal attestation of their effectiveness.

This could be reinforced by explicitly requiring the Board (or the CEO or CFO) to disclose to the auditor or the audit committee any significant deficiencies and weaknesses in the internal controls of which they are aware.



Option C

Require auditors to express a formal opinion on the directors' assessment (in Option A) of the effectiveness of the internal control systems (similar to SOx 404b)

This would involve the auditor undertaking additional audit and assurance work to be in a position to express a formal opinion.

The auditor's attestation would have to match the scope of the directors' statement.



Preferred government option:

Option A, but where controls are weak or regulators have concerns then an audit would be required



Which companies are affected?

There are two possible cohorts:

- Premium listed; and
- UK public interest entities (PIEs).

The consultation asks for views on which should be affected.

The Government is also consulting on expanding the definition of a PIE to include large companies:

- **Option 1:** Companies with either more than 2,000 employees or a turnover of more than £200 million and a balance sheet of more than £2 billion; or
- **Option 2:** Large companies with over 500 employees, and a turnover of more than £500 million.



Preferred government option:

Apply first to premium listed entities and then to PIEs two years later



There are three options as to what could be covered by the attestation:

1. All aspects of the company's internal control and risk management procedures; or
2. Limited to the internal control structure and procedures for financial reporting (similar to US SOx); or
3. Limited to a subset of the internal control structure and procedures for financial reporting, focusing the auditors' work only on priority areas of particular interest to investors.



Preferred government option: Option 2



Next steps

The consultation runs to 8 July 2021 but is silent on implementation timing. We expect the earliest implementation for premium listed companies to be 2024 with PIEs likely two years later (2026).

Despite the uncertainty on timing, there are a number of no regrets actions that you should take now:

Understand your baseline

Regardless of UK internal control reforms, having the appropriate suite of controls is key to lean and effective financial reporting. This is a good time to review the overall controls universe and understand what is needed to get the right blend of controls which address all of your business needs.

Is your controls framework automated, agile, understandable? Having the right IT, governance and culture is key to success.

Implementing improved end-to-end controls can take up to 36 months. Now is the right time to invest in understanding any gaps.

Understand current control strengths

Many companies believe that they have strong controls but when a testing framework is established, issues emerge.

Ask yourself if your IT system and model coding allow for testing? Consider if you've got the right capability to document the controls you do have?

Understanding any issues now will help you budget and plan.

Invigorate your controls culture

Culture is key to success!

Does your business really understand what good looks like and why it's important? Are roles and responsibilities clear?

A programme of training and education to set a control mindset will set the tone for implementation.

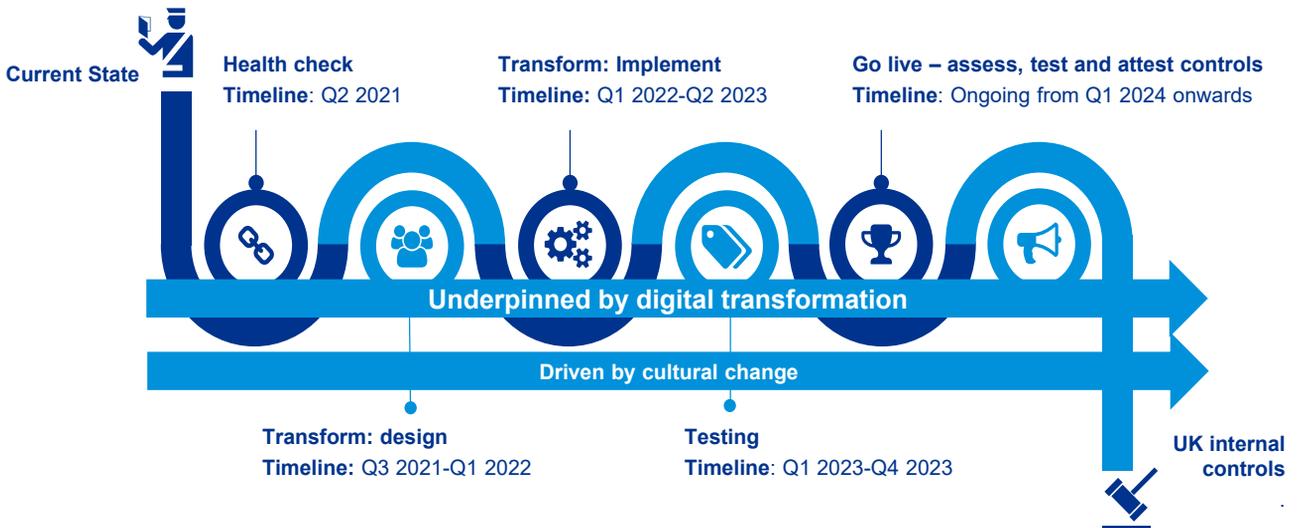
Build controls activities into your ongoing transformation programmes

Any ongoing transformation, digitization or automation programme presents an opportunity to get your controls right.

Make sure that any ongoing change programme has a controls workstream and is considering UK internal controls readiness.

Your controls journey – the transformation timeline

As noted previously, we expect implementation timelines to require compliance from around 2024. Time is therefore tight to address any changes required. We set out a summary timeline below:



Hindsight allows us all to learn from the US SOx experience and to avoid the mistakes that created a cumbersome and expensive compliance burden with little added value. Longer term there really are some considerable benefits to be realised but accessing these requires careful planning and execution.

How can KPMG help?



Health check: To help you understand the extent of work required to comply, we will perform a gap analysis assessing your as-is and providing a diagnostic report which will give you clarity on your journey to compliance. We can run tailored sessions in our Ignition centre to really accelerate this step.



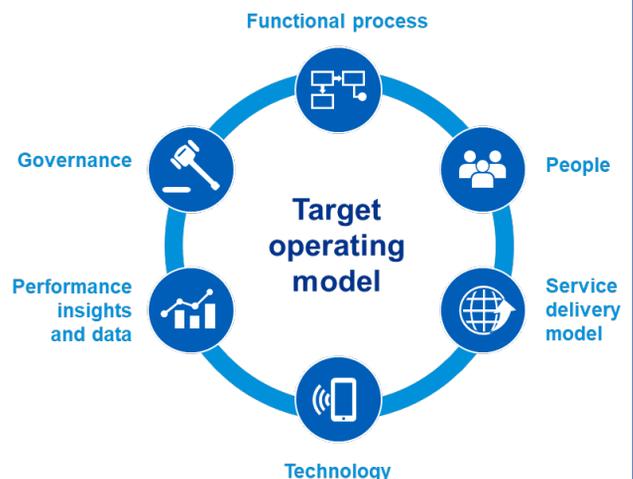
Powered internal controls: Our proprietary approach to digitally enabled controls transformation

Through a series of interactive workshops, we can digitally design all aspects of your UK internal controls compliant framework.

We consider not only your controls but also all of the impacted layers of your operating model including processes, people, the service delivery model, technology, insight and data and governance.

Your controls will be both lean and agile but still have the muscle for a SOx style review. We will build a clear compliance framework which will enable you to assess, test and attest your controls annually.

The KPMG operating model





Contacts



Richard Andrews
Partner, Financial Risk Management
Financial Services
KPMG in the UK
E: richard.andrews@kpmg.co.uk



Nehal Jilka
Partner, Technology Risk
Corporates
KPMG in the UK
E: osama.rabbani@kpmg.co.uk



Rachel Woods
Director, Finance Transformation
Corporates
KPMG in the UK
E: rachel.woods@kpmg.co.uk



Jon Dowie
Partner, Technology Risk
Financial Services
KPMG in the UK
E: jon.dowie@kpmg.co.uk



Sarah Ward
Director
Financial Services
KPMG in the UK
E: sarah.ward@kpmg.co.uk



Osama Rabbani
Director
Corporates
KPMG in the UK
E: osama.rabbani@kpmg.co.uk



Christopher Checkley
Director, Finance Transformation
Financial Services
KPMG in the UK
E: christopher.checkley@kpmg.co.uk



Marina Krumbholz
Director, Technology Risk
Financial Services
KPMG in the UK
E: marina.krumbholz@kpmg.co.uk

Some or all of the services described herein may not be permissible for KPMG audited entities and their affiliates or related entities.

kpmg.com/uk



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2021 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation. Designed by CREATE. | CRT133666A