2022?

With the threat of a recession on the horizon, and the ongoing fallout of the COVID-19 pandemic still being felt, business and forensic accountants are...

Jul. 18, 2022

By Brad Wilson, Managing Partner, StoneTurn.

For forensic accountants, looking back at the first half of 2022 in the rearview mirror may feel chaotic. Coming off strong headwinds created by the pandemic, and already defined by conglomerate unwindings and a bevy of new Russia-Ukraine crisis related regulations, 2022 has been anything but the return to normal expected when the New Year began.

In the near term, things do not look like they are set to get any easier.

With the threat of a recession on the horizon, and the ongoing fallout of the COVID-

Justice (DOJ) advocating more stringent approaches in terms of both individual executive and overall corporate accountability, there is renewed focus among the C-Suite on proactively bolstering internal controls. The regulatory posture of the government, of course, does not substantively change internal controls best practices. But it is critical for organizations to take stock of the effectiveness of their compliance programs and the reliability of their internal controls. Organizations often hesitate to enhance internal controls due to potential increased costs and the untested perception that current programs and controls are appropriately mitigating risks. However, as expectations shift among oversight bodies, businesses must take a closer look at potential control enhancements considering both the reputational and regulatory costs of compliance failings as well as the results of more reliable testing or auditing of their compliance programs and controls.

Some enhancements such as implementing a compliance analytics program require an initial investment of time and resources but will move the needle significantly for organizations in the future. Regulators want to see that data analytics are being used to both prevent and detect compliance issues. This, of course, means that businesses need to dedicate resources to build out robust analytics programs that create actionable insights for the business and to develop processes to timely act on those insights.

Examining New Disclosures

Businesses will also need to continue to increase the attention dedicated to evolving environmental, social and governance (ESG) disclosure requirements. While these requirements may have been on the periphery, they are now very much a front-and-center topic for many organizations. Climate disclosure regimes are developing in various jurisdictions around the globe – with many expected to follow Germany and Switzerland's lead on non-financial reporting requirements. Proposed SEC rules require companies to disclose carbon emissions for 2023, followed by assurance reporting by 2024. Other climate disclosure requirements including from the

Russia's invasion of Ukraine changed how business is conducted on a global scale. Sanctions have increasingly played a role in national security policies for countries around the world. As a result, economic sanctions against Russian entities and individuals have rolled out rapidly by the U.S., U.K., Europe and other jurisdictions, and are changing day by day. This means organizations of all stripes need to assess their exposure across multiple lists: from investors, to investments, to customers and suppliers. Assessments should include digging deep into the relationships of an organization that may seemingly have no ties to sanctioned individuals or entities, going beyond the surface to understand more complex organizational ties or origins.

While organizations may have sanctions risk management processes in place that periodically comb through lists for updates across jurisdictions, today's climate requires for that process to be done with more frequency and more depth through enhanced due diligence. Entities should elevate sanctions risk management to the top of the priority list, as missing a connection can result in costly fines and penalties, and long-term reputational damage.

Recession Impacts

The looming recession will be a top-of-mind concern for business leaders and forensic accountants for the foreseeable future. Businesses were already facing a tricky landscape with evolving regulatory expectations, as well as emerging issues contributing to shifting compliance priorities. Now, companies face pressure from a different angle, as the impending recession puts a spotlight on the costs of operations and compliance. Business may be tempted to disproportionately cut back on resources for compliance and internal controls, but they must resist this urge.

Reducing resources, especially fraud prevention resources, could actually make a recession more damaging to a company. One of the unintended consequences of economic downturns is that they can make employees more willing to take

Though uncertainty may be on the horizon, forensic accountants can advise companies to apply best practices to help thwart risks before they create a meaningful impact on an organization and its bottom line. From shifting regulatory pressures, to conflict in Europe and the possibility of a recession, accountants should be helping organizations prepare now to weather the storm, however strong it may be, that lies ahead.

Accounting • Auditing • ESG