

March 2017

Proposal to revise ISA (UK) 250 (Revised June 2016) Section A— Consideration of Laws and Regulations in an Audit of Financial Statements

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CONSULTATION DOCUMENT AND IMPACT ASSESSMENT

Proposal to revise ISA (UK) 250 (Revised June 2016) *Section A—Consideration of Laws and Regulations in an Audit of Financial Statements*

Objective

The Financial Reporting Council (FRC) proposes, subject to consultation, to issue a revised version of International Standard on Auditing (UK) (ISA (UK)) 250 (Revised June 2016) *Section A—Consideration of Laws and Regulations in an Audit of Financial Statements*, to reflect recent revisions to the international standards on auditing issued by the International Auditing and Standards Board. The revisions made to the IAASB resulted from a limited scope project, designed to ensure alignment between ISA 250 (and a small number of corresponding changes to other standards) and the revised Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA).

As the ISA (UK) is being updated to reflect changes made at the international level, and the FRC is not proposing to add any additional UK requirements, the FRC has not identified any costs and/ or benefits attributable to the revisions proposed, and confirms in the attached impact assessment that no additional work effort is expected to result from regulatory decisions taken by the FRC.

Invitation to comment

The FRC is requesting comments on this Consultation Paper by 5pm on Friday, 26 May 2017. Comments are invited in writing on all aspects of the Consultation Paper. In particular, comments are sought in relation to questions 1-4 as discussed below.

Comment on the Consultation Paper should be sent to:

Kate Acott
Project Director
Financial Reporting Council
E-mail: AAT@frc.org.uk

Introduction

1. The FRC is committed to acting as a proportionate and principles-based regulator, and balances the need to minimise the impact of regulatory requirements on business, while working to support the delivery of high-quality audit and assurance work, to maintain investor and wider stakeholder confidence in audit.
2. The ISAs (UK) are based on the corresponding international standards issued by the International Auditing and Standards Board¹ (IAASB). Where necessary, the international standards have been augmented with additional requirements to address specific UK legal and regulatory requirements; and additional guidance that is appropriate in the UK national legislative, cultural and business context.
3. The International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the IESBA Code) was revised in July 2016 to address the professional accountant's responsibility in relation to non-compliance with laws and regulations (NOCLAR). In response to these changes, the IAASB recently issued a revision of ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, making limited amendments to ISA 250 (Revised) in order to address actual or perceived inconsistencies of approach between the NOCLAR provisions in the revised IESBA Code and the ISAs.
4. The Financial Reporting Council (FRC) supports these limited amendments and believes that they represent an improvement to the current standard as they:
 - Clarify the requirement regarding the auditor's determination of whether to report identified or suspected NOCLAR to an appropriate authority outside the entity and the auditor's duty of confidentiality, in order to recognise the different provisions of laws, regulations, or relevant ethical requirements.
 - Highlight that the auditor may have additional responsibilities under law, regulation or relevant ethical requirements, including possible documentation requirements and communicating to other auditors.
 - Enhance the consideration of the implications of NOCLAR on the audit, for example, the reliability of management's representations, the implications for the auditor's report, and the consideration of whether to withdraw from the engagement.
 - Emphasise the fact that, in certain cases, communication with management or those charged with governance may be restricted or prohibited by law or regulation, for example tipping-off provisions that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act.
5. In responding to the IAASB's consultation on the revised standard, the FRC made recommendations that ISA 250 should be subject to a more comprehensive revision, to address the issues raised in our comment letter². However, to ensure alignment with the IESBA Code, it is important that these revisions, which improve the clarity of the standard be made. Consequently, the FRC proposes, subject to consultation, to issue a revised

¹ IAASB is a committee of the International Federation of Accountants (IFAC). The IAASB's constitution and due process is described in its 'Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements'.

² <http://www.ifac.org/system/files/publications/exposure-drafts/comments/FRCCommentLetter-IAASBEDProposedAmendmentstotheIAASBInternationalStandards-RespondingtoNOCLAR.pdf>

version of International Standard on Auditing (UK) (ISA (UK)) 250 (Revised June 2016) *Section A—Consideration of Laws and Regulations in an Audit of Financial Statements*, adopting the changes made by the IAASB to ISA 250 (Revised) and the conforming amendments to other ISAs. This will ensure that the UK auditing standards continue to be compliant with the ISAs and maintains the FRC's support for the international harmonisation of auditing standards based on ISAs.

Q1. Do you agree that ISA (UK) 250 (Revised June 2016) should be updated to adopt the amendments in the underlying international standard and the related conforming amendments to other ISAs? If not, please give your reasons and explain what action, if any, that you believe should be taken to update the ISAs (UK) in relation to non-compliance with laws and regulations.

Q2. If you agree that the ISAs (UK) should be updated to adopt the revised ISA 250 and conforming amendments (Q1 above), do you agree that the UK supplementary material can be limited to that shown in the exposure draft? If not, please give your reasons and explain what supplementary material, if any, you believe should be added.

Q3. Is the proposed effective date, which is consistent with the effective date of the IAASB's revised ISAs, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.

Future developments

6. ISA (UK) 250 (Revised June 2016) includes some limited guidance on the auditor's responsibilities in respect of laws and regulations about money laundering, terrorist funding and proceeds of crime. More detailed guidance for UK auditors on money laundering is currently included in Practice Note 12 (Revised): *Money laundering—Guidance for auditors on UK legislation*.

7. The UK government is in the process of transposing the Fourth Money Laundering Directive in to UK legislation,³ after which the FRC will consider the best approach to update its guidance for auditors.

Q4. If the FRC was to issue new guidance do you think the most appropriate location of such material should be in:

- (a) A separate Practice Note;
- (b) An appendix to ISA (UK) 250 (Revised) Section A; or
- (c) Other material (please specify)?

³ More information can be found here: <https://www.gov.uk/government/consultations/transposition-of-the-fourth-money-laundering-directive>

Impact Assessment

8. We have undertaken an impact assessment to identify any costs and benefits relating to our proposals to revise ISA (UK) 250 (Revised June 2016). We have made the revisions to reflect changes made to the international standard by the International Auditing and Assurance Standards Board (IAASB), and have not added in additional UK requirements.
9. The IAASB's revisions are focused on bringing together and highlighting pre-existing legal, ethical and regulatory requirements rather than setting additional requirements. As a result, we do not believe that the revisions to this standard will result in any significant additional costs or add to the regulatory burden on business. As the effective date for the revised UK standard is for the audit of financial statements for periods beginning on or after 15 December 2017, any necessary minor changes to audit firms' methodology and training packages will be picked up as part of their annual updates.
10. Adoption of the revised ISA in the UK will, support audit quality in this area, and therefore will deliver benefits, however, it is not possible to quantify these for the purposes of this assessment. We do not, therefore, consider that there are further measureable costs and benefits to report that arise as a result of any decisions taken by the FRC.

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