

July 2017

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# Feedback Statement and Impact Assessment

## ISA (UK) 250 (Revised July 2016) Section A — Consideration of Laws and Regulations in an Audit of Financial Statements

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# FEEDBACK STATEMENT AND IMPACT ASSESSMENT

## ISA (UK) 250 (Revised July 2016) *Section A — Consideration of Laws and Regulations in an Audit of Financial Statements*

### 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 Board<sup>1</sup> (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) proposed to make the same amendments to ISA (UK) 250 (Revised) with necessary conforming amendments to other ISAs (UK), considering them to 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.

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<sup>1</sup> 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'.

5. The FRC consulted publicly on the proposals, and the consultation closed on Friday 26 May 2017. We received six responses – three from Professional Bodies and three from Audit Firms. Given the minor nature of the changes proposed and the fact that they are to align ISA (UK) 250 with the international version of the standard our expectation was that comments would be limited. In the rest of this paper we set out a summary of the responses received to each question, along with the FRC's proposed response.

**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.*

### **Summary of Responses**

All respondents supported the proposal to revise ISA (UK) 250 to adopt the amendments made to the underlying international standards. All respondents made clear their support for ISAs (UK) to be aligned with international ISAs issued by the IAASB. One respondent made suggestions to remove existing UK supplementary material from the standard, and two respondents proposed minor drafting changes to existing UK supplementary material.

### **FRC Response**

The FRC will revise ISA (UK) 250 as proposed in the consultation. We have not, at this stage made further drafting changes to the additional UK specific material in the standard, but will consider this when the IAASB undertakes a more fulsome review of the standard. As set out later in this Feedback Statement, the FRC will shortly consult on new material to support auditors in complying with anti-money laundering obligations set out in UK Law.

**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.*

### **Summary of Responses**

All respondents supported the UK supplementary material in the standard. Two respondents asked for further explanatory material to be added to: (i) provide examples to illustrate the requirements in the standard (by way of additional guidance material rather than by adding further material into the standard); and (ii) to expand the areas of non-compliance to specifically include blackmail and cybercrime. As noted in the response to **question 1**, one of the respondents proposed removing certain UK supplementary material.

### **FRC Response**

The FRC will issue the revised ISA (UK) 250 with the existing UK supplementary material; however, we will consider whether there is a case for the FRC to develop further guidance material in discussion with our Technical Advisory Group.

**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.*

## Summary of Responses

All respondents supported the proposed effective date of 15 December 2017, which aligns with the effective date for the IAASB's revised ISA. One respondent noted that the transposition of the 4<sup>th</sup> Anti Money Laundering Directive might result in a need to further revise the ISA (UK) which firms would then have to reflect in their methodologies.

### FRC Response

The FRC will make the standard effective for the audit of financial statements for periods beginning on or after 15 December 2017 – the same as that used by the IAASB. The FRC is aware of the need to deal with changes to standards and guidance that may be required by the 4<sup>th</sup> Anti Money Laundering Directive, and is developing proposals which will be subject to consultation later this year – see **question 4** below.

### Future developments

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*.

The UK government is in the process of transposing the Fourth Money Laundering Directive in to UK legislation,<sup>2</sup> 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 revision to Practice Note 12;
- (b) An appendix to ISA (UK) 250 (Revised) Section A; or
- (c) Other material (please specify)?

## Summary of Responses

Most respondents believed that it would be most appropriate to produce revised guidance in the form of a revised Practice Note 12. However, one respondent supported new guidance being issued as an appendix to ISA (UK) 250, one respondent considered that the FRC should withdraw Practice Note 12 in favour of updated guidance on anti-money laundering which is being prepared by the CCAB, and one respondent supported the withdrawal of Practice Note 12 as long as the application material it contains remains available to auditors by some other means.

### FRC Response

The FRC is consulting publicly on detailed proposals to deal with any requirements arising from the transposition of the 4<sup>th</sup> Anti Money Laundering Directive in the UK<sup>3</sup>. Our current preferred option is that this should be issued as high level, principles based guidance in the form of a stand-alone Appendix to ISA (UK) 250, which cross references to the detailed

<sup>2</sup> More information can be found here: <https://www.gov.uk/government/consultations/transposition-of-the-fourth-money-laundering-directive>

<sup>3</sup> <https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/Consultation-Paper-and-Impact-Assessment-Money-La.aspx>

guidance in the revised CCAB material. In finalising these proposals we will continue to liaise with HM Treasury, HM Revenue and Customs, the National Crime Agency and the CCAB.

## **Conclusion**

The FRC will, therefore, following public consultation issue a revised version of International Standard on Auditing (UK) (ISA (UK)) 250 (Revised July 2017) *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.

## **Impact Assessment**

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. 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.

Adoption of the revised ISA in the UK will support audit quality in this area, and therefore 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. In finalising changes to the standard and in the light of feedback provided, we have revisited the impact assessment, but consider that no changes to it are required.

## **Financial Reporting Council**

**July 2017**

### **Respondents to the Consultation:**

Institute of Chartered Accountants of Scotland

Deloitte LLP

Institute of Chartered Accountants in England and Wales

Grant Thornton LLP

Chartered Accountants Ireland

Ernst and Young LLP



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