PROPOSAL TO REVISE ISA (UK) 250 (REVISED JUNE 2016)
SECTION A – CONSIDERATION OF LAWS AND REGULATIONS IN AN
AUDIT OF FINANCIAL STATEMENTS

RESPONSE FROM ICAS TO THE FRC

24 May 2017
Background

ICAS is a professional body for more than 21,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK’s and the world’s great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

General comments

We are supportive in principle of the FRC’s proposed revisions to International Standard on Auditing (ISA) (UK) 250 Section A, which are intended to reflect the limited changes made to the international standard by the International Auditing and Assurance Standards Board (IAASB).

However, we would reiterate the concern we expressed during the IAASB’s project to update the international standards prior to the International Ethics Standards Board for Accountants finalising its Non-Compliance with Laws and Regulations (NOCLAR) requirements. The IAASB project involved only a limited review of ISA 250 to allow for some flexibility when ethical codes other than the IESBA Code were applied. In our response to the IAASB we stated that whilst we were not supportive of a more thorough review of the standard at that time, we would have preferred that it had waited until the NOCLAR project had been completed before undertaking a revision of this standard.

Specific questions

Our responses to the specific questions in the consultation are detailed below.

Question 1
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.

Response 1
Subject to our comments below relating to the wording of the standard, we agree that:
(i) ISA 250 (UK) (revised June 2016) should be updated to adopt the amendments in the underlying international standard; and
(ii) the related conforming amendments should be made to the other ISAs.

Comments in relation to the wording of the standard:
(i) The text of the revised ISA sometimes omits the words ‘identified’ and ‘suspected’ when referring to ‘non-compliance with laws and regulations’. We are unsure as to whether this inconsistency is intentional in some cases but there are certain instances where we consider that the words ‘identified or suspected’ should be included when referring to non-compliance. Some examples of these are noted below:
Paragraph 30 of the standard refers to ‘identified or suspected non-compliance’ yet, in paragraph 30 (b), the words ‘identified or suspected’ have been omitted. Paragraph 23 includes the terms ‘suspected or identified’ within the first reference to non-compliance, but the second reference, later in the same paragraph, excludes these words and refers only to non-compliance.

We recommend that a consistent approach to the wording is used throughout the text of the standard. We are aware that similar inconsistencies exist in the current international version of ISA 250.

(ii) We would suggest that paragraph 9 should also make reference to the ‘tipping off’ provisions as described in paragraph 225.3 of the IESBA NOCLAR Pronouncement.

(iii) We assume that reference to ‘…working for or under the direction of the entity…’ in paragraph 12 also captures sub-contractors within this definition and would welcome clarification of this point.

(iv) Within paragraph 23R.1 we would suggest that greater clarity is required over how to inform the entity. If it is intended to be those charged with governance (TCWG) then this should be stated.

(v) In paragraph 26, we would suggest that the auditor’s conclusion should be based on whether the identified or suspected non-compliance ‘….may be material to the financial statements….’ rather than ‘….has a material effect on the financial statements….’ to be consistent with paragraph 27.

(vi) We would recommend that reference should be made to the Consultative Committee of Accountancy Bodies (CCAB) Anti-Money Laundering guidance in paragraphs A21.1, A29-1 and A29-2.

(vii) The 3rd bullet point in paragraph A26 refers to exceptional cases when management or those charged with governance do not take the remedial action that the auditor considers necessary. There is a danger that communication of the necessary remedial action by the auditor might actually be considered ‘tipping off’.

(viii) We would suggest that paragraph 8 of the conforming amendments to ISA 450 should refer to potential misstatements in addition to ‘….all misstatements…’ as is currently stated.

**Question 2**
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.

**Response 2**
We agree that the UK supplementary material can be limited to that shown in the exposure draft.

**Question 3**
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.

**Response 3**
The proposed effective date of accounting periods beginning on or after 15 December 2017 appears sensible as this is consistent with the effective date of the IAASB’s revised ISAs.
**Question 4**
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)?

**Response 4**
We believe that the most appropriate location of any new guidance for auditors on money laundering should be in a separate Practice Note.