

12 January 2024



**Response to FRC Consultation
Paper: Proposed International
Standard on Auditing (UK) 250
(Revised) Consideration of Laws
and Regulations in an Audit of
Financial Statements and**

**Proposed International Standard
on Auditing (UK) 2X0 (Revised)
Special Considerations for Public
Interest Entities—Communicating
and
Reporting to an Appropriate
Authority Outside the Entity**



1. Introduction

The Institute of Chartered Accountants of Scotland (ICAS) is a global, professional membership organisation and business network for Chartered Accountants. It's also an educator, regulator, examiner and a professional awarding body.

ICAS' diverse membership is made up of over 23,000 world class business professionals who work in the UK and in more than 80 countries around the globe. Members of ICAS are also known by the letters CA, an exclusive professional designation in the UK.

ICAS members operate at the forefront of ethical and sustainable business. Educated, regulated, and led by the highest standards of ethical leadership since 1854, they are at the top of their game. They are trusted professionals, that transform business and support one another for the greater good.

Acting in the public interest is the guiding principle of all that ICAS does and we continually work to maintain trust in the finance profession. That ethos is enshrined in the ICAS Code of Ethics – which applies to all members, students and member firms, and is underpinned by our Royal Charter commitment.

ICAS is a member of the Chartered Accountants Worldwide Network, a global family that brings together the members of 15 leading institutes to create a community of over 1.8 million Chartered Accountants and students in more than 190 countries.

Any enquiries in relation to this response should be addressed to James Barbour CA, Director, Policy Leadership.

2. Key Points

We are pleased to provide our comments on the proposed revisions to Proposed International Standard on Auditing (UK) 250 (Revised) 'Consideration of Laws and Regulations in an Audit of Financial Statements' and Proposed International Standard on Auditing (UK) 2X0 (Revised) 'Special considerations for Public Interest Entities—Communicating and Reporting to an Appropriate Authority Outside the Entity'.

As we have set out below in our responses to the specific consultation questions, we have concerns over the proposed revisions. These can be summarised as follows:

- 1 We are not convinced of the need to update ISA (UK) 250 at this time as we are not aware of significant issues being identified in relation to the application of this standard by auditors in practice. Whilst we acknowledge that the FRC recognises that the auditor's responsibilities cannot be open-ended to the effect of identifying and determining compliance with all laws and regulations pertaining to the entity, we have concerns that this will be the inevitable direction of travel if these proposed revisions are implemented as currently drafted. Particularly in large complex international group audits, the need for auditors to seek the use of experts (legal and potentially others) will be significantly enhanced.
- 2 The proposed new standard to replace ISA (UK) 250 Section B should not be introduced until the Government has enacted, and made effective, the supporting legislation to provide auditors with appropriate protection when making any reports under this framework. We are currently led to believe that the Government has no imminent plans to enact the necessary legislation. Therefore, we have major

concerns about extending the reporting requirements applicable to auditors without providing them with the necessary protection to do so.

3. Responses to the specific questions

Question 1

Do you agree that the proposals in ISA (UK) 250 appropriately address the public interest?

The Government's position in relation to audit and corporate governance reform appears to have changed since it published its proposed future actions on this subject matter in its response paper in May 2022 to its 'Restoring trust in audit and corporate governance' consultation paper. There has not as yet been an audit and corporate governance reform bill, and it is not envisaged that there will be in the near future. Therefore, this change in the business regulatory environment needs to be taken into consideration, as does the Government's desire to grow the UK economy, when assessing whether these proposals are in the public interest at this time. Furthermore, the FRC has not set out specific reasons as to why these revisions are necessary at this time.

We acknowledge that the FRC is seeking to place the requirements on auditors in relation to laws and regulations on a more risk-based footing. Conceptually, this may appear an appropriate approach, however, we have concerns as to its practical application and the work effort that will be required of auditors to meet these proposed revised requirements. Given the wide spectrum of laws and regulations that may be applicable to a particular entity the proposed revisions could lead to a considerable increase in the need for auditors to utilise the assistance of legal, and potentially other experts, on a range of different topics in order to properly satisfy the proposed requirement.

Question 2

Do the proposed requirements in paragraphs 12-2–12-3 support auditors to be able to identify those laws and regulations with which non-compliance may have a material effect on the financial statements?

Whilst we welcome the proposed requirements in paragraphs 12.2 and 12.3 of the proposed revised ISA (UK) 250, as per our response to question one above, we harbour concerns over the practical implementation issues that will arise if these revisions are made effective.

Question 3

Do you believe that the proposals in ISA (UK) 250, considered collectively, will enhance and strengthen the auditor's identification of risks of material misstatement of the financial statements due to fraud or error relating to non-compliance with laws and regulations?

We believe that whilst the proposals, considered collectively, offer the opportunity to do so, we would again refer you to our concerns highlighted in our response to question one above. In particular, we are not aware of a failing of auditors to identify material breaches in relation to an audited entity's non-compliance with laws and regulations that could reasonably have been expected to have been identified.

Question 4

Have appropriate enhancements been made to the application material?

We believe that if the revisions are to be approved as drafted, then appropriate enhancements have been made to the application material, other than the deletion of the Appendix referred to in question 5.

Question 5

Do you support the deletion of the Appendix on “Money laundering, terrorist financing and proceeds of crime legislation in the United Kingdom”?

We are not supportive of the deletion of the appendix. Our experience is that auditors find this appendix useful and therefore believe that it should be retained as an appendix to ISA (UK) 250.

If a decision is made to delete the appendix, then we believe that there will be a need to add additional content into the application material of ISA (UK) 250 rather than as part of the new proposed standard, as we believe this is the most appropriate place for such content.

Question 6

Do you agree with the proposed effective date for audits of financial statements for periods commencing on or after 15 December 2024?

No, we are not supportive of the proposed effective date. We believe that the applicable date should be at least 12 months after the approval of the revised standard to allow audit firms appropriate time to update their methodologies and provide the relevant training for their staff.

ISA (UK) 2X0—Special Considerations for Audits of Public Interest Entities—Communicating and Reporting to an Appropriate Authority Outside the Entity

Question 7

Do you agree that the proposals in ISA (UK) 2X0 appropriately address the public interest?

We recognise the rationale and are supportive of the reasons as to why the FRC wants to update this standard i.e. much of the content is outdated. We also agree that given changes in the regulatory environment since this standard was first introduced, it makes sense to renumber and rename the standard to make it clear that reporting and communicating to an appropriate authority outside the entity can arise at any point throughout the audit and in relation to a wide range of matters.

However, we are concerned that the proposed revised standard may be made effective without the necessary legislation being enacted and in force. We do not believe that the proposed revised standard should have an effective date prior to the related legislation taking effect. Therefore, to ensure that the public interest is served there is a need to defer making the standard operational prior to this being done.

Question 8

Do you agree with the proposed scope of ISA (UK) 2X0 being limited to public interest entities, or do you believe that the requirements of ISA 2X0 should also apply to:

- a) Listed entities
- b) Charities
- c) Other entities in regulated industries
- d) All entities

When responding consider that for many audits, as reportable matters are not likely to be identified, only the requirements in paragraphs 11 – 13 will apply and that all auditors are subject to anti-money laundering legislation.

We are supportive of the proposed scope. We are not in favour of having the requirements made applicable to a wider group of entities.

Question 9**Do you support the definition of Reportable Matters?**

We are not supportive of the proposed definition of “Reportable Matters”. In order to make this proposed revised standard operational, greater clarity is required as to when an auditor would be expected to report. This would require the inclusion of additional content to expand upon the proposed definition to provide greater certainty as to the types of situations (facts and circumstances) for which the FRC would expect matters to be reported. Whilst there will also be potential differences in how certain requirements are interpreted and acted on, currently this risk is magnified due to the lack of clarity provided.

Question 10**Do you believe that the proposals in ISA (UK) 2X0, considered collectively, will enhance and strengthen the auditor’s identification of matters that should be reported to an appropriate authority outside the entity?**

Whilst we generally believe that the proposals, considered collectively, offer the opportunity to do so, we do not believe that the revised standard should become applicable until such time as the proposed accompanying legal protection legislation is enacted and takes effect.

Question 11**Have appropriate enhancements been made to the application material?**

The inclusion of the content in paragraph A14 does not effectively replace the content contained in the appendix to the extant ISA (UK) 250, which the FRC proposes to withdraw.

Question 12**Do you agree with the proposed effective date for audits of financial statements for periods commencing on or after 15 December 2024?**

No, we are not supportive of the proposed effective date. We believe that the applicable date should be at least 12 months after the approval of the revised standard to allow audit firms appropriate time to update their methodologies and provide the relevant training for their staff.

Additionally, we believe that the proposed revised standard should not become applicable until after the related legislation has been enacted and taken effect.



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