

Audit monitoring reviews

ISA 250: Thematic findings from recent reviews

This thematic review summarises common findings and recurring issues identified during recent audit monitoring reviews in the area of compliance with laws and regulations. It draws on [ISA \(UK\) 250 \(Revised November 2019\), Section A](#), Consideration of Laws and Regulations in an Audit of Financial Statements, and its Irish equivalent, [ISA \(Ireland\) 250A \(Updated October 2022\)](#). The requirements of the two standards are substantively aligned and, unless otherwise stated, references to ISA 250 throughout this article apply equally to both. The deficiencies observed are common to both jurisdictions. A consistent theme is that weaknesses in this area rarely arise in isolation: they interact with, and compound, failures across other auditing standards and the Code of Ethics for Professional Accountants (the Code) as published by the IESBA.

Understanding the legal and regulatory framework (Para 13)

A recurring finding is the failure to demonstrate that engagement teams have obtained an adequate understanding of the legal and regulatory framework applicable to the entity and its sector, as required by paragraph 13. In many cases, the framework documented on file is generic and does not reflect the specific regulatory environment of the client. For entities in heavily regulated industries, including food production, financial services, and manufacturing, files frequently omitted sector-specific requirements such as food safety legislation, product safety standards, consumer protection laws, and environmental obligations. Identifying the existence of relevant laws is not sufficient: paragraph 13 requires the auditor to understand how the entity is complying with that framework, and without this understanding the risk of material misstatement arising from non-compliance cannot be properly assessed.

This deficiency has direct consequences under ISA 315. Where the auditor has not understood the entity's regulatory obligations, the risk assessment will be incomplete, and the procedures designed under ISA 330 to respond to those risks may be misdirected. Firms must ensure that planning procedures include an active assessment of the regulatory landscape relevant to each client, with a documented link between the identified framework and the risk of material misstatement.

Risk assessment and audit procedures (Paras 14 to 16)

Even where some identification of the legal and regulatory framework was present, files consistently failed to demonstrate how that understanding had been translated into a risk assessment or responsive audit procedures. In a number of cases, documentation was limited to a standard company law checklist. This does not constitute compliance with ISA 250. Paragraphs 14 and 15 require the auditor to obtain sufficient appropriate evidence regarding compliance with laws having a direct effect on financial statement amounts, and to perform specified procedures, namely enquiries of management and inspection of regulatory correspondence, to identify non-compliance with other relevant laws. Some files contained no evidence that these procedures had been carried out.

The absence of documented procedures also represents a failure under ISA 230, which requires documentation sufficient to enable an experienced auditor with no prior connection to the engagement to understand the procedures performed and the conclusions reached. Files that contain no evidence of ISA 250 work call into question whether the required procedures were performed at all. Paragraph 16 further requires the auditor to remain alert throughout the engagement to evidence of potential non-compliance; this obligation of ongoing vigilance was rarely evidenced. Firms should ensure their methodology supports consistent documentation of ISA 250 procedures, including a clear account of how compliance risk has been evaluated and addressed.

Professional scepticism, fraud, going concern, and ethics

Weaknesses in ISA 250 compliance carry significant implications for the broader audit. Non-compliance with laws and regulations can be a vehicle for fraud or symptomatic of a weak control environment. ISA 240 requires the auditor to consider fraud risks throughout the engagement; inadequate ISA 250 procedures undermine that assessment. Monitoring reviews identified cases in which management representations about compliance were accepted without corroboration, reflecting insufficient professional scepticism as required by ISA 200. Going concern implications of regulatory risk were also overlooked in some reviewed files: licence revocation, material fines, or enforcement action can each threaten an entity's ability to continue trading, yet firms had not connected this risk to the evaluation required under ISA 570. Where written representations are obtained under paragraph 17 of ISA 250, ISA 580 (paragraph 4) is clear that written representations do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.

Where instances of actual or suspected non-compliance are identified, ISA 260 requires timely communication to those charged with governance. Where the legal and regulatory framework has not been adequately assessed from the outset, non-compliance may not be identified at all, removing the trigger for these communications and leaving governance oversight of regulatory risk without foundation. In group audits, ISA 600 creates additional obligations to communicate such risks to the group engagement team. The IESBA Code requires compliance with the fundamental principles of professional competence and due care, and treating ISA 250 as a box-ticking exercise is inconsistent with those obligations. Where non-compliance has been identified but not pursued, questions may arise about professional behaviour and integrity.

Conclusion

Compliance with laws and regulations is not a peripheral concern in an audit. Monitoring findings indicate that this area continues to be treated by some firms as a formality rather than as a substantive component of audit quality. Key priorities for the coming year include:

- Ensuring that engagement planning captures sector-specific laws and regulations, not merely generic legal frameworks.
- Documenting how the entity complies with its regulatory obligations and linking this directly to the risk assessment process.
- Performing and evidencing the procedures required by paragraphs 14 to 16, including management enquiries and inspection of regulatory correspondence.
- Integrating regulatory risk into going concern evaluations, fraud risk assessments, and conclusions on the sufficiency of audit evidence.

Key messages for firms

- **Understand the sector:** generic legal frameworks do not satisfy paragraph 13 of ISA 250.
- **Document how the entity complies:** identifying applicable laws is necessary but not sufficient.
- **Connect ISA 250 to the risk assessment:** regulatory risk must drive responsive audit procedures.
- **Embed regulatory risk in going concern and fraud procedures:** these are not separate exercises.
- **Apply professional scepticism:** management representations on compliance do not provide sufficient appropriate audit evidence on their own.
- **Communicate findings promptly:** indicators of non-compliance must be reported to those charged with governance without delay.