

Revision International Standard on Auditing (UK) 250 – section A and B

**A public consultation issued by the Financial Reporting Council
Comments from ACCA to the Financial Reporting Council**

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About ACCA:

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We're a thriving global community of 247,000 members and 526,000 future members based in 181 countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in Accountancy, finance, and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business, and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that Accountancy is a cornerstone profession of society and is vital in helping economies, organisations, and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities. And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation. Find out more at accaglobal.com.

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GENERAL COMMENTS

ACCA welcomes the opportunity to comment on the proposals issued by the FRC. We support the enhancement of the auditor requirements aimed at detecting and reporting material misstatements resulting from non-compliance with laws and regulations. Updating the standard in this way will undoubtedly enhance the quality of audit processes, offering users greater assurance that potential material misstatements have been thoroughly assessed and leading to increased stakeholder confidence in the quality of audits carried out. We also commend the transition to a risk-based approach, allowing auditors to focus on laws and regulations that are most likely to have a material impact on the financial statements.

It is noted that the FRC recognises the inherent limitation to the scope of auditor responsibilities, understanding that auditors cannot be expected to comprehensively identify and determine compliance with all laws, regulations, and ethical standards applicable to the entity. It is important, though, to recognise and consider two issues: firstly, that the primary responsibility for ensuring compliance with relevant laws and regulations rests with management supported by their finance teams, and, secondly, that the updated requirements are likely to escalate the workload for auditors. ACCA ask that the FRC carefully consider the risk that in practice the impact of the updated requirements could be to shift workload from management to the auditor. This would not be appropriate..

CONSULTATION QUESTIONS

ISA (UK) 250—Consideration of Laws and Regulations in an Audit of Financial Statements

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

Yes, we agree that the proposals appropriately address the public interest. ACCA strongly supports amendments that enhance audit quality and foster users' confidence in financial statements. Transparent, robust, and integral audit processes are crucial given the strategic role of financial statements in promoting ethical business practices, ensuring regulatory compliance, and enabling informed decision-making, all elements of a thriving economic landscape. From this standpoint, enhanced requirements for auditors to consider and address relevant laws and regulations will promote transparency and accountability, ensuring no potential material issues go unnoticed, ultimately bolstering investor and stakeholder confidence.

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?

ACCA agrees with the proposed requirements. There is considerable clarification from the previous iteration of the ISA 250 standard as to the FRC's expectation of what the risk assessment procedures look like. The additional guidance achieves the objective of helping auditors to meet the risk assessment procedure to assess likelihood and materiality of potential misstatements arising from non-compliance. The additional requirements also align with existing testing and inquiries of management. We hope the FRC consider the risk that in practice the impact of the updated requirements could be to shift workload from management to the auditor.

The additional detail does, however, have the potential to lead to a heightened burden in terms assessment and reporting and the need to allocate additional resources. As the impact assessment sets out, there are an estimated 15 hours of additional work per audit associated with the FRC revisions.

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?

Yes, ACCA believes that the auditor's identification of risks of material statement will be enhanced. We also agree with the introduction of better linkage with other ISAs (UK), specifically ISA (UK) 315 Identifying and Assessing the Risks of Material Misstatements.

The introduction of the more robust risk assessment process has been delivered with reasonable guidance and clarity. The transition from a procedural approach to an outcome-based approach with risk focused assessment for the identification and assessment of relevant laws and regulations gives flexibility and discretion to auditors, allowing them to exercise comprehensive professional judgement to identify the likelihood and materiality of misstatements. We believe this shift will certainly enhance and strengthen the auditor's ability to identify risks,

This update will also involve a considerable amount of judgement and require a strong understanding of the business and knowledge of the relevant sector and regulatory environments therefore requiring suitably skilled auditors to carry out the work and (in complex entities/sectors) the FRC should acknowledge the potential need for expert support. The FRC will need to be alive to the potential need to provide additional implementation guidance in due course, and ACCA recognises that the existing examples given are useful in helping auditors apply the guidance. Smooth implementation will require adequate training and educational resources will be necessary to ensure auditors are well-equipped to implement these standards.

4. Have appropriate enhancements been made to the application material?

The application materials are clear and a helpful tool for auditors, offering examples and guidance on how to apply risk assessment procedures and related activities within the revised standard.

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

ACCA supports the proposal to delete the appendix on "Money laundering, terrorist financing and proceeds of crime legislation in the UK". Since the proposed standard already includes requirements related to anti-money laundering legislation, the appendix is redundant.

Reducing duplication of information is a crucial step towards streamlining standards and ensuring their clarity. By removing the appendix, we advance towards more concise, effective and clear standards, better aligned with the evolving business landscape. However, during the

deletion process, appropriate references should be made to ensure seamless integration, directing users to where the relevant information is located.

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

The effective date should allow auditors sufficient time to familiarise themselves with the revised standards and make necessary adjustments to their audit methodologies. ACCA agrees that a one-year period is reasonable, subject to the timely finalisation and publication of these amendments and the provision of prompt and appropriate guidance from the FRC to ensure a smooth transition.

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

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

We support initiatives aimed at increasing transparency and accountability within the auditing process,¹ enabling auditors to identify and report matters that could potentially harm the public interest, such as material breaches of law, regulations, or administrative provisions.

As was pointed out for the proposed revisions in ISA (UK) 250, It is essential that these reforms are proportionate to effectively address and protect the public interest, with the revision of outdated content forming an integral part of this endeavour.

The inclusion of additional guidance in the proposed standard, particularly on the factors that auditors should consider when identifying reportable matters and the detailed instructions for communication with appropriate authorities (including the timing and content of reports), is a positive step towards a greater assurance on the integrity and transparency of financial statements.

While acknowledging that the proposed reforms are anticipated to escalate the workload and responsibilities for auditors, the cumulative outcome is the establishment of a more resilient and

¹ See ACCA's consultation response to Proposed International Standard on Auditing (UK) 570 (Revised) Going Concern Exposure Draft submitted on 14 June 2019, available at <https://www.frc.org.uk/consultations/exposure-draft-proposed-isa-uk-570-revised-going-concern/>

dependable audit framework that not only conforms to current expectations but also actively contributes to the broader interests of stakeholders and the broad economic landscape.

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.

The proposed scope of ISA (UK) 2X0 restricted to public interest entities raises questions about uniformity and consistency in auditing standards. While expanding the scope to include other entities could enhance accountability and transparency in auditing procedures, it is crucial to avoid burdening those with limited resources. Extending ISA (UK) 2X0 scope beyond public interest entities could further strain these resources.

However, we believe there is a case to be made for expanding the scope of these requirements to include listed entities. This extension could be phased in, taking into account the changing regulatory landscape and enabling gradual adaptation, effective resource management, and minimal disruption. We recognise that some of the auditor reporting duties already exist for charities and therefore we do not see a case to be made for their inclusion.

9. Do you support the definition of Reportable Matters?

The proposed definition of Reportable Matters is comprehensive, encompassing statutory duties, statutory rights, and considerations of public interest. This expanded scope allows auditors to exercise discretion in reporting matters they believe are crucial to the public interest, even in absence of explicit legal requirements. The adjustment reduces vagueness and inconsistencies, promoting a clearer application of auditing standards. This ensures auditors are less likely to overlook significant matters that warrant reporting.

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?

ACCA support the proposed reforms to ISA (UK) 2X0 (revised), acknowledging that the expanded scope and clearer definitions, along with guidance on identifying and reporting

relevant matters, strengthen the auditor's ability to address issues that may impact the public interest. Existing reporting procedures already capture some of these issues, and we anticipate these changes may not bring radical shifts in reporting practices or outcomes.

11. Have appropriate enhancements been made to the application material?

Similar to our response in proposed ISA (UK) 250 (revised), we advocate for clear, regularly updated, and internationally harmonised application materials.

In this regard, the proposed application material for ISA (UK) 2X0 appears to be a valuable asset for auditors, offering practical guidance on identifying and addressing suspicions of non-compliance. Enhancing it with further guidance on reportable matters, clearer communication procedures with relevant authorities, and updated examples has the potential to improve its usefulness as a practical tool.

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

We agree with the proposed effective date for audits of financial statements for periods commencing on or after 15 December 2024. We believe that one-year period provides a reasonable opportunity for auditors and entities to adapt and consider the proposed changes, provided the timely publication of the revised standard and effective FRC's efforts to create awareness and offer necessary support.