

Consultation on laws and regulations and reporting to an appropriate authority

Response from Audit Scotland



Introduction

1. Thank you for the opportunity to comment on the proposed revisions to:
 - ISA (UK) 250 Consideration of Laws and Regulations In An Audit Of Financial Statements
 - ISA (UK) 2X0 Special Considerations For Public Interest Entities - Communicating And Reporting To An Appropriate Authority Outside The Entity
2. Audit Scotland is Scotland's national public sector auditor. We are responsible for over 200 audits of bodies in the Scottish public sector with total audit fees of over £20 million. Public bodies in Scotland within our audit regime are a range of central government bodies, local authorities, health boards, and colleges as determined by devolved legislation. Some of these bodies are also charities, companies limited by guarantee, pension funds, and public interest entities. Collectively these bodies spend over £40 billion of public money each year. Some of the larger more significant bodies include the Scottish Government (£34 billion net expenditure), NHS Greater Glasgow & Clyde (£4.6 billion gross expenditure), Glasgow City Council (£2.7 billion gross expenditure), Strathclyde Pension Fund (£21 billion fund value) and Scottish Water (£1.4 billion revenue).

Overall response

3. Audit Scotland considers that the proposal to remove the distinction between direct laws and regulations and other laws and regulations in ISA (UK) 250 would disproportionately increase the work effort required at the risk assessment stage of the audit with a very small likelihood of identifying additional risks of material misstatement. The removal of this distinction will also impact on the extent of procedures required in response to instances of non-compliance or suspected non-compliance, as this would need to be performed on all laws and regulations relevant to an audited body's operations. This is particularly an issue for public bodies which are subject to a substantial volume of legislation and regulation which they must adhere to.
4. Furthermore, Audit Scotland has concerns with the interaction of the requirements of ISA (UK) 250 and public sector auditors' statutory responsibilities around regularity. Public sector auditors' responsibilities around regularity are described in Practice Note 10 and we do not believe that additional requirements set out by ISA (UK) 250 will add value to exiting requirements.
5. Audit Scotland is supportive of the proposals in respect of reporting to an appropriate authority but suggests that they should apply to all entities.
6. Audit Scotland would also like to highlight that the Public Audit Forum (PAF), which comprises all the national audit agencies in the UK, has issued a response on the proposed changes. We are supportive of the PAF's response and agree with the concerns that are highlighted.

Detailed response

ISA (UK) 250

Question	Response
<p>1. Do you agree that the proposals in ISA (UK) 250 appropriately address the public interest?</p>	<p>We do not agree that the proposals appropriately address the public interest. We are concerned that removing the distinction in work effort between direct laws and regulations and other laws and regulations will significantly increase work effort overall with potentially a consequent reduction in the time available for higher risk areas. This is explained further in our answer to questions 2.</p>
<p>2. Do the proposed requirements in paragraphs 12-2 to 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?</p>	<p>While we are supportive of the principle of aligning ISA (UK) 250 with the risk assessment model set out in ISA (UK) 315, we have concerns about the proposed requirements in paragraphs 12-2 to 12-3. Aligning these requirements to ISA (UK) 315 will allow a more robust assessment of the risk of material misstatement due to non-compliance with laws and regulations. However, removing the distinction in work effort between direct laws and regulations and other laws and regulations would result in significantly more legislation coming into scope, particularly in the public sector due to the high volume of legislation that applies to the operation of public bodies. We consider that the consequent increased work effort at the risk assessment stage of the audit is unlikely to result in additional risks of material misstatement being identified or impact on the conclusions auditors currently reach.</p> <p>The removal of the distinction will also lead to greater judgement being required when assessing whether non-compliance of laws and regulations would have a material impact on the financial statements. Qualitative factors will need to be considered when determining if there will be a material impact and this would likely be very subjective given the nature and extent of laws and regulations that apply to public bodies. This may require additional clarification.</p> <p>As public sector auditors, we have responsibilities around regularity are described in Practice Note 10 for a significant number of audits that we perform. We believe the revisions to ISA (UK) 250 could lead to confusion in how the standard and the requirements around regularity described in Practice Note 10 will interact and do not believe this will add value to the existing requirements around regularity.</p>
<p>3. Do you believe that the proposals in ISA (UK) 250,</p>	<p>As outlined at questions 2, we are supportive of the principle of aligning ISA (UK) 250 to ISA (UK 315) and</p>

Question	Response
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?	believe this will allow a more robust risk assessment process. However, due to the extent of laws of regulations that may come within the scope of this risk assessment process and the disproportionate increase in work effort this creates, we do not believe that the proposals, as they currently stand, will enhance and strengthen the auditor's identification of risks of material misstatement.
4. Have appropriate enhancements been made to the application material?	For the reasons outlined at question 2, we do not believe appropriate enhancements have been made to the application material.
5. Do you support the deletion of the Appendix on "Money laundering, terrorist financing and proceeds of crime legislation in the United Kingdom"?	Yes.
6. Do you agree with the proposed effective date for audits of financial statements for periods commencing on or after 15 December 2024?	For the reasons outlined at question 2, we do not agree with the proposed effective date.

Detailed response

ISA (UK) 250

Question	Response
7. Do you agree that the proposals in ISA (UK) 2X0 appropriately address the public interest?	Agreed.
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: <ul style="list-style-type: none"> a) Listed entities b) Charities c) Other entities in regulated industries d) All entities 	We cannot see any reason to limit the ISA's scope to public interest entities, and therefore suggest that it should apply to all entities.

Question	Response
9. Do you support the definition of Reportable Matters?	<p>We support the proposed definition of reportable matters in principle, particularly that auditors should be able to report to an appropriate authority even if there is no specific requirement.</p> <p>However, we suggest that points (ii) and (iii) could be combined to improve clarity and brevity. For example, the current wording i.e.</p> <p>“(ii) Has determined reporting such information to an appropriate authority outside the entity is an appropriate action in the circumstances; or</p> <p>(iii) Has determined is of such significance that it is in the public interest to report even where law, regulation or relevant ethical requirements do not require it.”</p> <p>could be replaced with:</p> <p>“(ii) Has determined reporting such information to an appropriate authority outside the entity is a suitable action in the circumstances, including cases where it is in the public interest to report, even where law, regulation or relevant ethical requirements do not require it”.</p>
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?	<p>We believe that the proposals will enhance and strengthen the auditor’s identification of matters that should be reported to an appropriate authority.</p>
11. Have appropriate enhancements been made to the application material?	<p>We consider that appropriate enhancements have been made to the application material.</p>
12. Do you agree with the proposed effective date for audits of financial statements for periods commencing on or after 15 December 2024?	<p>We agree with the proposed effective date.</p>