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Dear Richard,

### **Proposed Revisions to ISA (UK) 250 and ISA (UK) 2X0**

Thank you for the opportunity to comment on your consultation on the exposure draft for the revised *ISA (UK) 250 – Consideration of Laws and Regulations in the Audit of Financial Statements* and *ISA (UK) 2X0 Special Considerations for Audits of Public Interest Entities – Communicating and Reporting to an appropriate authority outside the entity*.

My comments are focussed solely on what I believe to be the relevant questions within your invitation to comment document. Where I have not responded to a question in the document, I have no further comments to add. My technical team has collaborated with the other public audit agencies in drafting the Public Audit Forum response which closely aligns with my views below.

#### **ISA (UK) 250 – Revised**

I am broadly supportive of the principle of revising ISA (UK) 250 to integrate more closely into the risk assessment model required by *ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement where non-compliance gives rise to a risk of material misstatement of the financial statements*. In my view, this can be adequately addressed by auditors in considering inherent risk factors arising from non-compliance with laws and regulations linked to pre-existing risks of material misstatement such as going concern or completeness of liabilities.

However, I am concerned about the detailed requirements of the proposed revised standard, particularly in relation to:

- the increase in work effort implied by the requirement to apply the same risk assessment process to all laws and regulations, rather than the current focus on those that have a direct effect on the financial statements; and

- the interaction of the requirements of the proposed revised standard with public sector auditors' responsibilities relating to regularity.

**My view is that requiring a risk assessment to be carried out for all laws and regulations that are relevant to the operating aspects of the business and to an entity's ability to continue its business, where this does not lead to a risk of material misstatement to the financial statements beyond disclosure of the non-compliance, would represent a prohibitively significant increase in work effort for many public sector audits.**

Audited entities in the public sector are often subject to a very large volume of legal and regulatory requirements, the bulk of which relate to how audited entities must carry out their public functions and does not directly affect the risks of material misstatement of the financial statements.

Because the proposed revised standard requires an understanding of laws and regulations relevant to audited entities' operations and the continuation of their business, the auditor would be required to perform the procedures described in paragraphs 19 to 30 of the consultation draft in relation to all information concerning instances of non-compliance or suspected non-compliance with all these legal and regulatory requirements, even where the risk of material misstatement would not directly impact on transactions or account balances within the financial statements but would be restricted to a disclosure of the non-compliance.

**I do not consider that requiring such detailed procedures for all laws and regulations relevant to the audited entity is necessary in order to identify the laws and regulations for which there is a realistic prospect that non-compliance would have a material effect on the financial statements. I do not agree that the current distinction between different categories of laws and regulations prevents auditors from identifying risks of material misstatement.**

The majority of my audit reports give two distinct opinions on audited entities' financial statements:

- 'True and fair' opinion: this provides reasonable assurance that the financial statements are free from material misstatement and have been properly prepared.
- 'Regularity' opinion: this provides reasonable assurance that, in all material respects, the transactions recorded in the financial statements are in accordance with the applicable framework of authorities.

The matters in scope of the current ISA (UK) 250 Section A and the proposed ISA (UK) 250 (Revised) are primarily concerned with the 'true and fair' opinion, as this is the opinion given under the ISAs (UK). However, the auditor's responsibilities to obtain reasonable assurance over the following matters are interrelated and there is some overlap between the work involved:

- that the financial statements are free from material misstatement as a result of non-compliance with laws and regulations; and
- that the transactions recorded in the financial statements are in accordance with the applicable framework of authorities.

**Public sector auditors' responsibilities in relation to the regularity opinion (which are described in detail in Part 2 of PN 10) already meet the expectations of users of the financial statements that auditors will provide assurance over material compliance with applicable frameworks of authorities. This mechanism is well established and understood by the key stakeholders of public sector entities. I do not not consider that substantial additional requirements in relation to laws and regulations would add value to this existing accountability mechanism.**

### **ISA (UK) 2X0**

Currently I do not audit any Public Interest Entities however in my view the proposed ISA (UK) 2X0 would streamline the existing requirements within the current ISA (UK) 250 Section B for auditors of Public Interest Entities in relation to duties to report and instances where the auditor may determine that reporting an action is appropriate or it is otherwise in the public interest to report.

I also consider that,

- the requirements in the proposed standard are proportionate and scalable.
- these requirements will result in identification by the auditor of matters which may require outside responses by the auditor where they become aware of information which may require outside reporting and ensure that the auditor responds appropriately to such matters.

My staff and I are of course happy to engage with you further on this as the process of revising ISA (UK) 250 and ISA (UK) 2X0 continues.

Yours sincerely,



Dorinnia Carville  
**Comptroller and Auditor General**