



FEEDBACK PAPER

Proposal to Revise ISA (Ireland) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements

July 2017

MISSION

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest

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1. Summary

On 31 March 2017, IAASA published its consultation on [Proposal to Revise ISA \(Ireland\) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements](#) (Consultation Paper). The purpose of which was to obtain the views of stakeholders with regard to IAASA's proposal to issue a revised version of ISA (Ireland) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements.

ISAs (Ireland) are based on ISAs (UK), which, in turn are based on the corresponding standards issued by the IAASB. The International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the IESBA Code) was revised in July 2016 to address the professional accountant's responsibility in relation to non-compliance with laws and regulations (NOCLAR). In response to these changes, the IAASB recently issued a revision of ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements, making limited amendments to ISA 250 (Revised) in order to address actual or perceived inconsistencies of approach between the NOCLAR provisions in the revised IESBA Code and the ISAs.

Both IAASA and The Financial Reporting Council (FRC) support these limited amendments and believe that they represent an improvement to the current standard as they: clarify the requirement regarding the auditor's determination of whether to report identified or suspected NOCLAR to an appropriate authority outside the entity and the auditor's duty of confidentiality, in order to recognise the different provisions of laws, regulations, or relevant ethical requirements; highlight that the auditor may have additional responsibilities under law, regulation or relevant ethical requirements, including possible documentation requirements and communicating to other auditors; enhance the consideration of the implications of NOCLAR on the audit, for example, the reliability of management's representations, the implications for the auditor's report, and the consideration of whether to withdraw from the engagement; and emphasise the fact that, in certain cases, communication with management or those charged with governance may be restricted or prohibited by law or regulation, for example tipping-off provisions that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act.

2. Responses to the Consultation

Four responses were received – two from professional accountancy bodies and two from audit firms.

Respondents:

- Institute of Chartered Accountants in Ireland ('CAI')
- Institute of Certified Public Accountants in Ireland ('ICPAI')
- Ernst & Young ('EY')
- PricewaterhouseCoopers ('PwC')

3. Matters on which IAASA consulted and summary responses

A number of matters are set out below on which IAASA sought views from stakeholders and interested parties.

No.	Matter on which views were sought
1.	Do you agree that ISA (Ireland) 250 should be updated to adopt the amendments in the underlying international standard and the related conforming amendments to other ISAs? If not, please give your reasons and explain what action, if any, that you believe should be taken to update the ISAs (Ireland) in relation to non-compliance with laws and regulations.
Summary of Responses:	All respondents agreed that ISA (Ireland) 250 should be updated to adopt the amendments as per the consultation paper. One respondent expressed concern about the revised definition of “non-compliance”. The concerns included its ‘extensive widening of its breadth’ and requested further guidance to be issued.
IAASA Response:	IAASA will issue the revised ISA (Ireland) 250 to adopt the amendments detailed in the consultation paper and to include those additions to paragraph A6, A6-1 and A13 as outlined below in the highlighted text.
2.	If you agree that the ISAs (Ireland) should be updated to adopt the revised ISA 250 and conforming amendments (Q1 above), do you agree that the Irish supplementary material can be limited to that shown in the exposure draft? If not, please give your reasons and explain what supplementary material, if any, you believe should be added.
Summary of Responses:	Three respondents requested additions to paragraph A6 to include other statutory reporting obligations, company law offences, black mail and cybercrime. While two respondents suggested additional guidance, two respondents felt that it is not warranted.
IAASA Response:	Amendments to paragraphs A6, A6-1 and A13 made.
3.	Is the proposed effective date (i.e., for audits of financial statements for periods commencing on or after 15 December 2017), which is consistent with the effective date of the IAASB’s revised ISAs, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.
Summary of Responses:	All respondents agreed with the proposed effective date.
IAASA Response:	Agreed
4.	Do you believe IAASA should issue guidance in relation to Anti-Money Laundering Legislation? If so, what format should that guidance take; e.g.–practice note, appendix to ISA (Ireland) 250, other.
Summary of Responses:	All respondents agreed that IAASA should issue guidance in relation to the Anti-Money Laundering Legislation (‘AML’). One respondent favoured an appendix to ISA (Ireland) 250 while some others favoured a practice note.
IAASA Response:	IAASA will consider whether there is a need for supplementary material when the 4 th AML directive is transposed.

Extract from revised ISA (Ireland) 250 Section A

“*Categories of Laws and Regulations (Ref: Para. 6)*

A6. The nature and circumstances of the entity may impact whether relevant laws and regulations are within the categories of laws and regulations described in paragraphs 6(a) or

6(b). Examples of laws and regulations that may be included in the categories described in paragraph 6 include those that deal with:

- Fraud, corruption, bribery and **blackmail**.
- **Company law offences**
- Money laundering,^{10a} terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.
- **Cybercrime**

“A6-1. In Ireland, the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 brings auditors within the regulated sector, requiring them to report suspected money laundering activity and adopt rigorous client identification procedures and appropriate anti-money laundering procedures. In addition, there are other statutory reporting obligations for auditors under legislation such as the Companies Act 2014, the Criminal Justice (Theft and Fraud Offences) Act 2001 and the Taxes Consolidation Act 1997.”

“A13. Certain other laws and regulations may need particular attention by the auditor because they have a fundamental effect on the operations of the entity (as described in paragraph 6(b)). Non-compliance with laws and regulations that have a fundamental effect on the operations of the entity may cause the entity to cease operations, or call into question the entity’s continuance as a going concern.¹ For example, non-compliance with the requirements of the entity’s license or other entitlement to perform its operations could have such an impact (examples, for a bank, non-compliance with capital or investment requirements **or ransom payments following a successful or attempted cyber-security incident at the audit client entity**).^{12a} There are also many laws and regulations relating principally to the operating aspects of the entity that typically do not affect the financial statements and are not captured by the entity’s information systems relevant to financial reporting.”

4. Conclusion

IAASA has noted the points raised in the responses to its consultation paper and where indicated in the table above has made amendments to its Revised ISA (Ireland) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements. The revised ISA (Ireland) 250 Section A (effective for audits of financial statements for periods commencing on or after 15 December 2017) will be published on IAASA’s website when finalised. IAASA thanks respondents to this consultation for their valuable input and welcomes stakeholders continued engagement.

¹ See ISA (Ireland) 570, *Going Concern*.