

November 2017

Feedback Statement and Impact Assessment

Revisions to: Money Laundering – Guidance for UK Auditors on UK Legislation (formerly Practice Note 12), now incorporated as an Appendix to ISA (UK) 250 (Revised December 2017) Section A—Consideration of Laws and Regulations in an Audit of Financial Statements

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FEEDBACK STATEMENT AND IMPACT ASSESSMENT

Introduction

The FRC is committed to acting as a proportionate and principles-based regulator, and balances the need to minimise the impact of regulatory requirements on business, while working to support the delivery of high-quality audit and assurance work, to maintain investor and wider stakeholder confidence in audit.

In 2017, the FRC commenced a project to consider revisions to Practice Note 12: Money Laundering – Guidance for Auditors on UK Legislation, which was last updated in 2010. The main driver for revising this material is continuing developments in regulation and guidance primarily as a result of the 4th EU Anti-Money Laundering Directive, and changes to UK legislation and regulation contained in the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. We have added, where appropriate, references to the Bribery Act 2010 and the Criminal Finances Act 2017.

How we revised the guidance material

We have revised the existing material (previously included in Practice Note 12) and included it as an Appendix to ISA (UK) 250 (Revised December 2017) *Section A—Consideration of Laws and Regulations in an Audit of Financial Statements*, after consulting with HM Treasury, HM Revenue and Customs and the National Crime Agency. We worked closely with staff from the Consultative Committee of Accountancy Bodies (CCAB) who have updated the CCAB's anti-money laundering guidance. The CCAB revised guidance, which is subject to approval by HM Treasury, contains a number of worked examples and more detailed supporting material, which we have cross-referenced this Appendix to. The intention is that auditors have available within the Standard high level, principles-based guidance, which is supported by the more detailed material in the CCAB revised guidance. So as to future proof the standard we have: removed detailed legislative references and replaced them with links to the relevant legislative material; provided links to NCA and CCAB material providing additional guidance; and removed detailed examples to reflect the fact that standards are principles-based and do not contain exhaustive examples.

Our aim in revising this material was to better link the requirements on auditors set by UK legislation with the audit itself, and to take advantage of new material in ISA (UK) 250 (Revised July 2017) which specifically refers to money laundering, terrorist financing and proceeds of crime laws and regulations. We believe that this will better integrate a strong understanding of money laundering related legislative issues within the auditor's consideration of laws and regulations in an audit of financial statements. As we have proposed incorporating the material as an Appendix to a standard, we have written this material so that it aligns with the ISAs (UK).

Responses to the Consultation

We received 6 responses – 3 from Professional Bodies (PB), 2 from Audit Firms (AF) and 1 from a member of the public. In the rest of this Feedback Statement we set out a summary of the responses received to each question, along with the FRC's proposed response.

Comments from Respondents and FRC Responses

Q1 Overall do you agree with the proposed revisions to the guidance on UK anti-money laundering legislation? If not, please explain why.

Comments from Respondents

There was broad support for the FRC's proposals to revise the guidance. However, as set out in more detail in the responses to Question 2, a number of the respondents asked the FRC to consider reinstating some of the more detailed guidance material which formerly sat within Practice Note 12.

One audit firm respondent raised a question about the status of the material, and what that meant with the new guidance being included as an Appendix to the ISA (UK).

One Professional Body drew attention to HM Treasury's desire for there to be a single guidance document for auditors, and made suggestions that the FRC could further streamline the material to be included in the Appendix.

FRC Response

The FRC intends the revised material to provide auditors with high level, principles-based guidance, consistent with other material set out in ISAs (UK). The FRC worked closely with the CCAB and agreed that the CCAB revised guidance should provide worked examples and more detailed guidance to support practitioners. In order to make this clear, we have added text specifically setting this out in the Appendix, so that the materials are used in conjunction with one another.

With regards to the question of the status of the new material, ISA (UK) 200 (Revised June 2016) paragraph 19 states that:

"The auditor shall have an understanding of the entire text of an ISA (UK), including its application and other explanatory material, to understand its objectives and to apply its requirements properly."

This is supported by application material in paragraphs A58-A66. Paragraph A60 in particular states:

"Appendices form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related ISA (UK) or within the title and introduction of the appendix itself."

Given that the requirements on auditors in respect of Money Laundering stem from UK and EU Law rather than the ISAs (UK), the FRC does not consider that including the material as an Appendix to a standard places additional obligations on auditors.

With regards to the comment made by one Professional Body, the FRC considers it necessary to retain a framework within the ISAs (UK), and that it would not be appropriate at this stage to streamline the material further.

Q2 Is the included guidance appropriate? If you believe it should be amended, please explain why and how.

Comments from Respondents

Most of the comments received were broadly supportive and agreed that the guidance was appropriate, although some requested that we add clearer signposting to show that the material in the ISA (UK) Appendix should be considered in conjunction with the CCAB revised guidance which contains additional more detailed application material.

One Professional Body asked for explanation to be provided in the Appendix as to how the requirements apply in respect of public sector bodies (where they are not audits carried out under the Companies Act), and charities that are not companies.

FRC Response

The FRC has incorporated suggestions from respondents to address the comments received, notwithstanding that most of them relate to making a clearer and more explicit link with the CCAB's guidance.

To address the issues relating to public sector entities and charities that are not companies, we have made clear what is defined within the regulated sector, and how the revised guidance also refers to audits carried out under the Local Audit and Accountability Act 2014. However, we are aware that in the public sector, the requirements are applied by analogy as best practice, or are required under other regulatory authority. Where this is the case, we are unable to make reference in the Appendix. We will, however, look to see if we can provide reference in Practice Note 11 to make clear responsibilities in respect of charities that are not companies.¹

Q3 Has any extant guidance been deleted from the Practice Note that you believe should be retained? If yes, please explain why it should be retained and whether, and if so how, it should be updated.

Comments from Respondents

A number of the respondents asked for the practical examples from Practice Note 12, and the application material from Appendix 1 to that Practice Note to be reinstated within the Appendix.

FRC Response

This material is now largely included within the CCAB revised guidance, which is more explicitly referred to in the Appendix to flag to auditors where they can access relevant guidance outside of the Appendix to the Standard.

¹ See paragraphs 56-58 of Practice Note 11 *The audit of charities in the United Kingdom* (Revised November 2017)

Q4 Are there any other matters in relation to an auditor's obligations under money laundering, terrorist financing and proceeds of crime legislation which should be included in this guidance material and, if so, what do you believe this should address?

Comments from Respondents

One respondent helpfully suggested expanding the referencing in the material to cover other UK legislation, including the Criminal Finances Act 2017 and the Terrorism Act 2000 (As Amended), and others made suggestions to improve the drafting of the Appendix.

FRC Response

We have amended the drafting to reflect comments received from respondents.

Impact Assessment

1. The obligations on auditors are contained in EU and UK legislation. The material that the FRC has developed does not set new obligations or requirements on auditors; rather it provides details of legislative requirements in a single place, and seeks to better link those requirements to the way in which an audit is conducted. Although the FRC has completed an impact assessment for the proposed revisions to the material in the attached exposure draft, we have not identified any additional costs resulting from decisions taken by the FRC.

**Financial Reporting Council
December 2017**

Respondents to the Consultation

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