



4 September 2015

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Dear Ms Jackson

**Association of Accounting Technician response to the FRC Invitation to Comment on the IAASB Exposure Draft on Proposed Amendments to the IAASB's International Standards – Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations**

The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the exposure draft, released on 3 August 2015.

AAT is submitting this response on behalf of our membership and from a wider public benefit perspective.

AAT has added comment in order to add value or highlight aspects that need to be considered further.

AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities in implementing the measures outlined.

Furthermore, AAT's comments reflect the potential impact that the proposed changes would have on SMEs and micro-entities, many of which employ AAT members or would be represented by our operationally skilled licensed and regulated members in practice.

AAT is not offering comments on the detailed proposals set out in the IAASB Exposure Draft but wishes to draw attention to some general principles in the following response.

As the FRC must be seen to be providing the highest ethical standards within the UK audit and assurance profession, AAT fully supports the objective that it is in the public interest that the IAASB International Standards and the IESBA Code should "operate in concert" and that the enhancements proposed for the IESBA Code should not be contradicted or undermined by IAASB International Standards.

As the IESBA Code applies to all professional accountants it must be proper for auditors to comply with the Code as a sub-set of professional accountants. Therefore, it is necessary to avoid actual or perceived inconsistencies. However, even with the amendments proposed by the IAASB Exposure Draft with a number of separate documents seeking to project the same requirements, perceived inconsistencies can arise unintentionally and may not be identified until the Code is put into practice.

The impact of possible inconsistencies could be minimised if IAASB considered it appropriate to openly adopt the IESBA Code in its entirety and, particularly with reference to ISA 240 and ISA 250, to state that in any instances of possible conflict with the IESBA Code, the provisions within the Code will take precedence.

The practice of high ethical standards by professional accountants (including auditors) is dependent upon an attitude of mind and is therefore difficult to fully codify. Similarly corruption is reflected by an attitude of mind and while the extremes of the spectrum of ethical practices are easy to identify it is the grey area in the middle which gives rise to problems in practice and proves difficult to codify.

While the relevant IAASB ISA's and the IESBA Code purport to set standards or codes for the practice of ethical standards, they are actually only able to provide guidance within this middle ground of possible non-compliance with laws and regulations. For example the proposal by IAASB to replace the term "responsibility" with "legal or ethical duty or right" still leaves some uncertainty as to the definition of "ethical duty" when considering matters falling within the middle of the ethical spectrum. However, in order to maintain public confidence in the accountancy profession it is necessary to encourage bias toward the promotion of high ethical conduct in providing that guidance.

As previously stated, ethical standards are reflected by an attitude of mind so that the proposed new guidance relating to paragraphs A12a, A17 and A18a of ISA 250 relating to the integrity of management where non-compliance with laws and regulations arise must be an important feature in planning appropriate audit work even though non-compliance does not have a direct material effect on the financial statements.

The proposed new guidance in respect of changes in audit appointments and money laundering legislation is also welcome.

As non-compliance with laws and regulations frequently has significant financial consequences for the reporting entity concerned it would seem to AAT that it would be appropriate for the IAASB to consider issuing guidance covering the possible impact on reporting to stakeholders by the auditor in the absence of provisions within financial statements for liabilities, such as potential penalties or damages where the reporting entity has not acknowledged the existence of non-compliance with laws and regulations.

### **About AAT**

AAT is a professional accountancy body with over 49,300 full and fellow members<sup>1</sup> and 76,400 student and affiliate members worldwide. Of the full and fellow members, there are over 4,100 members in practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.

AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

Thank you for the opportunity to respond to the FRC Invitation to Comment on the IAASB Exposure Draft on Proposed Amendments to the IAASB's International Standards – Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations

### **Further information**

If you have any questions or would like to discuss any of the points in more detail then please contact Aleem Islan, Technical Manager, at [consultation@aat.org.uk](mailto:consultation@aat.org.uk) or Brian Palmer, Tax Policy Adviser, at [aat@palmerco.co.uk](mailto:aat@palmerco.co.uk)

Yours sincerely



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<sup>1</sup> Figures correct as at 30 June 2015