



PROPOSED REVISIONS TO UK AUDITOR REPORTING STANDARDS

Issued 16 January 2026

ICAEW welcomes the opportunity to comment on proposed revisions to UK Auditor Reporting standards published by the Financial Reporting Council (FRC) on 1 October 2025, a copy of which is available from this [link](#).

For questions on this response, please contact the ICAEW Audit and Assurance Faculty at tdaf@icaew.com quoting REP 03/26.

This response of 16 January 2026 has been prepared by the ICAEW Audit and Assurance Faculty. Recognised internationally as a leading authority and source of expertise on audit and assurance issues, the faculty is responsible for audit and assurance submissions on behalf of ICAEW. The faculty has around 30,000 members drawn from practising firms and organisations of all sizes in the private and public sectors.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 172,000 chartered accountant members in over 150 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
T +44 (0)1908 248 250 F +44 (0)20 7920 0547 icaew.com

The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

KEY POINTS

1. We welcome the opportunity to comment on these proposed revisions and the FRC's focus on enhancing UK auditor's reports. Over the years audit firms have sought to make auditor reporting useful to investors. This has included pioneering 'graduated findings', providing summaries in reports for clarity, and clarifying the audit approach in relation to controls.

TRANSPARENCY

2. We fully support the FRC's objectives in proposing these revisions, which are to improve the quality and quantity of decision-useful information for auditor's report users and to simplify and declutter the report. Stakeholders broadly agree that current Key Audit Matter (KAM) reporting practices could benefit from further development. Proposed additional material in ISA (UK) 701 emphasising that auditors should consider the relevance and significance of information reported in KAMs is therefore helpful.
3. We also agree with the proposed extension of the requirement for auditors to include key observations in their KAMs beyond public interest entity (PIE) audits. If articulated well, key observations can draw attention to audit outcomes, which stakeholders have been calling for. However, increased transparency is not cost-free. Auditors, investors, and other business representatives are clear that changes to the nature and extent of information disclosed publicly, however valuable this might be, will entail additional cost.

DECLUTTERING

4. We support the FRC's attempts to 'discourage the use of boilerplate disclosures', and we encourage it to go further. While we support the removal of the requirement for reporting on irregularities including fraud for some entities, we encourage the FRC to seek to remove it for all entities. Paras. 60 – 62 of proposed ISA (UK) 240 already provide for any fraud matters requiring significant auditor attention to be addressed through KAMs. Please refer to our response on proposed revisions to ISAs (UK) 240 and 570 for further comments.

COST TO BUSINESSES AND AUDITORS

5. When consulting on new proposals, the FRC has repeatedly asserted in recent years that improvements to audit quality and auditor reporting come with limited extra cost to auditors. The costs of FRC proposals to businesses are rarely, if ever, mentioned. ICAEW and many other respondents have repeatedly challenged these assertions. For instance, reporting publicly on significant qualitative aspects of accounting practices, as presented to the audit committee, in practice involves increased board and audit committee time to agree and conclude on issues (See Appendix 1).
6. In the absence of an explicit higher threshold applying to matters reported publicly, the use of identical wording in ISA (UK) 260 (para. 16(a)) and proposed ISA (UK) 701 (para. 13-1) in relation to reporting significant qualitative aspects of accounting practices implies that, where it relates to a KAM, public and private reporting would be identical. The FRC needs to consider the substantial cost implications of the same information being reported both privately and publicly. For the auditor, for instance, such matters will require stringent

© ICAEW 2026

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact: Audit and Assurance – tdaf@icaew.com

review by senior members of the audit team, consultation with risk management departments and potentially legal advice from internal or external lawyers.

7. In line with the FRC's Draft Annual Plan and Budget for 2026 ([Draft Annual Plan and Budget 2026-27](#)), the FRC should consider how to support smaller firms who may face these issues less frequently than larger firms, creating barriers to entry. This could, for instance, be through its Sandbox and Scalebox initiatives. Additionally, to minimise unnecessary cost, the FRC should seek to illustrate when qualitative views add value and importantly, when they do not. We do not expect the FRC to quantify the benefits, but we do expect the FRC to be able to illustrate them with examples to enable useful, proportionate, and consistent approaches to reporting. A Sandbox initiative and a grace period to achieve this would enable firms to refine their reporting practices without fear of regulatory censure. It would also enable the FRC to refine their regulatory approach, rather than simply waiting to see what the firms do.
8. Achieving consistency is time-consuming and expensive but it is essential for meaningful market comparisons. The FRC asserts that while the benefits cannot be quantified, they outweigh the costs which are limited. We do not disagree that the benefits are likely to outweigh the costs, but we strongly disagree with the assertion that such costs are 'limited', or that they are limited to auditors. Management and those charged with governance will need to consider additional matters being reported publicly and privately by their auditors. This comes at a time when audit costs are a particularly sensitive issue for companies, as illustrated in the 2024 [QCA publication](#). Enhanced audit quality and improved auditor's reports are not free.

MANAGING EXPECTATIONS: INTERNAL CONTROLS REPORTING

9. We support the introduction of requirements for auditors to report on how an entity's internal controls have influenced the audit approach. While it is inevitable that some users, and the management of some entities, will misunderstand the work performed, regardless of how it is described, managing expectations will be critical for the FRC and audit firms. There are already misconceptions about the interaction between the entity's controls and the audit approach. This is likely to be exacerbated once the Provision 29 declaration of the UK Code comes into force.
10. Caveats and additional context will be necessary in auditor's reports to avoid widening the existing expectation gap regarding auditors' responsibilities for controls. Situations where a substantive audit approach is considered more efficient than a controls-based approach, in particular, may require further explanation to help address misconceptions. The FRC should not discourage the use of caveats through the inspection regime. Furthermore, assuming that the FRC is not inclined to provide example wording in this area, it must also accept that in the short to medium term, there may be significant differences in what is reported both within and across firms, reflecting differences of substance and differences in reporting styles. Further consideration should also be given on how technological advancements impact audit scoping. A clear shift towards more data-driven audits is underway, with such audits often being faster and more cost-effective, and this calls into question the ongoing relevance of the traditional control versus substantive audit distinction.
11. We recognise the public interest in enhancing transparency through reporting in this area, and we do not oppose the idea of discussing controls issues in the auditor's report when they meet the definition of or inform a KAM. However, we do not support the introduction of additional requirements to report highly material significant deficiencies in internal controls in the auditor's report. This is not because the proposals are redundant, but because they currently lack clarity and a coherent objective. The FRC should consider the following:

- a) **Inconsistency in reporting in the absence of a robust internal controls framework against which auditors or management report:** If the objective is to communicate significant control issues to the market, a fundamental challenge arises. The identification and reporting of these issues will vary

depending on both the audit methodology applied and, if a significant deficiency is identified, the auditor's determination of whether the issue is 'highly material.' Inconsistencies in the information released to the market are likely to follow.

b) Ambiguities relating to:

- the definition of 'significant deficiency' when applied to public (versus private) reporting;
- the distinction between the terms 'material' and 'highly material' in proposed ISA (UK) 701; and
- the interaction of terms 'material' and 'highly material' in proposed ISA (UK) 701 with the term 'material controls' in the UK Corporate Governance Code (UK Code).

c) The interaction between any changes to auditor reporting on internal controls and Provision 29 of the UK Code: This will require clarification from the FRC, and an update to the 2006 and 2009 FRC Bulletins relating to the UK Corporate Governance Code. Without this, multiple, overlapping and complex caveated explanations in the auditor's report about the work performed are likely, as auditors strive to explain their duties and avoid the misunderstanding that they are providing some form of assurance over management's statement. It also seems likely that management and auditors will develop different materiality criteria and thresholds, requiring further significant time and cost on both sides to resolve.

12. Auditors do not provide assurance on controls, but it is inevitable that some users will believe auditors have provided assurance, and that reported deficiencies are the only deficiencies that exist, regardless of explanations to the contrary. We understand that the FRC is not proposing to make assurance on controls mandatory, and that to do so would involve significant changes to the nature of an audit and require significant consultation and new auditing standards. However, reporting on significant deficiencies in the absence of a reporting framework will lead to confusion and comparisons with the Sarbanes-Oxley (SOX) regime in the US, regardless of the FRC's intentions.
13. Above all, the FRC should clarify its aims in this area. Significant deficiencies may already either inform KAMs, meet the definition of KAMs in their own right, or be key observations on KAMs. Stakeholders need a fuller picture of what the FRC is hoping that a new requirement of this nature will achieve. If the auditor identifies issues with the material controls declaration under Provision 29, they already have the mechanism to report this by exception under ISA (UK) 720. If proposals to report on the impact of controls on the audit approach go ahead, they provide another opportunity for auditors to report on control issues.
14. Some stakeholders believe that the FRC's proposals for the reporting of significant deficiencies cannot be operationalised in the absence of a full controls reporting framework and a separate assurance engagement. They believe that the proposals are fatally flawed in this respect and that to extend reporting this way without establishing proper frameworks is to fundamentally alter the nature of the audit without appropriate support for either companies or auditors. The FRC is not proposing an integrated audit but it seems to some that the FRC is trying to achieve the benefits of this without the cost.
15. Other stakeholders are sceptical about the value of these proposals, simply because of the scope for misunderstandings about the overlapping nature and extent of auditors' work on controls, and the concurrent introduction of the Provision 29 declaration of the UK Code. Both bring auditors, audited entities and those who read auditor's reports into uncharted territory.
16. On balance, we recommend that the additional requirement to report significant deficiencies, beyond those already reported through KAMs, be put on hold, at least until the reporting provisions of Provision 29 of the UK Code have had time to bed in. If the FRC proceeds with these proposals, it is critical that the definitions referred to in point 11

are rationalised and made clearer. Reporting practices among dual-listed entities may default to the US standard for reporting a material weakness, raising the bar for other entities, and leading to further concerns about the FRC introducing SOX reporting by the back door.

17. The FRC needs to develop high-level criteria for reporting together with illustrative examples highlighting the differences between the terms to reduce the level of inconsistency in application arising from different methodologies and interpretation. ICAEW stands ready to help the FRC achieve its objectives in this area.
18. We support the inclusion of material in A36-9 of the proposed ISA (UK) 720 clarifying the distinction between directors' responsibilities in the UK Code, and auditors' responsibilities. We encourage the FRC to publicise this distinction further to help prevent misunderstandings. Given the Provision 29 declaration, the FRC should do this regardless of whether the proposals proceed.

SIMPLIFYING AND DECLUTTERING THE AUDITOR'S REPORT

Question 1: do you support the measures proposed by the FRC to simplify and declutter the auditor's report?

Reporting By Exception

19. We support the removal of these boilerplate disclosures from the auditor's report. In practice, these statements do not provide additional assurance to stakeholders, and feedback indicates that users only value disclosures when they contain substantive entity-specific information.

Irregularities Including Fraud

20. Where there is a substantive risk of irregularities (including fraud) leading to material misstatement that meets the definition of a KAM, this should be clearly communicated in the auditor's report and focus on the specific risks identified. We heard repeatedly, during our outreach in preparing this response, that there should only be a KAM if there is genuinely something entity-specific to report. The mechanism for reporting this way has existed for many years under ISA (UK) 701. We understand that the introduction of a separate section in the report in which PIE auditors outline the extent to which the audit was capable of detecting irregularities, including fraud, was driven by an EU Audit Regulation. The purpose of the FRC's extension of this section to all audits from December 2019 has never been clear.
21. In any case, the Regulation has been interpreted differently across jurisdictions. In some, it is regarded as part of standard auditor responsibilities and is not disclosed separately. The intent may not have been to mandate specific disclosures in the auditor's report, especially as KAMs are intended to capture significant issues, including those relating to fraud.
22. While we therefore support the requirement's proposed removal for entities which are neither PIEs nor listed entities, the FRC should seek to remove it for *all* entities, regardless of size or PIE status. In practice, this separate section of the auditor's report – primarily outlining audit procedures and often information that is relevant to virtually all audits – does not enhance the usefulness of the report for entities of any kind and has simply added clutter. This is despite para. A59-6 of proposed ISA (UK) 701 suggesting that auditors 'avoid the inclusion of generic procedures that the auditor would expect to perform in any case'. The new requirement under proposed ISA (UK) 240 for auditors to determine matters communicated with those charged with governance related to fraud to be included as KAMs provides a more meaningful means by which irregularities (including fraud) can be conveyed to auditor's report users.
23. If the FRC decides to retain the requirement for PIEs and listed entities, it should consider providing further details of the auditor's responsibilities in relation to fraud on their webpage to which auditor's reports might be linked in order to reduce clutter further.

ENHANCING THE COMMUNICATIVE VALUE OF THE AUDITOR'S REPORT

Question 2: Do you believe that the proposed changes to key audit matters will improve the communicative value of the auditor's report to users?

24. Improving the quality and quantity of decision-useful information for users of audited financial statements, including investors, suppliers, employees and others, is a worthy objective. We agree that it can contribute to economic growth. The reporting of KAMs is an area in which targeted improvements could have value for users.
25. We agree with the proposed overarching requirement for relevant information to be communicated in the auditor's report (Proposed ISA (UK) 701 (para. 8-1)). It makes sense to emphasise a tailored approach and for auditors to report relevant and significant KAMs. Communicating relevant information, however, should not entail further procedures or additional work on the part of the auditor. Auditor reporting should not

change the audit work performed and the FRC should make this clear.

26. We also broadly support the proposal to extend the requirement for auditors to include key observations in KAMs (Proposed ISA (UK) 701 (para. 13-1)) beyond PIE audits, and support the more detailed application material detailing what the auditor should consider when reporting such observations.
27. Proposed expanded guidance aiding the description of why the auditor considered a KAM to be one of most significance (Proposed ISA (UK) 701 (para. A45-1)) will also be a useful tool for reporting auditors.

Saying the additional costs are ‘limited’ does not make them so

28. We do not agree that the FRC’s proposed revisions will result in ‘no additional cost’ ([Enhancing Auditor’s Reports](#) para. 36) or auditor work effort. While we support the extension of key observation reporting beyond PIE audits, we do not understand the rationale for the FRC’s assertion that this ‘will avoid the costs associated with differential requirements between the different types of entity’. The savings this will generate according to the FRC will be outweighed by the increased cost of reporting on a greater number of entities. Nevertheless, if increased costs result in better quality information in the auditor’s report, such costs are warranted.
29. In gathering views for our response to this consultation, we consulted with representatives of auditor’s report user groups. The consensus was that there will always be additional costs and work effort for both audit firms and businesses when there are changes to the information disclosed in the public domain. The more important question is whether increased audit costs for businesses and auditors result in better audit outcomes. Investor feedback has indicated that the costs of these revisions – to businesses, at least – do not outweigh the benefits.
30. In recent years, the FRC has been at pains to stress that any proposed revisions will result in no or minimal additional cost or burden to businesses and auditors, implying that enhancements to audit quality and investor protection are somehow cost-free. We understand the pressure to avoid appearing to add to business costs as a regulator, but the constant reiteration of this message lacks credibility. We urge the FRC to acknowledge that the more meaningful and useful the key observations are to the user of the accounts the more it will require additional layers of senior review time and potentially legal advice for both businesses and auditors.
31. A significant example of a proposal that will inevitably lead to increased costs – for businesses as well as auditors – is the proposed requirement to communicate views on significant qualitative aspects of accounting practices etc. (ISA (UK) 701 (para. 13-1)). The FRC may believe that auditors already incur the costs of reporting such qualitative aspects to the audit committee but including them in the public auditor’s report is a different matter. Increased review and quality costs, along with more senior audit and management discussion time are inevitable. The FRC should consider how to support smaller firms who may face these issues less frequently than larger firms in meeting these requirements, otherwise this could potentially create a barrier to entry. This includes inclusion as part of the Scalebox initiatives as well as updating the auditor’s report Bulletins. ICAEW stand ready to help with this.

Driving change

32. The FRC’s aim of improving the quality of decision-useful information may be undermined if the requirement to publicly comment on an entity’s accounting practices, where it relates to a KAM, leads to reporting that obscures genuinely significant issues. There is a real risk that this could result in excessive disclosure rather than proportionate reporting given the wording included in para. 13-1 of proposed ISA (UK) 701 which repeats wording in ISA (UK) 260 (para. 16(a)). In practice, more detailed information will be conveyed privately to the audit committee, and the FRC should make it clear that

public and private reporting are not intended to be equivalent in terms of the extent of information provided. This could be achieved by including the words ‘determine which, if any’ within proposed para. 13-1 of ISA (UK) 701. Auditors should be able to exercise professional judgement in this respect. To support consistent reporting and fulfil its role as an improvement regulator, the FRC must clarify expectations concerning the threshold for public reporting.

33. As a minimum, the FRC should provide practical examples of information suitable for communication to the audit committee but not for inclusion in the public auditor’s report, as well as examples appropriate for both. If not, it seems likely that risk management will dictate the inclusion of a high volume of potentially bland observations to avoid the risk of regulatory censure. The FRC is trying to reduce the level of boilerplate in auditor’s reports. Doing so effectively requires more than discouraging the use of ‘standardised phrases and terminology’ (Proposed ISA (UK) 701 para. 8-1(c)). Avoiding boilerplate is not achieved by finessing the wording of auditing standards. It is achieved by a complex set of behavioural dynamics involving auditors, the companies engaging them, the regulators inspecting them, and investors. To counteract the safe, default position of standardised language, FRC inspectors will need to curb a tendency to always ask for more.
34. We recommend that the FRC allows a period of grace during which firms can experiment with ‘what good looks like’ in this regard (perhaps via a Sandbox). The FRC could then follow up with a thematic, demonstrating examples of good and bad practice.

Question 3: Do you consider that the inclusion of requirements to describe the impact of the entity’s controls on the audit in the auditor’s report, and the level of work required by the auditor as a result, will provide users with useful further insights?

35. Addressing the auditor’s approach to internal controls within the auditor’s report is important to reduce misunderstandings. There remains considerable confusion about the scope of auditors’ responsibilities with respect to internal controls. Users frequently do not appreciate that the standards and requirements for directors differ to those of auditors. The absence of auditor commentary on controls has historically led to assumptions by users that controls are adequate, where that was not necessarily the case.
36. We therefore support the introduction of requirements to articulate how the entity’s controls have influenced the audit approach, recognising that such disclosures can enhance users’ understanding of the audit approach and procedures undertaken.
37. Many firms are already increasing transparency in this area, but there is more that can be done to address the expectations gap. In particular, stakeholders need to understand that:
 - The decision not to take a controls-based approach may arise for very different reasons – because controls are poor, or because it is simply more efficient to take a substantive approach, especially where powerful analytical tools are available.
 - Not all controls are tested where a controls-based approach is taken.
 - A certain level of work on internal controls is required for all audits, regardless of the approach taken.
 - The gap between financial statement materiality and performance materiality is not necessarily an indicator of control effectiveness.
38. Stakeholders need to understand that the fundamentals outlined in point 37 apply to all audits if entity-specific controls disclosures by auditors in the auditor’s report are to make any sense. It therefore seems likely that some firms will have extensive disclosures in this area, many of them effectively being caveats, some of which will be boilerplate. This is the price of meaningful transparency. Incomplete information regarding the approach taken to controls, and partial explanations are not in anyone’s interests.
39. The need for users to better understand the distinction between substantive and controls-based audit approaches is compounded by the requirements of Provision 29 of the UK Code, which have just come into effect. Explanations of why Provision 29 led directors to assert that adequate material controls are in place while the auditors choose to take a substantive

approach may be needed, as will the fact that internal controls covered by Provision 29 are broader than those typically in scope for the auditor. Auditors may need to clearly articulate the fact that they do not provide any additional assurance on the material controls declaration, and extensive caveats are likely.

40. The current proposals fail to acknowledge the advancements in data-driven auditing, including the influence of AI and other analytical technologies on audit work. The traditional belief that substantive testing is only used when controls reliance is not feasible is outdated, and often substantive testing proves to be the most effective method, even in organisations with robust internal controls. Technological innovations now allow greater coverage of (sampling) populations and provide faster, more cost-effective solutions. As a result, controls-based audits risk becoming obsolete, casting some doubt on the proposal's ongoing relevance, as it is currently worded.

FRC Bulletins

41. The FRC should update the 2006 and 2009 Bulletins relating to the UK Corporate Governance Code. Without these updated Bulletins, the quality and consistency of fulfilling responsibilities under the Code may be adversely affected. ICAEW stands ready to assist the FRC in this undertaking.

Question 4: Do you support the proposed approach to requiring auditors to identify and report any significant deficiencies in internal controls that merit communication within the auditor's report? Is it appropriate to scope the requirements to discuss the impact of the entity's controls on the audit and to communicate highly material significant deficiencies in internal controls solely to entities that apply the UK Corporate Governance Code?

42. We recognise the public interest in reporting in this area and the FRC's desire to improve transparency in auditor reporting. However, on balance, we do not support the introduction of an additional requirement to consider reporting highly material significant deficiencies in internal controls. We do not oppose the discussion of controls in the auditor's report, where they either inform or constitute KAMs, but we disagree with reporting highly material significant deficiencies. This is not because the proposals are redundant, but because they lack clarity and a coherent objective. As they stand, the proposals risk inconsistency in reporting for several reasons, including confusion with the interaction with Provision 29 of the UK Code and ambiguity in the definitions. As a minimum, we believe that reporting highly material significant deficiencies should be put on hold, at least until the reporting provisions of Provision 29 of the UK Code have had time to bed in.

Inconsistency in reporting

43. The inclusion of these requirements requires a framework against which management can report and a separate controls assurance engagement. Some stakeholders believe that the proposals are fatally flawed and that to extend reporting this way without a proper reporting framework in place and a separate assurance engagement is to fundamentally alter the nature of the audit without appropriate support.
44. In their present form, the proposals will result in inconsistent application arising from variations in auditor methodology and interpretation. This will undermine comparability and create confusion for users who will assume a level of consistency that cannot be achieved. Users are unlikely to understand that different fact patterns and audit approaches may lead to different reporting on the same facts. The absence of a significant deficiency reported on one entity and its inclusion in relation to another could imply that one is less well-controlled, where it may simply reflect different audit approaches.
45. Some users will assume that significant deficiencies reported by the auditor represent the only deficiencies identified or all that exist within the entity. The absence of reporting a significant deficiency could imply that the auditor has assured all material controls.
46. Partial reporting on internal controls may therefore leave users with an incomplete

understanding, generating dissatisfaction and resulting in a diluted approach reminiscent of certain aspects of SOX, but without its underlying rigour. This raises a fundamental question about whether there is a demonstrable need or genuine demand for this type of reporting in the UK. The FRC is not proposing an integrated audit but appears to some to be trying to achieve its benefits without the cost.

47. We are aware that, for high-risk entities, and where there is a significant public interest, some firms have publicly committed to engaging in limited reporting on internal controls. This is typically restricted to reporting on the control environment. The FRC may wish to consider this if it does proceed with these proposals after Provision 29 has had time to bed in.

Interaction with Provision 29 of the UK Corporate Governance Code

48. Stakeholders are sceptical about the value of these proposals, because of the scope for misunderstandings about the nature and extent of auditors' work on controls, and because of the concurrent introduction of the new Provision 29 requirements of the UK Code.
49. Further guidance and clarification are necessary regarding how these proposals will interact with Provision 29 in practice. Currently, limiting the reporting requirements to Code companies creates a direct link to Provision 29. There is confusion among investors regarding the auditor's responsibilities in relation to Provision 29, with some under the impression that auditors will be reporting on the material controls declaration. In any case, it is very likely that significant deficiencies identified by the auditor (or not identified) will impact user perception of the material controls declaration.
50. We welcome the addition of application material in the revised ISA (UK) 720 (A36-9) that seeks to clarify the distinction between the directors' responsibilities, as outlined in the UK Code, and those of the auditor. Nevertheless, we consider that further public explanations of the distinction between directors' and auditors' responsibilities in relation to controls, provided by the FRC, would help address persistent misunderstandings.

Ambiguity in definitions

51. If the FRC proceeds with these proposals, it is critical that the definitions are clear, and that they are rationalised. The distinction between 'highly material' in para. A59-13 of ISA (UK) 701 and normal materiality needs to be articulated along with the interaction of these terms with the concept of 'material controls' in the UK Code. The definition of 'significant deficiency' when applied to public (versus private) reporting also needs clearer articulation due to potential stakeholder confusion. Introducing a new a category of 'highly material' raises concerns that any significant deficiency reported privately, but not considered to be highly material, may be dismissed by management.

Objective of the proposals

52. We are unclear as to the FRC's aims in this area. There are already opportunities for auditors to report certain significant deficiencies in controls, for instance where they meet the definition of, constitute a key observation in relation to, or otherwise inform a KAM under ISA (UK) 701. It is uncertain what further disclosures or outcomes are being sought, beyond those already encompassed by existing requirements and reporting practices. It appears that any additional reporting would be on control deficiencies that do not meet the definition of a KAM or are not relevant to the discussion of a KAM which seems unlikely. It is critical for the FRC to be clear on this.
53. If the FRC's objective is to provide consistent information to the market about significant deficiencies in internal controls, we are not convinced that implementing an additional requirement within the auditing standards is the most appropriate approach. Differences in audit methodologies and auditor judgement will lead to inconsistent disclosures to the market. The FRC should carefully consider the implications of introducing further reporting requirements in this context, particularly in the absence of a comprehensive

assurance and reporting framework. If the intention is to create more avenues for auditors to communicate concerns, mechanisms such as KAMs can already cover certain control deficiency matters and further opportunities will arise through reporting on the influence of controls on audit procedures.

54. Finally, if auditors identify an inconsistency between the material controls declaration and their knowledge obtained during the audit, they already have the tools available to report this by exception under ISA (UK) 720.

Issues for dual filers

55. Dual-listed entities subject to SOX requirements are not ordinarily obliged to disclose significant deficiencies in their internal controls. Under the FRC's proposals, the auditor would be required to report these matters publicly if significant deficiencies were considered highly material. This introduces significant cross-jurisdictional challenges. It seems possible that auditors of dual filers may be influenced by the US standard reporting for consistency, thereby effectively establishing SOX as the baseline for disclosure thresholds across the board.

Question 5: Do you support the removal of the distinction between other information and statutory other information to ensure that the auditor's responsibilities under ISA (UK) 720 focus on other information that is of most relevance to a reader of the annual report?

56. On balance, we do not support the proposal to remove the distinction between other information and statutory other information in proposed ISA (UK) 720. The 'front half' of the annual report, containing both statutory and non-statutory other information, is evolving rapidly.
57. In our view, the information contained within 'Other information' as defined by ISA (UK) 720 is too broad. What is covered fluctuates and is subject to differing interpretations. These differences currently distinguish it from statutory other information and what front-end reporting looks like now may look quite different in even one year's time. Expectations regarding sustainability disclosures are evolving rapidly and the government has this year made clear its [intention](#) to reduce corporate reporting requirements for many companies.
58. ISA (UK) 720 should unambiguously state that any work carried out is within the scope of information obtained and procedures performed during the audit. This clarification, previously included by the FRC (para. 14-1), has been removed in relation to the preparation of information in line with legal and regulatory requirements. In its emailed Q&A following the Auditor reporting webinar on 11 November 2025, the FRC stated that 'the requirement to understand legal and regulatory requirements already exists and we would still expect auditors to have that understanding in order to determine whether other information is materially misstated in the context of consistency with the financial statements *and evidence obtained in the course of the statutory audit.*' We agree with this but the proposed standard does not say this.
59. Without this stipulation, auditors and future users of the auditing standards who were not aware of the FRC's intentions may interpret the requirements as meaning that they must perform significant additional work to gain an understanding of all the relevant requirements which might be relevant to other information as well as the entity's processes for preparing this information. We do not believe that this is the FRC's intention, not least because of their statement in the webinar Q&A that it is 'not proposing any changes to scope in this regard.' We encourage the FRC therefore to revisit this wording, as we, and others we have consulted, do not agree that 'specifying that the auditor's work effort is undertaken "in the course of the audit" is (...) redundant.'
60. A36-7 withdraws a reference limiting written confirmations to representations made in respect of other information to representations made *during the course of the audit*. If the FRC intends auditors to obtain written confirmations in relation to *all* representations made in respect of other information, regardless of whether it was during the course of the audit, significant additional work will be necessary. We do not believe that this was

the FRC's intention. If it was, we disagree, and believe that this important limitation should be retained.

Question 6: Do you support the FRC's proposed approach to ensuring that the ISAs (UK) remain aligned with the international standards following the changes made by the IAASB as part of their listed entity and PIE Track 1 project?

61. We support the ongoing alignment of the ISAs (UK) with international standards, as this ensures consistency and clarity for both auditors and stakeholders. Maintaining this alignment strengthens the quality and comparability of audit practices, and we encourage the FRC to continue to prioritise this approach as updates are considered.

Question 7: Would you support the FRC making the appropriate limited and technical changes to the ISAs (UK) arising from the IAASB's listed entity and PIE Track 2 Project without reverting to a full public consultation, as long as changes are explained through stakeholder outreach?

62. Regardless of administrative convenience for the FRC, the absence of a public consultation undermines confidence in the robustness of the standard-setting process, compromises transparency and accountability, and risks establishing a precedent that may be problematic for future amendments. History suggests that minor, technical changes for one stakeholder may not be for another - that is the whole purpose of consultation. In future, we would expect a separate public consultation or for the FRC to delay the consultation until the materials are ready.
63. On the basis that the PIE Track 2 changes have been publicly available and have been highlighted in this consultation, and given the nature of the changes, in this case we accept that there has been no additional consultation. This should not set a precedent. In general, all proposed changes should be subject to consultation.

Appendix 1 – Additional Cost Considerations

Firms and investor representatives we engaged with raised concerns regarding the increased costs associated with the proposals for business and auditors. They noted that the examples in the table below require substantial judgment, consultation with risk management and legal specialists, and benchmarking. The wording of auditor's reports will need careful crafting to manage expectations about the nature and extent of work performed and assurance provided.

Hidden costs required to ensure the requirements are applied consistently across the firm and engagements include additional training, changes to methodologies and systems and the development of illustrative examples.

Type of cost	Additional cost to audit firms	Requires engagement with and additional cost to business
Identifying and drafting key observations	Yes	Yes
Drafting the impact of controls on the audit, including explaining why a controls-based approach was not taken	Yes	Yes
Defining the meaning of 'highly material' for the purposes of communicating deficiencies in internal control and determining the application thereof in specific cases	Yes	No
Drafting significant deficiencies for the auditor's report	Yes	Yes
Determining where significant deficiencies appear in the auditor's report	Yes	No
Determining the appropriate course of action for auditor-identified significant deficiencies where these differ from entity-determined deficiencies.	Yes	Yes