



## PROPOSED REVISIONS TO ISA (UK) 250 AND ISA (UK) 270

Issued 21 May 2026

ICAEW welcomes the opportunity to comment on proposed revisions to ISA (UK) 250 and ISA (UK) 270 published by the Financial Reporting Council (FRC) on 26 March 2026, a copy of which is available from this [link](#).

We welcome the opportunity to comment on these proposals and appreciate the FRC's willingness to re-consult following stakeholder feedback.

With respect to ISA (UK) 250 (Revised):

- it remains unclear how feedback from the initial consultation has been reflected in the revised proposals.
- a significant concern remains that the *fundamental mischief* being addressed by the proposed standard has not been clearly articulated. In the absence of clear failings in audit practice, it is difficult to evaluate whether the scale of change is proportionate or targeted effectively.
- significant divergence from the equivalent international standards should be avoided, with neither the International Auditing and Assurance Standards Board (IAASB) nor the Public Company Accounting Oversight Board (PCAOB) revising their respective standards.
- the proposed withdrawal of the distinction between direct and indirect laws and regulations in relation to the auditor's responsibilities and expected work effort risks inconsistency, misinterpretation, and hindsight-based challenge by regulators.

We recommend that the FRC:

- re-instates the distinction between direct and indirect laws and regulations and considers ICAEW's alternative suggestions for achieving greater alignment between ISA (UK) 250 and ISA (UK) 315, which include undertaking a Sandbox initiative prior to any standard-setting.
- provides a clearer explanation of the specific auditor deficiencies identified that are driving the revisions.
- clarifies expectations regarding the auditor's use of specialist legal expertise.
- Communicates the responsibilities of management and those charged with governance (TCWG) more effectively, so that changes are driven through corporate governance rather than through back door changes for auditors.

We are broadly comfortable with proposed ISA (UK) 270, but recommend that further guidance is issued for:

- auditors considering whether disclosure of a matter is in the public interest.
- auditors of entities such as regulated financial institutions when communicating and reporting to an appropriate authority.

This response of 21 May 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 32,000 members working in both practice and in business, as well as in 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 210,000 members and students around the world. 98 of the top 100 global brands employ ICAEW Chartered Accountants. 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 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](mailto:tdaf@icaew.com)

## KEY POINTS

### FRC'S DECISION TO RE-CONSULT

1. We welcome the opportunity to comment on these proposals. This response reflects ICAEW's considered position, informed by input from members in both practice and business.
2. We appreciate the FRC's willingness to re-consult on ISA (UK) 250 following stakeholder feedback arising from its [initial proposals](#). This is a constructive step which has resulted in the proposals regarding ISA (UK) 270 being more workable. In particular, we note that the proposed requirement for the auditor to consider whether a matter is to be reported in the public interest, even in the absence of law, regulation or ethical requirements, has been dropped.
3. We are now broadly comfortable with proposed ISA (UK) 270, and agree that it appropriately modernises the material in extant ISA (UK) 250 *Section B*.
4. However, it remains unclear how feedback from the initial consultation has been reflected in the revised proposals regarding ISA (UK) 250. The high-level nature of the accompanying [Explainer page](#) does not provide stakeholders with sufficient transparency over how their very significant concerns have been addressed.
5. We would welcome the opportunity to work with the FRC, audit firms and businesses to better understand the concerns underlying these proposals and to support the development of solutions that are both effective and proportionate.

### PROPOSED ISA (UK) 250 (REVISED)

#### Clarity of rationale

6. We recognise the intention to align ISA (UK) 250 more closely with the risk-based approach in ISA (UK) 315 (Revised). However, if auditors are complying with the requirements of revised ISA (UK) 315, they should already be capable of identifying and assessing the risks of material misstatement arising from non-compliance with laws and regulations (NOCLAR) to the FRC's required standard. If auditor deficiencies from enforcement cases are directly related to how ISA (UK) 250 *Section A* is being read and applied, the FRC should identify what these deficiencies are, and explain how the proposals seek to rectify them.
7. A significant concern remains that the *fundamental mischief* being addressed by proposed ISA (UK) 250 has not been clearly articulated. In the absence of clear failings in audit practice, it is difficult to evaluate whether the scale of change is proportionate or targeted effectively. Given the references to enforcement cases, there is an implicit assumption that UK auditors are underperforming relative to their international peers when it comes to NOCLAR. However, the FRC has provided no evidence to support this, nor to demonstrate that the issues observed in UK cases are materially different in severity from those observed internationally.
8. The IAASB has not prioritised revisions in this area, nor has the PCAOB proceeded with its own proposed revisions to Auditing Standard (AS) 2405 *Illegal Acts by Clients*. Significant divergence from the equivalent international standards should be avoided unless deleterious to audit quality. The FRC has yet to demonstrate that this is the case for ISA (UK) 250. UK auditors following a considerably different standard in relation to NOCLAR has implications for audit consistency and efficiency, particularly for groups operating across jurisdictions.

## Direct vs indirect laws and regulations

9. A central and unresolved concern is the proposed withdrawal of the distinction between *direct* and *indirect* laws and regulations in relation to the auditor's responsibilities and expected work effort.
10. The removal of a clear distinction between these categories of laws and regulations risks inconsistency, misinterpretation, and hindsight-based challenge by regulators, without providing auditors with a workable framework for calibrating the level of work effort required. Regardless of the FRC's stated intentions, it creates an open-ended requirement for both auditors and entity management to identify and assess a demonstrably complete population of laws and regulations that may have a material effect on the financial statements. There is no clear stopping point for determining when sufficient work has been performed.
11. There is also a worrying lack of clarity about how the revised requirements would operate in practice, including:
  - how auditors should design procedures in response to identified risks.
  - how to respond where risks are identified in areas currently considered indirect, but no non-compliance is evident.
  - how sufficient appropriate audit evidence can be obtained where management's compliance processes and controls are immature or underdeveloped, and the implications should auditors be unable to obtain that evidence.
  - how to determine whether specialist expertise is 'appropriate'. This small amendment to the previous proposals was made in response to very significant concerns expressed about the need for specialist legal expertise on virtually all audits and is of little use as it stands.
12. While we recognise the FRC's intention to encourage a more risk-based approach which is more closely aligned with ISA (UK) 315, the current drafting of ISA (UK) 250 remains over-engineered and heavy-handed in the context of this objective, particularly with regards to work on controls which may not exist even in the largest of audits.
13. We note the FRC's [three-year strategy for 2025-2028](#) including its welcome emphasis on supporting UK economic growth. In this context, we are concerned that proposed revisions will lead to disproportionate increases in costs and complexity for auditors, businesses and the wider economy, without clear evidence of corresponding benefits. The associated costs (which include increased use of specialist legal expertise) would, in many instances, far exceed the FRC's own cost estimates with significant implications for audit fees, resourcing, competition, and audit market capacity.
14. This concern is reinforced by ICAEW's [Business Confidence Monitor](#) (published in April 2026), which consistently highlights that members view the cost, complexity and uncertainty of doing business in the UK as key challenges. Against this backdrop, the proposed revisions risk adding further layers of cost and complexity for audit firms, the entities they audit, and the wider business community, exacerbating existing pressures rather than alleviating them.
15. The minor refinements to the [2023 Exposure Draft](#), such as removing the objective in para. 11-1 (a) and introducing the concept of 'fundamental laws and regulations' have not resolved or appropriately alleviated the key problem with the proposals – the removal of the distinction between direct and indirect laws and regulations.
16. We urge the FRC to reconsider whether its objective to foster a more risk-based audit approach to NOCLAR could be achieved by other means that would be better understood by auditors, who are not convinced by the FRC's affirmations that good auditors are already doing a lot of what is being proposed.
17. Exploratory work with stakeholders, prior to standard-setting, for example through a Sandbox, would help the FRC better understand how firms are currently applying ISA (UK) 250 *Section A*

and ISA (UK) 315 in practice, and where genuine misinterpretations and inconsistencies may arise. This could then inform any additional guidance or standard-setting projects.

18. Subject to the findings from the Sandbox, ISA (UK) 250 could be strengthened to drive a more risk-based approach to the consideration of laws and regulations while retaining the distinction between the different categories of laws and regulations. For example:
- the description of indirect laws in extant paragraph 6 of ISA (UK) 250 *Section A* could be reworded to remove reference to them ‘not’ having a direct effect on the determination of amounts and disclosures in the financial statements. This may help to diminish the perception that other laws and regulations are highly unlikely to have a material impact on the financial statements.
  - more specific requirements could be included within extant paragraph 15 to help auditors better understand their responsibilities and the work effort required when performing audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. This could include a requirement for the auditor to gain an understanding of compliance matters that are related to the entity’s specific industry or sector.

### **Specialist skills, management responsibilities and governance**

19. We agree that clarifying the respective responsibilities of auditors, management and TCWG is important. However, in practice, many entities still lack robust systems to identify and manage compliance risks effectively. As a result, there is a risk that auditors will be expected to compensate for gaps in management processes in order to meet the proposed requirements.
20. If the FRC’s underlying concern is the adequacy of corporate compliance frameworks, we believe this would be better addressed through corporate governance mechanisms and director-focused guidance, rather than through back door changes to auditing standards.
21. We also note practical challenges for auditors in accessing appropriate legal expertise, particularly in cross-jurisdictional audits. Even where not intended, the proposals are likely to increase reliance on industry and legal specialists, creating additional cost and delay.

### **PROPOSED ISA (UK) 270 (REVISED)**

22. We note that certain entities, including regulated financial institutions, are no longer within the scope of proposed ISA (UK) 270. While we do not propose re-scoping these entities back into the standard, there remains a need for guidance in this area for such entities.

### **Recommendations**

#### **23. Proposed ISA (UK) 250:**

- **Re-instate the distinction between direct and indirect laws and regulations:** This distinction is essential to achieving a proportionate auditor approach to the consideration of NOCLAR. The FRC should consider whether a Sandbox or similar initiative might be an appropriate first step to understanding where any gaps in auditor understanding and application of the relevant standards are arising, prior to any standard-setting project. The suggestions in paragraph 18 above are also worth attention as they aim to direct the auditor’s attention to focus on laws and regulations that have a material effect on the financial statements, rather than those that do not, which we believe lies at the heart of the FRC’s concerns in this area.
- **Clarify the rationale for change:** Providing clearer explanation of the specific auditor deficiencies identified, including anonymised insight into the relevant enforcement cases, would be useful.
- **Clarify expectations regarding specialist legal expertise:** The FRC’s assertion

that ‘additional specialist legal skills will (...) not normally be required’ should be subsumed into the standard. Examples of the specific limited circumstances where these skills would be required – as well as situations where they would not – are necessary.

- **Communicate the responsibilities of management and TCWG more effectively:** Consider how these responsibilities can be more effectively communicated to the appropriate audience.

#### 24. Proposed ISA (UK) 270:

- **Provide further guidance for auditors when considering whether disclosure of a matter is in the public interest:** Given that the term ‘public interest’ tends to resist definition, further guidance in relation to what auditors might consider would be beneficial.
- **Provide guidance for auditors of entities such as regulated financial institutions when communicating and reporting to an appropriate authority:** Supplementary guidance, for example through a Practice Note, may be appropriate.

## ANSWERS TO SPECIFIC QUESTIONS

### PROPOSED ISA (UK) 250 (REVISED) CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

**Question 1: Do you agree that the proposed changes made to ED2 ISA (UK) 250 will enhance and strengthen the auditor's identification of risks of material misstatement of the financial statements due to fraud or error relating to non-compliance with laws and regulations? If you disagree with the proposals, please explain what you suggest instead and why.**

25. No. While we understand the FRC's intention to better align ISA (UK) 250 with the risk-based approach in ISA (UK) 315 (Revised), we are not persuaded that the proposed changes, as drafted, will achieve this in a proportionate and effective manner.

#### Clarity of rationale

26. There remains a lack of clarity regarding the specific failings in current audit practice that the proposals are intending to address, and a lack of evidence that such failings arise from weaknesses in the standards themselves as opposed to the application of those standards. While reference is made to unspecified enforcement cases and the 2023 Economic Crime and Corporate Transparency Act, the FRC does not explain how these translate into systemic shortcomings in auditors' identification and assessment of risks of material misstatement relating to NOCLAR. Without clear indications and demonstrable evidence of where UK auditors in particular are currently going wrong – as a consequence of how extant ISA (UK) 250 *Section A* is applied – it is not possible to fully comment on whether revisions will be successful in fostering corrective behaviours.

27. The 2023 Act introduces new compliance obligations for the audited entity, not the auditor. Although the auditor would be required to obtain an understanding of the Act and its impact on the compliance obligations of the entities being audited, we see no reason why the auditor would be unable to fulfil this responsibility under the extant standard.

28. We again ask the FRC to provide more transparent, evidence-based insight into the nature of the auditor shortcomings identified. Even if in anonymised form, this would help stakeholders assess whether the proposed revisions are appropriately targeted and likely to drive the intended improvements in audit quality.

#### International Alignment

29. International ISA 250 does not feature at all in the IAASB's [Summary Work Plan for 2024-2027](#) and the PCAOB have put their own proposals to amend AS 2405 on hold, perhaps indefinitely.

30. We support the need for the FRC to consider diverging from the international standard baseline where necessary. However, absent specific deficiencies in auditor behaviour that would prompt divergence, we believe that seeking close international alignment – with limited UK-specific additions – to be preferable. Consistent auditing standards matter – particularly when it comes to their application to the audits of group entities operating in multiple jurisdictions globally.

31. The FRC has often taken a leading role when it comes to revising auditing standards, for example effecting revisions to ISA (UK) 570 in 2019 and to ISA (UK) 240 in 2021 before the IAASB. However, in the case of these standards, UK audit firms have been placed in the inefficient position of investing time, effort, and resource into implementing them twice – once when the FRC revised the standards,

and once again when the IAASB effected their own (slightly different) revisions in 2025. Before initiating UK-specific revisions, the FRC should consider whether the issue could instead be addressed through the IAASB, avoiding unnecessary duplication and implementation costs.

### Removal of the distinction between direct and indirect laws and regulations

32. Per the FRC's 23 April webinar, the stated aim of the re-consultation was to 'refine proposals rather than fundamentally redesign them.' This is despite many of the responses to the initial consultation – which this re-consultation attempts to address – highlighting *fundamental flaws* in the proposals as they stood. The removal of the distinction between direct and indirect laws and regulations remains of particular concern to stakeholders.
33. The FRC continues to insist that the distinction is 'outdated' and 'hinders auditors from identifying risks of material misstatements (...) particularly those that relate to indirect laws and regulations.' We do not agree with this argument. There is no clear evidence presented by the FRC that the extant distinction between direct and indirect laws and regulations is detrimental to the robustness of the identification of risks of material misstatement in relation to NOCLAR. The mere belief that the distinction is 'outdated' is not, on its own, a valid basis for proposing its withdrawal, particularly as the IAASB clearly feels that it still functions well.
34. The proposed removal creates uncertainty about the scope of audit work required and may lead to an open-ended expectation for auditors in identifying and assessing potentially relevant laws and regulations without clear evidence of a corresponding improvement in audit outcomes. In addition, the ability of the auditor to comply with the proposed revised standard would entirely depend on both:
- the ability of the audited entity to provide auditors with a complete population of laws and regulations which may have a material impact on the financial statements.
  - the audit firm's access to the (potentially) global industry knowledge and legal acumen necessary to understand and assess them.
35. We would be less concerned about losing the distinction if these conditions could be met at proportionate cost to auditors and audited entities. However, this would rarely – if ever – be borne out by reality.
36. Please see our response to **Question 2** for further points regarding the removal of the distinction in work effort in respect of direct and indirect laws and regulations.

### Alternatives

37. We urge the FRC to consider whether its objective of promoting a more risk-based approach to NOCLAR might be achieved by means that are more readily understood by auditors, particularly given that some are unconvinced by the FRC's suggestion that much of what is being proposed is already reflected in current practice.
38. Undertaking exploratory work with stakeholders ahead of any standard-setting – such as through a sandbox exercise – could help the FRC better understand how firms are applying ISA (UK) 250 *Section A* and ISA (UK) 315 in practice, and where there is room for improvement. These insights could then inform future guidance or standard-setting.
39. Subject to the findings from such work, ISA (UK) 250 could be enhanced to support a more risk-based approach to the consideration of laws and regulations, while retaining the existing distinction between direct and indirect laws and regulations. For example:

- the description of indirect laws in extant paragraph 6 of ISA (UK) 250 *Section A* could be revised to remove the reference to such laws ‘not’ having a direct effect on the determination of amounts and disclosures in the financial statements. This may help dispel any perceptions that other laws and regulations are unlikely to have a material impact on the financial statements.
- in line with this, further clarity could then be provided in extant paragraph 15 to support auditors’ understanding of their responsibilities and the expected level of work when addressing non-compliance with other laws and regulations that may be material. For example, this might include a requirement to obtain an understanding of compliance matters relevant to the entity’s specific industry or sector.

***Question 2: Do you agree that the proposed changes introduce no additional requirements to identify and assess risks of material misstatement of the financial statements due to fraud or error relating to non-compliance with laws and regulations beyond the auditor’s existing obligations under ISAs (UK)? If you disagree, please explain which aspects you believe impose additional requirements and why.***

40. No. We do not agree that the proposed changes introduce no additional requirements. While we recognise that this may not have been the FRC’s intention, aspects of the revised standard are likely, in practice, to extend the scope of work required for the auditor to identify, assess, and respond to risks of material misstatement arising from NOCLAR.

### **Removal of the distinction between direct and indirect laws and regulations**

41. The proposed removal of the distinction between direct and indirect laws and regulations is likely to have the practical effect of broadening (to a potentially unlimited extent) auditor and management responsibilities, generating disproportionate increases in work effort, costs, and resources required for auditor and audited entity. Both parties are also likely to require specialist legal expertise to achieve compliance with the proposed standard, which will likely compound this problem (please see our response to **Question 5** for further information regarding our views on the need for specialist legal skills). It is disappointing that this critical issue, cited by many of the responses to the 2023 consultation, has not been adequately addressed by the 2026 proposals.

42. We do not agree that the proposed introduction of the concept of ‘fundamental’ laws and regulations or the proposed withdrawal of the objective in para. 11-1(a) (please see our responses to **Questions 3** and **4** respectively) satisfy respondents’ concerns. These concerns also included that:

- situations where auditors fail to obtain the audit evidence necessary to support their opinion in respect of NOCLAR would become more frequent leading to a rise in modified audit opinions, limitations of scope, and potentially auditor resignations.
- entities and industries that are deemed too high-risk or complex for audit firms may find it more difficult to obtain the statutory audit services they require.
- the expectations gap would widen as the public may perceive a financial statement audit as providing assurance on an entity’s compliance with all laws and regulations.

43. We disagree that the proposals add no additional requirements for auditors to identify and assess risks of material misstatement of the financial statements due to NOCLAR and also argue that requiring audited entities to compile a list of potentially relevant laws and regulations and necessarily maintain robust compliance controls, could be perceived as introducing new requirements for directors indirectly as well.

### **Cost Impact**

44. The FRC has not updated its 2023 table of quantifiable standard implementation cost estimates on the basis that its ongoing intention is not to introduce additional requirements under the ISAs (UK) and a belief that respondents have ‘misinterpret(ed) (...) the work effort required to meet the requirements and objectives of the revised standard.’ If this is the case, we question why the FRC has produced these additional cost estimates in the first place and continues to include them in the re-consultation.
45. Whether respondents have misinterpreted the FRC’s intentions is a matter of debate. However, the fact that the standard can and *has* been misinterpreted (and by many of the respondents to the 2023 consultation) is clear evidence that it remains open to being misread, misunderstood, and mis-applied.
46. We believe that the FRC’s estimates remain understated. The additional work and resources needed for audit firms to comply with the proposed open-ended requirements of the revised standard are difficult to quantify but, for many audits, it will likely require considerably more than 15 hours of senior and legal expert time. Some of those we engaged with suggested that, depending on the size and complexity of the entity, hundreds of additional hours may be required.
47. The knock-on effect to audited entities also warrants consideration. Businesses will likely have to contend with both a higher audit fee and the obligation to compile and maintain a comprehensive list of laws and regulations that may have a material impact on the financial statements. ICAEW’s [UK Business Confidence Monitor](#) (published in April 2026) consistently shows that members regard the cost, complexity, and uncertainty of doing business in the UK as major challenges. Against this backdrop, the proposed revisions risk adding further cost and complexity for entities subject to audit and the wider business community.

***Question 3: Do you agree with the proposed changes made to ED2 ISA (UK) 250 clarifying the objective and the over-arching requirement? If you disagree with the proposals, please explain what you suggest instead and why.***

48. Yes, but with qualifications as set out below.
49. We agree with the withdrawal of the objective proposed in 2023 for the auditor to ‘identify those laws and regulations with which non-compliance may have a material impact on the financial statements’. However, this does not sufficiently deal with the fundamental problem of the proposed standard.
50. Even with the retraction of the objective in para. 11-1 (a) and the addition of the stipulation in para. 5-1 that ‘the auditor (...) cannot be expected to detect non-compliance with all laws and regulations’, the standard still does not distinguish between direct and indirect laws and regulations in respect of the auditor responsibilities and work effort. This is not something that can be resolved by making minor adjustments to other sections of the standard.
51. During its webinar on the 23 April, the FRC explained that ‘not all laws and regulations need equal audit attention’ – only those that could ‘realistically give rise to a risk of material misstatement in the financial statements.’ It was also emphasised that auditors should be moving away from a ‘checklist’ mentality. We agree. The point still stands, however, that the only way an auditor could understand whether non-compliance could lead to a risk of material misstatement under the proposed requirements would be by obtaining a complete list of potentially applicable laws and regulations as well as a detailed understanding of the materiality of the potential financial repercussions of non-compliance.
52. The objective, despite being removed, is still very much a de facto requirement. The ‘checklist’ approach that the FRC is seeking to discourage will not only likely persist, but it will also become a more prolonged and costly exercise – for both auditors and entities

subject to audit.

53. We urge the FRC to consider re-instating the distinction between the different categories of laws and regulations.

**Question 4: Do you agree with the proposed changes made to ED2 ISA (UK) 250 to focus work effort on those laws and regulations that are fundamental to the operating aspects of the business and to an entity's ability to continue its business? If you disagree with the proposals, please explain what you suggest instead and why.**

54. No. We recognise the FRC's efforts to focus audit effort on those laws and regulations that could realistically give rise to a risk of material misstatement and impact an entity's ability to continue as a going concern. However, we have reservations about whether the proposed concept of 'fundamental' laws and regulations provides a sufficiently clear and workable basis for doing so.
55. The term 'fundamental' lacks a sufficiently clear definition within the standard. Determining which laws and regulations meet this description will require significant judgement and may be interpreted inconsistently across engagements.
56. Hindsight-based challenge by regulators and the public is a real risk, particularly in areas auditors could not have realistically foreseen as being 'fundamental to the entity's ability to continue in business'. High-profile examples such as emissions and cladding regulations, highlighted in the Volkswagen and Grenfell cases, illustrate the types of 'fundamental' laws and regulations auditors may need to consider. Where management has performed a risk assessment and has not identified actual or potential non-compliance, and there are no other indicators to suggest an issue, it is not reasonable to expect auditors to undertake further investigation. However, with the benefit of hindsight, the proposed revisions could give rise to an expectation that auditors 'should have known'.
57. A clearer picture of what would constitute a 'fundamental' law or regulation might be useful. However, what this looks like will not only differ significantly industry-to-industry and sector-by-sector but may also vary audit-to-audit. Providing enough examples to effectively capture all types of industry, sector, and audit would be an extremely onerous – and potentially impossible – undertaking.
58. The most efficient and effective way for the FRC to proceed and assuage concerns would, again, be to re-instate the distinction between indirect and direct laws and regulations.

**Question 5: Do you agree with the proposed clarification to ED2 ISA (UK) 250 to help auditors determine the very limited circumstances where the engagement team requires specialized legal skills or knowledge? If you disagree with the proposals, please explain what you suggest instead and why.**

59. No. Despite the FRC's assertion that 'additional specialist legal skills will (...) not normally be required on an audit' the reality is that the vast universe of laws and regulations which may give rise to a risk of material misstatement will lead to many audits requiring extensive legal expertise – both on a local and more global level in the case of the audits of multinational groups.
60. The proposed additional application material (paras. A10-1 – A10-3) is helpful in clarifying that legal expertise would only be required when complexity or risk warrants it. However, it does not provide sufficient assurance that firms will not be subject to retrospective challenge by the FRC because they did not seek specialist input. This threatens to detract from the attractiveness of certain segments of the audit market, particularly the PIE audit market, and may hinder the FRC's efforts to help firms grow and scale through its Scalebox initiatives.

61. The extant standard concedes that there are limitations on what the auditor can reasonably be expected to know and do when considering NOCLAR. It understands that auditors are not lawyers and distinguishes between different categories of law and regulation in respect of the auditor's work effort and responsibilities. It requires auditors to obtain a 'general' understanding only of the entity and its legal environment (para. 12-2). It also explicitly allows for the auditor to disregard those laws and regulations where non-compliance is neither identified nor suspected when it comes to performing further audit procedures (para. 18). The proposed revised standard does none of the above, placing no real boundaries on the extent of work (and legal expertise) that might be required when identifying, assessing, and responding to the risks of material misstatement in relation to NOCLAR.
62. This is likely to have implications for audit cost, resourcing, and market capacity, particularly for smaller firms where access to appropriate expertise is more limited. The auditors of large and complex international groups may also struggle to collect the necessary knowledge and understanding to assess the great volume of potentially relevant laws and regulations.
63. As a minimum, the FRC should set out much more clearly than they do now what their expectations are in relation to circumstances that may warrant specialist legal expertise. This could be done through enhanced application material or non-authoritative guidance.
64. Again, simply re-instating the distinction between the categories of laws and regulations would go a long way towards mitigating concerns.

**Question 6: Do you agree with the proposed clarification to ED2 ISA (UK) 250 on management and those charged with governance's responsibilities in respect of non-compliance with laws and regulations? If you disagree with the proposals, please explain what you suggest instead and why.**

65. Yes, but with qualifications as set out below.
66. We agree with the underlying principle that management and TCWG are ultimately responsible for ensuring that the entity's operations are conducted in accordance with the provisions of laws and regulations to which the entity is subject. While the additional clarifying application material reaffirms these responsibilities, it is unlikely, on its own, to address concerns raised in 2024 that not all entities will have appropriate risk assessment and internal control systems in place to identify relevant laws and regulations. Many auditors are rightly concerned that it will fall to them to compensate for management gaps in processes to comply with the revised standard. This is not a proportionate ask of a financial statement auditor.
67. Simply stating that it is management and TCWG's responsibility to understand their responsibilities will not make it so – particularly if it is communicated through content directed at auditors, not entity management.
68. Again, the auditor is not a lawyer, and the service they offer is not a compliance assurance engagement. However, the way the standard is still being read may lead to a perception that the financial statement audit can address an entity's compliance with all laws and regulations.
69. We encourage the FRC to consider how management and TCWG's responsibilities can be communicated more directly and effectively, including through guidance aimed at directors and audit committees. We stand ready to assist the FRC in producing the guidance necessary to help directors understand their responsibilities in this regard. Of note is our new [guide](#) for first-time directors covering governance roles and responsibilities, the external audit process, and non-financial reporting.

**PROPOSED ISA (UK) 270 (REVISED FEBRUARY 2025) SPECIAL CONSIDERATIONS FOR AUDITS OF PUBLIC INTEREST ENTITIES—COMMUNICATING AND REPORTING TO AN APPROPRIATE AUTHORITY OUTSIDE THE ENTITY**

**Question 7: Do you agree that the retained proposals in ED2 ISA (UK) 270 will enhance and strengthen the auditor’s identification of matters that should be reported to an appropriate authority outside the entity? If you disagree with the proposals, please explain what you suggest instead and why.**

70. Yes.

71. We applaud the FRC for listening to stakeholder feedback arising from the 2023 consultation and removing the auditor’s obligation to consider reporting a matter to an authority – if it is considered to be in the public interest – even in the absence of law, regulation or ethical requirement from para. 18 and from the definition of ‘reportable matter.’

72. This proposal had formed the basis of ICAEW’s argument that the proposed standard was fatally flawed. We were concerned that the necessary statutory protections to shield auditors from breach of confidence claims were absent.

73. The new proposals take a more prudent approach, relegating the erstwhile requirement to the application material under paras. A45 – A52. The proposed standard rightly recognises that ‘public interest’ is a concept that is not capable of general definition (para. A49). While we appreciate that several factors for auditors to consider when determining whether disclosures may be in the public interest have been included within para. A49, some more detailed guidance would be useful, perhaps in the form of non-authoritative guidance. ICAEW stands ready to assist with this.

74. While extant ISA (UK) 250 *Section B* explicitly includes regulated non-PIE financial services entities within its scope, proposed ISA (UK) 270 is more narrowly focused on PIE audits. While we are not suggesting that non-PIE regulated financial institutions be brought back into the scope of the standard, this creates a potential gap in guidance for such entities when reporting to an appropriate external authority. We encourage the FRC to consider and communicate its plans for addressing this gap, which could perhaps include issuing a Practice Note.

**Question 8: Do you agree with the proposed clarification in ED2 ISA (UK) 270 on reporting to appropriate authorities outside the entity? If you disagree with the proposals, please explain what you suggest instead and why.**

75. Yes.

**Question 9: Do you agree with the proposed effective date for audits of financial statements for periods commencing on or after 15 December 2027 for both ED2 ISA (UK) 250 and ED2 ISA (UK) 270? If you disagree with the proposals, please explain what you suggest instead and why.**

76. We agree with the proposed effective date in theory and are pleased that it allows a longer implementation period than originally proposed in 2023. Firms and methodology providers should have sufficient time to update audit methodologies and deliver the necessary training.

77. However, as we have made clear in the preceding points, we do not believe that proposed ISA (UK) 250 is fit for purpose. Until the fundamental issues with the proposed revisions are resolved to a sufficient degree to assuage our concerns, we do not believe that the proposed standard, as currently drafted, should be made effective.

78. Although we do not have significant issues with proposed ISA (UK) 270, the two closely connected standards should be made effective together.

***Question 10: what practical steps could the FRC take to help minimise the cost of implementing the proposed revisions? Please provide specific suggestions.***

79. We believe that amendments to auditing standards should proceed only if the benefits to the public interest outweigh the costs of implementing them. The FRC has yet to succeed in demonstrating that this is the case with ISA (UK) 250.