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Kate Dalby
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By email only to: AAT@frc.org.uk

Dear Ms. Dalby

Invitation to Comment: Proposed International Standard on Auditing (UK) 250 (Revised) and Proposed International Standard on Auditing (UK) 2X0 (Revised)

We welcome the opportunity to comment on the FRC's proposed ISA (UK) 250 and ISA (UK) 2X0. We also appreciate the constructive dialogue we have had as part of this process to align on the desire to improve the quality and consistency of risk assessment in all areas, including as it relates to non-compliance with laws and regulations ("NOCLAR").

While we are supportive of the FRC's desire to enhance the useability and informativeness of the audit and to revise ISA (UK) 250A to strengthen its connection with ISA (UK) 315 (Revised July 2020), we believe that the proposed changes, as currently drafted, are not proportionate and could ultimately be counterproductive, creating significantly more work and responsibility for auditors, including making detailed assessments of legal compliance, and increased costs to business, without delivering the enhancements to audit quality that the FRC seeks. In the Invitation to Comment (ITC), the FRC says that it "recognises that the auditor's responsibilities cannot be open-ended to the effect of identifying and determining compliance with all laws and regulations pertaining to the entity". However, we believe that these proposed changes have the potential to require just that.

We believe the FRC should retain the distinction between those laws and regulations that have a direct effect on the determination of amounts and disclosures in the financial statements ("direct laws and regulations") and those that do not have a direct effect ("other laws and regulations") and focus, instead, on seeking to embed ISA (UK) 315 requirements in extant ISA (UK) 250A to encourage a more robust risk-based approach to the identification of instances of non-compliance with those "other laws and regulations".

Companies are required to comply with a plethora of laws and regulations (for example data protection, confidentiality, intellectual property/licensing/patents, antitrust/competition, health and safety, employment law and regulatory compliance in financial services). Depending on the circumstances, non-compliance with such laws and regulations could result in a significant and material financial effect, for example through fines. By removing the distinction in work effort for direct and other laws and regulations, for an auditor to conclude that there was no risk of material misstatement relating to NOCLAR, this would first require that the auditor obtain a detailed understanding of all possible laws and regulations that might be relevant. Once that detailed understanding had been obtained there would also likely be significant amounts of testing to determine that there were no instances of non-compliance. A high-level review of the causes of the very significant fines administered to companies for GDPR non-compliance, money laundering non-compliance and the confidentiality, conflicts of interest and trading issues at financial institutions in respect of FX and Libor shows the magnitude of the underlying laws and regulations to which companies might be subject and the complexity of understanding the fact and circumstances which ultimately led to the fines. In many cases, the issues resulting in fines relate to the application of high-level principles rather than specific rules and would require a legal determination as to whether there has in fact been a breach of relevant laws and regulations. Similarly, the complexity of ensuring compliance with regulatory capital rules at banks or compliance with competition law in global organisations would be significant. These are examples but illustrate the challenges auditors would face in implementing the FRC's proposals.

Our alternative proposal is that the existing requirements could be enhanced to align with ISA (UK) 315, without removing the distinction between direct and other laws and regulations, by requiring auditors to consider specifically whether there are any potential issues with compliance with specific laws and regulations that are affecting the particular industry in which the entity operates. This approach could then be complemented with the performance of additional procedures that are specifically responsive to the risks of material misstatement identified relating to the potential areas of non-compliance. This would enable auditors to comply with the purpose of the FRC's proposed changes by implementing a more robust risk-based approach and moving away from, as the FRC described in its ITC, the "overly procedural" approach of the existing ISA (UK) 250A.

We summarise our key concerns with the FRC's proposals below.

Expansion in scope of ISA (UK) 250

Elimination of distinction between "direct laws and regulations" and "other laws and regulations"

We note the FRC's desire to revise ISA (UK) 250A due to the procedural nature of the extant standard and to ground auditing requirements relating to NOCLAR in a more risk-based approach, thereby aligning with the objectives in ISA (UK) 315. However, we believe that the proposals will lead to increased work for auditors and entity management as well as increased cost to business. Indeed, we would argue that this proposed change takes ISA (UK) 250 into very similar territory to the proposed changes to the PCAOB standard, AS 2405, which we are aware has generated significant stakeholder concern.

"Direct laws and regulations" have clear relationships to audit objectives derived from financial statement assertions. That is, their impact on the financial statements is known, such as the impact of Organization for Economic Cooperation and Development's Global Anti-Base Erosion Model Rules (Pillar Two). Other laws and regulations with "indirect" effects that relate more to an entity's operating aspects than to its financial and accounting aspects will involve both qualitative and quantitative considerations and are imbued with a wide range of uncertainties which will impact the effectiveness of the auditor's ability to obtain sufficient appropriate audit evidence.

If the objective of helping to "identify instances of non-compliance in relation to other laws and regulations that may have a material effect on the financial statements" is removed from the standard, as currently proposed we believe that auditors may effectively need to seek assurance on compliance with these "other laws and regulations" which could include a very wide range of laws and regulations that have no direct bearing on the financial statements, but which if not complied with, could result in fines that may be material. The absence of any guidelines related to the expected nature and extent of information the auditor is, and is not, expected to identify, review, and evaluate in the search for sufficient appropriate audit evidence to address the assessed risks of material misstatement due to fraud or error relating to NOCLAR will create challenges for most audits, and in particular, audits of large multinational companies, companies that have a significant online presence, and companies that receive significant media, analyst, or social media coverage. As a further example to the ones previously stated above, with the prevalence of alternative forms of media reporting, it could be particularly challenging for auditors to assess the reliability of certain publicly available third-party information, such as non-financial information from social media, without performing significant procedures on this information, such as confirmation. Auditors will also face challenges with determining how to consider and assess conflicting or purportedly "inaccurate" information. It is also unclear as to how the auditor would consider the potential impacts of qualitative factors

such as reputational harm or declines in share price in their assessment of whether NOCLAR may have a material effect, nor is it clear how their impacts would affect financial statements.

The distinction between "direct laws and regulations" and "other laws and regulations" in extant ISA (UK) 250A helpfully provides clear markers as to the extent of work that would be considered necessary in relation to those other laws and regulations. However, the proposed changes in ISA (UK) 250 are open-ended and therefore fail to consider the need for a clearly identifiable trigger point in relation to the impact of NOCLAR on the financial statements and, as a result, will create uncertainties around when sufficient and appropriate audit evidence is obtained. Furthermore, the lack of a clearly identifiable trigger point, heightens concerns about the expectations of auditors in relation to accounting periods where NOCLAR might have occurred but both entity and regulator were unaware of the non-compliance.

We therefore believe the FRC should retain the distinction between "direct laws and regulations" and "other laws and regulations" and, instead, focus on seeking to encourage a more robust risk-based approach to the identification of other laws and regulations that may have a material effect on the financial statements. We have set out above an alternative proposal that we believe would satisfy the FRC's aims in this area.

If, however, the FRC plans to go ahead with its current proposals, as a minimum, it needs to clarify that the auditor's identification of laws and regulations is based on the relevant laws and regulations identified by management as those that if not complied with, would result in material effects on the financial statements. This would mean including an anchor point in the financial statements with the introduction of a requirement for audited entities to disclose those laws and regulations with which, they consider, non-compliance may have a material effect on the financial statements and that there are internal controls in place to mitigate the risk of non-compliance. The auditor should not be asked to make any disclosure in the auditor's report in relation to NOCLAR that the audited entity has not already made in the financial statements. In this way, auditors would then have a starting point to challenge and comment if disclosures or accruals as well as the design or implementation of internal controls in relation to NOCLAR were not adequate.

'With the benefit of hindsight' challenges

The proposed changes may also increase the expectations of users of audited financial statements related to NOCLAR. With the proposed requirements as written, less well-informed users of audited financial statements may expect auditors to be able to identify and conclude whether entities have complied with all laws and regulations to which they are subject.

We remain concerned that the benefit of hindsight might be applied in circumstances where specific examples of non-compliance later come to light. For example, in relation to Libor rigging, we are concerned that had the FRC's current proposals been in place, this might have

created an expectation that auditors should have identified non-compliance, even in situations where the entity's own compliance teams did not recognise that there was a risk or had identified non-compliance. Likewise, with respect to the regulatory investigations into emissions at Volkswagen, we question whether, with the requirements written as currently proposed, the auditors would be criticised for failing to spot non-compliance with the relevant laws.

For multinational entities subject to multiple national, regional, and local laws covering a myriad of legal areas, there would be limitations on the procedures an auditor could reasonably be expected to perform, and these limitations are unlikely to be well understood in the context of the proposed changes.

Maturity of internal control systems and risk management processes in audited entities

In the ITC, the FRC says it is committed to acting as a proportionate and principles-based regulator, and that it 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 and assurance. Given the likely impact and cost to business, we do not believe that these proposals achieve this balance.

The FRC's expectation is that the work performed by the auditor would be rooted in the auditor's understanding of the business and controls required under ISA (UK) 315, including understanding how the entity assesses the risks of NOCLAR, and the effectiveness of controls it has in place to monitor compliance. This, according to the FRC, is not expected to be too onerous as the auditor's work would not be expected to be performed in a vacuum – the expectation would be that audited entities will already have established controls in place, based on their own risk management processes. The auditor's risk assessment would then be an effective mechanism to identify those law and regulations that have, or may potentially have, a material effect on the financial statements.

However, not all entities will have mature risk assessment and internal control systems in place for specifically identifying and addressing risks in relation to NOCLAR, and there is no framework or guidance in the UK demonstrating what effective internal controls over NOCLAR might look like. Auditors will expect management to perform a lot more detailed work and analysis to demonstrate that they have effective controls, supported by proper legal analysis, and these proposed changes are likely to particularly impact entities that are at an early stage of their journey toward developing effective risk management and internal control processes, as a result of being, for example, newly incorporated or undergoing expansion into new markets/sectors.

The impact assessment in the ITC takes no account of the cost and time of these proposals to business. Given the FRC's commitment to act as a proportionate and principles-based regulator, we strongly recommend the FRC engage with the business community on these proposals as audited entities will need to do more to satisfy auditor demands for information.

Inconsistencies with the long-established accountability framework and a disconnect between responsibilities of management and auditors

As these proposed changes are premised on the belief that audited entities will have mature risk assessment processes and internal controls to identify and address NOCLAR that may have a material effect on the financial statements, in situations where audited entities do not perform appropriate risk assessments, auditors will have to assume the responsibility themselves, effectively doing work that management should be responsible – and held accountable – for.

These proposed changes, therefore, have the potential to undermine the long-established accountability framework whereby management is responsible for preparing and disclosing financial information, auditors form an independent opinion on the financial statements, and regulators provide oversight of public companies and auditors.

Work effort, extra territorial impact and need for consistent global standards

We consider that the impact assessment in the ITC significantly underestimates the work effort that would be required to implement the proposed changes in ISA (UK) 250 and the resulting cost for both auditors and audited entities. We are particularly concerned about the extent of work effort, familiarisation, training and direction, supervision and review required in respect of large group audits, where groups have operations in multiple jurisdictions and component auditors are involved. Challenges will also arise where audit teams are auditing complex entities with many business lines, e.g., supermarkets, with banking arms. We believe that in potentially virtually all audits additional specialist skills and experience will be required, including from lawyers, to identify within each jurisdiction or area of business the relevant laws and regulations with which non-compliance may have a material effect on the financial statements, to assess the risks of material misstatement of the financial statements as a result of non-compliance and to determine whether non-compliance may or may not have occurred and the extent to which it may impact the financial statements.

Given the extraterritorial impact of the proposed changes, we strongly believe that they would need to be applied consistently and globally, across jurisdictions, and this would require the IAASB to revise its global standard. It is our view, therefore, that such fundamental revisions to ISA 250 should be being consulted on, and if considered necessary made, by the IAASB.

As noted above, we are aware of the PCAOB proposals in relation to its standard, AS 2405, and we therefore encourage the FRC to engage further with the PCAOB about its plans, prior to determining a way forward with these proposals. In particular, we are aware that significant concerns were raised in relation to the PCAOB's proposal, including information about the likely costs.

Scalability and the need for specialist knowledge and expertise

The proposed changes may result in a need to supplement the knowledge of audit teams by engaging specialists as the expertise that may be needed to meet these requirements may extend beyond the core competencies of auditors. This leads to concerns about whether the requirements are proportional and scalable to the audit of all entities. While the proposed changes may be scalable for those very small, less complex entity audits, where there are minimal laws and regulations impacting the financial statements that arise from operational aspects of business, we believe that they are likely to be far more challenging to apply to those non PIE entities with less sophisticated risk management and internal control systems that may, for example, operate overseas or are impacted by multiple regulatory requirements. As noted above, they will also be challenging to apply for those very large group audits, where groups are operating in complex environments with different regulations in place in different jurisdictions. Even the best placed entity with well-designed internal controls and risk management systems may struggle to meet all the information needs of its auditors. The need for specialist knowledge may also preclude some audit firms from auditing entities in highly regulated sectors, impacting competition in the market.

Challenges in obtaining sufficient appropriate audit evidence

As noted in our comments above, the proposed changes in ISA (UK) 250 pose a number of challenges with regard to the auditor's ability to obtain sufficient and appropriate audit evidence. An audit procedure that may be performed by auditors when seeking to obtain sufficient appropriate audit evidence in relation to NOCLAR might be to request legal confirmations from the law firms engaged by audited entities. If the proposed changes take effect, we envisage that the volume of these types of requests would increase significantly, which would inevitably result in increased costs to businesses. However, as acknowledged by the FRC in ISA (UK) 501, the Council of the Law Society in the UK has advised solicitors that it is unable to recommend them to comply with non-specific requests for information. Given this restriction, auditors may not, therefore, be able to obtain the audit evidence they consider necessary to determine whether there is either a risk of non-compliance or actual non-compliance has occurred if solicitors do not respond where they consider the request not to be specific enough. As a result, legal confirmations provide less persuasive audit evidence and arguably no other practical way of obtaining the evidence would exist.

Auditors may also write to regulators to identify any potential NOCLAR. For a multinational entity, this would include seeking confirmation and information from overseas regulators, who will be less familiar and, as a result, less responsive to the requirements of ISAs (UK) in circumstances where they differ from globally accepted standards. We would, again, reiterate our view that it is essential that consistent standards are applied globally in this regard

otherwise auditors are unlikely to be able to perform the depth of procedures considered necessary under the proposals.

Market considerations and increase in qualifications

The expected increased work effort and potential need for specialists to supplement knowledge and capacity to perform audits as a result of the proposed changes could result in a lack of appetite or ability to audit some industry sectors.

We anticipate that the proposed changes could also result in an increase in modified audit reports as audited entities struggle to meet auditor information needs and, in turn, auditors are unable to obtain sufficient appropriate audit evidence. Early education of the market around these modified opinions will be needed to avoid unintended consequences or disproportionate market reaction.

Rationale for proposed changes

In view of the fact that findings identified in recent FRC Inspection reports or by ICAEW's Quality Assurance Department do not point to factors relating to significant deficiencies that warrant changes, it would be helpful if the FRC more clearly explained the primary driver for such fundamental revisions to ISA (UK) 250A. In 2014, the FRC published an Audit Quality Thematic Review of fraud risks and laws and regulations. Specifically on the theme of the auditor's consideration of laws and regulations, the report stated "The matters raised in this report mostly relate to audit teams' application of these requirements in practice. We did not identify any significant deficiencies which would indicate that an inappropriate audit opinion may have been issued." If, through its recent inspections, the FRC identified significant deficiencies that would warrant changes to the standard, we would have expected these to have been called out in inspection reports and set out in the ITC as rationale for these proposals.

We also note that the FRC's response to the IAASB's consultation on its 2024-27 Strategy and Work Plan did not raise the need to revise ISA 250, despite the IAASB specifically requesting input from respondents on whether there were other standards that required revision.

ISA (UK) 2X0 and need for legal change to enable wider reporting

We believe the changes proposed in ISA (UK) 2X0 are linked to the government's intention (as noted in its Response to the White Paper "Restoring Trust in Audit and Corporate Governance") to introduce appropriate protections for auditors making reports to regulators for all statutory audit work. We suggest that the FRC may wish to delay the implementation of these proposals until there have been legislative changes to mirror the protections already present in sections 342(3) and 343(3) of the Financial Services and Markets Act 2000, which provide that an auditor is not in breach of any other duties they owe provided that they act in good faith.

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Furthermore, if there is going to be an expectation on auditors to call out matters that are deemed to be in the public interest, in turn, there need to be appropriate and transparent mechanisms in place to empower regulators to take action in response to reports made.

Please also see our responses to the specific questions, and additional comments, which are set out in the Appendix to this letter.

If you have any questions, please contact Philip Lenton (plenton@deloitte.co.uk or 020 7007 1772 or Richard Gillin (rgillin@deloitte.co.uk or 020 7007 0202).

Yours sincerely

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Appendix: Responses to detailed questions

ISA (UK) 250—Consideration of Laws and Regulations in an Audit of Financial Statements

Q1: Do you agree that the proposals in ISA (UK) 250 appropriately address the public interest?
No, we do not agree that the proposals appropriately address the public interest. As explained in our main comments, the FRC has not articulated a clear public interest need for these revisions to ISA (UK) 250. If there were significant deficiencies in relation to the auditor's work on NOCLAR we would have expected these to have been called out in recent inspection reports and included in the ITC as rationale for change. We also note that ISA 250 was not highlighted for urgent revision in the FRC's response to the IAASB's consultation on its 2024-27 Strategy and Work Plan.

We note the FRC's desire to enhance the connectivity of ISA (UK) 250 with the risk-based approach in ISA (UK) 315 and to enhance the useability and informativeness of the audit but believe that the proposed changes in ISA (UK) 250, and specifically the removal of the distinction between "direct laws and regulations" and "other laws and regulations" are not proportionate and will be counterproductive.

The FRC is committed to acting as a proportionate and principles-based regulator, balancing 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 and assurance. Given the likely impact and cost to business of these proposed changes, as explained in our main comments to this response, we do not believe that these proposals will achieve this balance.

The FRC says in the ITC that it recognises that auditors' responsibilities cannot be open-ended to the effect of identifying and determining compliance with all laws and regulations pertaining to the entity. However, we believe that these proposed changes have the potential to require just that.

Given the impact that these proposed changes would undoubtedly have on audits of entities with operations in other jurisdictions, we strongly believe that if such fundamental changes to ISA 250 are considered necessary, they should be made at a global level by the IAASB, to ensure a consistent approach to the auditor's work in relation to NOCLAR. As noted in our main comments, we also believe the removal of the distinction between "laws and regulations that have a direct effect" and "other laws and regulations" takes these proposals into a similar space as the PCAOB proposals in relation to its standard, AS 2405. As significant concerns have been expressed by stakeholders in response to the PCAOB's proposed changes to its standard we encourage the FRC to engage further with the PCAOB to understand the direction of travel of its

proposals, prior to determining UK requirements as it would be unhelpful if there were significantly different outcomes for these standards.

Given the FRC's desire to improve the useability and informativeness of the audit, and in the absence of a current IAASB project to revise ISA 250, we believe that there would be scope, while retaining the distinction between "direct laws and regulations" and "other laws and regulations", to add enhancements to extant ISA (UK) 250A to embed a more robust and structured risk-based approach to the identification of instances of non-compliance with other laws and regulations and align better with the requirements in ISA (UK) 315. Paragraph 15 of the standard currently only requires limited procedures to be performed to identify instances of non-compliance with other laws and regulations. This approach could be enhanced, for example, by requiring auditors to consider specifically whether there are any potential issues with compliance with laws and regulations that are affecting the particular industry the entity operates in, and where issues are identified, to perform additional procedures to respond to the risks of non-compliance they pose. We believe that this suggested way forward would be in the public interest, align with the requirements in ISA (UK) 315 and would provide an appropriate balance between the need to minimise the impact of regulation on business and enhance the usefulness of the audit to stakeholders.

Q2: Do the proposed requirements in paragraphs 12-2–12-3 support auditors to be able to identify those laws and regulations with which non-compliance may have a material effect on the financial statements?
Q3: Do you believe that the proposals in ISA (UK) 250, considered collectively, 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?
Q4: Have appropriate enhancements been made to the application material?
We do not agree with the proposed requirements or revisions to the application material in ISA (UK) 250. Our main comments set out our key concerns in relation to the proposed changes in respect of scalability, work effort, the impact on audits of multinational groups, the need to engage audit specialists and the ability to obtain sufficient appropriate audit evidence.

In various communications, FRC staff have made clear that auditors would not be expected to perform this work in a vacuum and that audited entities should already have established controls in place, based on their internal risk assessment processes. We question, however, the maturity of many entities' risk management and internal control systems to enable this – recognising that this standard is applicable to audits of entities of all sizes and degrees of complexity, and are concerned that this may then shift responsibility, and accountability onto the auditors. Despite reassurances that have been provided by FRC staff in relation to our concerns about judgements being made with the benefit of hindsight, given the significant extension in scope of what auditors will be required to do, and the specialist skills needed and highly judgemental nature of the issues they may face, these concerns remain.

We are also concerned that the expected increased work effort and lack of access to specialists to supplement knowledge and capacity to do these audits as a result of the proposed changes could result in a lack of appetite or ability to audit some industry sectors, which may result in a reduction in choice for audited entities when selecting their auditor. The proposed changes may also lead to an increase in modified audit reports because audited entities are unable to meet the high bar that the proposed changes appear to establish.

Q5: Do you support the deletion of the Appendix on "Money laundering, terrorist financing and proceeds of crime legislation in the United Kingdom"?
As a firm we do not rely on the appendix as a source of information for legal requirements, however, other firms may do so. If this is the case, we would suggest that this material is moved to a Bulletin or other form of FRC guidance, so that it may be maintained and updated as needed. We note that the material does not include the auditor's statutory duty to report to the Office of Financial Sanctions Implementation in HM Treasury, which would be a useful addition to any such material wherever it ends up.

Q6: Do you agree with the proposed effective date for audits of financial statements for periods commencing on or after 15 December 2024?
No, if the proposals are issued as proposed, then more time will be needed for the necessary training and implementation of methodology to meet these requirements, for auditors to ensure they have access to appropriate expertise to apply the standards and for audited entities to make sure that they have the right controls and risk assessment procedures in place to identify applicable laws.

ISA (UK) 2X0—Special Considerations for Audits of Public Interest Entities — Communicating and Reporting to an Appropriate Authority Outside the Entity

Q7: Do you agree that the proposals in ISA (UK) 2X0 appropriately address the public interest?
Q8: Do you agree with the proposed scope of ISA (UK) 2X0 being limited to public interest entities, or do you believe that the requirements of ISA 2X0 should also apply to:
a) Listed entities
b) Charities
c) Other entities in regulated industries
d) All entities
When responding consider that for many audits, as reportable matters are not likely to be identified, only the requirements in paragraphs 11 – 13 will apply and that all auditors are subject to anti-money laundering legislation.
Q9: Do you support the definition of Reportable Matters?
Q10. Do you believe that the proposals in ISA (UK) 2X0, considered collectively, will enhance and strengthen the auditor's identification of matters that should be reported to an appropriate authority outside the entity?

Q11. Have appropriate enhancements been made to the application material?
The FRC's proposals in effect extend the existing duties to report in ISA (UK) 250 Section B where required by law or regulation (paragraph 10(b)(i)) to also cover matters where:

- The auditor has determined reporting such information to an appropriate authority outside the entity is an appropriate action in the circumstances; or
- Has determined is of such significance that it is in the public interest to report even where law, regulation or relevant ethical requirements do not require it.

The first of these new categories is already covered by ISA (UK) 250A (and the related application material is taken directly from the UK "pluses" to that standard). We have used these provisions in the past, although only after having taken extensive legal advice.

The second is new, and we understand is designed to respond to calls for wider reporting of concerns by auditors, for example as part of Sir John Kingman's recommendation that there should be a duty of alert for auditors to report viability or other serious concerns. It will be important for regulators to acknowledge that without a specific framework or specific examples, different auditors are more likely to make different judgements as to what matters should be determined to be of such significance that there is a public interest duty to report.

We note that in the Government's response to the White Paper "Restoring Trust in Audit and Corporate Governance", the Government indicated its intention to introduce appropriate protections for auditors making reports to regulators for all statutory audit work. The protections we believe are necessary are not unreasonable, and mirror those already present in sections 342(3) and 343(3) of the Financial Services and Markets Act 2000, which provide that an auditor is not in breach of any other duties they owe (for example, duties of confidentiality arising from contract and paragraph 9 of Schedule 1 of the Statutory Auditors and Third Country Auditors Regulations 2016) provided that they act in good faith. We suggest that the FRC may wish to delay the implementation of these proposals until such a legal change is made; this change is not just about protecting the auditor but, by reducing the need to take legal advice to resolve conflicting duties, would allow swifter reporting.

The second concern we have is again a public interest point. If auditors are to call out matters that are deemed to be in the public interest, in turn, there need to be appropriate and transparent mechanisms in place to empower regulators to take action in response to reports made. Taking as an example Sir John Kingman's point about resilience, auditors of PIEs already have a duty under ISA (UK) 250 Section B paragraph 14(a)(ii) to report "A material threat or doubt concerning the continuous functioning of the public interest entity". It is unclear that the auditor reporting a going concern issue or longer-term resilience issue to the FRC or FCA (in their capacity as the listing authority) would serve any particular use without those regulators having some power to take action or call directors of the company to account; auditors already

have to consider whether appropriate disclosure of the company's situation is included in periodic reporting. For regulated financial institutions, the same duty in ISA (UK) 250 for a PIE bank or insurer, or similar requirements under sections 342 and 343 of the Financial Services and Markets Act 2000, can be used by the FCA and PRA to take action to protect the public interest (e.g. to prevent a regulated firm from taking on new clients or compel it to raise more capital).

In the case of other types of entities where there may be public interest (beyond PIEs) we suggest that the need for a statutory "good faith" reporting provision, and a mechanism for an appropriate regulator to respond, would be necessary. Longer term we suggest that this might, proportionately, be aligned with future government plans to reform the PIE definition, as well as for other regulated entities (e.g. charities and pension funds) where it might make sense to align the regime.

Q12. Do you agree with the proposed effective date for audits of financial statements for periods commencing on or after 15 December 2024?
If the FRC goes ahead with these proposed changes, then the effective date for ISA (UK) 2X0 should be the same as for proposed ISA (UK) 250. However, as we stated in our response to Q6 above, we do not believe that a proposed effective date for audits of financial statements for periods commencing on or after 15 December 2024 would provide sufficient time to enable auditors to implement the proposed requirements in ISA (UK) 250. In addition, the FRC may wish to delay implementation until there have been legislative changes to mirror the protections in sections 342(3) and 343(3) of the Financial Services and Markets Act 2000.

Other matters
The documentation requirements in 29-2 in proposed ISA (UK) 250 appear to be at odds with the proposed changes elsewhere in the standard. The paragraph continues to refer to the distinction between those laws and regulations that are generally recognised as having a direct effect on the determination of material amounts and disclosures in the financial statements and other laws and regulations that do not have a direct effect but compliance with which may be fundamental to, for example, the operating aspects of the business.

Paragraph 18 of ISA (UK) 2X0 on reporting in the public interest references A33-1 – A33-8 in the application material but these are incorrect references.

There is a typographical error in the application material for Materiality in Relation to NOCLAR, in paragraph A10-4. "For example, acts of non-compliance may not generate material fines or penalties, but may ~~have~~ affect disclosures due to the nature of the entity where disclosure of acts of non-compliance are important to users of the financial statements."