



Financial Reporting Council

Enhanced Auditor Reporting – Feedback Statement

Revisions to ISA (UK) 700, ISA (UK)
701, and ISA (UK) 720

June 2026

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1. Introduction

The Financial Reporting Council (FRC) is committed to acting as a proportionate and principles-based regulator that 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.

In October 2025 the FRC [consulted on proposals](#) to the following auditor reporting standards following stakeholder feedback raising concerns about the length and usability of auditor's reports:

- ISA (UK) 700 (Revised November 2019) Forming an Opinion and Reporting on Financial Statements.
- ISA (UK) 701 (Revised November 2019) Communicating Key Audit Matters in the Independent Auditor's Report.
- ISA (UK) 720 (Revised November 2019) The Auditor's Responsibilities Relating to Other Information.

The objectives of the proposed revisions were to:

- Simplify and declutter the auditor's report, and in so doing reduce reporting burdens.
- Increase the quantity of useful information for users within the auditor's report.
- Ensure UK auditing standards remain aligned with international standards.

In developing the proposals, the FRC has been mindful of the need to remain within the framework set by the international auditing standards, and minimise the need for further requirements other than those needed to align with the UK regulatory framework. Accordingly, a key focus of the proposed changes was on the relationship between auditor reporting requirements set by UK Company Law, and their implementation through auditing standards.

A number of measures were proposed to improve the communicative value of auditor's reports for listed entities, public interest entities (PIEs), and entities that are required to or voluntarily apply the UK Corporate Governance Code. To ensure that the changes are proportionate and to minimise additional auditor work effort, these have been designed around existing requirements for the auditor to communicate with those charged with governance in the case of engagements involving these types of entities.

The consultation closed on 16 January 2026, receiving 27 responses (see Appendix). Section 2 outlines the consultation questions, a summary of the feedback received and the FRC's response to these, including how where the proposed standards have been further revised to address concerns. The resulting standards have been issued alongside this feedback statement.

2. Summary of feedback and FRC response

Overall summary

We received responses from 27 respondents, representing a range of stakeholders (see Table 1). The FRC is grateful for the thoughtful and constructive feedback it received during the consultation.

Table 1: Overview of responses received

Category of Respondent	Number of Respondents
Firms (including a group of firms)	14
Professional bodies	5
Investors and investor representative groups	5
Third party methodology provider	1
Representative groups	2

The feedback to each of the seven questions posed in the consultation document, along with the FRC's response, is set out in this section.

Simplifying and decluttering the auditor's report

1. Do you support the measures proposed by the FRC to simplify and declutter the auditor's report?

Consultation responses to this question focussed on three key areas:

- Reporting by exception;
- The description of the extent to which audit was intended to detect irregularities, including fraud; and
- The revised statement of auditor's responsibilities maintained on the FRC's website.

Reporting by exception

The proposal to revert to genuine reporting by exception for matters required by legislative frameworks for different types of entities was strongly supported. All 24 respondents that commented directly on this matter supported the FRC's proposals.

FRC response

We welcome respondents' support for reversion to genuine reporting by exception. In response to concerns that auditors may cease to be aware of their statutory responsibilities in this regard, we have also included further application material for inclusion in ISA (UK) 705 (Revised June 2016) *Modifications to the Opinion in the Independent Auditor's Report*. This guidance encourages auditors to consider whether the grounds for a modification in the opinion expressed in the auditor's report also require the auditor to report by exception where required by applicable law and regulation.

Explaining the extent to which the audit was considered capable of detecting irregularities, including fraud

Respondents were generally supportive of the FRC's proposals to restrict the requirement for auditors to describe the extent to which the audit was intended to detect irregularities, including fraud to audits where ISA (UK) 701 is in scope. This requirement is derived from the Audit Regulation and Directive issued by the European Union in 2016, and now incorporated into UK law following EU exit. It has been widely criticised as having led to boilerplate reporting which provides very little insight to the reader of the auditor's report.

Indeed, many respondents urged the FRC to go further, and to remove the requirement for all audits, or instead limit it to PIEs and large listed entities only. Other responses suggested that the revised requirements in ISA (UK) 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* could in practice meet the underlying statutory requirement, meaning that it could be removed in its entirety without breaching statutory requirements.

FRC response

The FRC, after further consideration, has decided to implement the proposals set out in the consultation paper. We welcome the strong support for the removal of the requirement from most auditor's reports.

We considered the argument made by some respondents that the new requirements in ISA (UK) 240 could meet this statutory requirement. However, this overlooks the fact that the requirement's wording clarifies that fraud is a subset of all irregularities. Other irregularities that were not fraudulent would not be in scope of the requirements in ISA (UK) 240, and so auditors would not be satisfying the underlying legal requirement. We also anticipate that proposed revision to ISA (UK) 250 *Consideration of Laws and Regulations in an Audit of Financial Statements* will also serve to enhance the auditor's discussion of how the audit was capable of detecting irregularities other than fraud.

We also consider that the benefits of this requirement for audits of publicly traded entities as well as PIEs outweigh the limited costs in applying this requirement. This is based on the following considerations:

- Minimising the number of differential requirements between different legal types of entities helps simplify compliance and supports firms in reducing complexity in their methodologies.
- There is higher user interest in these disclosures for publicly traded companies. A number of consultation responses from the investment community supported the retention of this information as providing additional useful information to support their decision making.
- Our review of auditor reporting that underpinned our [Snapshots](#) published in 2022 identified several instances of good practice in this reporting for entities other than PIEs.

FRC statement of auditor's responsibilities

Respondents welcomed the approach of moving as much material as possible into the statement of auditor's responsibilities hosted on the FRC website, which can just be cross referred by auditors. They were also generally supportive of the proposed revised statement of auditor's responsibilities, though a small number of responses identified areas where it could go further. This included a generic description of the auditor's responsibilities with respect to irregularities, including fraud, as well as an extensive discussion with respect to the auditor's responsibilities with respect to internal controls. Many of the responses to Question 4 also encouraged the FRC to include such a discussion because of the recent revisions to Provision 29 of the UK Corporate Governance Code.

FRC response

We welcome the support expressed in the consultation for our proposed approach to declutter the auditor's report. The FRC intends to proceed with its proposals to revise the online statement of auditor's responsibilities. In response to feedback, we have included further details that clarify the following:

-
- The auditor’s responsibilities with respect to the entity’s system of internal control for companies following the UK Corporate Governance Code. This now states that the new reporting requirements on the impact of controls on the entity and any communication of significant deficiencies with respect to internal controls are not an expression of an opinion on the entity’s system of internal controls.
 - The auditor’s responsibilities under the FCA’s Listing Rules in relation to statements made by the directors regarding certain UK Corporate Governance Code provisions. This clarifies that the auditor is required to report this in the auditor’s report when the auditor concludes that these statements are materially inconsistent with either the financial statements or the auditor’s knowledge obtained during the audit.

The FRC recognises concerns, feedback and differing expectations among stakeholders about the nature and extent of auditors’ responsibilities in relation to the Provision 29 statement. However, the Provision 29 statement does not amend or extend the auditor’s responsibilities under law, regulation or the ISAs (UK) and, in all but exceptional circumstances, should not give rise to significant additional audit work or cost. The small number of additions to the auditing standards brought about by these changes are intended to ensure that the auditing standards are aligned with the UK regulatory framework.

Enhancing the communicative value of the auditor’s report

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

Summary of feedback

The FRC’s proposals for enhancing the communicative value of the auditor’s report comprised three new requirements within ISA (UK) 701:

- An overarching requirement for auditors to convey information that is of relevance to users of the financial statements;
- Mandating key observations for all key audit matters; and
- The inclusion of communications on qualitative aspects of an entity’s accounting practices.

Each proposal is discussed in turn below.

Overarching requirement for relevance

Respondents that commented on this specific proposal were generally positive, though some expressed scepticism on how successful it might be in practice in the absence of specific guidance. The associated application material suggesting that analyst reports might be a means of obtaining a user perspective was supported by one respondent, but opposed by another.

FRC response

The FRC welcomes the support for an overarching approach for relevance. On further consideration, we have decided to transfer the proposed material away from the 'Requirements' section of ISA (UK) 701 to the 'Introduction' section. This better reflects the intent of this material, which is intended to provide additional assistance to auditors on how they should approach discharging the requirements of this standard. Since the concept of relevance to users is bound to the context of the audited entity, it would not be practical to provide comprehensive guidance to cover every possible eventuality.

Key observations

Of those respondents that expressed a view on mandating key observations for all key audit matters, 17 were supportive and 3 were not supportive. The responses also raised a number of issues with respect to specific aspects of the draft proposals. The principal areas related to the following:

- A requirement to include key observations for all key audit matters created risks of increased clutter and boilerplate within the auditor's report, and that significant issues would become harder to identify for users. Several respondents expressed concern over the proposed guidance to positively state that the auditor did not have a specific key observation to make with respect to a specific key audit matter.
- Inclusion of key observations for all key audit matters would necessarily involve additional review time within audit teams and would increase the cost of audit.

FRC response

The FRC welcomes the support expressed for requiring auditors to make key observations for all auditor's reports in scope of ISA (UK) 701. The basis for standardising the approach to key observations for all audits subject to this standard is:

- A common approach to applying key observations and allows firms to apply a common methodology for all audits that require the application of this standard. This reduces complexity for firms in applying the ISAs (UK).
- Several consultation responses from investors strongly supported this change on the basis that it would provide decision-useful information.
- The revised version of ISA (UK) 570 *Going Concern* requires auditors to make key observations with respect to going concern regardless of the type of entity. Limiting key observations to a specific type of entity would create a discrepancy between auditor reporting requirements in ISA (UK) 701 and ISA (UK) 570.

The feedback received during the consultation has also been important in further refining the proposed changes. In particular, the FRC is mindful of concerns that the proposals could result in additional costs for both audit firms and preparers, and a number of changes have been made to mitigate this risk. The impact of these changes is to place greater emphasis on considerations of user relevance when auditors are considering whether to make a key observation. If a key

observation is not relevant to users (and is therefore not material in the context of the audit and the financial statements), then there is no obligation for the auditor to include it in their commentary on a specific key audit matter. This should mitigate the risk of incremental costs associated with applying the revised requirements.

Qualitative aspects of the entity's accounting practices

The requirement for key observations also encouraged auditors to communicate their views on significant qualitative aspects of the entity's accounting practices. Several respondents welcomed the intent of increasing the volume of useful information within the auditor's report. Others identified the following issues with the FRC's proposals:

- The potential impact on audit costs due to additional review and the need for firms to manage risk. However, several respondents, mainly representing investors, noted that in their view shareholders were willing for investee companies to bear any additional cost of bringing in these measures because of the benefits that this reporting would bring for the investor community.
- The proposed changes fail to differentiate between the characteristics of private reporting to an entity's management and governance structures, and public reporting to shareholders. This could compromise communications between the auditor and the entity's management.
- Some respondents were not supportive of the focus on accounting estimates within the proposed supporting application material. Some respondents argued this could create an expectation gap on responsibilities for preparing accounting estimates, and that the description of reasonable ranges for accounting estimates might confuse users.

FRC response

The design of the FRC's proposals mitigates risks of incremental costs associated with this requirement. It does not require auditors to perform additional audit procedures, and the auditor is already required to communicate their views on significant qualitative aspects of the entity's accounting practices to the audit committee. The FRC expects that these communications would be tailored appropriately for inclusion in the auditor's report with minimal cost and effort. To support this, we have removed the requirement that the auditor provides commentary on significant qualitative aspects of the entity's accounting practices as part of their key observations with respect to a key audit matter. Instead, the supporting guidance now states that the auditor can use this commentary to form the basis of a key observation if it is relevant to users.

The FRC also recognises the importance of maintaining strong communications between the auditor and the entity. However, ISA (UK) 701 sets out that private reporting to the entity forms the basis for identifying and reporting key audit matters and other requirements. The matters that are communicated to the entity through ISA (UK) 260 already form the basis for public reporting. The new requirements identify certain aspects of that private reporting which can provide users with relevant insight into the audit process and provide a strong basis for the auditor to explain how they arrived at their conclusions. However, auditors must apply their professional judgement in identifying relevant matters and how those matters are then communicated in the auditor's report.

The basis for the focus on accounting estimates is that ISA (UK) 701 identifies these as a potential source for key audit matters. There is also greater scope for auditors to communicate their judgements in relation to accounting estimates, since the related auditing procedures heavily rely upon the use of judgement. The auditing standards permit the auditor to assume that users have an understanding of accounting estimates, which permits the inclusion of high-level commentary for the basis of those judgements within the auditor's report.

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?

Summary of feedback

A total of 17 respondents expressed support for the FRC's proposals, while 9 were not supportive. The key arguments in favour of the changes were that the proposed changes would enhance user understanding of the audit:

- The proposed requirement would provide insight to investors in relation to the control environment at the audited entity; and
- This description provides an opportunity for auditors to enhance user understanding of the audit process, and help close the expectation gap on users' understanding of the auditor's responsibilities with respect to internal controls at the audited entity.

A few respondents noted that the proposed changes were timely due to the introduction of the revised requirements included within Provision 29 of the UK Corporate Governance Code, which requires boards to declare the effectiveness of their material internal controls at the balance sheet date and explain how they monitor and review them. A small number of firms commented that they were already implementing a similar approach to that proposed by the FRC.

Several concerns were raised by respondents who were not in favour of the proposed changes. Some respondents expressed concern that these changes would widen the expectation gap which they believed existed between the auditor's duties with respect to internal controls, and user understanding of these duties. Others argued that the new requirement would result in boilerplate disclosures, or that users of the auditor's report would not understand the judgements involved in the auditor's choice between a controls-based or substantive approach to performing the audit.

FRC response

The FRC does not consider that a requirement for auditors to describe the impact of the entity's controls on the audit will confuse users over the scope of an audit. Instead, it enables auditors to explain how the entity's control environment impacted the performance of the audit, thereby helping to bridge any expectation gap between users' understanding and the auditor's formal responsibilities. The requirement also meets a frequently-expressed desire from users to understand the extent to which the auditor's testing strategy relies upon the entity's own controls. It will also provide an opportunity for auditors to provide users with further insights into the audit based upon the work it has done on those controls.

The FRC acknowledges some of the concerns expressed in the feedback, and in response has revised the application material for the finalised standard. We have removed the specific guidance suggesting that firms explain why they are not seeking to place reliance upon the entity's controls. This is in response to submissions from some audit firms that contemporary testing approaches adopted by auditors do not always fit the distinction between controls-based and substantive procedures, and concerns that the resulting narrative could result in boilerplate disclosures.

In addition, the application material has been amended to make it clear that any communication of instances where the auditor was unable to take reliance upon controls must be relevant to the user. For example, there may be instances where a company determines that a control is satisfactory for its own purposes, but the auditor determines that they are unable to place reliance upon that control (for instance because it lacks sufficient precision). Where there are adequate compensatory controls in place, auditor communication of this inability is unlikely to be relevant to users of the financial statements and therefore included in the report.

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?

Summary of feedback

Ten respondents were either supportive or partially supportive of the FRC's proposals, and 16 were not supportive. Positive support for the proposals stated the potential for these changes to provide greater insight to users of audited financial statements. The potential for these changes to act as an effective 'hook' to support investor engagement with the outcomes of the audit process were identified by a number of responses. Other arguments noted the potential for the proposals to address the information asymmetry between management and shareholders with respect to deficiencies in the control environment, which would support decision making by investors.

Many respondents also made positive comments on the design of the proposals. Using a high threshold to identify which, if any, of the significant deficiencies merited inclusion in the auditor's report was favourably commented on in some responses. Limiting the requirement to entities that apply the UK Corporate Governance Code was also welcomed by a number of respondents, though a few did advocate for applying the requirement, or an amended version of the requirement, to all audits. Finally, it was noted that some firms were already adopting an approach which was related to the one set out in the FRC's proposals.

Alternative approaches to reporting significant deficiencies

Many respondents from audit firms noted that there were already avenues for the auditor's report to communicate a significant deficiency in internal controls. In their view, key audit matters provided an opportunity to communicate such a deficiency. Other responses stated that the auditor's responsibilities with respect to other information as set out in ISA (UK) 720 provided a route to report any discrepancy between management's representations on the operation of

material controls as required by Provision 29 and the auditor's knowledge gained during the course of the audit.

The potential to widen users' expectation gap over the auditor's work on internal controls

Some stakeholders also noted the scope for a widening of any expectation gap between users' perception of the auditor's responsibilities with respect to internal controls and the formal requirements set out by the auditing standards. Others noted the potential for an absence of any reporting on significant deficiencies in internal controls to be interpreted as assurance that the control environment at the entity is satisfactory.

Some responses also suggested that users would be confused by differences in outcome. In particular, two specific issues were identified:

- There was considerable scope for confusion for users between the requirements on internal controls in the UK Corporate Governance Code and the proposed requirement in ISA (UK) 701. For example, the universe of controls covered by Provision 29 is wider than those that are typically within the scope of an audit of financial statements and relates to their operation at the balance sheet date. The auditor's existing responsibilities with respect to identifying significant deficiencies in internal controls under ISA (UK) 265 relate to the entire reporting period subject to audit.
- Where entities maintained dual listings, with a primary or secondary listing in the US, many respondents noted the potential for confusion between reporting on internal controls as a consequence of Sarbanes-Oxley requirements and the FRC's proposals.

Terminology

Many respondents voiced concerns about the terminology used in the exposure draft. Many audit practitioners expressed their view that the use of 'highly material' to describe the threshold for identifying significant deficiencies in internal controls reported under ISA (UK) 265 as that could be communicated in the auditor's report was poorly defined and likely to be interpreted by different firms in different ways. Similar concerns were articulated about the use of 'significant deficiency in internal controls', a term used within the context of private reporting to those charged with governance at the entity, within the context of public reporting via the auditor's report, even though this is a defined term within the ISAs (UK).

Additional costs for audit firms and audited entities

Many respondents expressed the view that these changes would result in additional costs for both auditors and audited entities. Preparation and review of the text required to be included in the auditor's report would inevitably involve additional time inputs, usually from senior members of the audit team and from elsewhere within audit firms. Additionally, discussion and clearance of the material would also require extensive discussions with management and at the audit committee.

FRC response

The FRC notes that at least one audit firm has already introduced reporting which is not dissimilar to the FRC's own proposals. These are intended to cater for heightened user interest into the characteristics of the control environment at audited entities, and to provide a basis for further investor engagement on the basis of the audit. The FRC's snapshots on Key Audit Matters also confirm that it was exceptionally rare for auditors to treat significant deficiencies in internal control as key audit matters.

We do not consider that this requirement could be taken to represent assurance over the entity's internal controls. In the same way as the auditor is required to use the communication provided to those charged with governance as a basis for key audit matters, the new requirement requires the auditor to consider which, if any, of any significant deficiencies in internal control that are communicated to those charged with governance merit inclusion in the auditor's report. It cannot reasonably be interpreted as a statement of assurance over internal controls, especially when contextualised with the new requirement for the auditor's discussion of how the entity's controls impacted the audit.

The FRC recognises respondents' concerns over potential incremental costs associated with the new requirement. However, its design is intended to fundamentally mitigate these costs. Its scope of the requirement is deliberately limited to companies that apply the UK Corporate Governance Code, and the threshold for such reporting is intentionally high and is solely a reporting requirement, not a requirement that necessitates additional work effort. In response to feedback, the 'highly material' terminology used in the exposure draft has been amended to a set of considerations intended to support the auditor in identifying control deficiencies of sufficient significance to warrant inclusion in the auditor's report. These comprise:

- Whether the significant deficiency had a significant and pervasive effect on the auditor's assessment of, or response to, risk; and
- Whether the significant deficiency is relevant to users of the financial statements.

These constitute a very high bar for determining whether a significant deficiency merits communication to users. There is no requirement for auditors to include all significant deficiencies identified during the audit, and the FRC does not expect that communication of deficiencies of this magnitude to be a common occurrence.

The proposals also rely on a well-established and well-understood framework for auditors to identify significant deficiencies in internal control set out in ISA (UK) 265. This should ensure consistency in the identification of the pool of significant deficiencies for consideration for communication in the auditor's report. Auditors will have to apply professional judgement in identifying which, if any, of these significant deficiencies should be communicated. This is identical to the approach that auditors are required to apply when identifying key audit matters.

Other changes

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?

Summary of feedback

Seventeen respondents expressed support in principle for removing the distinction between Other Information and Statutory Other Information within ISA (UK) 720, citing benefits such as improved alignment with the International Auditing and Assurance Standards Board (IAASB)’s international standard, reduced boilerplate reporting, and a clearer focus on information most relevant to users of the annual report. Some also noted that the distinction has become less meaningful as narrative and sustainability disclosures have expanded. However, some respondents emphasised the need for safeguards, clearer boundaries, and supporting guidance to prevent misinterpretation of the auditor’s role.

Concerns about scope creep and expanded auditor responsibilities

A theme across both supportive and non-supportive respondents was concern that the revised drafting in the original exposure draft—particularly the removal of references to work being limited to that obtained “during the course of the audit” in proposed paragraphs 12-1 and 14(c)—could be read as significantly broadening auditor responsibilities.

Respondents warned that this could require auditors to:

- Obtain an understanding of all legal and regulatory requirements applicable to the entire body of other information.
- Assess voluntary narrative and sustainability information using frameworks that may be beyond auditors’ expertise.
- Understand processes for preparing all other information, not just statutory disclosures.

Many respondents urged the FRC to reinstate, or incorporate elsewhere, clear language stating that auditor responsibilities for other information remain limited to assessing material inconsistencies with the financial statements and knowledge gained during the audit. Many respondents, including those broadly supportive, also requested further FRC guidance to set clear practical expectations for the proposed revisions.

Risk of increased audit work effort and cost

A widely shared concern, including of supporters, was that the proposal could drive significant additional work, increasing cost and burden for both auditors and management. Examples cited include:

- Need to understand the entity’s processes for all other information.

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- Considering compliance against multiple legal and regulatory frameworks (e.g., sustainability-related, governance codes, overseas requirements).

FRC response

The FRC acknowledges the concerns raised regarding the potential broadening of auditor responsibilities arising from the proposed removal of references to work being limited to that obtained 'during the course of the audit'. This was not the FRC's intent; the proposals were not designed to expand the scope of the auditor's legal responsibilities beyond those already established in ISA (UK) 720, and clarity is necessary to avoid any unintended interpretation to the contrary.

In response to this feedback, the FRC has amended the wording of the requirements to reinstate explicit language confirming that the auditor's responsibilities for other information remain limited to the auditor's knowledge obtained during the audit. We have also inserted new wording clarifying that the auditor is required to obtain an understanding of legal and regulatory requirements only to the extent necessary for fulfilling those responsibilities.

To further support consistent application, we have added three new pieces of application material:

- **Contextualising the auditor's work** – Additional material clarifies that the auditor performs this work in the context of the audit, and that the understanding of relevant legal and regulatory requirements is ordinarily obtained through procedures performed under ISA (UK) 315 and ISA (UK) 250, meaning that there is no need for additional work effort.
- **Use of professional judgement in determining the extent necessary** – New application material explains that the auditor applies professional judgement when determining the extent of understanding needed. Factors relevant to this judgement include:
 - Whether the relevant legal or regulatory requirements are mandatory;
 - Whether the auditor is required to report publicly on the other information in the auditor's report; and
 - Whether there are other legal or regulatory obligations placed on the auditor beyond those contained within ISA (UK) 720.
- **Focus on requirements that are generally accepted** – A further piece of application material explains that, in obtaining this understanding, the auditor is expected to identify requirements that are generally accepted as applicable to the other information, rather than conducting an exhaustive review of all potential laws and regulations.

By reinstating language that limits the auditor's responsibilities to knowledge obtained during the audit, and by clarifying that the auditor need only obtain an understanding to the extent necessary, the revised drafting ensures that no additional work effort is required beyond what is already undertaken in the normal course of the audit.

Moreover, action is required now to ensure that auditor reporting remains proportionate, clear, and aligned with both international developments and stakeholder expectations. The current distinction

between Other Information and Statutory Other Information has become increasingly difficult to apply in practice as narrative and sustainability reporting continues to evolve. Retaining this distinction during a period of ongoing change would likely prolong complexity for auditors and reduce the relevance of reporting to users. The targeted revisions made by the FRC provide clarity in the interim and prevent the need for firms to maintain parallel interpretations of Other Information categories that no longer reflect modern reporting practices.

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?

Summary of feedback

The IAASB’s PIE Track 1 project focused on how auditors communicate the application of heightened independence requirements for the audit of PIEs and similar entities that, in the UK, are required by law. A total of 23 responses addressed this question in their replies. All were supportive of the FRC’s proposals to amend ISA (UK) 700 and ISA (UK) 260 to maintain alignment with the international ISAs.

FRC response

The FRC welcomes the support expressed for its long-standing policy objective of maintaining alignment between the international ISAs and the ISAs (UK), and its proposed approach to revising the ISAs (UK) in response to the IAASB’s PIE Track 1 project. The proposed changes to ISA (UK) 700 and ISA (UK) 260 have been included in the revised versions of both standards issued alongside this Feedback Statement. Some minor amendments have been made to paragraphs A35-1 – A35-3 in the finalised standard to ensure alignment with the current version of the FRC’s Ethical Standard.

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?

The IAASB’s Listed Entity and PIE Track 2 project makes narrow scope amendments to auditing and quality management standards to align them with revisions to the IESBA’s revised ethics framework. The key change is a move away from a narrow, exchange-based focus on ‘listed entities’ towards the broader concept of ‘publicly traded entities’, reflecting a more principles-based approach. Crucially, from a UK perspective, this change in terminology is not expected to result in any substantive changes to the scope of entities captured.

Summary of feedback

A majority of respondents supported the FRC’s proposed approach, but there were a number of responses which disagreed. In total, 22 responses addressed this question, with 14 supportive of the FRC’s approach and 7 not supportive. One response was non-committal.

A common theme of both supportive and non-supportive responses was a strong belief that this should not set a precedent for the FRC revising the ISAs (UK) without an opportunity for public comment. Several respondents made it clear that their support for the proposed approach was contingent on adequate communication of these changes to stakeholders and that the changes arising from the Listed Entity and PIE Track 2 project are limited.

FRC response

The FRC welcomes the support that most respondents had for the proposed approach to aligning the ISAs (UK) with the revisions to the international standards through the PIE Track 2 project. We understand the concern expressed by some respondents in relation to amending the ISAs (UK) without an opportunity for due process and the worry that this might constitute a precedent for further changes. The FRC confirms that it would not unilaterally revise the ISAs (UK) without public consultation. In this case however, the underlying changes are straightforward, and there is stakeholder support for the proposed approach. Moreover, these narrow scope amendments have already been subject to public consultation as part of the IAASB's due process procedures, and we do not propose to change them while including them in UK standards.

Replacement of the term 'listed entity' with 'publicly traded entity' will result in a mismatch in the terminology used within the ISAs (UK) and the FRC's Ethical Standard. This is because the Ethical Standard uses the category of listed entity to identify additional ethical requirements for auditors of such entities. To resolve this mismatch, the FRC intends to update its [Glossary of Terms \(Auditing and Ethics\)](#) to:

- Include 'publicly traded entity' with a supporting definition; and
- Amend the definition of 'listed entity' to clarify that, for the purposes of the Ethical Standard, this term is directly equivalent to 'publicly traded entity'.

The FRC will replace the term 'listed entity' during the next revision of the Ethical Standard.

The revised versions of ISA (UK) 700, ISA (UK) 701, and ISA (UK) 720 published alongside this Feedback Statement include the conforming amendments arising from both Tracks 1 and 2 of the IAASB's Listed Entity and Public Interest Entity Project. It also includes the conforming amendments arising from the issuance of ISA (UK) 240 (Revised March 2026) and ISA (UK) 570 (Revised March 2026) earlier this year.

Further FRC support for and subsequent review of the proposed enhancements

Many respondents requested further support from the FRC in implementing the proposed changes. These included further guidance on how to apply the proposed requirements with respect to key observations and communicating significant deficiencies in internal controls within the auditor's report. Many respondents also expressed a desire for the FRC's *Bulletin on Illustrative Auditor's Reports On United Kingdom Private Sector Financial Statements* to be updated to reflect any changes in the auditing standards. Additionally, many responses called for a post-implementation review of the changes to understand their impact on audit practice.

In response, the FRC commits to undertaking the following:

- An audit and assurance sandbox initiative to explore any implementation challenges associated with these changes. This may lead to the publication of further guidance to support practitioners if deemed appropriate.
- The FRC's bulletin on illustrative auditor reports will be updated and issued on a timely basis to support the introduction of these new requirements for financial statement audits of periods beginning on or after 15 December 2026.
- A post-implementation review will be performed to consider the impact of these changes and to identify examples of good practice in applying these new requirements.

3. Impact assessment

The FRC is a principles-based regulator and is committed to issuing proportionate Standards and Guidance that support the provision of high-quality, independent audit. As a matter of policy, the FRC's auditing standards are based on the corresponding international standards issued by the IAASB. Where necessary the international standards are augmented with additional requirements to address specific UK legal and regulatory requirements; and additional guidance that is appropriate in the UK national legislative, cultural and business context.

In developing the proposed revisions to ISA (UK) 700, ISA (UK) 701, and ISA (UK) 720, we have sought to maintain our support for the underlying international standards while introducing supplemental requirements and guidance to address concerns currently identified in the UK. In doing so, we have been able to streamline many of the UK pluses included in standards as a result of changes to EU and UK Company Law in previous years.

We recognise that limited additional costs will be incurred by practitioners, including those relating to performance, staff training, and familiarisation with the standards. These can be incorporated within periodic updates that auditors undertake to ensure they understand changes to auditing, ethics and independence, and accounting standards. We also anticipate that there will be cost savings, through the removal of the need to describe the extent to which the audit could detect irregularities, including fraud, for auditor's reports outside the scope of ISA (UK) 701. We also believe that the significant public interest benefits will accrue from the inclusion of more decision-useful information within auditor's reports for listed entities and those adhering to the UK Corporate Governance Code. While these benefits are unquantifiable, they will outweigh the costs of changes that may be necessary for the methodologies adopted by audit firms.

Summary of feedback

Many respondents argued that the FRC's impact assessment substantially underestimates the true cost of the proposed changes. Audit firms, professional bodies, and some companies predict significant increases in audit effort, senior time, and contentious discussions with management, particularly regarding:

- Enhanced KAM disclosures.
- Mandatory key observations.
- Internal control reporting.
- Treatment of 'other information'.

Investor groups generally accept that the increased cost is justified if the disclosures provide meaningful, decision-useful insight—but audit firms warned the proposals risk producing more boilerplate unless supported by strong guidance.

FRC Response

The FRC recognises that change can result in additional incremental costs. However, we do not agree that the proposals will result in significant additional resources for both audit firms and preparers. All the new requirements are based around existing work that the auditor already performs during the audit, and no additional audit work is required. Enhanced KAM disclosures and key observations are based on reporting on matters that auditors are already required to communicate to audit committees, and reflect current best practice by audit firms. These should only lead to additional discussion between the auditor and management in cases where there are significant differences of opinion between both parties. It is in these cases that these proposals will most support the information needs of users and provide investors with additional insight into the audit.

Neither the requirement to report on how the entity's internal controls impacted the performance of the audit, nor the requirement to consider whether a significant deficiency in internal control merits inclusion in the auditor's report, is intended to drive a change in the auditor's approach to the audit or in how the auditor evaluates and responds to the entity's control environment. Both reporting requirements are grounded in work the auditor already undertakes as part of the audit and are intended to enhance transparency in reporting, rather than alter audit strategy or the manner in which controls are considered.

As noted above, the FRC will also undertake an initiative through the Audit and Assurance Sandbox to support firms in applying these new requirements, and to understand if further guidance is warranted. This also supports further interventions to ensure that the cost of these new enhancements is minimised, and that the risk of boilerplate disclosures is avoided. We will also revise the Auditor Reporting Bulletin to provide illustrative examples to support consistent market practice.

Appendix: List of consultation respondents

Responses to the consultation can be found on the [FRC website](#).

List of respondents

1. Affinia
2. Association of Chartered Certified Accountants (ACCA)
3. Association of Investment Companies
4. Association of Practicing Accountants
5. Audit Committee Chair's Independent Forum
6. Azets Audit Services Limited
7. BDO LLP
8. Chartered Accountants Ireland
9. Corporate Reporting Users Forum
10. Deloitte LLP
11. Ernst & Young LLP
12. Forvis Mazars LLP
13. Grant Thornton UK LLP
14. Institute of Chartered Accountants in England and Wales (ICAEW)
15. Institute of Chartered Accountants of Scotland (ICAS)
16. International Corporate Governance Network
17. Investment Association
18. KPMG LLP
19. Menzies LLP
20. Mercia Group Limited
21. Moore Kingson Smith LLP
22. National Audit Office

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23. Norges Bank Investment Management
 24. Price Bailey LLP
 25. PricewaterhouseCoopers LLP
 26. Railpen
 27. RSM UK Audit LLP



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