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# INTERNATIONAL STANDARD ON AUDITING (UK) 701 (REVISED MAY 2026)

*Communicating Key Audit Matters in the  
Independent Auditor's Report*

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**INTERNATIONAL STANDARD ON AUDITING (UK) 701  
(REVISED MAY 2026)**

**COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT  
AUDITOR'S REPORT**

(Effective for audits of financial statements for periods commencing on or after 15 December 2026)

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International Standard on Auditing (UK) (ISA (UK)) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, should be read in conjunction with ISA (UK) 200 (Revised June 2016), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)*.

# Introduction

## Scope of this ISA (UK)

1. This International Standard on Auditing (UK) (ISA (UK)) deals with the auditor's responsibility to communicate key audit matters in the auditor's report. It is intended to address both the auditor's judgment as to what to communicate in the auditor's report and the form and content of such communication.

1-1. This ISA (UK) also deals with the auditor's responsibility to communicate:

- other audit planning and scoping matters, and matters relating to significant deficiencies in internal controls; and
- The extent to which the audit was considered capable of detecting irregularities, including fraud

in the auditor's report.

2. The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. Communicating key audit matters provides additional information to intended users of the financial statements ("intended users") to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Communicating key audit matters may also assist intended users in understanding the entity and areas of significant management judgment in the audited financial statements. (Ref: Para. A1–A4)

2-1. The auditor aims to communicate the matters required by this ISA (UK) in a manner that:

- (a) conveys information that is of relevance to users of the financial statements (Ref: Para. A4-1);
- (b) enables users to understand their significance in the context of the audit of the financial statements as a whole, and not as discrete opinions on separate elements of the financial statements, or the entity's system of internal control; and
- (c) uses language and information that is directly related to the circumstances of the entity and minimizes the use of standardized phrases and terminology.

3. The communication of key audit matters in the auditor's report may also provide intended users a basis to further engage with management and those charged with governance about certain matters relating to the entity, the audited financial statements, or the audit that was performed.

4. Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not:

- (a) A substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;

- (b) A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with ISA (UK) 705 (Revised June 2016);<sup>1</sup>
  - (c) A substitute for reporting in accordance with ISA (UK) 570 (Revised March 2026);<sup>2</sup>
  - (d) A separate opinion on individual matters. (Ref: Para. A5–A8A)
5. This ISA (UK) applies to audits of complete sets of general purpose financial statements of publicly traded entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report. This ISA (UK) also applies when the auditor is required by law or regulation to communicate key audit matters in the auditor's report.<sup>3</sup> However, ISA (UK) 705 (Revised June 2016) prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation.<sup>4</sup>

This ISA (UK) also applies to audits of complete sets of general purpose financial statements of public interest entities that are not publicly traded, and entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code.

### Effective Date

6. This ISA (UK) is effective for audits of financial statements for periods commencing on or after 15 December 2026. Early adoption is permitted.

### Objectives

7. The objectives of the auditor are to determine key audit matters and, having formed an opinion on the financial statements, communicate those matters by describing them in the auditor's report.

### Definition

8. For purposes of the ISAs (UK), the following term has the meaning attributed below:
- Key audit matters—Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance. (Ref: Para. A8-1)

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<sup>1</sup> ISA (UK) 705 (Revised June 2016), *Modifications to the Opinion in the Independent Auditor's Report*.

<sup>2</sup> ISA (UK) 570 (Revised March 2026), *Going Concern*, paragraphs 34–38.

<sup>3</sup> ISA (UK) 700 (Revised May 2026), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 30–31.

<sup>4</sup> ISA (UK) 705 (Revised June 2016), paragraph 29.

## Requirements

### Determining Key Audit Matters

9. The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A9–A18A)
  - (a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with ISA (UK) 315 (Revised July 2020).<sup>5</sup> (Ref: Para. A19–A22)
  - (b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that are subject to a high degree of estimation uncertainty. (Ref: Para. A23–A24)
  - (c) The effect on the audit of significant events or transactions that occurred during the period. (Ref: Para. A25–A26)
10. The auditor shall determine which of the matters determined in accordance with paragraph 9 were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters. (Ref: Para. A9–A11, A27–A30)

### Communicating Key Audit Matters

11. The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters," unless the circumstances in paragraphs 14 or 15 apply. The introductory language in this section of the auditor's report shall state that:
  - (a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and
  - (b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters. (Ref: Para. A31–A33-5)

#### *Key Audit Matters Not a Substitute for Expressing a Modified Opinion*

12. The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with ISA (UK) 705 (Revised June 2016) as a result of the matter. (Ref: Para. A5)

#### *Descriptions of Individual Key Audit Matters*

13. The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address: (Ref: Para. A34–A41)
  - (a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and (Ref: Para. A42–A45-1)
  - (b) How the matter was addressed in the audit, including significant judgments made by the engagement team with respect to the matter. (Ref: Para. A46–A51)

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<sup>5</sup> ISA (UK) 315 (Revised July 2020), *Identifying and Assessing the Risks of Material Misstatement*.

- 13-1. The auditor shall communicate, where relevant, key observations arising with respect to each key audit matter. (Ref. Para. A51-1–A51-10)
- 13-2. For audits of financial statements of public interest entities, in describing each of the key audit matters in accordance with paragraph 13, the auditor's report shall provide, in support of the audit opinion:
- (a) A description of the most significant assessed risks of material misstatement, (whether or not due to fraud);
  - (b) A summary of the auditor's response to those risks; and
  - (c) Where relevant, key observations arising with respect to those risks.
- Where appropriate to the above information provided in the auditor's report concerning each of the most significant assessed risks of material misstatement (whether or not due to fraud), the auditor's report shall include a clear reference to the relevant disclosures in the financial statements.
- 13-3. In describing why the matter was determined to be a key audit matter in accordance with paragraph 13(a), the description shall indicate that the matter was one of the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor.

*Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report*

14. The auditor shall describe each key audit matter in the auditor's report unless: (Ref: Para. A53–A56)
- (a) Law or regulation precludes public disclosure about the matter; or (Ref: Para. A52)
  - (b) In extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. This shall not apply if the entity has publicly disclosed information about the matter. (Ref: Para. A53-1)

*Interaction between Descriptions of Key Audit Matters and Other Elements Required to Be Included in the Auditor's Report*

15. The following are, by their nature, key audit matters: a matter giving rise to a modified opinion in accordance with ISA (UK) 705 (Revised June 2016) or, in accordance with ISA (UK) 570 (Revised March 2026), a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern or when significant judgments were made by management in concluding that there is no material uncertainty. However, in such circumstances, these matters shall not be described in the Key Audit Matters section of the auditor's report and the requirements in paragraphs 13–14 do not apply. Rather, the auditor shall:
- (a) Report on these matter(s) in accordance with the applicable ISA(s) (UK); and
  - (b) Include a reference to the Basis for Qualified (Adverse) Opinion, or the Material Uncertainty Related to Going Concern or the Going Concern section(s) in the Key Audit Matters section. (Ref: Para. A6–A7)

## *Form and Content of the Key Audit Matters Section in Other Circumstances*

16. If the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate or that the only key audit matters communicated are those matters addressed by paragraph 15, the auditor shall include a statement to this effect in a separate section of the auditor's report under the heading "Key Audit Matters." (Ref: Para. A57–A59-1)

### **Irregularities, Including Fraud**

- 16-1. The auditor's report shall explain to what extent the audit was considered capable of detecting irregularities, including fraud. (Ref: Para. A59-2–A59-7)

### **Communicating Other Audit Planning and Scoping Matters, and Matters Relating To Internal Control**

- 16-2. The auditor's report shall: (Ref: Para. A59-8)

- (a) Specify:
  - (i) The threshold used by the auditor as being materiality for the financial statements as a whole;<sup>5a</sup> and
  - (ii) Performance materiality.<sup>5b</sup>
- (b) Provide an explanation of the significant judgments made by the auditor in determining materiality and performance materiality (Ref: Para. A59-9)
- (c) Provide an overview of the scope of the audit,<sup>5c</sup> including an explanation of how such scope:
  - (i) Addressed each key audit matter relating to one of the most significant risks of material misstatement disclosed in accordance with paragraph 13(b); and
  - (ii) Was influenced by the auditor's application of materiality disclosed in accordance with paragraph 16-2(a)–(b). (Ref: Para. A59-10)

- 16-3. In the case of entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code, or to explain why they have not, the auditor is required to:

- (a) Describe in the auditor's report the impact of the entity's system of internal control on the performance of the audit; (Ref: Para. A59-11–A59-12)
- (b) Determine which, if any, of the significant deficiencies in internal control identified in accordance with ISA (UK) 265 should be communicated in the auditor's report, and communicate any such identified significant deficiencies as part of the description of the impact of internal controls at the entity on the performance of the audit required by paragraph 16-3(a). (Ref: Para. A59-13–A59-16)

<sup>5a</sup> As required by paragraph 10 of ISA (UK) 320 (Revised June 2016), *Materiality in Planning and Performing an Audit*.

<sup>5b</sup> As required by paragraph 11 of ISA (UK) 320 (Revised June 2016).

<sup>5c</sup> See also paragraphs 15 and A11–A16 of ISA (UK) 260 (Revised November 2019), *Communication with Those Charged with Governance*; and paragraph 57 of ISA (UK) 600 (Revised September 2022), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

## Communication with Those Charged with Governance

17. The auditor shall communicate with those charged with governance:
- (a) Those matters the auditor has determined to be the key audit matters; or
  - (b) If applicable, depending on the facts and circumstances of the entity and the audit, the auditor's determination that there are no key audit matters to communicate in the auditor's report. (Ref: Para. A60–A63)

## Documentation

18. The auditor shall include in the audit documentation:<sup>6</sup> (Ref: Para. A64)
- (a) The matters that required significant auditor attention as determined in accordance with paragraph 9, and the rationale for the auditor's determination as to whether or not each of these matters is a key audit matter in accordance with paragraph 10;
  - (b) Where applicable, the rationale for the auditor's determination that there are no key audit matters to communicate in the auditor's report or that the only key audit matters to communicate are those matters addressed by paragraph 15; and
  - (c) Where applicable, the rationale for the auditor's determination not to communicate in the auditor's report a matter determined to be a key audit matter.

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## Application and Other Explanatory Material

### Scope of this ISA (UK) (Ref: Para. 2)

- A1. Significance can be described as the relative importance of a matter, taken in context. The significance of a matter is judged by the auditor in the context in which it is being considered. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients. This involves an objective analysis of the facts and circumstances, including the nature and extent of communication with those charged with governance.
- A2. Users of financial statements have expressed an interest in those matters about which the auditor had the most robust dialogue with those charged with governance as part of the two-way communication required by ISA (UK) 260 (Revised November 2019)<sup>7</sup> and have called for additional transparency about those communications. For example, users have expressed particular interest in understanding significant judgments made by the auditor in forming the opinion on the financial statements as a whole, because they are often related to the areas of significant management judgment in preparing the financial statements.
- A3. Requiring auditors to communicate key audit matters in the auditor's report may also enhance communications between the auditor and those charged with governance about those matters, and may increase attention by management and those charged with governance to the disclosures in the financial statements to which reference is made in the auditor's report.

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<sup>6</sup> ISA (UK) 230 (Revised June 2016), *Audit Documentation*, paragraphs 8–11 and A6.

<sup>7</sup> ISA (UK) 260 (Revised November 2019), *Communication with Those Charged with Governance*.

- A4. ISA (UK) 320 (Revised June 2016)<sup>8</sup> explains that it is reasonable for the auditor to assume that users of the financial statements:
- (a) Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
  - (b) Understand that the financial statements are prepared, presented and audited to levels of materiality;
  - (c) Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
  - (d) Make reasonable economic decisions on the basis of the information in the financial statements.

Because the auditor's report accompanies the audited financial statements, the users of the auditor's report are considered to be the same as the intended users of the financial statements.

A4-1. Relevance is a characteristic of auditor communication that demonstrates an awareness of specific areas of an audit of financial statements that may be of particular interest to intended users, is related to the specific context of the audited entity, and assists them in their understanding of the financial statements and the audited entity. The auditor will have considered the user perspective while planning the audit, in particular with respect to the determination of materiality. These considerations provide a frame of reference for considering relevance. The auditor may also further develop a user perspective on what constitutes relevant information by reading third party analyst reports and considering other financial information published by the entity, such as prospectuses and investor briefings, to understand the information needs of users. At the same time, the auditor should remain mindful of the guidance set out in paragraphs A34 to A36 of this ISA (UK) on avoiding the inappropriate provision of original information about the entity.

*Relationship between Key Audit Matters, the Auditor's Opinion and Other Elements of the Auditor's Report* (Ref: Para. 4, 12, 15)

- A5. ISA (UK) 700 (Revised May 2026) establishes requirements and provides guidance on forming an opinion on the financial statements.<sup>9</sup> Communicating key audit matters is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation. ISA (UK) 705 (Revised June 2016) addresses circumstances in which the auditor concludes that there is a material misstatement relating to the appropriateness or adequacy of disclosures in the financial statements.<sup>10</sup>
- A6. When the auditor expresses a qualified or adverse opinion in accordance with ISA (UK) 705 (Revised June 2016), presenting the description of a matter giving rise to a modified opinion in the Basis for Qualified (Adverse) Opinion section helps to promote intended users' understanding and to identify such circumstances when they occur. Separating the communication of this matter from other key audit matters described in

<sup>8</sup> ISA (UK) 320 (Revised June 2016), *Materiality in Planning and Performing the Audit*, paragraph 4.

<sup>9</sup> ISA (UK) 700 (Revised May 2026), paragraphs 10–15 and A1–A15.

<sup>10</sup> See paragraph A7 of ISA (UK) 705 (Revised June 2016).

the Key Audit Matters section therefore gives it the appropriate prominence in the auditor's report (see paragraph 15). The Appendix in ISA (UK) 705 (Revised June 2016) includes illustrative examples of how the introductory language in the Key Audit Matters section is affected when the auditor expresses a qualified or adverse opinion and other key audit matters are communicated in the auditor's report. Paragraph A58 of this ISA (UK) illustrates how the Key Audit Matters section is presented when the auditor has determined that there are no other key audit matters to be communicated in the auditor's report beyond matters addressed in the Basis for Qualified (Adverse) Opinion section or Material Uncertainty Related to Going Concern section of the auditor's report.

- A7. When the auditor expresses a qualified or adverse opinion, communicating other key audit matters would still be relevant to enhancing intended users' understanding of the audit, and therefore the requirements to determine key audit matters apply. However, as an adverse opinion is expressed in circumstances when the auditor has concluded that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements:<sup>11</sup>
- Depending on the significance of the matter(s) giving rise to an adverse opinion, the auditor may determine that no other matters are key audit matters. In such circumstances, the requirement in paragraph 15 applies (see paragraph A58).
  - If one or more matters other than the matter(s) giving rise to an adverse opinion are determined to be key audit matters, it is particularly important that the descriptions of such other key audit matters do not imply that the financial statements as a whole are more credible in relation to those matters than would be appropriate in the circumstances, in view of the adverse opinion (see paragraph A47).
- A8. ISA (UK) 706 (Revised June 2016)<sup>12</sup> establishes mechanisms for auditors of financial statements of all entities to include additional communication in the auditor's report through the use of Emphasis of Matter paragraphs and Other Matter paragraphs when the auditor considers it necessary to do so. In such cases, these paragraphs are presented separately from the Key Audit Matters section in the auditor's report. When a matter has been determined to be a key audit matter, the use of such paragraphs is not a substitute for the description of the individual key audit matter in accordance with paragraph 13.<sup>13</sup> ISA (UK) 706 (Revised June 2016) provides further guidance on the relationship between key audit matters and Emphasis of Matter paragraphs in accordance with that ISA (UK).<sup>14</sup>
- A8A. ISA (UK) 240 (Revised March 2026)<sup>15</sup> includes requirements for determining and communicating key audit matters related to fraud. The requirements and guidance in ISA (UK) 240 (Revised March 2026) refer to, or expand on, the application of this ISA (UK).

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<sup>11</sup> ISA (UK) 705 (Revised June 2016), paragraph 8.

<sup>12</sup> ISA (UK) 706 (Revised June 2016), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

<sup>13</sup> See paragraphs 8(b) and 10(b) of ISA (UK) 706 (Revised June 2016).

<sup>14</sup> ISA (UK) 706 (Revised June 2016), paragraphs A1–A3.

<sup>15</sup> ISA (UK) 240 (Revised March 2026), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs 60–62.

## Definition

*Key audit matters* (Ref: Para. 8)

A8-1. In the UK, those matters that were of most significance in the audit of the financial statements of the current period include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

## Determining Key Audit Matters (Ref: Para. 9–10)

A9. The auditor's decision-making process in determining key audit matters is designed to select a smaller number of matters from the matters communicated with those charged with governance, based on the auditor's judgment about which matters were of most significance in the audit of the financial statements of the current period.

A9-1. ISA (UK) 260 (Revised November 2019)<sup>15a</sup> requires the auditor to communicate with those charged with governance those matters that were of most significance in the audit of the financial statements of the current period include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Such matters are key audit matters as explained in paragraph A8-1.

A10. The auditor's determination of key audit matters is limited to those matters of most significance in the audit of the financial statements of the current period, even when comparative financial statements are presented (i.e., even when the auditor's opinion refers to each period for which financial statements are presented).<sup>16</sup>

A11. Notwithstanding that the auditor's determination of key audit matters is for the audit of the financial statements of the current period and this ISA (UK) does not require the auditor to update key audit matters included in the prior period's auditor's report, it may nevertheless be useful for the auditor to consider whether a matter that was a key audit matter in the audit of the financial statements of the prior period continues to be a key audit matter in the audit of the financial statements of the current period.

## *Matters that Required Significant Auditor Attention* (Ref: Para. 9)

A12. The concept of significant auditor attention recognizes that an audit is risk-based and focuses on identifying and assessing the risks of material misstatement of the financial statements, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. For a particular account balance, class of transactions or disclosure, the higher an assessed risk of material misstatement at the assertion level, the more judgment is often involved in planning and performing the audit procedures and evaluating the results thereof. In designing further audit procedures, the auditor is required to obtain more persuasive audit evidence the higher the auditor's assessment of risk.<sup>17</sup> When obtaining more persuasive audit evidence because of a higher assessment of risk, the auditor may increase the quantity of the evidence, or obtain evidence that is more

<sup>15a</sup> ISA (UK) 260 (Revised November 2019), paragraph 15.

<sup>16</sup> See ISA (UK) 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*.

<sup>17</sup> ISA (UK) 330 (Revised July 2017), *The Auditor's Responses to Assessed Risks*, paragraph 7(b).

relevant or reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining corroborating evidence from a number of independent sources.<sup>18</sup>

- A13. Accordingly, matters that pose challenges to the auditor in obtaining sufficient appropriate audit evidence or pose challenges to the auditor in forming an opinion on the financial statements may be particularly relevant in the auditor's determination of key audit matters.
- A14. Areas of significant auditor attention often relate to areas of complexity and significant management judgment in the financial statements, and therefore often involve difficult or complex auditor judgments. In turn, this often affects the auditor's overall audit strategy, the allocation of resources and extent of audit effort in relation to such matters. These effects may include, for example, the extent of involvement of senior personnel on the audit engagement or the involvement of an auditor's expert or individuals with expertise in a specialized area of accounting or auditing, whether engaged or employed by the firm to address these areas.
- A15. Various ISAs (UK) require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:
- ISA (UK) 260 (Revised November 2019) requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.<sup>19</sup> The ISAs (UK) acknowledge potential difficulties in relation to, for example:
    - Related party transactions,<sup>20</sup> in particular limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's length transaction.
    - Limitations on the group audit, for example, where access to information or people may have been restricted.<sup>21</sup>
  - ISA (UK) 220 (Revised July 2021) establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters, matters on which the firm's policies or procedures require consultation,<sup>22</sup> and other matters that in the engagement partner's professional judgment, require consultation. For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters and significant judgments arising during the audit engagement with the engagement quality reviewer.<sup>23</sup>

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<sup>18</sup> ISA (UK) 330 (Revised July 2017), paragraph A19.

<sup>19</sup> ISA (UK) 260 (Revised November 2019), paragraphs 16(b) and A21.

<sup>20</sup> ISA (UK) 550, *Related Parties*, paragraph A42.

<sup>21</sup> ISA (UK) 600 (Revised September 2022), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 57(c).

<sup>22</sup> ISA (UK) 220 (Revised July 2021), *Quality Management for an Audit of Financial Statements*, paragraph 35.

<sup>23</sup> ISA (UK) 220 (Revised July 2021), paragraph 36.

## *Considerations in Determining Those Matters that Required Significant Auditor Attention*

(Ref: Para. 9)

- A16. The auditor may develop a preliminary view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters. The auditor may communicate this with those charged with governance when discussing the planned scope and timing of the audit in accordance with ISA (UK) 260 (Revised November 2019). However, the auditor's determination of key audit matters is based on the results of the audit or evidence obtained throughout the audit.
- A17. Paragraph 9 includes specific required considerations in the auditor's determination of those matters that required significant auditor attention. These considerations focus on the nature of matters communicated with those charged with governance that are often linked to matters disclosed in the financial statements, and are intended to reflect areas of the audit of the financial statements that may be of particular interest to intended users. The fact that these considerations are required is not intended to imply that matters related to them are always key audit matters; rather, matters related to such specific considerations are key audit matters only if they are determined to be of most significance in the audit in accordance with paragraph 10. As the considerations may be interrelated (e.g., matters relating to the circumstances described in paragraphs 9(b)–(c) may also be identified as significant risks), the applicability of more than one of the considerations to a particular matter communicated with those charged with governance may increase the likelihood of the auditor identifying that matter as a key audit matter.
- A18. In addition to matters that relate to the specific required considerations in paragraph 9, there may be other matters communicated with those charged with governance that required significant auditor attention and that therefore may be determined to be key audit matters in accordance with paragraph 10. Such matters may include, for example, matters relevant to the audit that was performed that may not be required to be disclosed in the financial statements. For example, the implementation of a new IT system (or significant changes to an existing IT system) during the period may be an area of significant auditor attention, in particular if such a change had a significant effect on the auditor's overall audit strategy or related to a significant risk (e.g., changes to a system affecting revenue recognition).
- A18A. ISA (UK) 240 (Revised March 2026)<sup>24</sup> notes that matters related to fraud are often matters that require significant auditor attention and that, given the interest of users of the financial statements, one or more of the matters related to fraud that required significant auditor attention in performing the audit, determined in accordance with paragraph 60 of ISA (UK) 240 (Revised March 2026), would ordinarily be of most significance in the audit of the financial statements of the current period and therefore are key audit matters.

### *Areas of Higher Assessed Risk of Material Misstatement, or Significant Risks Identified in Accordance with ISA (UK) 315 (Revised July 2020) (Ref: Para. 9(a))*

- A19. ISA (UK) 260 (Revised November 2019) requires the auditor to communicate with those charged with governance about the significant risks identified by the auditor.<sup>25</sup> Paragraph A13 of ISA (UK) 260 (Revised November 2019) explains that the auditor

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<sup>24</sup> ISA (UK) 240 (Revised March 2026), paragraphs A179 and A185.

<sup>25</sup> ISA (UK) 260 (Revised November 2019), paragraph 15.

may also communicate with those charged with governance about how the auditor plans to address areas of higher assessed risks of material misstatement.

- A20. ISA (UK) 315 (Revised July 2020) defines a significant risk as an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which the inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur.<sup>26</sup> Areas of significant management judgment and significant unusual transactions may often be identified as significant risks. Significant risks are therefore often areas that require significant auditor attention.
- A21. ISA (UK) 240 (Revised March 2026) presumes that there are risks of fraud in revenue recognition and requires the auditor to treat those assessed risks of material misstatement due to fraud as significant risks.<sup>27</sup> In addition, ISA (UK) 240 (Revised March 2026) indicates that, due to the unpredictable way in which management override of controls could occur, it is a risk of material misstatement due to fraud and thus a significant risk.<sup>28</sup> The auditor may determine these matters to be key audit matters related to fraud because risks of material misstatement due to fraud are often matters that both require significant auditor attention and are of most significance in the audit. However, this may not be the case for all these matters. The auditor may determine certain risks of material misstatement due to fraud did not require significant auditor attention, and, therefore, these risks would not be considered in the auditor's determination of key audit matters.
- A22. ISA (UK) 315 (Revised July 2020) explains that the auditor's assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained.<sup>29</sup> Revision to the auditor's risk assessment and reevaluation of the planned audit procedures with respect to a particular area of the financial statements (i.e., a significant change in the audit approach, for example, if the auditor's risk assessment was based on an expectation that certain controls were operating effectively and the auditor has obtained audit evidence that they were not operating effectively throughout the audit period, particularly in an area with higher assessed risk of material misstatement) may result in an area being determined as one requiring significant auditor attention.

Significant Auditor Judgments Relating to Areas in the Financial Statements that Involved Significant Management Judgment, Including Accounting Estimates that Are Subject to a High Degree of Estimation Uncertainty (Ref: Para. 9(b))

- A23. ISA (UK) 260 (Revised November 2019) requires the auditor to communicate with those charged with governance the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.<sup>30</sup> In many cases, this relates to critical accounting estimates and related disclosures, which are likely to be areas of significant auditor attention, and also may be identified as significant risks.

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<sup>26</sup> ISA (UK) 315 (Revised July 2020), paragraph 12(l).

<sup>27</sup> ISA (UK) 240 (Revised March 2026), paragraphs 39(b) and 41.

<sup>28</sup> ISA (UK) 240 (Revised March 2026), paragraph 39(b) and 40.

<sup>29</sup> ISA (UK) 315 (Revised July 2020), paragraph 37.

<sup>30</sup> ISA (UK) 260 (Revised November 2019), paragraph 16(a).

A24. However, users of the financial statements have highlighted their interest in accounting estimates that are subject to a high degree of estimation uncertainty (see ISA (UK) 540 (Revised December 2018)<sup>31</sup> that may have not been determined to be significant risks. Among other things, such estimates are highly dependent on management judgment and are often the most complex areas of the financial statements, and may require the involvement of both a management's expert and an auditor's expert. Users have also highlighted that accounting policies that have a significant effect on the financial statements (and significant changes to those policies) are relevant to their understanding of the financial statements, especially in circumstances where an entity's practices are not consistent with others in its industry.

The Effect on the Audit of Significant Events or Transactions that Occurred during the Period  
(Ref: Para. 9(c))

A25. Events or transactions that had a significant effect on the financial statements or the audit may be areas of significant auditor attention and may be identified as significant risks. For example, the auditor may have had extensive discussions with management and those charged with governance at various stages throughout the audit about the effect on the financial statements of significant transactions with related parties or significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.<sup>32</sup> Management may have made difficult or complex judgments in relation to recognition, measurement, presentation or disclosure of such transactions, which may have had a significant effect on the auditor's overall strategy.

A26. Significant economic, accounting, regulatory, industry, or other developments that affected management's assumptions or judgments may also affect the auditor's overall approach to the audit and result in a matter requiring significant auditor attention.

*Matters of Most Significance* (Ref: Para. 10)

A27. Matters that required significant auditor attention also may have resulted in significant interaction with those charged with governance. The nature and extent of communication about such matters with those charged with governance often provides an indication of which matters are of most significance in the audit. For example, the auditor may have had more in-depth, frequent or robust interactions with those charged with governance on more difficult and complex matters, such as the application of significant accounting policies that were the subject of significant auditor or management judgment.

A28. The concept of matters of most significance is applicable in the context of the entity and the audit that was performed. As such, the auditor's determination and communication of key audit matters is intended to identify matters specific to the audit and to involve making a judgment about their importance relative to other matters in the audit.

A28-1. In the UK, the assessed risks of material misstatement which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team are likely to have been identified by the auditor in

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<sup>31</sup> See paragraphs 16–17 of ISA (UK) 540 (Revised December 2018), *Auditing Accounting Estimates and Related Disclosures*.

<sup>32</sup> See paragraphs 16(a), 16(c) and A22, and Appendix 2, of ISA (UK) 260 (Revised November 2019).

meeting the requirements of ISA (UK) 315 (Revised July 2020),<sup>32a</sup> including those relating to significant risks. However, the auditor uses its judgment to determine which, if any, of the significant risks and which, if any, of the other identified risks meet the criteria set out in paragraph 10 and are to be described in the auditor's report.

A29. Other considerations that may be relevant to determining the relative significance of a matter communicated with those charged with governance and whether such a matter is a key audit matter include:

- The importance of the matter to intended users' understanding of the financial statements as a whole, in particular, its materiality to the financial statements.
- The nature of the underlying accounting policy relating to the matter or the complexity or subjectivity involved in management's selection of an appropriate policy compared to other entities within its industry.
- The nature and materiality, quantitatively or qualitatively, of corrected and accumulated uncorrected misstatements due to fraud or error related to the matter, if any.
- The nature and extent of audit effort needed to address the matter, including:
  - The extent of specialized skill or knowledge needed to apply audit procedures to address the matter or evaluate the results of those procedures, if any.
  - The nature of consultations outside the engagement team regarding the matter.
- The nature and severity of difficulties in applying audit procedures, evaluating the results of those procedures, and obtaining relevant and reliable evidence on which to base the auditor's opinion, in particular as the auditor's judgments become more subjective.
- The severity of any control deficiencies identified relevant to the matter.
- Whether the matter involved a number of separate, but related, auditing considerations. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition, litigation or other contingencies, and may have an effect on other accounting estimates.

A30. Determining which, and how many, of those matters that required significant auditor attention were of most significance in the audit of the financial statements of the current period is a matter of professional judgment. The number of key audit matters to be included in the auditor's report may be affected by the size and complexity of the entity, the nature of its business and environment, and the facts and circumstances of the audit engagement. In general, the greater the number of matters initially determined to be key audit matters, the more the auditor may need to reconsider whether each of these matters meets the definition of a key audit matter. Lengthy lists of key audit matters may be contrary to the notion of such matters being those of most significance in the audit.

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<sup>32a</sup> ISA (UK) 315 (Revised July 2020), paragraphs 28–37.

## Communicating Key Audit Matters

### *Separate Key Audit Matters Section in the Auditor's Report* (Ref: Para. 11)

- A31. Placing the separate Key Audit Matters section in close proximity to the auditor's opinion may give prominence to such information and acknowledge the perceived value of engagement-specific information to intended users.
- A32. The order of presentation of individual matters within the Key Audit Matters section is a matter of professional judgment. For example, such information may be organized in order of relative importance, based on the auditor's judgment, or may correspond to the manner in which matters are disclosed in the financial statements. The requirement in paragraph 11 to include subheadings is intended to further differentiate the matters.
- A33. When comparative financial information is presented, the introductory language of the Key Audit Matters section is tailored to draw attention to the fact that the key audit matters described relate to only the audit of the financial statements of the current period, and may include reference to the specific period covered by those financial statements (e.g., "for the year ended December 31, 20X1").

### *Communicating Key Audit Matters for Group and Parent Company Financial Statements* (Ref: Para. 11)

- A33-1. An auditor's report for a group may include the auditor's report with respect to both the group and the parent company financial statements. This is typically the case where both sets of financial statements are presented in accordance with UK International Accounting Standards as set out in the Companies Act 2006 (as amended). However, where the financial statements of the group and the parent company are presented in accordance with different financial reporting frameworks, the financial statements might be presented separately within the annual report and in such circumstances separate auditor's reports in respect of the group and the parent company financial statements might be provided within the annual report.
- A33-2. Most of the key audit matters communicated in the audit of the parent company would likely also be key audit matters in the audit of the group financial statements, subject to any differences in quantitative materiality considerations that may apply in those audits. However, there may be key audit matters that only arise in relation to the audit of the parent company financial statements (such as risks relating to investments in subsidiaries that could, for example, have implications for distributable reserves).
- A33-3. An understanding of such key audit matters may be of interest to readers of auditor's reports. Readers may find such key audit matters to be of particular interest when their implications are relevant in the context of the parent company's reported distributable reserves. However, readers of the auditor's report(s) on the group and parent company financial statements will be assisted by avoiding unnecessary duplication or disaggregation of key audit matters arising from these audits in such report(s).

#### Application where there is a single auditor's report

- A33-4. Where the auditor's reports on both the group and parent company financial statements are combined within a single report, it may be appropriate for any relevant key audit matters and other information required by ISA (UK) 701 that are unique to the parent company audit to be separately identified but integrated within the disclosures in that report of corresponding matters arising from the audit of the group financial statements.

Application where the auditor reports separately on the group and parent company financial statements

A33-5. Where the auditor provides separate auditor's reports on the group and parent company financial statements, it may also be appropriate for any relevant key audit matters and other audit planning and scoping matters required by this ISA (UK) that are unique to the parent company audit to be separately identified but integrated within the disclosures within the group auditor's report of corresponding matters arising from the group audit. Except where such matters are required by law or regulation to be included in the auditor's report (as is the case, for example, in relation to an auditor's report on any financial statements of a public interest entity), the auditor could make reference in the other matter paragraph in the parent company auditor's report that refers to the separate auditor's report on the group financial statements to the fact that the key audit matters and other audit planning and scoping matters that relate to the parent company audit have been included in the group auditor's report, rather than repeating the information.

*Descriptions of Individual Key Audit Matters* (Ref: Para. 13)

- A34. The adequacy of the description of a key audit matter is a matter of professional judgment. The description of a key audit matter is intended to provide a succinct and balanced explanation to enable intended users to understand why the matter was one of most significance in the audit and how the matter was addressed in the audit. Limiting the use of highly technical auditing terms also helps to enable intended users who do not have a reasonable knowledge of auditing to understand the basis for the auditor's focus on particular matters during the audit. The nature and extent of information provided by the auditor is intended to be balanced in the context of the responsibilities of the respective parties (i.e., for the auditor to provide useful information in a concise and understandable form, while not inappropriately being the provider of original information about the entity).
- A35. Original information is any information about the entity that has not otherwise been made publicly available by the entity (e.g., has not been included in the financial statements or other information available at the date of the auditor's report, or addressed in other oral or written communications by management or those charged with governance, such as a preliminary announcement of financial information or investor briefings). Such information is the responsibility of the entity's management and those charged with governance.
- A36. It is appropriate for the auditor to seek to avoid the description of a key audit matter inappropriately providing original information about the entity. The description of a key audit matter is not usually of itself original information about the entity, as it describes the matter in the context of the audit. However, the auditor may consider it necessary to include additional information to explain why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter, and how the matter was addressed in the audit, provided that disclosure of such information is not precluded by law or regulation. When such information is determined to be necessary by the auditor, the auditor may encourage management or those charged with governance to disclose additional information, rather than the auditor providing original information in the auditor's report.
- A37. Management or those charged with governance may decide to include new or enhanced disclosures in the financial statements or elsewhere in the annual report relating to a key audit matter in light of the fact that the matter will be communicated in

the auditor's report. Such new or enhanced disclosures, for example, may be included to provide more robust information about the sensitivity of key assumptions used in accounting estimates or the entity's rationale for a particular accounting practice or policy when acceptable alternatives exist under the applicable financial reporting framework.

- A38. ISA (UK) 720 (Revised May 2026) defines the term annual report and explains that documents such as a management report, management commentary, or operating and financial review or similar reports by those charged with governance (e.g., a directors' report); a Chairman's statement; corporate governance statement; or internal control and risk assessment reports may form part of the annual report.<sup>33</sup> ISA (UK) 720 (Revised May 2026) addresses the auditor's responsibilities relating to other information included in the annual report. Although the auditor's opinion on the financial statements does not cover the other information, the auditor may consider this information, as well as other publicly available communications by the entity or other credible sources, in formulating the description of a key audit matter.
- A39. Audit documentation prepared during the audit can also be useful to the auditor in formulating the description of a key audit matter. For example, written communications, or the auditor's documentation of oral communications, with those charged with governance and other audit documentation provides a useful basis for the auditor's communication in the auditor's report. This is because audit documentation in accordance with ISA (UK) 230 (Revised June 2016) is intended to address the significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions, and serves as a record of the nature, timing and extent of the audit procedures performed, the results of those procedures, and the audit evidence obtained. Such documentation may assist the auditor in developing a description of key audit matters that explains the significance of the matter and also in applying the requirement in paragraph 18.

#### Reference to Where the Matter Is Disclosed in the Financial Statements (Ref: Para. 13)

- A40. Paragraphs 13(a)–(b) requires the description of each key audit matter to address why the auditor considered the matter to be one of most significance in the audit and how the matter was addressed in the audit. Accordingly, the description of key audit matters is not a mere reiteration of what is disclosed in the financial statements. However, a reference to any related disclosures enables intended users to further understand how management has addressed the matter in preparing the financial statements.
- A41. In addition to referring to related disclosure(s), the auditor may draw attention to key aspects of them. The extent of disclosure by management about specific aspects or factors in relation to how a particular matter is affecting the financial statements of the current period may help the auditor in pinpointing particular aspects of how the matter was addressed in the audit such that intended users can understand why the matter is a key audit matter. For example, when an entity includes robust disclosure about accounting estimates, the auditor may draw attention to the disclosure of key assumptions, the disclosure of the range of possible outcomes, and other qualitative and quantitative disclosures relating to key sources of estimation uncertainty or critical accounting estimates, as part of addressing why the matter was one of most significance in the audit and how the matter was addressed in the audit.

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<sup>33</sup> ISA (UK) 720 (Revised May 2026), *The Auditor's Responsibilities Relating to Other Information*, paragraphs 12(a) and A1–A3.

Why the Auditor Considered the Matter to Be One of Most Significance in the Audit  
(Ref: Para. 13(a))

A42. The description of a key audit matter in the auditor's report is intended to provide insight as to why the matter was determined to be a key audit matter. Accordingly, the requirements in paragraphs 9–10 and the application material in paragraphs A12–A29 related to determining key audit matters may also be helpful for the auditor in considering how such matters are to be communicated in the auditor's report. For example, explaining the factors that led the auditor to conclude that a particular matter required significant auditor attention and was of most significance in the audit is likely to be of interest to intended users.

A42-1. As indicated in paragraph A22, where the auditor significantly revises the auditor's assessment of the risks of material misstatement during the course of the audit, the auditor considers whether to disclose that fact and the circumstances giving rise to the changed assessment.

A43. The relevance of the information for intended users is a consideration for the auditor in determining what to include in the description of a key audit matter. This may include whether the description would enable a better understanding of the audit and the auditor's judgments.

A44. Relating a matter directly to the specific circumstances of the entity may also help to minimize the potential that such descriptions become overly standardized and less useful over time. For example, certain matters may be determined as key audit matters in a particular industry across a number of entities due to the circumstances of the industry or the underlying complexity in financial reporting. In describing why the auditor considered the matter to be one of most significance, it may be useful for the auditor to highlight aspects specific to the entity (e.g., circumstances that affected the underlying judgments made in the financial statements of the current period) in order to make the description more relevant for intended users. This also may be important in describing a key audit matter that recurs over periods.

A45. The description may also make reference to the principal considerations that led the auditor, in the circumstances of the audit, to determine the matter to be one of most significance, for example:

- Economic conditions that affected the auditor's ability to obtain audit evidence, for example illiquid markets for certain financial instruments.
- New or emerging accounting policies, for example entity-specific or industry-specific matters on which the engagement team consulted within the firm.
- Changes in the entity's strategy or business model that had a material effect on the financial statements.

A45-1. The description may also communicate any circumstances within the control of the audited entity which gave rise to a significant incremental allocation of resources to the matter, beyond those initially planned by the auditor with respect to the matter. In doing so, the auditor uses professional judgment to identify such relevant factors. As part of planning procedures, the auditor makes an initial assessment of the resources necessary to perform the audit strategy through the preparation of the overall audit strategy, the audit plan, and the conclusions of the auditor's risk assessment

procedures.<sup>33a</sup> This assessment provides an appropriate reference point for the resource initially allocated to address a key audit matter. Examples of circumstances that could result in a significant incremental allocation of resources include:

- The identification of a material misstatement in relation to the key audit matter.
- The identification of deficiencies in internal controls relevant to the key audit matter.
- Changes by management in its approach to accounting for or reporting the subject matter of the key audit matter, either through the requirements of those charged with governance or because of challenge by the auditor.

How the Matter Was Addressed in the Audit (Ref: Para. 13(b))

A46. The amount of detail to be provided in the auditor's report to describe how a key audit matter was addressed in the audit is a matter of professional judgment. In accordance with paragraph 13(b), the auditor may describe:

- Aspects of the auditor's response or approach that were most relevant to the matter or specific to the assessed risk of material misstatement;
- A brief overview of procedures performed;
- An indication of the outcome of the auditor's procedures; or
- Key observations with respect to the matter,

or some combination of these elements.

Law or regulation or national auditing standards may prescribe a specific form or content for the description of a key audit matter, or may specify the inclusion of one or more of these elements.

A47. In order for intended users to understand the significance of a key audit matter in the context of the audit of the financial statements as a whole, as well as the relationship between key audit matters and other elements of the auditor's report, including the auditor's opinion, care may be necessary so that language used in the description of a key audit matter:

- Does not imply that the matter has not been appropriately resolved by the auditor in forming the opinion on the financial statements.
- Relates the matter directly to the specific circumstances of the entity, while avoiding generic or standardized language.
- Takes into account how the matter is addressed in the related disclosure(s) in the financial statements, if any.
- Does not contain or imply discrete opinions on separate elements of the financial statements.

A48. Describing aspects of the auditor's response or approach to a matter, in particular when the audit approach required significant tailoring to the facts and circumstances of the entity, may assist intended users in understanding unusual circumstances and significant auditor judgment required to address the risk of material misstatement. In addition, the audit approach in a particular period may have been influenced by entity-specific circumstances, economic conditions, or industry developments. It may also be

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<sup>33a</sup> ISA (UK) 300 (Revised June 2016), *Planning an Audit of Financial Statements*, paragraph 8(e).

useful for the auditor to make reference to the nature and extent of communications with those charged with governance about the matter.

- A49. For example, in describing the auditor's approach to an accounting estimate that has been identified as having high estimation uncertainty, such as the valuation of complex financial instruments, the auditor may wish to highlight that the auditor employed or engaged an auditor's expert. Such a reference to the use of an auditor's expert does not reduce the auditor's responsibility for the opinion on the financial statements and is therefore not inconsistent with paragraphs 14–15 of ISA (UK) 620 (Revised November 2019).<sup>34</sup>
- A50. There may be challenges in describing the auditor's procedures, particularly in complex, judgmental areas of the audit. In particular, it may be difficult to summarize the procedures performed in a succinct way that adequately communicates the nature and extent of the auditor's response to the assessed risk of material misstatement, and the significant auditor judgments involved. Nonetheless, the auditor may consider it necessary to describe certain procedures performed to communicate how the matter was addressed in the audit. Such description may typically be at a high level, rather than include a detailed description of procedures.
- A51. As noted in paragraph A46, the auditor may also provide an indication of the outcome of the auditor's response in the description of the key audit matter in the auditor's report. However, if this is done, care is needed to avoid the auditor giving the impression that the description is conveying a separate opinion on an individual key audit matter or that in any way may call into question the auditor's opinion on the financial statements as a whole.

#### *Key Observations* (Ref. Para. 13-1)

A51-1. A key observation is a conclusion drawn by the auditor in respect to a key audit matter, or an indication of the outcome of the auditor's procedures, that has relevance to users of the financial statements. The concept of relevance within this context is discussed in paragraph A4-1.

#### Identifying Key Observations for Communication with Respect to Key Audit Matters

A51-2. The auditor uses professional judgment to determine whether key observations in respect of a key audit matter are communicated in the auditor's report. In determining whether to do so, the auditor takes into account significant auditor judgments relating to areas in the financial statements that involve significant management judgment. Where such matters are determined to be a key audit matter, the conclusions reached and significant judgments made by the auditor in respect of the matter may form the basis for the key observations communicated in the auditor's report.

A51-3. As explained by paragraphs A23 and A24, the auditor is required to communicate their views about significant qualitative aspects of the entity's accounting practices to those charged with governance in accordance with ISA (UK) 260 (Revised November 2019).<sup>34a</sup> These views may also form the basis of key observations to communicate with respect to a key audit matter.

A51-4. Specific examples of where the auditor may be able to make a key observation with respect to management's judgments in relation to a key audit matter include:

<sup>34</sup> ISA (UK) 620 (Revised November 2019), *Using the Work of an Auditor's Expert*.

<sup>34a</sup> ISA (UK) 260 (Revised November 2019), paragraph 16(a).

- Circumstances where the significant assumptions and data used by management in preparing the accounting estimate can be compared with other readily available sources in accordance with ISA (UK) 540 (Revised December 2018), paragraph 22(a).
- Circumstances where the auditor has developed a point estimate to evaluate management's estimate in accordance with ISA (UK) 540 (Revised December 2018), paragraph 28.
- Circumstances where the auditor has developed an auditor's range to evaluate management's estimate, in accordance with ISA (UK) 540 (Revised December 2018), paragraph 29.
- Whether the financial statements provide adequate disclosures to enable intended users to understand the effect of material transactions and events on the information conveyed in the financial statements, in accordance with ISA (UK) 700 (Revised May 2026), paragraph 13(e).

A51-5. The auditor's ability to make a key observation is dependent on the nature of both the key audit matter and the audit evidence obtained by the auditor in relation to that key audit matter. Many key audit matters may relate to binary judgments by the auditor on whether the approach to that matter adopted by management is appropriate or not. In these instances, it may not be possible for the auditor to identify key observations that are relevant to users of the financial statements.

A51-6. There is no requirement for the auditor to design and perform further procedures beyond that which is required to obtain sufficient appropriate audit evidence to obtain information solely for the purpose of making a key observation in the auditor's report.

#### Communicating key observations

A51-7. In making key observations with respect to significant accounting estimates or judgments, the auditor takes care to use language that is descriptive and avoids giving users the impression that management bias is present or that there has been a material misstatement in the financial statements. Many financial reporting frameworks refer to the concept of neutrality, meaning the absence of bias in the selection or presentation of financial information. In addition, ISA (UK) 540 requires the auditor to evaluate whether the significant judgments made in the preparation of accounting estimates are indicators of possible management bias, with a requirement for the auditor to evaluate the implications for the audit if such indications exist.<sup>34b</sup> The auditor uses language that is consistent with these considerations.

A51-8. In the context of communicating the auditor's views on accounting estimates in accordance with paragraph 13-1, it may assist users if the auditor communicates their views on the reasonableness of the accounting estimate. In this context, 'reasonableness' refers to the range of inherently acceptable range of judgments, estimates, and inputs to estimates that is permitted within the financial reporting framework and which do not, in the auditor's judgment, result in a material misstatement of the financial statements. Although management's judgments will sit within this range, they may occupy a place within that range which are towards the limits or towards the mid-point of that range.

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<sup>34b</sup> ISA (UK) 540 (Revised December 2018), paragraph 32.

A51-9. The auditor also aims to communicate key observations in a concise manner that is relevant to users of the financial statements. In doing so, it is reasonable for auditors to assume that users of the financial statements recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events.<sup>34c</sup> For example, the auditor may communicate:

- The assumptions to which the estimate is most sensitive or subject to a greater degree of estimation uncertainty.
- The overall impact of all assumptions used by management in determining the estimate, rather than discussing each assumption individually.
- The relative position of management's point estimate with respect to the auditor's point estimate or the auditor's range.

A51-10. In communicating key observations, the auditor takes care to avoid giving the impression to users that:

- a separate opinion is being conveyed on a key audit matter, or otherwise undermine the auditor's opinion on the financial statements as a whole; and
- management's approach to significant judgments for a key audit matter is necessarily representative of management's approach to significant judgments for the whole of the financial statements.

*Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report (Ref: Para. 14)*

A52. Law or regulation may preclude public disclosure by either management or the auditor about a specific matter determined to be a key audit matter. For example, law or regulation may specifically prohibit any public communication that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act (e.g., matters that are or appear to be related to money laundering).

A53. As indicated by paragraph 14(b), it will be extremely rare for a matter determined to be a key audit matter not to be communicated in the auditor's report. This is because there is presumed to be a public interest benefit in providing greater transparency about the audit for intended users. Accordingly, the judgment not to communicate a key audit matter is appropriate only in cases when the adverse consequences to the entity or the public as a result of such communication are viewed as so significant that they would reasonably be expected to outweigh the public interest benefits of communicating about the matter.

A53-1. For audits of public interest entities, UK legislation<sup>34d</sup> requires disclosure of the matters in paragraphs 13-1(a)–13-1(c), and therefore the benefits of such communication will always outweigh the adverse consequences of doing so. Accordingly, paragraph 14(b) will not apply to such audits, as ISAs (UK) do not override the requirements of law or regulation that govern the audit of financial statements.<sup>34e</sup>

A54. The determination not to communicate a key audit matter takes into account the facts and circumstances related to the matter. Communication with management and those

<sup>34c</sup> See paragraph A4(c) of this ISA (UK).

<sup>34d</sup> The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177).

<sup>34e</sup> ISA (UK) 200 (Revised June 2016), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)*, paragraph A57.

charged with governance helps the auditor understand management's views about the significance of the adverse consequences that may arise as a result of communicating about a matter. In particular, communication with management and those charged with governance helps to inform the auditor's judgment in determining whether to communicate the matter by:

- Assisting the auditor in understanding why the matter has not been publicly disclosed by the entity (e.g., if law, regulation or certain financial reporting frameworks permit delayed disclosure or non-disclosure of the matter) and management's views as to the adverse consequences, if any, of disclosure. Management may draw attention to certain aspects in law or regulation or other authoritative sources that may be relevant to the consideration of adverse consequences (e.g., such aspects may include harm to the entity's commercial negotiations or competitive position). However, management's views about the adverse consequences alone do not alleviate the need for the auditor to determine whether the adverse consequences would reasonably be expected to outweigh the public interest benefits of communication in accordance with paragraph 14(b).
- Highlighting whether there have been any communications with applicable regulatory, enforcement or supervisory authorities in relation to the matter, in particular whether such discussions would appear to support management's assertion as to why public disclosure about the matter is not appropriate.
- Enabling the auditor, where appropriate, to encourage management and those charged with governance to make public disclosure of relevant information about the matter. In particular, this may be possible if the concerns of management and those charged with governance about communicating are limited to specific aspects relating to the matter, such that certain information about the matter may be less sensitive and could be communicated.

The auditor also may consider it necessary to obtain a written representation from management as to why public disclosure about the matter is not appropriate, including management's view about the significance of the adverse consequences that may arise as a result of such communication.

- A55. It may also be necessary for the auditor to consider the implications of communicating about a matter determined to be a key audit matter in light of relevant ethical requirements.<sup>35</sup> In addition, the auditor may be required by law or regulation to communicate with applicable regulatory, enforcement or supervisory authorities in relation to the matter, regardless of whether the matter is communicated in the auditor's report. Such communication may also be useful to inform the auditor's consideration of the adverse consequences that may arise from communicating about the matter.
- A56. The issues considered by the auditor regarding a decision to not communicate a matter are complex and involve significant auditor judgment. Accordingly, the auditor may consider it appropriate to obtain legal advice.

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<sup>35</sup> For example, except for certain specified circumstances, paragraph R114.2 of the IESBA Code does not permit the use or disclosure of information in respect of which the duty of confidentiality applies. As one of the exceptions, paragraph R114.3 of the IESBA Code permits the professional accountant to disclose or use confidential information where there is a legal or professional duty or right to do so. Paragraph 114.3 A1(b)(iv) of the IESBA Code explains that there is a professional duty or right to disclose such information to comply with technical and professional standards.

A57. The requirement in paragraph 16 applies in three circumstances:

- (i) The auditor determines in accordance with paragraph 10 that there are no key audit matters (see paragraph A59).
- (ii) The auditor determines in accordance with paragraph 14 that a key audit matter will not be communicated in the auditor's report and no other matters have been determined to be key audit matters.
- (iii) The only matters determined to be key audit matters are those communicated in accordance with paragraph 15.

A58. The following illustrates the presentation in the auditor's report if the auditor has determined there are no key audit matters to communicate:

**Key Audit Matters**

[Except for the matter described in the *Basis for Qualified (Adverse) Opinion* section or *Material Uncertainty Related to Going Concern* section,] We have determined that there are no [other] key audit matters to communicate in our report.

A59. The determination of key audit matters involves making a judgment about the relative importance of matters that required significant auditor attention. Therefore, it may be rare that the auditor of a complete set of general purpose financial statements of a publicly traded entity would not determine at least one key audit matter from the matters communicated with those charged with governance to be communicated in the auditor's report. However, in certain limited circumstances (e.g., for a publicly traded entity that has very limited operations), the auditor may determine that there are no key audit matters in accordance with paragraph 10 because there are no matters that required significant auditor attention.

A59-1. For audits of financial statements of public interest entities, the auditor is precluded from applying paragraph 16 as UK legislation<sup>35a</sup> does not foresee a situation where there are no key audit matters and accordingly the auditor is required to provide in the auditor's report the elements set out in paragraphs 13-2(a)–13-2(c).

**Irregularities, including Fraud** (Ref. Para. 16-1)

A59-2. 'Irregularity' is not defined in UK legislation, but is deemed to correspond to the definition in ISA (UK) 250 (Revised November 2019) of non-compliance and is therefore broadly based.<sup>35b</sup>

A59-3. The matters required to be set out in the auditor's report in accordance with paragraph 16-1 may be useful to users of the financial statements if they are explained in a manner that, for example:

- Enables a user to understand their significance in the context of the audit of financial statements as a whole. In determining those matters that are of

<sup>35a</sup> The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177).

<sup>35b</sup> ISA (UK) 250 (Revised November 2019) *Section A—Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraph 12.

significance,<sup>35c</sup> both quantitative and qualitative factors are relevant to such consideration.

- Relates the matters directly to the specific circumstances of the entity and are not therefore, generic or abstract matters expressed in standardized or boilerplate language.

A59-4. The auditor may explain the extent to which aspects of the auditor's work addressed the detection of irregularities, for example:

- How the auditor obtained an understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework.
- Which laws and regulations the auditor identified as being of significance in the context of the entity.
- The auditor's assessment of the susceptibility of the entity's financial statements to material misstatement,<sup>35d</sup> including how fraud might occur.<sup>35e</sup>
- The engagement partner's assessment of whether the engagement team collectively had the appropriate competence and capabilities to identify or recognize non-compliance with laws and regulations.
- Matters about non-compliance with laws and regulations and fraud that were communicated with the engagement team.<sup>35f</sup>
- The auditor's understanding of the entity's current activities, the scope of its authorization and the effectiveness of its control environment where the entity is a regulated entity.<sup>35g</sup>
- In the case of a group, how the auditor addressed these matters at both at the group and component levels.
- Communications with component auditors to request identification of any instances of non-compliance with laws and regulations that could give rise to a material misstatement of the group financial statements.<sup>35h</sup>

A59-5. In explaining the extent to which the audit was considered capable of detecting irregularities, including fraud, the auditor also considers the likelihood of detection based on the auditor's planned approach. This will be affected by the inherent difficulty in detecting irregularities, the effectiveness of the entity's controls, and the nature, timing and extent of the audit procedures performed. Irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error. The auditor's responsibilities for the engagement will mean that detection of those types of irregularity which give rise to a risk of material misstatement are those on which the auditor is able to provide the most comprehensive explanation. For example:

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<sup>35c</sup> Significance is defined in the FRC's Glossary of Terms.

<sup>35d</sup> ISA (UK) 315 (Revised July 2020), paragraph 17.

<sup>35e</sup> ISA (UK) 240 (Revised March 2026), paragraph 16.

<sup>35f</sup> ISA (UK) 220 (Revised July 2021), *Quality Management for an Audit of Financial Statements*, paragraph 30; and ISA (UK) 250 (Revised November 2019) *Section B—The Auditor's Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector*, paragraph 11.

<sup>35g</sup> ISA (UK) 250 (Revised November 2019) Section B, paragraph 10.

<sup>35h</sup> ISA (UK) 600 (Revised September 2021), paragraph 51(d).

- Where the auditor identified legislation of particular relevance to the entity, what procedures the auditor designed to obtain sufficient appropriate audit evidence regarding compliance with that legislation.
- Whether the audit team identified particular areas that were susceptible to misstatement as part of their fraud discussion.

A59-6. The auditor's explanations may also include description of specific procedures performed during the audit to identify and respond to risks of irregularities including fraud. In doing so, the auditor will assist users understanding by describing procedures that are tailored specifically to the circumstances of the entity and the engagement, and avoid detailed discussion of generic procedures that the auditor would expect to perform in any case.

A59-7. The auditor may also have determined that certain matters relating to non-compliance with laws and regulations are key audit matters in accordance with paragraphs 9 to 11 of this standard. This does not exempt the auditor from also including the required explanation, in their report, as to what extent the audit was considered capable of detecting irregularities, including fraud.

### **Communicating Other Audit Planning and Scoping Matters, and Matters relating to Internal Control** (Ref: Para. 16-2–16-3)

A59-8. In the case of entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code, or to explain why they have not, the explanations of the matters required to be set out in the auditor's report in paragraphs 13, 16-2, and 16-3 may be described in a manner that complements:

- The description of significant issues relating to the financial statements, required to be set out in the separate section of the annual report describing the work of the audit committee in discharging its responsibilities.<sup>35i</sup>
- The description of any material weaknesses or failures in the entity's risk management and internal control systems.<sup>35i</sup> The auditor may seek to coordinate descriptions of overlapping topics addressed in these communications, to avoid duplication of reporting about them, whilst having appropriate regard to the separate responsibilities of the auditor and the board for directly communicating information primarily in their respective domains.

### *Communicating Other Audit Planning and Scoping Matters* (Ref: Para. 16-2)

A59-9. An explanation of the significant judgments made by the auditor in determining materiality may include a description of how the auditor applied the concept of materiality, in planning and performing the audit, to the particular circumstances and complexity of the audit and:

- The rationale for the determination of performance materiality.<sup>35j</sup>
- Significant qualitative considerations relating to the auditor's evaluation of materiality.

<sup>35i</sup> In accordance with the UK Corporate Governance Code.

<sup>35j</sup> ISA (UK) 320 (Revised June 2016) paragraph A13 provides guidance on the determination of performance materiality and explains that it is affected by the auditor's understanding of the entity, updated during the performance of the risk assessment procedures; and the nature and extent of misstatements identified in previous audits and thereby the auditor's expectations in relation to misstatements in the current period.

- Materiality level or levels for those classes of transactions, account balances or disclosures where such materiality levels are lower than materiality for the financial statements as a whole.<sup>35k</sup>
- Any significant revisions of materiality thresholds that were made as the audit progressed.
- The threshold used for reporting unadjusted differences to the audit committee.

A59-10. The auditor's description of the scope of the audit is tailored to the particular circumstances of the audit. In doing so, the auditor may reflect how the scope of the audit responded to the auditor's underlying assessment of risk, was informed by the auditor's application of materiality, and addressed the key audit matters described in the auditor's report. This could, for example, include a description of the extent of coverage for balances of specific interest to users. Where an entity is geographically diverse, the auditor could describe how the audit was scoped to address risks across different locations. Where applicable, the auditor may also describe the effect of the group structure on the scope of the audit, as well as the nature and extent of the group auditor's involvement in the work of component auditors.

*Communicating Matters Relating to Internal Control* (Ref: Para. 16-3)

A59-11. Describing the impact of the entity's internal controls on the performance of the audit assists users in understanding the scope and the extent of audit work performed in relation to internal controls. The description also provides context for the discussion of any significant deficiencies in internal control included within the auditor's report in accordance with paragraph 16-3(b).

A59-12. In communicating the impact of the entity's internal controls on the audit, the auditor may explain the extent to which the audit approach placed reliance on the entity's internal controls. The auditor may also describe the circumstances where the auditor had intended to place reliance upon the entity's controls for certain aspects of the audit, but was unable to do so, provided that this description is relevant to users of the financial statements. For example, communication of these circumstances may not be relevant where the auditor was not able to place reliance on a specific control, but where adequate compensatory controls were in operation at the entity.

A59-13. The definition of significant deficiency in internal control is provided by ISA (UK) 265, paragraph 6(b).<sup>35l</sup> The auditor exercises professional judgment in identifying which, if any, of the significant deficiencies in internal control communicated to Those Charged with Governance as required ISA (UK) 265 should be communicated in the auditor's report. In making that judgment, the auditor considers the following:

- Whether the significant deficiency has a significant and pervasive impact on either the auditor's assessment of, or response to, assessed risk; and
- Whether the significant deficiency is relevant to users of the financial statements. For example, significant deficiencies which are remediated before the balance sheet date are unlikely to be relevant.

<sup>35k</sup> As described in paragraph 10 of ISA (UK) 320 (Revised June 2016).

<sup>35l</sup> ISA (UK) 265, *Communicating Deficiencies in Internal Control to Those Charged With Governance and Management*.

A59-14. The auditor may use the following indicators of significant deficiencies in internal control identified by ISA (UK) 265 as a basis for considering whether a specific significant deficiency should be communicated in the auditor's report.<sup>35m</sup>

- (a) Evidence of ineffective aspects of the control environment, such as:
- Indications that significant transactions in which management is financially interested are not being appropriately scrutinized by those charged with governance.
  - Identification of management fraud, whether or not material, that was not prevented by the entity's internal control.
  - Management's failure to implement appropriate remedial action on significant deficiencies previously communicated.
- (b) Evidence of management's inability to oversee the preparation of the financial statements.

There is no expectation that the auditor will include all significant deficiencies communicated to those charged with governance within the auditor's report.

A59-15. In instances where the auditor communicates the significant deficiency in internal control either as a standalone Key Audit Matter or as part of a Key Audit Matter, a cross-reference to where the significant deficiency is discussed in the auditor's report may be included in the description of the impact of the entity's internal controls on the audit required by paragraph 16-3(a).

A59-16. The amount of detail to be provided in the auditor's report to describe a significant deficiency in internal control is a matter of professional judgment. In accordance with paragraph 16-3(b), the auditor may describe:

- The significant deficiency and how it was identified.
- The basis for the auditor determining that the significant deficiency should be communicated in the auditor's report.
- The overall consequences of the significant deficiency on the performance of the audit.

In describing a significant deficiency in internal control, the auditor exercises professional judgment to avoid communicating information that could give rise to current vulnerabilities that could be exploited or cause similar detriment to the entity if publicly disclosed. The auditor may, where relevant to users' understanding, indicate whether the significant deficiency arose in the reporting period covered by the audit, or whether it is a longstanding issue. There is no requirement for the auditor to include details of management's plans for remediating the significant deficiency. If management do provide such details in the annual report, then the auditor may provide a clear cross-reference to the relevant disclosures.

### **Communication with Those Charged with Governance** (Ref: Para. 17)

A60. ISA (UK) 260 (Revised November 2019) requires the auditor to communicate with those charged with governance on a timely basis.<sup>36</sup> The appropriate timing for communications about key audit matters will vary with the circumstances of the

<sup>35m</sup> ISA (UK) 265, paragraph A7.

<sup>36</sup> ISA (UK) 260 (Revised November 2019), paragraph 21.

engagement. However, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit, and may further discuss such matters when communicating about audit findings. Doing so may help to alleviate the practical challenges of attempting to have a robust two-way dialogue about key audit matters at the time the financial statements are being finalized for issuance.

- A61. Communication with those charged with governance enables them to be made aware of the key audit matters that the auditor intends to communicate in the auditor's report, and provides them with an opportunity to obtain further clarification where necessary. The auditor may consider it useful to provide those charged with governance with a draft of the auditor's report to facilitate this discussion. Communication with those charged with governance recognizes their important role in overseeing the financial reporting process, and provides the opportunity for those charged with governance to understand the basis for the auditor's decisions in relation to key audit matters and how these matters will be described in the auditor's report. It also enables those charged with governance to consider whether new or enhanced disclosures may be useful in light of the fact that these matters will be communicated in the auditor's report.
- A62. The communication with those charged with governance required by paragraph 17(a) also addresses the extremely rare circumstances in which a matter determined to be a key audit matter is not communicated in the auditor's report (see paragraphs 14 and A54).
- A63. The requirement in paragraph 17(b) to communicate with those charged with governance when the auditor has determined there are no key audit matters to communicate in the auditor's report may provide an opportunity for the auditor to have further discussion with others who are familiar with the audit and the significant matters that may have arisen (including the engagement quality reviewer, where one has been appointed). These discussions may cause the auditor to re-evaluate the auditor's determination that there are no key audit matters.

**Documentation** (Ref: Para. 18)

- A64. Paragraph 8 of ISA (UK) 230 (Revised June 2016) requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand, among other things, significant professional judgments. In the context of key audit matters, these professional judgments include the determination, from the matters communicated with those charged with governance, of the matters that required significant auditor attention, as well as whether or not each of those matters is a key audit matter. The auditor's judgments in this regard are likely to be supported by the documentation of the auditor's communications with those charged with governance and the audit documentation relating to each individual matter (see paragraph A39), as well as certain other audit documentation of the significant matters arising during the audit (e.g., a completion memorandum). However, this ISA (UK) does not require the auditor to document why other matters communicated with those charged with governance were not matters that required significant auditor attention.



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