



Ernst & Young LLP
1 More London Place
London
SE1 2AF

Tel: +44 20 7951 2000
Fax: +44 20 7951 1345
ey.com

Kate Dalby
Financial Reporting Council
8th Floor
125 London Wall
London, EC2Y 5AS

12 January 2024

Direct line: 020 7951 4370
Email: justine.belton@uk.ey.com

Sent by email only to: AAT@frc.org.uk

Dear Kate

Proposed International Standard on Auditing (UK) 250 (Revised) *Consideration of Laws and Regulations in An Audit Of Financial Statements* and Proposed International Standard On Auditing (UK) 2X0 (Revised) *Special Considerations For Public Interest Entities-Communicating And Reporting To An Appropriate Authority Outside The Entity ("the proposed changes")*

We welcome the opportunity to comment on the proposed changes.

ISA (UK) 250

The outreach performed by the Financial Reporting Council (FRC), in which we have been involved, has been valuable and we appreciate the FRC taking the time to actively engage with stakeholders during the consultation process.

The engagement we have had with the FRC has, however, informed our fundamental concerns with the proposed revisions to this ISA (UK).

Our primary concern is one of consistency between the FRC's intentions as articulated through meetings and webinars and the requirements as drafted in the proposed standard. The language used in the proposed ISA (UK) would require an auditor to go much further than what the FRC has described in these interactions and would require a much broader and potentially forensic consideration of laws and regulations to enable an auditor to comply with these proposed requirements. Whilst we understand the FRC's verbal articulation, the implementation of any ISA (UK) by auditors must be based on the written requirements, as it is these requirements of the ISA (UK) which would be used as a benchmark for reviews of audit engagements, enforcement, and litigation purposes.

In addition, the implementation of the standard as drafted could serve to widen the expectation gap between what users expect and what an audit delivers, by creating an inappropriate perceived scope of the audit of one that is expected to provide a certain level of assurance over operational legal compliance.

We have therefore considered the proposed ISA (UK) as drafted and, as such, do not consider that the standard can be implemented in practice in a manner consistent with the FRC's intentions, nor without undue time and effort which may add substantially to the cost of performing audits without achieving the commensurate public interest benefits. This would also be inconsistent with the government's intentions and desire for proportionality of any new requirements, which is seen as essential. The proposed revisions to the standard, if implemented, would increase cost for both audited entities and auditors, the latter also being passed on to audited entities through increased audit fees. It may also increase other costs incurred by the auditor such as those related to insurance and litigation that may arise, whether valid or not, resulting from a widened expectation gap.

We recognise the importance of moving to a more risk-based approach in this area, however, think that more modest revisions to the standard would be more effective and would better align with the FRC's

underlying intentions. Less extensive revisions, however, would not result in a full risk-based approach in this area and would necessitate some degree of procedural and other limitations but can still serve to enhance the requirements and improve audit quality from what is achieved by the current standard.

Our comments and concerns are outlined in Appendix 1 and are based on the language used in the proposed ISA (UK).

ISA (UK) 2X0

Whilst we are supportive of FRC's intentions to revise this standard, in our view the lack of clarity regarding matters to be reported prevents the standard from achieving the intended objectives.

Further details have been provided as part of our responses to the consultation questions and are detailed in Appendix 2.

In relation to both proposed ISA (UK) 250 and ISA (UK) 2X0 we encourage the FRC to make appropriate revisions and re-expose both standards for further consultation.

If you wish to discuss any matters raised in this letter with us directly, or to discuss alternative proposals, please contact myself or Alison Duncan (aduncan1@uk.ey.com).

Yours sincerely



Justine Belton, Partner
Ernst & Young LLP
United Kingdom

Appendix 1

Proposed International Standard on Auditing (UK) 250 (Revised) *Consideration of Laws and Regulations in An Audit Of Financial Statements*

Question 1: Do you agree that the proposals in ISA (UK) 250 appropriately address the public interest?

1. No. Whilst we understand the genesis for the need for the revisions to the standards, the public interest needs which the revisions to the standards seek to address have not, in our view, been sufficiently defined or articulated to be able to measure that they have been met.
2. Furthermore, the revisions, which may result in additional reporting by the auditors to an appropriate authority, may not result in change unless the bodies to whom matters are reported are able to address and act upon them on a timely basis.
3. Paragraph A8-1 confirms, as does the standard today, that non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Consequently, where the auditor identifies risks of material misstatement related to non-compliance and is required to obtain sufficient appropriate audit evidence regarding those, will the auditor be reasonably able to conclude on them (without sufficient legal expert involvement - see also paragraphs 19 and 33 below), as not being able to do so may potentially lead to audit opinions which are qualified or disclaimed, which we do not consider best serves the public interest.
4. Whilst a move to a more risk-based approach could be beneficial, the proposed revisions to ISA (UK) 250 ("the proposed ISA (UK)") are, in our view, too broad when the logical and practical application is considered. These points are set out in our responses to Q2 and Q3 below.

Question 2: Do the proposed requirements in paragraphs 12-2-12-3 support auditors to be able to identify those laws and regulations with which non-compliance may have a material effect on the financial statements?

5. No. In our view the requirements in paragraphs 12-2-12-3 as drafted do not support auditors to be able to identify those laws and regulations with which non-compliance may have a material effect on the financial statements given the breadth of the requirement of paragraph 12-1 and the objectives as outlined in paragraph 11-1(a). In our view this would not support such a risk assessment without auditors supplementing or performing these procedures, notably that of paragraph 12-2(a), with detailed considerations of individual laws and regulations, which may require expert legal input (neither of which we consider is necessary or appropriate for an audit), and with regard to whether management has identified all laws and regulations as part of their own assessment (i.e., an evaluation of completeness by the auditor).
6. In addition, paragraph 12-3 implies a level of reliance on the quality of management and their knowledge and transparency that does not support the broad requirements of risk identification and assessment required by the proposed ISA (UK).
7. It is unclear from the proposed revisions where the auditor is to focus their efforts. Paragraph 12-1 refers to "...laws and regulations with which non-compliance may have a material effect on the financial statements." In the context of the revised standard, the use of 'may' creates a broad starting position for auditors (and management) as it would first be reasonably expected to identify *all* laws and regulations with which an entity was required to comply, and then to understand the consequences of non-compliance with those laws regulations to be able to determine whether such non-compliance could have a material effect on the financial statements, and then whether non-

- compliance had occurred. The associated application guidance (A10-1) confirms this breadth by inclusion of examples such as environmental protections, public health and safety, and sustainability and climate. This list could reasonably be extended to laws and regulations pertaining to licensing (e.g., gambling, mining) as well as labour laws, modern slavery legislation, other industry-specific regulations, EU Directives, and contract law, all of which *may* have a material effect on the financial statements from non-compliance and could be relevant to the operating aspects of the business.
8. Further clarity is required about the intended relationship between paragraphs 5-1(b) and 12-1-12-3. Paragraph 5-1(b) indicates that the auditor's responsibility is to identify laws and regulations with which non-compliance may have a material effect on the financial statements, which are those with which compliance may be "...fundamental to the operating aspects of the business or to an entity's ability to continue its business..." Whilst this is partly reflected in paragraph 12-2(a) which requires an understanding of those laws and regulations that are relevant to the operating aspects of the business and to the entity's ability to continue its business, the use of 'relevant to' rather than 'fundamental to' as it is in paragraph 5(b) is unclear and the requirement of paragraph 12-2(a) perhaps implies a broader understanding than may otherwise be required. This is further exacerbated by the requirements of paragraph 11-1(a) which cites the objectives of the proposed ISA (UK) simply as those laws and regulations for which non-compliance may have a material effect on the financial statements. Moreover, the concept of "fundamental to the operating aspects of the business" in paragraph 5-1(b) is not defined or explained and its relevance is therefore also unclear.
 9. The use of "material" throughout the proposed ISA (UK) must be read, in our view, in the context of ISA (UK) 320 *Materiality in Planning and Performing an Audit* and is therefore defined in the context of an audit of financial statements. Hence, considering those laws and regulations with which non-compliance may have a "material effect" on the financial statements is by definition broad and further indicates that auditors would need to consider, at least on some level, *all* applicable laws and regulations as well the specific provisions and interpretations thereof, as we described above. This is further complicated when factoring in qualitative considerations.
 10. "Materiality" in this context may also inversely affect the scalability considerations outlined in the application guidance in paragraph A10-5. Small and medium-sized entities, even if not operating in a regulated area may be exposed more to laws and regulations that may have a material effect on the financial statements, because materiality used for the audit is lower compared to the potential fines and penalties which may apply. By contrast, a much larger entity with a higher financial statement materiality may be exposed to less risk due to the potential that non-compliance with no individual law may have a material effect on the financial statements. Further, there can be considerable variability in the impact of breaching laws and regulations where multiple or continual non-compliance occurs. For example, the consequences may be hard for the auditor to judge when considering the cause, the frequency, or whether it was self-reported by the entity. Additional consideration may also be required relating to the expected view which may be taken by the regulator, court or other body imposing the consequences of the breach. All of these complicate the application of materiality when assessing risks of material misstatement.
 11. The wide-ranging laws and regulations that affect the operating aspects of a business, particularly larger businesses operating in multiple jurisdictions and across multiple sectors, could further make this impossible to implement in a proportionate manner, particularly if auditors have to assess completeness of the entity's assessment of laws to be complied with and the impact of any breach. Companies are also seeing new forms of actions taken against them which they cannot necessarily anticipate, and which may come sometime after the event being pursued has taken place. This is underlined by the effects of laws and regulations described in paragraph 2-1 which highlight implications beyond fines, such as a loss of public confidence.
 12. When considering consequences such as a loss of public confidence, the standard could be interpreted as needing consideration of the potential implications on prospective financial information and accounting estimates. However, the impact may be too remote or uncertain to

determine and assess the effect on the financial statements so we question whether the additional time and associated costs in including these potential consequences within the risk assessment are justified.

13. A definition, articulation or examples to illustrate “risks of material misstatement of the financial statements due to fraud or error relating to non-compliance with laws and regulations” in paragraph A15-1 would also be welcomed. In particular, and to help better practical application of the standard, whether and how this reflects both identified/suspected non-compliance and the risk of undetected non-compliance, the effects of which are at risk of not being considered.
14. Paragraph 12-2(c) necessitates an understanding of how those charged with governance exercise oversight over the entity’s compliance with those laws and regulations with which non-compliance may have a material effect on the financial statements, and paragraphs 12-2(d) and 12-2(e) of risk assessment processes and the identification of such laws. This would necessarily, in our view, require a sufficient level of specificity in management’s own assessment that may not be taking place within entities today, especially in those which are smaller and less sophisticated. We cannot comment from the perspective of audited entities and encourage the FRC to engage appropriately with them.
15. This raises the question of whether additional obligations are potentially being placed on management via the auditing standards rather than through legislation. This is a particular concern now that government has recently withdrawn proposed legislation on corporate reform including the requirement for directors to make a statement on actions they have taken to prevent and detect fraud. Where concerns exist around the appropriateness of the approach taken today by entities, this should be addressed through direct corporate interventions by the relevant legislative or regulatory bodies rather than regulating them through the audit.

Proposed alternatives

16. A consideration of narrowing the scope of the auditor’s risk assessment and associated procedures would be welcomed. Whilst we recognise the desire to remove the distinction between ‘direct’ and ‘indirect’ laws and regulations and to better align the standard with the spirit of risk assessment, addressing the concerns above may result in a more focused consideration of laws and regulations that are both ‘fundamental’ and which may have ‘material objective consequences’ for the financial statements or the entity’s ability to operate and continue its business. This may better focus the auditor’s attention, whilst continuing to remain alert for other instances of suspected or identified non-compliance. We stress that our comments are related to what would be considered ‘indirect’ laws in the current version of the standard and that the requirements for ‘direct’ laws and regulations in the current version of the standard continue to be appropriate.
17. Such an approach would require definitions of the terms such as ‘fundamental’ and ‘material objective consequences’ which would need to be carefully considered but could be based on:
 - Fundamental - those laws and regulations for which compliance is considered by the entity to be most important to warrant the attention of management and those charged with governance.
 - Material objective consequences - the implications of non-compliance are reasonably expected to have a significant effect on the entity in the current period e.g., failure to comply with the terms of an operating licence may see the licence being withdrawn or material penalties and fines imposed.
18. The suggestion is not to consider matters on a law-by-law basis, unless necessary in the auditor’s judgement, or to consider them in a manner beyond the auditor’s expertise. It is also not suggested that a consideration of specific provisions of such laws or regulations is applied, in fact it may be

that only certain provisions of a particular law or regulation are considered fundamental. The procedures described in paragraphs 12-2(c)-(e), as amended, may remain appropriate.

19. In any case, we encourage the FRC to include ‘guardrails’ and boundaries within the standard: to reflect the inherent limitations they recognise and describe in paragraphs 9-1 and 9-2. These should be designed to manage the public perception of the audit (expectation gap) and minimise enforcement/litigation risk for auditors from the inappropriate application of hindsight for remote unforeseeable events especially where non-compliance may not be immediately apparent, which will deter auditors from accepting engagements where this is more likely. This may further help to achieve the objectives of paragraph 11-1(c), by helping auditors really focus on those risks of material misstatement due to fraud or error relating to non-compliance with laws and regulations, such that responses designed, and evidence obtained are specific to the risk. In obtaining sufficient appropriate audit evidence in relation to compliance with laws and regulations, further examples and application guidance should be provided to assist auditors in exercising judgement. In particular, how this might be achieved without the need to engage legal expertise in all cases.

20. Such guardrails and boundaries should include:

- Clear statements of what is not expected or required of the auditor by this standard (e.g., not to compile or validate a list of all laws and regulations as to its completeness or accuracy, nor to interpret laws or regulations).
- The proposed standard seems to rely on management having performed a thorough and robust risk assessment based on having detailed knowledge of all applicable laws and regulations, and there is a risk that where this is not the case, the expectation may be that this falls to the auditor to rectify, rather than what the auditor may reasonably be aware given their knowledge and expertise as auditors (e.g., laws and regulations an auditor would reasonably know would be applicable due to the sector, industry or country in which the entity operates, their experience from audits of similar entities, or other information identified during the audit).
- Recognition that the presence of a risk of material misstatement may only exist upon discovery or consequence of an instance non-compliance (e.g., an entity may be non-compliant with a provision of legislation but may not incur a fine or experience other consequences until it is discovered e.g., through a routine regulatory inspection, or the result of an accident in a factory. The fine can also be variable or difficult to estimate e.g., due to lack of precedent, nature of breach or protracted litigation with appeals, even when non-compliance is known). This is an important clarification given the language currently used in the proposed ISA (UK) as it helps to manage the expectation gap and focus audit effort on the consequences of actual, known non-compliance, and to avoid the implication that the auditor is expected to identify an increased number of identified or suspected instances of non-compliance with laws and regulations which are not material.
- Guidance on appropriate actions for the auditor to take if the risk assessment performed by management and/or those charged with governance does not include laws and regulations which the auditor might reasonably consider it ought.

21. There is also an apparent inconsistency between paragraph 12-2(c) and paragraph 12-3(a)(ii)(b) in that the former is grounded in the concept of non-compliance having a material effect on the financial statements and the latter being much broader as simply “non-compliance with laws and regulations”. The latter would also require that management and those charged with governance have a sufficient understanding of all applicable laws and regulations and associated system of internal control. The effect of this difference is that in accordance with 12-3(a)(ii)(b) such disclosure may be made to the auditor about deficiencies related to laws and regulations with which non-compliance would not have a material effect on the financial statements and whether any such

incremental work effort is in the public interest. A similar question can be raised relating to paragraph 12-3(a)(i).

Other comments

22. We have concerns that the requirement for inspection of correspondence as required by paragraph 12-2(b)(i) mandates a review of *all* correspondence that the entity has had and does not allow the auditor to exercise judgement as part of performing risk assessment procedures, as well as raising the question over validating the completeness of such correspondence (and whether all correspondence has been retained or is available).
23. Reference to inspecting legal confirmations obtained as part of the auditor's procedures in paragraph 12-3(b)(ii) does not appear to advance the auditor's risk assessment due to such confirmations in practice currently being limited to responding to specific inquiries.
24. Paragraph 12-3(b)(iii) references minutes of meetings of management which is potentially very broad given the extent of management meetings that may occur, and whether minutes are kept for such meetings (to the extent they are not otherwise legally required to do so). This paragraph could also be expanded to reference, by way of example, meetings of the entity's in-house legal function (e.g., important meetings with management, or meetings within the legal function related to a specific matter, as opposed to routine departmental meetings), where relevant. Further, paragraph 12-3(b)(iv) could be enhanced to better guide auditors as to the nature of other such documents. For example, an internal memorandum analysing a current case in the public domain that has been prepared to assist the entity in evaluating its own position and potential exposure.

Question 3: Do you believe that the proposals in ISA (UK) 250, considered collectively, will enhance and strengthen the auditor's identification of risks of material misstatement of the financial statements due to fraud or error relating to non-compliance with laws and regulations?

25. No, we do not consider that the proposals will enhance and strengthen the auditor's identification of risks of material misstatement of the financial statements due to fraud or error relating to non-compliance with laws and regulations.
26. Proposed paragraphs 9-1 and 9-2 explain the inherent limitations however confirm that the auditor's responsibilities are not diminished as a result. The relevant application guidance (A8-1) goes on to recognise that 'there are many laws and regulations, relating principally to the operating aspects of an entity, that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting'. This implicitly recognises the practical difficulties that could be faced by auditors (as well as by entities themselves in trying to collate such information) and does not provide any practical relief.
27. Proposed paragraph 9-1 explains that the risk of not detecting a material misstatement due to intentional non-compliance is higher, but it is these such instances of non-compliance that bring the greatest benefit in the public interest. For example, the issue at certain car manufacturers regarding the manipulation of levels of nitrogen oxide emitted from diesel engines, or the 'horse meat scandal' of 2013. However, when considering the proposed revisions to ISA (UK) 250, it is not considered probable that an auditor, even with the support of individuals with the relevant legal expertise, would have identified these matters with the expected procedures.
28. For the reasons cited above, the standard is unlikely to be sufficiently scalable. In considering ISA (UK) 600 (Revised September 2022) where the responsibility for risk assessment lays more firmly with the Group Auditor, albeit with input from component auditors, the extent of information

necessary to perform this risk assessment when considering the global operations of a large and complex multinational, perhaps with multiple lines of business across more than one industry sector, would be unworkable.

29. However, with a narrowed focus and appropriate guardrails/boundaries as we described above in our response to question 2, we believe that a revised standard can strengthen the auditor's identification of risks of material misstatement of the financial statements due to fraud or error relating to non-compliance with laws of regulations in a manner that is proportionate and commensurate with the scope of the audit and responds to the inherent limitations acknowledged both in the standard and in the *Invitation to Comment*¹.

Question 4: Have appropriate enhancements been made to the application material?

30. We have considered the sufficiency and appropriateness of the application guidance in our evaluation of the clarity of the requirements described in Q2 and Q3 above.

Question 5: Do you support the deletion of the Appendix on "Money laundering, terrorist financing and proceeds of crime legislation in the United Kingdom"?

31. No. Guidance on the application of these requirements is helpful and valuable to auditors. This appendix, by reference to the applicable legislation, sets out auditor's responsibilities relating to anti-money laundering laws generally. This therefore provides useful reference to auditors to understand their reporting responsibilities in relation to all audited entities, not solely when the entity operates in a regulated sector. Given the drive for enhancements that are in the public interest, we take the view that it would be beneficial to retain this appendix, as matters relating to money laundering could always be considered to be in the public interest.

Question 6: Do you agree with the proposed effective date for audits of financial statements for periods commencing on or after 15 December 2024?

32. The proposed revisions to this ISA (UK) are required to be effective at the same time as proposed ISA (UK) 2X0 and so the proposed effective date needs to allow for all other consequential changes to legislation and regulations (e.g., ICAEW Audit Regulations) to be made in that timeframe, before any effective date, to allow the objectives of the proposed ISAs (UK) to be achieved.

Other comments and observations

33. We have the following additional important observations on the proposed ISA (UK) that are not reflected in our responses to the questions above:
- Paragraph 2-2 references "third parties" in relation to intentional non-compliance. Third parties is an extremely wide category of parties and the consideration of the acts of third parties as it relates to non-compliance and the potential effect on an entity's financial statements under audit further adds to the impracticability of the proposed revisions. It is further inconsistent with the definition of 'Non-compliance' in paragraph 12 which refers only to 'individuals working for or under the direction of the entity'.

¹ Paragraph 15

- We would ask that the FRC reflects on whether removing the word “direct” from paragraph 5-1(a) (as compared to paragraph 6(a) in extant ISA (UK) 250A) changes or complicates what may be considered laws and regulations which are ‘generally recognised’ and whether this be replaced (or an appropriate alternative used).
- To simplify the language and understandability of the standard, we suggest it would be helpful to define a term such as “relevant laws and regulations” as being those which the auditor is to consider.
- Paragraph 13-2 may be read as a simple consideration of the results of the procedures performed on the auditor’s evaluation of the components of the entity’s system of internal control i.e., whether anything is relevant to our consideration of laws and regulations, however, this may only provide limited information considering the range of laws and regulations subject to the proposed ISA (UK). Alternatively, this could be seen as an increase in the scope of procedures required by ISA (UK) 315 and we encourage the FRC to clarify this matter as part of future revisions to the proposed ISA (UK).
- Paragraph 15-1 requires an appropriate response to the risk identified, and paragraph 16-1 requires the evaluation of whether sufficient appropriate audit evidence has been obtained regarding whether there is a material misstatement of the financial statements relating to non-compliance with laws and regulations. Both may require specialist involvement as the necessary legal expertise is not typically possessed by auditors and concluding on matters relating to laws and regulations are ultimately likely to require a view on compliance.
- The second sentence of paragraph 16-1 could benefit from simplified language, for example “In making this evaluation, the auditor shall consider all audit evidence obtained. All audit evidence obtained includes that which both corroborates and contradicts the assertions in the financial statements. The auditor also considers whether the evidence obtained is consistent or inconsistent with other audit evidence obtained.”
- Subject to further revisions and the final version of ISA (UK) 250, are consequential amendments expected to ISA 700 *Forming an Opinion and Reporting on Financial Statements* (as it relates to reporting on the extent to which the audit was considered capable of detecting irregularities) and ISA 600 *Special considerations–Audits of group financial statements (Including the work of component auditors)*?
- Starting from management’s identification and assessment of the laws and regulations that are applicable to the auditor’s work in this area suggests that paragraph 17 on written representations ought to be extended, for example, to cover completeness of identified laws and regulations and management’s views on its own processes. In addition, representations pertaining only to *known* non-compliance may be inconsistent with the auditor’s responsibilities regarding risks of material misstatement due to non-compliance, as the latter considers the risk of instances of non-compliance that are otherwise unknown. Management is unlikely to be willing or able to provide representations relating to the effect on the financial statements of currently unknown instances of non-compliance.
- The reference to “suspected” in paragraph 22-1(b) is unclear and although it does not seem to be inconsistent with applicable financial reporting standards, it does appear to be more specific. In this instance we would expect that “suspected” needs to be more than speculation. We would encourage the FRC to review this further internally to determine the appropriateness of this requirement in the context of matters reflected or disclosed in the financial statements.
- We consider that if auditors are required to implement the proposed standard as currently drafted, the impact assessment described in the *Invitation To Comment* significantly underestimates the hours involved for both updating guidance (45 hours) if this is to also include

developing training and underestimates the average increased work effort (15 hours per audit) across a large firm's portfolio unless revisions are made to the scope of the requirements. There may be additional time incurred for auditor's experts, where required, and additional time and cost incurred by audited entities.

Appendix 2

Proposed International Standard on Auditing (UK) 2X0 (Revised) *Special Consideration For Audits of Public Interest Entities - Communicating And Reporting To An Appropriate Authority Outside The Entity*

Question 7: Do you agree that the proposals in ISA (UK) 2X0 appropriately address the public interest?

34. No. The public interest can only be served if it is clear who the appropriate authority outside the entity is (i.e., the auditor knows to whom to report) and that appropriate authority has the legislative/regulatory power to act upon the reports received by an auditor, to be able to achieve recommendations of the Brydon and Kingman reports.
35. Further, legislation is required to be passed to provide auditors the necessary protections to be able to make the reports covered by the proposed revisions to this ISA (UK).
36. It is therefore important that there is a legislative basis both for an auditor's ability to report and the authority receiving the report to act appropriately, where there is not already an ability to act on any reports by auditors.

Question 8: Do you agree with the proposed scope of ISA (UK) 2X0 being limited to public interest entities, or do you believe that the requirements of ISA 2X0 should also apply to:

- a) Listed entities
- b) Charities
- c) Other entities in regulated industries
- d) All entities

When responding consider that for many audits, as reportable matters are not likely to be identified, only the requirements in paragraphs 11 - 13 will apply and that all auditors are subject to anti-money laundering legislation.

37. In determining the appropriate scope of proposed ISA (UK) 2X0, we encourage the FRC to engage with the regulators of various sectors such as the Charity Commission, utilities regulators, the FCA in respect of listed entities.
38. In making revisions to the standard to benefit the public interest, the scope of the proposed ISA (UK) 2X0 should be at least consistent with extant ISA (UK) 250B in including within its scope, regulated entities in the financial sector as well as public interest entities. The inclusion of regulated entities in the financial sector will address those non-public interest entities (e.g., payment services firms and unit trusts) that deal directly with retail customers/the public and where there could be a clear public interest to report.
39. Further, given the existing legislation regarding regulated entities in the financial sector and the duty to report, we see no clear benefit to narrowing the scope of the proposed ISA (UK) 2X0 to exclude these entities. We consider the current scope of extant ISA (UK) 250B to be beneficial to audit practitioners in keeping the 'duty to report' requirements, and therefore a focus on the public interest, front of mind.
40. We also do not agree with the statement that "reportable matters are not likely to be identified" especially when considering entities other than public interest entities.

Question 9: Do you support the definition of Reportable Matters?

41. The definition of a reportable matter in paragraphs 10(b)(ii)-(iii) is imprecise and open to interpretation. It raises a question regarding whether auditors may need to take legal advice when considering whether a matter is a reportable matter. This is supported by the application guidance in paragraph A8 of ISA (UK) 2X0 which states that "Legislation sometimes refers to reportable matters as 'matters of material significance'. The term 'material significance' requires interpretation in the context of the specific legislation applicable to the entity." Where there is a lack of a readily identifiable authority to whom auditors should report and the lack of specific legislation or guidance about what to report, it would be extremely difficult in practice for auditors to apply this definition. When the auditor would report to the competent authority in the absence of another appropriate authority, it is unclear what matters would be reported in accordance with this proposed definition.
42. To illustrate the concern in paragraph 41 above, paragraph A8 indicates that a matter (or group of matters) is normally of material significance when it is likely to require investigation by an appropriate authority outside the entity. When there is no readily identifiable authority, it would be unclear whether the matter should in fact be reported to the competent authority or whether the auditor would know if a matter would require investigation by the competent authority.
43. Paragraph 18 of the proposed ISA (UK) 2X0 and the definition of a reportable matter in paragraph 10(b)(iii) also appear circular. Paragraph 18 introduces a requirement for the auditor to consider whether a reportable matter is one that should be reported in the public interest however paragraph 10(b)(iii) indicates a reportable matter as being a matter of such significance that it is in the public interest to report. Therefore, there is no clear definition of what such reportable matters would be, and this raises the following concerns:
- That auditors will interpret and apply this inconsistently.
 - Auditors will be exposed to the application of hindsight in regulatory reviews and enforcement actions.
 - Auditors are further exposed if the standard is implemented as drafted before the necessary protections for auditors making reports to the regulators for all statutory audit work is put in place.
 - The authorities and regulators to whom reports may be made do not have the scope or legislative powers to take the actions that are necessary in the public interest.

Whilst we understand that the FRC wants to allow judgement to be exercised by auditors, without further guidance there is a risk it will be applied inconsistently and will not achieve the FRC's intended outcome.

Question 10: Do you believe that the proposals in ISA (UK) 2X0, considered collectively, will enhance and strengthen the auditor's identification of matters that should be reported to an appropriate authority outside the entity?

44. Due to the lack of clarity described in our responses to the questions set out above, it would not be possible to conclude on whether the proposals will enhance and strengthen the auditor's identification of matters that should be reported.

Question 11: Have appropriate enhancements been made to the application material?

45. We have considered the sufficiency and appropriateness of the application guidance in our evaluation of the clarity of the requirements described above.

Question 12: Do you agree with the proposed effective date for audits of financial statements for periods commencing on or after 15 December 2024?

46. The proposed revisions to this ISA (UK) 2X0 are required to be effective at the same time as proposed ISA (UK) 250 and so the proposed effective date needs to allow for all other consequential changes to legislation and regulations (e.g., ICAEW Audit Regulations) to be made in that timeframe, before any effective date, to allow the objectives of the proposed ISAs (UK) to be achieved.