

Mr. Richard Moriarty
CEO
Financial Reporting Council (FRC)
1 Harbour Exchange Square
London, E14 9GE

14 January 2026

Dear Mr. Moriarty,

Subject: FRC Consultations on Enhancing Auditor's Reports

The International Corporate Governance Network (ICGN) appreciates the opportunity to comment on the UK Financial Reporting Council's (FRC) consultation on proposed revisions to ISA (UK) 700, ISA (UK) 701 and ISA (UK) 720 enhancing audit reports.¹

Led by investors responsible for assets under management of over US\$ 90 trillion, ICGN promotes high standards of corporate governance and investor stewardship globally. Our membership is based in more than 40 countries and comprises asset owners, asset managers and advisers.

Investors rely on high-quality audit and reliable corporate reporting to exercise stewardship and allocate capital effectively. We view the FRC's work the auditor's report as important to investors ability to trust financial statement information and therefore to the UK's attractiveness as a capital market.

Q1 - Simplifying and Decluttering the Auditor's Report

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

Yes. We support the overall objective of simplifying and decluttering the auditor's report, including reverting to genuine reporting by exception for statutory matters, rather than requiring a 'nothing to report' conclusion where no issue arises and moving generic descriptions of the auditor's responsibilities to a separate FRC web-based statement, with cross-reference from the audit report, instead of repeating lengthy boilerplate in every report.

Q2 - Key Audit Matters (KAMs) and Communicative Value

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

Yes. By requiring key observations for KAMs where possible and discussion of significant quantitative aspects of accounting practices (for example, where estimates sit within a reasonable range) we expect that audit reports will provide richer insight into areas of significant judgment and help investors understand where the auditor's dialogue with the audit committee has been most robust. This should help users understand where the most significant judgements are and how the auditor believes that management's judgements compare to other plausible points in the range.

¹ FRC, [Enhancing Audit Reports Consultation](#), 2025

We understand that there is a risk that when the FRC provides examples of good practice, they can be misused and become boilerplate templates, undermining the goal of entity-specific, decision-useful reporting. However, given that this will be a new disclosure, it may be helpful for the FRC to provide some detailed non-authoritative guidance should you consider that necessary.

Q3 - Describing the impact of controls on the audit

Do you consider that the inclusion of requirements to describe the impact of the entity's controls on the audit in the auditor's report, and the level of work required by the auditor as a result, will provide users with useful further insights?

We agree that it is helpful for investors to understand how far the audit relied on controls versus substantive testing. This can give users a better understanding of the auditor's approach and the degree of confidence placed in the control environment as part of their overall audit evidence base.

However, it is important to make clear that the audit is not designed to provide specific assurance on the effectiveness of the entity's system of internal control and that describing the impact of controls on the audit does not mean that all material controls have been tested in detail.

This clarity is critical in light of the revised UK Corporate Governance Code Provision 29, which requires boards to make a public declaration on the effectiveness of 'material controls' across a broad framework. It must be clear what is in scope when an auditor is giving narrative about the 'impact of controls on the audit' and how that relates to the controls within scope of the Provision 29 declaration (or over the wider internal control framework). We believe that it would be helpful for the standard to require an explicit scoping statement that the auditor's work on controls is limited to those relevant to the financial statement audit and does not constitute assurance over the Provision 29 declaration or over all 'material controls'.

We therefore support the proposal, provided the standards and guidance ensure that there is not an unintended consequence of the creation of a new expectation gap about the scope of the auditor's work on controls. This is particularly important given the differences in requirements in the UK from the US, for example, the Sarbanes Oxley regimes, and the recent changes to the UK Corporate Governance Code. This has created a potentially confusing environment for users.

Q4 - Reporting Significant Deficiencies in Internal Control and Scope

Do you support the proposed approach to requiring auditors to identify and report any significant deficiencies in internal controls that merit communication within the auditor's report? Is it appropriate to scope these requirements solely to entities that apply the UK Corporate Governance Code?

We support, in principle, requiring auditors of UK Corporate Governance Code companies to consider whether any significant deficiencies in internal control they have identified are so important that they should be reported publicly. We believe that the same concerns relevant to Q3, about the potentially confusing scope of this reporting are also relevant here. Investors will need to have a clear understanding of the scope of the work done by the auditor, and whether their conclusions relate to all controls, controls relevant to provision 29 of the UK Corporate Governance Code or a smaller set of controls specifically relevant to the statutory audit only.

Similarly, it is important to make clear that a 'no significant deficiencies identified' statement from an auditor is not the same as a positive assurance statement on the health of the overall control environment.

Investors have asked for more transparency about how much reliance auditors place on controls and about major control failings. These proposals could give useful insight and complement the Provision 29 control effectiveness declaration in the revised UK Corporate Governance Code.

However, there is a concern that the terminology used in the consultation, i.e., 'material issue of the control', creates an expectation gap around the scope of the audit. There is a risk that a statement such as 'no significant deficiencies in internal control were identified' is read by users as a form of positive assurance on controls, which would go beyond the actual scope of the audit.

As this will be a new area of reporting, we think it will be important for the FRC to help audit firms to implement this well, under a consistent framework and set of definitions.

We recommend that the FRC:

- Clarify, in both the standards and the Basis for Conclusions, that any reporting on significant deficiencies relates to matters identified in the course of performing the financial statement audit, not to a separate, full-scope controls audit.
- Consider simplifying the language and keeping it closer to existing, understood concepts, for example, focusing on 'significant deficiencies in internal control that are material to users and indicative of an ineffective control environment', rather than introducing new phrases such as 'material issue of the control'.

We would also welcome early thematic reviews of how these new requirements are applied in practice.

Q5 - 'Other Information' and 'Statutory Other Information'

Do you support the removal of the distinction between other information and Statutory Other Information to ensure that the auditor's responsibilities under ISA (UK) 720 focus on other information that is of most relevance to a reader of the annual report?

We understand and broadly support the FRC's proposal to remove the distinction between 'Other Information' and 'Statutory Other Information' in ISA (UK) 720.

We note that the previous UK-specific distinction has become less meaningful as annual reports have evolved. For example, voluntary sustainability-related disclosures may not qualify as 'statutory other information' but are highly relevant to investors. Removing the distinction both simplifies the standard and helps to future-proof it for emerging forms of narrative and sustainability reporting.

We agree that it is helpful for auditors to have a coherent framework for reading and considering all material other information in the annual report, including voluntary sustainability disclosures, for consistency and material misstatement.

However, we believe that there is a risk of unintended consequences, if the new ISA (UK) 720 rules create a misplaced expectation that they are introducing a form of limited assurance over all other information. The FRC should make it clear that the auditor is not performing reasonable assurance over the entirety of the front-end narrative or sustainability information as part of their statutory audit

Interaction with UK Corporate Governance Code

We support the streamlining of reporting but believe it would be helpful for the FRC to specify clearly that, if something is materially wrong or missing in the Corporate Governance Code disclosures (for example, an incomplete explanation of non-compliance), the auditor will be expected to draw attention to this in the report.

Q6 - Alignment with IAASB

Do you support the FRC's proposed approach to ensuring that the ISAs (UK) remain aligned with the international standards following the changes made by the IAASB as part of their Listed Entity and PIE Track 1 project?

We support maintaining alignment with the IAASB's changes for listed entities and PIEs, including how ethical requirements are described in the auditor's report. International consistency on these points is important for global investors comparing audit reports across markets.

Q7 - Future Track 2 Changes without Full Consultation

Would you support the FRC making the appropriate limited and technical changes to the ISAs (UK) arising from the IAASB's Listed Entity and PIE Track 2 project without reverting to a full public consultation, as long as changes are explained through stakeholder outreach?

We would support limited and technical amendments being made without a full separate consultation, provided that the changes remain genuinely narrow and are not used to introduce new UK-specific requirements. It will also be important for the FRC to explain them transparently through written material and targeted stakeholder outreach.

If more substantive changes were proposed, we would expect a full public consultation.

Proportionality and Scope

We note that many of the most substantive changes (e.g. expanded KAMs, internal control communications) are targeted at listed entities, PIEs and entities applying the UK Corporate Governance Code.

We believe that it is important to roll out new requirements in a proportionate and reasonable time frame, starting with the largest and most important entities and then expanding to all relevant entities over time.

That said, where a smaller company voluntarily applies the UK Corporate Governance Code, it is reasonable that the associated audit-reporting expectations should also apply.

Cost vs Value

We recognise that the FRC has sought to keep incremental work effort limited and proportionate. From a long-term investor perspective, we do not view modest, well-targeted increases in audit fees as problematic, particularly for larger listed/PIE entities, where audit fees are small relative to company performance. For investors, the long-term value of better insight is more important than the costs of year 1 implementation.

We therefore encourage the FRC to continue to weigh public interest benefits and investor information needs heavily, and not to allow short-term implementation cost concerns to dilute reforms that could materially improve audit transparency.

Thank you again for the opportunity to share our perspective. If you would like to follow up with questions or comments, please contact Ayan Tewari, Senior Policy Executive (policy@icgn.org).

Yours faithfully,

A handwritten signature in blue ink that reads "Jen Sisson".

Jen Sisson

Chief Executive Officer, ICGN