

Thomas R. Seidenstein (Chair)  
International Auditing and Assurance Standards Board  
6<sup>th</sup> Floor  
529 Fifth Avenue  
New York  
10017 USA

29 September 2022

Dear Mr Seidenstein,

**Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised)**

The Financial Reporting Council (FRC) welcomes the opportunity to comment upon the Exposure Draft *Narrow Scope Amendments to ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, and ISA 260 (Revised), Communication with Those Charged with Governance, as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)*.

The FRC welcomes the co-ordination between the IAASB and the IESBA in ensuring a strong relationship between ethical requirements and the auditing standards. Co-ordination between the two boards provides a firm platform to support public interest considerations. The FRC strongly supports measures which clearly communicate the ethical requirements for public interest assurance engagements, as this provides a powerful means to sustain and increase public confidence in the external audit process.

The FRC does not mandate the International Independence Standards (IIS) for UK audit and assurance providers, and instead issues its own *Ethical Standard*. However, this is intended to be as least as stringent as the requirements included within the IESBA Code with respect to auditor independence. Additionally, professional accounting bodies in the UK adopt the Code as the basis of their codes of professional ethics.

The FRC supports the proposed amendments to ISA 700 (Revised) and ISA 260 (Revised). If the adoption of more stringent ethical requirements for certain types of audited entities is to enhance public confidence, then the standards and requirements that are relevant to each engagement need to be transparently communicated to users of financial statements in the auditor's report.

However, we have some reservations that the specific language proposed could potentially lead some of those users to believe that an audited entity is a PIE in circumstances where more stringent requirements have been applied voluntarily rather than because of a formal requirement.

Our detailed responses to the consultation can be found in the annex to this letter. If you have any questions relating to this response, please contact myself or Peter Kitson ([p.kitson@frc.org.uk](mailto:p.kitson@frc.org.uk)).

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'J. Ferris', is centered on a light grey rectangular background.

**James Ferris**  
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## Annex: Responses to the questions set out in the Explanatory Memorandum

### *Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Audits of Financial Statements*

1. *Do you agree that the auditor's report is an appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code?*

The FRC agrees that the auditor's report is the appropriate mechanism to disclose these matters. As the underlying objective within the revisions to the IESBA code is to enhance public confidence through additional independence requirements for PIEs, public disclosure that the auditor has applied these requirements is an essential means for supporting that objective. The auditor's report is the most appropriate mechanism for making the disclosure, and the IAASB's reasoning on this matter is compelling. Auditor reporting provides a clear mechanism to operationalise the IESBA's disclosure requirements, while the auditor's report provides a consistent and accessible means of communicating this information to users of audited financial statements.

2. *If you agree:*

- (a) *Do you support the IAASB's proposed revisions in the ED to ISA 700 (Revised), in particular the conditional requirement as explained in paragraphs 18-24 of the Explanatory Memorandum?*

The FRC believes that the proposed disclosures should clearly differentiate between instances where heightened ethical requirements were required due to laws and regulations, and those where the auditor has voluntarily elected to adopt them. This would mitigate any risk that users of financial statements believe an entity is a PIE when it is not.

The FRC's Ethical Standard requires firms to establish policies and procedures to set out circumstances in which heightened independence requirements for PIEs and listed entities are voluntarily applied to other engagements, and for this to be communicated to Those Charged With Governance.<sup>1</sup> ISA (UK) 700 further requires the auditor to communicate within the Basis of Opinion paragraph that the relevant ethical requirements include the FRC's Ethical Standard, applied as determined to be appropriate in the circumstances of the individual engagement.<sup>2</sup> The supporting application guidance also states that the auditor's report should indicate when additional requirements were determined to be appropriate to apply to the audit engagement.<sup>3</sup> These measures help mitigate against the risk that users incorrectly identify an entity as a PIE when it is not.

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<sup>1</sup> FRC, *Ethical Standard*, 1.43.

<sup>2</sup> ISA (UK) 700 (Revised November 2019) *Forming an Opinion and Reporting on Financial Statements*, paragraph 28(c).

<sup>3</sup> ISA (UK) 700, paragraphs A35-1 – A35-4.

The FRC therefore suggests the addition of text to A35A which alerts the auditor to the potential risk of misleading users when heightened ethical requirements have been applied to an entity voluntarily, rather than through law and regulation. The additional wording should also advise the auditor to consider whether additional disclosure in the auditor's report may be necessary in these circumstances. We suggest appending the following bullet point to A35A:

- *In instances where the auditor, following relevant ethical requirements, has deemed it appropriate to apply heightened ethical requirements for the audit of financial statements, and is also required to disclose this within the auditor's report, the auditor considers the risk that a reader may misunderstand the nature of the audited entity. Voluntarily applying ethical requirements relevant to PIE audits, for example, might lead a reader to conclude that an audited entity is a PIE. In these instances, the auditor should state that ethical requirements relevant to a PIE audit have been applied voluntarily, unless it is otherwise clear that the entity is not a PIE.*

Finally, the FRC considers that the proposed revisions to the specimen auditor's reports included in ISA 700 are appropriate, though we note that none of the examples relate to the potential situation where an auditor has elected to apply heightened ethical requirements for the audit of an entity above those required by law and regulation.

*(b) Do you support the IAASB's proposed revisions in the ED to ISA 260 (Revised)?*

The FRC supports the proposed revisions to ISA 260 (Revised). The proposed amendment of paragraph A29 provides appropriate guidance to the auditor on communicating with Those Charged With Governance that heightened ethical requirements have been applied to the financial statement audit.

Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Reviews of Financial Statements

3. *Should the IAASB consider a revision to ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code?*

The FRC does not adopt ISRE 2400 (Revised) for use with public interest assurance engagements in the UK. Instead, the FRC has issued its own suite of Standards on Investment Reporting (SIRs), for which the FRC's *Ethical Standard* is specified as the relevant ethical requirement. However, the FRC would support the IAASB in considering revisions to ISRE 2400 (Revised) to address transparency concerning relevant ethical requirements for independence.

4. *If the IAASB were to amend ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, do you support using an approach that is consistent with ISA 700 (Revised) as explained in Section 2-C?*

The FRC would support an approach which is consistent with ISA 700 (Revised) as set out in the Exposure Draft. However, we would draw attention to our comments on the proposed approach to revising ISA 700 (Revised).

## Matter for IESBA Consideration

5. To assist the IESBA in its consideration of the need for any further action, please advise whether there is any requirement in your jurisdiction for a practitioner to state in the practitioner's report that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.

In the UK, the FRC's *Ethical Standard* is mandated as the relevant ethical requirement for public interest assurance engagements, and several different standards require the practitioner to state in the practitioner's report that they are independent of the entity in accordance with the Ethical Standard. The Standards on Investment Reporting (SIRs) also require this disclosure to be made in the basis of opinion paragraph included in the examples of accountant's reports included as appendices to the individual standards.<sup>4</sup>

In addition, for public interest assurance engagements specified by the FRC, ISAE (UK) 3000 includes a requirement in paragraph 69(j)(i) for the practitioner to report that they are independent of the entity in accordance with the Ethical Standard, and paragraph A173 provides a specimen disclosure.<sup>5</sup> Additionally, paragraph 69(j)(ii) of the same standard sets out disclosure requirements for other assurance engagements performed in accordance with ISAE (UK) 3000. However, ISRE (UK) 2410 does not currently require such a disclosure to be made.<sup>6</sup>

## Requests for General Comments

6. *Translations—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing this ED.*

The FRC has no specific comments on this matter.

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<sup>4</sup> See the illustrative reports included as appendices to the following: SIR 2000 Revised [Investment Reporting Standards Applicable to Public Reporting Engagements on Historical Financial Information](#) (March 2020); SIR 3000 [Investment Reporting Standards Applicable to Public Reporting Engagements on Profit Forecasts](#) (March 2020); SIR 4000 [Investment Reporting Standards Applicable to Public Reporting Engagements on Pro forma Financial Information](#) (March 2020); SIR 5000 [Investment Reporting Standards applicable to Public Reporting Engagements on financial information reconciliations under the Listing Rules](#) (March 2020); and SIR 6000 [Investment Reporting Standards Applicable to Public Reporting Engagements on Quantified Financial Benefits Statements](#) (March 2020).

<sup>5</sup> ISAE (UK) 3000 [International Standard on Assurance Engagements](#) (July 2020).

<sup>6</sup> ISRE (UK) 2410 [Review of Interim Financial Information Performed by the Independent Auditor of the Entity](#) (May 2021).

7. *Effective Date—Given the need to align the effective date with IESBA, do you support the proposal that the amendments to ISA 700 (Revised) and ISA 260 (Revised) become effective for audits of financial statements for periods beginning on or after December 15, 2024 as explained in paragraph 26?*

The FRC supports the proposed effective date as this facilitates the aim to ensure that these amendments align with the effective date for the related amendments to the IESBA Code. We agree that the proposed timeframe allows sufficient time to allow for national adoption processes, and that a prolonged misalignment between the ISAs and the IESBA Code would not be in the public interest.