

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

Emailed to: AAT@frc.org.uk

12 January 2024

Dear Kate Dalby,

**Re: Proposed changes to ISA (UK) 250 Consideration of Laws and Regulations in an Audit of Financial Statements**

The 100 Group, with the support of GCI00<sup>1</sup>, submit this response to your consultation on proposed changes to the auditing standard, ISA (UK) 250 Consideration of Laws and Regulations in an Audit of Financial Statements.

This letter is written by the 100 Group Main Committee and is intended to speak on behalf of the Group as a whole. The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses. We believe that a foundation of the strength and resilience of British business is the leading governance framework that we operate under in the UK.

**Summary of our position**

We acknowledge that as a preparer group we would not typically respond to consultations on auditing standards, however the significant impact on UK business of the proposed amendments to ISA (UK) 250 means that we feel it is important that our perspectives are heard.

While we understand that it may not have been the ambition of the FRC, the proposal, as currently worded, will require the auditor to establish and consider a demonstrably complete population when considering their obligations around direct and indirect laws and regulations. Where they cannot gain comfort over the business' relevant controls and processes, the auditor will be left seeking to prove the negative – all in the context of the inevitable fear of being judged in hindsight.

The increase in effort for both the auditor and the business when supporting the audit is likely to be very significant and not at all aligned in our view to the government's call for smarter regulation which seeks to reduce the burden on business and to promote innovation and growth.

The specific detail of our objection to the proposal can be considered in four parts which are laid out below, and which we would be delighted to discuss in more detail.

**I. We believe that the FRC's impact assessment has significantly underestimated the incremental effort required on both the side of the business as well as the auditor**

Representing the CFO voice of the FTSE100 we speak to finance, audit and governance matters on behalf of the UK's largest businesses, many of which operate globally – when we surveyed our membership earlier this year, half of our respondents told us that revenues derived in the UK represent less than 10% of their total, and businesses where over half of their revenues are derived in the UK represented less than 15% of respondents.

---

<sup>1</sup> GCI00 is the association of general counsel and company secretaries working in FTSE 100 companies.

For large businesses, in particular those which are Globally diverse, managing legal exposure is not only a significant task, but one which bears a lot of risk. It typically sits as its own workstream within the Group consolidation and compliance team structure, and, for global businesses, it will leverage legal expertise from across the World.

The additional audit effort created by the proposals will be significant and duplicated across businesses as well as the audit practice, since audit firms will likely expect to see an increase in compliance documentation being prepared. The 15 hours identified by the impact assessment not only omit any of this impact on the business, but are, in our view, grossly underestimated even when only considering the likely audit effort.

## **2. The additional audit responsibility requires specialist forensic and legal skills which do not sit within the audit capability**

The additional compliance and audit hours required to give the audit profession the confidence required to sign off on the proposed requirements will sit within highly skilled teams with legal expertise, often based overseas. Such skills will most likely need to be outsourced within the local audit practice – and British business will be picking up the bill for all of it.

Under the current requirement, we understand that auditors must actively assess non-compliance with direct laws and regs and extend this to indirect laws and regulations where there is a trigger to do so, by searching open legal claims and spikes in legal spend for example. Expanding the remit of the requirement to encompass all legal non-compliance is a significant step up which requires the business to evidence a demonstrably complete list of exposures and leaves the auditor to seek to prove the negative.

Given our membership we speak largely as the voice of premium listed businesses – companies who are very clear about their compliance obligations to their shareholders and other stakeholders – they take their approach to business risks such as legal non-compliance very seriously, and generally enjoy the benefits of critical mass to ensure such risks can be well managed and monitored at the Group level. None the less, the proposals would create a significant level of additional work for our membership.

Further, it is our view that there is a not inconceivable risk that some businesses within certain industries might become un-auditable because of the significance of the requirement and the breadth of the associated risk exposure. While we appreciate that less well managed businesses which are exposed to unidentified litigation risk should certainly be encouraged to do more to monitor such matters, we do not believe that audit regulation is the way to achieve this – let alone the proposal as currently drafted.

## **3. We are unclear on the risk that this proposal is seeking to mitigate**

We appreciate that Kingman noted the need for better reporting by auditors on matters of going concern and viability, and we agree that material risks to the business should certainly be disclosed. However, we are also of the view that such disclosures have already come a long way since 2019 when Kingman first issued his report, and that the current ISA (UK) 250 proposals as drafted go a long way further than what we believe he was calling for.

## **4. International divergence should be avoided unless absolutely necessary**

In representing the FTSE100 we speak on behalf of businesses which compete for capital on the global markets and as such any international divergence is unappealing and should, in our view, always be founded in very solid reasoning and requirement.

We understand that the IAASB considered an appeal for the proposed amendments to be incorporated into the International Standards and were of the view that they were not necessary. By pursuing this local amendment, the FRC diverges from the view of the IAASB and we believe that the reasoning for this should be made very clear as part of the proposal.

Further, we understand that the SEC is also proposing amendments and are receiving significant push back – despite their proposals being notably less onerous than those proposed by the FRC, since they are restricted to PIE entities, and only scope matters which come to the attention of the auditor.

We hope that you find these comments and our responses below useful, and we thank you for the opportunity to share them with you. We would be happy to discuss them in further detail if you saw a benefit in such an opportunity.

Yours sincerely,

Main Committee of the Hundred Group