

March 2026



2025 Audit Monitoring Annual Report



Executive summary

This report summarises the findings from our 2025 audit monitoring visits. It highlights trends in audit quality, compliance with auditing standards, and identifies common areas for improvement.

Visits: 18 visits were conducted in 2025, slightly less than the previous year. However, as a result of the workload involved in visiting the two largest ICAS firms more audit files were subject to review.

Outcomes: 2025 saw a slight improvement in visit outcomes, with more firms presenting positive outcomes and fewer firms presenting the poorest outcomes. Generally, visits required to meet the statutory cycle showed better outcomes compared to those on a shortened cycle, indicating firms with poorer outcomes in the last visit had not sufficiently improved & that the risk assessment undertaken to shorten some firm's visit cycles was appropriate and proportionate.

Audit File Quality: It is positive to note that file quality has been better than in recent years. In 2025, 62% of files were graded as 'good' or only required 'limited improvement', which reflects the best levels of compliance since 2021. There was also a slight reduction in the number of files that were considered non-complaint which fell from 48% to 38%, reflecting 8% of files 'requiring significant improvement' and 30% 'requiring improvement'.

Common ISA Breaches: The most common ISA breaches remained the same as last year, and related to: audit documentation (ISA 230), risk assessment (ISA 315), fraud considerations (ISA 240), evidence (ISA 500), sampling (ISA 530) and going concern (ISA 570).

Wider regulatory Compliance: Common breaches of audit regulations were also fairly consistent with 2024, with issues in the following areas noted: statutory requirements (AR 3.08); acceptance and reappointment (AR 3.03); compliance with ISQM1 (AR 3.10); and audit compliance reviews (AR 3.20). One new common issue arose however, as there has been a gradual increase in the number of visits finding issues with a firms eligibility (AR 2.3).

Recommendations for Improvement: The report seeks to highlight the common weaknesses identified in our monitoring work, with a view to helping firms address these areas going forward. Examples of 'what good looks like' and case studies in good practice are also included throughout to give some helpful tips for compiling high quality files and ensuring wider regulatory compliance.

Introduction

We present our audit monitoring annual report for 2025. The report aims to provide transparency over our work and includes:

- a) an overview of our audit monitoring activities during 2025; and
- b) key messages and findings arising from monitoring reviews.

We encourage all audit firms to read the main findings of this report and consider whether there are any areas that require to be addressed. We hope that you find this report useful in considering how effectively you are complying with regulatory requirements.

If you have any comments or questions, please contact us at aapmonitoring@icas.com .

About ICAS

ICAS is the world's oldest professional body of accountants. We represent over 24,000 members working in the UK and around the world. Our members work in private practice and in a range of businesses, as well as in the public and not for profit sectors. They contribute significantly to society.

ICAS' Royal Charter requires that we act in the public interest. Our regulatory functions are designed and exercised to place the public interest first. Our Charter also requires ICAS to represent its members' views and protect their interests. On the rare occasion that these are at odds with the public interest, it is the public interest that must be paramount.

The regulatory framework

The Financial Reporting Council (the 'FRC') is the ultimate Competent Authority in the UK for statutory audit and delegates various functions to each RSB. ICAS is a Recognised Supervisory Body ('RSB') for statutory audit in the UK.

ICAS is responsible for regulating audit firms which includes, licensing, monitoring and investigation activities within the Professional Standards division of ICAS. The FRC conducts significant oversight over ICAS's role as an RSB.

ICAS Regulation Strategy

Published in September 2023, the **ICAS Regulation Strategy** continues to guide our actions as an audit regulator, with an underlying goal to promote trust in the audit profession through excellence in regulation. We understand that this cannot be achieved unless we secure appropriate standards of audit compliance amongst our audit licensed firms.

Regulation remains core to the work of ICAS and our Council, with a commitment to this included in the wider ICAS 2030 Strategy, which places ethical leadership at the heart of everything we do.

Our monitoring work promotes trust in the profession through excellence in regulation and by fulfilling our Royal Charter obligations to act in the public interest. To deliver this, our regulatory processes continue to evolve and become more efficient, ensuring that our focus is risk-based and proportionate. At all stages, we ensure that oversight arrangements are proportionate, sustainable, future-ready and reflect the principles of modern regulation.

Governance

The Regulation Board

The Regulation Board ('the Board') is the executive board established by Council for setting policy and procedures relating to the regulatory functions of ICAS, including audit regulation. Audit is a key focus of every Board meeting. The Board receives reports and statistical information, allowing it to exercise effective oversight of ICAS' role as an RSB. It reports into Council and the Oversight Board, with the Chair of the Regulation Board (a Public Interest Member) sitting on both of these bodies.

Operational audit functions are delegated to two regulatory committees:

- the Authorisation Committee - the role of this Committee is explained below; and
- the Investigation Committee - which investigates and assesses alleged breaches of rules, regulations, etc.

All boards, committees, and panels are constituted under published Regulations and comprise of a mixture of practising accountants and lay members (including legally qualified chairs for the tribunals).

ICAS' **Audit Regulations** set out the framework which ICAS follows when regulating audit firms, in line with relevant legislation. Importantly, the regulations set out the authorisation and monitoring process and the obligations of audit firms.

The Authorisation Committee

The Authorisation Committee ('the Committee') is responsible for issuing, suspending and withdrawing the licences, certificates and authorisations which are issued by ICAS, as well as considering the outcome of monitoring visits. The Committee is also responsible for considering the CPD compliance of ICAS members.

Audit Monitoring

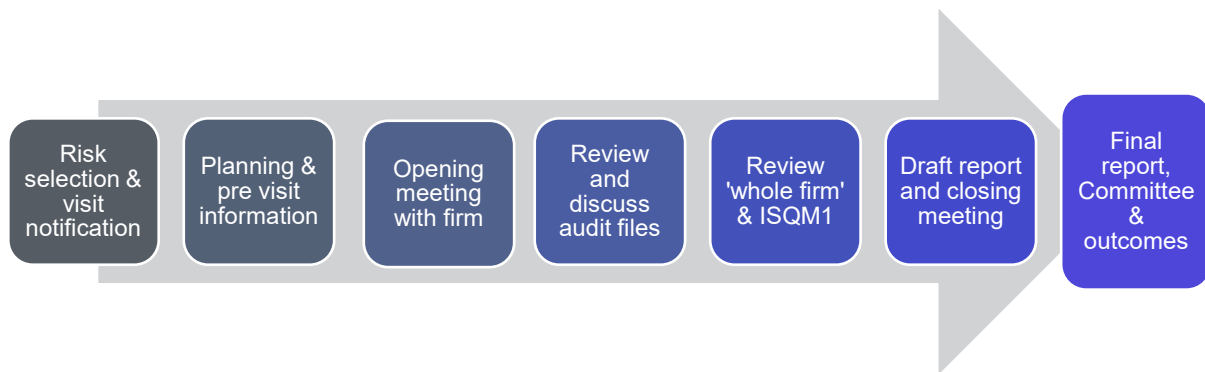
Monitoring work

The monitoring team

The monitoring team's role is to gather information and evidence of audit quality and regulatory compliance over ICAS registered audit firms. In practice, visits presenting good levels of compliance may be cleared by the monitoring team. However, monitoring work that identifies significant findings is reported to the Committee which makes all regulatory decisions, including those over potential visit follow-up actions, the imposition of conditions and restrictions, and in the most serious cases regulatory penalties and registration withdrawal.

All audit registered firms will be visited at least once every six years. Firms auditing Public Interest Entities are visited on a more regular basis in conjunction with the FRCs Audit Quality Review Team. Although the minimum requirement is six years, firms may receive visits within a shorter space of time depending on the results of the outcome of their previous audit monitoring visit and the monitoring team's ongoing horizon scanning and risk assessment procedures

The monitoring process summarised

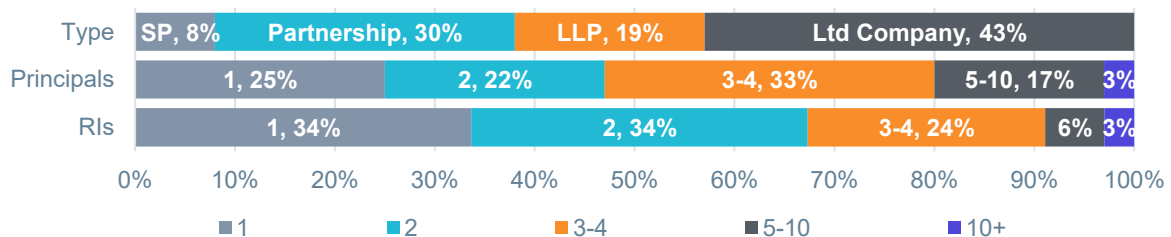


For more information about Audit Monitoring, and the role of the Authorisation Committee, please see [icas.com](https://www.icas.com).

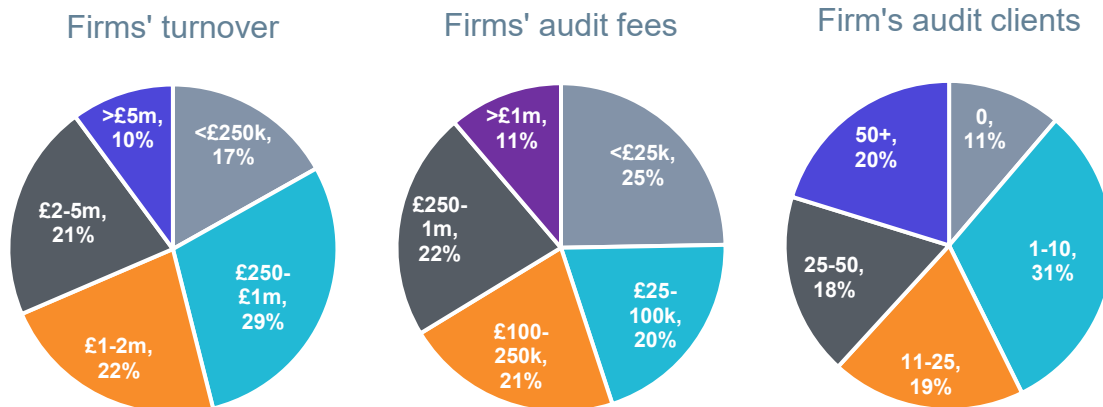
Who we monitor

The size of firms registered with ICAS to conduct audit work varies and the monitoring approach is tailored to reflect the nature and client base of each firm and the regulatory risk arising. There has been a notable change in recent times away from unincorporated sole practitioners ('SPs') and partnerships towards incorporated practices which now make up 62% of our firms. The chart shows that there are more Limited Company practices now than any other form of practice, with just under a quarter of those having only one owner / principal / RI.

ICAS population by firm Type, Principals & RIs



There has been a general trend of aggregation and consolidation in the sector for a number of years. This has resulted in fewer but larger firms in the audit market than used to be the case, with small 1-2 principal firms now making up the minority of ICAS registered audit firms. Of the smallest one principal firms, it is notable that around a quarter are run by practitioners that are past UK State Pension age.



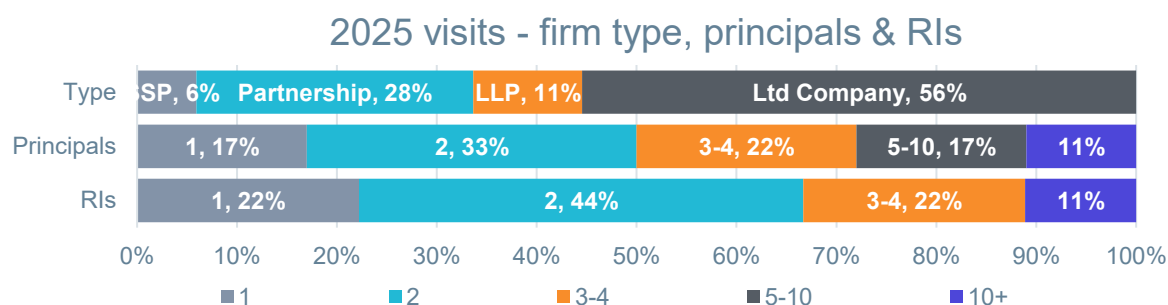
Given the general trend towards fewer but larger audit firms, there has been an uplift in the overall income and audit fee income of registered firms. The pie charts above set out the split of registered firms by turnover, audit income and audit clients. It is notable that most of the firms registered for audit now have total fee income of over £1million annually, though audit fees tend to remain a relatively small income stream for firms other than those which are dedicated audit-only entities (which has become more common as a result of eligibility and ownership trends).

11% of registered firms hold no audit clients. Around a third of these firms hold audit registration solely as a result of the ownership structure implemented (eg a holding company that wholly owns another audit firm). The remaining majority of these firms are small practices with have not recently conducted audit work. Such small 'zero-audit' firms should be aware that monitoring visits are still required even in cases where no audit work is conducted.

2025 Audit Monitoring visit findings

Who we visited

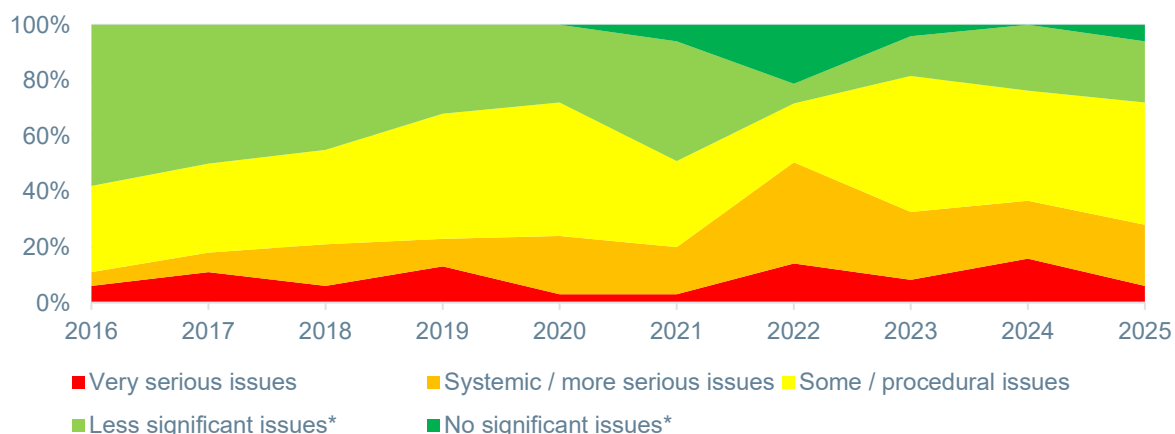
This report sets out the key findings from our 2025 audit monitoring work, encompassing the results from visits to 18 audit firms of varying sizes across the year (7 fewer than the prior year). The visits were fairly evenly split between those required by the statutory cycle (in some cases a reduced cycle arising from the firms' PIE registration status), and those on a shortened cycle. Shortened cycle visits are typically scheduled due to the nature of issues identified during their previous visit, though other risk factors are also taken in to consideration when planning our monitoring work. There was also one visit conducted in the year as a result of a requirement raised by the Committee.



Visit outcomes

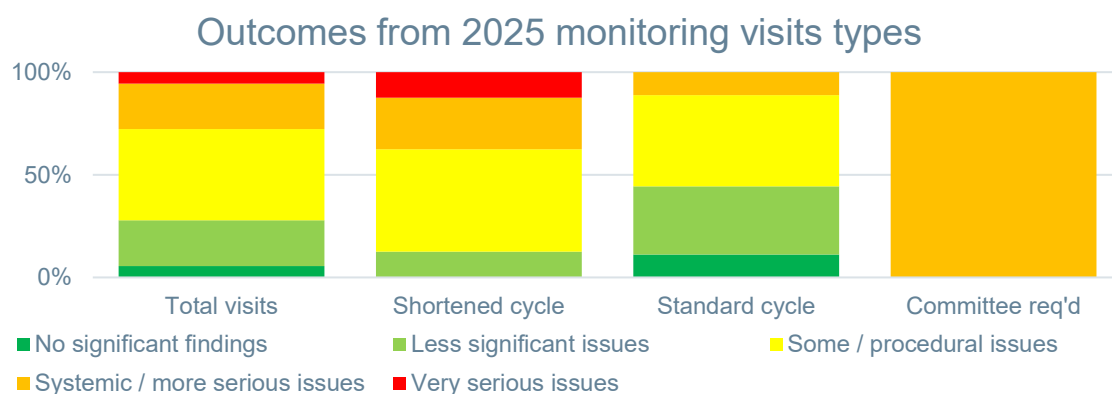
It can be challenging to identify clear trends or the underlying drivers behind changes in monitoring outcomes given the relatively small number of visits carried out each year and the fact that different firms are reviewed across each cycle. However, it was positive to note that 2025 saw a general improvement in outcomes with more firms presenting positive outcomes, and fewer firms presenting the poorest outcomes. The Orange and Red visits shown in the chart below represent the poorest outcomes, which include those visits with significant audit quality concerns, ethical and/or integrity issues, or eligibility breaches. These visits are always escalated to the full Committee for consideration and can lead to stringent regulatory action being taken.

10-year history of outcomes from monitoring visits



*NB. Data on the split between 'no significant issues' and 'less significant issues' before 2020 is not available

The chart below shows that firms visited under the statutory cycle have continued to present better quality outcomes. These visits are limited to firms that have previously demonstrated strong audit quality and a clear commitment to compliance, and for which the monitoring team's ongoing risk assessment has not identified any heightened areas of concern since the last visit. In contrast, shortened-cycle visits, and those required by the Committee, have presented lower levels of audit quality and regulatory compliance. This poorer performance indicates that the risk assessment processes being undertaken to shorten some firm's visit cycles are appropriate and proportionate.



As was noted in 2024, these outcomes suggest that whilst previous quality or compliance issues may appear to have been remediated immediately after the last monitoring visit, further compliance issues subsequently arise, indicating that some firms have not fully ironed out the root causes of their deficiencies. Whilst ICAS now requires each firm to conduct and submit a full Root Cause Analysis ('RCA') when deficiencies are found, in accordance with International Standard on Quality Management (UK) 1 (ISQM 1), most previous visits would have pre-dated the formal consideration of that RCA. It is, therefore, hoped that the introduction of this additional requirement will, over time, be effective at preventing recurrence of compliance issues and break this trend.

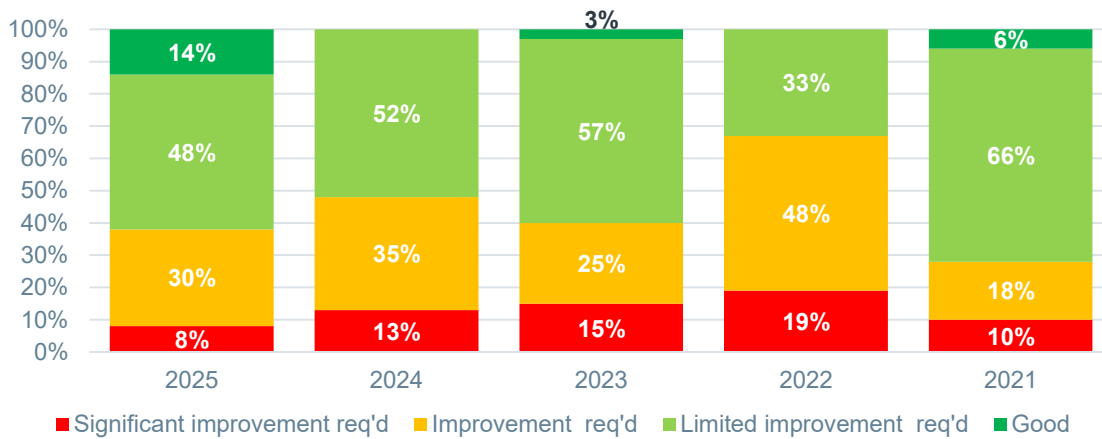
Firms should be aware that poor outcomes are likely to result in more frequent monitoring, with visits taking place sooner and more regularly until compliance improves to the required standard. Significant issues that are repeated from a previous monitoring visit will have a detrimental effect on the visit outcome and are one factor that the monitoring team takes in to account when assessing whether quality issues are considered systemic – which in turn drives more rigorous follow-up actions including the potential for the Committee to apply restrictions or conditions on a firm's registration. Recurring poor outcomes will lead to an escalation of regulatory actions required and taken, so it is imperative that quality concerns are addressed by firms timeously.

Audit file quality

The number of visits reported herein was somewhat lower than in previous years, as a result of the workload involved in visiting the two largest ICAS audit firms. However, as a result of the scale of the largest visits there were more audit files subject to detailed review than in 2024. Some insight into how we select files for review can be found in Appendix 1.

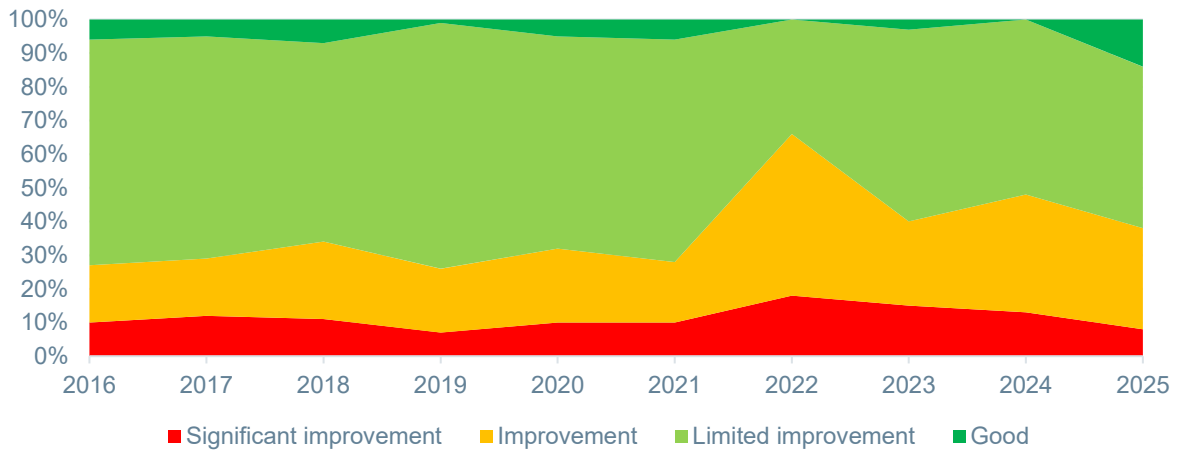
Similar to the visit outcomes, identifying year-to-year trends and the drivers behind changes in audit file quality, remains challenging. However, it is positive to note that file quality has been better than in recent years. In 2025, 62% of files were good or only required limited improvement, which reflects the best levels of compliance since 2021 (itself was an odd year given the impact from the COVID pandemic). Further, 2025 had the lowest levels of files that needed significant improvement in the last 5 years, which is another positive trend.

2025 audit file quality



As we noted in previous reports, 2022 was an unusual year for the monitoring team with significant changes meaning that fewer visits were conducted and the spread of firms visits was somewhat atypical. The 2022 visits were also affected by the lingering effects of the COVID pandemic which affected both the audits conducted in the preceding year or two and the work of the monitoring team on those audits, which is inherently retrospective. That said, the chart below further demonstrates a slight improvement in quality in recent years back towards levels of compliance we saw pre-pandemic. That is no mean feat given the challenges audit firms have faced during the period, including the significant revision and expansion of a number of core auditing standards, and other changes affecting practices more generally.

Audit file quality over time



The visits completed in 2025 covered roughly a fifth of ICAS audit registered firms, and that coverage has remained fairly consistent with previous years. The overall number of audit firms has continued to fall in recent years. This reduction appears across all the RSBs and reflects, among other things, smaller firms stepping away from audit, ongoing consolidation and acquisition in the sector, and audit work increasingly concentrating in medium and larger firms.

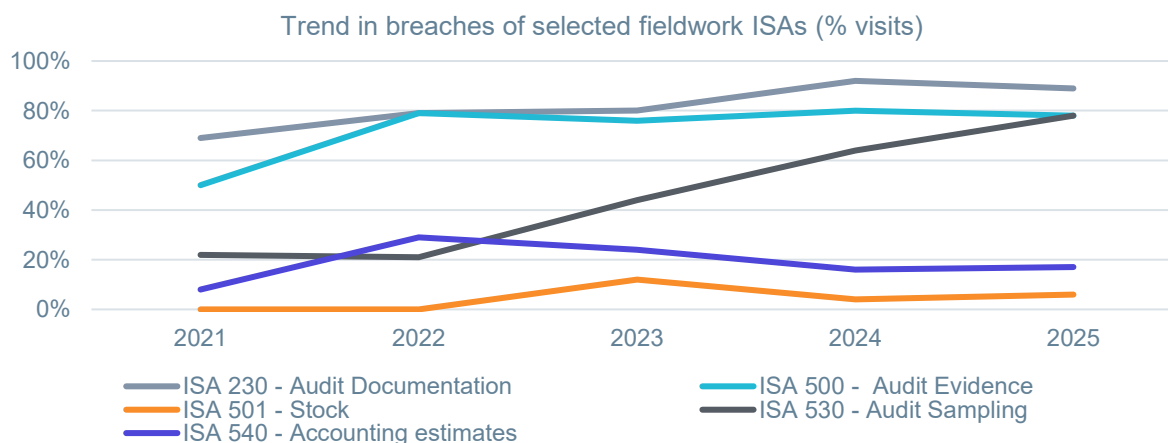
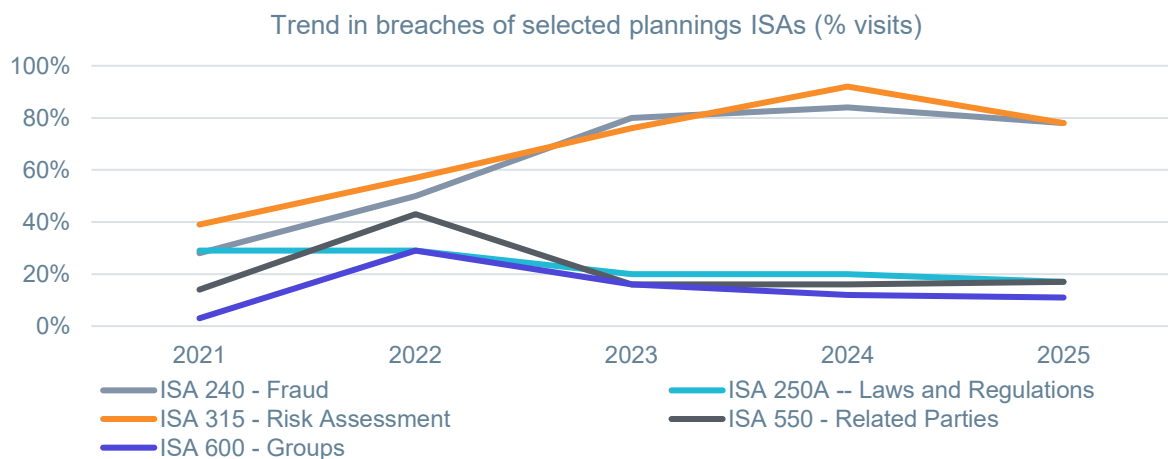
The recent file quality trends indicate that having more RIs specialising in audit (rather than it being a small element of a broader general-practice portfolio), and firms having access to economies of scale, may be influencing audit quality more obviously than in previous years. That is clearest when considering the number of 'Good' files in 2025, as these were all conducted by the largest firms. However, any potential correlation between firm size and file quality disappears when looking at files that had only 'limited improvements required'. Such files reflect reasonable levels of audit quality and were identified across the spectrum of firms visits, from the largest firms to smallest. That's a reassuring outcome given the majority of ICAS firms still have only one or two RIs.

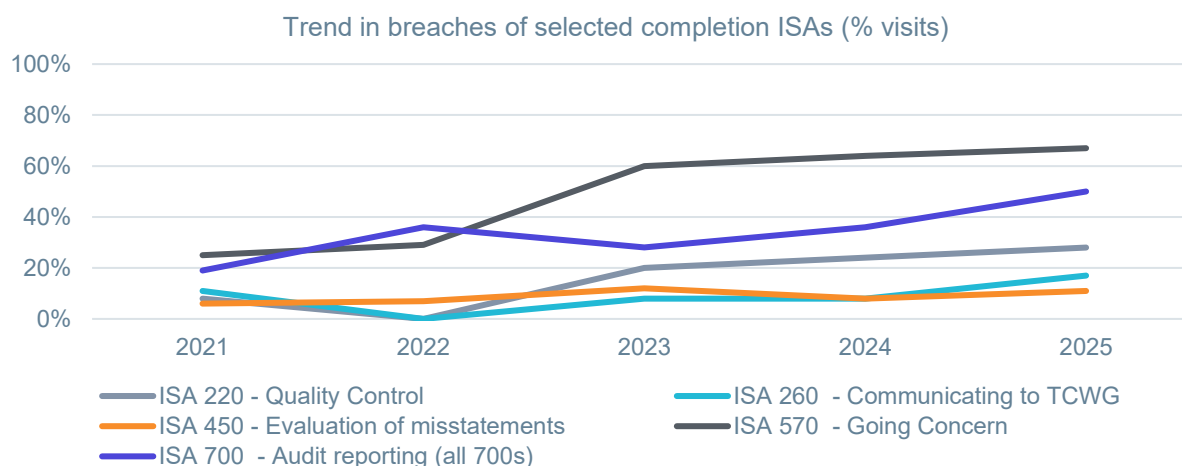
On the other hand, 75% of the files that needed 'significant improvements' in 2025 had been conducted by larger firms with specialist audit firms. This may in part be due to such firms taking on larger, more complex, and therefore potentially riskier, audit clients. But, nonetheless, it seems a clear indicator that firm size is not a reliable determining factor when it comes to audit quality, and firms of all shapes and sizes need to work hard to ensure that every audit is conducted to a good standard.

General trends in ISA compliance over 5 years

As with overall file and visit outcomes, drawing clear conclusions from movements in compliance with individual ISAs is also tough. Doubly so where revisions to the standards introduce new requirements, which typically drive a (hopefully temporary) increase in related monitoring findings. Even so, the charts below highlight common areas of weakness on audit files and pinpoint the standards that firms appear to struggle with most. The next section sets out further detail on the most common issues.

There is no getting away from the fact that most of the common issues seen in 2025 are in the same areas as 2024, and in some cases these findings have remained relatively consistent for a number of years. As a result, much of the commentary below will be similar to the 2024 report, and indeed some that preceded it. As a result, we have retained some useful case studies from 2024 which still seem pertinent. Nevertheless, it's important the issues and potential remedies are gone over again to highlight the issues, as well as some potential remedies and 'what good might look like'.





Common breaches of the ISAs

ISA 230 – Documentation (seen in 89% of visits, reduced from 92% in 2024)

Weaknesses in audit documentation continue to be identified on almost all audit files reviewed. The requirement to document significant matters during an audit runs through the entire file from planning, through fieldwork and completion. While a few, less significant, weaknesses in audit documentation may not have a substantive impact on the grade of a file, the ISA is clear that one of the fundamental objectives of the ‘audit file’ is to demonstrate that the audit was planned and performed in accordance with the ISAs. If the file does not sufficiently tell the story of the audit, and the significant findings and judgements therein, then breaches of this ISA can start affecting file grades.

What does good look like?

A good file does not need to document every team or client discussion verbatim, and does not need to hold every backup invoice, or other source documents seen during the audit. The best audit files clearly and consistently set out:

- the nature, timing and extent of the audit procedures performed;
- the results of the audit procedures performed, and the audit evidence obtained; and
- significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions

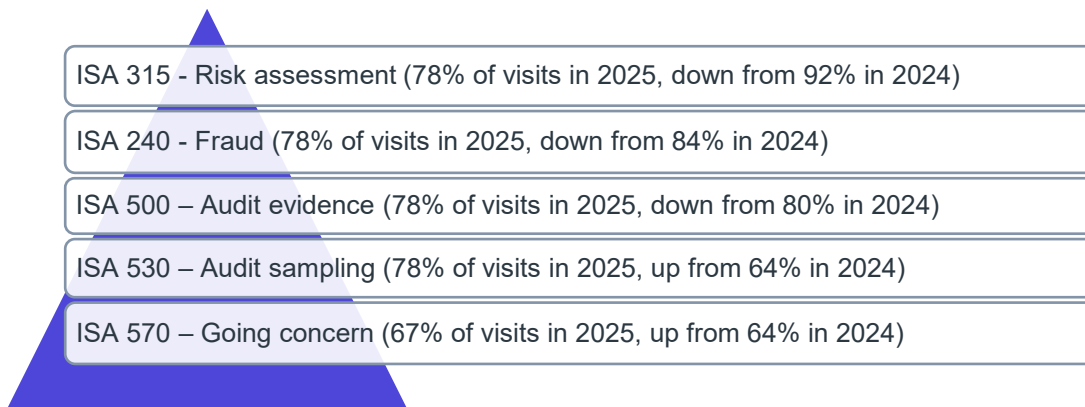
Reviewers see a range of underlying causes for poor documentation. In some cases, auditors complete work or obtain supporting evidence but fail to include it in the audit file. In others, they don’t clearly record the nature and extent of audit work, instead cross referring to (potentially reams) of client documentation with little to no record of what has been done thereon.

While ‘tick-and-bash’ testing is typically easy to record clearly, auditors still regularly fail to document significant areas of audit judgements, and the rationale behind them with sufficient detail. Teams should be mindful that the level of documentation retained would be expected to scale along with the time, effort, and level of subjectivity / judgement involved in auditing.

Common breaches beyond poor documentation

Looking beyond the common weaknesses in audit documentation, the five most prevalent ISA breaches in 2025 were also the same as those in 2024 – and they even come out in the same order of frequency. There have been some reductions in three of these areas, with weaknesses in ISA 315 reducing the most significantly (by 14%) as firms get more familiar and experienced with the expanded requirements of the standard.

Top 5 – most common ISA breaches identified on 2025 monitoring visits



1. ISA 315 – Risk assessment (seen in 78% of visits, down from 92% in 2024)

Weaknesses in required risk assessment procedures continue to be a very common finding. While there has been some improvement in this area since 2024, reviewers still find clear gaps in risk assessment work in over 75% of files reviewed. The current iteration of ISA 315 was published in 2020, so it is a concern that firms are still struggling to apply the requirements. Not only that, but reviewers still regularly see work that would not even have been compliant under the 2016 standard.

Good Practice Case Study – Proportionate risk assessment on a less complex audit

'Firm A' was a 2 RI firm which used three qualified auditors and a few further trainees in its audit work. When reviewing a small, less complex audit, the ICAS reviewer noted the planning section set out a succinct but clear understanding of the client, proportionate to the relatively small scale and lack of complexity of the entity (an owner managed business). The file recorded:

- Relatively brief commentary on the entity and its environment, setting out concisely the key areas of risk arising and the resulting impact on the audit.
- A record of the general control environment that reflected the lack of complexity in the organisation and the owner-manager's involvement in day-to-day operations (and the potential for increased risk of management bias and override that might result).
- In the absence of a formal risk assessment process being conducted by the client, audit planning meeting notes included key potential risk areas and management's responses.
- Consideration of IT and key financial systems had been scaled to the complexity of the systems in operation and set out controls over relevant assertions and the auditors evaluation.
- A brief record of inherent and control risk was held in a single overarching schedule which also set out the assessed risk assertions for financial statement lines and planned sampling work.
- 'Walkthrough' testing was recorded to confirm the auditors understanding of the relevant financial systems, including in response to the significant audit risks arising in journals.
- There was recognition of the special consideration given to significant risks (which were assessed as high risk) through the use of a distinct schedule setting out planned testing.

In summary, while encompassed in a relatively small number of schedules, the risk assessment work conducted was clearly proportionate to the client. The documentation clearly told the story of the client and the audit planning process, demonstrating that sufficient appropriate audit work had been planned in response to the audit risk(s) arising.

The most common risk assessment weaknesses in 2025 remained those relating to:

- Insufficient record of a general understanding the entity and its environment;
- A lack of documentation on the entity's risk assessment process, including an assessment of the significance and likelihood of relevant risks, and the exposure to IT risks;

- Systems work not being recorded over all relevant transaction streams (eg no system notes being held over a key financial system), or where controls had not been identified over all significant audit risks (which will always need to include controls over journals).
- Insufficient / inadequate determination of whether relevant controls identified in risk assessment work had been implemented (eg through 'walkthrough' testing).

When risk assessment work has gaps, the process can end up being fundamentally flawed with auditors failing to recognise, and plan sufficient and appropriate responses to, clear audit risks. In practice, reviewers see poor quality planning work at the risk assessment stage resulting in insufficient or inappropriate audit work at fieldwork, so auditors need to set aside sufficient time and resource to ensure planning work is fit for purpose.

Another common issue is seeing risk assessment processes that haven't been refreshed each year. While it is common for system notes and background understanding to remain relevant year on year, risk-assessment work should not just corroborate the previous year's conclusions. In order to assess whether risks of material misstatement exist within a system, each and every audit needs to take the time to go through the necessary steps to understand the frameworks, systems, controls, and the risks arising.

Reviewers recognise that smaller, less complex clients may not always maintain robust documentation of their control framework. In these situations, early engagement and clear communication can go a long way. By setting expectations clearly at the outset, the auditor can help the client understand what is required and support the audit team in developing, and documenting, the understanding needed for a high-quality audit. Client meetings can often be the easiest way to tease out how things work in practice, but if that's the case a succinct record the chat should be held.

2. ISA 240 – Fraud (seen in 78% of visits, down from 84% in 2024)

Insufficient or inappropriate considerations relating to fraud remains a common source of visit findings. Weaknesses against ISA 240 can be clearly separated out into the planning and fieldwork stages, and the underlying findings remain remarkably consistent with previous years.

What does good look like?

Good files clearly demonstrate that appropriate time and resources have been directed towards journals testing, and that dedicated inquiries have taken place with the client with regards the processing of journals, other adjustments, and more generally over areas of significant accounting estimates and areas where bias might arise.

On the cleanest files, work over journals and other adjustments tends to be done by experienced auditors who understand how management override might present itself. Working papers document the process through which a complete population of manual and automated journals and other adjustments (including post-closing entries) has been obtained, and how it has been interrogated in order to identify specific journals and adjustments that require testing. Commonly a filtering process is used to ensure appropriate consideration of the ISA identified characteristics of potentially fraudulent journals, and others, such as entries:

- a) made to unrelated, unusual, or seldom-used accounts;
- b) made by individuals who typically do not make journal entries;
- c) recorded at the end of the period or post-closing with little or no explanation;
- d) made either before or during financial statements preparation but not posted to ledger;
- e) containing round numbers or consistent ending numbers; and
- f) presenting any other standard or specific risk factors identified by the auditor.

Dedicated testing, through the specific lens of considering fraud / management override, is conducted over the identified journals and adjustments and is clearly recorded.

In some cases data analytics are used in the work. While this may not be essential, it is becoming increasingly difficult for an auditor to demonstrate sufficient consideration of journals and other adjustments without the use of software, such as excel, to record the process.

Fraud considerations at the planning stage

Much like the ISA 315 risk assessment commentary noted above, adequate consideration of fraud is an essential requirement at the planning stage. The similarity extends to smaller and less complex clients often needing more support in order to give the auditor what they need. Early engagement and clear communication with such clients will help. Common weaknesses at planning still include:

1. Insufficient consideration of management's assessment of fraud risk, with files regularly failing to set out a proportionate record of:
 - a) Management's assessment of the risk of material misstatement due to fraud;
 - b) Management's process for identifying and responding to the risks of fraud;
 - c) Management's related communication, if any, to those charged with governance; and
 - d) Management's related communication, if any, to employees.
2. Insufficient evidence of a team briefing, or weaknesses in the record of the team briefing meaning that the file does not demonstrate the required discussion on how and where the entity's financial statements (including the disclosures) may be susceptible to material misstatement due to fraud, including how fraud might occur. It's also common for meeting notes to indicate insufficient professional scepticism, often making clear assumptions over the honesty and integrity of management as a means of rebutting or reducing audit risk.
3. Insufficient consideration of the presumed significant risks relating to fraud in revenue recognition and from management override. Reviewers still find files that lack explicit commentary on these two presumed significant audit risks, or attempt to rebut the risk of fraud in revenue recognition without clear/sufficient rationale being recorded.

Fraud considerations at the fieldwork stage

Management Override is the only significant audit risk that must be recognised, and responded to, on every single audit. However, insufficient work over journals, estimates, and transactions outside the normal course of business remains incredibly common. The most common finding in this area remains a lack of the required testing over journals and other adjustments, as was noted last year. Eg

- A lack of dedicated testing over journals and other adjustments, with the auditor taking too much reliance from other standard audit work over transactions and balances.
- Insufficient work done to ensure the population for journals testing was complete.
- Summary commentary being recorded that all journals have been reviewed, without sufficient record of the nature and extent of the procedures adopted.
- A sampling approach being adopted over journals, with arbitrary sample sizes selected through professional judgement and items selected for testing through haphazard sampling. *For the avoidance of doubt, arbitrary sampling cannot provide sufficient appropriate audit evidence in response to the significant audit risk of management override.*
- A filtering process being adopted, using excel, to strip out journals that were not considered to present risk, leaving a large number of risk journals that were not subsequently subject to substantive testing. For example, an auditor concluding upon 100's of journal lines relating to accruals in aggregate by cross referring to balance sheet testing of accruals which did not include those specific entries, and which was not specifically conducted as a 'fraud' test.

3. ISA (UK) 500 – Evidence (seen in 78% of visits, down from 80% in 2024)

Obtaining sufficient appropriate audit evidence is the cornerstone of any compliant audit. Given the fundamental role evidence plays in the audit process, breaches in this area can have a significant impact on the grading of a file and the practical outcomes from a monitoring visit. A significant gap in audit evidence is the most common reason for a file to receive a poor grade (eg needing 'improvement' or 'significant improvement'), and for follow-up action to be required by the Committee.

What does good look like?

Good audit files have a clear link between the planning process and the resulting audit testing. The audit test programmes have been tailored to the specific entity and are reflective of the assessed risks at the assertion level on each section of the file. All material transaction streams, balances, and disclosures have dedicated testing conducted over the identified risk assertions and appropriate consideration has been given to the completeness of figures that fall below the material level where understatement is an identified audit risk.

Lead schedules reconcile to the accounts, and set out the populations for each test, linking the sample size assessment process back to the underlying records. Test schedules record the objective for each test, explain how the samples were selected, and record enough detail on the testing conducted that an experienced auditor could reperform the work. Substantive testing focusses on the assessed risk assertion(s), and where errors are identified these are considered and where appropriate projected across the population when concluding on the testing.

ISA 500 recognises that audit evidence is cumulative in nature, and outlines two aspects of evidence: sufficiency and appropriateness. Sufficiency and appropriateness are interrelated, and an auditor only obtains *enough* evidence when both requirements are met. *Sufficiency* relates to the quantity of evidence while *appropriateness* relates to the quality of that evidence. Reviewers still regularly see gaps in one or other aspect the files reviewed, with over 75% of the files having a clear gap in required evidence. This outcome, in conjunction with those above, indicates poor planning processes are leading to insufficient or inappropriate audit work being conducted. Common gaps continue to include:

- Material transactions, balances, or disclosures not being substantively tested.
- Inappropriate audit evidence being obtained due to testing the incorrect assertion.
- Sampling weaknesses having a detrimental impact on audit evidence obtained (see below).
- Areas of significant estimates and judgements not being sufficiently tested. One of the most common areas of concern is in the audit of significant estimates such as, but not limited to, construction contracts. ISA 540 sets out the core requirements when auditing significant estimates and common weaknesses here include:
 - Insufficient (documented) understanding of the estimation process, and / or recognition of significant audit risks and the further work they require.
 - Insufficient risk assessment work due to a lack of consideration of the outcomes of previous estimations (eg those made in the prior year).
 - Inappropriate audit evidence being obtained (eg where there is undue reliance on an internal management expert who has produced the estimation).
 - Insufficient evidence being obtained over relevant assertions, such as testing the existence or a contract balance but not the valuation at the balance sheet date.

2024 Good Practice Case Study – Comprehensive work undertaken to obtain sufficient appropriate evidence

'Firm B' had two RIs, and employed a small audit team working across around 20 audits. Audit planning work on one of the files reviewed clearly recorded the risk assessment at the assertion level across all of the financial statement transactions and balances. Appropriate audit work had been planned over the significant audit risks from Management Override and Revenue Recognition, and tailored suites of audit tests had been planned on every section of the file.

At fieldwork, lead schedules covered every figure in the financial statements and clearly identified where testing had been conducted (or where testing was not considered to be required – eg due to the figure being trivial). The standard sample assessment approach had been applied in all cases, with forms retained on file in support of the sample size assessed. The test schedules clearly set out the method for selecting the sample items, and the results from testing were recorded succinctly in standard test schedules. The file clearly and concisely demonstrated that sufficient appropriate audit evidence had been obtained over all material transactions, balances, and disclosures. As a result, no ISA 500 breaches were identified in the visit report.

While a few relatively minor areas of non-compliance were identified in relation to planning and completion ISAs, the high-quality audit work at the fieldwork stage supported the file being considered a 2 Grade, requiring only minor improvements, and no follow-up actions were needed.

4. ISA (UK) 530 – Audit sampling (seen in 78% of visits, up from 64% in 2024)

Sampling is a tried and trusted method of gathering audit evidence in an efficient and effective way and almost every file reviewed adopted a sampling approach to at least some substantive tests. The increased prevalence of sampling weaknesses in 2025 reflects a trend from previous years. This may in part be due to increased focus on sampling judgements as part of the review process. What is clear though, is reviewers have seen clear gaps across our visits, similar to those in 2024.

What does good look like?

The audit file clearly sets out the sample size assessment methodology being applied, which takes in to account assessed materiality and different levels of audit risk. The methodology is consistently applied across the file and does not include any amendments to the assessed sample sizes without substantial supporting rationale which has been approved by the RI. Sample sizes are not subject to capping (or flooring), and in all cases the lead schedules have been clearly reconciled to the population values used in the sample size assessment process.

Sample selection methodology is clearly recorded in each audit test schedule, and all items in each population for sample testing have had a chance of selection. It is clear from the file that where haphazard sample selection has taken place that it has not been biased towards certain items (eg only the highest value items).

Common findings in 2025 again include:

- Inconsistent approaches to sampling being adopted across a file, or across the files reviewed in the visit, where assessed samples are insufficiently justified / supported.
- The use of 'standard' sample sizes (eg testing 5 items pre and post-year end in cut off testing), which are not justified on file, and which do not appear to take in to account differing risk assessment across key financial statement lines.
- Professional judgement being used to set sample sizes without any rationale or recorded reasoning recorded, including cases where there were illogical/inconsistent assessments applied (eg high risk areas having lower sample sizes than low risk areas).
- Sample sizes not clearly reflecting the application of risk (eg a significant audit risk being tested as 'low' risk, or sampling for high and low risk areas using the same risk factors).
- Differences between financial statement values and the sample size assessments, which risk sample sizes being insufficient.
- Inappropriate sample selection techniques such as restricting selections to the highest value items, or only parts of the population.
- Splitting assessed sample sizes across two different assertions resulting in insufficient evidence being obtained over relevant risk assertions.
- The application of capping on assessed sample sizes, which has significantly reduced the suggested number of items to be tested and which was not considered justified (on the flip side, setting sample 'floors' can lead to excessive audit work in low risk areas, and a lack of appropriate focus in audit testing).

Good Practice Case Study – Clarity in the sampling approach

'Firm C' was a relatively large, dedicated audit firm that used electronic audit procedures. However, the core aspects of compliance regarding sampling were equally relevant to all ICAS firms.

The audit files presented a clear schedule of all financial statement lines across the accounts. Against each line there was a summary of assessed risk across the relevant assertions, along with the planned audit tests. All sample assessments were all conducted using the same methodology, which took into account: the population being tested; performance materiality; and a risk factor based on the risk assessment for the assertions being tested. Different assertions for each financial statement line were subject to their own sample size assessments, and in some cases (such as the testing of completeness and cut-off of revenue) a sampling approach was not applied – with alternate procedures used instead. Where alternate procedures were applied, a record of the auditors judgement was retained, and the approach was clearly reflective of different risk assessments in the assertions being tested - with more work being conducted in higher risk areas.

All material financial statement lines were subject to substantive testing. In that, all individually material items were tested, and residual samples were selected in a way that ensured all units in the population had a chance of selection. Where errors were identified these were responded to appropriately and projected up against the population to inform the auditors conclusion against each test. Samples had not been arbitrarily increased (eg in response to errors noted in initial testing) or decreased, and all changes to the planned approach were approved by the RI.

At completion, the file demonstrated that the materiality assessment had been reassessed, and a formal conclusion was recorded justifying why the sample sizes tested remained appropriate.

5. ISA (UK) 570 – Going concern (seen in 67% of visits, up from 64% in 2024)

ISA 570 was last significantly revised in 2019, when the requirements shifted to supporting a positive assurance statement being required in the auditor's opinion. As a result auditors need to gather sufficient appropriate audit evidence regarding whether a material uncertainty related to going concern exists; and the appropriateness of management's use of the going concern basis of accounting. While it has now been over five years since those revisions, reviewers still regularly see weaknesses in going concern work, some of which would be non-compliant with the 2016 standard.

What does good look like?

Audit planning records consideration of potential risks relating to going concern from early on. Going concern is discussed in the client meeting, and clear expectations are set by the auditor as to what audit evidence they will need in order to sign off. Potential indicators of risk (eg recurring losses, negative current / overall balance sheet positions, issues with projected cash flows) are considered at planning, and where appropriate a significant audit risk is raised over going concern.

Audit fieldwork includes a detailed review of the client's projections and cashflows. Audit work is conducted, and evidence obtained over, the reliability of the underlying data used in management's projections and the assumptions on which management's assessment is based. The working papers document the consideration applied, and link into other work that is relevant (eg cashflow projections linked to post year end bank figures to confirm accuracy). Where required, audit evidence is obtained over key projected changes (eg new contracts; rate changes etc.)

Audit work is reconsidered at the completion stage, and where required it is revised to take into account any new information. Work covers a period of at least 12 months from the audit report.

Many common findings in this area stem from challenges in getting the information needed from the client. It's still relatively common to see files where insufficient work has been planned or conducted on a timely basis in order to support the auditor's opinion. As pointed to in other sections, early engagement with the client can be key in order to lay the ground work for what will be required come audit fieldwork and completion. If management hasn't recorded an assessment of going concern, the ISA requires the auditor to request one, so it's important not to leave going concern work too late in the audit process. Regular findings in 2025 have included:

- Insufficient attention paid to going concern at audit planning stage, including cases where there has been insufficient enquiry / record of how the entity makes its own assessment and where clear going concern risks (such as recurring losses, or negative balance sheets) have not been considered / concluded upon.
- Insufficient identification of, and response to, clear going concern risk factors at planning, fieldwork or completion.
- Insufficient audit work being conducted over the clients projections, with a lack of actual testing being conducted over the key assumptions or the reliability of the data used.
- Audit work only covering the period until the next balance sheet date, rather than the full 12-month period from the audit report date as required.
- Modifications to the going concern opinion not following the expected format, or meeting the requirements of the standard(s).
- Challenges in audit reporting of a material uncertainty arising from a lack of explicit disclosure on the matter in the accounting policies, including cases where accounting software has stripped out some relevant disclosures in the filleting process for small companies.

2024 Good Practice Case Study appropriate scrutiny of going concern

An audit client entering administration within 12 months of a clean audit report is a clear risk flag that would inform file selection during a monitoring visit. During a visit to 'Firm D' one such case was identified, and the monitoring team reviewed the file in detail to consider whether the appropriate audit work had been conducted.

At the planning stage of the audit, the auditor had requested, and obtained, financial forecasts covering the next financial year and beyond as well as having dedicated discussions during the planning meeting on the clients projected trading performance. The file clearly recorded the auditors understanding of the entity and its environment, and how the client went about preparing its financial projections. While one component of the group was identified as loss making, there was a reasonable amount of consideration and judgement held on file supporting the view that a material uncertainty relating to going concern did not exist at that time. Audit risk in this area was increased to medium and detailed testing planned in response to the potential issues identified.

During audit fieldwork, the auditor obtained financial projections for the group and individual companies, covering a period of 20 months from the balance sheet date (which was expected to cover the required 12-months from the audit report date). Further discussions took place with management to confirm how the projections had been prepared, and to understand the key assumptions therein. Detailed testing then took place, agreeing the projections to known information where possible (eg the rolling cash balance to post-year end bank statements), and the audit schedules recorded clear scrutiny of the key assumptions used by management (including sensitivity analysis) and the auditors conclusion over the reliability of the underlying data used. Confirmations were also obtained directly from the entity's bank regarding the renewal of an overdraft facility and the auditor had access to key contract agreements relating to future revenue.

The work over going concern was subject to a substantial amount of documentation, with work initially being conducted by experienced auditors, and subsequently being reviewed by the manager and the RI. The file clearly demonstrated the nature and extend of work undertaken, and the key professional judgements throughout. Work was subject to updating and final review at the completion stage of the audit, and it ultimately it was considered that sufficient-appropriate audit evidence had been obtained in support of the auditors clean conclusion over going concern.

While it can be tempting to review cases like this with the benefit of hindsight, particularly where it is known that the entity entered in to administration after the audit report date, reviewers are careful to only take in to account information that was available up to the audit report date. Ultimately the auditors opinion will always be open to a degree of subjectivity, and there is no crystal ball available, but in this case the file demonstrated that the requirements of ISA 570 had been met. Working papers clearly supported the opinion formed and recorded the substantial amount of audit evidence obtained, and key professional judgements applied, in arriving at that outcome.

Other notable breaches of the ISAs

ISA 700 series – Audit reporting (seen in 44% of visits, up from 36% in 2024)

There has been a gradual increase in audit reporting issues in the last few years. The findings this year run the gamut from administrative omissions / inaccuracies in the audit report, through to significant challenge of the audit opinion reported. The audit opinion is the accumulation of all of the work that has been conducted during the audit, and is typically a matter of public record, so it is imperative that auditors take care to ensure all reports are complete and accurate. In 2025 we found:

- Cases where an auditor had reported a recurring qualified opinion as a result of a limitation of scope over stock, due to an inability to attend stock takes in the current and preceding year(s). However, in reaching that conclusion both auditors failed to sufficiently consider the full impact from the limitation of scope, and all possible effects it could have on the audit. Neither auditor had sufficiently considered the resulting potential impact on the reported Turnover and Cost of Sales figures, and there had been a lack of clear consideration of whether further areas of qualification may be required, or indeed whether the issues identified were pervasive to the Financial Statements - which would require either withdrawal from the audit or a disclaimer of opinion. In both cases, the monitoring team considered there to be clear indicators that the audit report conclusion may have been inappropriate.
- Cases where audit report commentary on irregularities was insufficient: including significant omissions in the commentary, and where the commentary had been completely omitted.
- The audit opinion disclosure made within filleted accounts not disclosing a material uncertainty relating to going concern that had been reported in the full audit report.
- Where an accounting disclosure on going concern did not clearly set out assessed material uncertainties, the auditor had not considered whether further modification of the audit report was required.
- An auditor had not sufficiently recorded key professional judgements in support of the conclusion that no amendments were required to the conclusions on “other information” or “other matters prescribed by the Companies Act 2006” where Strategic Report & Directors Report omitted explicit reference to the material uncertainty relating to going concern.
- In one case, the audit report did not identify the firm was a ‘Statutory auditor’.

Given the significance of the audit report, auditors should take care to ensure all disclosures are complete and accurate. Wherever complications arise resulting in potential modification of the opinion, auditors should consider consultation on the approach to be adopted, any further work required, and the ultimate conclusion and wording to be adopted in the audit report. The [ICAS technical helpdesk](#)¹ is available to firms to support such a process.

Good Practice Case Study appropriate scrutiny of going concern

A challenging audit at ‘Firm E’ resulting in a disclaimer opinion being reported.

The audit file clearly recorded a number of challenging circumstances that arose during audit fieldwork, including instances where the client could not (or had not) provided requested audit evidence. The file showed the RIs involvement in matters from an early stage, and that reasonable attempts had been made to obtain the required information. Once it was clear that sufficient appropriate audit evidence could not be obtained in key areas the RI determined that modification to the opinion was required.

¹ <https://www.icas.com/regulation-technical-resources/technical-resources>

The file held copies of guidance notes for different types of modification, and adequately recorded the RI's conclusion as to why a disclaimer was appropriate under the requirements of the ISAs. Internal consultation on the audit report wording could be seen in the form of tracked changes, review notes & subsequent discussion raised on the draft documentation.

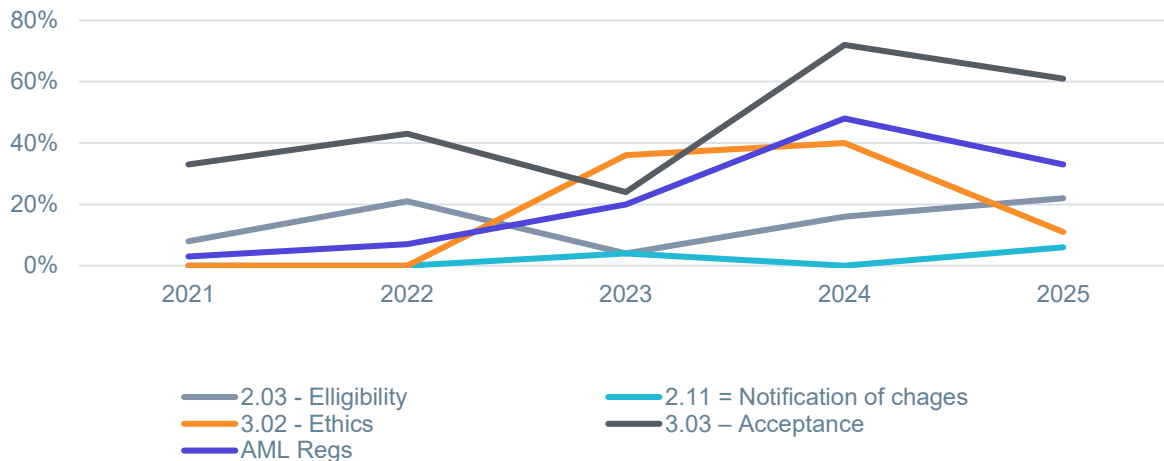
The RI clearly communicated matters to the client at appropriate stages and the final audit report clearly followed the wording used in the guidance document (with changes made to all required areas - including the headings, basis for opinion, conclusions on going concern, and the matters to be reported by exception).

The reviewer considered the file to clearly record all key judgements throughout the process, and the audit report wording was compliant with ISA 705.

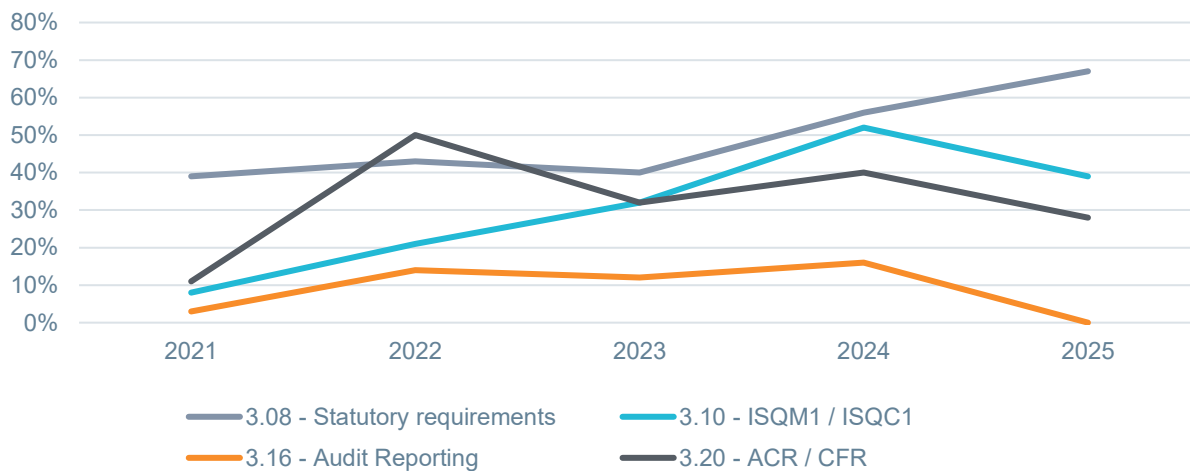
General trends in Audit Regulation compliance

The charts below set out common areas of non-compliance identified in monitoring visits, indicating the regulations that present most challenges to firms.

Trend in breaches of selected Audit Regulations 1



Trend in breaches of selected Audit Regulations 2



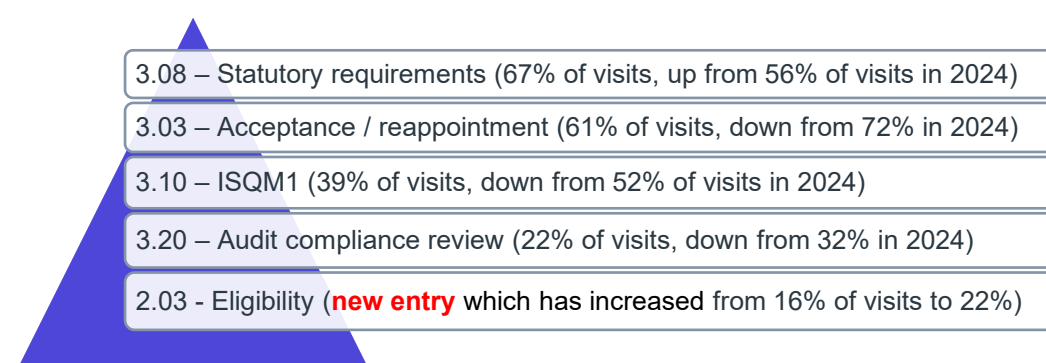
The charts show that there have been common findings relating to statutory requirements (typically relating to accounts disclosures), acceptance procedures (including AML compliance), ISQM1, Audit Compliance Reviews (ACR), and eligibility.

Common breaches of the Audit Regulations

Audit Regulation 3.10 – ISA compliance (seen in 97% of visits in 2025)

Any monitoring visit that identifies a breach of an ISA, will also reflect a breach of Audit Regulation 3.10 “A Registered Auditor must comply with the auditing standards and the quality management standards”. As a result, a breach of that regulation was identified in almost every monitoring visit undertaken in 2025 (with the only visit not presenting it being a ‘zero audit’ firm). Other than that, the most common breaches of the Audit Regulations remained fairly consistent, with only one new entry in the five most common findings. While in most cases, performance in these areas was better than in 2024, the increase in issues relating to eligibility is a concern given the impact this can have on the validity of audit reports signed in the period before the issue has been identified (and subsequently addressed).

Top 5 – most common Audit Regulation breaches identified on monitoring visits



1. Audit Regulation 3.08 – Statutory requirements (seen in 67% of visits, up from 56% in 2024)

Before starting any audit file review, reviewers look at the financial statements that were audited. While management is responsible for the financial statements and related disclosures, auditors are expected to challenge any disclosures that are inaccurate or incomplete, and in the case of significant omissions consider whether there is any impact on the audit report as a result.

Reviewers regularly find minor areas where the accounting disclosures would benefit from tailoring or expansion. However, reviewers also identify more significant weaknesses in some financial statements and disclosures. In those cases, where there is a risk to the understandability of the accounts, a breach of Audit Regulation 3.08 would be raised. Findings in 2025 included:

Significant disclosure issues identified in 2025 (Strategic & Directors Reports & other)

Companies House records not correctly disclosing the entity's ownership / control

The Strategic Report not including a review of the business, including principal risks and uncertainties

Strategic Reports not including disclosure of the company's financial KPIs

Strategic Reports omitting reference to a material uncertainty relating to going concern

A Directors' Report not disclosing details of dividends paid during the year

A Trustees Report requiring expansion to meet the SORP requirements for a larger charity

Significant disclosure issues identified in 2025 (Financial Statements)

Financial statements presented as a marginally different 'year-end' to the underlying accounting records, which had been prepared for a 52 week period.

A cash flow statement not being reported when required

Full and filleted accounts not disclosing a material uncertainty relating to going concern.

Financial statements not disclosing related party transactions that had taken place.

Accounting policies not sufficiently setting out the approach being taken to significant estimates and judgements including over revenue; WiP; valuations; & investments

A charity's accounting policy for grants was not in accordance with the SORP where implied time-related conditions precluded the recognition of income in the year under review.

While the entity met the criteria for a small company the financial statements were not prepared on that basis and there were omissions in the disclosures required as a result.

2. Audit Regulation 3.03 – Acceptance and reappointment (seen in 61% of visits, down from 72% in 2023)

Weaknesses in acceptance and continuance procedures tend to stem from two underlying areas: the documentation of some ethical considerations (in cases where no significant residual / unsafeguarded ethical threats exist); and compliance with anti-money laundering procedures.

Documentation of ethical threats and safeguards (breached in 44% of visits, the same as 2024)

Reviewers continue to see documentary weaknesses relating to the threats arising from non-audit services and with the safeguards applied to them. Such cases only include audits where there is sufficient evidence that non-audit services provided are in compliance with the FRC Ethical Standard, and where safeguarding has taken place in practice but the audit file did not record matters sufficiently. While reviewers do also identify cases where there have been more egregious breaches of the ethical standard (such as prohibited relationships, or fee dependence issues), these are thankfully much rarer.

What does good look like?

Auditors should ensure that audit acceptance procedures clearly set out:

- All non-audit services being delivered to the client (including common services like accounts preparation work and corporate tax computations).
- Any other source of threats arising from the business relationship, services delivered, fees received, length of association, or any other facet of the Ethical Standard.
- The **specific** ethical threats arising from non-audit services, including as a minimum the relevant threats identified under the FRC Ethical Standard (for the typical non-audit services these will likely include the Management threat, and the Self-Review threat as a minimum, but potentially others too)
- The specific safeguards applied to each identified Ethical threat.

Anti-money laundering procedures (breached in 33% of visits, down from 48% in 2024)

ICAS is committed to improving AML compliance amongst our supervised members and firms. We achieve this through robust supervisory activities, targeted support, and by working collaboratively with the Office for Professional Body Anti-Money Laundering Supervision and other supervisors to agree and promote best practice. In addition to the dedicated AML supervision work ICAS does, AML compliance is also considered across all other regulatory monitoring streams. In the case of our audit monitoring work this includes reviewing the AML compliance on all audit files subject to detailed review.

Case studies in AML risk assessment from the 2024/25 AML supervision report

Deficiencies in client risk assessments

A High-Net-Worth Individual was selected for review by the Monitoring Team. While the individual was previously convicted of fraud, the client risk assessment did not record this risk and so the mitigations expected were not formally considered.

Where firms are acting for clients with criminal convictions, it is noted that in many cases insufficient CDD is being conducted to ensure that the risks raised by the convictions have been sufficiently mitigated. It is often clear from discussions that the MLRO has good knowledge of the clients' history and has obtained sufficient information to satisfy themselves that the previous conviction does not pose a risk, however this is rarely documented on file. This is of particular relevance where the crime was of a financial nature.

Compliant AML risk assessments – cash-based business

A cash-based business was selected for review by the Monitoring Team. The firm correctly highlighted the potential risk attached to the business operating in cash, and recorded that the client retained good accounting records and that any differences in cash reconciliations would be investigated. The file included a three-year analytical review, showing an assessment of margins.

Compliant AML risk assessments – high-risk country connections

A client was selected due to connections with Russia by the Monitoring Team. The firm completed a detailed risk assessment in conjunction with KYC information. The documentation clearly set out the nature of the connection – a Russian subsidiary within the group. Following the invasion of Ukraine, the group took a decision to divest the Russian subsidiary. This was confirmed via the group's legal counsel. This firm decided to increase ongoing monitoring of the client

Common findings from our audit monitoring work this year included:

- CDD records being incorrect in respect of the ownership structure of the client and identification of the ultimate beneficial owner.
- We identified cases where the AML risk assessment was not sufficiently tailored to circumstances of the entity, omitting clear risk factors arising from foreign ownership which should have resulted in Enhanced Due Diligence procedures being applied.
- Failures to record an AML risk assessment for audit clients, and cases where the risk assessment was not subject to regular review.
- In a few cases, AML records did not demonstrate sufficient identification and verification of beneficial owners / Trustees.
- In one case there was no rationale being recorded where identity verification was not undertaken for all directors.

What does good look like?

As part of its commitment to be an effective supervisory body for AML, ICAS will take Regulatory Action where there is sufficient evidence of a failure by its supervised entities and individuals to adequately meet their AML obligations and requirements. Auditors should ensure that appropriate AML considerations are recorded for all audit clients, and where ownership sits with foreign entities the firm must ensure a clear understanding, and where relevant verification of identity, is recorded over the ownership structure including any the ultimate beneficial owners. More detail on ICAS's wider AML findings, and a range of helpful guidance, advice and case studies can be found our [Anti-Money Laundering Supervision Report 2024/25](https://www.icas.com/news-insights-events/news/anti-money-laundering/icas-publishes-202425-aml-report)².

² <https://www.icas.com/news-insights-events/news/anti-money-laundering/icas-publishes-202425-aml-report>

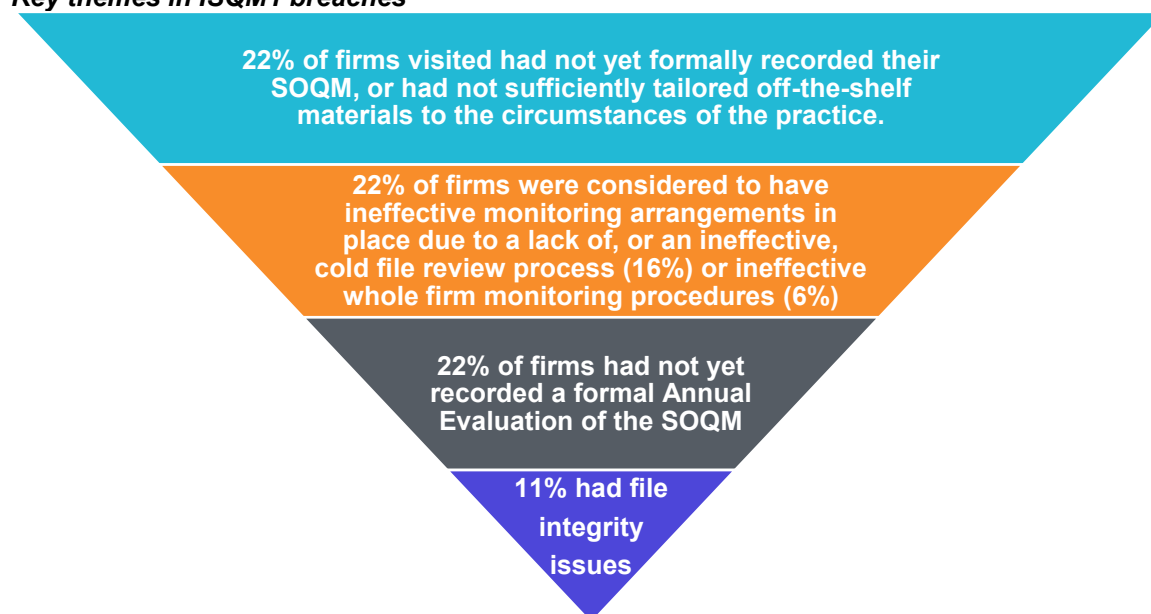
3. Audit Regulation 3.10 - Compliance with ISQM1 (seen in 39% of visits, down from 52% in 2024)

ISQM1 requires all audit firms to implement and document a system of quality management (SOQM) proportionate to the scale and complexity of the firm's activities. A core part of the implementation process is to conduct a risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks. The SOQM needs to address the following eight components:

- The risk assessment process.
- Governance and leadership.
- Relevant ethical requirements.
- Acceptance and continuance of client relationships.
- Engagement performance.
- Resources.
- Information and communication.
- The monitoring and remediation process.

ISQM1 became effective from 15 December 2022, so all audit firms have had ample opportunity to design, implement and record their SOQM. Around the time of implementation, [practical insights and tips on ISQM1](#)³ were published by ICAS alongside some guidance videos, and while firm's should now have recorded the SOQM these resources can still be useful when considering ongoing improvements.

Key themes in ISQM1 breaches



Weaknesses in ISQM1 arrangements often come in groups and / or with clear links to other areas of our monitoring work, such is the holistic nature of the standard. As a result, while the percentages presented in the table above are relatively consistent the broad groupings are spread out across the 39% of visits on which SOQM weaknesses were noted.

Back in 2022, [ICAS issued videos and implementation guidance](#)⁴ to assist members in the design and implement an SOQM in accordance with ISQM1, so it is surprising that the monitoring team are still finding so many firms that have not formally recorded their SOQM. The guidance remains a useful reference point for firms when reviewing their approach through annual monitoring work, and planning continual improvements.

³ <https://www.icas.com/news-insights-events/news/audit-assurance/practical-insights-and-tips-on-isqm-uk-1>

⁴ <https://www.icas.com/news-insights-events/news/audit-assurance/practical-insights-and-tips-on-isqm-uk-1>

A key part of a firm's compliance with ISQM1 is the record of the risk assessment process the firm has conducted. The risk assessment should set out the quality risks arising in the practice, taking in to account the required risks identified in ISQM1. While off-the-shelf materials are often used, they are by no means the only way to prepare a compliant record, and some of the most tailored and useful records the monitoring team have come across were pulled together from a scratch by firms. A good risk assessment process can tell, in a succinct and proportionate manner, the firms full quality management story – from the required quality objectives and risks in the standard, to the particular responses in place at the firm – all in the context of the firms individual circumstances.

Good Practice Case Study – Proportionate record of the SOQM

'Firm F' was a sole practice where the RI undertook a substantial proportion of audit work themselves. The firm had around 10 audit clients, mostly specialist in nature.

While the practitioner had been given sight of some off-the-shelf packages which could be used to record the firm's SOQM and support wider compliance with ISQM1, they had considered them disproportionate to his practice and the quality risks that arose. Instead, the practitioner had chosen to prepare their own record of the SOQM, making some reference to the [ICAS Introductory Guide to International Standard on Quality Management \(UK\) 1⁵](#).

The result was a word document that set out succinctly the practitioners risk assessment process against the core components of the standard, and the quality responses that they had put in place. The document was mainly tabular, and set out lines for each component against which the practitioner had identified relevant quality risks (some of which had been taken from the ICAS document, and some of which were their own). The risks were clearly tailored to the circumstances of the firm, and the substantial reliance placed on the sole practitioner themselves. The responses were practical in nature and sufficiently covered all of the required responses (as applicable to his practice and circumstances) held in ISQM1.

The paper file holding the record of the SOQM also held the practitioners annual audit regulation compliance review and an annual external cold file review engaged from another audit firm. There was clear evidence these monitoring arrangements had been considered and that a feedback loop existed between them and the risk assessment that had been recorded. All in all, the reviewer considered the relatively brief record maintained to be clearly reflective of the practice and its circumstances. Only one minor matter was raised, as the practitioner's annual evaluation of the SOQM had not explicitly set out which of the three mandated conclusions from the standard was considered appropriate.

Annual evaluations

As we flagged last year, effective monitoring and evaluation arrangements are a key component of a functioning SOQM, and both should be well embedded. Appropriate monitoring arrangements not only give a solid evidence base for firm's annual evaluation, they are also one of the most value adding activities a firm can undertake, or engage, from a compliance perspective. Robust cold file review processes, as commented on in more detail below, are one of the main drivers of good audit quality in the visits we conduct and can help to spread good practice out across a firm. Likewise, an effective 'whole firm' / audit regulation compliance review can be a powerful tool to ensure that any potentially significant eligibility, independence, or other such 'whole firm' issues either don't arise or are addressed quickly when they do arise.

⁵ <https://www.icas.com/regulation-technical-resources/documents/introductory-guide-to-international-standard-on-quality-management-isqm-uk-1>

In terms of monitoring compliance, there is a clear expectation that any firms that do not conduct and evidence the required annual evaluation are breaching Audit Regulation 3.10. Where such a breach is identified, any failure to remediate the issue on an expedited basis will result in reporting to the Committee, which would then consider potential regulatory actions. Further, ICAS is required to report any firm that fails to remediate such non-evaluation, on an expedited basis, directly to the FRC. This reporting requirement is a significant step, and should leave firms in no uncertain terms as to the importance of compliance in this area.

Firms are reminded that all annual evaluations should conclude with one of three set statements:

- (a) The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved;
- (b) Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; or
- (c) The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved.

It would appear unlikely that an '(a)' conclusion would be appropriate in cases where any firm or ICAS monitoring work identifies deficiencies which require changes to be made to the SOQM.

4. Audit Regulation 3.20 – Audit compliance review (seen in 22% of visits, down from 40% in 2024)

Audit Regulation 3.20 is intrinsically linked to a firm's compliance with ISQM1, as it requires firms to monitor, at least once a year, how effectively they are complying with the audit regulations and to take action to deal with any issues identified. Monitoring work is separated into two parts: review of a firm's wider obligations under the audit regulations, including all 'whole-firm' procedures; and the inspection of completed audit engagements ('cold file reviews').

What does good look like?

All audit firms should ensure that at least one cold file review process is conducted annually, and firms should be careful to ensure sufficient coverage across all RIs and client types in a reasonable cycle. While RIs should not typically conduct the cold file review of their own files, the regulations recognised that approach may be required in a sole RI practice. However, if that is the case the firm must engage an external review at least once in every three years.

Firms should endeavour to make their internal file review processes as robust as possible and they should be conducted by individuals with sufficient capability and experience. There have been some indications that firms that engage external compliance review services, even only on a periodic basis or in supplement to their own internal reviews, tend to have better levels of audit quality. Firms may want to consider the potential benefits from obtaining and responding to feedback from a reviewer with a different perspective, or one with wider exposure to different approaches and methodologies, in between ICAS monitoring visits.

Cold file review processes

The most common reason for a breach of regulation 3.20 was a weakness in the cold file review process, which affected 16% of the firms visited in 2025 (down from 40% in 2024). In all cases in 2025 this was due to there being no recent cold file review process in place at all. As flagged above, an effective cold file review process is an essential component of a firm's SOQM, and the lack of one would indicate that any annual evaluation recorded over the SOQM would likely be ineffective.

2024 Good Practice Case Study – Effective cold file review process

'Firm G' was a small partnership with one RI and around 10 audit clients, mostly charities. Small firms like this face real challenges in keeping up to date with changes in audit and it can be difficult to 'stand back' from the audit file and undertake an effective cold file review process when the audit team is very small and there are no other RIs to support the process or share the load.

The Audit Regulations allow the sole RI to conduct a cold file review of their own file, so long as an external review is engaged at least once every three years. However, the sole-RI preferred to engage an external cold file review, from an experience provider, every year to get a fresh perspective on the audit files. The external reviews were robust, and included clear reporting on the findings. A root cause analysis was conducted where the RI considered groups of findings indicated some areas for improvement, and a succinct action plan prepared. The firm used the reports as a training tool for the small audit team, and held a schedule of key findings on all subsequent audit files as a prompt to ensure the same issues did not recur.

While reviewers commonly find procedural weaknesses in smaller firms like this, the audit files were found to be of a relatively high standard and required only limited improvements. The firm's approach to engaging external cold file review processes, and responding to the findings therein on a timely basis, was considered to be a key underlying factor in the overall positive outcomes from the visit. The process had ensured that audit files incrementally improved year on year between monitoring visits, and that no significant gaps existed when ICAS came round to visit again.

Audit regulation compliance review / 'whole firm review'

There were relatively few issues in this area, with only 6% of firms failing to conduct an effective compliance review against the audit regulations (down from 20% in 2024). However, while the incidence was low, the impact from a failing in this area can be very high and included failure to identify significant eligibility and independence issues. A lack of compliance in these areas will lead to reporting to the full Committee, and there is a clear risk of strict regulatory action being taken in response.

What next after monitoring? - Effective root cause analysis and remedial action plans

Root cause analysis: ISQM1 requires any deficiencies identified through (internal or external) monitoring processes, such as a firm's cold file review, audit regulation compliance review, or indeed an ICAS audit monitoring visit, to be subject to RCA. The RCA should evaluate the severity and pervasiveness of the identified deficiency; and inform appropriate remedial actions. Not every issue in a monitoring process will reflect a deficiency. However, the most significant findings, or widespread / systemic failings identified, would likely be considered to indicate deficiencies exist - ie:

1. A quality objective is not established;
2. A quality risk, or combination of quality risks, is not identified or properly assessed
3. A response(s) is not properly designed, implemented or operating effectively; or
4. An aspect of the SOQM is absent, or not properly designed, implemented or operating.

There is no one-size-fits-all approach to an RCA process, and the work conducted will vary depending on the size, complexity and operating characteristics of the firm. Most off-the-shelf packages include resources that firms can use to conduct root cause analysis. [ICAS Practice Support has also developed an Excel based tool](#)⁶ which can be used to record the process. The tool provides a structured approach to investigate the root cause of deficiencies identified, and to document the process undertaken, using "the 5 Whys" methodology. This interrogative technique is one of the most effective tools for RCA and is likely to be proportionate and easily implemented, particularly in smaller and medium sized firms.

⁶ <https://www.icas.com/members-membership/resources/toolkits/isqm-uk-1-root-cause-analysis-tool>

Additionally, Lesley Byrne (Director of Monitoring) previously created [two videos, to help firms when conducting their RCS processes](#)⁷. Part One provides an introduction to the remediation requirements of ISQM1, including the requirements to conduct root cause analysis and action plans; and Part Two provides real life case studies on 'what good looks like' when conducting root cause analysis and action plans, our monitoring results and how to avoid pitfalls found during audit monitoring visits.

Remedial action plans: Once root causes have been identified, it is important that remedial actions are planned to address the identified deficiencies on a timely basis. Action plans should be developed that respond to the root causes of the deficiencies, and the plans should be kept under regular review.

5. Audit Regulation 2.03 - Eligibility (seen in 22% of visits, up from 16%)

In recent years there has been a gradual increase in the number of visits finding issues with a firm's eligibility. It is particularly concerning that non-compliance in this area has now reached the levels where it was one of the 5 most common audit regulation breaches seen on our visits, the first time it has reached such levels. Breaches relating to eligibility rank among the most significant issues identified on a visit, and will always warrant consideration by the full Committee. Given the fundamental bearing this regulation has on the validity of audit reports, a breach of regulation 2.03 has the clear potential to result in regulatory action, including the likes of regulatory penalty (with associated public notice), or worse, depending on the circumstances.

In 2025, we saw the following issues arising regarding audit eligibility:

- No notification of a new principal, and lack of required audit affiliate application.
- A change in principals leading to insufficient control by individuals with the Audit Qualification.
- A holding company, which wholly owned an audit firm, not being audit registered itself.
- Articles of association for Ltd company firms not containing the required provisions regarding disclosure and transfers of shares.

Eligibility issues most often arise where there have been changes in the structure of a firm, or where principals have changed, without sufficient notification being made to ICAS and consideration of the potential impact of the changes with regards compliance with the regulations.

Changes in circumstances leading to eligibility issues

Audit Regulation 2.11 requires audit firms to inform ICAS in writing, as soon as practicable, of any changes which might affect a firm's eligibility. Such changes would include changes in principles and ownership structure, amongst other things. Notification of changes should be timely and not later than ten business days after the event, but there is absolutely no barrier in a firm flagging upcoming changes before they happen. The monitoring team strongly recommends firms liaise with the ICAS Authorisations Team as soon as they become aware of potential changes in the business, so that any potential eligibility concerns can be identified and addressed before a firm becomes non-compliant.

Ownership and control

Principals in an audit firm who are not members of ICAS, ICAEW, ICAI, or ACCA will probably need to be an Audit Affiliate

Regulation 2.03a sets out the requirements of principals in an audit firm. The thrust of that is that human principals will almost always need to be members of ICAS, ICAEW, ICAI, ACCA, or will need to register as an ICAS Audit Affiliate. In the case of corporate principals (eg Ltd companies being designated members of an LLP), the entity would either need to be a registered audit firm in its own right, or corporate affiliate status would be needed.

⁷ <https://www.icas.com/regulation-technical-resources/regulation/monitoring/keeping-audit-on-the-right-track>

If there are changes in a firm's principals it will be important to ensure the requirements in the Regulations are checked, changes notified within 10 days, and any required affiliate applications made. In the past firms have been tripped up where internal promotions, or external appointments, of non-qualified individuals has resulted in eligibility issues that could have been easily addressed.

Individuals with the audit qualification, or other registered audit firms, must hold sufficient rights to direct an audit firm's overall policy or alter its constitution

Regulations 2.03b & c require individuals with the audit qualification, or other registered audit firms, to hold sufficient rights to direct an audit firm's overall policy or alter its constitution.

The monitoring team has come across issues where changes in corporate structures, new appointments, or retirements of existing principals has led to a firm ceasing to be eligible for audit registration as individuals with the audit qualification, or other registered audit firms, no longer hold sufficient control of the firm. Not all CAs have the Audit Qualification, so care should be taken to keep track of changes in Audit Qualified principals and voting rights.

In some cases control of an audit firm is formally held by a holding company or another legal entity. If so, the regulations require that controlling entity to be a registered auditor, and so on up the chain. If at any stage control is not held by either individuals with the audit qualification or other registered audit firms, there is a risk that the structure is not appropriate for audit registration.

Changes to the Audit Regulations in October 2024 affected the definitions for 'voting rights' and what constitutes a 'majority'. This moved the focus of control away from holding a simple majority, towards holding whatever rights are required in order to change a firm's constitution (eg the articles of association or partnership agreement). These changes affected the eligibility of a significant number of audit firms and the ICAS Authorisations Team has recently conducted a thematic review of compliance. Guidance on the detailed requirements was provided in 2024 editions of [Audit News](#)⁸ and a [subsequent reminder Regulation News](#)⁹ in 2025, so all firms should by now have reviewed and ensured compliance with the updated regulations. However, this is not a one-and-done process, and firms need to consider each change in principals / ownership against the requirements on an ongoing basis as and when (and ideally well before) they occur.

Articles of association for ltd company firms

Firms are reminded that audit regulation 2.03d requires all limited company audit firms to include specific provisions regarding share transfers, including (but not limited to):

- requiring shareholders to notify any changes in the number of shares held;
- enable the directors to deprive any shareholder the right to vote if notifications aren't made; or if the firm's application for registration is rejected, or registration withdrawn due to ownership of any shareholding; and
- require the board of directors to approve any transfer of shares which would result in a shareholder having more than 3% of share capital.

Failure to have these provisions in place will mean the ltd company firm is in breach of the eligibility requirements. If in doubt, a template for the provisions required can be found in the [Registered Auditor application form](#)¹⁰.

⁸ <https://www.icas.com/news-insights-events/news/regulation/changes-to-the-audit-regulations-eligibility>

⁹ <https://www.icas.com/news-insights-events/news/regulation/1-april-2025-compliance-deadline-audit-firm-eligibility>

¹⁰ <https://www.icas.com/regulation-technical-resources/documents/audit-registration>

Dispensation may be possible for short term periods of eligibility

In some cases it may be possible for a firm to request a dispensation from compliance with the eligibility requirements for a short period, if it is required to allow the firm to bring arrangements in to order. Under regulation 2.17, any such request would need to be made within 10 days of an ineligibility arising and would need to be considered by the Committee. A dispensation request would be expected to demonstrate clearly that the firm was taking all practical steps to remedy the position, and any failure to do so could lead to the request being refused. Further, firms should be aware that dispensation can only be allowed for up to 90 days. The period of 90 days cannot be extended, and if the situation that gave rise to the dispensation is not put right in the time allowed, the firm's audit registration would end.

It should go without saying that any firms found to be conducting audit work and signing audit reports while ineligible or not registered to do so would be subject to strict regulatory action.

Final thoughts

There is no getting away from the fact that much of this report bears striking similarities to last year, and indeed to a few years before that. There are clearly some areas of audit work where firms continue to struggle to ensure full compliance with the standards, and this report should hopefully help firms identify and address those points. However, there are positive messages that can be taken from this report too, as there has been a clear incremental improvement in the file grades and visit outcomes this year – and we do not want to forget that.

Although our visits are regulatory processes designed to identify and respond to areas of non-compliance, reviewers see more examples of good-quality, compliant audit work than they do deficiencies. That can be easy to forget when deep in the review process, but it shouldn't be ignored. While our outputs necessarily focus on areas needing strengthening, reviewers do their best during visit discussions to acknowledge good work, share good practice, and offer practical examples that can help make future audits more efficient and effective.

As tends to be the case, the vast majority of firms we visited, and auditors we spoke to, demonstrated a clear commitment to compliance and the ongoing improvement of audit quality. It is encouraging to see continual evidence that audit firms are trying to do the right thing, often under difficult circumstances, even if there are pinch points and areas that require that quality improvement to be more than incremental in nature.

Audit is not an easy business, and over the years there seems to have been marked increase in the expectations on auditors, and regulators, across the board. ICAS reviewers always try to make monitoring visits a proportionate and practical process, with a view to supporting firms delivering compliant, high quality audit work. Our more recent efforts to ensure our monitoring work remains fit for purpose have led to a streamlining of our own processes, and a more focussed, risk based, approach being taken to our visits and file reviews. However, the recent FRC small and medium-sized enterprises (SEMs) market study identified a perceived lack of scalability and proportionality in auditing standards; and reflected that many smaller audit firms believe regulators expect them to do more work for SME audits than may be necessary. Firms can be assured that ICAS will continue to work closely with the FRC, and our audit firms, to ensure that good practice can be shared and expectations of, and on, all parties involved in audit are realistic when it comes to audit quality.

Appendix 1 – File selection considerations

In planning our monitoring work we conduct horizon scanning processes and consider a wide range of risk factors as part of visit scheduling procedures. The same is also the case when we are considering which audit files we will review at a firm. Typically, but not always, our file selections will be focussed towards assessed regulatory risks. The monitoring team has identified a range of sectors and ISAs which tend to present more compliance issues. Firms should take particular care when these are encountered:

Common client sector risks	<p>Hospitality, Leisure & Retail – there are common weaknesses in work over: the occurrence of cash income (where there may be clear links to AML risks that haven't been addressed); the completeness of liabilities, where high-street operators may have loss making sites / stores, and / or onerous lease contracts (see ISA 540 below); and increased risks relating to the general economic environment (see ISA 570 below).</p>
	<p>Construction – It is still relatively common for reviewers to find weaknesses in contract accounting and the auditing of significant accounting estimates (such as the valuation of contract revenue at the Balance Sheet date and the potential for onerous contracts requiring provision / impairment). Generally weaknesses in the required work under ISA 540 can have a significant effect on the quality of these files overall.</p>
	<p>Metals – Firms should be wary of risks relating to the existence of metals stock (eg scrap metals) and the occurrence of cash income.</p>
	<p>Specialist entities (such as charities; pensions; credit unions) – There can be insufficient: tailoring of audit procedures for different legal frameworks (with insufficient work on laws and regulations); application of different revenue recognition requirements (eg for charities); and consideration of particular disclosure and reporting requirements.</p>
Common ISA risk areas	<p>Stock / inventories under ISA 501 – Reviewers see cases where stock is material but the auditor has not attended the stock take; evaluated management's instructions; performed test counts; or performed appropriate alternative procedures. There are also challenges posed where stock take is conducted at a date other than the balance sheet date but no work is done to determine whether changes in inventory between the count date and the date of the financial statements are properly recorded. Risks arising from a new auditor being appointed after the balance sheet date have been a particular driver of compliance issues of late.</p>
	<p>Significant estimates under ISA 540 – There are common weaknesses in the risk assessment phase where files fail to demonstrate a clear understanding of how the client makes their estimate(s), and the controls it has in place over them. Often firms do not formally conduct a 'look back' test against prior period estimates as required. Fieldwork can tend towards more standard testing of existence / completeness of the year end balances rather than the valuations at the balance sheet date that are fed by the estimation process. There are also cases where complex estimation processes are reperformed without the underlying assumptions and data necessarily being subject to sufficient audit challenge.</p>
	<p>Related party transactions under ISA 550 – Planning weaknesses include insufficient work being conducted to get a picture of the full population of potential related parties (eg through directors other interest and those of their close family members). Fieldwork issues include related party disclosure omissions not being challenged, and where transactions identified on the audit file have not been appropriately considered for disclosure.</p>
	<p>Going concern under ISA 570 – as commented upon in the body of this report</p>
	<p>Group considerations under ISA 600 – Particularly in cases when the group has significant components that are subject to audit by a component auditor; or where there are unaudited components which contain transactions and/or balances that are material to the group position. Reviewers still see cases where the group auditor has not had access to component auditors' files, and has not conducted sufficient evaluation and review of their work. There are cases where there is no clear independent audit work over the consolidation process. Where firms have been struggling to comply the previous ISA 600, care and attention will be required to meet the revised ISA 600 effective for periods commencing after 15 December 2023.</p>



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