

Spring 2025



Audit News



2024 Audit Monitoring visit findings

*[The ICAS audit monitoring team has published the 2024 Audit Monitoring visit findings](#)*¹. The report sets out the findings from the 2024 audit monitoring visits conducted by ICAS and highlights trends in audit quality, compliance with auditing standards, and common areas for improvement. In summary:

Visits: 25 monitoring visits were conducted in 2024, the same number as in the previous year.

Outcomes: While there was a slight increase in the number of visits with only minor findings, there was also a rise in visits presenting the most serious issues. Generally, visits required to meet the 6-year cycle showed better outcomes compared to those on a shortened cycle, indicating firms with poorer outcomes in the last visit had not sufficiently improved.

Audit File Quality: There was a slight decline in overall audit quality, with 52% of files being considered compliant (requiring no more than 'limited improvement'), down from 60% in 2023. The number of files that were considered non-complaint rose from 40% to 48%, reflecting 13% of files 'requiring significant improvement' and 35% 'requiring improvement'.

Common ISA Breaches: The most common ISA breaches involved documentation (ISA 230), risk assessment (ISA 315), fraud considerations (ISA 240), evidence (ISA 500), sampling (ISA 530) and going concern (ISA 570). These are the same areas flagged in the 2023 annual monitoring report and should be key areas of focus for firms going forward.

Wider regulatory Compliance: Common breaches of audit regulations were noted in acceptance and reappointment procedures (AR 3.03), statutory requirements (AR 3.08), and compliance with ISQM1 (AR 3.10), ethical compliance (AR 3.02); Audit compliance reviews (AR 3.20). Again, these are the same most common areas as flagged in the 2023 monitoring report.

Recommendations for Improvement: The report seeks to highlight the importance of addressing identified common weaknesses, enhancing documentation practices, and ensuring compliance with all relevant standards to improve overall audit quality and regulatory compliance. Examples of good practice are included throughout to give some helpful tips for compiling compliant files

Audit firm eligibility

*[Back on 6 November 2024](#)*², we set out the key changes in the Audit Regulations that applied from 1 October 2024. One of the most significant changes was the change to the eligibility requirements to make it clear that where a firm's constitution, however comprised, requires that certain key decisions need more than a simple majority-vote for approval, that audit-qualified persons must be able to control any such 'super-majorities'. Given the potential impact on firm eligibility, the FRC agreed that changes would be subject to a six-month transition period with the new eligibility requirements coming in to effect from 1 April 2025, which has now passed.

Graeme Percival (Head of Regulatory Authorisations, followed up on this topic on *[18 March 2025 to remind firms of the 1 April 2025 compliance deadline](#)*³: That update encouraged all firms to review the revised regulations as soon as possible to ensure that they continue to meet the eligibility requirements, and to contact the Regulatory Authorisations team without delay if any potential issues were identified.

One of the key points flagged in Graeme's reminder was that limited company firms may require a special resolution to amend their constitution / articles, and if that is the case consideration should be given to the Companies Act 2006 provision requiring a 75% voting threshold for passing special resolutions. If the Articles of Association require the 75% threshold in order to change the constitution

¹ <https://icas-com.uksouth01.umbraco.io/media/ev2iwaln/audit-monitoring-2024-report-final.pdf>

² <https://www.icas.com/news-insights-events/news/regulation/changes-to-the-audit-regulations-eligibility>

³ <https://www.icas.com/news-insights-events/news/regulation/1-april-2025-compliance-deadline-audit-firm-eligibility>

of the firm, the revised regulations require 75% of voting rights to be held by audit qualified individuals rather than the previous 51%. Similar issues could also arise for LLPs and partnerships if the partnership agreement requires a 'supermajority' in order to change the partnership agreement itself. This clearly has the potential to significantly impact a substantial number of audit firms.

The Audit Regulations require firms to inform ICAS in writing, as soon as possible, of any changes which may affect a firm's eligibility. If you find that the eligibility requirements are no longer being met, a short dispensation may be available from the Authorisation Committee to allow the required changes to be made, so long as this would not adversely impact audit clients of the firm. If in doubt please get in touch with the [Regulatory Authorisations](#)⁴ team as soon as possible!

Update on changes to the company size thresholds and the audit threshold

[On 9 January 2025](#)⁵, Christine Scott (Head of Charities and Reporting) provided an update on changes to the company size thresholds and the audit threshold, which were amended by the *Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024* and apply to financial years beginning on or after 6 April 2025.

The new regulations lift the monetary thresholds that determine a company's size and the audit threshold by around 50% and Christine's update provides a comprehensive overview of the existing and revised thresholds. The Revised net company and group size thresholds are shown below, and provisions in the act allow preparers to apply the new thresholds to the previous financial year when considering the 'two-year' rule.

2 out of 3 of:	Micro	Small	Medium	Large
Annual turnover	£1m	£15m	£54m	> £54m
Balance sheet total	£500k	£7.5m	£27m	> £27m
Average no. of employees	10	50	250	> 250

In response to changes to reporting thresholds, [the FRC released updates to relevant existing publications on 21 March 2025](#)⁶, including:

- [A summary document](#) outlining the changes to reporting thresholds, along with key considerations for stakeholders.
- Amendments to '[FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland](#)' and '[FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime](#)' (an accompanying impact assessment is also published).
- An updated [Overview of the financial reporting framework](#). This aims to assist particularly smaller entities by providing an overview of the simpler financial reporting regimes that may be available to them.
- Updated and streamlined [Scoping Tables](#) that set out Companies Act 2006 disclosure requirements for the strategic report, the directors' report and the energy and carbon report. This publication supersedes Appendices II, III, IV(a) and IV(b) in the 'Guidance on the Strategic Report' (2022).
- An updated version of [FRS 102 Factsheet 8 - Climate-related matters](#).

⁴ regulatoryauthorisations@icas.com

⁵ <https://www.icas.com/news-insights-events/news/corporate-financial-reporting/update-on-changes-to-the-company-size-thresholds-and-the-audit-threshold>

⁶ <https://www.frc.org.uk/news-and-events/news/2025/03/frc-releases-updates-to-reflect-company-size-threshold-amendments/>

Audit threshold increases for Scottish charities

[On 12 February](#)⁷, there was an update on the SORP 2026 and possible changes to the Scottish charity audit threshold,. [Subsequently](#)⁸, the Scottish Government confirmed it has committed to increasing the income criterion of the Scottish charity audit threshold from gross income of £500k per annum to gross income of £1m.

While it's not yet clear when the new charity thresholds will become effective, there is at least some potential that the increase could apply to periods beginning on or after 1 January 2026 which would coincide with implementation of changes to Financial Reporting Standard (FRS) 102 arising from the FRC's latest Periodic review amendments.

FRC publishes suite of new and revised FRS 102 Factsheets

[On 12 February 2025](#)⁹, Christine Scott set out an overview of the new and updated FRS 102 Factsheets published by the FRC to accompany the revised edition of FRS 102, effective for reporting periods beginning on or after 1 January 2026.

Nine Factsheets have been published, including three brand new Factsheets (9, 10 and 11), and two Factsheets (1 & 2) have been withdrawn. A brief rundown of the new Factsheets is provided below, but firms should see Christine's article for more details:

Factsheet 9 – Initial application of Periodic review 2024 amendments - The Factsheet focuses on the principal changes to FRS 102 on lease accounting and revenue accounting. But there is also commentary on some of the incremental improvements and clarifications introduced as a result of the Periodic review

Factsheet 10 – Revenue from contracts with customers - The Factsheet focuses on the changes made to FRS to bring in the five-step model for revenue recognition:

Step 1 – Identify the contract(s) with a customer.

Step 2 – Identify the performance obligations in the contract.

Step 3 – Determine the transaction price.

Step 4 – Allocate the transaction price to performance obligations.

Step 5 – Recognise revenue when (or as) performance obligation met.

Factsheet 11 – Lease accounting for lessees - The Factsheet focuses on the changes made to remove the distinction between operating leases and finance leases for lessees (with operating lease and finance lease distinctions remaining in place for lessors). The new approach is similar to previous finance lease accounting, and brings right-of-use assets and lease liabilities 'on balance sheet' akin to IFRS.

⁷ <https://www.icas.com/news-insights-events/news/practice/charities-sorp-2026-and-possible-changes-to-the-scottish-charity-audit-threshold>

⁸ <https://www.icas.com/news-insights-events/news/charities/scottish-government-announces-plans-to-increase-the-charity-audit-threshold>

⁹ <https://www.icas.com/news-insights-events/news/corporate-financial-reporting/frc-publishes-suite-of-new-and-revised-frs-102-factsheets>

FRC Webinar - How charities can prepare for major amendments to FRS 102

On 15 January 2025, the Financial Reporting Council (FRC) hosted a webinar to discuss how the most recent amendments to FRS 102 will impact UK charities and the ways they can prepare for implementation. [The webinar can be viewed here](#)¹⁰, and gave:

- An overview of the major amendments to FRS 102 and their implications for UK charities.
- Practical steps and strategies for charities to prepare for these changes.
- Insights from the FRC and charity regulators on compliance and reporting requirements.

The FRC's *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024*, were issued on 27 March 2024 and the effective date for most of the amendments to FRS 102 is accounting periods beginning on or after 1 January 2026. While related updates to the SORP have not yet been finalised, Charity auditors and clients should be thinking about the new requirements now in order to put plans for implementation, including collation of prior year comparators where required. As noted in the Factsheet updates above, the biggest changes coming down the track for charities will be:

- The removal of the distinction between operating and finance leases for lessees, which will mean more leases now need to be recognised on-balance sheet (similar to existing finance lease accounting).
- The introduction of a single 'five-step' model for revenue recognition for all contracts with customers. While there is unlikely to be much impact on sale-of-good type revenue streams, charities will need to consider the nature of more complex contracts that might exist with users/funders, and will need to apply the new five-step model to each.

On 28 March 2025, the SORP-making body launched its [public consultation on the Exposure Draft SORP, which can be found here](#)¹¹: The deadline for involvement in the consultation process is Friday 20 June 2025, with the Final 'SORP 2006' documents expected to be published later this year.

Reporting on accounts under the Co-operative and Community Benefit Societies Act 2014

[On 15 January 2025](#)¹², Christine Scott published an article which looked at the accounts and independent reporting requirements for co-operative and community benefit societies. The update, helpfully set out five common errors in accounts filed by registered societies with the FCA, and any firms auditing societies should ensure they've read it:

1. Incorrect number of signatories
2. Incorrect references to legislation
3. Scrutiny engagements not being performed by registered auditors where this is a requirement
4. Reports on society accounts not meeting the legal requirements
5. No inclusion of share capital

Key points familiar to the audit monitoring team, and repeated here for emphasis, are:

- **Signatories:** The revenue account(s) and balance sheet must be signed by the society's secretary **and** two members of its committee, acting on behalf of the committee. It's not

¹⁰ <https://www.frc.org.uk/news-and-events/videos-and-podcasts/how-charities-can-prepare-for-major-amendments-to-frs-102/>

¹¹ <https://www.charityscorp.org/invitation-to-comment>

¹² <https://www.icas.com/news-insights-events/news/practice/co-operative-and-community-benefit-societies-act-2014>

uncommon for audit monitoring reviews to come across financial statements that have only have two signatures, rather than the three required. The [FCA guidance](#)¹³ on this confirms that if the secretary is also a director, and they are signing in both roles, they should sign twice in those separate capacities. Additionally, the revenue account(s) and balance sheet need to be signed separately and this is not always done in practice.

- **Audit reporting 1:** Where a full audit is undertaken the auditor's report to the society needs to be tailored sufficiently, and should include commentary on:
 - Whether, in the auditor's opinion, the revenue account(s) and balance sheet for the year give a true and fair view of the matters mentioned in section 80(1) to (3) of the CCBS Act 2014.
 - Whether the revenue account(s) and balance sheet comply with the other requirements of the CCBS Act 2014.
 - If the report relates to any other accounts, whether those accounts give a true and fair view of any matter to which they relate.
- **Audit reporting 2:** The auditor must also report where:
 - The society has failed to keep proper books of account and maintain a satisfactory system of control over its transactions.
 - The revenue account, any other accounts to which the report relates, and the balance sheet are not in agreement with the society's books of account.

FRC - Small and medium-sized enterprises market study

On 3 February 2025, the FRC announced a market study into SMEs¹⁴ which aimed to examine the challenges faced by SMEs in relation to audit and reporting, where practitioners have difficulties in auditing SMEs, and understanding the decision-making process for SMEs who procure audit services when otherwise exempt.

The initial consultation process comprised a number of roundtable sessions with Auditors, SMEs, advisers and capital providers. Roundtables took place during March and early-April, including a session facilitated by ICAS and involving representatives some of our audit registered firms.

The FRC followed up on the round tables with a webinar on 15 April 2025¹⁵ where Kate O'Neill, Director of Stakeholder Engagement and Corporate Affairs, Mark Babington, Executive Director of Regulatory Standards, and Dhruve Shah, Deputy Director of Professional Body Supervision discussed the feedback they'd gathered so far. While the invitation to comment closed on the 25 April 2025, the webinar clarifies that the market study is just one part a broader campaign which include the FRC developing materials and guidance designed to support firms to conduct high quality audits that are proportionate to the size and complexity of their SME clients (the proportionality and scalability of the ISAs being a subject covered by Kate and Mark in a previous webinar on Understanding Audit Standards, commented on below, and is a clear thread in recent communications).

FRC – Helping SMEs understand audit

As part of its wider campaign to support SMEs access and understand audit services, the FRC has produced [Introduction to Auditing Standards](#)¹⁶, which gives an brief overview of:

- What are International Standards on Auditing (ISAs)?
- Who sets the ISAs?
- Who uses ISAs?

¹³ <https://www.fca.org.uk/firms/annual-returns-accounts-mutual-societies>

¹⁴ <https://www.frc.org.uk/consultations/small-and-medium-sized-enterprises-market-study/>

¹⁵ <https://www.frc.org.uk/news-and-events/videos-and-podcasts/sme-audit-market-study-what-weve-been-hearing/#transcript-c1a2429c>

¹⁶ https://media.frc.org.uk/documents/Introduction_to_auditing_standards.pdf

- What purpose do ISAs (UK) play in well-functioning UK capital markets?
- How are ISAs proportionate to the complexity of the entity audited?

While all audit registered firms will be well versed in these matters, the commentary on the scalability and proportionality of the ISAs is a useful reminder for auditors. [The release was supported by a podcast](#)¹⁷ where Kate O'Neill, and Mark Babington, discuss the role of audit standards and how they can be applied in a proportionate and scalable way.

FRC - Updated guidance to support going concern reporting

Following consultation, the (FRC) has issued updated guidance on the '[Going Concern Basis of Accounting and Related Reporting, including Solvency and Liquidity Risks](#)¹⁸'. The guidance is not mandatory, but intends to act as a guide to support medium and larger companies to prepare compliant disclosures in a proportionate and scalable way.

The new guidance replaces the previous guidance released in 2016, and reflects revisions to the ISAs and guidance, but also the challenging economic environment that companies have been navigating since 2016 – including the significant challenges faced during and after the COVID period.

While companies that fall below the medium company threshold still need to assess whether the going concern basis is appropriate, the guidance is not intended for these entities given the reduced disclosure frameworks that exist. That said, auditor should be mindful of the guidance provided as there can be real challenges in hitting the right balance in disclosures where small companies encounter going concern uncertainties.

Significant disclosure omissions are a common monitoring finding. In 2024 the majority of visits conducted identified breaches of statutory disclosures, and insufficient disclosures relating to Going Concern are one of the key issues that crop up regularly. Auditors should take care that audit report commentary on material uncertainties relating to going concern should cross refer to existing disclosures in the accounts on the matter, and comment in the audit report does not negate the need for the client to make the required disclosures. There may be challenges to consider where an audit client is a small entity that has some disclosure exemptions under FRS102, and care should be taken to ensure the requirements of the ISA are carefully considered in such cases.

The FRC guidance includes the following table which is a useful reference point:

Main requirements – Financial Statements	Micro	Small	Medium / Large	Applying Code
Assessment of the appropriateness of the going concern basis of accounting	✗	✓	✓	✓
Statement when the financial statements are prepared on a going concern basis	✗	✓	✓	✓
Disclosure of material uncertainties or when the financial statements are not prepared on a going concern basis	✗	✓	✓	✓
Disclosure of significant judgements related to the going concern basis of accounting and any material uncertainties	✗	✓	✓	✓
Additional disclosures may be required to give a true and fair view	✗	✗ / ✓*	✓	✓
Other relevant financial statement disclosures	✗	✗	✓	✓

¹⁷ <https://www.frc.org.uk/news-and-events/videos-and-podcasts/understanding-audit-standards/>

¹⁸ https://media.frc.org.uk/documents/Guidance_on_the_Going_Concern_Basis_of_Accounting_and_Related_Reporting.pdf

Strategic report	Micro	Small	Medium / Large	Applying Code
Description of the principal risks and uncertainties facing the company	✗	✗	✓	✓
Assessment of prospects (viability statement)	✗	✗	✗	✓

** The FRC guidance clarifies that for periods beginning on or after 1 January 2026, small companies are required to provide the disclosures set out in FRS 102, paragraphs 3.8A and 3.9. For periods until then, there has been no explicit requirement in the Companies Act 2006 or FRS 102 for companies entitled to prepare accounts in accordance with the small companies regime to report on the going concern basis of accounting and any material uncertainties. Directors of small companies are required to make such disclosures as are necessary for the financial statements to provide a true and fair view. Appendix E to Section 1A of FRS 102 encouraged the inclusion of disclosures on material uncertainties to meet this requirement.*

The guidance note provides a number of useful illustrative examples throughout, and as with a number of other recent releases the guide was delivered along with a [podcast](#)¹⁹ to give useful context and practical commentary to support those preparing accounts.(and as a result is considered clearly relevant to those auditing such disclosures too.

FRC - Updates Position on Capital Restructuring at UK Audit Firms

The FRC previously contacted all Tier 1, 2, and 3 audit firms, the CEOs of the Recognised Professional Bodies, and published a public letter on its views / approach to private capital ownership of UK audit firms. [On 25 March 2025](#)²⁰ the FRC updated this position in order to provide further clarity on its position amid continued interest in the topic.

The FRCs updated letter notes that there are currently only a handful of relatively small firms that have any form of external capital or alternative ownership structure, with the vast majority of firms still wholly owned by the partners / principals. While ownership structures are a matter for firms to decide upon, the letter notes that the FRC is not in principle against capital restructuring in the audit market, which is recognised could have potential benefits / opportunities to enhance audit quality. However, as with any change, there are important risks that need to be considered, including:

- whether resulting structures could continue to meet the control requirements which form a core part of the eligibility requirements of the Audit Regulations, both in form and substance;
- the potential effect exposure capital restructuring could have on firm leadership and culture;
- how the firm would be able to maintain and enhance the public interest dimension of audit;
- whether risks relating to independence will arise and if these can be effectively safeguarded.

Any firm that is considering capital restructuring should engage with ICAS as soon as possible, and if the firm olds PIE audit registration engagement is also required with the FRC from the outset

¹⁹ <https://www.frc.org.uk/news-and-events/videos-and-podcasts/in-conversation-updating-the-frcs-going-concern-guidance/>

²⁰ https://media.frc.org.uk/documents/Letter_Capital_Restructuring_at_UK_Audit_Firmsupdated.pdf



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