



AUDIT AND ASSURANCE IN CONTEXT:

WHAT AUDIT COMMITTEES WANT
DIRECTORS TO UNDERSTAND



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INTRODUCTION

The regulatory landscape for directors is constantly changing. Keeping up is a challenge, even for the experienced. This publication is a response to calls for help for directors – particularly first-time directors – in understanding their broad range of responsibilities for governance, reporting and audit and assurance. In particular, this includes their core responsibilities for the statutory financial statements and the audit.

The individual and collective responsibilities of boards and directors are set out in a raft of overlapping and evolving guidance, codes and legislation. In developing this publication, we have sought to signpost and briefly explain the requirements and bring them to life through the eyes of the experienced audit committee chairs and auditors listed in [Appendix 6](#).

The chairs and auditors we interviewed were clear that – while regulatory compliance is a prerequisite – to be successful, boards also need the right culture, to exercise sound judgement and to look beyond immediate pressures to longer-term value creation. They covered red flags and common pitfalls, particularly in building effective relationships with external auditors. They spoke candidly about the importance of constructive challenge, not avoiding difficult conversations or being afraid to ask uncomfortable questions.

This publication covers:

- the basic elements of good governance, and the specific requirements for audit committees, financial reporting, statutory audit and other types of assurance;
- the statutory audit process, dealing with common challenges, how to manage a high-quality audit and what to look for in a lead audit partner; and
- other critical issues directors need to get to grips with including sustainability, cyber security, resilience and internal controls reporting.

While this guide is written with a focus on the UK Corporate Governance Code, the principles it explores can be applied across a range of listed environments, including smaller listed companies such as those on AIM and Aquis. Directors moving from larger, Main Market boards to smaller companies often need to adapt their approach, applying governance, audit and assurance expectations proportionately to reflect differences in scale, complexity and available resources. Many AIM companies follow the Quoted Companies Alliance (QCA) Corporate Governance Code, which places greater emphasis on flexibility and the application of principles rather than prescribed processes. In practice, this means focusing less on formality and structure, and more on effective oversight, sound judgement and constructive challenge. The guide is intended to support directors in avoiding a ‘one-size-fits-all’ mindset and in tailoring governance and assurance arrangements to the needs of their specific organisation while continuing to meet regulatory and stakeholder expectations.

The appendices cover questions audit committees might ask themselves, management and the auditors as the external audit progresses. They also highlight the legislation, codes and guidance that underpin the work of directors and auditors; key sections of the statutory audit report and the different types of audit opinions; and sustainability reporting requirements.

This publication seeks to bridge the gap between the regulatory requirements for audit and assurance and the reality of boardroom operations. Whether you are preparing for your first board appointment or seeking to enhance or refresh your role as an established director, we hope that these insights and perspectives will help you serve more effectively in the boardroom.

This publication has been produced by ICAEW with contributions from the Audit Committee Chairs’ Independent Forum (ACCIF). For further ACCIF contributions to ICAEW content please see the following resources:

- [Sharpening the focus on corporate fraud: an audit committee perspective](#)
- [Provision 29](#) – a series of articles exploring how audit committee chairs approach Provision 29 of the UK Corporate Governance Code.

ROLES AND RESPONSIBILITIES

This section provides an overview of the key stakeholders involved in corporate governance and their respective responsibilities.

WHO DOES WHAT?

Shareholders

Shareholders - who may also be directors - own the company. They hold the board to account by exercising their voting rights to approve key decisions, such as the appointment of directors and auditors, and approving the financial statements.

Executive directors

Executive directors are actively involved in the day-to-day running of a company and make key operational decisions. They hold senior management positions as employees of the company, such as chief executive officer (CEO) and chief financial officer (CFO), while also sitting on or reporting to the board. Executive directors' duties include:

- ensuring compliance with laws and regulations;
- identifying and managing risks;
- implementing and maintaining internal controls; and
- preparing the financial statements.

Non-executive directors

Non-executive directors sit on the board but do not participate in the company's daily operations. Their focus is on high-level strategy and risk. Their primary responsibility is to oversee the company's activities from an independent and objective perspective. They are not employees of the company.

The board

The board is made up of executive and non-executive directors. The board's duties include:

- reviewing the effectiveness of internal controls;
- approving the financial statements;
- receiving recommendations from the audit committee on the appointment of auditors and proposing them to the shareholders; and
- appointing members of the audit committee.

AUDIT COMMITTEE

The audit committee, appointed by the board, is composed of non-executive directors and plays an important oversight role. This includes:

- overseeing the financial reporting and external audit process;
- conducting the external audit tendering process and making recommendations to the board about the appointment of the external auditors;
- liaising with the external auditors during the audit;
- monitoring and reviewing the work of the internal audit function;
- ensuring the integrity of financial reporting, internal controls and the external audit process on behalf of the board;
- liaising with investors; and
- assessing risk management strategies.

What makes a good audit committee?

[Audit committee responsibilities under the UK Corporate Governance Code:](#)

- Monitoring the integrity of the financial statements and formal announcements on financial performance, and reviewing significant financial reporting judgements.
- Providing advice to the board on whether the annual report is fair, balanced and understandable, and the information necessary to enable shareholders to assess the company's position, performance, business model and strategy.
- Reviewing the risk management and internal control framework, unless addressed by a board risk committee.
- Monitoring and reviewing the effectiveness of internal audit, or considering annually whether there is a need for such a function.
- Overseeing the relationship with the external auditor, including making recommendations on their appointment, reappointment or removal, approving their remuneration and terms of engagement, and assessing their independence and effectiveness.
- Reporting to the board on how it has discharged its responsibilities.

Expectations of audit committees

The audit committee is a sub-committee of the main board. Its specific responsibilities relate to audit, risk, internal control, and financial and other external reporting. The FRC's [Guidance on Audit Committees](#) also highlights its distinct role in protecting shareholder interests through independent oversight of financial reporting and internal controls. If there are unresolved issues with the board, the audit committee may report directly to shareholders. This option is rarely used but is symbolically significant.

The expectations for internal audit's relationship with, and reporting to, the audit committee are set out in the [Code of Practice for Internal Audit](#), which provides a useful framework for oversight, independence and effectiveness. In practice, this means ensuring that internal audit is appropriately resourced and independent, that its work is aligned to the organisation's principal risks, and that there is clear coordination between internal and external assurance providers to avoid gaps or unnecessary duplication.

In discharging their responsibilities, audit committees should consider how assurance is obtained across the organisation through the application of the [three lines model](#), and seek to place appropriate reliance on internal sources of assurance, including internal audit and other risk and control functions, where these are effective.

According to the [UK Code](#) there should be at least three independent non-executive audit committee members (two for smaller companies) and a minimum of three meetings per year. Interviewees noted that the committee size and meeting frequency could be above the minimum to reflect the company's needs and the chair's effectiveness.



I have seen really effective three-person committees and really effective six-person committees. It depends on the ingredients.

Andy Kemp

DUTY TO STAKEHOLDERS

All interviewees emphasised the importance of boards looking to the long-term and taking account of all stakeholders. This is the board's statutory responsibility.

[Section 172 of the Companies Act 2006](#) sets out the duties of directors, requiring them to promote the success of the company for the benefit of its members as a whole (typically shareholders), having regard to, for example:

- the interests of employees, suppliers, customers and others;
- the company's reputation; and
- the impact of operations on the community and the environment.

The company's published Strategic Report must contain a statement describing how the board has complied with section 172. The spirit of section 172 is also embodied in [Principle A of the UK Corporate Governance Code](#) (The UK Code).

"A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society." [Principle A, UK Code](#)

Aside from being a legal duty, focusing on longer-term value generation may benefit companies by attracting investment and high-quality staff.

Commitment to stakeholders and the long-term success of a company demand that directors understand the company, the business environment, the business model and the specific risks it faces. The time required to acquire this understanding should not be underestimated and goes beyond scheduled board meetings.

PRINCIPAL LEGISLATION

A non-exhaustive list of principal legislation for listed entities covering directors, boards and companies is within [Appendix 2](#).

CORPORATE GOVERNANCE

This section explores the key attributes of good corporate governance, as seen through the eyes of the audit committee chairs interviewed. It also highlights expectations of the audit committee and assurance arrangements in contributing to good governance.

WHAT IS GOOD GOVERNANCE?

Good governance starts with culture, interviewees told us. While every company culture is different, it invariably stems from the board. Culture can drive both business success and failure, but it is rooted in legal and regulatory compliance.

Leadership

We were told that an effective chair is central to good leadership. This is particularly important for smaller companies with less complex governance arrangements. The chair sets the tone, draws out contributions and harnesses collective strengths.

Diversity

Interviewees supported boards with diversity of experience, background and mindset, noting that diversity challenges groupthink and improves decision-making. However, achieving the right balance for a company's specific needs isn't always straightforward.

Some interviewees cautioned against diversity for diversity's sake. Hiring directors based on proven success was seen as more effective than meeting a quota.



I'm a strong proponent of diversity but it has to be with the right skill set.

Graeme Dacomb

Because diversity is important, it warrants careful ongoing management as the skills required on the board evolve to meet the company's needs. Smaller companies may struggle to obtain the desired expertise due to a more restricted talent pool. Those who come from different industries or lack operational expertise need support to ensure they are up to speed with issues such as sustainability and cyber.

"Diversity of skills, background and personal strengths is an important driver of a board's effectiveness, creating different perspectives among directors, and breaking down a tendency towards 'group think'"
[FRC Guidance on Board Effectiveness](#)

Constructive challenge

In interviewees' eyes, good board culture permits and even encourages board members to ask 'stupid questions' without fear.



Stupid questions can actually be common sense questions that need to be asked.

Graeme Dacomb

However, interviewees were less tolerant if questions raised at board or audit committee meetings were driven by neglect or wilful ignorance of the business, particularly when meeting papers have not been read in advance.

Financial literacy

Interviewees emphasised the importance of the audit committee's financial literacy. While the UK Corporate Governance Code expects at least one member to have recent and relevant financial experience, this should be seen as a minimum. All members will need a baseline understanding to ensure they are actively engaged with financial matters, rather than relying on a few members. Most directors are not finance professionals, so information must be presented clearly and accessibly. This enables the full audit committee to apply appropriate challenge and judgement when reviewing financial statements and helps maintain the integrity of the audit and reporting process.

Risk and internal control

A good audit committee will have a proper understanding of the company's risk profile through its risk register and the control framework for managing it. It should understand how risks – including the risks of fraud – may arise, how likely they are, any interdependencies, and the controls in place to manage them. A comprehensive and up-to-date risk register supports the audit committee in understanding and managing the business's risk exposure.

Fraud

Directors have a duty to take reasonable steps to prevent and detect fraud within their organisations. Recent legislative developments, including the introduction of the new failure to prevent fraud offence under the Economic Crime and Corporate Transparency Act 2023, have heightened expectations in this area. This guide does not go into detail on the topic of fraud, but further information, guidance and thought leadership on this subject is available from [ICAEW](#).

[Provision 25 of the UK Code](#) and section 4 of the Quoted Companies Alliance Corporate Governance ([QCA Code](#)) suggest that the audit committee's risk management responsibilities can be delegated to a risk committee. Interviewees had different views on this. Some considered risk to be too tightly interwoven with the audit committee's other duties to be delegated. Others suggested that a separate risk committee can ease the burden on a time-constrained audit committee. Whatever a company decides, effective inter-committee coordination is important. Some highly regulated industries are required to have a separate risk committee.

FINANCIAL REPORTING AND THE EXTERNAL AUDIT

The board is responsible for preparing the financial statements, with audit committees providing oversight of the process. Interviewees were unequivocal that a clear dividing line between execution and oversight is important to good governance.



The audit committee should have effective oversight and make sure points are being dealt with by management. If the committee is getting stuck into the details, that's a bad sign.

Andy Kemp

Good audit committees will work closely with management and external auditors to ensure the integrity of the financial reporting process and the annual report and communicate back to the board.

Audit committee responsibilities for, and relationships with, external auditors are central to their role.

Is it audit, assurance, or both?

To make informed decisions, stakeholders who rely on a company's published information – such as its annual report – need assurance that this accurately and fairly represents the company's performance and position.

The terms 'audit' and 'assurance' are sometimes incorrectly used interchangeably. Although audit is a subset of assurance, other types of assurance exist. The two levels of independent external assurance are:

Reasonable assurance	<p>This is the highest level of assurance auditors provide in a statutory audit.</p> <p>High-level or reasonable assurance provides a positive conclusion on, for example, the financial statements of an entity. It asserts that, in the auditor's (or other external assurance provider's) professional judgement, they are free from material misstatements and present a 'true and fair' view of the entity's financial position and performance according to applicable accounting standards. It's important to note that absolute assurance is unattainable in any audit or assurance engagement.</p>
Limited assurance	<p>This is a lower level of assurance than the reasonable assurance provided in an audit.</p> <p>In a limited assurance engagement, the assurance provider expresses a negative conclusion: nothing has come to their attention to suggest that the information is not fairly presented. Limited assurance is often obtained over interim financial statements, and increasingly on sustainability information, until such point as management seek or regulation requires reasonable assurance.</p>

Another source of assurance, albeit not independent, is the company's own internal audit function:

Internal audit	<p>Internal auditors are either employed by the company or engaged on a consultancy basis. They can provide an objective assessment of a company's processes and operations covering a wide range of areas, but they are not independent in the same sense as external auditors.</p>
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The statutory or external auditor

A statutory audit providing reasonable assurance over an entity's financial statements must be undertaken by an **external auditor**. The specific legal definition and duties of a statutory auditor are primarily outlined in the [Companies Act 2006](#). In the UK, an auditor is defined as a qualified individual or firm that is authorised to perform audits of financial statements in accordance with UK law and auditing standards. A searchable register of approved firms and individuals is available [here](#).

External auditors provide an objective and independent opinion on the financial statements. Independence means that the auditor has no conflicts of interest, while objectivity entails approaching the audit with impartial and unbiased judgement.

Auditor independence

It's worth noting that a statutory audit primarily addresses the back half of the annual report, which contains the financial statements and notes. Although a lot of information is often provided in the front half, it is not audited and there are significant [limitations on the non-audit services](#) external auditors are permitted to provide to their audit clients. This is to safeguard auditor independence and avoid conflicts of interest that could compromise audit quality. For smaller companies, this can present challenges as it may limit their access to advisory support from their auditor on areas outside of the statutory audit, and they may have fewer resources to obtain such services elsewhere.

External auditors are often hired for limited assurance engagements, such as reviews of interim financial statements, either at the client's request or when required by law. However, these types of engagements can also be performed by other professionals, including accountants and firms that provide professional services.

Non-mandatory assurance

Audit firms, internal auditors or specialist consultants may provide other forms of non-mandatory assurance covering areas such as internal controls, sustainability and key performance indicators (KPIs).

“In performing its work, the internal audit function is likely to have obtained insight into the entity’s operations and business risks, and may have findings based on its work (...) that may provide valuable input into the auditor’s understanding of the entity and its environment...” [ISA \(UK\) 315](#)

These non-mandatory engagements on the front half do not currently require specific qualifications or regulatory oversight, although this is expected to change as the UK government prepares legislation to put in place an oversight regime.

Boards often delegate decisions about what information can be assured internally or externally to audit committees. Good audit committees have a strong grasp of what matters to a company’s stakeholders. Interviewees cited assurance plans and risk assurance maps as being helpful in decision-making and identifying assurance gaps and overlaps.

The audit committee oversees risk management and internal controls, and internal audit can be its eyes and ears. A good audit committee chair will engage actively with the internal audit team and challenge it to be as effective as possible. Some interviewees said they would be concerned if a company didn’t have an internal audit function. They pointed to outsourcing as an option for smaller companies considering their assurance needs.

“The audit committee will consider key matters of their own initiative rather than relying solely on the work of the external or, where applicable, internal auditor” [UK Code Guidance](#)

The [UK Code](#) requires the audit committee to monitor and review the effectiveness of the company’s internal audit function, where it exists, and to assess the need for such a function on an annual basis if one is not in place. It also states that the annual report should include an explanation, if applicable, of the lack of internal audit and of how internal assurance has been achieved in its absence. The Chartered Institute of Internal Auditors’ Internal Audit Code of Practice is a useful benchmarking tool to assist the audit committee in monitoring and reviewing the effectiveness of the internal audit function. It also recommends the Internal Audit Function should have an External Quality Assessment at least once every five years.



I am a believer in internal audit really getting stuck into the guts of a business. They are trusted by the business to give an honest opinion as to what is going on.

Mary Reilly

Establishing clear boundaries

It’s important to maintain clear distinctions between the roles of internal audit, management and external audit. Interviewees raised concerns about blurred lines, particularly when companies rely too heavily on external auditors for assurance. Misunderstandings about the relationship between internal and external audit can create unrealistic expectations, especially given that UK ethical standards and ISA (UK) 610 *Using the Work of Internal Auditors* now prohibit internal auditors from providing direct assistance to external auditors. However, cooperation remains important. External auditors often engage with internal auditors to understand the risk environment and internal controls. They may also consider internal audit’s findings when planning procedures, while internal audit may follow up on control deficiencies identified by the external auditor.

External vs internal audit

<p>External statutory audit</p>	<p>Who? Independent audit firm</p> <p>What? Historical financial statements contained in the annual report</p> <p>When? Audit of the period covered by financial statements</p> <p>Why? Statutory requirement</p> <p>How? In accordance with auditing standards</p> <p>Required? Mandatory for most large or public companies, charities or subsidiaries of non-UK parents.</p>
<p>Internal audit</p>	<p>Who? Internal company department, or outsourced to a third party</p> <p>What? Wide range of governance, risk management and control areas</p> <p>When? As directed by management or the audit committee</p> <p>Why? Improvement and optimisation of company processes and controls, ensuring compliance with regulation and managing risk in a business</p> <p>How? No UK law governs how internal auditors operate, but there are expectations under The International Standards for the Professional Practice of Internal Auditing (IIA Standards), The Chartered Institute of Internal Auditors' Internal Audit Code of Practice and other industry specific bodies.</p> <p>Required? Non-mandatory.</p>

EXTERNAL AUDIT

This section delves deeper into the purpose of an external audit, the phases of the audit, and what, according to our interviewees, defines a quality audit.

WHAT IS THE PURPOSE OF AN EXTERNAL AUDIT?

Unless dormant, all public companies must be audited annually by an independent external auditor. The external auditor's role is to assess a company's financial statements and provide an objective and independent opinion on their truth and fairness.

The opinion is included in the auditor's report, which accompanies the published accounts. The report primarily provides [reasonable assurance](#) to shareholders on the reliability of the financial information. Although other stakeholders may read and seek to rely on the report, the auditor's legal duty is generally only to the shareholders. While most audits result in a 'clean' or unmodified opinion, other types of opinions may be issued depending on the audit's findings. A summary of the different types of audit opinions is included in [Appendix 4](#).

Statutory auditors carry out their engagements in accordance with auditing and ethical standards. In the UK, these are the FRC's Ethical Standard and its International Standards on Auditing (ISAs) (UK), which form a set of requirements that outline how an audit should be conducted. These are not to be confused with the auditor's statutory duties, which are set out by the Companies Act.

[ISA \(UK\) 200](#) defines the overall objectives of the auditor as follows:

Reasonable assurance

It will never be possible to guarantee with absolute certainty the truth and fairness of financial statements. Reasonable assurance is a high level of assurance but is not absolute. See [Reasonable assurance](#) for more details.

Financial statements

The financial statements include the Statement of Financial Position, Statement of Profit or Loss, Statement of Changes in Equity, Cash Flow Statement and notes.

Opinion

The auditor's opinion on the financial statements is based on an evaluation of the evidence obtained during the audit to determine whether, in the auditor's professional judgement, they are free from material misstatements and present a 'true and fair' view of the entity's financial position. This opinion is expressed in the [auditor's report](#) ([Appendix 3](#)).

Materially misstated

Financial statements are misstated if they fail to reflect the reality of the company's performance or position, and are materially **misstated** (ie, they do not provide a 'true and fair' view) if the numbers of disclosures affected by the error or fraud could influence the decisions of user of the financial statements. This may be by mistake (error) or design (fraud).

'The overall objectives of the auditor are (...) to obtain **reasonable assurance** about whether the **financial statements** as a whole are free from **material misstatement**, whether due to fraud or error, thereby enabling the auditor to express an **opinion (...)**.' [ISA \(UK\) 200 Para. 11\(a\)](#)

WHAT IS MATERIALITY IN A FINANCIAL STATEMENT AUDIT?

An auditor obtains reasonable assurance about whether the financial statements as a whole are free from material misstatement. But what does material mean?

Materiality refers to the significance of an amount – whether a balance, transaction or disclosure – such that any discrepancy could influence or mislead users’ decisions based on the financial statements. During a financial statement audit, auditors assess materiality to determine the scope of their testing and to evaluate whether the financial statements as a whole present a ‘true and fair’ view.

The concept is complex and requires a high degree of judgement. Views on what matters and to what extent will vary between different users of financial statements and will also depend on the nature and circumstances of the individual company. The tipping point where misstated information might alter a user’s choices isn’t always clear-cut. Auditors must use their judgement to determine this threshold based on users’ common needs as a group. The figure selected to represent this is **audit materiality**.

Once this materiality level has been established during the planning stage, auditors can:

- pinpoint areas at higher risk of being materially misstated to focus their testing on;
- design audit procedures to best detect material misstatements; and
- determine whether misstatements identified, either individually or in aggregate, cause the financial statements as a whole to be materially misstated.

ISA (UK) 200 also requires auditors who identify misstatements exceeding the materiality threshold to bring these to the attention of management and the board. Materiality serves as a guide to auditors in determining whether misstatements, individually or in aggregate, could influence the financial statements’ reliability.

Although each audit firm will have a different methodology to calculate materiality, the FRC typically recommends materiality levels based on a percentage of key financial figures. For example, materiality is often set at:

- 0.5% to 1% of revenue for larger companies;
- 1% to 2% of profit before tax for companies with more variable earnings; and
- 1% to 2% of total assets for asset-heavy companies.

These numbers are guidelines, with auditors applying professional judgment to adjust materiality based on the specific circumstances of the company being audited. For smaller companies or those in more specific sectors, the materiality threshold may be adjusted to reflect different financial structures.

Materiality for directors: do I have to make an adjustment?

If auditors identify a misstatement in the financial statements that exceeds the materiality threshold, they may ask for an adjustment. While auditors make recommendations based on their professional judgement, it is ultimately up to the directors and management to decide whether to make the adjustments.

However, it’s important to note that if auditors believe the financial statements are materially misstated and the adjustments are not made, they have an obligation to include this in the auditor’s report. This could result in a qualified audit opinion or, in extreme cases, an adverse opinion ([Appendix 4](#)), which could affect the company’s reputation, financial standing and compliance with legal requirements.

If you disagree with the auditor’s recommendations, you must be able to justify your position with a strong rationale, which could involve seeking further professional advice or providing additional evidence to support the treatment in the financial statements. It’s important to weigh the implications of not making an adjustment, as it could influence the users of the financial statements and your company’s regulatory standing.

THE EXTERNAL AUDIT TIMELINE

All external audits generally follow the same pattern. Directors should be aware of the audit timeline and the key points of interaction between the audit committee and external auditors.

Tendering

Audit committees are responsible for conducting the audit tender process and making recommendations to the board about the appointment, re-appointment and removal of the auditor. The audit committee should appoint an audit firm that is both capable of and committed to performing a high-quality audit.

Audit firms make their own choices about which companies they work with. An audit committee should consider not only why they should choose audit firm A over firm B, but also why audit firms A and B should choose them. Asking audit firms why they have chosen not to tender or have withdrawn from the process can help audit committees refine their selection criteria, giving them the best chance of more choice.

When determining which candidate is likely to be the best fit, audit committees should consider whether each audit firm participating in the tender process has the capacity, resources, experience and geographical coverage to take on the audit. Capacity challenges in the audit market featured prominently in our discussions with interviewees when discussing the selection of audit firms. To encourage tenders from a wide range of firms, it can be beneficial for a company to cast the net wide without preconceptions about the capabilities of firms of different sizes.

It's important that audit committees ask the right questions early in the tender process to explore the full range of credible options available. Suggested questions are provided in [Appendix 1](#).

Despite agreeing with the FRC's view that auditors should not be selected based purely on 'cultural fit', our interviewees were clear that people are an indispensable piece of the decision-making puzzle.



I am not very interested in big glossy documents - they can be very generic. I am interested in the team and the team dynamic.

Mary Reilly

The choice of auditor should be based on quality, including independence, challenge and technical competence, not price or perceived cultural fit. [FRC's Audit Committees and the External Audit: Minimum Standard](#).

If audit committees are transparent and specific about their expectations from their prospective auditors throughout the process, this will likely lead to a better tender outcome for all involved. It also helps to understand how and why a good quality audit can provide real value to a business, rather than viewing it as a compliance exercise.

AUDITOR APPOINTMENT

Before an auditor of a public company is appointed, the "audit committee of the company must make a recommendation to the directors in connection with the appointment... (identifying) its first and second choice candidates for appointment (and giving) reasons for the choices so identified." [Companies Act 2006, s.489A](#)

Once the tender process is complete, the audit committee makes a recommendation to the board. The board then proposes its preferred firm of auditors to the shareholders, who vote on whether to approve the appointment. Each subsequent year, the audit committee will make a recommendation on whether the auditor should be re-appointed, or removed and replaced, and the board will put this to a shareholder vote.

Mandatory rotation of auditors

Audit firms are subject to mandatory rotation rules which limit the number of years they can be reappointed for. [EU Audit Regulation \(EU 537/2014\)](#), as retained in the UK, governs the tenure of audit firms of public interest entities. Companies must change their audit firm every 10 years, although this can be extended to 20 years after a mandatory tender process.

Planning

Before starting their audit procedures, auditors will carry out a detailed review to obtain a thorough understanding of the business, its environment and processes, helping them to plan an appropriate audit approach. This is called audit planning. The audit plan and an audit strategy (which provides a high-level overview of the scope, timing and direction of the audit, with a primary focus on resourcing) are fundamental to the audit planning process. The audit plan flows from the strategy but is far more detailed. It covers how the audit team plans to respond to assessed risks including the nature, timing and extent of audit procedures. Once the auditors have formulated their strategy for the audit, they will present their audit plan to the audit committee. See [Appendix 1](#) for a list of potential discussion points that may arise at the planning meeting.

Audit procedures

During this stage of the audit, the external auditor executes their audit plan and gathers evidence to support their opinion on the financial statements. These procedures may include assessing the effectiveness of internal controls and performing substantive testing on transactions and account balances.

Directors are required to ensure that auditors have all the necessary information to carry out the audit. The auditor's position as an external party must also be kept in mind, especially when the firm is engaged for the first time. As the audit team will not have the same level of experience with the business's inner workings as management and the audit committee, they may not have the familiarity needed to interpret spreadsheets and reports provided. If information is based on clear evidence and easily understood, this will save the auditors time trying to untangle unwieldy papers and avoid back-and-forth with management.



I review draft management papers before they go to the auditors. If you have a management team writing poor-quality papers, you'll end up with a difficult audit - the auditors will end up scrambling to get the evidence they need.

Mike McKeon

Reporting

As the team's work nears completion, they will use two key mechanisms to deliver their findings to the audit committee.

Audit findings report

Auditing standards require auditors to communicate matters of governance interest that are identified during the audit to the audit committee. These are commonly referred to as management letter points and are compiled in an audit findings report. Our interviewees noted the importance of engaging with all the findings that are reported and not simply filing them away to be addressed at a later unspecified date. See [Appendix 1](#) for examples of items which may be included as management letter points.

Closing meeting

Towards the end of the audit process, a closing meeting is held, at which auditors present their preliminary audit findings and conclusions to management and the audit committee. This is an opportunity for the audit committee to discuss and ask questions about the audit process and findings while they are still fresh in everyone's mind. See [Appendix 1](#) for a list of potential talking points that may arise at the closing meeting.

Evaluation

One of the principles of the [UK Code](#) is that the board should establish policies and procedures to ensure the independence and effectiveness of the external audit function. This responsibility is generally delegated to the audit committee. However, the judgement of the audit committee alone on the effectiveness of the audit can only ever speak to one perspective. Management and the auditors themselves may have their own views on how smoothly the audit went. It's important that audit committees reach out to everyone involved in the process to form a complete picture. According to our interviewees, when soliciting the views of the auditors, the norm seemed to be that the lead audit partner collects and conveys the thoughts of the audit team.

Another common way audit committees assess the effectiveness of their auditor is by holding a post-audit meeting with them to reflect on what went well, understand the reasons behind what didn't go as well and discuss how things can be improved on both sides. However, audit committees should not limit their assessment of the auditor to a retrospective meeting. Effectiveness and independence should be appraised before, during and after the audit process. See [Appendix 1](#) for a list of questions audit committees may wish to consider when evaluating the effectiveness and independence of their auditor.

To assess the wider firm approach to audit quality, the FRC encourages audit committees to review the regulator's annual report on individual firms. These are publicly available reports detailing the results of the FRC's annual audit quality inspections of each major audit firm. The reports' findings include examples of both good practice and quality deficiencies.

The FRC also mandates that audit firms of certain public interest entities publish annual transparency reports and encourages audit committees to review them. These reports are intended to provide an annual in-depth review of the firm's audit and assurance service line, highlighting where and how audit quality has been enhanced as well as setting out areas for improvement. However, interviewees had mixed opinions on their usefulness, as the metrics used to measure performance are typically firm wide rather than engagement specific.

WHAT DEFINES A QUALITY AUDIT?



Delivering a high-quality audit relies on the auditor, management and those charged with governance working effectively together.

ACCIF [Spring Report](#)

The reasons why high-quality audits are important and in the public interest are generally well-understood. What is less easily articulated is what a good quality audit looks like. The main public output is a signed report in largely standardised language ([Appendix 3](#)) expressing either a clean or modified audit opinion. Audit quality is less about the output (the audit report) and more about process and people.

The Audit Committee Chairs' Independent Forum (ACCIF) identified factors that make up a high-quality audit in its [2023 Spring Report](#). These included regular engagement between the auditor and the company and setting a tone that supports open and robust challenge. Our discussions with interviewees reminded us that, to a great extent, determining the quality of an audit is a judgement call.

Compliance

Compliance with law and regulation is an important and necessary element of a high-quality audit. Please see [Appendix 2](#) for applicable laws and regulations governing UK auditors.

Relationships

Many interviewees talked about audit quality in the context of people and relationships, including the importance of a cooperative culture within the audit team, as well as between auditors, management and the audit committee.

A long-standing gripe is excessive changes in audit team members, leading to a lack of continuity. A commitment to maintaining strong relationships is valued, and demonstrated if the audit firm strives – as far as mandatory rotation, audit staff turnover and other requirements permit – to keep the same people on the same audit team year on year.

Mandatory rotation of audit staff

For listed companies, the FRC's Ethical Standard requires:

- the audit partner to rotate off the engagement after **five years** and not participate again until five more years have elapsed; and
- safeguards for objectivity and independence to be reviewed for senior audit staff continuously on the engagement for longer than **seven years**.

Challenge

For auditors, the concept of professional scepticism is central to every audit. ISA (UK) 200 defines it as "an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence".

Interviewees agreed with the FRC's view that auditors should not be selected based on cultural fit. They indicated that seeking a professional rapport based on mutual respect is preferable to prioritising cultural alignment. Building such a rapport supports independence, robust challenge and technical expertise.

Interviewees valued constructive challenge from their auditors, seeing its role in fostering an environment of continuous improvement.



I am happy to have challenge from auditors - just because we've been doing something for years doesn't mean we're doing it right.

Mary Reilly

Some interviewees would be concerned if management sailed through the audit process without complaint. To them, this would be a sign that the auditor had not asked important 'awkward' questions. Audit committees and auditors both have a role in creating a culture of challenge, without conflict. Audit committees have the power to establish clear expectations for all parties from the beginning and to invite regular and open dialogue about audit progress and any stress points.

Technical competence and knowledge

High-calibre lead partners who know the accounting framework and understand accounting treatments are expected to be part of the audit package.

Interviewees highlighted the added value of leveraging knowledge the auditor may have of similar companies in the industry.

Auditors can have conversations around what 'good' may look like in the relevant industry with the audit committee provided they are supplying information, rather than advice, although the dividing line can be unclear.

Auditors and advice - a fine line

Auditors are entitled to express their views on accounting treatment, compliance matters, internal controls and other areas where their expertise may be beneficial.

However, when such views become advice - where management makes judgements or decisions based on them - an auditor's integrity, objectivity and independence will be threatened.

"In the case of a statutory audit, non-audit services shall not be provided that involve playing any part in management decision-taking of an entity relevant to an engagement. The firm shall not accept any engagement which includes the provision of services where it is probable that an objective, reasonable and informed third party would conclude that the firm or a covered person was playing a part in management decision-taking." [Revised Ethical Standard 2024](#)

Technology

The rapid rise of businesses that generate large amounts of data and use complex technologies has driven auditors to adopt increasingly sophisticated tools. Far from simply keeping pace, technology is transforming the audit process – enhancing efficiency, expanding scope and enabling deeper insights.

Our interviewees were particularly interested in how their auditors were leveraging technology, not for cost-cutting alone, but for its potential to elevate audit quality. With tools like machine learning, auditors can test larger data sets and more readily detect anomalies, fraud or error.



**I'm not interested in the tool that will save time.
I'm interested in the tool that will give greater
coverage, greater certainty of outcome, and
greater insight for the audit committee.**

Andy Kemp

Communication

The words 'timely', 'adaptable' and 'responsive' cropped up frequently in our interviews. These require open and regular communication between all parties – the auditor, the audit committee and management.

It's rarely, if ever, sufficient to limit interactions with the auditor to two bookend meetings. Our interviewees spoke of a spirit of ongoing communication with the audit partner. This allows for any unexpected bumps in the road to be quickly and collaboratively addressed during the audit and keeps the auditor abreast of developments with the business throughout the year.

Interviewees appreciated their auditors flagging items of concern – this was seen as evidence of robust challenge and quality audit work. But they were frustrated when such information was not relayed promptly.



**I don't like surprises. I need to know now if
something isn't working. Don't tell me at the end
when I can no longer do anything about it.**

Mike McKeon

However, for several interviewees, audit firms' technical departments were involved too late in the audit process. For example, issues that were believed to have been resolved earlier in the audit can be reopened when the technical department later takes a different view. This is partly due to increased specialisation with different testing areas (such as pensions, tax or journals testing) undertaken by a central specialist team. The time such teams take to complete their work can put pressure on deadlines. Interviewees also questioned how well-placed these departments are to provide opinions given their limited interactions with the business and audit committee.

Whether or not technical departments are involved, communication at the appropriate juncture is key. Audit committees can facilitate this by being clear and open from the beginning about the company's key risks and accounting policies and by remaining accessible to the auditor from the outset.

An audit may not always go as smoothly as expected. Unforeseen events, such as the Covid-19 pandemic – which required nearly all audits to be conducted remotely almost overnight – highlight the importance of adaptability.

The ability of audit teams to respond to such unexpected events or to a client's particular needs was considered a key indicator of good audit quality by interviewees.

Hallmarks of a good lead audit partner

According to our interviewees, the hallmarks of a good lead audit partner include:

- showing a genuine interest in the business when taking time to understand it and its risks;
- challenging management and those charged with governance;
- understanding market trends and how they affect the audited entity;
- being able to identify issues and propose effective solutions; and
- having the interpersonal skills to build a strong relationship with management and other stakeholders.

The lead audit partner is often considered the linchpin of a high-quality audit.

Interviewees' descriptions of their interactions with the lead audit partner went beyond the confines of formal audit committee meetings. They spoke of unscheduled phone calls, catch-ups over coffee and watercooler conversations. The message was clear - this is a relationship built on mutual trust and the investment of time throughout the year.



With the audit partners I've worked with I feel confident that they would have telephoned me to tell me if there was anything to worry about. It is very unscientific but that's what I'm looking for.

Andrew Eastgate

Investing in a good relationship with the audit partner is also an investment in audit quality. Paragraph 182 of the [UK Code 2024](#) guidance describes this relationship as "a frank, open working relationship and a high level of mutual respect."



I start off my conversation with the audit partner at the beginning saying this is one of the most important relationships I am going to have during my tenure.

Malcolm McCaig

CONNECTED INFORMATION: NON-FINANCIAL REPORTING AND RISK MANAGEMENT

WHAT OTHER AREAS DO DIRECTORS NEED TO CONSIDER?

Investors, regulators and other stakeholders have always been interested in a range of areas outside the financial statements. Company law has long required directors to take both financial and non-financial considerations into account when discharging their duties.

Our interviewees noted the increasing prominence of sustainability, resilience, internal controls and cyber security threats on board agendas. Directors have no choice but to keep up with these issues.



One of the problems is if you lack knowledge and don't adhere to what's needed, your shareholders will not be impressed. It gives commercial advantage to get it right.

Mary Reilly

NON-FINANCIAL ASSURANCE

Assurance over diversity data, sustainability and other non-financial metrics is increasingly valued by investors. There is no mandatory requirement for such assurance but it's something boards and audit committees are expected to consider, particularly in larger companies.

The Centre for Public Interest Audit (CPIA)'s 2024 [Audit Trust Index Report](#) found that audit committee chairs and finance directors ranked assurance over non-financial risks as one of the top three factors enhancing corporate information value.

Many audit firms provide non-financial assurance but there are restrictions on the provision of such services to audit clients.

Limitations on the provision of non-audit services by audit firms

The [FRC's 2024 Ethical Standard](#) prohibits financial statement auditors from providing certain non-audit services to listed companies. To ensure independence, auditors must avoid over-reliance on a single audited entity. While they may offer sustainability assurance, they must assess and mitigate the risk to their objectivity as auditors. Fees for permitted non-audit services cannot exceed 70% of the average audit fees over the past three years. The UK government confirmed in January 2026 that sustainability assurance services would not be included for the purposes of the fee-cap calculation in cases where an entity is required by UK law to obtain assurance over sustainability-related financial disclosures.

SUSTAINABILITY

What is meant by sustainability?

Sustainability is 'the ability to meet the need of the present without compromising the ability of future generations to meet their own needs'. This definition originates from the UK World Commission on Environment and Development (the [Brundtland Commission](#), 1987). Sustainability reporting involves sharing information on a range of sustainability matters.

Even experienced directors admit that they are still navigating the complexities of sustainability disclosures.



We've been doing double entry bookkeeping for centuries. We've been doing sustainability reporting for just a few years.

Mike McKeon

Some interviewees highlighted a tendency by companies to overlook sustainability issues altogether, partially because of the technical complexity involved, or to devote more time and effort to the environmental component at the expense of social and governance concerns.

What do audit committees and boards need to consider?

Audit committees are generally responsible for overseeing sustainability reporting and assurance, although some companies establish separate sustainability committees to advise on strategy and reporting. The process of identifying material risks, establishing objectives and formulating a strategic plan can provide several benefits to organisations. These include:

- resilience of the entity's strategy and business model to sustainability-related risks;
- identifying value chain risks and fostering collaboration with suppliers for resilience; and
- driving innovation, improving efficiency and attracting investors and customers.

The future of sustainability reporting

The sustainability reporting landscape is complex, with many different standards and regulations for directors to navigate (see [Appendix 5](#)). However, work is underway to streamline and consolidate disparate requirements into more comprehensive frameworks.

Currently, the two major sustainability reporting frameworks to be aware of are the International Sustainability Standards Board's (ISSB) inaugural sustainability standards ([IFRS S1](#) and [IFRS S2](#)) and the EU's [Corporate Sustainability Reporting Directive](#) (CSRD).

IFRS S1 and IFRS S2

- IFRS S1 covers general reporting requirements for sustainability-related risks and opportunities.
- IFRS S2 sets out disclosure requirements covering an entity's climate-related risks and opportunities.

Close to 40 jurisdictions have adopted or are otherwise using IFRS S1 and IFRS S2 in their regulatory frameworks. This demonstrates broad global momentum toward a sustainability reporting baseline.

The UK is in the final stages of endorsing the **UK Sustainability Reporting Standards (UK SRS)**, which are UK-tailored versions of IFRS S1 and S2. Due in February 2026 for **voluntary use initially**. The Financial Conduct Authority (FCA) is consulting in 2026 on transitioning listed companies from TCFD to UK SRS, proposing **mandatory climate reporting (UK SRS S2)** for accounting periods beginning on or after **1 January 2027**, with **non-climate disclosures (UK SRS S1)** and **Scope 3 emissions** on a "**comply or explain**" basis during extended transition periods.

CSRD

The CSRD applies to a broad range of companies and has extraterritorial reach so will affect certain companies outside the EU, including the UK.

Significant changes to the directive were proposed by the European Commission in its February 2025 Simplification Omnibus Package of measures, aimed at reducing the reporting burden for affected companies.

In-scope companies are still required to report using the [European Sustainability Reporting Standards \(ESRS\)](#) and to publish a sustainability statement as part of their annual report - but the scope of companies covered and the content of ESRS are significantly reduced and simplified.

For example, the threshold that would bring non-EU groups operating in the EU into the scope of CSRD is proposed to increase from €150m to €450m. The table below sets this out.

	Criteria before omnibus	Criteria after omnibus (proposed)
Net turnover generated in EU	€150m	€450m

And either

<ul style="list-style-type: none"> a subsidiary in the EU 	With over 250 employees and either generating more than €50m turnover or with a statement of financial position total above €25m	With over 1,000 employees and either generating more than €50m turnover or with a statement of financial position total above €25m
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Or

<ul style="list-style-type: none"> a branch in the EU 	Defined as generating over €40m turnover in the EU	Defined as generating over €50m turnover in the EU
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As part of the omnibus package, the EU parliament voted through a ‘stop the clock’ mechanism on sustainability reporting in March 2025, delaying implementation for some businesses by two years. Non-EU groups falling within the above criteria will be required to report from 2029 (on financial years starting in 2028). The Omnibus proposals were formally approved in December 2025 by the Council and the European Parliament. The EU aims to publish the changes to the CSRD in the Official Journal of the EU by March 2026. Member states will then have 12 months to transpose them into national law.

Many companies will have invested significant time and effort in preparing for the CSRD. They can continue to leverage any groundwork that has already been laid down. Directors of UK companies must assess whether they are likely to remain in scope and keep abreast of developments.

Where does assurance come in?

The statutory auditor does not provide assurance over non-financial information in the annual report, including sustainability disclosures. However, they do have a duty to read and review it, so one of the first questions they may ask is how the company is comfortable that such information is reliable.



“We challenge the data in the sustainability report - how has this information been assured?”

Malcolm McCaig

Listed companies increasingly seek sustainability assurance on a voluntary basis to meet investor expectations. All companies in scope for CSRD are required to obtain limited assurance from a third-party assurance provider from their first reporting year. The Omnibus proposals removed the expectation of moving to mandatory reasonable assurance over time.

ICAEW resources focused on enabling boards and audit committees to evaluate the need for assurance over climate-related activities are [here](#).

To enhance confidence in sustainability disclosures, the International Auditing and Assurance Standards Board (IAASB) introduced [ISSA 5000](#), the first global standard for sustainability assurance, in November 2024. It is applicable across ‘sustainability matters’, frameworks and assurance levels.

The UK’s FRC published ISSA (UK) 5000 in November 2025. Following consultation in 2025, the UK government responded on 30 January 2026 to outline its approach to the oversight, registration, and supervision of sustainability assurance providers.

Anyone can provide sustainability assurance services, although a company's external auditors are restricted in the non-audit services they can provide. ICAEW resources to support companies in choosing the right sustainability assurance provider can be found [here](#).

CYBER SECURITY

What is meant by cyber security?

According to the [National Cyber Security Centre](#), "cyber security is how individuals and organisations reduce the risk of [a] cyber attack".

Respondents to the 2025 World Economic Forum Global Risks [Survey](#) ranked cyber insecurity as the fifth most significant global risk in its two-year outlook, behind misinformation, extreme weather, state-based armed conflict and societal polarisation.

Regardless of the resources available to companies, predicting the timing and nature of cyber attacks remains a major challenge. The only prediction interviewees could make with confidence was that a future cyber incident was unavoidable. All businesses, no matter their size, have an inherent cyber risk.

What do audit committees and boards need to consider?

Directors should think about cyber risks in terms of when they crystallise, not if they crystallise. A good risk register will reflect all the potential dangers with comprehensive descriptions of their nature and potential impact across the business.



Cyber cuts across everything because it reaches every aspect of your business. You can't just have a single heading on a risk register that says 'cyber'.

Andy Kemp

Malice, mistakes and AI

Interviewees feared ransomware attacks, which involve a system infiltration, typically through phishing emails, followed by data encryption and demands for a ransom in return for the decryption key. Companies sometimes pay ransoms because it can be cheaper than the costs of ongoing systems disruption.

Systems resilience is also challenged by human error. The CrowdStrike outage of July 2024, caused by a software update, affected around 8.5m computers globally and caused significant disruption to airlines, banks, healthcare systems and other businesses. However, data was not compromised, accessed or stolen.

Among many other things, AI, particularly generative AI, can be used to improve and personalise the use of language to facilitate sophisticated phishing emails that appear genuine. It can also be used to automate the production of fraudulent invoices, making scams easier to perpetrate at scale and harder to detect.

New directors - a prime target for cyber criminals?

New directors can be vulnerable to phishing attacks. There have been instances of fraudsters impersonating incoming senior staff (such as a CFO) by email and manipulating more junior staff into sending payments or revealing sensitive information. There are also instances of criminals encouraging an incoming director to bypass processes and controls that they are not yet familiar with. The potential for 'deep fakes' to deceive is also a risk.

What level of cyber expertise does the audit committee need?

Our interviewees, none of whom were cyber experts, expressed concerns about knowledge gaps at board and audit committee level. However, they all took cyber security seriously and were prioritising building the knowledge base necessary to facilitate effective oversight of their company's management of cyber risks.

Some companies may have nominated tech specialists on the board or audit committee. However, board level specialists in digital technologies are hard to come by, especially for smaller companies. There are also instances where dedicated ‘digital committees’ provide oversight of technology, outside the audit committee, although this isn’t common.

Nevertheless, interviewees suggested that at least one audit committee member should understand the company’s technologies and its digital risk profile well enough to be able to ask the right questions. Ongoing training and active engagement with senior IT staff were also seen as important, including inviting IT teams or external experts to attend some audit committee meetings.

ICAEW’s cyber security [resources](#) provide support for those looking to manage cyber risks.

Where does assurance come in?

Directors should expect questions from the external auditor about the company’s cyber security arrangements. The higher the cyber security risk of IT applications relevant to financial reporting, the higher the risk of misstatement. Areas that auditors may seek to gather information about include:

- the volume and complexity of automated controls relevant to financial reporting. The more such controls are relied on, the higher the cyber security risk;
- the vulnerability of IT systems to unauthorised access by internal or external parties; and
- the number and skill level of the IT support resources that manage security and changes to the IT environment.

The external auditor will not actively evaluate the full range of a company’s cyber security risks, only those that affect financial reporting. However, where such risks threaten the survival of the company, auditors will want to understand the scale of the threat and how it is being managed and mitigated.

Organisations may consider seeking cyber-specific assurance, for both their own systems and those of their service providers.

SURVIVING STRESS TESTS

What is meant by resilience, viability and going concern?



The pandemic was a good test of resilience and drew attention to its importance.

Mike McKeon”

Resilience is defined as a company’s ability to survive a wide range of stressors and shocks. The quality of a company’s reporting of short, medium and long-term threats to its continued existence is increasingly important. Stressors and shocks include geo-political factors, economic and market volatility, war and civil unrest, social change, climate change, IT failures and cyber attacks, among many others. Resilience, viability and going concern are closely related and overlap, as highlighted in the table.

	Going Concern	Viability	Resilience
Description	An accounting assumption that a company can continue to operate for the foreseeable future and avoid liquidation in the short term.	The sustainability of a company over the long-term, considering its business model, market position and financial health.	The ability of a company to withstand and recover from adverse events or conditions such as economic downturns.

	Going Concern	Viability	Resilience
Disclosure requirements	<p>The financial statements are prepared on a going concern basis, if applicable, with disclosure of:</p> <ul style="list-style-type: none"> • whether the accounts have been prepared on a going concern basis; • the assumptions and significant judgements made in determining the going concern status; and/or • any material uncertainties that may cast significant doubt on the company's ability to continue as a going concern. 	<p>A viability statement is included in the annual report detailing:</p> <ul style="list-style-type: none"> • the key risks that threaten long-term viability; • how these risks are managed and mitigated; • the scenarios considered including sensitivity and stress test analysis; • the period of assessment; and • a confirmation that there is a reasonable expectation that operations will continue. 	<p>The UK government's Audit and Corporate Governance Reform proposals in recent years proposed that premium listed companies would need to publish an annual Resilience Statement that would:</p> <ul style="list-style-type: none"> • build on going concern and viability statements; and • include at least one reverse stress test. <p>Although no longer part of the government's plans as of January 2026, some UK companies have voluntarily adopted its principles. Others may still find it useful in framing their company's resilience over the medium and long term.</p>
Mandatory?	For companies preparing financial statements under IFRS or UK GAAP	For companies subject to the UK Code	Not required, but companies may voluntarily wish to consider its principles in the front half.
Assessment period	12 months from the end of the reporting period - and anything foreseeable beyond that.	Not defined, but most companies choose a timeframe of between three and five years.	Companies explain the length of their chosen assessment periods, and short-term resilience incorporates and reflects going concern disclosures.
Regulatory guidance	International Accounting Standard 1 (IFRS)/FRS 102	UK Code	None expected. Guidance on how to perform reverse stress testing is available from ICAEW .

What do audit committees and boards need to consider?

Under the [UK Code](#), in-scope companies are required to include a viability statement in their annual report. It requires directors to evaluate latent risks that could become serious threats in future. Annual report disclosures deal less with what might happen, and more with how a company plans to manage events or conditions should they arise.



I measure resilience by what is thrown at a company - it is the ability to manage at a macro level.

Mary Reilly

The audit committee has a role in ensuring that the going concern and viability assessments that directors are required to perform, and the associated reporting thereof, are appropriate and sufficiently detailed to enable shareholders to make their own assessment. Interviewees highlighted the importance of:

- a thorough understanding of the company, its industry, and principal risks and uncertainties (over the short, medium and long term);
- timely, relevant and accurate information to facilitate the audit committee's review of management assessments; and
- robust challenge of the data and assumptions used in management's viability assessments, such as scenario planning and reverse stress testing.

Although it's inevitable that companies look to others in their sectors for guidance on what good disclosure looks like, regulators are clear that such reporting should be company specific.

Where does assurance come in?

The most recent FRC enhancement to [ISA \(UK\) 570](#), the auditing standard governing the external auditors' going concern responsibilities, requires more challenge of management's going concern assessment and more extensive use of the viability statement. In relation to listed entities, auditors must outline the work they have performed and clearly conclude on the appropriateness of management's assessment.

Audit committees and directors should expect increased scrutiny from their auditors on:

- the methods and assumptions used in assessments;
- the relevance and reliability of underlying data; and
- whether planned future actions are feasible and likely to impact going concern.

Audit committees should be open on viability, resilience and going concern issues. Anticipating future events is subject to error and bias, and challenge is a necessary if sometimes uncomfortable aspect of this.

INTERNAL CONTROLS REPORTING - WHAT HAS CHANGED?

Provision 29 of [the UK Code](#) previously required boards to review internal controls annually, however, they must now provide an explicit statement on their findings and conclusions. This revision is potentially significant for audit committees.

What do audit committees and boards need to consider?

WHAT BOARDS NEED TO DO

- Monitor and review the company's risk management and internal control framework, covering financial, operational, reporting and compliance controls.
- Declare in the annual report how the review was carried out and the conclusions reached.
- Determine what controls are material to the business, considering the company's specific needs and the maturity of its internal controls.

APPLICABLE DATES

- The new requirement for the board declaration will apply to financial years starting on or after 1 January 2026.
- Other parts of the updated Code came into effect from 1 January 2025.

QUESTIONS AUDIT COMMITTEES SHOULD BE ASKING

- How does the company determine and identify which controls are material?
- How can the effectiveness of such controls be defined and what documentation will be required to back up assessments of effectiveness?
- What type of assurance will be required on the effectiveness of identified material controls?

The FRC has released little guidance on how directors and audit committees should apply the changes as responses will be specific to each company. There is no prescribed definition of a material control or set benchmark for the number of material controls. Collaboration across the company to aid responses is therefore key.

Interviewees broadly agreed with Provision 29's revised aim of making boards more accountable for internal controls and risk management. Some felt that audit committees should already have a deep understanding of the company's most significant controls and how they operate.

All interviewees agreed that a good place for companies to start would be to look at their principal risks. With a well laid-out risk register that categorises and prioritises all financial and non-financial risks, identifying the controls that would address these principal risks should make the task less onerous. These controls would likely be classified as material controls.

Where does assurance come in?

External assurance over the annual declaration on internal controls is not mandated. Directors may decide that the internal audit function, if present, can provide the board with the necessary assurance over the effectiveness of relevant internal controls.

The level of confidence required is company specific and should be agreed by the board and audit committee. An assurance map showing the key elements over which assurance is required, as well as the level and type of assurance required, may be useful. ICAEW has published [resources](#) to help boards and audit committees understand assurance mapping.

APPENDIX 1 – QUESTIONS AND DISCUSSION POINTS

TENDERING

Examples of questions an audit committee undertaking an audit tender process might ask themselves.

The firm's resources

- Has the audit firm demonstrated that they have the right skills, experience and resources?
- Does the firm have the right international network to provide the local knowledge and touchpoints needed?
- Can the firm offer the specialist expertise the business requires, such as sustainability reporting and assurance services?

The value proposition

- What added value and insights can the firm offer to the business?
- What technologies will the audit team be deploying and how will they be used to add value to the business?
- Is the fee reasonable? Does this reflect the time and quality of the audit?

Chemistry

- Do I have faith that the audit partner will work well with me and the team and maintain an appropriate level of communication?
- Do the members of the audit team appear to work well together?
- Does the team seem genuinely curious about the business?
- Does the audit team and partner give the impression that they can work with management while demonstrating an appropriate level of scepticism and challenge?

PLANNING

Before starting audit procedures, the audit team will meet with the audit committee to present its audit strategy and plan. Discussion points may include:

- the planned scope and timing of the audit, detailing what will and will not be covered and why;
- the appropriateness of proposed audit resources, such as staff experience and expertise;
- the auditor's risk assessment and whether the auditor's identified risks align with those of the audit committee;
- how materiality will be determined for the purpose of the audit (and the planned levels of materiality);
- the methods intended to detect material errors and fraud, as well as instances of non-compliance and internal control deficiencies;
- If the Company has undertaken corporate activity (eg, M&A) how will this impact the audit timeline and procedures?
- how key areas of judgement and estimation will be addressed;
- how and to what extent the audit team plans to involve the internal audit function;
- the types of technologies that will be leveraged and where; and
- any potential problems the auditors are anticipating, such as changes to accounting standards.

REPORTING

Audit findings report

Examples of matters that may be communicated in an audit findings report include:

- views about the qualitative aspects of a company's accounting practices, such as estimates and narrative disclosures, including any disagreements with management;
- significant difficulties encountered during the audit;
- how materiality was determined and applied during the audit process;
- adjustments arising from audit work that could materially impact the financial statements;
- significant deficiencies in the internal control system and whether management has taken steps to address them; and
- circumstances that may affect the auditor's report, or opinion therein.

Closing meeting

Towards the end of the audit process, auditors present their preliminary audit findings and conclusions to management and the audit committee in a closing meeting. Potential talking points include:

- reasons for any changes to the audit scope and plan;
- reasons for any overruns charged by the auditor for unexpected additional work. Mid-audit changes to scope can cause overruns, as well as information that is not received on time or is incomplete;
- comparisons of this year's audit findings to prior-year findings, including any management letter points that have been carried forward;
- recommendations for any internal control deficiencies identified;
- how comfort was gained over the reasonableness of significant accounting estimates and judgements;
- any indications of fraud or non-compliance with laws and regulations;
- the appropriateness of the going concern basis of accounting;
- any modifications to the auditor's report;
- responses given by management to proposed adjustments and concerns with internal controls;
- any disagreements with management over accounting treatments;
- how any contentious issues were resolved; and
- management responsiveness - was all information requested provided and on a timely basis?

EVALUATION

The auditor's effectiveness and independence may be appraised before, during and after the audit process.

It's important that audit committees reach out to everyone involved in the audit process to form a complete picture.

Key questions for staff members involved in the audit

- Are/were the auditors well prepared? Do/did they understand our business?
- Are the auditors following the plan as agreed? Or did they follow the plan?
- Are/were there issues that arose? Are/were they dealt with rapidly and effectively?
- Do/did you feel that any areas are being/were missed or over audited?
- Is/was there good project management? Are/were things progressing efficiently?
- Do/did you have any suggestions for improvements going forward?

Further questions audit committees may wish to consider in making their appraisal include:

Effectiveness

- Does/did the audit team demonstrate a solid and up-to-date understanding of the business and its risks?
- Does/did the audit team place appropriate focus on key areas of judgement and estimation?
- What recommendations are being/were made for improvements to internal controls and other areas, and are/were they useful?
- To what extent do/did the audit team leverage technology?
- Are/were auditor experts engaged where appropriate?
- What are/were interactions with the internal audit function like?
- If any significant difficulties are being/were encountered, are/were these communicated promptly? Are/were there any late surprises or changes in view?
- Do/did the audit team robustly challenge management? Is/was there evidence that they are/were being unduly influenced?
- Does/did the audit team appear to be appropriately resourced?
- Are/were the auditor's report ([Appendix 2](#)) and/or audit findings report of sufficient quality?
- How have the audit committee's previous concerns about the quality of the audit been addressed, or how are they currently being addressed?

Independence

- What are the audit firm's policies and procedures for identifying, evaluating and addressing independence threats?
- Have the auditors discussed and disclosed in writing all relationships that might impair the audit firm's independence and objectivity?
- Does the audit team complete relevant ethics and independence training on a regular basis?
- Where non-audit services are/have been provided, do/did these comply with statutory and ethical pronouncements and the company's own policy?
- Where any permitted non-audit services are being/were performed, are/were agreed safeguards properly applied?

APPENDIX 2 – LEGISLATION (NON-EXHAUSTIVE) DIRECTORS, BOARDS AND COMPANIES

Legislation	What is required?	Applicability
The Companies Act 2006 (CA 06)	These include requirements for directors to act with reasonable skill, care and diligence, avoid conflicts of interest, promote the success of the company in the interests of various stakeholders, and declare interests in transactions. It also covers <ul style="list-style-type: none"> • penalties; • the appointment, resignation and removal of directors; and • requirements relating to company administrative arrangements, such as AGMs and other meetings and the preparation and audit of financial statements. 	Applies to all UK directors, with additional measures for directors of public and quoted companies, and is the main source of legally enforceable directors' duties.
The Companies Act 2006 (CA 06) Section 172	Sets out the duties of directors, requiring them to promote the success of the company for the benefit of its members as a whole (typically shareholders). It requires boards to have regard to the long-term impact of its decisions, including; <ul style="list-style-type: none"> • the interests of employees, suppliers, customers and others; • the company's reputation; and the • impact of operations on the community and the environment. The company's published Strategic Report must contain a statement describing how the board has complied with section 172.	Applies to all UK directors, with additional measures for directors of public and quoted companies and is the main source of legally enforceable directors' duties.
FRC's UK Corporate Governance Code 2024 (The UK Code)	Boards must apply 18 principles or explain why they haven't. Topics include leadership, appointments, audit, risk and remuneration.	Applies to all companies within the commercial category (equity shares) and those within the closed-ended investment funds category, as defined by the updated FCA's listing rules, regardless of where they are incorporated.
FRC Guidance on Board Effectiveness	Guidance on application of the UK Code.	
FRC's Audit Committees and the External Audit: Minimum Standard	Focuses on auditor independence, oversight and tendering.	FTSE 350

Legislation	What is required?	Applicability
Financial Conduct Authority's (FCA) Listing and Disclosure Guidance and Transparency Rules (FCA DT Rules)	Provide the regulatory framework for companies listed on UK stock exchanges, ensuring they meet certain standards for transparency and disclose relevant information to the public. These rules are intended to promote fairness, protect investors and ensure that market participants have access to timely, accurate and comparable information.	
Quoted Companies Alliance Corporate Governance Code (QCA Code)	Aimed at helping smaller or growing companies. The London Stock Exchange allows AIM-listed companies to choose whether to adopt this code or the main UK Code.	Small/growing companies

EXTERNAL AUDITORS

Standards	Issuing Body	What is required?	Effective date
International Standards on Auditing (ISAs)	International Auditing and Assurance Standards Board (IAASB)	The ISAs cover a comprehensive range of areas, from the planning and execution of the audit to the evaluation of evidence and the communication of findings. They emphasise risk assessment, audit quality and ethics, ensuring that auditors provide transparent, high-quality audits in compliance with regulatory and professional standards.	Each ISA will have its own revisions and effective date.
International Standards on Auditing (ISAs) (UK)	FRC	FRC adoption of international ISAs with UK applicability.	Each ISA will have its own revisions and effective date.
Revised Ethical Standard 2024	FRC	Sets out overarching ethical principles that an auditor must uphold to maintain the trust and confidence users place in their audit opinion.	Published on 15 January 2024 and effective from 15 December 2024

Standards	Issuing Body	What is required?	Effective date
The International Standards on Quality Management (ISQMs) (UK)	FRC	FRC adoption of international ISQM's with UK applicability.	Effective 1 December 2022 (for audits and reviews of financial statements)
The International Standards on Quality Management (ISQMs)	IAASB	Deal with an audit firm's responsibilities to design, implement and operate a system of quality management for audits. ISQM 1 - Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Service ISQM 2 - Engagement Quality Reviews	Effective 1 December 2022 (for audits and reviews of financial statements)

APPENDIX 3 – THE AUDITOR’S REPORT – KEY SECTIONS AND THEIR SIGNIFICANCE

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF X PLC

Opinion on the financial statements

This section contains the auditor’s opinion on whether the financial statements provide a ‘true and fair’ view. If the auditor concludes that a ‘true and fair’ view is provided, the opinion will be unmodified or clean. If not, the opinion will be modified.

Basis for opinion

If the opinion is modified, this is where the auditor explains the particulars of why. A modified opinion may arise where the financial statements are materially misstated, where there is disagreement over a particular matter or where the auditor has not been able to gather sufficient evidence. There are also several subsets of modified opinion. Please see [Understanding audit reports](#), for further guidance.

Conclusions relating to going concern

Here the auditor presents their conclusion on the directors’ use of the going concern basis of accounting and the procedures undertaken to reach this conclusion.

Key audit matters (applicable only to long form audit reports)

This section describes matters that were of most significance during the audit in the auditor’s professional judgement. The auditor explains why each matter selected is considered significant and how they were addressed in the audit.

Our application of materiality

Here the auditor discloses and explains the application of the materiality levels employed during the audit.

Other information

This section makes clear that the audit does not cover any annual report area other than the financial statements and the auditor’s report.

Other Companies Act 2006 reporting

The auditor is required to confirm whether the directors’ and strategic reports are consistent with the financial statements and comply with legal requirements. Auditors of listed companies are also required to report on their review of the corporate governance statement and directors’ remuneration report.

Responsibilities of directors

This section reiterates that the directors are responsible for the preparation of the financial statements that are free from material misstatement.

Auditor’s responsibilities for the audit of the financial statements

Here the auditor explains their responsibilities for the audit.

Use of our report

This section emphasises that the auditors are reporting and responsible to the members (shareholders) alone.

Jane Bloggs (Senior Statutory Auditor)
For and on behalf of XYZ LLP

APPENDIX 4 – TYPES OF AUDIT OPINION

Unmodified opinion (clean opinion)

- **What it means:** this is the most favourable opinion an auditor can issue. It means that the auditor has reviewed the company's financial statements and concluded that they present a 'true and fair' view of the company's financial position in accordance with the relevant accounting framework (eg, IFRS or UK GAAP).
- **When it's issued:** the auditor issues an unmodified opinion when there are no significant issues or misstatements in the financial statements, and all relevant accounting standards and regulations have been followed.

Qualified opinion

- **What it means:** a qualified opinion is issued when the auditor finds that the financial statements are mostly accurate, but there is one or more areas where they disagree with the treatment of certain transactions or balances, or there are limitations on the scope of their audit.
- **When it's issued:** The auditor issues a qualified opinion if there is a:
 - **scope limitation:** the auditor was unable to gather sufficient evidence to perform a full audit (eg, due to restricted access to financial records); or
 - **disagreement:** the auditor disagrees with the company's accounting treatment or disclosures in certain areas, but the impact isn't pervasive enough to affect the entire financial statement.
- **Example:** 'In our opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements present a 'true and fair' view.'

Adverse opinion

- **What it means:** this is a very serious opinion indicating that the financial statements do not present a 'true and fair' view of the company's financial position and do not comply with the applicable accounting framework.
- **When it's issued:** an adverse opinion is issued when the auditor identifies significant misstatements or departures from the accounting standards, and those misstatements are so pervasive that the financial statements cannot be relied upon.
- **Example:** 'In our opinion, because of the significance of the matters described in the basis for adverse opinion paragraph, the financial statements do not present a 'true and fair' view.'

Disclaimer of opinion

- **What it means:** a disclaimer of opinion means that the auditor is unable to form an opinion on the financial statements. This is the least favourable opinion and indicates that the audit was unable to proceed due to limitations beyond the auditor's control.
- **When it's issued:** a disclaimer is issued when:
 - there is a significant scope limitation (eg, the auditor could not gather sufficient appropriate audit evidence or was unable to obtain access to key information);
 - the audit was incomplete or there were material uncertainties that made it impossible for the auditor to draw a conclusion about the financial statements.
- **Example:** 'Because of the significance of the matter described in the basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.'

Emphasis of matter

- **What it means:** an emphasis of matter is not an opinion but rather a highlight by the auditor on a specific issue in the financial statements that they consider important for the users' understanding. The financial statements themselves are otherwise correct.
- **When it's issued:** the auditor uses this to draw attention to a specific matter, such as:
 - a significant **uncertainty** (eg, potential legal or regulatory issues);
 - an **exceptional event** (eg, a going concern issue or a change in accounting policy); or
 - an **important disclosure** that needs emphasis.
- **Example:** 'We draw attention to Note X of the financial statements, which describes the uncertainty regarding the company's ability to continue as a going concern.'

Note: The emphasis of matter does not change the overall audit opinion, it just highlights a particular aspect of the financial statements that the auditor believes is significant for users. An emphasis of matter should not be used in place of a modified opinion, if modification is the correct course of action.

APPENDIX 5 – SUSTAINABILITY REPORTING REQUIREMENTS

Standard	Disclosure	What is required?	Applicable companies	Effective date
Companies Act 2006/Section 172	Strategic Report	S.172 statement required as part of the Strategic Report. In the Statement, directors must explain how the directors have complied with their duty to promote the success of the company for the benefit of its members as a whole, with regard to a number of factors including the impact of the company's operations on the community and the environment.	All UK companies that are required to provide a strategic report, except for those who qualify for the medium-sized companies' regime	2006
Companies Act 2006/Section 414C	Strategic Report	Information about environmental factors, social and human rights issues, and employees as well as a breakdown by gender of directors and employees must be included in the Strategic Report.	UK quoted companies	2013
Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022	Strategic Report	Incorporates Task Force on Climate-related Financial Disclosures (TCFD) aligned climate disclosure requirements under the non-financial and sustainability information statement in the Strategic Report.	Publicly quoted companies (among others)	2022
Financial Conduct Authority (FCA)/ Listing rule LR 9.8.6R (8) and LR 14.3.27R		Requirement to include a statement confirming climate-related disclosures are consistent with TCFD recommendations.	Comply or explain basis. Applies to all companies within the commercial category (equity shares) as defined by the updated FCA's listing rules, regardless of where they are incorporated.	2021
Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2019/ Streamlined Energy & Carbon Reporting (SECR)	Directors' Report	UK energy use and carbon emissions are required as part of the Directors' Report. Carbon emissions are either scope 1 (direct), scope 2 (indirect) or scope 3 (other direct).	UK large companies, quoted companies, and large LLPs	2019

Standard	Disclosure	What is required?	Applicable companies	Effective date
International Sustainability Standards Board (ISSB)/ Sustainability Standards (IFRS S1 and S2)	Annual report	Requires companies to report on sustainability-related risks and opportunities. IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information IFRS S2: Climate-related Disclosures It's aligned with the TCFD recommendations and requires disclosure of carbon emissions (SECR above).	Likely mandate for UK listed companies. Voluntary use otherwise.	Likely to be adopted in the UK with clarity expected Q1 2026
EU's Corporate Sustainability Reporting Directive (CSRD)/European Sustainability Reporting Standards (ESRS)	Annual report	For in-scope companies, ESRS provide detailed guidelines on how companies should report on sustainability, including environmental, social, and governance (ESG) factors. At the time of writing, the European Commission has committed to simplifying ESRS and improving their consistency with other legislation.	Currently under review. A significant reduction in scope is proposed, which will see the definition of large companies being amended to companies that have more than 1,000 employees (from 250 employees) and either a turnover above €50m or a statement of financial position total above €25m. Large UK companies listed in the EU - 2025 Other large companies with operations in EU - 2028 Small and medium-sized UK companies listed in the EU - 2029 UK companies with significant activities in the EU - 2029	2025-2029
Modern Slavery Act section 54	Website	Requires companies to publish a modern slavery statement on their website describing steps taken to address modern slavery risks in the business and its supply chain.	Companies carrying on supply of goods or services in UK with turnover ≥ £36m	2015
Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017)	Website	Requires employers to publish average gender pay gap results annually.	UK Employers with >250 employees	2017

APPENDIX 6 – INTERVIEWEES



Mary Reilly

Mary was a partner at Deloitte for over 25 years specialising in manufacturing, luxury retail and business services. She is the audit committee chair of MITIE plc, Essentra plc, Mar Holdco S.a.r.l, and Gemfields Group Limited.



Mike McKeon

Mike is currently audit committee chair of Point Park Properties (P3) SARL and held a similar position at Mobico plc until June 2024. He served 15 years as a public company CFO and was ICAS President from 2019-2020



Andy Kemp

Andy spent over 38 years serving PwC's FTSE100 audit clients and undertook extensive listings and transactions work during his career at the firm. He is now the audit committee chair of The Berkeley Group Holdings plc and Irwin Mitchell Holdings Limited. He also chairs the Audit Committee Chairs' Independent Forum (ACCIF), which speaks on behalf of audit committee chairs of FTSE 100 and FTSE 250 companies.



Mark Flanagan

Mark is an audit partner at KPMG. He leads the audits of FTSE 350 PLCs and other listed companies and their components. Mark has previously led KPMG's Corporates, Listed and Regulated Audit practice in the Midlands and was a board member of KPMG Gibraltar.



Malcolm McCaig

Malcolm has extensive experience as both executive and non-executive director in the financial services sector, having worked with organisations such as QBE, Ageas and Unum Prudential. He is currently audit committee chair of Tandem Bank.



Graeme Dacomb

Graeme was partner at EY for 26 years specialising in the extractive industry. He is currently audit committee chair of Ecora Resources plc and Capital Limited and has served the position at Ferrexpo plc.



Andrew Eastgate

Andrew was chair of the board of Epwin Group plc from 2014 until 2024 and senior independent director and chair of the remuneration and nomination committees of Castings plc until August 2025. Previously, he was a non-executive director of Headlam Group plc. Andrew is a solicitor by background and was previously head of Pinsents' corporate practice in Birmingham.

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