



# ***Looking ahead – hot topics and tips for 2026 audits***

17 November 2025

Peter Herbert

# *Ask a question*



The screenshot shows a Q&A interface. At the top, it says 'Q&A'. Below that, it shows a question: 'You asked: What happens when I raise my hand?' with a timestamp of '18:03'. Below the question, it shows an answer: 'Molly Parker answered: I can take you off of mute.' with a timestamp of '18:04'. Below the answer, there is a large text input field with the placeholder text 'Please input your question'. At the bottom left of the input field, there is a checkbox labeled 'Send Anonymously'. At the bottom right of the input field, there is a blue button labeled 'Send'.

## To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type your question and click send

NOTE: If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration.



# Did you know?

ICAEW's revised Continuing Professional Development (CPD) Regulations brought in new CPD requirements, including a minimum number of hours and an ethics requirement.

This webinar could contribute to up to 1.5 hours of verifiable CPD, so long as you can demonstrate that the content is relevant to your role.

Find out more about how these changes affect you at [icaew.com/cpdchanges](https://www.icaew.com/cpdchanges).



## ***Today's presenter***



Peter Herbert  
Director  
Insight Training

# ***Contents***

New size limits – practical considerations

What's new – and in the pipeline?

ISA (UK) 600 – 12 months on

Ethics hot topics

ICAEW Audit Monitoring

ISQM (UK) 1 – practical tips for smaller firms

Q&A

# *New size limits – practical considerations*

## ***New Size Thresholds - Companies***

	Micro	Small	Medium
Old thresholds	Turnover ≤£632k Gross assets ≤£316k Employee numbers ≤10	Turnover ≤£10.2m Gross assets ≤£5.1m Employee numbers ≤50	Turnover ≤£36.0m Gross assets ≤£18.0m Employee numbers ≤250
New thresholds (from p/c 6 April 2025)	<b>Turnover ≤£1.0m</b> <b>Gross assets ≤£0.5m</b> Employee numbers ≤10	<b>Turnover ≤£15.0m</b> <b>Gross assets ≤£7.5m</b> Employee numbers ≤50	<b>Turnover ≤£54.0m</b> <b>Gross assets ≤£27.0m</b> Employee numbers ≤250

<https://www.legislation.gov.uk/uksi/2024/1303/contents/made>

## Scenario

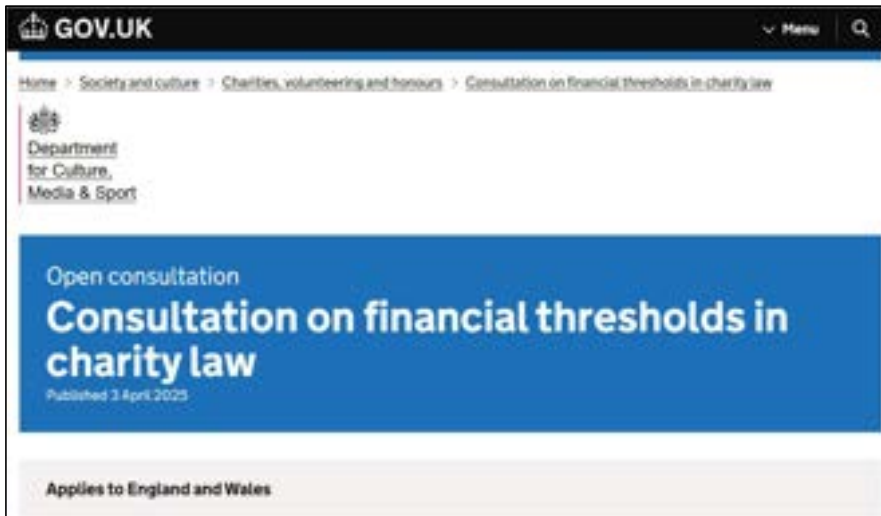
A Ltd incorporates on 1 January 2022. Results for its five periods ending on 31 December:

	2022	2023	2024	2025	2026
Turnover	£8.5m	£9.0m	£11.0m	£12.2m	<b>£13.5M</b>
BS total	£4.0m	£6.5m	£6.4m	£6.6m	<b>£7.0M</b>
Employees	40	45	46	47	<b>49</b>

Is A Ltd eligible to apply small company accounting exemptions and audit exemption for 31 December 2026?



## ***Don't forget charities!***



Proposed 'primary' threshold: income > £1.5M

Proposed 'secondary' threshold: income > £500K but ≤ £1.5M; BS total > £5M

Periods ending 30 September 2026

Legislation still required

[Consultation on financial thresholds in charity law: government response - GOV.UK](#)



*What's new – and in the pipeline?*

# ***ISA (UK) 505 revision***



Effective for p/c 15  
December 2024

## **UK departure from international standard**

- Use of negative confirmations prohibited
- Specific reference to confirmation by electronic or other medium
- Consider relevant audit assertion(s) when seeking confirmations
- Carefully consider reasons for differences between client information and 3<sup>rd</sup> party confirmations

## ***What the bank letter tells us***

**Accounts  
which are  
open**

**Accounts  
which have  
been closed**

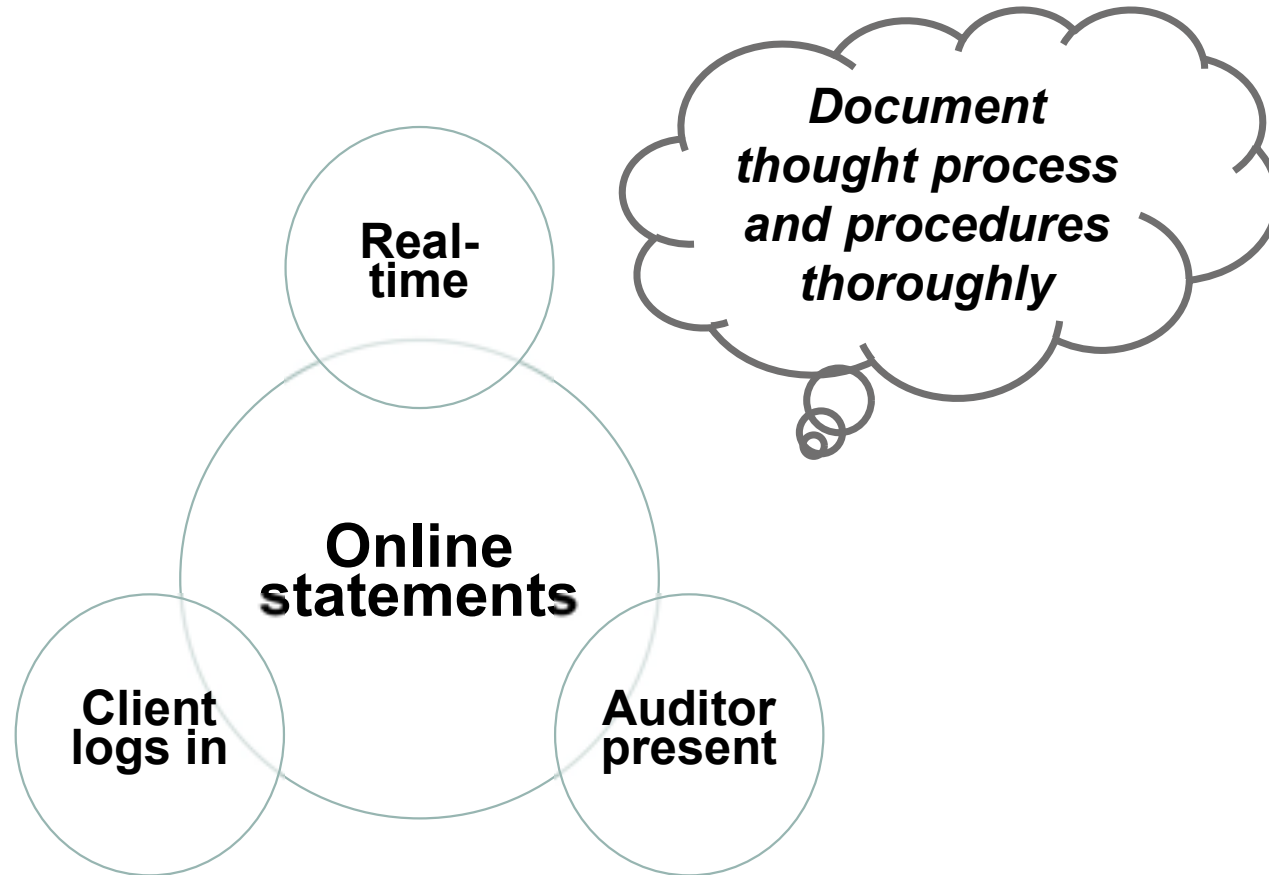
**Facilities -  
how much can  
the client  
borrow?**

**Securities**

**Any other  
relevant  
information**

***Risk-based approach – What  
assertions? How complex is  
financing?***

***Is this an alternative?***



## ***Hot topic for charity auditors***



Pooled banking platform

No direct relationship with charity

Direct confirmation may not therefore be available

# ***Practice Note Exposure Draft***



Part of larger FRC SME campaign

NOT an alternative to familiarity with ISAs (UK)

No definition of 'small' or 'less complex' – professional judgement required

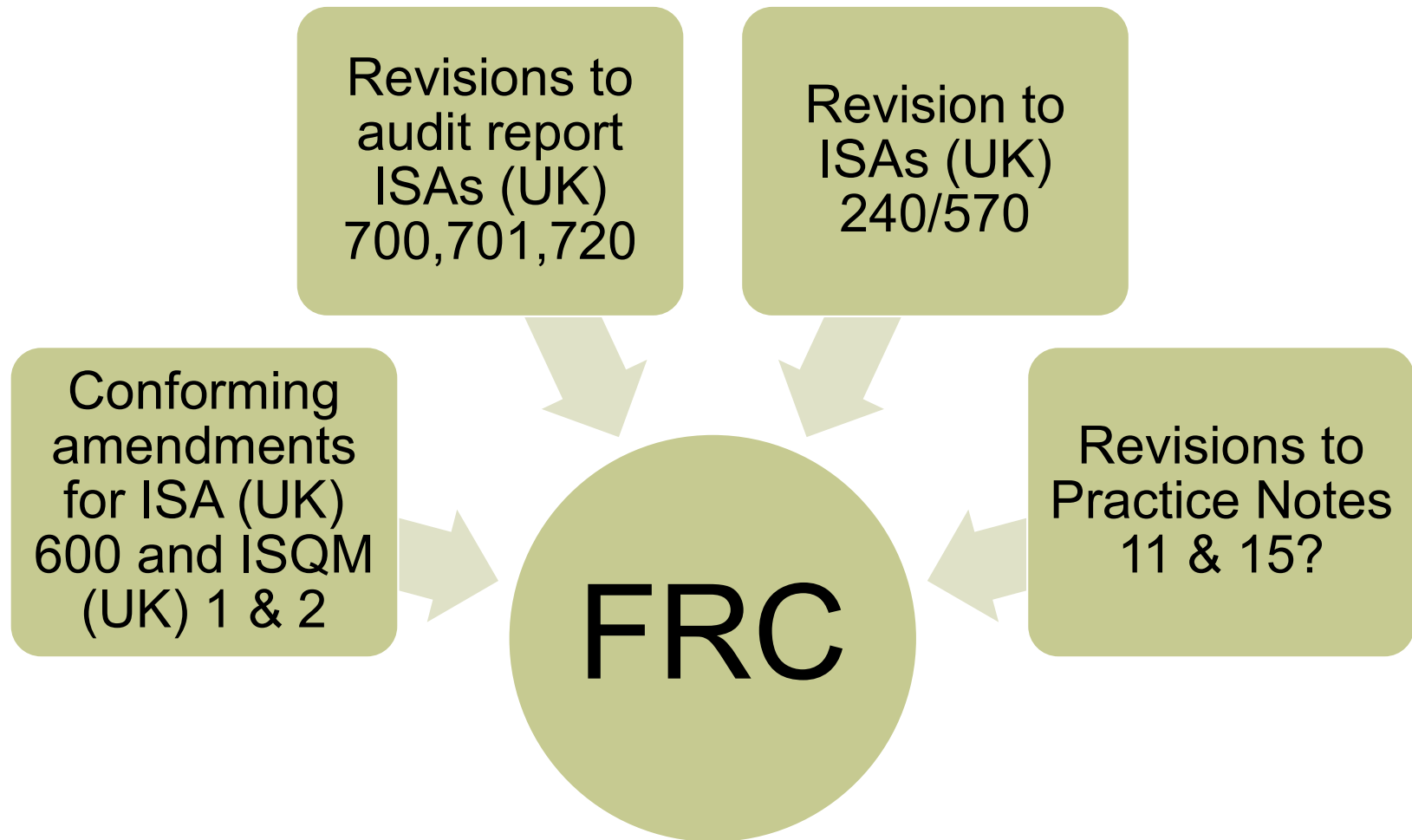
Existence of individual complex areas does not preclude use of the guidance

Appendix of example working papers

Consultation closed October 2025 - and final PN expected January 2026

[https://media.frc.org.uk/documents/Guidance\\_for\\_audits\\_of\\_smaller\\_and\\_or\\_less\\_complex\\_entities\\_Practice\\_Note\\_exposure\\_draft.pdf](https://media.frc.org.uk/documents/Guidance_for_audits_of_smaller_and_or_less_complex_entities_Practice_Note_exposure_draft.pdf)

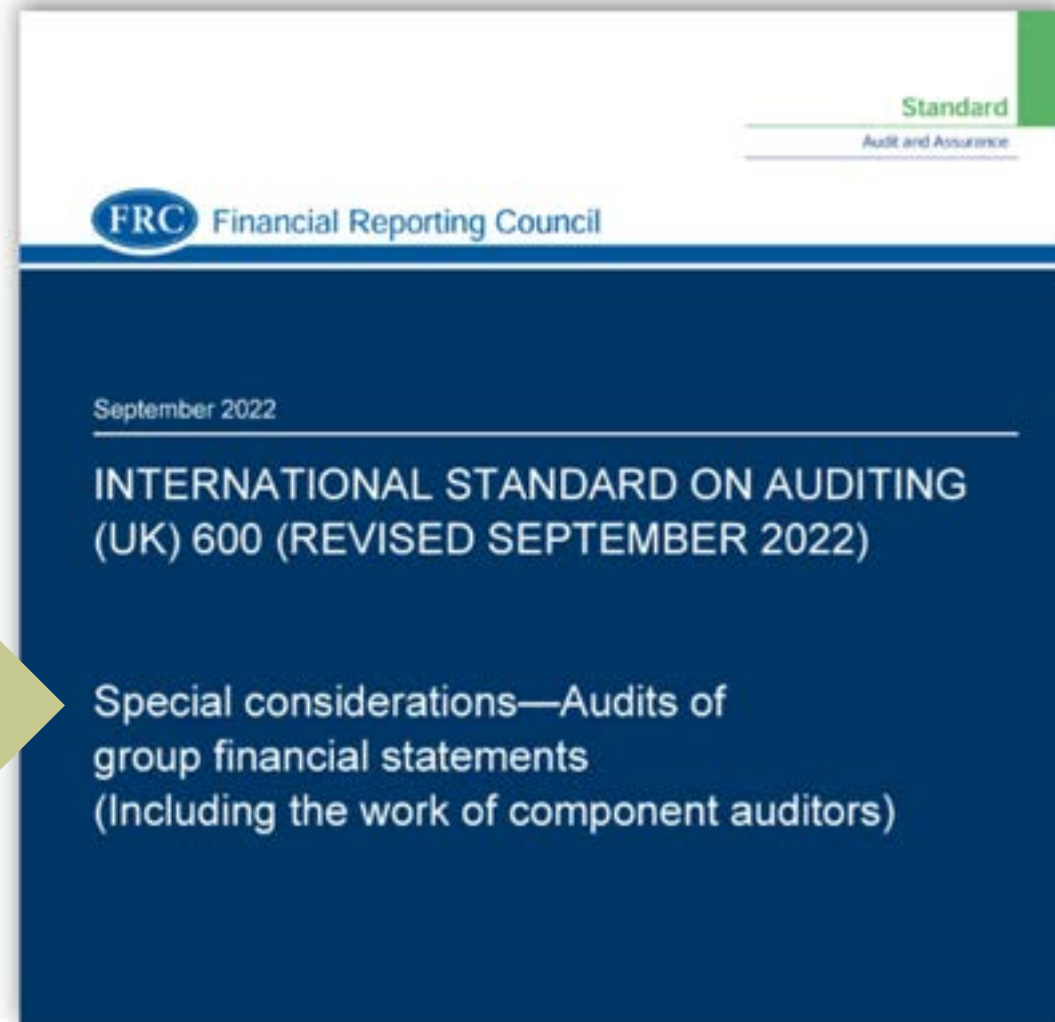
## ***Horizon scanning***



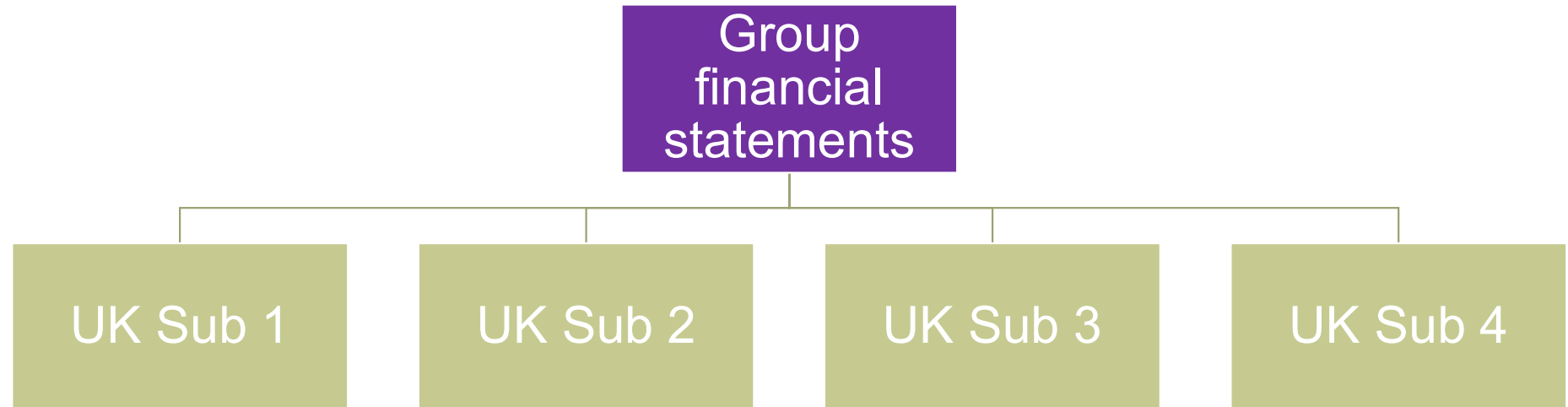


# *ISA (UK) 600 revised – 12 months on*

## ***The revised standard***



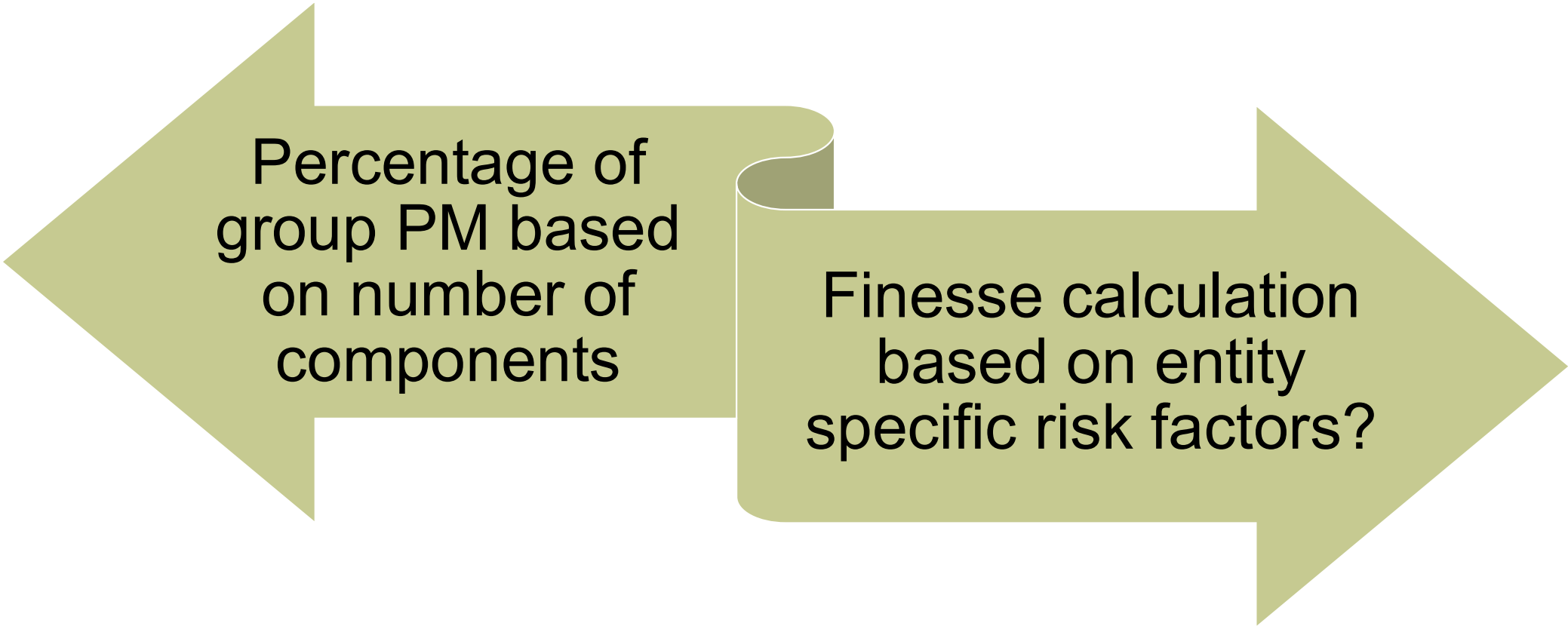
## ***Scenario***



## ***Key steps***

- 1 Understand group structure
- 2 Determine components (by entity, by business unit, by function etc)
- 3 Determine misstatement risks – and responses
- 4 Compute group materiality, group performance materiality and component performance materiality
- 5 Brief team
- 6 Conduct audit
- 7 Review fieldwork – including component auditors
- 8 Conclude and sign off

## ***Component performance materiality***

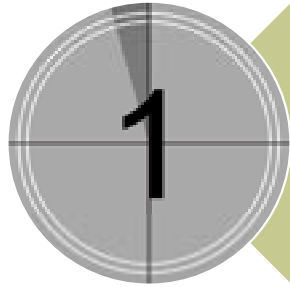


Percentage of  
group PM based  
on number of  
components

The diagram consists of two olive-green arrows pointing in opposite directions. The left arrow points left and contains the text 'Percentage of group PM based on number of components'. The right arrow points right and contains the text 'Finesse calculation based on entity specific risk factors?'. The two arrows are positioned such that they appear to be part of a single, larger shape, with a small gap between them.

Finesse calculation  
based on entity  
specific risk factors?

## FAQs



How do we balance audit efficiency and effectiveness by avoiding excessive duplication on individual files, especially given that the parent company is simply a holding company?



Where a UK subsidiary is subject to a separate statutory audit, will component performance materiality reflect statutory audit performance materiality?



Are there any particular ethical issues that arise in respect of the consolidation and how can these be resolved?



# *Ethics hot topics*

# ***FRC Ethical Standard***



<https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/ethical-standard-for-auditors/>

## **Part A**

Overarching principles

Supporting ethical provisions

## **Part B**

Section 1: General Requirements and Guidance

Section 2: Financial, Business, Employment and Personal Relationships

Section 3: Long Association with Engagements and with Entities Relevant to Engagements

Section 4: Fees, Remuneration and Evaluation Policies, Gifts and Hospitality, Litigation

Section 5: Non-audit / Additional Services

Section 6: Provisions Available for Audits of Small Entities (PAASE)



## ***Discussion example***



Your firm maintains the accounting records for a small property group on excel, based on information provided by the client. This information is then used to produce financial statements which your firm audits. Is that ok?

## ***What the Standard says ...***

The firm shall not design, provide or implement information technology systems for an entity relevant to an engagement where:

- (a) the systems concerned would be important to any significant part of the accounting or financial management system or to the production of the financial statements audited by the firm, or of other subject matter information or subject matter of the engagement in the case of another public interest assurance engagement, and the persons conducting the engagement would place significant reliance upon them as part of the engagement; or
- (b) where the firm is undertaking an engagement, for the purposes of the information technology services, the firm would undertake part of the role of management.

FRC Ethical Standard para 5.52

## ***IT-related services***

Examples of services provided to an entity relevant to an engagement which create threats to the integrity, objectivity and independence of the firm and covered persons include:

- Storing or managing the hosting of data on behalf of an entity relevant to an engagement. Such services include:
  - Acting as the only access to financial or non-financial information system of such an entity.
  - Taking custody of or storing the entity's data or records such that the entity's data or records are otherwise incomplete
  - Providing electronic security or back-up services, such as business continuity or disaster recovery functions, for the entity's data or records.
  - Operating, maintaining, or monitoring such an entity's IT systems, network or website.



# *ICAEW Audit Monitoring*

# ***ICAEW annual monitoring report 2025***



[audit-monitoring-report-2025.ashx](#)

401 visits; 790 audits

67% of files graded good or satisfactory (v 71% prior year) but riskier files selected

Significantly better outcomes from ICAEW's largest registered firms

Proactive monitoring of audit quality risks through ICAEW Audit Risk Officer

Notification needed of movement of certain audits

# ***Key considerations***



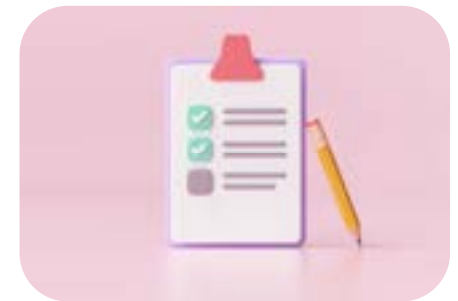
Risk assessment  
(including IT)



Fraud and error



Care re use of  
technology



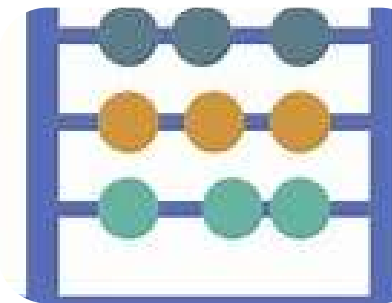
Danger of checklist  
approach for  
estimates



Reliance on service  
organisations



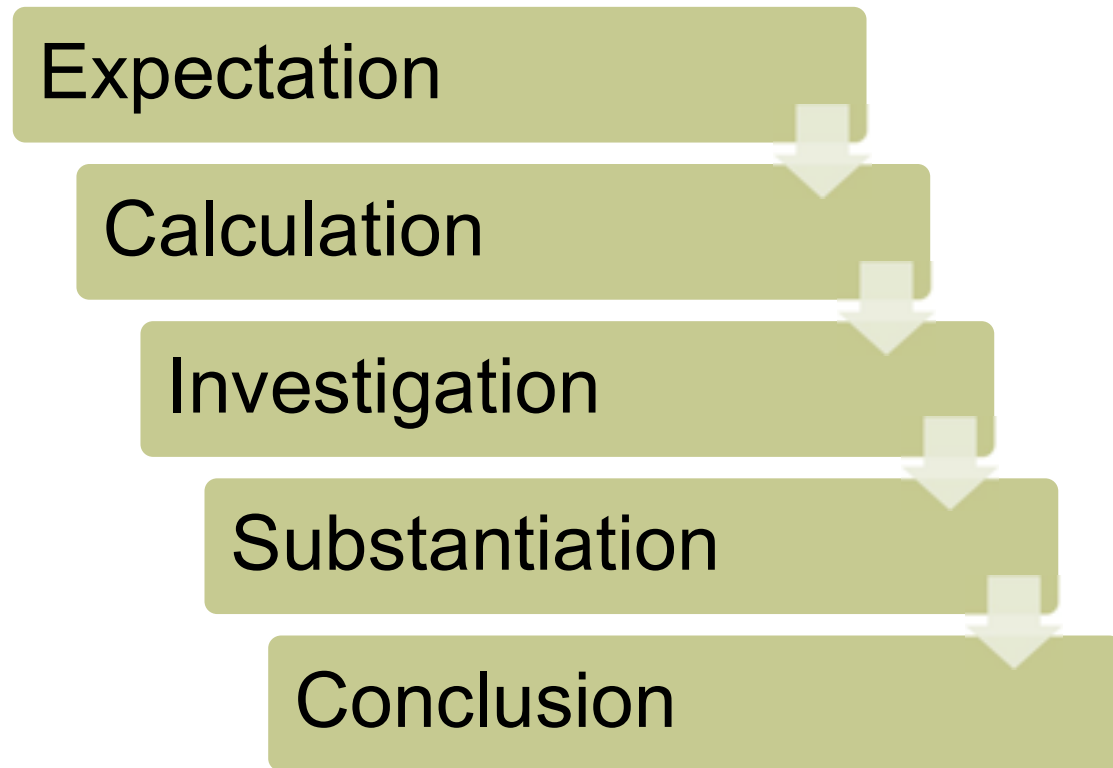
Expectation-based  
analytical review



Proper understanding  
of sampling  
methodology

## ***Substantive Analytical Procedures***

***Remember this?!***



Every

Corner

Is

Swept

Clean

## ***Sampling***

‘It was never supportable to say ‘my sample is calculated as 234 but [methodology] says I only need to pick 50’ without further explanation.’



## ***Sampling FAQs***



Are sample size caps now prohibited?



Is a sample size calculator needed when auditing sales or purchases cut-off?

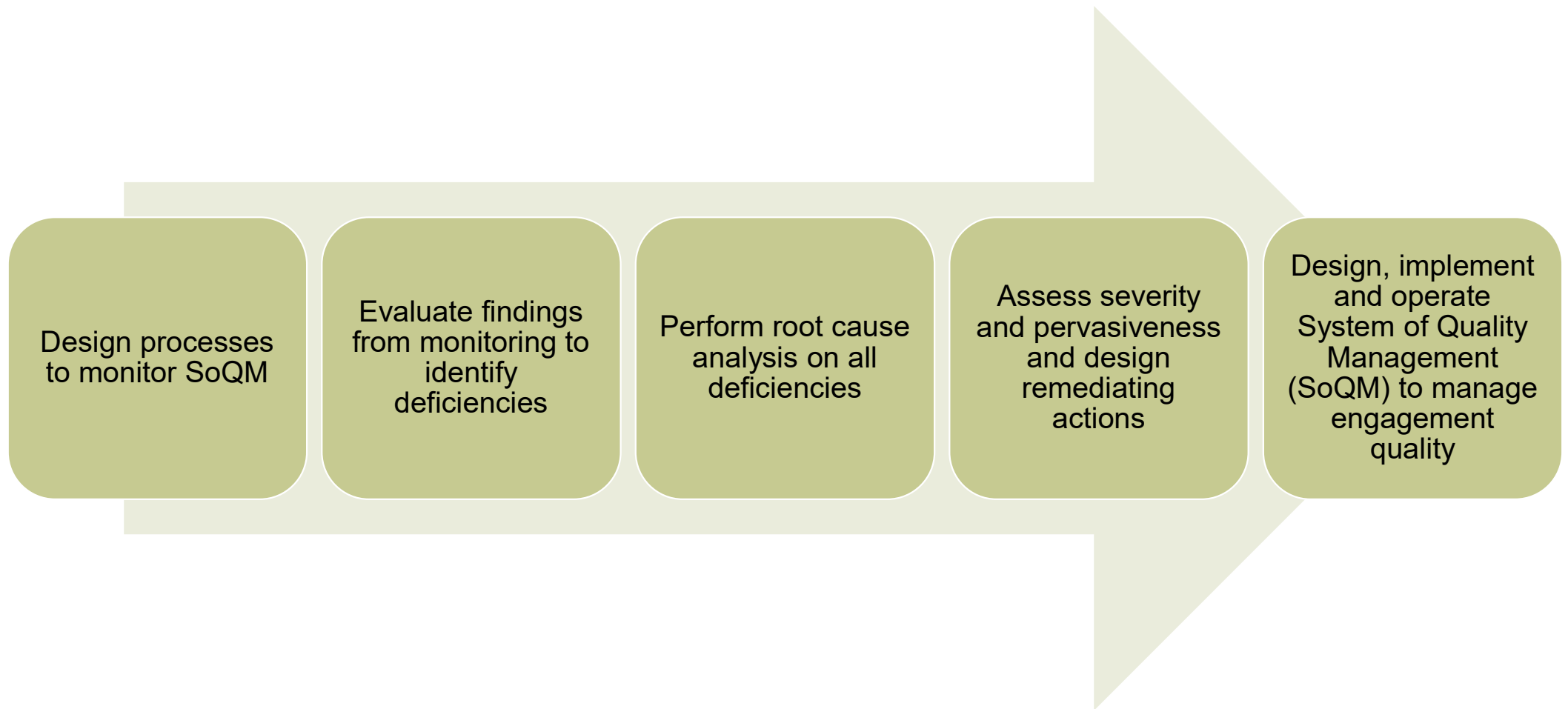


When auditing a company with a number of different income streams, we normally split the sample across the income streams depending on materiality. Is that right?

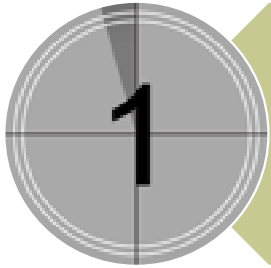


# *ISQM (UK ) 1 – Practical tips for smaller firms*

## ***Monitoring & remediation steps***



## ***Some thoughts***



Are you making the most of cold file reviews?



Are you linking cold file review findings to your SoQM properly?



Can you find simple ways of monitoring the SoQM outside of cold file reviews?



*Q&A*