



# ***Looking ahead hot topics and tips for 2025 audits***

11 November 2024

Peter Herbert



# Did you know?

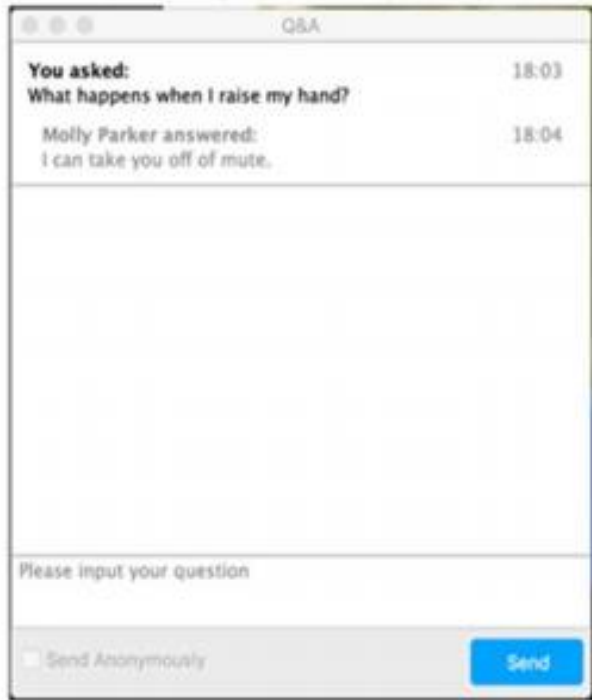
From 1 November 2023, ICAEW's revised Continuing Professional Development (CPD) Regulations brought in new CPD requirements, including a minimum number of hours and an ethics requirement.

This webinar could contribute to up to 1 hour 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).



# Ask a question



The screenshot shows a window titled 'Q&A'. It displays a history of questions and answers:

- You asked:** 18:03  
What happens when I raise my hand?
- Molly Parker answered:** 18:04  
I can take you off of mute.

Below the history is a large text input area. At the bottom, there is a label 'Please input your question', a checkbox labeled 'Send Anonymously', and a blue 'Send' button.

## 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.

# *Today's presenter*



Peter Herbert  
Director  
Insight Training

# ***Contents***

Planning for changes to company size limits

ISA (UK) 600 revised

Recap on ethical standard changes

QAD hot topics

Changes to ICAEW audit regulations

Horizon scanning

Q&A



# ***Planning for changes to company size limits***

## ***It's happening!***

	Turnover (Not more than)		Balance Sheet (Not more than)		Employees (Not more than)
	Old	New	Old	New	
Micro	£632k	£1m	£316k	£500k	10
Small	£10.2m	£15m	£5.1m	£7.5m	50
Medium	£36m	£54m	£18m	£27m	250

p/c 6 April 2025

## ***Key considerations***

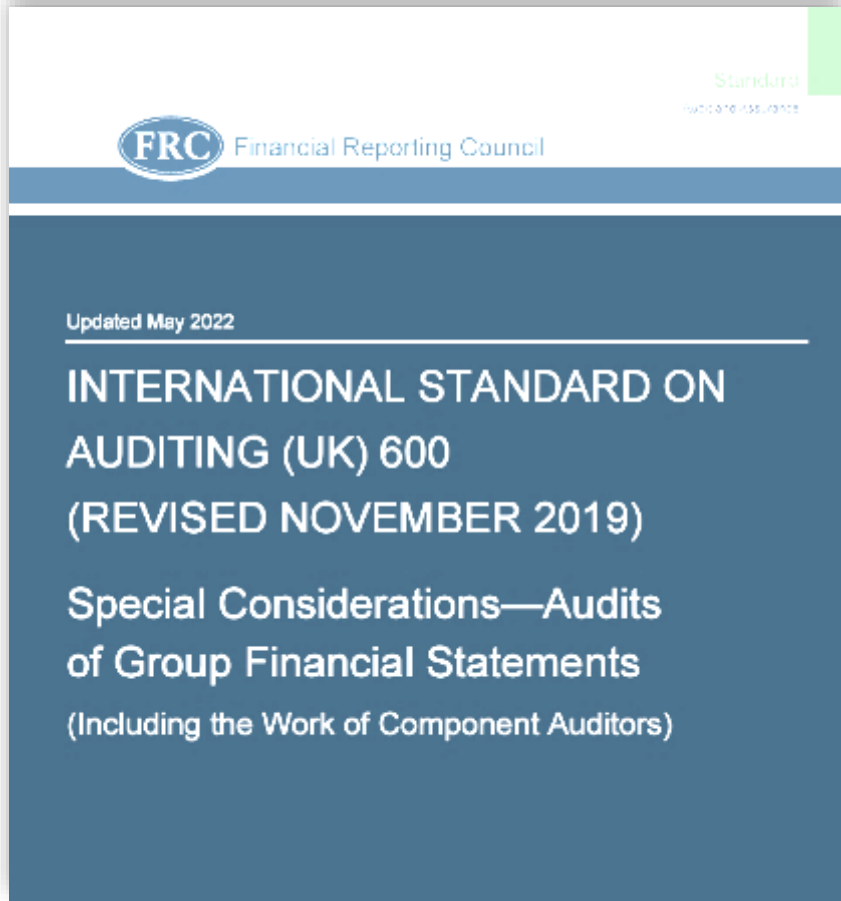
- Alignment with audit thresholds
- Application of two-year rule
- Gross/net limits
- Possible changes to charity audit thresholds
- Likely impact – and other options for assurance





# ***ISA (UK) 600 revised***

# *The revised standard*



# *Things to focus on*

Relevant where no component auditor

Proportionate approach to component auditor due diligence

FRC Ethical Standard compliance

Access to working papers issue – address early

More use of S479A?

PI/Engagement letter issues for UK component auditors?

Component materiality

# ***Component performance materiality***

**Must be lower than group PM**

**May differ by component**

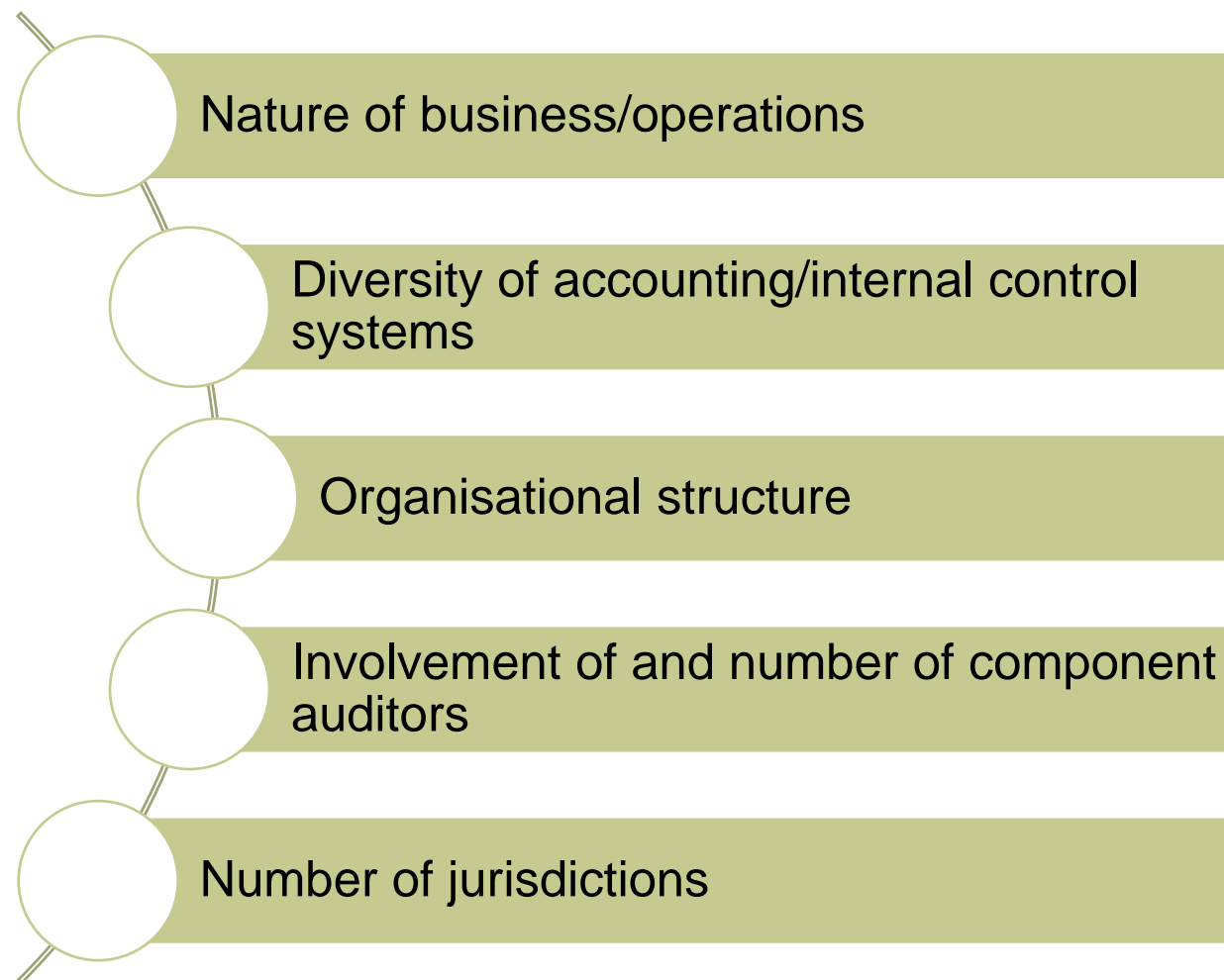
An amount set by the group auditor to reduce aggregation risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a component

**Need not be arithmetical portion of group PM**

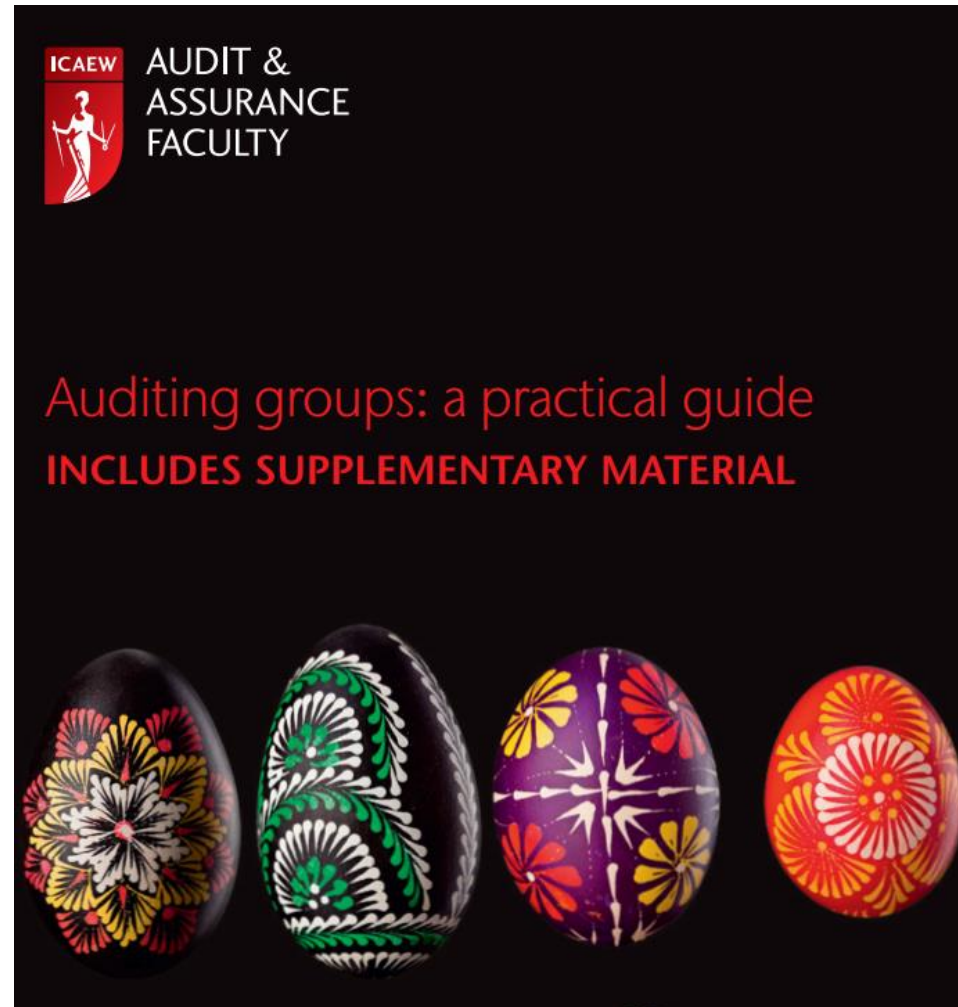
**Consider aggregation risk**

# ***Component performance materiality***

We appreciate that if a group was split between, say, 8 components, CPM would likely be set at a lower percentage of group PM than if group results came from one or two (broadly similar) components. What other factors would be relevant here?



# *ICAEW guidance*



## **Existing problem areas**

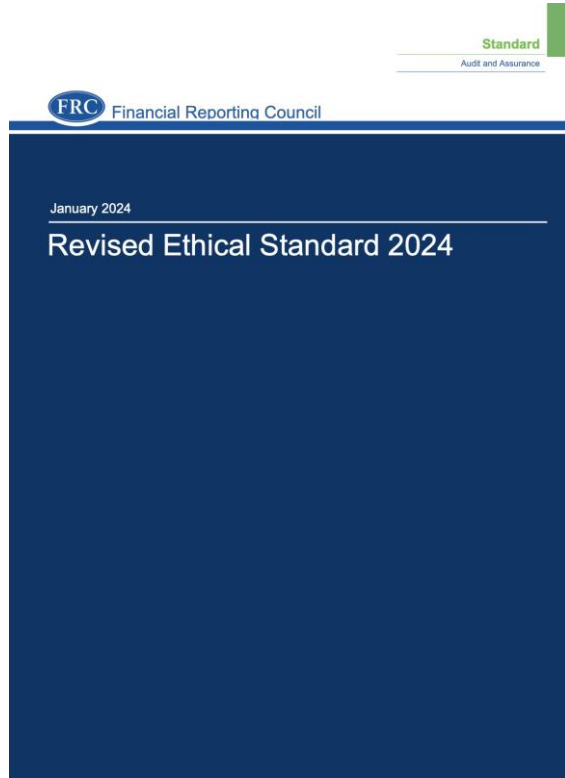
- Lack of work on simple groups
- Materiality calculations
- Failure to embrace ethical issues
- Inadequate review of component auditor working papers
- 'Significant v non-significant' components
- Inadequate work on balances in parent company



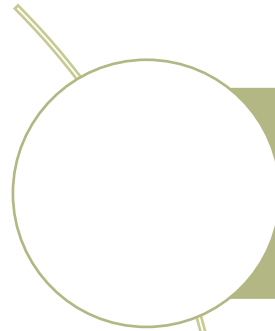
# ***Recap on ethical standard changes***



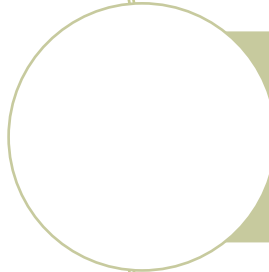
# Key changes relevant to SME audits



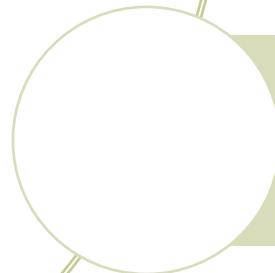
Effective 15 Dec  
2024



Common control companies relevant when considering if fee income creates a threat

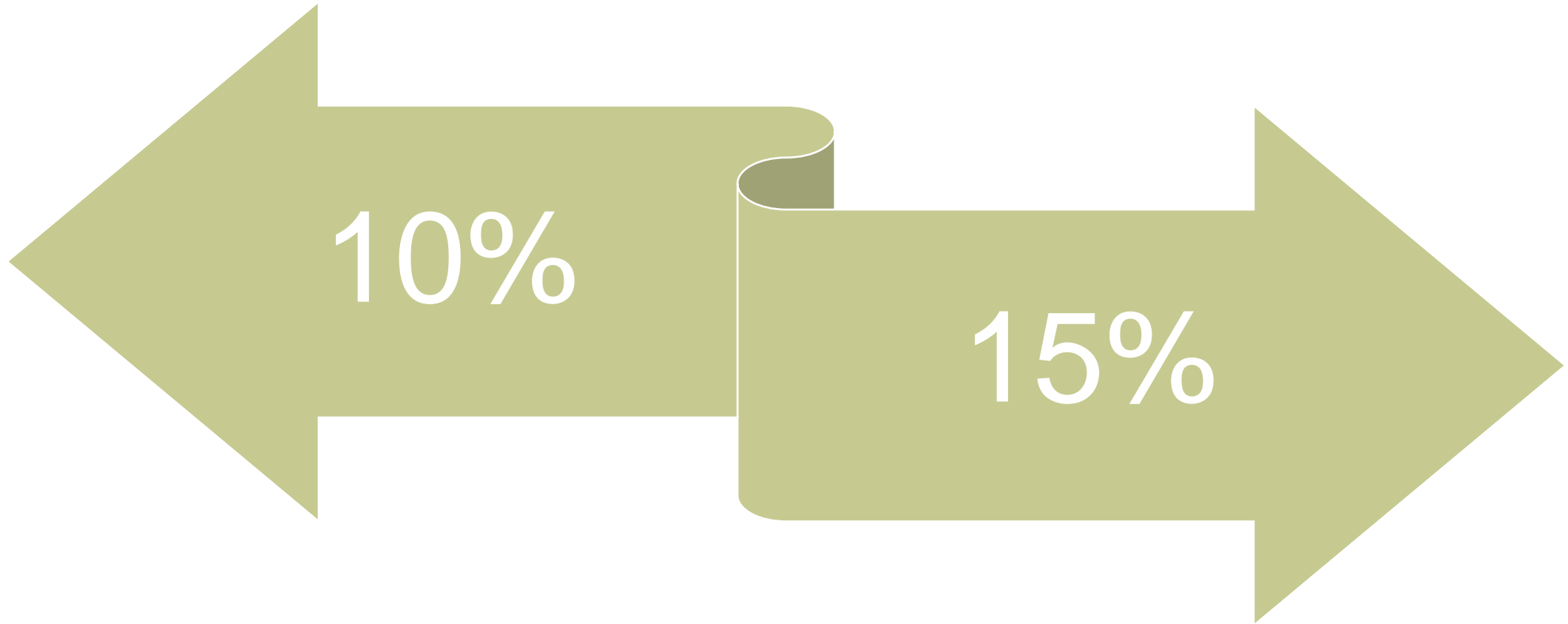


Further guidance on prohibited IT services (storing, managing and hosting data)



Tax services to individuals who are the majority owner of an unlisted entity

## ***Key dependency thresholds***



## ***Old chestnut!***



Your firm has 3 audit RIs. This year one of the RIs will be signing off on a couple of audits for the 10<sup>th</sup> year. What to do?

# ***Long association***



Safeguards needed

Is it year 10 – or year 11?!

Frequency and nature of reviews

Client communication key

Documentation



# ***QAD hot topics***

# Annual monitoring report



71% of files graded good or satisfactory (v 76% pre-pandemic) but riskier files selected

Significantly better outcomes from ICAEW's largest registered firms

Biggest improvement in Tier 2 & 3 PIE audit firms

Challenges where larger audits move to mid tier firms

Challenges created by audit market consolidation

Proactive monitoring of audit quality risks through ICAEW Audit Risk Officer

# Key considerations



Remote working challenge



Increased regulatory burden (ISAs)



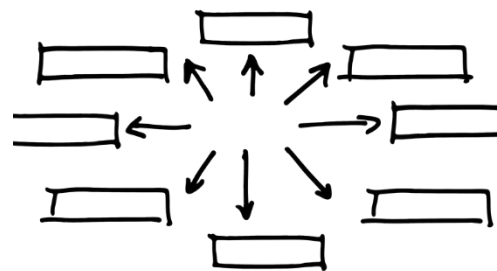
Shortage of audit staff



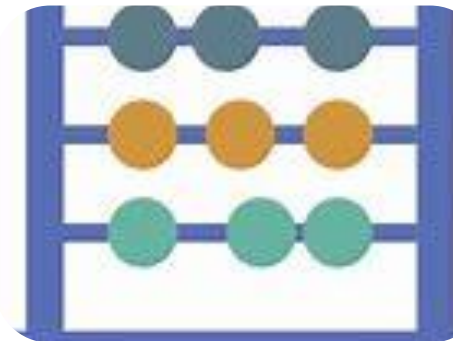
RI involvement



Estimates & judgements



Group audits



Impact of revised audit systems/methodology



Construction contracts

## ***Construction contracts***

**We audit an owner managed construction company. All contracts are recorded in a contract 'bible' maintained by the operations director. This excel spreadsheet is supported by individual contract files. It details agreed contract prices and variations, information on contract costs incurred and estimated costs to complete and related FRS 102 adjustments. What are the important audit considerations?**



# ***Audit considerations***

- Robust understanding of accounting rules
- Holistic approach?
- Talk to the right people – site visits?
- Controls over completeness and integrity of ‘information produced by the entity
- Challenge judgements/estimates – and beware of ‘confirmation bias’
- Post year end review – loss making contracts?
- Tell the story on the file

# ***ISQM 1 – key considerations***

- Having a system of quality management

SoQM

- Who?
- How?
- Involvement of third parties
- Timely

Root cause analysis

- Done at all?
- Realistic?
- Grading of SoQM (1/2/3)

Monitoring and remediation

# Forthcoming event



[View in browser](#)

Audit and Assurance Faculty

## ISQM 1 - maintaining momentum and feeling safe



**Two years on from the introduction of ISQM 1, hear how audit firms large and small have continued to embed the spirit.**

Breakout presentations and Q&As will be tailored to a range of firm size experience. Our speakers will offer insights on culture and psychological safety, share lessons learned from the cycle of monitoring, remediation and annual evaluations and much more. Join us on 14 November 2024.



# ***Forthcoming changes to ICAEW audit regulations***

# *Changes to ICAEW audit regulations*



Effective 2024/2025

1

Notification regarding major new clients

2

Appointment of alternates

3

CPD requirements

4

Ownership rules ('supermajority')

# Changes to ICAEW audit regulations



Qualified persons: 'individuals who hold an appropriate (audit) qualification, certain third country auditors and audit-registered firms'

A new definition of 'majority' is being introduced. This means more than 50% is required for decision-making, unless a firm's constitution specifies a higher percentage, then 'majority' shall mean that specified percentage

Firms will therefore need to ensure that enough voting rights are held by qualified persons to meet any approval percentages stipulated in the firm's governance documents

# ***Key considerations***

Check who has the audit qualification

Encourage colleagues to get the audit qualification

Review and understand your firm's constitutional documents

Ask for help if needed

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[auditregulation@icaew.com](mailto:auditregulation@icaew.com)



# ***Horizon scanning***



# *Horizon scanning*



## ***A recent question ...***



*We have started getting queries from audit clients about the accounting for cars leased under salary sacrifice arrangements, in particular in relation to electric vehicles.*

*One client has been told by a provider that it can be argued that the economic benefits (and the use) of the car are transferred to the employee and therefore there is no need to account for these arrangements on the balance sheet. Does that sound right?*



# Q&A