HAT Group
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Updates and Insights

Issue 4.2026
Edited by Simon Kettlewell

Welcome

Welcome to the latest edition of HAT Updates and Insights.

As we move into May and welcome the longer days and warmer weather, the accounting and audit profession continues to evolve at a compelling pace.

A few significant developments deserve particular attention:

- The Financial Reporting Council has issued updated guidance on the use of artificial intelligence within professional practice, setting out clear expectations around governance, transparency, and the professional scepticism that must accompany any AI-assisted work.
- Alongside this, a new Practice Note has been published to support auditors of smaller, less complex entities — a timely resource that aims to provides practical, proportionate guidance to help firms deliver quality audits with confidence.
- ICAEW's Audit Monitoring Report shows an overall increase in audit quality for the first time for a number of years, but reinforces some old favourites as areas of weakness.

Find out more in the Technical Update section below.

Simon Kettlewell - Technical Director

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FRS 102: What You Need to Know

SECURE YOUR PLACE - 09 JUN 2026

For those of you not fully up to speed on the changes to FRS 102, Kate McCaffrey is presenting "FRS 102: What You Need to Know" on 9 June. Click here for more information.

Upcoming Courses and Events

Our website provides details of all our current courses.

Courses for 2026 include:

Course	Presenter	Date	Location
AML 2026 Update	Kate McCaffrey	13 May 2026 3.00pm – 4.30pm	Online
FRS 102: What You Need to Know	Kate McCaffrey	9 June 2026 24 November 2026 9.30am – 12.30pm	Online
Being an Effective R.I	Kate McCaffrey	14 July 2026 9.30am – 12.30pm	In person
Effective Audit Review	Adam Loake	12 November 2026 9.30am – 4.30pm	In person
AML Compliance: A guide for Senior Management	Simon Kettlewell	12 November 2026 2.00pm – 4.00pm	Online
Audit Planning Workshop	Kate McCaffrey	26 November 2026 9.30am – 12.30pm	In person

A recording of our recently held 'SRA Accounts Rules 2026 Update' and 'Charities Update 2026, including FRS 102 changes' are available. Contact us for more details.

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Career Development Courses

Our popular Career Development course programme covers the skills needed for trainees and newly qualified staff. Full details are provided below.

Course	Date	Venue
Kickstart Your Career	28 August 2026	London
Introduction to Accounting	14 – 18 September 2026	London
Introduction to Auditing	21 – 25 September 2026	London
Advanced Accounting	22 – 23 June 2026	London
Practical Auditing	6 – 10 July 2026	Residential – Ipswich
A Practical Introduction to UK GAAP	15 – 16 June 2026	London
Becoming an Effective Audit Senior	5 - 9 October 2026	Residential – Norwich
Becoming an Effective Supervisor	9 – 13 November 2026	Residential – venue TBC
Managers Course	Contact Kate McCaffrey to discuss	

Further information

Full details of the Career Development courses can be found on the HAT website here.

Should a firm require any other information about our Career Development courses, please contact Kate McCaffrey.

Please see the HAT website www.hatgroup.co.uk for our full range of courses and further details such as pricing. Bookings can be made via our website or please email hat@hatgroup.co.uk or call 020 7213 9911 for more details.

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Updates To The Hat Methodologies

The following updates have been released in past few months:

Reference	Date	Content
TM 01/26	9 February 2026	HAT Charities Methodology – 2025 Update
TM 02/26	25 February 2026	HAT Pension Schemes Methodology: 2025 Update
TM 03/26	25 February 2026	HAT Not For Profit Entities Methodology: 2025 Update
TM 04/26	25 February 2026	HAT RSHP's methodology: 2025 Update
TM 05/26	27 February 2026	FRS 102 (Sept 2024) Disclosure Checklists
TM 06/26	16 March 2026	HAT Practice Assurance Framework: 2026 Update

The updates to methodologies mentioned above have been primarily driven by the need to reflect the new company size thresholds, which apply for accounting periods commencing on or after 6 April 2025.

NB; the update to the Charities methodology does not reflect the revised Charities SORP, effective for periods commencing on or after 1 January 2026, nor does it reflect changes to audit thresholds expected later this year. These will be covered in the 2026 update, expected in the final quarter of this year.

Summaries of the changes to our methodologies in the above updates are available here.

A summary of our current methodology and compliance pack including details of effective dates can be obtained by logging into the members' area of the HAT website. Remember, key elements of our audit and non-audit methodology are available from our partners, CaseWare and MyWorkPapers. For full details of the availability of our documentation within these platforms please contact us.

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Auditing / Ethical / Assurance Standards

Practice Note 28 Published

The Financial Reporting Council ("FRC") has announced a package of measures to make audits more proportionate and efficient for small and medium-sized enterprises ("SMEs").

The key outcome is the publication of Practice Note 28 ("PN28"): Guidance for audits of small and medium-sized entities, which provides guidance to auditors on how to apply the requirements of the International Standards on Auditing ("ISA") (UK) to the audit of financial statements of small and medium-sized entities in a scalable, proportionate, and effective way. PN28 indicates that:

- "This guidance is for statutory audits of financial statements of small and medium-sized entities. It can be applied to a wide range of entities, including companies, charities, and public sector bodies, and also to voluntary audits performed in accordance with the ISA (UK); and
- It focuses on areas where guidance on scalability and proportionality will assist the performance of audits of SMEs. This includes, but is not limited to, the application of ISA to understanding the entity and its environment, its internal controls, risks of material misstatement arising from going concern risks, accounting estimates, and fraud."

HAT RESPONSE

A detailed review of PN28 is currently being performed and practical guidance will be provided in the HAT Q3 / 26 Update.

FRC Guidance On Use Of AI In Audit

The FRC has published guidance for audit firms on using generative and agentic AI tools in audit engagements, along with an "at a glance" summary. Their Press Release includes:

"The guidance sets out how firms can mitigate risks to audit quality posed by these tools, while supporting firms to realise the benefits these technologies offer - including improvements to the quality and efficiency of audit work.

It is not a response to identified quality deficiencies, rather it codifies good practice, promotes audit quality, builds confidence in the use of these technologies, and provides a conceptual foundation for future work in this area. It also contains examples for firms applying the guidance to real-world scenarios, including summarising board minutes and reviewing contracts for revenue recognition testing.

Firms are encouraged to consider how their use of AI tools fits within their wider quality management obligations under ISQM (UK) 1."

ACTION FOR FIRMS

As an emerging issue, firms using these tools should ensure that they are appropriate, meet their desired objectives and also are able to sit within their (ISQM 1) System of Quality Management.

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Updated Fraud And Going Concern ISA Published

The FRC has published final revisions to UK Auditing Standards on Fraud and Going Concern. Their Press Release includes:

"The revised standards are ISA (UK) 240 (Revised March 2026) – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements and ISA (UK) 570 (Revised March 2026) – Going Concern.

The revisions to ISA (UK) 240 strengthen and clarify auditors' responsibilities in relation to fraud, including enhanced risk assessment procedures and greater transparency in audit reporting. The updates to ISA (UK) 570 reinforce how auditors assess and report on an entity's ability to continue as a going concern, reflecting lessons learned from recent corporate failures.

As the UK standards were updated in advance of the international revisions, most of the enhanced requirements were already reflected in existing UK practice. The FRC anticipates that these will result in minimal additional work for auditors beyond that required by the international standards themselves.

The revised standards will be effective for audits of financial statements for periods beginning on or after 15 December 2026."

HAT RESPONSE

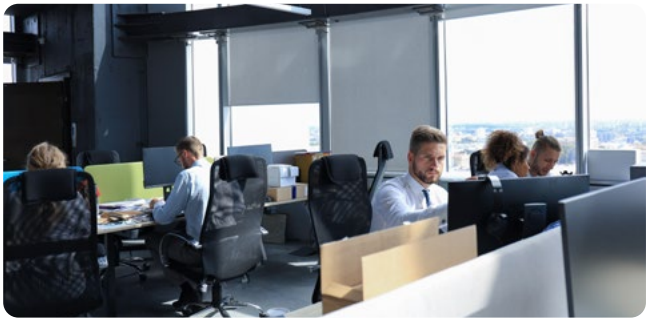
A detailed review of the revised ISA (UK) 240 / 570 will be performed, and necessary amendments will be reflected in the 2027 Update to HAT Methodologies.

FRC Consultations Launched

The FRC has launched two consultations to support the development of UK audit policy and their accompanying Press Release includes:

"Calls for stakeholder views on ISA for Less Complex Entities ahead of IAASB engagement:

The FRC is calling for stakeholders to share their views on the International Standard for Auditing for Less Complex Entities ("ISA for LCE") to inform its ongoing engagement with the International Auditing and Assurance Standards Board ("IAASB").



In December 2025 the IAASB launched a project with proposals to maintain the ISA for LCE, which is scheduled to run until June 2027. The FRC considers this a valuable opportunity to address its concerns over the standard, including those identified by its stakeholders – especially where they are using the ISA for LCE for non-statutory audits. The FRC will consider the adoption of any revised LCE standard issued following the conclusion of the IAASB's project.

Re-consultation on proposed revisions to auditing standards ISA (UK) 250 and ISA (UK) 270:

The FRC is re-consulting on its proposals to revise two auditing standards to ensure auditors take a proportionate approach to a key area of their engagements with entities. The proposals (which are also summarised) are designed to deliver targeted, proportionate standards that support high-quality audit without placing unnecessary burdens on auditors or the entities they audit.

ISA (UK) 250: Consideration of Laws and Regulations in an Audit of Financial Statements: The revisions to ISA (UK) 250 seek to introduce a risk-based approach to audit work on laws and regulations. This includes the removal of the distinction between "direct" and "indirect" laws and regulations, and a focus on laws that are "fundamental" to how an entity operates.

ISA (UK) 270: Special Considerations for Audits of Public Interest Entities—Communicating and Reporting to an Appropriate Authority Outside the Entity: ISA (UK) 270 is renamed, renumbered and made more principles-based to make clear that reporting obligations to appropriate authorities can arise across any area of the audit, not only in cases of non-compliance with laws and regulations."

HAT RESPONSE

These updates remain some way away. HAT will monitor progress in these areas and provide updates when appropriate.

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Anti-Money Laundering

Sanctions Summaries

The Foreign, Commonwealth & Development Office, Office of Financial Sanctions Implementation and Office of Trade Sanctions Implementation have jointly published summaries of prohibitions under sanctions regimes. They indicate that:

"To make guidance on UK sanctions regimes clearer and more accessible, we've published summaries of prohibitions under each regime. These new summaries will enable readers to see an overview of what sanctions apply in a regime. Each summary gives a quick overview of the sanctions in place under the regime, covering, where applicable the regime's scope; what applies to designated persons and specified ships; wider financial and trade sanctions; sanctions on goods and services; and additional sanction types.

Regime summaries are not comprehensive and are not a replacement for the statutory guidance or the regulations themselves."

ACTION FOR FIRMS

As noted above, although these summaries do not replace legislation or guidance, they do clearly provide pertinent information in a single location.

Draft Update To Money Laundering Regulations

The draft Money Laundering and Terrorist Financing (Amendment) Regulations 2026 have been published. Among other matters, the Explanatory Note indicates that they:

- Replace references to euros in the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 ("MLR") with references to sterling, converting these references on a 1:1 basis, except where to do so would be inconsistent with Financial Action Task Force requirements (these are converted at a rate of €1 = £0.80);
- Substitute the definition of "high-risk third country" for a new definition of "FATF call for action country", which is the "FATF black list", consisting Iran, Myanmar and North Korea, as the "FATF grey list" represents jurisdictions under increased monitoring; and
- Vary the threshold for enhanced due diligence measures so that they apply to transactions that are "unusually complex or unusually large given the nature of the transaction", rather than merely, "complex or unusually large".

HAT RESPONSE

One legislation has been finalised, a review will be performed to confirm the amendments made, and appropriate training will be provided and documentation amended.

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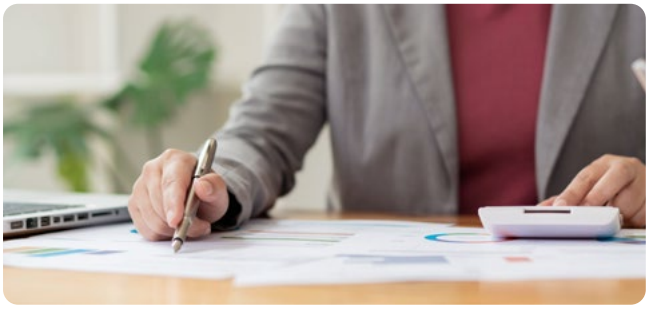

Amendment To Sanctions Regulations

The Sanctions (EU Exit) (Miscellaneous Amendments) Regulations 2026 (S.I. 2026 / 443) come into force on 13 May 2026. The Explanatory Note indicates that the amendments to sanctions regulations are largely technical. They also include amending currency references from euros to pounds where such references appear in the definitions of "relevant firms", "high value dealers" and "art market participants", as will be amended by the Money Laundering and Terrorist Financing (Amendment) Regulations 2026, as noted above.

ACAEW / ACCA / Regulatory

Amendment To ICAEW DPB Handbook

ICAEW have confirmed that their Designated Professional Body ("DPB") Investment Business Handbook and the DPB Consumer Credit Handbook have been updated, with changes effective from 1 April 2026, which primary reflect updated PII limits for firms undertaking insurance distribution activities.

The revised PII limits are at least:

- €1,300,380 for each claim; and
- In the aggregate, the higher of:
  - €1,924,560; and
  - An amount equivalent to 10% of annual income (this amount being subject to a maximum of £30 million).

ACTION FOR FIRMS

Firms holding a DPB licence who undertake insurance distribution activities should ensure that their PII policy reflects the new limits.

ICAEW DPB Monitoring Summary 2025

ICAEW have published an overview of key findings from their DPB Monitoring Visits conducted during 2025.

Recurring findings indicate that, on between 15% and 20% of visits undertaken, findings included the annual compliance review not being completed or was ineffective; and that required disclosures were not made to clients.

In addition, recurring findings identified on between 5% and 10% of visits undertaken were that DPB (Investment Business) commissions or benefits were not correctly treated; and the duties of the licensed firm were not adhered to.

ACTION FOR FIRMS

Given the regularity with which recurring findings have arisen, DPB regulated firms should ensure that these areas are robustly considered to ensure that they do not fall foul of the same issues.

Updated ICAEW Code Of Ethics

ICAEW has published the latest update to its Code of Ethics, which comes into force on 1 July 2026 and which includes new sections on tax planning and related services. Their Press Release includes:

"New sections on tax planning:

The updated Code now includes an entirely new section for members in business (section 280) and one for members in public practice (section 380).

Tax planning activities are defined as "advisory activities designed to assist an employing organisation in planning or structuring its affairs in a tax-efficient manner" and tax planning services are defined as "advisory services designed to assist a client, whether an individual or an entity, in planning or structuring the client's affairs in a tax-efficient manner."

The provisions recognise that when professional accountants provide such assistance, this might involve certain tax minimisation arrangements that, although not prohibited by tax laws and regulations, might create threats to compliance with the fundamental principles.

The new sections set out potential self-review, self-interest and advocacy threats to compliance with the fundamental principles, that may arise when professional accountants advise on a tax planning arrangement. Before advising on, or recommending a tax planning arrangement, the new provisions require professional accountants to apply the "credible basis test".

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The credible basis test:

The new sections stipulate that a professional accountant can only advise on (or recommend) a tax planning arrangement, if they have first determined that the proposed arrangement has "a credible basis in laws and regulations".

The new sections set out examples of the actions that a professional accountant might take to determine whether a credible basis exists in relation to a particular tax planning arrangement. These include:

- Reviewing relevant facts and circumstances, including the economic purpose and substance of the arrangement;
- Reviewing the relevant tax legislation and legislative proceedings that discuss the intent of the relevant tax legislation;
- Reviewing relevant court decisions, professional or industry journals, and tax authority rulings or guidance; and
- Considering whether the basis used for the proposed arrangement is an established practice that has not been challenged by tax authorities.

Practitioners may also consider consulting with legal counsel or other experts, and with the relevant tax authorities, where applicable. Should the accountant become aware of circumstances that might impact their previous credible basis determination, they are required to reassess the validity of that determination."

ACTION FOR FIRMS

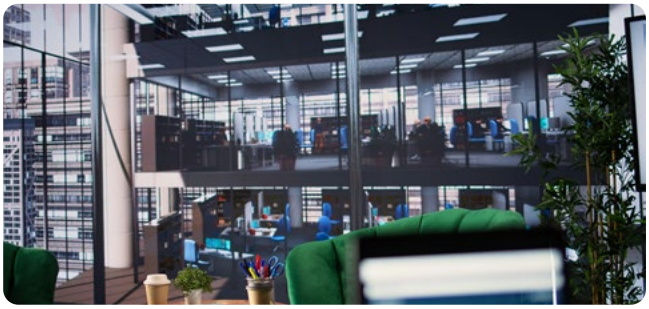
As these requirements are detailed, firms involved in the provision of tax planning activities and tax planning services should familiarise themselves with the new content before 1 July 2026.

Annual ICAEW Audit Monitoring Report

ICAEW has published their 2025 Audit Monitoring Report summarising the findings of 375 audit monitoring visits performed, with 73% of audits graded as good or generally acceptable and only 6% requiring significant improvement.

Key firm-wide concerns relate to the growth of audit portfolios, staff and technology. Key concerns on audit assignments relate to revenue / stock / contract balances, financial statements and related party disclosures.

This is the first Audit Monitoring Report for which the revisions to ISA (UK) 600 have been reviewed. ICAEW note that, "our work has not identified any new issues arising from the revised standard; this is in line with our expectations".



Amendments To FRC Audit Supervision Approach

The FRC is introducing a major evolution of its audit supervisory model, introducing a more proportionate, effective and integrated framework designed to enhance audit quality and reinforce resilience across the UK audit market.

Their Press Release indicates that the FRC's revised approach places more emphasis on firms' Systems of Quality Management, placing this at the heart of supervision activity, with this being supported by targeted follow-up work, thematic reviews and corroboratory inspections. This is designed to strengthen audit quality, promote a more resilient audit system and ensure that the UK offers an environment in which organisations can confidently grow and scale.

Implementation began in April 2026 for the largest firms, with further developments piloted during 2026/27. It complements other FRC initiatives in supporting a more coordinated supervisory framework across both Public Interest Entity (PIE) and non-PIE audits.

Amendment To PIE Auditor Registration Regulations

The FRC has published updated Public Interest Entity (PIE) Auditor Registration Regulations (Regulations) which came into effect on 20 April 2026. Their Press Release summarises the key change as being that a firm must notify the FRC as early as reasonably possible ahead of any planned change to governance or ownership, including as part of a restructuring or private capital investment. This has come into force alongside a small number of additional minor changes.

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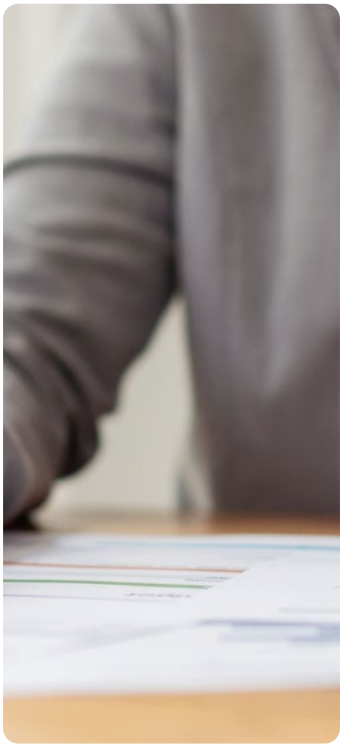
Charities



Amendment To Charity Thresholds

The Charities Acts 1992 and 2011 (Substitution of Sums) Order 2026 (S.I. 2026 / 427) have been laid before Parliament and they come into force on 30 September 2026 in respect of accounting periods ending on or after that date.

Whilst there are a number of amendments made relating to provisions regarding fundraising, the primary amendments relate to the preparation and examination of financial statements of charities registered in England and Wales and are:

Provision	Current	Revised
Receipts and Payments Account	£250,000	£500,000
Audit Threshold (Income / Gross Assets)	£1m / £3.26m	£1.5m / £5m
Ind. Exam. Threshold (Any Examiner)	£25,000	£40,000
Ind. Exam. Threshold (Qualified Examiner)	£250,000	£500,000
Group Accounts / Audit Threshold	£1,000,000	£1,500,000

HAT RESPONSE

As legislation is now in force confirming the detail and effective date of the threshold uplifts, amendments will be processed to the HAT Charities Methodology.

Other Areas

Ethnicity And Disability Pay Gap Reporting

The government has published its response to a consultation on mandatory ethnicity and disability pay gap reporting and its Press Release indicates that the government commits to introducing mandatory ethnicity and disability pay gap reporting for large employers. Firms with 250 or more employees will be required to publish 6 key pay gap metrics and new workforce composition data. Legislation will seek to build on the current gender pay gap reporting to simplify the process and make it easy for employers to record their data.

Additional Measures Regarding Late Payments

The government has published its response following the consultation it launched in July 2025 on measures to tackle late payment of invoices, with the Press Release indicating that the changes will include a new 60-day cap on payment terms on all large firms when paying smaller suppliers. New mandatory interest on late payments will also be introduced, with a requirement for all commercial contracts to include statutory interest set at 8% above the Bank of England base rate. In addition, it is proposed that the withholding of retention payments under the terms of construction contracts will be banned, consulting on its implementation, which will prevent small firms losing retentions to insolvency or non-payment.

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