Year end reporting

Key reminders and prompts for Audit Committees

January 2025

Foreword

This brochure aims to act as an aide-mémoire for Audit Committees during this December year end reporting season. The role and responsibilities of the Audit Committee are ever expanding in an increasingly challenging environment. This document has been designed to provoke your thoughts around key areas on the Audit Committee agenda as you go through your year end reporting.

The content has been updated where relevant since our March 2024 year end aide-mémoire. Although there are numerous areas addressed in this aide-mémoire, some of the points will be of greater relevance to your organisations and others may already have received a degree of focus.

I hope you find this document useful.

Ian Chambers
Chair, Audit Committee Network

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Financial resilience and going concern

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2025 brings new challenges from the impact of the Autumn 2024 budget on cash flows following the increase in employee costs and continued weak business confidence.

Inflation also does not appear to be relenting as quickly as hoped, with the pace of interest rate reductions also likely to be reduced. Pressures that businesses have been facing in recent years from increased cost and debt service pressures are likely to continue in 2025.

However, debt markets seem to be more open entering 2025 with pricing reducing for leveraged credits which should help with refinancings in 2025 and also underpin a long awaited recovery in M&A activity. However, more storied credits or businesses operating in more challenging sectors (e.g. retail) may continue to struggle to raise cheaper debt.

Businesses need to remain focused on managing their financial risk and resilience with going concern remaining a critical judgement for many Boards and Audit Committees throughout 2025.

This will include ensuring that management's forecasts adequately address keys risks in their assessment of going concern and actions are taken early to mitigate these risks.

This will enable businesses to be prepared for the key risks that may affect them and have a plan for how they can be mitigated to avoid liquidity or covenant issues.

Audit Committees should also continue to consider and challenge what actions management should be taking today to ensure the financial resilience of the business and to ensure that they are prepared ahead for any future uncertainties.

Key reminders and governance considerations

Audit Committees should actively monitor the following to identify any risks to financial resilience and ensure any identified risks are being adequately addressed and disclosed in the financial statements:

- Existing known risks to the business and how they are being mitigated.
- Forecast liquidity and covenant compliance headroom over the next 18 months under a 'severe but plausible' scenario.
- Robust treasury management and counterparty assessment.
- Resilience of the supply chain and risk and impact of disruption.
- Sensitivity and risks of a higher inflationary environment – especially raw materials and labour costs.
- Sensitivity to increased costs of borrowing and impact on available cash.
- Whether there are upcoming debt maturities (12 – 18 months) and risks to a refinancing when debt markets are tighter now than historically.
- Position of key external stakeholders such as lenders, credit insurers, bonding providers, regulators, pension trustees – risks / impact of their withdrawal of support.
- Position of key contracts which may expose the business to significant downside risk or liabilities.
- Material write offs and asset impairments.

What actions should corporates take / consider

With businesses facing continuing uncertainty, a focus on financial resilience is key. To strengthen the financial resilience governance framework, Audit Committees should encourage management to ensure robust controls and processes exist around:

- Financial forecasting and business planning especially liquidity and covenants forecasting.
- 13 week short term cash flow forecasting.
- Scenario planning.
- Robust tracking of actual vs forecast performance.
- Mitigation plans for downside scenarios.
- Treasury and liquidity management.
- Supply chain resilience assessment.
- Working capital management.
- Cost control and spend management.
- Workforce management.
- Key stakeholder management – e.g. lenders, pension trustees, key suppliers / customers.

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Accounting

What's new

Changes to accounting standards effective 1 January 2024:

IFRS narrow-scope amendments:

- Amendments to IAS 1 - Non-current liabilities with covenants - uk In brief INT2022-16
- Amendments to IFRS 16 - Leases on sale and leaseback - uk In depth INT2023-01
- Amendments to IAS 7 and IFRS 7 - Supplier finance arrangements - UK In brief INT2023-03
- There have also been amendments to the FRS 101 Reduced disclosure framework

Sustainability disclosure standards effective after 1 January 2024:

- IFRS S1, 'General requirements for disclosure of sustainability-related financial information - UK In depth INT2023-05
- IFRS S2, 'Climate-related disclosures' - UK In depth INT2023-05

IFRS S1 and IFRS S2 are not yet endorsed in the UK.

FRC areas of focus

FRC's annual review of corporate reporting 2023 / 2024

- Annual Review of Corporate Reporting for 2023/24
- UK In brief UK2024-49

FRC thematic reviews published in in 2024:

- Offsetting in the financial statements
- IFRS 17 Insurance Contracts Disclosures in the First Year of Application
- Reporting by the UK's largest private companies

Topical issues to consider

Consider the following from the FRC's annual review of corporate reporting 2023 / 2024:

- FRC's key disclosure expectations on their top ten issues: Impairment of assets, Cash Flow statements, Financial instruments, Revenue, Presentation of financial statements, Strategic report and Companies Act 2006, Judgements and estimates, Income taxes, Fair value measurement; and TCFD and climate-related narrative reporting.
- Disclosures of risks and uncertainties should be clear to enable a user to understand the positions taken.
- Narrative reporting should include a fair, balanced and comprehensive review of the company's development, position, performance and future prospects.

Other PwC guidance on topical issues:

- Geopolitical risks - UK In depth INT2024-04
- Offsetting in the financial statements - UK In brief UK 2024-43
- Pillar Two implementation - UK In depth INT2023-10
- Hyper-inflationary economies - UK In brief INT2024-19
- IFRC IFRS 8 Agenda Decision - UK In brief INT2024-18

Additional guidance

Further information is available in our recent publication:
December 2024 year end accounting reminders - IFRS and UK GAAP

On the horizon

Amendments to IFRS effective on or after 1 January 2025:

- Amendments to IAS 21 - Lack of Exchangeability - UK In brief INT2023-19
- Amendments to IFRS 9 and IFRS 7 - Classification and Measurement of Financial Instruments - In brief INT2024-14
- Annual improvements to IFRS - Volume 11

New IFRS standards effective on or after 1 January 2025:

- IFRS 18 - Presentation and Disclosure in Financial Statements - UK In brief INT2024-06
- IFRS 19 - Subsidiaries without Public Accountability: Disclosures - UK In brief INT2024-21

FRS 102 periodic review effective on or after 1 January 2026:

- The FRC has issued wide ranging amendments to FRS 102. This includes revised sections for both leases and revenue.
  - Section 20 - Leases - UK In depth UK2024-06
  - Section 23 - Revenue - UK In depth UK2024-05

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Corporate reporting and governance

What's new

Overview

2024/25 is not a year of substantial change in UK corporate reporting or governance requirements, but there is a lot to come in the near future:

- The 2024 version of the UK Corporate Governance Code (the Code) will start to apply for periods beginning on or after 1 January 2025, other than the risk and internal control aspects which apply a year later (and are highlighted on page 8 below).
- The EU Corporate Sustainability Reporting Directive (CSRD) and associated requirements will start to apply for certain UK-headquartered groups with December 2025 year ends, such as those with large EU-based subsidiaries. See page 6 below.
- A number of changes will apply for UK-incorporated companies for periods beginning on or after 6 April 2025 as a result of The Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024 (SI 2024/1303).
    - Size thresholds: the financial thresholds to qualify as a small or medium sized company will increase by 50%.
    - Deletion (not only by small and medium sized companies) of certain directors' report requirements in the current regulations, including: financial instruments; events that have occurred since the end of the financial year; likely future developments; research and development; branches; the employment of disabled people; engagement with employees; and engagement with customers and suppliers.

Priorities from FRC Corporate Reporting Review Team (CRRT) annual review (September 2024)

In its most recent annual report on its activities, the CRRT set out the most common issues from the last reporting season for companies and directors to consider. In relation to the narrative reporting part of the annual report, companies are recommended to:

- Ensure the strategic report includes a fair, balanced and comprehensive review of the company's development, position, performance and future prospects. The use of alternative performance measures continues to be relevant to this.
- Take care to comply with the applicable climate-related reporting requirements (in the Listing Rules and Companies Act), ensuring disclosures are concise, that material information is not obscured and that there is appropriate consistency with the financial statements.

Priorities from FRC annual review of corporate governance reporting (November 2024)

In its separate review, the FRC corporate governance team found a very large fall in the number of companies explaining departures from Code provisions (72% of their sample reported full compliance with the Code this year, compared with 37% last year), mainly due to the gradual alignment of directors' pensions with the rest of the workforce. However companies still need to consider whether there are departures from the Code to disclose and in particular improve the quality of any explanations given.

Specific areas of governance reporting to focus on are largely consistent with previous years (culture, engagement and diversity for example). The review particularly highlights the approach to reviewing the effectiveness of risk management and internal control ahead of the changes in the 2024 Code, finding that this "remains at an early stage" with 25 companies in the sample not reporting at all, or not reporting clearly, on whether a review of the effectiveness of internal controls had been carried out.

What actions should corporates take / consider

Consider any relevant matters from the FRC's reviews of corporate and governance reporting for this year's reporting cycle.

Bear in mind the points raised in the last Audit Committee Network session, based on the PwC team's experience:

- Non-financial and sustainability information statement - the need for this is not always recognised, and there can be challenges in relation to groups and intermediate parent companies.
- Audit Committee Minimum Standard - need to consider the FRC's expectation that FTSE 350 companies will apply this ahead of the 2024 Code.
- Listing Rule references - most of these will change in annual reports as a result of the restructuring of the Listing regime and rules.

Note also the FRC's recent Review of private company corporate governance reporting against the Wates Principles (August 2024). This found that 562 companies (of a population of 1,812) did not provide any information about their corporate governance arrangements "although they were deemed likely to fall within the scope of the Regulation".

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Corporate reporting and governance - sustainability

Key reminders and governance considerations

EU Corporate Responsibility Reporting Directive ('CSRD')

To comply with the CSRD, organisations in scope must identify their material sustainability impacts, risks and opportunities using a "Double Materiality" Assessment ('DMA') approach, which broadens the concept of materiality from a sole focus on financial materiality to one that includes a view of impact on stakeholders and society.

This two-pronged perspective adds a level of complexity to materiality assessments. Companies must assess if a sustainability matter (a topic, sub-topic or sub-sub-topic) is material from a financial or impact perspective or both. A sustainability matter needs to be material from only one of the two perspectives to require disclosure. To make these determinations, companies will likely need a greater understanding of sustainability matters in their value chain to measure and assess financial and impact materiality. These steps are likely new for many companies.

Many organisations have completed their Double Materiality Assessments, citing numerous challenges throughout the process including how to effectively score impacts, risks and opportunities (IROs). We present some common themes and challenges in our Global CSRD Survey alongside three actions which can enable better CSRD readiness as well as a deeper integration of sustainability with strategy:

- Understanding of scope;
- Long-term thinking around processes and systems; and
- Executive level involvement.

What actions should corporates take / consider

Assurance of ESG disclosures

Companies need to work harder to gain stakeholder trust, and to make the right choices around future plans to turn commitments into actions, both of which depend on credible ESG data. As a result, an increasing number of organisations are seeking assurance over their reported ESG performance metrics.

Whilst assurance of ESG data is currently voluntary in the UK, the CSRD - and other ESG reporting regimes worldwide - come with a mandatory requirement for annual assurance.

Organisations should be thinking about:

- Appropriate systems, processes and controls to collate and report the ESG data.
- Existence and availability of complete, accurate and understandable methodology documents for all ESG data points, including specific definitions that are understood and consistently applied.
- Access to third party data.
- Availability of underlying evidence, the audit trail.
- Education of relevant stakeholders.
- Roles and responsibilities, across functions.
- Governance structure.

Audit Committees are expected to play an increasingly important role in the supervision of ESG assurance going forward.

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Regulatory matters

Recent Government activity

- In the King's Speech in July 2024, the Government announced a **Draft Audit Reform and Corporate Governance Bill** to strengthen audit and corporate governance in the UK. While the King's Speech did outline the basic proposals, it didn't contain any significant detail. The Draft Bill, most significantly, proposes the creation of a new statutory regulator, the Audit, Reporting and Governance Authority (ARGA), to replace the FRC, which will be the platform for other regulatory changes through its increased powers, including:
  - Powers to investigate and sanction company directors for serious failures in relation to their financial reporting and audit responsibilities.
  - A wider remit, through extending Public Interest Entity (PIE) status to the largest private companies.
  - Removing unnecessary rules on smaller PIE entities, by cutting requirements that are disproportionate.
  - A regime to oversee the audit market, protect against conflicts of interest at audit firms, and build resilience.
- In November 2024, guidance on the new '**failure to prevent fraud'** corporate criminal offence was published by the Home Office. Please see page 13 for further details of this offence, introduced as part of the Economic Crime and Corporate Transparency Act (ECCT).

Recent FRC publications

- Audit market and competition developments The FRC's overview of competition in the PIE audit market was published on 4 December 2024. The report shows a 13% increase in market share of the FTSE 350 for challenger firms (defined as all firms outside of the Big Four), but the FTSE 350 market remains highly concentrated with the Big Four. PIE audit fees continued to increase, reaching £1.4bn in 2023. This study is part of the FRC's initiatives to improve how the audit market functions, including their audit firm scalebox, which seeks to help small firms grow, and their Minimum Standard for External Audit, which seeks to ensure Audit Committees focus on audit quality. The FRC are to launch further market studies in the future.
- Key facts and trends The FRC's update on trends in the accounting profession was published on 30 September 2024. The report provides information on 33 audit firms with PIE clients, across a range of firm sizes. It highlights continued growth in the profession, with membership increasing both in the UK and worldwide, and student numbers stabilising (minimal decrease of 0.2%) after a decline in previous years.
- FRC draft Strategy 2025-28 The FRC published its draft three-year strategy on 17 December 2024. Alongside this,it also published its draft Plan and Budget for 2025-26. Initiatives include an evolved approach to audit firm supervision and a review of enforcement procedures. In its budget, the FRC seeks to maintain a flat headcount and seeks further efficiencies to avoid unnecessary cost increases.

New and upcoming consultations

- Stewardship Code consultation The FRC launched a consultation on proposed revisions to the Code on 11 November 2024, with responses due by 25 February 2025. Proposals include amending the definition of 'stewardship', streamlining the principles with more concise reporting prompts, introducing policy and context disclosures and issuing guidance for signatories. This is a priority area for the FRC who see the importance of more effective engagement between investors and boards (stewards).

Update on previous consultations

- Consultation on ISAs (UK) 250A and 250B At the end of 2023, the FRC consulted on proposed amendments to UK auditing standards around compliance with laws and regulations. The two standards are: ISA (UK) 250A - Consideration of Laws and Regulations in an Audit of Financial Statements; and ISA (UK) 250B - The Auditor's Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector. The consultation was in the wake of, and similar to, the PCAOB's consultation around strengthening auditor responsibilities in late 2023. Following the close of the consultation response period, the FRC has indicated that it has taken feedback into consideration and made amendments to the original proposals. The updated standards have not yet been issued, It is possible that they may be issued in late winter, early spring, 2025, with an effective date in 2026.

Regulatory matters (continued)

Corporate Governance Code

There is an ongoing focus on revisions to the Corporate Governance Code (the Code), in particular those that require boards, from 1 January 2026, to make a declaration in their annual reports that their material controls are effective at the balance sheet date (Provision 29).

Below is a summary of the key changes to the Code in relation to Provision 29:

- ***Annual controls declaration required -*** boards will be required to make an annual declaration in the annual report on the effectiveness of all material controls as at the balance sheet date.
- ***Wide ranging scope covering all material controls -*** the declaration will cover all material controls, including (i) financial, (ii) operational, (iii) compliance controls and (iv) non-financial reporting controls.
- ***Basis of declaration to be disclosed -*** it will include a description of how the board has monitored and reviewed the effectiveness of its risk management and internal control framework.
- ***Need to consider 'material' control deficiencies*** - it will also include a description of any material controls that have not operated effectively as at the balance sheet date, the action taken, or proposed, to improve them and any action taken to address previously reported issues.

Further practical information can be found in the Internal Controls section below, along with a link to materials we have developed to assist in the process.

Listing Regime Reform

These reforms are part of the Government's overall push to make the UK an easier and more attractive place to invest. The changes to the Listing Rules in July 2024, amongst other things:

1. Combine the existing Standard and Premium listed market segments into a single **Equity Shares in Commercial Companies ("ESCC")** segment.
2. For **Significant Transactions,** remove the requirement for a **shareholder circular and vote** with a modified Significant Transaction notification **disclosure regime.**
3. Relax the eligibility requirements for **IPOs.**
4. Make changes to the **Sponsor** regime.
5. Allow greater flexibility to allow dual class share structures (**DCSS**) with weighted voting rights.

There is a further ongoing consultation, specifically around the contents and requirements of a prospectus. This includes potential changes to the requirements of a working capital statement and could create an expectation gap that a capital raising can rely on the going concern work in an annual report and the audit thereon.

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Internal Audit

What’s new

The New Global Internal Audit Standards

In January 2024, the Institute of Internal Auditors (IIA) unveiled the new Global Internal Audit Standards™, which came into effect by January 2025. These standards succeed the 2017 International Professional Practices Framework (IPPF) Standards, introducing a fresh structure encompassing five domains, 15 guiding principles, and 52 standards.

These changes are designed to enhance the value and alignment of internal audit functions with organisational goals. The new standards will present different challenges for each organisation as it compares its current practices to the new requirements. We highlight below three of the areas where, in our experience, teams are seeing the biggest changes in practice.

1. **Board and Senior Management Responsibilities**

Governance Focus - Domain III of the new standards introduces a stronger governance component, emphasising the role of the board and senior management in internal audit processes. This is crucial because effective governance ensures that internal audit functions are aligned with organisational goals, enhancing their strategic value and effectiveness. By involving senior leadership directly, the standards aim to ensure that audits are not just routine checks but integral components of strategic oversight.

2. **Internal Audit Strategy**

Ensuring that internal audit strategies align with organisational goals makes audits relevant and supportive of the mission and vision, providing meaningful insights for strategic decisions. The standards promote strategies as 'living documents', encouraging continuous improvement and adaptability to changing environments.

3. **Internal Audit Expected Behaviors**

The emphasis on professional skepticism, courage, and truthful communication is designed to foster an ethical and transparent environment. These behaviours are essential for auditors to perform their duties effectively, ensuring that findings are based on evidence and communicated clearly. This trust and integrity are foundational to the credibility and impact of the function.

Detailed Domain Breakdown

Domain I - Purpose of Internal Auditing

This domain focuses on the core purpose of internal auditing: to create, protect, and sustain value while emphasising the need for IA to provide "foresight".

Domain II - Ethics and Professionalism

This domain will replace the code of ethics within the IPPF. It sets expectations for ethical conduct of all individuals responsible for the delivery or governance of internal audit activities. It focuses on achieving outcomes through professional integrity, skepticism, and continuous ethical improvement.

Domain III - Governing the Internal Audit Function

This domain introduces three principles and nine standards focusing on the roles of the Board and Senior Management. It emphasises leadership involvement in setting the internal audit mandate, which may require more collaboration with internal audit teams. Chief Internal Auditors should engage with Audit Committee Chairs and CEOs to address these responsibilities at the earliest available opportunity.

Domain IV - Managing the Internal Audit Function

This domain mandates aligning the internal audit strategy with organisational goals and encourages continuous improvement. Building stakeholder relationships is highlighted, alongside maintaining a risk-based audit plan that considers governance and IT risks.

Domain V - Performing Internal Audit Services

This domain focuses on executing individual engagements, including audits, reviews, and assessments, with a strong emphasis on conducting thorough root cause analyses. It encourages collaboration with management and suggests that some scenarios may require updated methodologies and additional training to effectively implement these changes. Proper documentation of the processes is essential to demonstrate compliance with the standards and adherence to best practices, ensuring that the internal audit function can deliver valuable insights across various types of engagements

What actions should corporates take / consider

We would expect that functions now have in place a programme of work to ensure any gaps identified in their conformance assessments are fully addressed which will include updates to methodology, processes and systems

Organisations should also use this as an opportunity to consider the wider 3LOD mandate within the organisation as a whole, collectively working with the other lines of defence to shape the future model and assurance framework.

Resources and Further Reading

These resources offer comprehensive details on the new standards, mappings to existing frameworks, and additional guidance to support the transition.

Read more on the PwC website.

Download the condensed standards from the IIA’s global website.

Explore our Agenda and Horizon Scanning Publications

Internal Audit (continued)

What's new (continued)

Internal Audit Code of Practice Updated

In September 2024, the Chartered Institute of Internal Auditors, released a significant update to the Internal Audit Code of Practice which also came into effect in January 2025 and is relevant across financial services, private, and third sectors. The new code aligns with the Global Internal Audit Standards and supports the recently revised UK Corporate Governance Code. This alignment is necessary to ensure that internal audit practices stay in tune with global and national governance expectations.

Key Drivers for the Update

- The need to align with the new Global International Audit standards;
- Support for the revised UK Corporate Governance Code;
- An adaptation to the changing practices and expectations within the industry, ensuring relevance and effectiveness.

The new Code is organised around a framework of 37 principles. Within this framework, it introduces six new principles that have been added to address emerging trends and requirements in internal auditing. Four of the principles remain unchanged from previous versions, indicating their continued relevance and effectiveness. The other 27 principles have been revised to incorporate current best practices, ensuring the Code remains up-to-date and applicable to modern auditing challenges. The revisions made range between minor language updates to considerable changes which are likely to impact internal audit stakeholders and functions.

Main Enhancements Introduced by the Code

Enhanced Reporting
- Internal auditors are now required to provide annual reports to Audit Committees on application of the code, detailing outcomes (Principle 3 & 4).
- Reports should include insights, efficiency findings, and use Key Performance Indicators to measure impact (Principle 9 & 10, 30 & 31).

Wider Scope
- The Code expands audit scope to include areas such as organisational culture, capital and liquidity risks, poor customer treatment, ESG, financial crime, economic crime and fraud, and technology, digital and data risks. This is intended to support the role of internal audit as a strategic ally, and should prompt the function to consider whether the organisation has a clear purpose, and whether risk management and related control processes support the organisation in achieving this purpose. (Principle 8).

Independence & Remit
- Emphasis on risk-based planning and dynamic audit processes ensures that audit activities are adaptable and focused on significant risk areas (Principle 6, 7, 17).

Diversity and Inclusion
- The Code highlights the importance of teams with diverse backgrounds, skills, and experiences to enrich audit processes (Principle 27).

Coordination with Assurance Providers & Technology
- Auditors are encouraged to coordinate with other assurance providers to ensure comprehensive coverage of organisational risks (Principle 14).
- There is a push towards adopting advanced tools and technology to enhance audit efficiency and effectiveness (Principle 28).

Governance Alignment
- The Code supports efforts to enhance board disclosures on risk and material controls, aligning audit practices with broader governance goals (Principle 11).

What actions should corporates take / consider

To address the new Internal Audit Code of Practice, functions must proactively update their internal audit strategies to meet the revised standards and expectations. This means revising internal audit charters to ensure alignment with the new Code and enhancing engagement with Audit Committees through comprehensive annual reports.

Risk assessments should be expanded to include ESG factors, technological risks, and cultural reviews. Investing in advanced audit tools and targeted training is crucial for boosting audit efficiency.

Functions should encourage diversity within audit teams as well as collaboration with other assurance providers to ensure thorough risk coverage. Ongoing training initiatives will keep audit teams informed of best practices and regulatory developments.

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Cyber

What's new

Ransomware

- Remains the most impactful cyber risk faced by organisations worldwide – if it happens.
- Poses operational, financial and reputational risks - even a going concern risk in most extreme cases (e.g. KNP Logistics which collapsed after a cyber incident).
- UK Government consulting on new legislation designed to prevent payments and increase reporting. One for Boards to consider as part of their crisis management options.

Supply chain vulnerabilities *(third and fourth parties)*

- Third parties in the supply chain continue to pose challenges for both cyber security and data protection.

Resilience

- Global recognition now that successful cyber attacks are both increasingly common, and increasingly destructive.
- Businesses need to be prepared to respond and recover from a destructive cyber attack - both in terms of recovering IT but also in the ability to function as a business in the total absence of IT for weeks.

Transparency

- Regulators and markets globally are demanding greater transparency over cyber security capability, governance and incidents. Fines imposed by UK Information Commissioner are expected to rise in 2025.

Key reminders and governance considerations

- **Frequency of cyber discussions and at what level of the organisation:** does the Board have a structured approach to monitoring and reporting on cyber capability?
- **Transparency**: does the Board have sufficient visibility of cyber risk and incidents to meet reporting expectations (especially in light of recent and new regulatory requirements, e.g. NIS2 and DORA)?
- **Roadmap:** Is there a mandated cyber improvement programme and roadmap(s) with Board reportable progress? How often are these reviewed?
- **Budget:** how often is the budgetary commitment to security / cyber defence and positioning revisited? Is investment in maintaining IT infrastructure seen as a cost to be minimised or a strategic investment to ensure adequate cyber security? Is this sufficient for industry sector and / or sufficiently benchmarked against peers?
- **M&A:** how is cyber security managed during business transactions, such as the purchase or disposal of other companies?
- **Crisis planning:** does the business have a plan for managing crises (including cyber events), and has this been tested at all levels including the Board?

What actions should corporates take / consider

- Has the "minimum viable business" been identified and documented?
- Has the "minimum viable infrastructure" to ensure business continuity been identified and have business continuity plans been regularly reviewed and exercised - including how technology would be recovered from a cyber attack, and how the business would function in the total absence of IT?
- Has the Board reviewed and approved the governance of cyber security, and the process for escalation and reporting of incidents in the light of growing regulatory expectations?
- Review third party contracts / deliverables to ensure cyber security risk / KPIs are specifically addressed to risk appetite and industry, legally enforceable and reviewed within the procurement process as a whole.
- Reflect on the key learnings for all organisations coming out of the attacks on the Irish Health Service and the British Library.

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Internal controls

What's new

As noted in the Regulatory Matters section above, in 2024 the FRC issued a revised UK Corporate Governance Code (the Code) which enhanced boards' responsibilities around risk management and internal control. The enhanced responsibilities are effective from 1 January 2026.

What actions should corporates take / consider

The revised Code requires Boards to make a declaration that their material controls are effective at the balance sheet date. When it comes to strengthening internal controls under the new declaration (and equally relevant under today's Code), most companies will not be starting from scratch but many will have additional work to do. Today, companies have variable approaches to the structure of their internal control framework and whilst there are established financial, reporting, operational and compliance controls in place, there is often a lack of structure and formality particularly around monitoring the effectiveness of the systems of internal controls. Preparation for stronger internal controls will take time but there are some practical steps companies can take now to determine where they are in the internal controls continuum:

1. Focus on control design before effectiveness. Our experience suggests that much of the benefit comes from ensuring that the key controls are designed effectively and that there is education on behaviours needed to monitor and assess controls with greater rigour and consistency. Assessing the maturity of controls design will be a key part of this.

For example (i) performing a controls maturity assessment of the current control environments to identify gaps (ii) conducting pilot reviews to validate control design and the effort needed to enhance (iii) establishing the governance and resource requirements needed to make necessary improvements to internal controls.

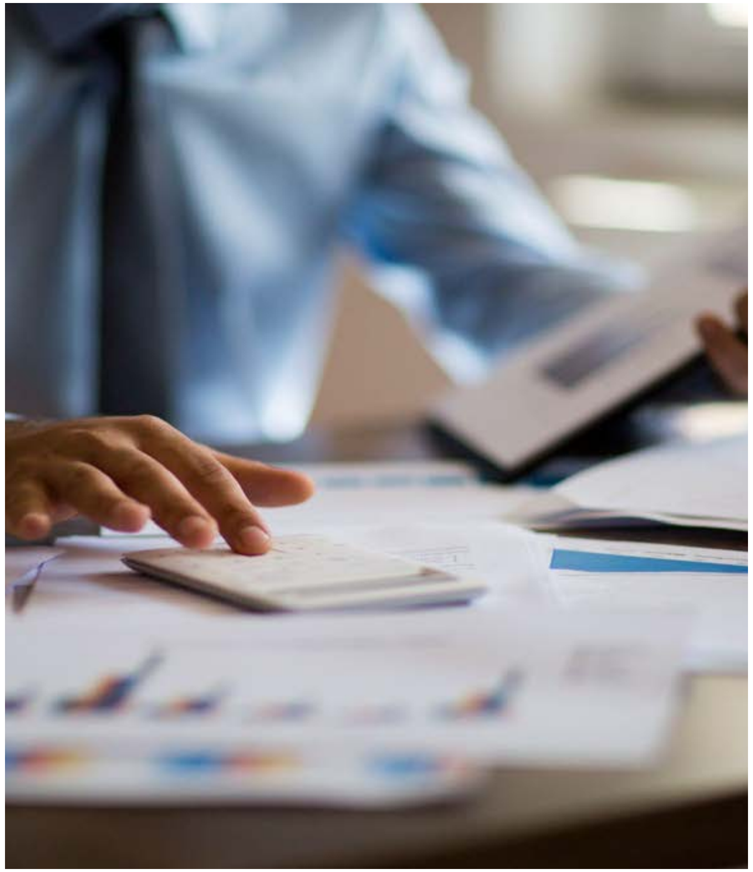
2. Define the 'in scope' financial, reporting, operational and compliance controls. This should be based on materiality, areas of significant judgement / estimates, the principal financial, operational and compliance risks and related controls identified in the enterprise risk register. This should include material fraud risks and related key controls.

3. Produce a roadmap. Include key activities to enhance the control environment and develop a timetable working backwards from a potential statement date. Prioritise areas of significant change and complex business processes. Designing controls right the first time and rationalising control improves business efficiency and helps reduce cost over time.

4. Consider your IT environment. Ensure that your operational, reporting, financial and compliance functions are connected to the IT function. Consider how reliant they are on the IT environment and any challenges in that environment and how automation and analytics can be incorporated into control design to improve effectiveness.

5. Consider the level of assurance needed (internal and external). Evaluate the current process in place for the Board to maintain and annually review effectiveness of the system of internal control. Compare this to what is needed for a more formal statement and identify the options to achieve this.

We have developed a practical guide that walks through what we think are the key elements of a robust process for Board's monitoring and review of internal controls..This is supplemented by FAQs that can be found here, We have also held roundtables with audit committee chairs to understand and share different approaches to identifying material controls and assurance thereon. A summary of points raised can be found here.



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Fraud and investigations

What's new

The Economic Crime and Corporate Transparency Act amended the standard for corporate liability for economic crime and introduced a new 'Failure to Prevent Fraud' offence.

In November 2024, just over a year since the Act received Royal assent, the UK Government published their guidance on the failure to prevent legislation, providing clarification on the scope of the offence, the implementation timeframe, and set out the principles underlying the requirement for reasonable procedures.

What is the 'failure to prevent fraud' offence?: A relevant body is guilty of an offence if "*a person who is associated with the body ("the **associate**") commits a fraud offence intending to **benefit** (whether directly or indirectly) - (a) the relevant body, or (b) any person to whom, or to whose subsidiary undertaking, the associate provides services on behalf of the body.*"

What is the defence?: To have reasonable prevention procedures in place or demonstrate that it would be unreasonable to expect the body to have any prevention procedures in place.

- An **'associate'** can include an employee, agent or subsidiary, or anyone else who performs services for / on behalf of the company.
- Offence requires fraud to **benefit** (directly or indirectly) the organisation or customer (i.e. not applicable should relevant body be the victim).
- The offence applies to corporates that meet two out of three criteria: turnover over £38m, over 250 employees or net assets of over £18m.

Key reminders and governance considerations

- Official guidance on the legislation was published in November 2024. As anticipated, the guidance sets out a principle based approach to reasonable procedures; including:
    - Top level commitment
    - Risk assessment
    - Proportionate procedures
    - Due diligence
    - Communication and training
    - Monitoring and review.
- **Companies have until 1 September 2025 to ensure reasonable procedures are in place.**
- Key considerations include:
    - **Build on your existing programmes:** Many organisations already have some fraud risk management practices. Knowing what is already in place and what needs to change is crucial for effective implementation.
    - **Associated persons:** Companies are now potentially liable for frauds committed by third parties acting on their behalf. Identifying the typologies of third parties, assessing the risk of fraud perpetrated by each and ensuring appropriate measures are in place, will be essential to demonstrating reasonable procedures.

What actions should corporates take / consider

Now that the guidance has been published, the following initial steps should be prioritised:

- **Responsibility and stakeholder mapping:** Ensure that someone in the organisation, with access to the Board and with relevant experience, is put in place to oversee the programme and to implement the changes necessary.
- **Review the guidance:** Where not performed already, a review of the guidance against existing programmes should be undertaken and a clear plan developed to address priority areas in advance of 1 September 2025.
- **Fraud risk assessment:** The fraud risk assessment drives the prioritisation and focus of all other principles. The majority of organisations will need to undertake some form of review of their existing fraud risk assessment, as a minimum to consider the potential frauds committed by associated persons.

Undertaking these initial steps will help to prioritise subsequent actions required and ensure appropriate oversight over the programme going forward beyond the implementation date.

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Tax

What's new

OECD Pillar Two
Major tax reform agreed in October 2021 which aims to put a floor on international tax competition by introducing a global minimum tax rate of 15% for larger global MNEs.

- UK legislation is now enacted, including a domestic minimum tax for UK entities, which will also apply to UK groups.
- Further law changes to come and guidance is evolving with the latest OECD publications in January 2025. Keep up to date with our Pillar Two country tracker.
- Tax changes across the rest of the world as a result of the Pillar Two changes.

Tax transparency
- EU directive on Public Country by Country Reporting (CBCR) covering large companies (€750m revenue) with operations in the EU for periods starting after 22 June 2024.
- However, it is important to track local requirements, as some territories have early adopted and disclosures may be required earlier. Keep up to date with our CBCR tracker.
- More than 50 groups have already published data due to Romania's early adoption.

Increased tax authority disputes
Focus on business models and transfer pricing, interest deductions and general uncertain tax positions (notification required in UK, Canada, US and Australia).

US Government change
Tax changes are anticipated later in 2025 as Republicans will have control of the House and Senate. Further information can be found on our website.

State Aid
In September 2024, the UK Government won the FCPE CFC state aid case in the Court of Justice of the European Union. Cash collected by HMRC will be refunded to companies in due course.

Budget 2024 - Employment taxes
From April 2025, the National Living Wage for employees aged 21 and over will rise by 6.7% to £12.21 per hour, while the National Minimum Wage for 18-20 year olds will increase to £10.00 per hour. Employer National Insurance Contributions (NICs) will go up from 13.8% to 15%, and the Secondary Threshold will be reduced from £9,100 to £5,000 annually until April 2028, after which it will be adjusted by CPI. Additionally, the Employment Allowance will be raised from £5,000 to £10,500, and the £100,000 employer's NIC threshold for eligibility will be removed, making it accessible to more employers.

Key reminders and governance considerations

ESG/CSRD linkage with tax:

- Governments use tax to change behaviours, e.g. plastic tax, carbon taxes, etc.
- Tax policy alignment with TCFD disclosures (which are another area of focus for the FRC), business model and tax strategy.
- Investor transparency requirements on workforce, CBCR, etc.
- CSRD needs to align with tax areas such as transfer pricing

Further information on our global tax transparency study can be found here.

What actions should corporates take / consider

- OECD Pillar Two is likely to involve a significant increase in compliance on tax and finance functions. Make sure that you have appropriate processes in place, as UK legislation is effective in 2024 and the current tax impact will need to be disclosed for year end reporting.
- Ensure controls and processes are in place to track all tax law changes including direct and indirect taxes. There was a large volume of substantively enacted legislation globally during December 2024, which needs to be reflected in accounts.
- Maintain a global tax risk register with appropriate controls to identify and manage disputes (for both direct and indirect taxes).
- Consider the alignment of the tax strategy with the ESG strategy and what the public narrative would be on explaining your CBCR.

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Pensions

What's new

- Rising bond yields leading to record surpluses
- Virgin Media update
- 2024 Autumn Statement

Key reminders and governance considerations

- Inflation fell over 2024, meeting the Bank of England's (BoE's) 2% target for the first time in over three years. However, interest rate cuts were more restrained than expected, and inflation began to edge higher towards the end of the year. The slower-than-expected pace of monetary easing, combined with the general economic outlook and BoE's quantitative tightening programme, has likely contributed to a sell-off in bond markets, driving yields to higher levels.
- The significant increase in bond yields in 2022 led to record volumes of pensions insurance transactions in 2023 and 2024, as companies took the opportunity to de-risk their defined benefit (DB) pension schemes. The latest rise in yields means that this is likely to continue into 2025.
- PwC estimated the aggregate 'buyout' surplus of the UK's 5,000 corporate DB schemes to be a record £330bn in October.
- It is important to note that the premiums paid to insurers for these transactions are often significantly higher than the accounting value of the liabilities. Such transactions can therefore have a substantial impact on corporate balance sheets and it is important to consider the appropriate accounting treatment before implementing.
- Aside from insurance options, companies are exploring other solutions to remove assets and liabilities from their balance sheets. A recent example of this is the landmark pensions transaction, whereby Wates Group (advised by PwC) transferred its DB liabilities to Clara, a pensions superfund.
- Given the high level of surpluses, there is continued discussion on whether it is appropriate to recognise these as an asset on the balance sheet. Additionally, auditors have focused on the correct tax rate to apply to these balance sheet assets.
- For monitoring of your pensions accounting assumptions against market trends, see the PwC quarterly accounting trends page.

Virgin Media update

- The 2023 High Court ruling in Virgin Media Limited v NTL Pension Trustees II Limited invalidated certain pension scheme rule amendments which lacked actuarial confirmations (Section 37 certificates), and this decision was upheld by the Court of Appeal in July 2024. The judgment has prompted many companies to review historical documentation for compliance, with auditors expecting them to engage with Trustees, address potential compliance issues, seek legal and actuarial advice, and include appropriate disclosures in financial statements.
- While industry bodies continue to lobby for government intervention and a loosely-related court case is pending in February 2025, no further legislative changes have been announced. Accordingly, companies are expected to treat the judgment as settled case law and reflect its implications in their year-end accounts.

2024 Autumn Statement

- The Autumn Budget on 30 October 2024, introduced relatively modest changes to pensions, with no immediate impact on pensions accounting.

What actions should corporates take / consider

Governance

- Evaluate the impact of rising bond yields and record surpluses on your pension scheme strategy, including opportunities to de-risk liabilities or transfer obligations off balance sheets.

Accounting

- Consider the cash and accounting implications of any planned buy-in / buy-out transactions to take advantage of favourable insurer pricing and improved surplus levels.
- Review the position on recognising surpluses and consider obtaining legal advice to remove any uncertainty in this area, given the increased incidence of large surpluses (if not already done previously).
- Incorporate clear disclosures in financial statements to address the implications of the Virgin Media ruling and to outline investigations, conclusions, and any resulting adjustments.

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Trade Credit insurance

What's new

Credit insurance will be present somewhere in the supply chain. There is £350bn of insured trade in the UK across 630,000 businesses. In 2024 we saw the failure of ISG in the construction sector, along with many other smaller businesses. As a result, one of the major creditor insurers has suspended new cover to the construction sector and the Sureties have not yet renewed their appetite for providing performance bonds for construction contracts. Other sectors on watch include technology, automotive, logistics and RCLI (big failures in 2024 such as The Body Shop and Ted Baker and restructurings such as Super Dry). This year has already seen Poundland engage advisors to look at restructuring with more stress anticipated with the upcoming budget changes. It is more critical than ever for businesses to assess the impact of any reductions or withdrawals of credit insurance on their working capital.

Key reminders and governance considerations for clients

If insuring against debtor default

- Engagement with insurers should be a regular thing - at least every six months for any limits <£1m and every two months for limits >£1m.
- What is the risk profile of the customer base? How much of their income is derived from sectors that are at risk?
- Have they had to report debtor late payments to insurers? If so, that could trigger a reduction in cover / credit limits. We have started to see this as insurers become more proactive in managing risk.
- What credit limits do companies have across their portfolio and is there any headroom to provide capacity if there are reductions? What limits are actually needed?
- The effect on sales if terms have to be reduced due to reductions in credit insurance limits. How will they remain competitive?

If their suppliers have insured against them defaulting

- What their credit ratings are across several different agencies – this is the starting point for insurers when assessing risk.
- What is their payment performance like? Are they asking for extended payment terms? If so, suppliers have a duty to report both to their insurer which will raise the risk levels potentially. Insurers are seeing late payment as a trigger for reduction in cover / limits.
- Is there a possibility that accounting periods will be extended?
- How will year end results compare to peers?
- Engagement with insurers – insurers want access to regular MI and any reticence in engaging and providing information will raise a red flag.
- Understanding which suppliers have credit insurance (this can be difficult as most policies have a confidentiality clause but a good relationship with suppliers should help).
- If there is a reduction or withdrawal of credit limits and suppliers have to reduce terms, what will the impact be on their working capital – if they have to pay suppliers up front it could significantly impact cash flow. Is there any headroom?
- What levers do companies have with key suppliers to negate any removal or reduction in credit limits by the insurers? Are they a big enough customer for the supplier to negotiate? Could they source elsewhere? Can they tie the supplier in?

What actions should corporates take / consider

- Review your own credit reputation – this will help with understanding whether suppliers are likely to struggle to obtain credit for trade. Has there been any negative press coverage for example? Are suppliers being paid to terms or stretched?
- Make sure you deal with any statutory demands or winding up petitions promptly. These have been factors in most insolvency cases recently and are a real red flag for suppliers and credit insurers.
- Pay attention to supply chain risks – no business exists in isolation.
- Know your customers, yes, but the same applies to suppliers.
- Review key suppliers for trading terms and trade levels. What would the impact be if terms were reduced? Are you using all of the credit limit?
- How quickly could you respond to requests for key MI?
- In person engagement – be that with customers, suppliers or credit insurers – build a relationship which will sustain in difficult times.

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Thank you

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