

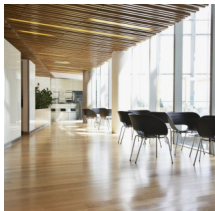
# QUALITY MATTERS

A Quarterly newsletter brought to you by CVM & Co

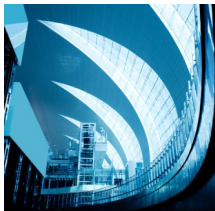
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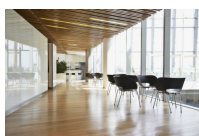


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## The usual suspects - FRC publishes Annual Review of Corporate Reporting



The FRC released its annual review of Corporate reporting. The Annual review is essentially the Corporate reporting regulator feeding back to stakeholders i.e. preparers, audit firms and investors, the results of the work of its CRR team over the period.

The CRR team is one arm of the FRCs regulatory mechanism. This team reviews the published financial statements of reporters for compliance with the relevant reporting requirements. Some of these reviews are thematic i.e. reflecting an area of concern to the FRC. Other reviews are triggered by complaints or concerns raised by stakeholders. Most reviews are performed as part of the cyclical reviews performed on the FTSE 350 reporters.

Where concerns are raised The FRC will engage with preparers and their auditors to better understand the approach taken in the financials. Significant weaknesses or shortfalls will usually be referred to FRC's enforcement team for further action. We will aim to do a deeper dive into the FRC / ICAEW enforcement process in future issues of this newsletter.

A full link to the Report is available [here](#).

Edited by: [Carlison Morris MBA, FCCA](#)

## The usual suspects - FRC publishes Annual Review of Corporate Reporting (Continued)

The following is a summary of the issues identified through the reviews performed over the last year.

| Ranking                                                                              |       | Topic                                                                                                                   | Percentage of reviews where issue identified |       |
|--------------------------------------------------------------------------------------|-------|-------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|-------|
| 24/25                                                                                | 23/24 |                                                                                                                         | 24/25                                        | 23/24 |
| 1   | 1     | Impairment of assets                                                                                                    | 10%                                          | 12%   |
| 2   | 2     | Cash flow statements                  | 9%                                           | 11%   |
| 3   | 3     | Financial instruments                 | 9%                                           | 10%   |
| 4   | 5     | Presentation of financial statements  | 5%                                           | 6%    |
| 5   | 4     | Revenue                                                                                                                 | 5%                                           | 9%    |
| 6   | 6     | Strategic report and Companies Act 2006                                                                                 | 4%                                           | 5%    |
| 7   | 7=    | Judgements and estimates                                                                                                | 3%                                           | 5%    |
| 8=  | 7=    | Income taxes                          | 2%                                           | 5%    |
| 8=  | -     | Consolidated financial statements                                                                                       | 2%                                           | 1%    |
| 10  | 9=    | TCFD <sup>4</sup> , CFD <sup>5</sup> and climate-related narrative reporting                                            | 2%                                           | 4%    |

 Restatements of a company's financial statements and a reference to our review were required in these topic areas. [Appendix 1](#) includes a complete list of such references.

Extract from the FRC Annual Corporate Reporting Review.

It is important to note that all of the issues highlighted have recurred from previous years. An reflect some of the more complex areas of financial reporting.

**Impairment of non-financial assets** continues to be a significant area of concern. IAS 36 continues to be a challenging standard to apply in practice.

It seems like there is a need for further clarification or the provision of toolkits and guidance to help preparers to get these numbers and disclosures right. The IASB is not currently considering any revisions to the standard nor is it being addressed as part of their project to comprehensively review IAS 38.

Most errors were being made on the issues of determining CGUs and performing the VIU calculations using cash flows and discount rates. UKGAAP (FRS 102) has similar requirements so we expect the same sorts of problems to arise.

**Cash Flow Statements** were another significant area. Key issues identified included non-cash flows being included in the statement, incorrect aggregation of cash flows and presentation in incorrect line items, consistency with the definition of cash and cash equivalents and consistent treatment across group and parent company cash flow statements. Again UKGAAP has largely similar requirements for cash flow statements so a lot of these issues will also apply to FRS 102 preparers.

**Financial instruments** continued to be an area of significant concern. Key issues included the operation of the Expected Credit Loss model and the disclosures around key inputs, accounting for embedded derivatives, application of the rules for offsetting and application of the fair value hierarchy.

The report contains some excellent guidance on the issues that preparers and their auditors should be looking out for as we enter the key reporting season.

If you would like to discuss any aspect of the FRCs observations or would like our support to address any of these highlighted issues we would be happy to assist.

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## About CVM & Co



Originally launched in 2019 as a professional service firm CVM & Co. has evolved to provide consulting services to Auditor's and Accountants. We assist firms in navigating an increasingly complicated regulatory landscape.

As accountants, advisors and auditors you already face a significant challenge in delivering your client work on time and to a professional standard and that's on top of the daily requirements of managing your growing business i.e. HR, cash flow et cetera.

The professions regulators like the FRC, ICAEW and ACCA are increasingly becoming more focused on the compliance and ethics elements of your practice and its not unusual to see significant fines and enforcement where the firms systems aren't sufficient to address these obligations.

There is also the increasing complexity of the Financial reporting standards. UKGAAP continues its journey to converge with IFRS introducing the more complex requirements of lease accounting and Revenue accounting. IFRS is also introducing a new look to the presentation of the Financial statements under IFRS 18.

Practitioners are looking for affordable technical support to help them through this period of change.

We specialize in supporting accounting and audit professionals ensuring technical accuracy through training, technical advisory and the provision of Quality Reviews under ISQM 1 and ISQM 2. We also provide firm compliance reviews to ensure that your firm is complying with key regulatory requirements.

We are led by our immensely talented principal Carlison Morris who has over 28 years experience as an auditor, RI, technical accountant and trainer.

For more details of how we can help your firm and details of our principal please [visit our website](#).

## Overview of ISQM1



ISQM 1 was last revised in June 2016 the September 2025 Update largely addresses consequential changes from other standards and additional clarifications and explanatory material.

The standard requires firms to implement a System of Quality Management (SQM) aimed at addressing the risk of the firm issuing an incorrect audit or assurance report or otherwise breaching its ethical obligations.

The SQM should address the following elements:

- (a) The firm's risk assessment process;
- (b) Governance and leadership;
- (c) Ethical requirements;
- (d) Acceptance and continuance of client relationships and specific engagements;
- (e) Engagement performance;
- (f) Resources;
- (g) Information and communication; and
- (h) Monitoring and remediation.

The SQM should take a risk based approach and should be designed in an 'interconnected and coordinated' manner to allow the firm to manage the quality of engagement in a proactive manner.

This approach should:

Establish quality objectives

Identify and assess risks to the achievement of those objectives

Design and implement responses to address the quality risks.

An essential element is the annual evaluation of the SQM by the individual(s) assigned ultimate responsibility and accountability for the system.

The evaluation should conclude on whether the system of quality management provides the firm with reasonable assurance that the objectives of the system are being achieved. Where areas of weakness are identified there should be a co-ordinated plan for how these are to be addressed and a timeline for addressing them.

The system should take into account the nature of the firm and the nature and circumstances of the engagements performed.

The SQM should also consider any networks to which the firm belongs and the quality control systems established within that network.

Where the firm uses resources from a service provider to perform engagements the SQM should encompass the activities of that service provider.

Adherence to this standard is increasing becoming a part of audit quality reviews performed by RSBs such as the ACCA and ICAEW. Your supervisory body will expect to see documentation of the system in operation as well as the key policies and the results of the annual evaluation performed.

Your supervisory body will expect to discuss the SQM with the individual(s) that the firm has designated as responsible for the operation of the system. They will also want to see how the firm is addressing identified weaknesses through new policies and / or training for engagement teams.

Firms have been required to implement this standard since 2022 but in my experience this implementation has been hit or miss particularly in lower mid-tier and smaller firms that do not have a large audit portfolio.

We are keen to work with firms to improve the layout design and documentation of their SQM and also to provide support in carrying out their annual evaluations.

If you think your firm could benefit from an independent SQM annual evaluation please [reach out to us](#). I am confident that we can help you to improve your system ahead of your next monitoring visit.

We will be addressing the elements to an effective SQM in future editions.

## Revenue recognition under FRS 102 Revised



At the conclusion of its periodic review of FRS102 in 2024 the FRC issued FRED 82 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSS – Periodic Review. The FRED has now been formally included in the full standard and is effective for period commencing on or after 1 January

2026.

One of the more significant amendments to the standard was the approach for the recognition of Revenue from contracts with customers. Section 23 of the standard was effectively replaced with a new approach that is consistent with the IFRS revenue recognition model in IFRS 15.

There are some minor differences but it is not expected that IFRS 15 and FRS 102 Revised will give drastically different results when applied in practice.

The previous version of FRS 102 to a mixed approach to recognition based on the type of revenue i.e. goods were at the point of transfer or rights and obligations and services were largely over the period that the services were rendered.

FRS 102 Revised uses a single model for revenue recognition. What follows is an overview of the new 5 step model.

**Step 1: Identify the contract with the customer.** The section defines a contract and sets out the criteria required for when the model will be applicable to such a contract. In my experience the trickiest of these criteria is the one regarding whether it is probable that the customer has the ability and intention to pay. The requirements around multiple contracts and contract modifications can also create some difficulties.

**Step 2: Identify the performance obligations in the contract.** This requirement is the one that will probably have the most significant impact on your / your customers business, particularly if you bundle goods and or services together. There are lots of places where you can come unravelled with this requirement. This is especially the case where you are offering add on incentives for customers e.g. add-ons, buy 1 get 1 free promotions, warranties, non returnable fees.

**Step 3 :Determine the transaction price.** You might be thinking this is straightforward but in reality it can be anything but especially where you have variable elements such as rebates, discounts, refunds, penalties and or performance bonuses. Where it is highly probable that the customer will be able to avail themselves of the variable components they must be included in the calculation for transaction price.

**Step 4 Allocate the transaction price to the performance obligation in the contract.** This is more straightforward where the obligations are priced separately in the contract. Significant judgement and estimation of the standalone selling price is required when not specifically set out in the contract. This requirement has and will continue to change the approaches organisations when pricing up contracts.

**Step 5: Recognise revenue as and when the entity satisfies a performance obligation.** Here there is a distinction between performance obligations satisfied at a point in time and those satisfied over time. This is not always that easy to determine and an error here can give rise to significant misstatements.

In addition to revenue recognition the standard also provides guidance on the recognition of a new class of assets and liabilities namely contract assets and contract liabilities.

There are also significant transition requirements and disclosure requirements arising from these new rules.

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## Revenue recognition under FRS 102 Revised (continued)

The amended standard introduces some important new concepts which are necessary to apply the recognition model:

**Contract asset:** An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditional on something other than the passage of time (e.g. the entity's future performance).

**Contract liability:** An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

**Customer:** A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

**Performance obligation:** A promise in a contract with a customer to transfer to the customer either:

- (a) a distinct good or service (or a distinct bundle of goods or services); or
- (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

**The transaction price** is the amount of consideration to which the entity expects to be entitled in exchange for transferring 246 FRS 102 (September 2024) goods or services promised to a customer, excluding amounts collected on behalf of third parties (e.g. some sales taxes).

We have spent a number of years applying IFRS 15 to entities across several industries and sectors. We have seen lots of instances where organisations have got implementation wrong.

If you would like to discuss the application of these requirements to your firm or your clients we would be pleased to assist.

A link to the Revised Standard is available [here](#).

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