

**FRC Enforcement –
A Year In Review**

2024/25

Introduction

Against the backdrop of renewed cross-political party support for progress in audit and corporate governance reform, the **FRC's 2024-2025 Annual Enforcement Review** (the "**AER**") makes for an interesting read. This is the last review under Elizabeth Barrett's tenure as Executive Counsel with her successor (as yet unannounced) due to be taking over in post in the Autumn.

This year's review paints a picture of steady and continued evolution with a focus on consolidating the FRC's role as an improvement regulator.

The FRC's case load remains stable and after several years prioritising open and long-running cases, it appears to be largely on top of its backlog with a notable reduction in the number of open investigations to 32.

Whilst the FRC states that the reduced financial penalties levied this year are primarily a reflection of the cases that have concluded in this period, rather than any material change in approach, it does accord with the FRC's preference to resolve a greater proportion of cases without using its formal enforcement powers. Instead we are seeing it continue to utilise other levers in its regulatory tool-kit – such as Constructive Engagement – to yield potentially faster and more proportionate outcomes. This, in turn, aligns with the UK Government's broader agenda for encouraging growth in the UK economy.

The obvious omission is and continues to be any further tangible updates or progress on the transition to the Audit, Reporting and Governance Authority ("**ARGA**"). The UK Government has recently announced a further delay to the legislation necessary to establish ARGA. This latest delay raises renewed questions about the future direction of audit regulation and governance reform in the UK, with no clear timetable now in place. In any case, it is clear from the FRC's planning assumptions that they do not expect the transition to come any time soon, and many of the changes we see in 2024/25 and the year ahead appear to be the FRC working on the basis that ARGA and the broadened remit and enhanced statutory powers will not be forthcoming in the near future.

The review also signals the next steps in the ongoing End-To-End ("**E2E**") enforcement review, with public consultation on the proposed changes expected later in 2025.

We explore the potential impact of these key themes in greater detail in the final section of this report.

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Overview of enforcement activity in the year

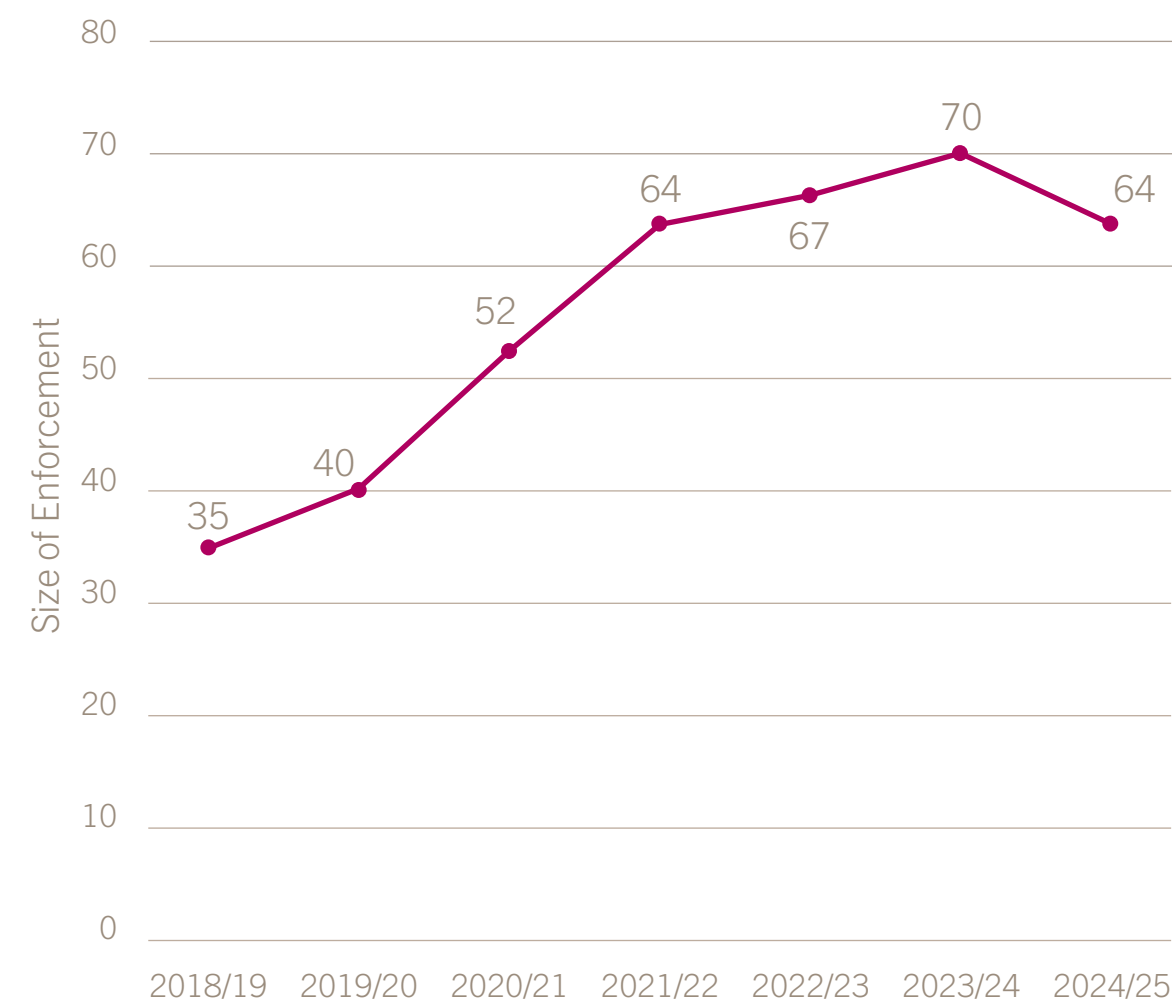
Shape of the enforcement team

Recent years have seen the FRC increasing the size of its Enforcement Division, with the team growing from 35 in 2018/19 to 70 in 2023/24. The FRC’s 3-year plan for 2023-26 (published March 2023) had forecast this growth to continue, increasing to 80 by 2024/25 to reflect the Enforcement Division’s broadened scope and enhanced statutory powers that would come with the FRC’s transition to ARGA.

However, uncertainty as to the timing of the transition to ARGA and future direction of the FRC has led to repeated changes to the FRC’s planning assumptions. For the first time in recent years, the headcount of the Enforcement Division fell in 2024/25, with the team being described to have undergone a period of “*consolidation and reduction*” that has led to the headcount of the team falling to 64 (2021/22 levels).

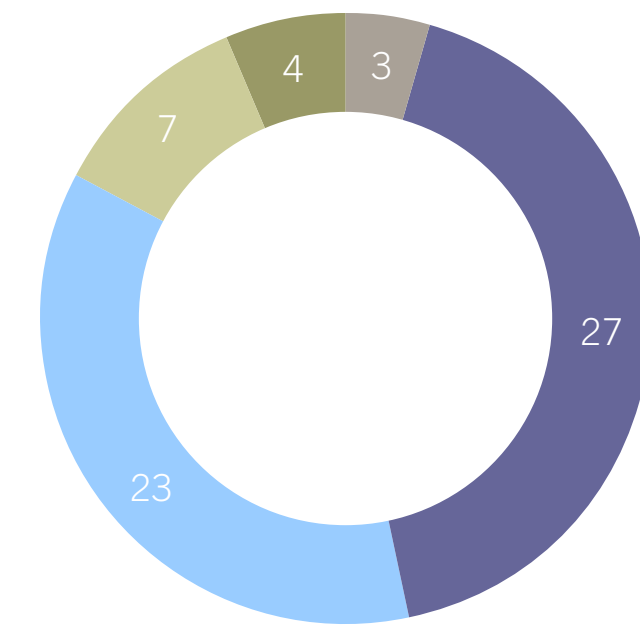
This reduction was not unexpected, with the FRC’s Annual Plan and Budget 2025-26 (published March 2025) forecasting a reduction in coming years. However, the reduction has come faster than anticipated. Whereas the FRC had forecast that the headcount of the Enforcement Division would go from 75 full time employees (“**FTEs**”) in March 2025 to 64 FTEs in March 2026, the reductions have crystallised a year earlier. Moreover, the AER stresses that the headcount of 64 is actually equivalent to 60 FTEs once part time working is accounted for – meaning the reductions are deeper than anticipated.

A period of “consolidation and reduction”



In terms of the specific teams within the Enforcement Division, the reduction in headcount has largely occurred within the legal team, which fell from 32 lawyers in 2023/24 to 27 in 2024/25, with the numbers of individuals working for the other sub-categories within the Enforcement Division remaining steady. As noted in our review last year, the Enforcement Division still lacks any internal specialist audit expertise, meaning that specialist support has to be sourced externally and investigations are predominantly run by lawyers and forensic accountants. This is a point which would benefit from consideration as part of the E2E review, although whether this is in fact addressed remains to be seen.

Enforcement Division Teams



- Executive and Deputy Executive Counsels
- Lawyers*
- Forensic Accountants
- Legal Assistants
- Operations and Administrative

* Includes qualified barristers or solicitors and trainee solicitors



Current Case Assessment caseload

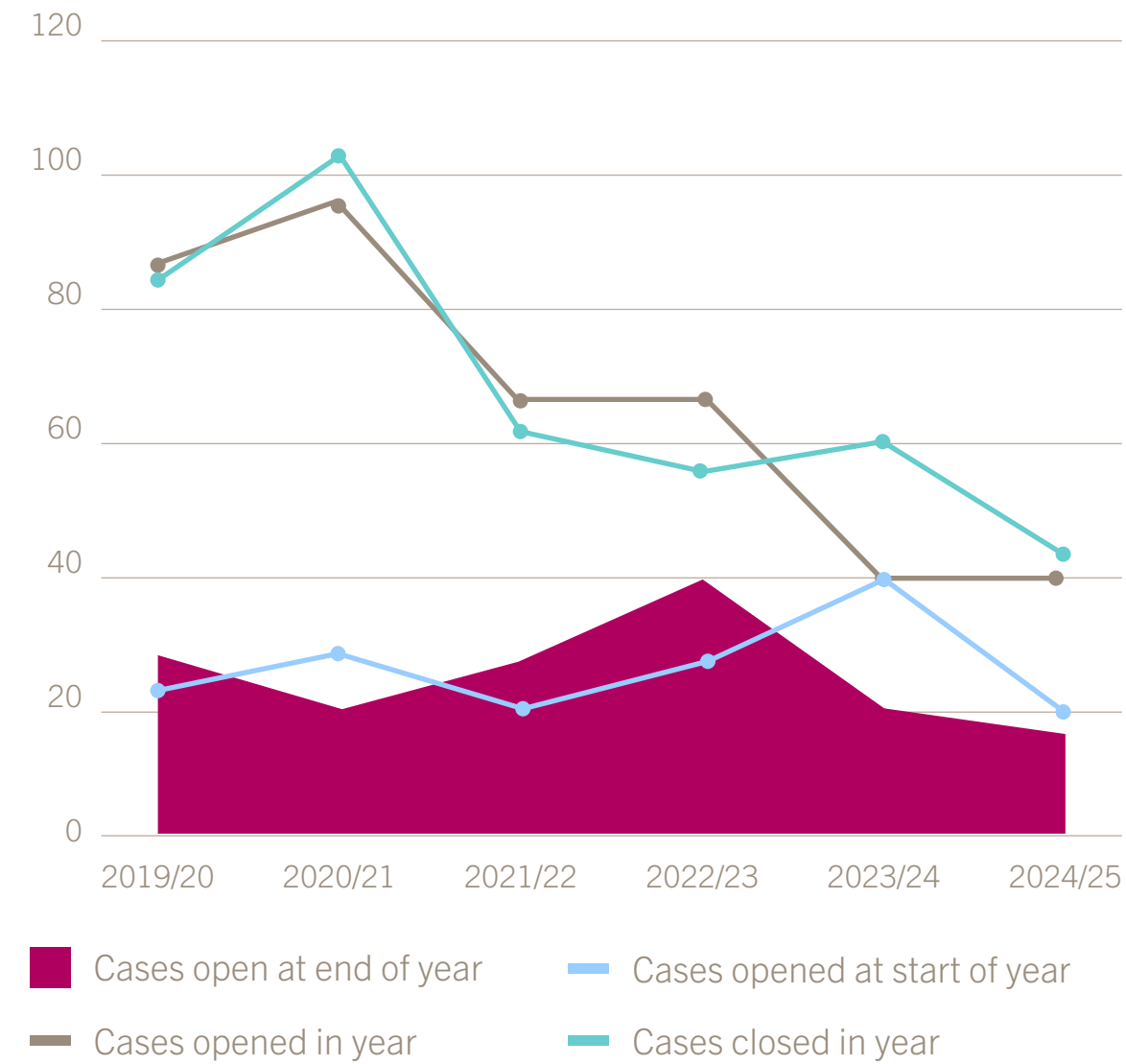
Case Assessment Cases

40 cases were opened during the year. This continues the trend we saw last year of a significant drop in the number of cases being opened (down from a high of 95 in 2020/21).

The ongoing case portfolio is also continuing to fall, with the number of cases open at the end of the year (16) being the lowest figure in recent years and a significant reduction from the heights reached in 2022/23.

As opposed to the previous year, the low level of open cases is not driven by case closures. In 2023/24, the number of cases closed was 150% higher than the number of cases opened (60 vs 40). The drop in 2023/24 reflected a large number of cases that were being progressed via Constructive Engagement being transferred from Case Assessment to Audit Firm Supervision (and therefore falling outside the Case Assessment team's portfolio). Instead, this year there is broad parity between cases opened and cases closed (40 vs 44). This would suggest that Case Assessment has largely got on top of its case load.

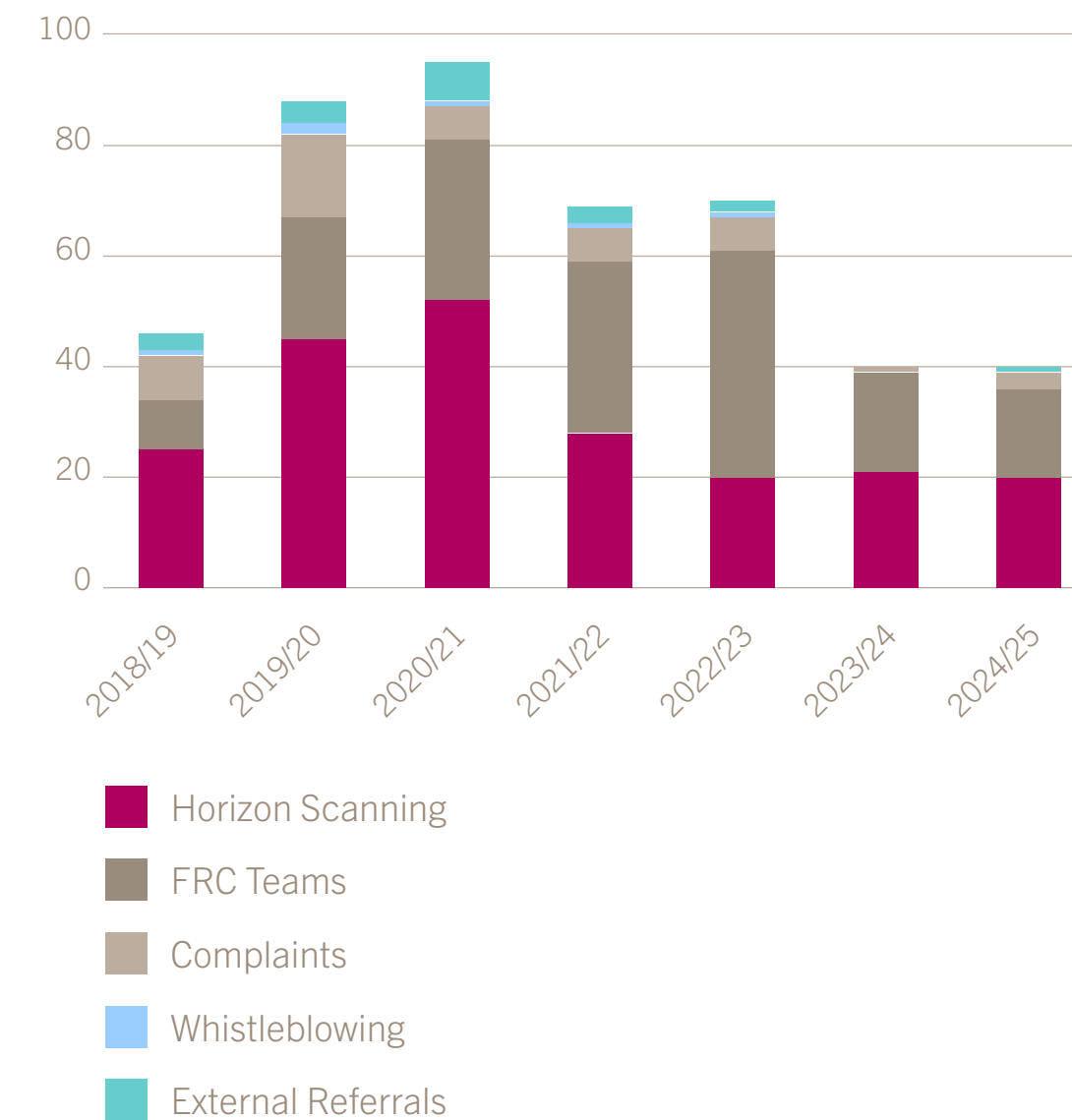
Case Assessment has got on top of its case load



Sources of Case Assessment cases

The sources of Case Assessment cases remain largely consistent with last year, with the bulk coming from horizon scanning and internal referrals from the FRC team. Cases arising from complaints and external referrals remain low. Notably, this is the second year in a row in which no cases have been derived from whistleblowing. Whilst numbers of cases arising from whistleblowers' reports have always been very low, there has typically been at least one or two cases per year. It is hard to draw any significant conclusions from such small figures. However, the dearth of productive whistleblower reports would seem to reflect trends identified by other regulators.

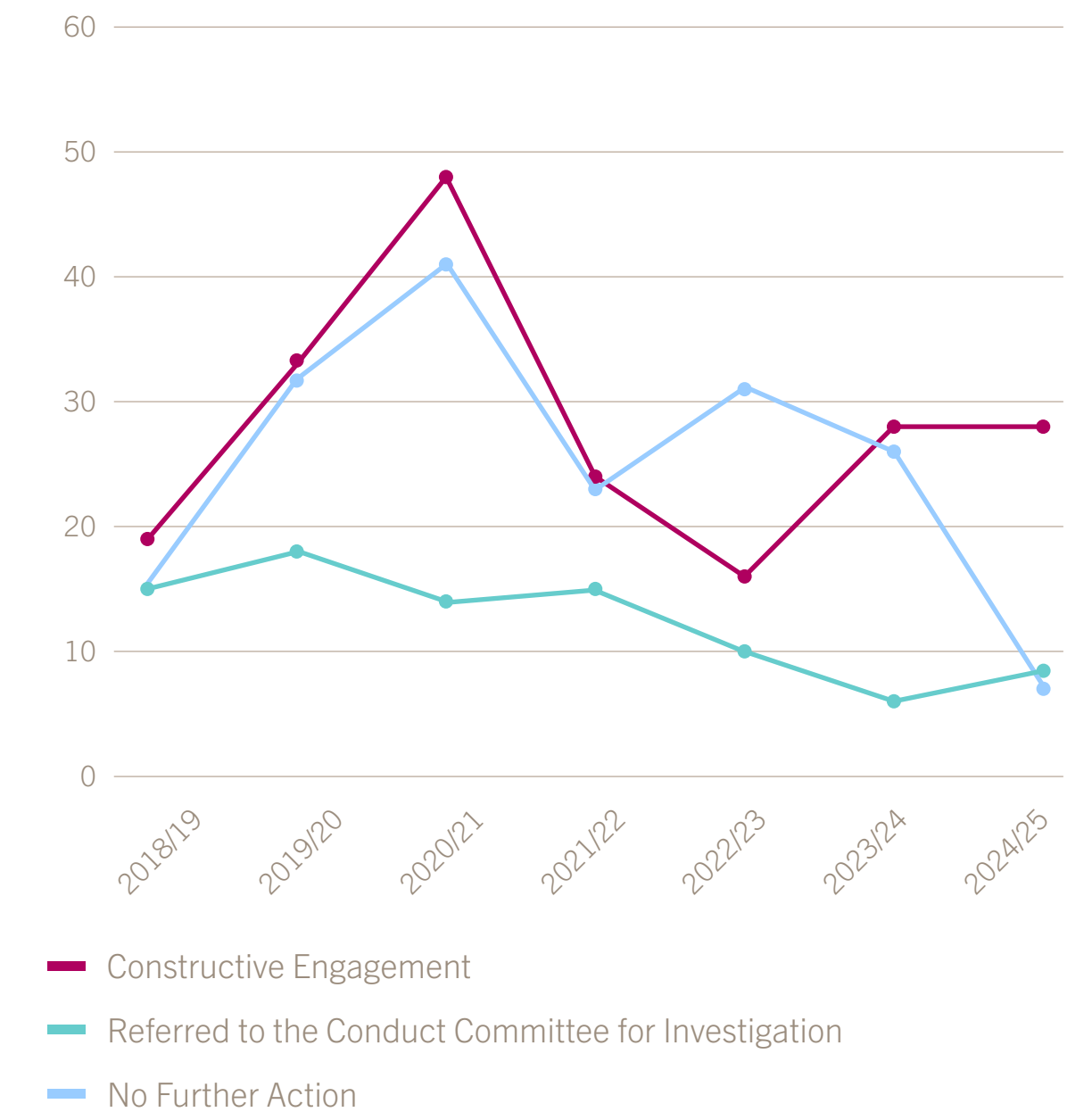
Sources of cases remain consistent



Outcomes

The majority of Case Assessment cases closed this year concluded with Constructive Engagement. Following a slight dip last year, the number of cases referred to the Conduct Committee for investigation has risen to levels similar to those seen in 2022/23. Notably, the number of cases closed with no further action was at its lowest ever level. This is likely a reflection of the Case Assessment team opening fewer cases, with the presumably higher bar leading to fewer outcomes where no action is taken.

Case Assessment outcomes reflect a more discerning approach to case opening



Timeliness of referral from Case Assessment to the Conduct Committee

The number of cases meeting the key performance indicator (KPI) of six months for referral of a matter from Case Assessment to the Conduct Committee has fallen, being met in only 55% of matters as compared with 83% last year.

This appears to be part of a broader trend, with the time taken for referrals by Case Assessment to the Conduct Committee rising year on year. By way of example, in the year ended 31 March 2023 the average time taken to refer a matter for potential investigation was just over three months. In the year ended 31 March 2024 this had risen to just under five months. This year the average time taken stands at just over ten months.

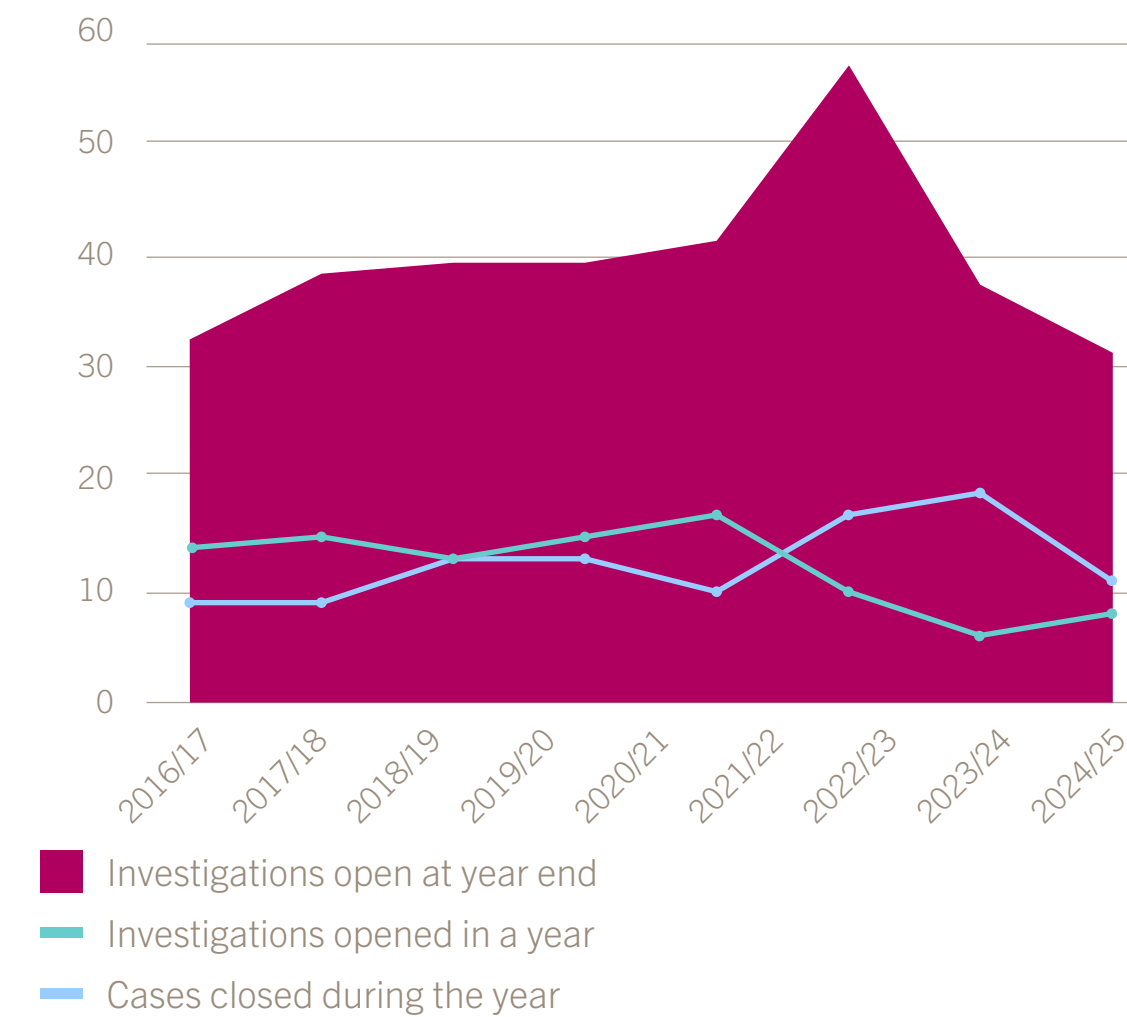
The FRC suggest that the drop in the number of cases meeting the KPI has been driven by the specific circumstances of certain matters, including the amount of material considered by Case Assessment. In particular, the FRC have pointed to delays caused obtaining relevant material, such as investigation reports, which was “partly due to the need to agree legal privilege waivers”. It can often be a complex task agreeing limited waivers of privilege with the FRC, particularly in circumstances where the privilege may belong to a third party (for instance the audited entity). However, such delays would not necessarily explain why the time taken to refer cases has increased year on year. It is possible that the more discerning approach taken by Case Assessment to the cases it refers for investigation may mean the process is taking longer.

Investigations

The number of investigations opened has risen slightly to eight cases following last year’s record low of six cases. Of the eight cases, seven were audit investigations under the AEP and one was an investigation into accountants under the Accountancy scheme. Only five of the AEP investigations have been publicly announced. These numbers would suggest that the FRC is continuing to take a considered approach to which cases it publishes and when. This flexibility is to be welcomed, particularly in the light of the FCA’s controversial (and now largely abandoned) proposals to publish the fact of more investigations.

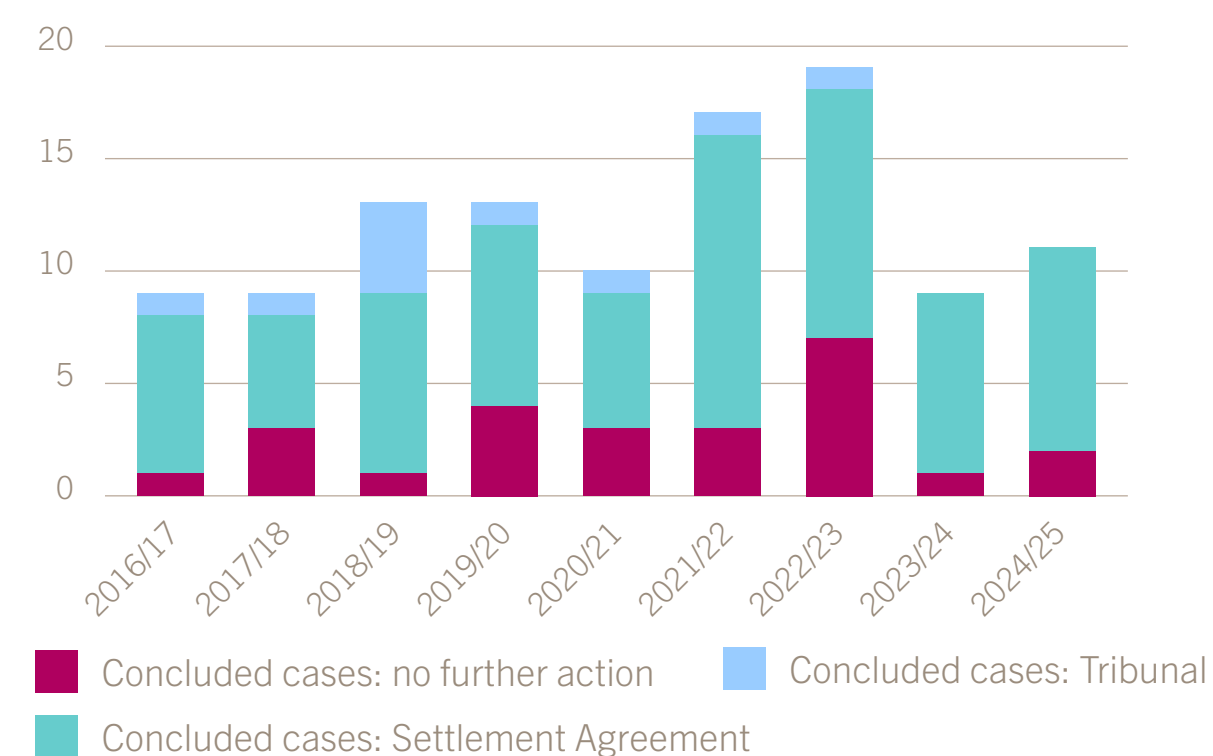
Notably, none of the new cases followed referrals from the AQR team. Audit Quality Reviews (“AQRs”) have typically led to a steady stream of investigations being opened in previous years (three in 2022/23 and two in 2023/24). This is not unexpected given the FRC’s recent Annual Review of Audit Quality identified that audit quality (at least among Tier 1 firms) has risen substantially in recent years (for further information, see [here](#)) and the FRC’s aim to deal with less serious issues via Constructive Engagement as opposed to enforcement.

The number of open investigations continues to fall



Eleven investigations were concluded in the year, of which nine were resolved via settlements and two closed with no further action. This is the second year in which no cases have been referred to the tribunal.

FRC investigation outcomes



Themes arising from enforcement actions

The themes arising from cases that closed this year with a sanction are largely consistent with previous years, including: failure to exercise professional scepticism; failure to obtain sufficient appropriate audit evidence; and failures in audit documentation. Other themes identified included: compliance with ethical requirements; compliance with laws and regulations; presentation and disclosure; and matters relating to going concern.

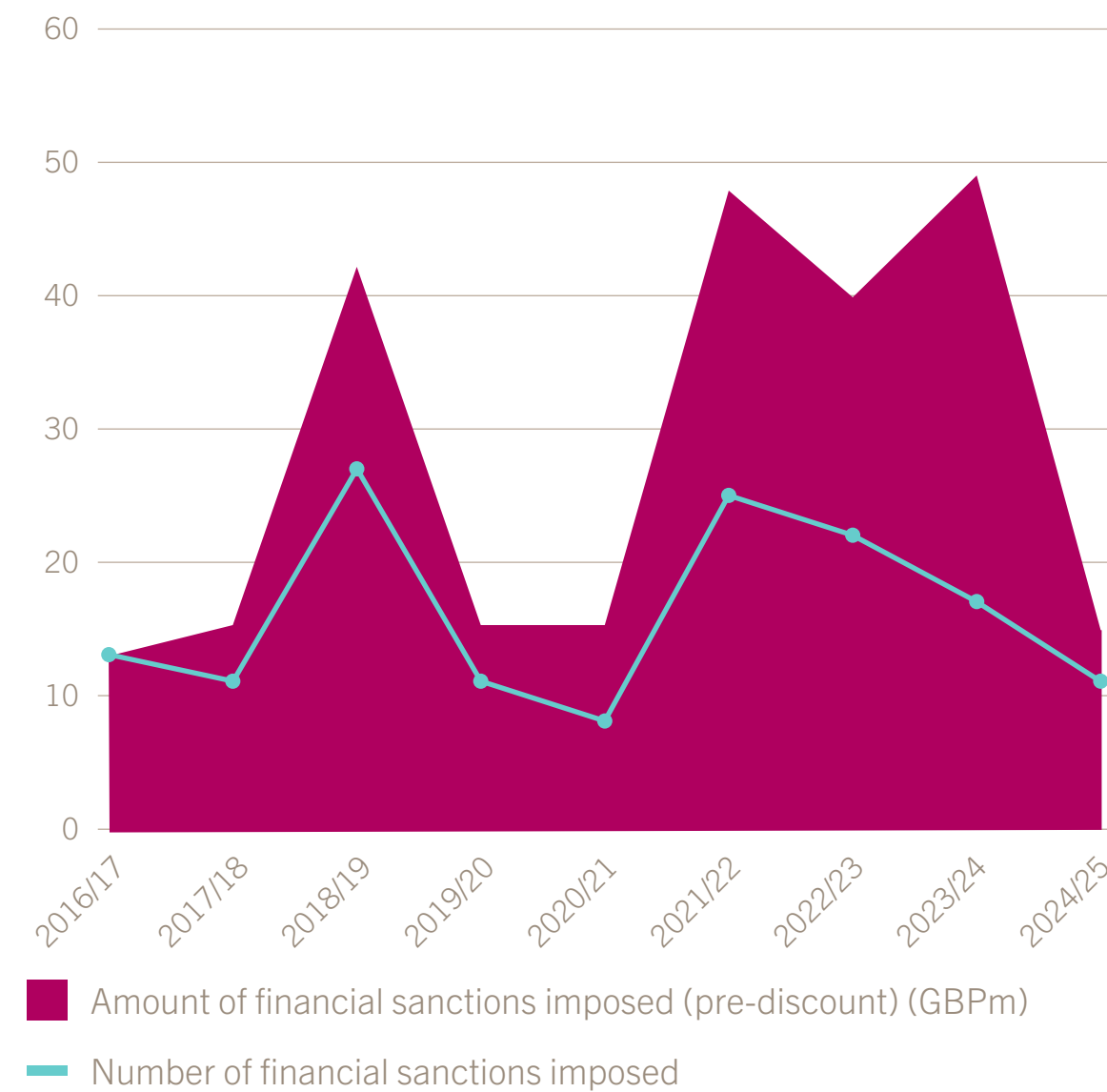
In respect of the seven audit investigations opened this year, the FRC’s concerns range across potential issues relating to professional scepticism, audit planning, audit evidence and documentation, presentation and disclosure, revenue and revenue recognition, going concern, provisions, risk of fraud, compliance with the Ethical Standard and compliance with laws and regulations.

Sanctions

Financial sanctions

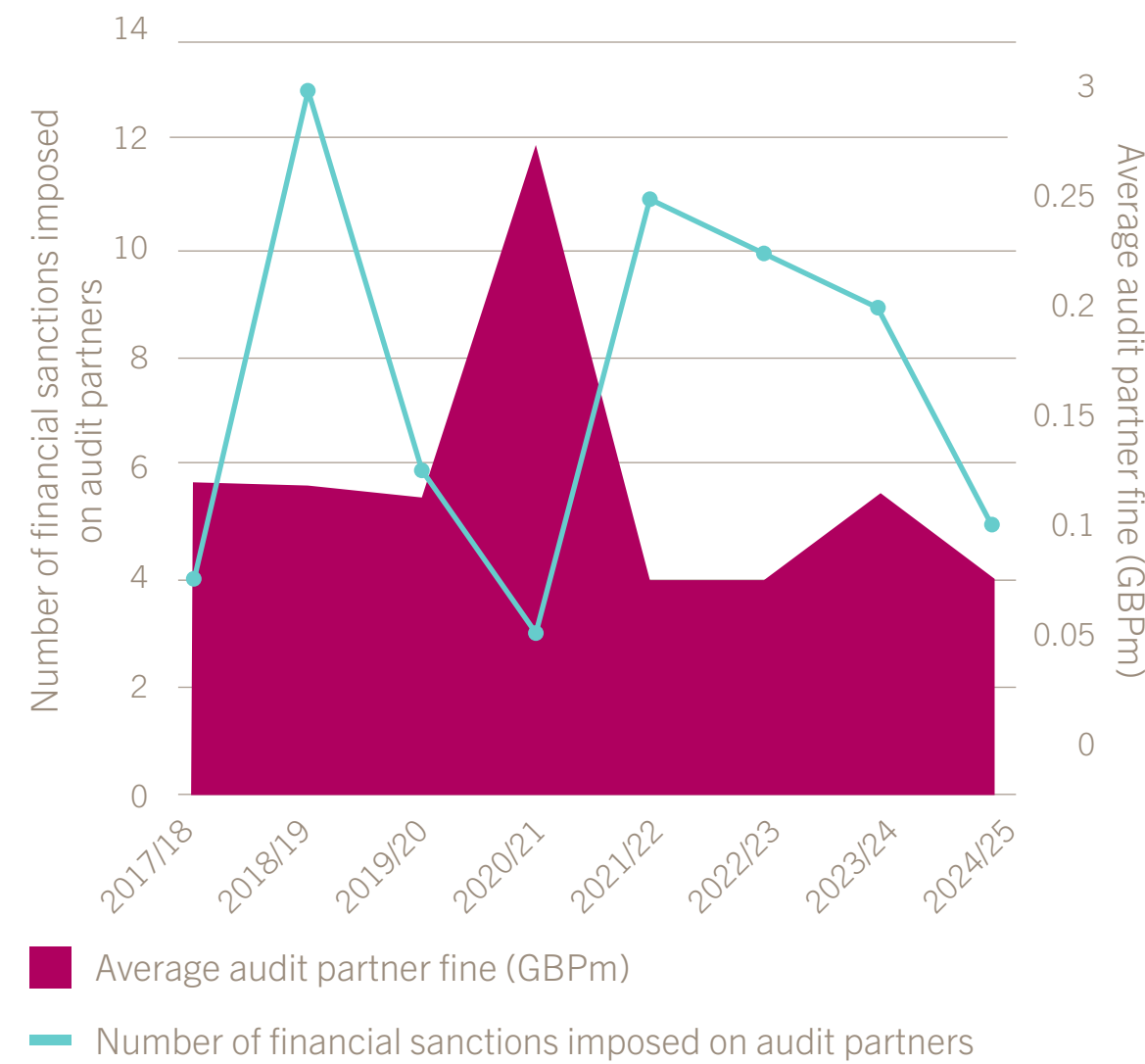
This year, financial penalties totalled £14.5m (before any settlement discount). The FRC is at pains to contextualise this figure, noting that there are numerous factors which drive financial penalties in any given year. In recent years, the total amount of financial sanctions has been heavily impacted by one or two high profile investigation outcomes. For context, last year's total financial penalties of £48.2m (before any settlement discount) was the highest level recorded in any given year to date and primarily driven by the record £30.6m (pre-discount) sanction imposed in relation to the KPMG/Carillion investigations.

A slow year?



Sanctions against audit partners have also fallen. Five financial sanctions against audit partners were imposed this year, down from nine and ten in 2023/24 and 2022/23 respectively. Total financial sanctions for audit partners stood at £0.4m (£0.3m after discounts).

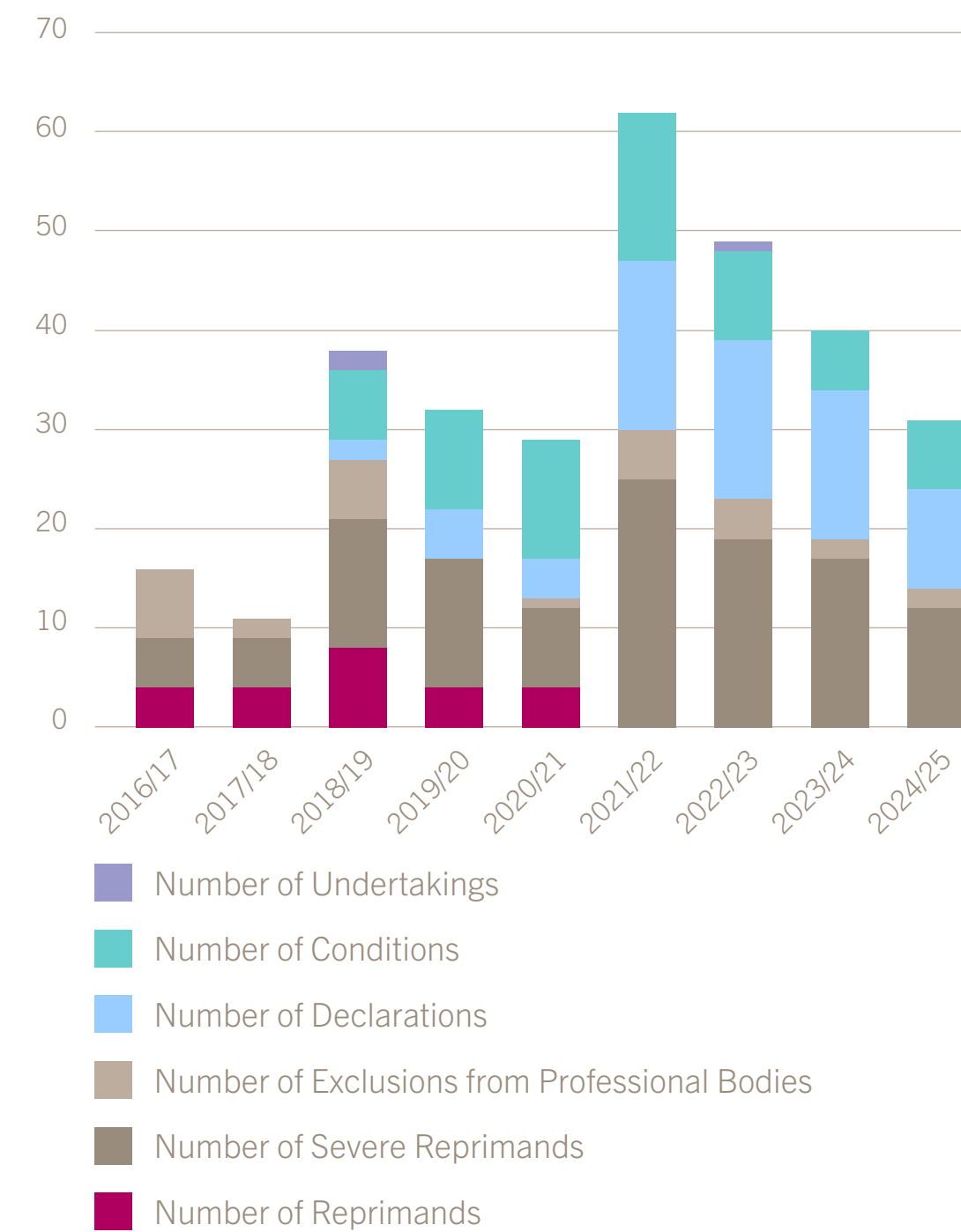
In recent years, the average size of fines against audit partners have remained steady



Non-financial sanctions

Whilst the number of non-financial sanctions has fallen again this year, this largely tracks the numbers and types of cases concluded in 2024/25 rather than any significant shift in that trend. Notably, the dip in non-financial sanctions is a lot smaller than what we have seen for financial sanctions, reflecting the FRC's focus on proportionate outcomes that send clear messages to the market.

FRC non-financial sanctions per year



Timeliness

Financial sanctions

In recent years the FRC has been tracking timeliness via two KPIs:

- > **A two-year KPI:** A period of two years between notification of the commencement of an investigation and service of either the Proposed Formal Complaint (“**PFC**”) or Investigation Report (“**IR**”) (or closure or settlement if sooner) in 50% of cases in a financial reporting period (1 April to 31 March).
- > **A three-year KPI:** A period of three years between notification of the commencement of investigation and service of either the PFC, IR (or closure or settlement if sooner) in 80% of cases in a financial reporting period (1 April to 31 March).

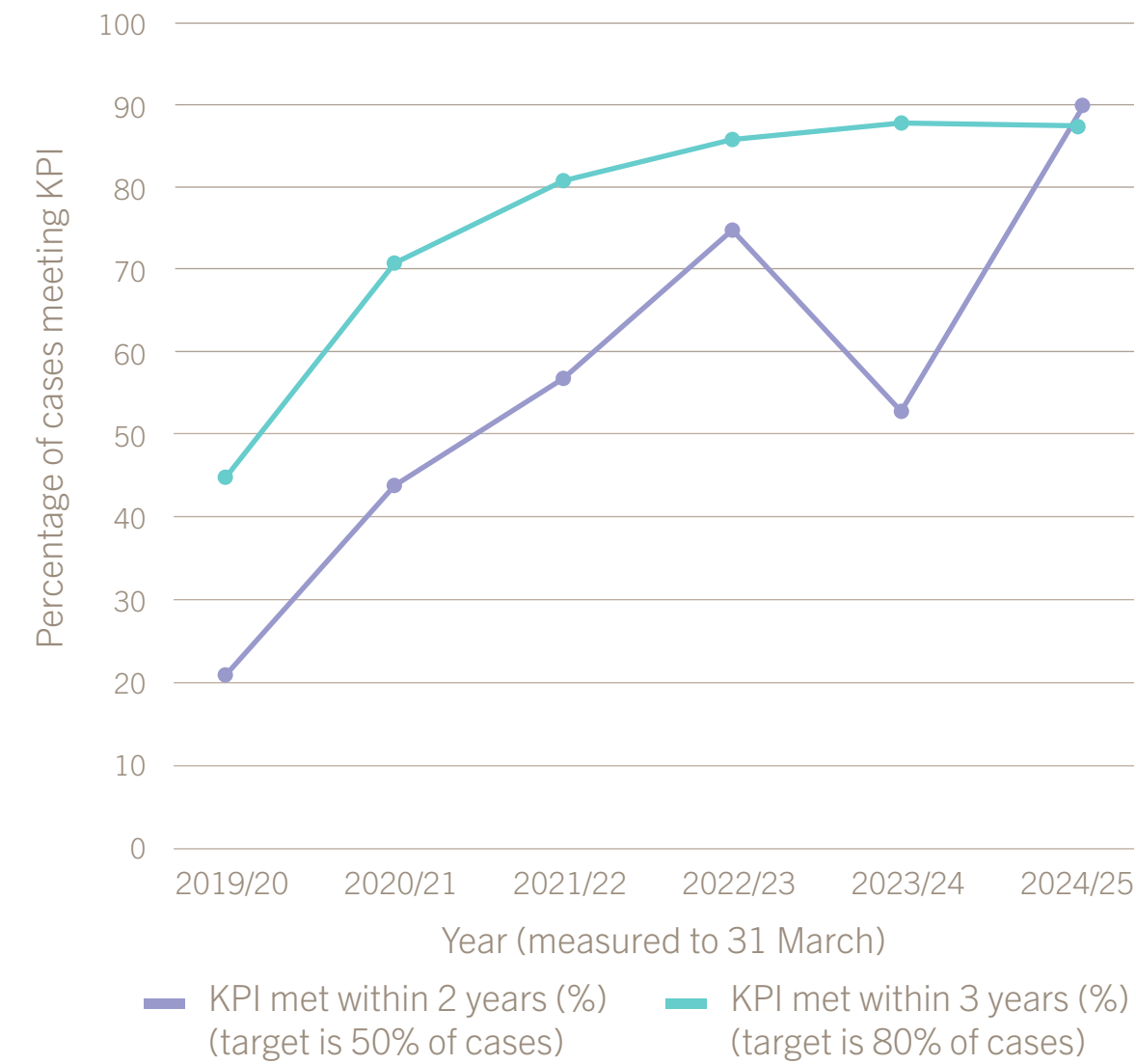
Consistent with recent years, the Enforcement Division has met both KPIs, with 90% of cases meeting the two-year KPI and 87% reaching the three-year KPI. The performance in respect of the two-year KPI is particularly striking; breaking this figure down, it should be noted that only ten cases were applicable for the purposes of the KPI (being opened between 1 April 2022 and 31 March 2023) of which nine met the KPI. Similarly, only 15 cases were applicable for the three-year KPI (of which 13 met the KPI).

Accordingly, neither KPI captures cases opened prior to 1 April 2021. At the start of the year, five ‘legacy’ cases remained open, of which three were closed during the year. In respect of the two remaining legacy cases: one remains on hold pending resolution of parallel proceedings, and the other case is described as a “*large and complex*” Carillion investigation into Members in Business under the Accountancy Scheme.

Elizabeth Barrett recently spoke about the FRC’s focus on timeliness, highlighting two factors which have led the FRC to improve in this regard. First, the FRC is concentrating on breaches which it considers to be serious or significant, which can also be reflected in the number of cases being opened. Secondly, the FRC is working with firms so that firms are increasingly conducting their own self reviews, making admissions and generally being more proactive.

Whilst these figures are therefore encouraging and timeliness is to be encouraged, they do still only tell half the story and the FRC has openly said that it may not be possible for more complex investigations to be completed within the two/ three years. For the individuals involved in these investigations, that is clearly unwelcome news, and comments that have been shared with the FRC as part of the E2E enforcement review have encouraged the FRC to continue to consider this and ways to optimise and speed up its review processes.

Compliance with KPIs



Looking forward

As is apparent from the statistics, FRC enforcement appears to be entering a period of consolidation. In light of the uncertainty surrounding the transition to ARGA and the broader audit reform agenda, the FRC enforcement team has now largely transitioned to a sustainable steady state and a carefully managed case load.

However, there are a number of factors that could change the shape of enforcement in the years to come:

New faces

In the AER the FRC has now formally announced the upcoming departure of Elizabeth Barrett, the Executive Counsel for the Enforcement Division. Ms Barrett joined the FRC in 2018 and has been pivotal in the FRC's transition following the Kingman report which saw the FRC becoming a much more assertive regulator.

Ms Barrett's departure coincides with the announcement that Sarah Rapson, the current Executive Director of Supervision, will be leaving the FRC later this year. This means that next year we will see significant changes to senior management within the FRC. Time will tell what impact this will have on the FRC's approach going forward.

New approaches

The FRC has launched an E2E review of the AEP. As the AEP was originally introduced in 2016, this review aims to ensure that the enforcement process remains efficient, effective, timely and proportionate against the backdrop of a changing audit landscape.

As the name suggests, the review will consider all aspects of the enforcement journey from initial case assessment to investigations and enforcement action and ending with publication of outcomes.

It will consider governance structures, decision-making processes and operational efficiency and effectiveness, taking into account learnings from other regulators.

The scope of the review extends into the FRC's Supervision Division and Legal Services team. It will touch on horizon-scanning exercises to identify potential enforcement actions and evaluate the threshold criteria for commencing investigations, although with the departures of Sarah Rapson and Elizabeth Barrett, it remains to be seen who will be driving this forward.

The FRC is also examining its approach to key decisions made during the investigation process. This includes improving the governance structures that guide investigations and refining how cases are resolved whether through settlement or escalation to tribunal hearings. The review seeks to strengthen oversight mechanisms and provide clarity around the roles of decision-makers within these processes to improve the overall framework.

A key driver of the E2E review is proportionality. The review will consider how best to provide a graduated range of options to achieve a resolution of issues that are better tailored to the facts and circumstances of each particular case.

The overall goals of the E2E review should be viewed with (cautious) optimism. The AEP is a blunt instrument and formal enforcement investigations impose significant burdens upon audit firms and the businesses they audit. These burdens are often most keenly felt by the individuals involved in the process, who often have to deal with years of uncertainty before cases are resolved.

The review's focus on proportionality and timeliness are encouraging. By way of example, the prospect of 'fast track' procedures and further intermediate measures for resolving cases beyond Constructive Engagement, but falling short of enforcement action, have the potential to provide much need flexibility.

One important caveat is that the E2E review focuses solely on the AEP and does not extend to other FRC regimes such as the Accountancy Scheme or Actuarial Scheme. Whilst the Actuarial Scheme has been little used in recent years, a number of cases have been progressing through the Accountancy Scheme.

We will need to wait and see how the FRC's thinking develops, with further outreach expected in Autumn, including public consultation.



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