



Financial Reporting Council

Grant Thornton UK LLP

Audit Quality Inspection and Supervision

July 2023

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Introduction: FRC's objective of enhancing audit quality

The FRC is the Competent Authority for UK statutory audit, responsible for the regulation of UK statutory auditors and audit firms. We assess, via a fair evidence-based approach, whether firms are enhancing audit quality and are resilient. We adopt a forward-looking supervisory model and hold firms to account for changes needed to improve audit quality.

Auditors' opinions on financial statements play a vital role upholding trust and integrity in business. The FRC's objective is to achieve consistent high quality audits so that users have confidence in financial statements. To support this, we:

- Set ethical, auditing and assurance standards and guidance, as well as influence the development of global standards.
- Inspect the quality of audits performed by, and the systems of quality management of, firms that audit Public Interest Entities (PIEs¹) and register auditors who carry out PIE audit work.
- Set eligibility criteria for auditors and oversee delegated regulatory tasks carried out by professional bodies such as qualification and the monitoring of non-PIE audits.
- Bring enforcement action against auditors for breaches of relevant requirements.

Since our July 2022 report we have delivered on a reform programme ahead of the Government response to restoring trust in audit and corporate governance, including:

- Taking responsibility for PIE auditor registration allowing us to impose conditions, suspensions and, in the most serious cases, remove registration of PIE auditors.
- Agreeing a memorandum of understanding with the Department for Levelling Up, Housing and Communities (DLUHC) setting out our responsibilities as shadow system leader for local audit.
- Updating [Our Approach to Audit Supervision](#), outlining the work of our supervision teams.
- Publishing a [Minimum Standard for Audit Committees and the External Audit](#) and consulting on revisions to the UK Corporate Governance Code.

Our 2023/24 transformation programme will demonstrate our continued commitment to the public interest and restoring trust in the audit profession.

The seven Tier 1 firm² reports provide an overview of key messages from our supervision and inspection work during the year ended 31 March 2023 (2022/23) and the firms' responses to our findings.

¹ Public Interest Entity – in the UK, PIEs are defined in Section 494A of the Companies Act 2006 and in Regulation 2 of The Statutory Auditors and Third Country Auditors Regulations 2016.

² The seven Tier 1 firms in 2022/23 were: BDO LLP, Deloitte LLP, Ernst & Young LLP, Grant Thornton UK LLP, KPMG LLP, Mazars LLP, PricewaterhouseCoopers LLP. We have published a separate report for each of these seven firms along with a cross-firm overview report.

Our supervisory approach

The audit supervisory teams in the FRC's Supervision Division work closely together to develop an overall view of the key issues for each firm to improve audit quality. We also collaborate to develop our plans for future supervision work.



The supervisory staff producing our reports

The audit supervisory teams comprise 90 experienced professional and support staff assessing the risks to audit quality and resilience at each firm and the actions needed to address those risks.



Grant Thornton UK LLP

RIs
88

Offices³
22



4,121
Professional Staff

Audits within the FRC's inspection scope⁴

Inspection Cycle	FTSE 100 audits	FTSE 250 audits	Total audits in FRC scope
2023-24	0	5	34
2022-23	0	5	39
2021-22	0	4	39

Audit fee income⁵
£m



Corporate audits inspected by the FRC⁶

2022-23
2021-22
2020-21



Local audits⁷



Major audits 125
Non-Major audits 163
Major audits inspected by the FRC 4

³ Source - the ICAEW's 2023 QAD report on the firm.

⁴ Source - the FRC's analysis of the firm's PIE audits and other audits included within AQR scope as of 31 December 2022.

⁵ Source - the FRC's 2021, 2022 and 2023 editions of Key Facts and Trends in the Accountancy Profession.

⁶ Excludes the inspection of local audits.

⁷ The FRC's inspections of Major Local Audits are published in a separate annual report. The October 2022 report can be found [here](#).

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This report sets out the FRC's findings on key matters relevant to audit quality at Grant Thornton UK LLP (Grant Thornton or the firm). As part of our 2022/23 inspection and supervision work, we reviewed a sample of individual audits and assessed elements of the firm's quality control systems.

The FRC focuses on the audit of PIEs. Our risk-based selection of audits for inspection focuses, for example, on entities: in a high-risk sector; experiencing financial difficulties; or having material account balances with high estimation uncertainty. We also inspect a small number of non-PIE audits on a risk-based selection.

Entity management and those charged with governance can make an important contribution to a robust audit. A well-governed company, transparent reporting and effective internal controls all help underpin a high-quality audit. While there is some shared responsibility throughout the ecosystem for the quality of audits, we expect firms to achieve high-quality audits regardless of any identified risk in relation to management, those charged with governance or the entity's financial reporting systems and controls.

Higher risk audits are inherently more challenging, requiring audit teams to assess and conclude on complex and judgemental issues (for example, future cash flows underpinning impairment and going concern assessments). Professional scepticism and rigorous challenge of management are especially important in such audits. Our increasing focus on higher risk audits means that our findings may not be representative of audit quality across a firm's entire audit portfolio or on a year-by-year basis. Our forward-looking supervision work provides a holistic picture of the firm's approach to audit quality and the development of its audit quality initiatives.

This report also considers other, wider measures of audit quality. The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of the firm's non-PIE audits. The firm also conducts internal quality reviews. A summary of the firm's internal quality review results is included in the Appendix.

1. Overview

Overall assessment

In our 2021/22 public report, we concluded that Grant Thornton had continued to respond positively and make good progress on actions to address previous findings in relation to its audit execution and firm-wide procedures.

We are pleased that the firm has maintained its focus on audit quality and for the second year in a row, 100% of the audits inspected were assessed as good or limited improvements required. These are very positive results and form part of a three year trend of improved inspection results compared to the 2019/20 and 2018/19 inspection cycles.

The firm's concerted effort and progress to improve audit quality continues to be very encouraging and we have seen improvements in the underlying culture, systems and processes that support audit quality. Never-the-less, to put these inspection results into perspective, there are likely to be other factors that have also contributed, such as our small sample size (to reflect the number of audits within the scope of the FRC) and the firm's approach of de-risking its audit portfolio.

The results from other measures of audit quality, covering a broader population and a larger sample of audits, were also positive. The results from the QAD, set out on pages 12 and 13, which is weighted toward higher risk and complex audits of non-PIE audits (within ICAEW scope), assessed 100% of the audits it graded as good or generally acceptable. QAD identified several good practices, including good use of the firm's data analytics tools in the audit of revenue. Over a similar period, the firm's internal quality monitoring process (covering both PIE and non-PIE audits) assessed 76% of audits as meeting its highest quality standard (see page 30).

It is important that the firm maintains a strong focus on quality matters and, given such positive inspection results, guards against the risk of complacency. There is also a need for the firm to make achieving high quality easier for its auditors and this will require ongoing strategic focus and investment in systems and processes.

In response to this year's findings, we will take the following actions:

- Perform less frequent inspections of PIE audits, moving to a three-year cycle of inspections and reporting on them within our Tier 2 and Tier 3 inspection and supervision report. This is primarily to reflect the size and risk of the firm's PIE portfolio compared to other large firms. Grant Thornton's improvements in audit quality have provided a base from which to grow its PIE portfolio.



100%

of audits inspected were found to require no more than limited improvements.



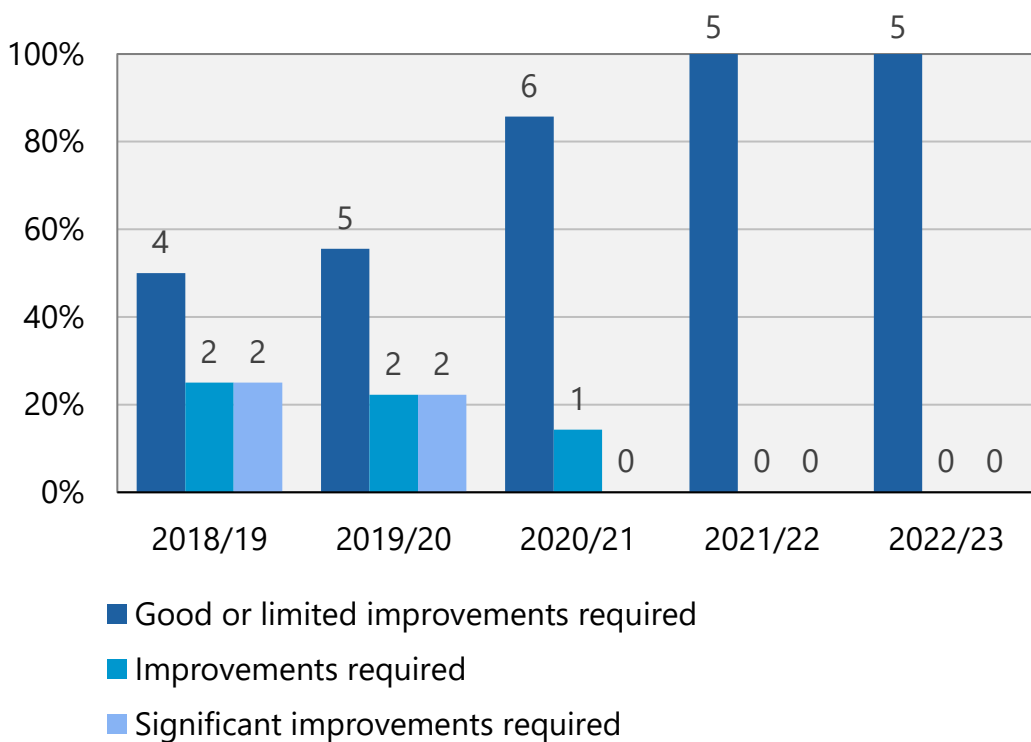
No audits inspected in the current cycle required significant improvements.

- Pay particular attention to the firm’s internal quality monitoring process where, for every responsible individual, the firm reviews the quality of at least one completed audit each year. We have identified the frequency of this monitoring as good practice.
- Monitor the implementation of the firm’s new audit software and certain independence systems.

Inspection results: arising from our review of individual audits

Consistent with the prior year, we reviewed five individual audits this year and assessed all five (100%) as requiring no more than limited improvements.

Our assessment of the quality of audits reviewed: Grant Thornton UK LLP



The audits inspected in the 2022/23 cycle included above had year ends ranging from June 2021 to June 2022.

Changes to the proportion of audits falling within each category reflect a wide range of factors, including the size, complexity and risk of the audits selected for inspection and the individual inspection scope. Our inspections are also informed by the priority sectors and areas of focus as set out in the Tier 1 Overview Report. For these reasons, and given the sample sizes involved, changes from one year to the next cannot, on their own, be relied

upon to provide a complete picture of a firm's performance and are not necessarily indicative of any overall change in audit quality at the firm.

Any inspection cycle with audits requiring more than limited improvements is a cause for concern and indicates the need for a firm to take action to achieve the necessary improvements.

Our key finding related to enhancing procedures to evaluate work performed by auditor's experts.

We identified good practice related to risk assessment and execution of the audit.

Further details are set out in section 2.

Inspection results: arising from our review of the firm's quality control procedures

This year, our firm-wide work focused primarily on evaluating the firm's: compliance with the FRC's Revised Ethical Standard; partner and staff matters; acceptance, continuance, and resignation procedures; and audit methodology relating to settlement and clearing processes.

Our key finding related to compliance with the FRC's Revised Ethical Standard. We also identified good practice points in the majority of areas inspected.

Further details are set out in section 3.

Forward-looking supervision

The firm has continued to identify and develop new actions to improve audit quality. Given the progress already made, these actions are generally to continually improve audit quality rather than to transform it. The Audit Quality Board approved the firm's new Overall Audit Plan in January 2023 which included the firm's quality priorities. As well as completing the planned initiatives, it is essential that the firm remains alert to any new or emerging quality findings so they can be added to and promptly addressed within the Overall Audit Plan.

The firm's root cause analysis (RCA) process is well established and there have been continued refinements in the year, including adding in a peer review process to enhance the identification and analysis of root causes, and incorporating more audit quality indicators into the process.

The firm's audit leadership continues to take a proactive and constructive approach. We have seen positive examples of this in respect of responding to



Our key finding on individual audits was enhancing procedures to evaluate work performed by auditor's experts.



With respect to quality control procedures, our key finding related to compliance with the FRC's Revised Ethical Standard.

challenge and acting on feedback. This includes non-financial sanctions, where there is an active mindset of using sanctions to improve audit quality.

Further details are set out in section 4.



The firm has continued to identify and develop new actions to improve audit quality.

Firm's overall response and actions



Since the start of our Audit Investment Plan ("AIP") in 2019, we have continued to focus on each of the entities we audit, people, culture in audit, technology, methodology and monitoring. We believe that this year's AQR results (particularly when taken in conjunction with the prior two years results) demonstrate that the actions we continue to focus on are sustainably improving audit quality to a high level. Our reviews this year spanned a broad range of audits, from some of our largest listed entities to large private entities and, as with last year, not all of the files reviewed had the additional processes and reviews that our most complex audits benefit from. Since the start of our AIP, we have had (and continue to have) a robust approach to quality across both our PIE and non-PIE engagements with our quality initiatives being applied across our population of audits. We believe that our most recent QAD results included in this report (which were based on work performed in 2020 and 2021) show this as all nine graded files were grade 2 or above.

We continue our focus on our priority areas to drive strong quality although we recognise (as we stated last year) that, as a people profession reliant on professional judgement, there will always be instances where isolated issues may drive quality points on individual files and there is no way to eradicate that completely either now or going forward.

We take both the AQR and QAD review processes seriously and find the learnings extremely helpful in our continuous improvement journey. Results of our root cause analysis programme (which comprises both cold reviews and warm reviews) provide us with valuable learnings which we then build into future training and cultural activities we undertake to avoid complacency and to continue learning as a practice.

Our single quality plan is in place and represents the development from our AIP and Strategic Improvement Plan. We continue to evolve this as the market changes and as findings arise from both our reviews and other areas of our audit practice. In addition, our systems and processes to adopt ISQM1 are well established and on track for the first testing of those by December 2023.

Our work on audit culture remains of prime importance to us, as a firm, and we see having a strong culture of challenge within our audit practice as being a key element of performing high quality work across all the entities we audit. We note that page 28 of this report highlights ethical conduct around misconduct, including exam cheating, at certain firms – we absolutely concur that this is a matter of high importance and are pleased that we have not identified any such instances at Grant Thornton in the period. We continue to monitor and challenge our teams on this, including

requiring self-certifications in advance of each assessment that the individual has taken the test on their own and without using any unpermitted consultations or the use of factors such as AI to assist them.

Our Audit Quality Board continues to work very effectively, providing support and challenge on key decisions made by the audit practice and helping shape our strategy going forward. Our two audit non executives provide strong governance and challenge as part of this process which aids our focus on delivering high quality audits.

We are delighted with the results of both our external reviews contained in this report, and particularly that over the last three years, all but one of our files reviewed (94%) have been grade 2 or above and will keep a strong focus on all quality related matters to ensure we continue to learn and evolve accordingly and as the market continues to evolve. We will continue to be committed to and invest in delivering high quality audits and to continuing our measured approach to building our portfolio of public interest audits going forward and are delighted with our sustained strong quality review results over the last three years which sets us up optimally for the future.

We would like to take the opportunity to thank both the FRC and QAD inspectors for their timely work and helpful challenge they have provided us and our teams through the review cycle.

2. Review of individual audits

We set out below the key areas where we believe improvements in audit quality are required. As well as findings on audits assessed as requiring improvements or significant improvements, where applicable, the key findings can include those on individual audits assessed as requiring limited improvements but are considered a key finding in this report due to the extent of occurrence across the audits we inspected.

Enhance the procedures to evaluate work performed by auditor's experts

The valuation of assets and provisions includes significant judgement over the assumptions to support those valuations. Audit teams often instruct auditor's experts to assist them in obtaining sufficient and appropriate audit evidence to conclude on the valuation, and particularly the assumptions used. Auditors are required to perform appropriate procedures to evaluate the work of experts to ensure that assumptions are appropriately challenged and benchmarked to independent sources to support the material accuracy of valuations recognised in the financial statements.

Key findings



We reviewed the audit team evaluation of work performed by auditor's experts on four audits inspected, and raised the following findings on two audits:

- **Audit team's follow up of matters raised by experts:** On one audit, there was insufficient evidence that all matters identified by the expert for follow up by the audit team were properly resolved, nor was there evidence that inconsistencies between the expert's report and underlying calculations prepared by management's expert were investigated and resolved.
- **Evaluation of work of expert:** On another audit, the audit team did not adequately evidence the work of its experts or demonstrate the evaluation of this work.



We reviewed the audit team evaluation of work performed by auditor's experts on four audits and raised findings on two of them.

Good practice



We identified examples of good practice in the audits we reviewed, including the following:

Risk assessment and planning

The risk assessment and planning phase of an audit is important to ensure a timely and appropriate risk assessment, enabling the audit team to tailor an effective audit approach responding to those risks.

- **Use of specialists:** On one audit, the audit team involved relevant experts to enhance its fraud risk assessment including considering the implication of a court judgement.

Execution

The execution of an audit plan needs to be individually tailored to the facts and circumstances of the audit.

- **Challenge and professional scepticism:** On one audit, there was evidence of extensive assessment and challenge on capitalisation of costs including evidence of consulting external experts. On another audit, the audit team robustly challenged why assumptions used in different valuations appeared inconsistent.
- **Revenue:** On one audit, the audit team performed a predictive analysis of cash receipts to revenue reconciliation supplementing the detailed audit testing performed over revenue from high volume, low value transactions.
- **Group oversight:** On one of the audits included above, the audit team's oversight of, and involvement with component auditors included a well-evidenced and detailed log of interactions with component teams and a detailed review of underlying audit working papers.

Completion and reporting

The completion and reporting phase of an audit is an opportunity to stand back and assess the level of work performed against the audit plan and ensure that the reporting of the outcome of the audit is appropriate and timely.

- We did not identify any specific examples of good practice in this area during our inspection.



Good practice examples included enhanced fraud risk assessment, effective assessment and challenge to support cost capitalisation and valuation, and well-evidenced group oversight.

Monitoring review by the Quality Assurance Department of ICAEW

The firm is subject to independent monitoring by ICAEW. ICAEW undertakes its reviews under delegation from the FRC as the Competent Authority. ICAEW reviews audits outside the FRC's population of retained audits, and accordingly its work covers private companies, smaller AIM listed companies, charities and pension schemes. ICAEW does not undertake work on the firm's firm-wide controls as it places reliance on the work performed by the FRC, except for review of continuing professional development (CPD) records for a sample of the firm's staff involved in audit work within ICAEW remit.

ICAEW reviews are designed to form an overall view of the quality of the audit. ICAEW assesses these audits as 'good', 'generally acceptable', 'improvement required' or 'significant improvement required'. Files are selected to cover a broad cross-section of entities audited by the firm and the selection is focused towards higher risk and potentially complex audits within the scope of ICAEW review.

ICAEW has completed its 2022 monitoring review and the report summarising the audit file review findings and any follow up action proposed by the firm will be considered by ICAEW's Audit Registration Committee in July 2023.

Summary

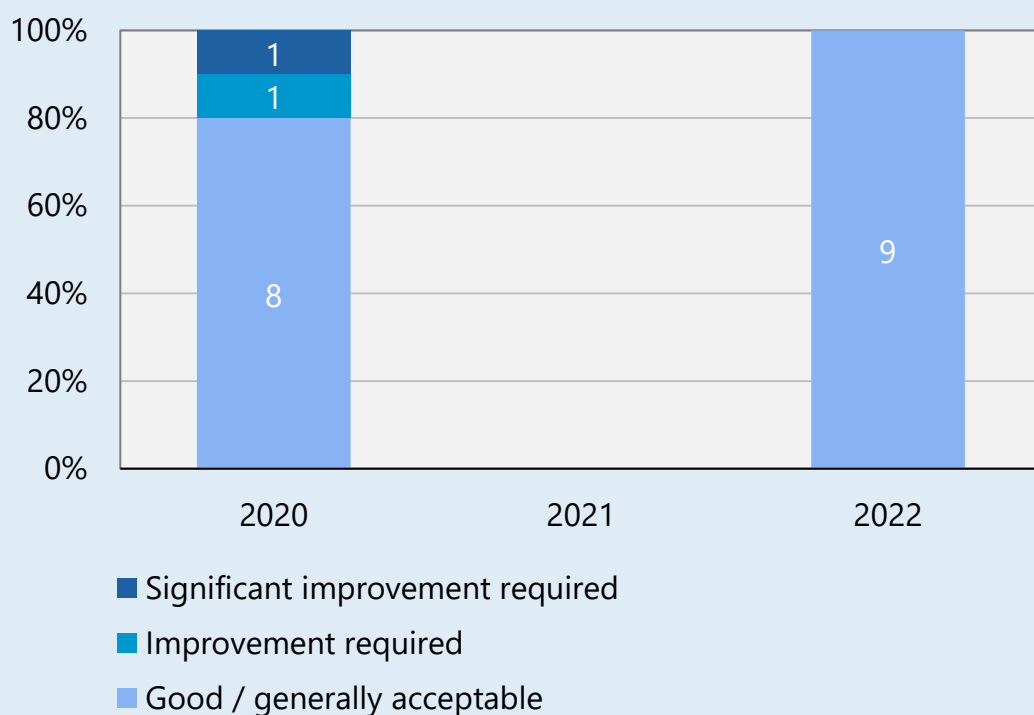
Overall, the audit work reviewed was of a good standard, and the grading profile demonstrated an improvement from the previous visit. All file reviews were graded either good or generally acceptable. These results are an improvement compared to the last visit, when eight files were good or generally acceptable, one needed improvement and one needed significant improvement.

Results

Results of ICAEW's reviews for the last three years are set out below.



100%
of the ICAEW
reviews were
assessed as
either good or
generally
acceptable.



Given the sample size, changes from one year to the next in the proportion of audits falling within each category cannot be relied upon to provide a complete picture of a firm's performance or overall change in audit quality.

Good practice



ICAEW identified good practice across many of the files we reviewed. Examples were:

- Clear evidence of the review of key contracts, drawing out key terms and setting out the challenge of judgements made by management.
- Use of the firm's data analytics tools in the audit of revenue.

3. Review of firm-wide procedures

We reviewed firm-wide procedures, based on those areas set out in ISQC (UK) 1, on an annual basis in certain areas, and on a three-year rotational basis in others.

In this section, we set out the key findings and good practice we identified in our review of the four areas of the firm’s quality control procedures, which we reviewed this year under our three-year rotational testing. We performed the majority of our review based on the policies and procedures the firm had in place on 31 March 2022.

Matters arising from our review of the quality control procedures assessed on an annual basis are included, where applicable, in section 4.

The table below sets out the areas that we have covered this year and in the previous two years:

Annual	Current year 2022/23	Prior year 2021/22	Two years ago 2020/21
<ul style="list-style-type: none"> • Audit quality focus and tone of the firm’s senior management • RCA process • Audit quality initiatives, including plans to improve audit quality • Complaints and allegations processes 	<ul style="list-style-type: none"> • Relevant ethical requirements – Compliance with the FRC’s Revised Ethical Standard 2019 • Partner and staff matters, including recruitment, appraisals, remuneration, and promotion • Acceptance, continuance and resignation procedures • Audit methodology (settlements and clearing processes for banks and building societies) 	<ul style="list-style-type: none"> • Implementation of the FRC’s Revised Ethical Standard 2019 • Engagement Quality Control Reviewers (EQCRs), consultations and audit documentation • Audit methodology (fair value of financial instruments with a focus on banks) • Internal quality monitoring 	<ul style="list-style-type: none"> • Audit methodology (recent changes to auditing and accounting standards) • Training for auditors

We also set out a summary of our prior year findings (in the two previous years) later in this section.

Going forward firm-wide monitoring will be performed under ISQM (UK) 1, which came into effect on 15 December 2022 (see further detail on our approach later in this section).

Relevant ethical requirements - Compliance with the FRC's Revised Ethical Standard 2019

In the current year, we evaluated the firm's compliance with the FRC's Revised Ethical Standard 2019. The work considered the breadth of the Ethical Standard, focusing on the areas where there were more significant changes to the requirements in the 2019 revisions. This testing involved checking for:

- Prohibited non-audit services.
- Timely approvals of non-audit services.
- Identification and assessment of threats and safeguards for non-audit services.
- Compliance with fee ratios for non-audit services.
- Robust evidencing of consultations.
- Timely rotation of individuals off audit teams.
- Financial independence of individuals.

We also held biannual meetings with the Ethics Partners to inform our understanding of their current challenges and priorities.

Key findings



We identified the following key finding where the firm needs to:

- Enhance the existing controls in place to ensure a network firm cannot commence a non-audit service before approval is provided by the UK audit partner. This is a recurring issue where the firm is seeking to make improvements.



Firms must have policies, procedures, and internal monitoring to drive compliance with the FRC's Revised Ethical Standard 2019 and identify and address deficiencies and breaches.

Good practice



We identified the following areas of good practice:

- The firm requires individuals, in their personal independence declarations, to record all financial interests by the unique identifier (ISIN) enabling automated checks against restricted investments. The firm has also introduced comprehensive questionnaires for new managers and partners to prompt complete recording of financial investments and interests directly and indirectly held by them and the persons closely associated with them.
- We identified a good example of a non-audit service team proactively identifying where the circumstances, and therefore scope, of their work was changing. This led to a robust consultation with the central ethics team on the additional independence threats that might arise and what events might lead to needing to terminate the service.

Partner and staff matters – recruitment, management of partner and senior staff engagement portfolios, appraisals, remuneration and promotion

Recognition and reward of partners and staff, particularly those involved in the delivery of external audits, is a key element of a firm's overall system of quality control and is integral to support and appropriately incentivise audit quality. Robust recruitment processes are also essential in creating a culture and environment that supports audit quality. We reviewed the firm's policies and procedures in these areas and tested their application for a sample of partners and staff for the firm's 2021 appraisal year processes.

Appropriate allocation and management of partner and senior staff portfolios enables a firm to ensure its audits are being led and staffed by auditors with appropriate skills, experience and time. We reviewed the firm's policies and procedures around the accreditation of auditors (Responsible Individuals or RIs), to sign audit reports, the allocation of RIs to audits, and the review of responsibilities and workloads for audit staff and partners. We tested the application of these policies for a sample of RI accreditations.

Key findings



We did not identify any key findings within partner and staff matters. The firm had improved its policies and processes since our last review of this area.



Recognition and reward of partners and staff, particularly those involved in the delivery of external audits, is a key element of a firm's overall system of quality control.

Good practice



We identified the following areas of good practice:

- The firm awards quality ratings to all managers and above based on their quality metrics and results, with clear guidelines on how quality ratings should be determined based on quality metrics, particularly internal and external file review results, in the year.
- The firm has rigorous promotion and recruitment processes, including technical interviews for all senior promotions including scenarios to assess technical skills, risk management and professional scepticism, internal reviews of audit files for director promotion candidates, and external technical assessments for manager and senior manager promotions and recruits.

Acceptance, continuance, and resignation procedures

A firm is required to establish policies and procedures for the acceptance and continuance of entities and audits to ensure that it only undertakes audits: that it is competent to and has the resources to perform, where it can comply with the ethical requirements, and where it has considered the integrity of management, those charged with governance and, where relevant, the owners of the entity. This assessment needs to be made prior to the acceptance or continuance decision for each engagement.

We have reviewed these policies and procedures, including the firm's wider risk assessment of entities and audits as part of acceptance and continuance decisions. In addition, we have considered the firm's policies relating to withdrawal or dismissal from audits and the required communication on ceasing to hold office.

We also reviewed the application of these policies, and quality of evidence retained, for a sample of audits accepted, continued and ceased in the year.



Firms must have comprehensive policies and procedures in respect of acceptance and continuance.

Key findings



We did not identify any key findings. The firm had improved its policies and processes, particularly around how key acceptance and continuance documents are completed and reviewed, since our last review of this area.

Good practice



We identified the following area of good practice:

- The firm requires all audit teams to complete a questionnaire, at the end of each audit, with questions on their experience of management, management's attitude towards the audit, and the audit process to ensure these considerations are captured for the next year's continuance assessment.

Audit methodology (settlements and clearing processes for banks and building societies)

In the current year, we evaluated the quality and extent of the firm's methodology and guidance relating to the audit of the cash and payments process cycle for the audit of banks, building societies, other credit institutions and payment services providers. Our evaluation focused on assessing the firm's guidance and templates provided in relation to:

- Understanding the relevant financial statement line items and their linkage to internal and external applications;
- Performing appropriate risk assessment procedures;
- IT specific guidance including the assessment of matching and other configuration rules and system generated report logic;
- Testing bank reconciliations (both controls and substantive testing); and
- Guidance over external confirmations.

Key findings



We had no key findings to report as the firm does not currently have any complex financial services entities in its portfolio.



We identified good practice in ethical compliance, partner and staff matters and continuance procedures.



The firm's audit methodology, and the guidance provided to auditors on how to apply it, are important elements of the firm's overall system of quality control.

Good practice



We identified no specific examples of good practice in our review.

Firm-wide key findings and good practice in prior inspections

In our previous two public reports we identified key findings in relation to the following areas we reviewed on a rotational basis:

- Implementation of the FRC's Revised Ethical Standard (2021/22): The firm needed to improve its guidance on how to consider the perspective of an Objective, Reasonable and Informed Third Party when taking decisions relating to ethics and independence. The firm also needed to enhance its controls to ensure a network firm cannot commence a non-audit service before approval is provided by the UK audit partner.
- EQCR, consultations and audit documentation (2021/22): The firm needed to strengthen and formalise its EQCR policies and procedures, particularly in respect of EQCR appointments.
- Internal quality monitoring (2021/22): The firm needed to increase the timeliness of its monitoring, perform an annual evaluation of its internal quality control system, and ensure that reviewer's professional judgements were sufficiently recorded to support the depth of their review and the conclusions reached in key areas where no findings have been raised.
- On Audit methodology and training (2020/21): The firm needed to ensure that practitioners complete their mandatory training on a timely basis, introduce audit specific training for IT and tax specialists and issue guidance in relation to auditing lease accounting and financial instruments accounting under IFRS 16 and IFRS 9.

Further information on the firm's actions against these areas can be found in the 2021/22 and 2020/21 reports.

Good practice



Good practice was identified in one area:

- On internal quality monitoring the firm performed thematic reviews on selected key topic areas and ensured that all audit partners are reviewed every year by a full internal quality monitoring review, a limited scope review or an external review.

Implementation of ISQM (UK) 1

In the 2022/23 inspection cycle, prior to the implementation of ISQM (UK) 1, we have held discussions with the firm to understand its plans and progress for implementation, focusing on how the firm has:

- Ensured adequate oversight of and accountability for its system of quality management.
- Identified quality objectives, risks and responses and assessed the significance of its quality risks and the design and implementation of its responses.
- Identified the service providers and network resources that it relies upon in its system of quality management and how it will assess the reliability of these on an ongoing basis.
- Planned to undertake monitoring activities over its system of quality management on an ongoing basis.

Since the implementation of ISQM (UK) 1 we have begun our statutory monitoring under this standard.

In the 2022/23 inspection cycle, prior to the implementation of ISQM (UK) 1, we are focusing on the firm's identification of objectives, risk assessment processes and the completeness of the risks identified. In addition, we are reviewing certain components of the system of quality management, including governance and leadership, acceptance and continuance, network resources and service providers. In these areas we are looking at the design and implementation of responses. We will also review the firm's plans for ongoing monitoring and remediation of the system of quality management and the annual evaluation process.

On an ongoing basis, our inspection will be undertaken on a risk focused and cyclical basis, supported by targeted thematic work where we will perform in-depth reviews of particular aspects of firm's systems of quality management. Our thematic reviews in the 2023/24 inspection cycle will also cover the following areas:

- Audit sampling methodology, within the engagement performance and intellectual resources components.
- Hot reviews, within the engagement performance component.
- Identification and assessment of network resources and service providers, within the resources component.
- Root cause analysis, within the monitoring and remediation component.

We will also annually review elements of the ethics component as this continues to be a priority area for the FRC, where our work will again focus on ensuring firms adhere to the FRC's Revised Ethical Standard through: compliance testing, review of breaches reported and regular interaction with the firm's ethics functions.

Other annual areas of review will include elements of monitoring and remediation, including root cause analysis and audit quality plans, and leadership and governance, including tone at the top.

4. Forward-looking supervision

This section of the report focuses on our forward-looking supervisory approach – identifying and prioritising what firms must do to improve audit quality and enhance resilience. We balance an assertive approach, holding audit firms accountable, with acting as an improvement regulator, identifying and sharing good audit practice to drive further improvements across the sector.

We employ, to differing extents, all four faces of supervision in our work. A fuller explanation of our forward looking supervision approach is set out in [Our Approach to Audit Firm Supervision 2023](#).



We hold the firms to account through assessment, challenge, setting actions and monitoring progress. We do this through: assessing and challenging the effectiveness of the firm’s RCA processes; evaluating the developments of firm’s audit quality plans (AQPs); reviewing a firm’s action plans - now including their Single Quality Plan (SQP) - and monitoring the effectiveness of firm’s responses to our prior year findings; assessing the spirit and effectiveness of the firm’s response to non-financial sanctions; and through PIE auditor registration.

We also seek to promote a continuous improvement of standards and quality across firms by sharing good practice, carrying out benchmarking and thematic work, and holding roundtables on topical areas. In 2022/23 we held a roundtable, attended by the Tier 1 firms, sharing good practices and success stories on in-flight or hot reviews (internal reviews that take place during the audit, prior to the audit report being signed). We also carried out thematic work on tone at the top and aspects of IFRS 9.

Our observations from the work we have conducted this year, and updates from previously reported findings, are set out under the following areas:

- The firm's SQP, other quality improvement plans and audit quality initiatives.
- Root cause analysis.
- PIE auditor registration.
- Other activities focused on holding the firms to account.
- Culture and conduct.
- Initiatives to ensure compliance with the Revised Ethical Standard 2019.
- Operational separation.

Where our observation requires an action from the firm, we require its inclusion in the firm's SQP.

The firm's Single Quality Plan, other quality improvement plans and audit quality initiatives

Background

The SQP, was introduced, as we required, by the Tier 1 firms during the year and is maintained by each firm as a mechanism to further facilitate our holding firms to account. Each firm should develop an SQP that drives measurable improvements in audit quality and resilience. The firm should also have an overarching plan and strategy for audit (Audit Quality Plan or AQP). The AQP should include initiatives that respond to identified quality deficiencies as well as forward-looking measures which contribute directly or indirectly to audit quality. Where a firm has poorer results these audit plans should either be transformational in themselves or be supplemented with a plan that prioritises those initiatives that will quickly bring about the transformation needed to improve audit quality. These overarching plans should then be used in the development of the firm's SQP in terms of purpose and prioritisation of individual actions or in the development of core pillars or similar. The SQP allows the firm and us to monitor whether changes are being prioritised and made in a timely and effective way. Where they are not achieving the objectives, we hold the firm to account against their plan and consider whether further actions are necessary.

The firm's Overall Audit Plan was approved by the Audit Quality Board in January 2023 and runs until 2025. The plan supports the firm's Audit Strategy which was refreshed at the end of 2022.



Single Quality Plans should enable firms to identify the areas which contribute directly or indirectly to audit quality and to prioritise their actions.

Observations

We assessed the following:

- **Strategic priorities in the Overall Audit Plan:** The firm has identified high priority areas relating to embedding a culture of challenge and speaking up within all audit teams, structuring engagement teams to provide the best opportunity for consistently high-quality audit work and attracting and retaining the right talent within its audit practice. These priority areas are well thought out and reflect that the firm no longer needs a plan to transform its audit quality.
- **Monitoring of the Overall Audit Plan:** The firm has identified performance measures for all priority areas in the plan, including the three identified as high priority. The firm has also developed a clear plan for monitoring its progress against the Overall Audit Plan and reporting this to the Audit Quality Board.
- **Investment in technology and infrastructure:** The firm has innovation as a priority area within the Overall Audit Plan. This includes the roll-out of new audit software and the development of audit-applications to aid audit quality and efficiency. The firm has also been updating some of the key systems that support compliance with independence requirements and has further plans in this area. These initiatives should make it easier for audit teams to deliver high quality audits and it is important that the firm continues to make such investments.
- **SQL:** The firm's SQL is in the early stages of development. Many of the key principles are covered within the firm's Overall Audit Plan, however, greater specificity is needed in relation to forward looking actions.

We will use the SQL alongside the Overall Audit Plan to monitor the progress of actions and how the firm measures their effectiveness. We will continue to assess the actions and / or initiatives the firm adds to the SQL to facilitate continuous improvement.

Root cause analysis process

Background

The RCA process is an important part of a continuous improvement cycle designed to identify the causes of specific audit quality issues (whether identified from internal or external quality reviews or other sources) so that appropriate actions may be designed to address the risk of repetition.

ISQM (UK) 1, introduced a new quality management process that is focused on proactively identifying and responding to risks to quality, and requires firms to use RCA as part of their quality remediation process.



We will continue to assess the actions and initiatives the firm adds to the SQL to facilitate continuous improvement.



Root cause analysis is an important part of a continuous improvement cycle.

When we reviewed the firm's RCA process last year, we assessed that the firm's overall approach to RCA was well developed and identified good practice in relation to a dedicated RCA team and its close interaction with the firm's Audit Culture team, the oversight of the RCA process by the Audit Quality Board, and the timely communication of RCA findings with the audit practice. The firm has not made any significant changes to its RCA approach during the year but has continued to make refinements.

Observations

We assessed the following:

- **Depth of analysis:** We reported last year that we had seen examples where the firm's analysis would benefit from further challenge and interrogation before concluding on the root cause. In the current year, the firm introduced a new peer review process where individuals within the RCA team review and provide challenge to the conclusions reached by their peers. Our work this year did not identify further examples of completed RCAs where more challenge was needed.
- **Use of audit quality indicators:** The firm has incorporated more data points into the root cause analysis process, for example the timing and extent of involvement of central quality teams. The firm has plans to increase this further once its new audit software has been implemented.

We will continue to assess the firm's RCA process as a crucial part of the feedback loop within ISQM (UK) 1 as well as part of our holding the firm to account. We encourage all firms to develop their RCA techniques further as well as focus on measuring the effectiveness of the actions taken as a result through the SQP.

PIE auditor registration

Background

The FRC is now responsible for the registration of all firms which carry out statutory audit work on public interest entities (PIEs). This registration is in addition to the ongoing requirement for firms and Responsible Individuals (RIs⁸) to register with their Recognised Supervisory Body (RSB). The FRC's PIE auditor registration remit covers all firms and relevant RIs which audit one or more PIEs which includes: UK-incorporated entities listed on the London Stock Exchange (or another UK-regulated market); a UK registered bank, building society or other credit institution (but not credit unions or friendly societies); or are a UK insurance entity which is required to comply with the Solvency II regulations.

⁸ Defined as a natural person who is a Principal or employee (but not a subcontractor or a consultant) of a Statutory Audit Firm and is registered with an RSB as a Statutory Auditor.



We will continue to assess the firm's RCA process as a crucial part of the feedback loop within ISQM (UK) 1 as well as part of our holding the firm to account.



The FRC is now responsible for the registration of all firms which carry out statutory audit work on public interest entities (PIEs).

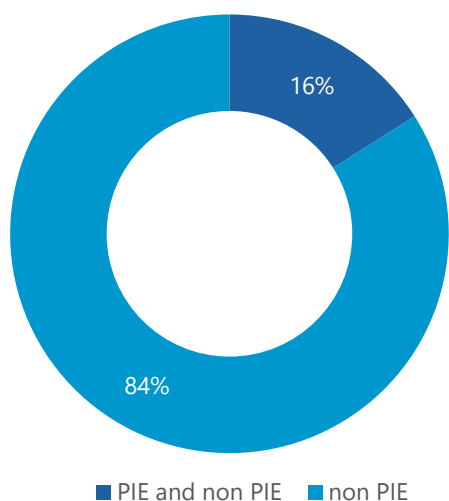
All firms and RIs carrying out statutory audit work on PIEs were required to register with the FRC by 5 December 2022 under a set of transitional provisions. Thereafter, any firm that plans to take on a PIE audit, or remain auditor to an entity that is to become a PIE (for example, if it obtains a listing on the London Stock Exchange), together with relevant RIs, must register with the FRC before undertaking any PIE audit work.

Where appropriate, firms and/or RIs can be held to account through conditions, undertakings and suspension or involuntary removal of registration, adding to our activities focused on holding firms to account. Measures used through the PIE auditor registration process are not always published.

Observations

On 5 December 2022 Grant Thornton's transitional application for registration as a PIE auditor was approved and as at 31 March 2023 16 RIs at the firm had been approved. The following diagram shows the number of PIE and non-PIE RIs as a percentage of the total RIs at Grant Thornton.

Grant Thornton UK LLP



Other activities focused on holding firms to account

Background

Our forward-looking supervisory approach includes a number of other activities designed to hold firms to account. We have carried out certain procedures during the year to consider tone at the top, the contents of the firm's Transparency Report and the firm's responsiveness to feedback, and where relevant to constructive engagement and non-financial sanctions. This firm was not subject to increased supervisory activities during the year.

Observations

We assessed the following:

- **Action plans and non-financial sanctions:** Grant Thornton has made good progress at strengthening its underlying systems and processes to support high audit quality. As seen in section 3 above, we identified relatively few findings in relation to the firm's quality control procedures and saw improvements compared to our last inspection of these areas. We have also seen improvements in the audit tools and techniques used by the firm, for example, better use of data analytics to audit revenue. Some improvements relate to the firm's own initiatives and others are in response to our previous action plans and non-financial sanctions. In our interactions the firm has been highly engaged with a clear goal of improving audit quality.
- **Tone at the top:** The firm's audit leadership take a proactive and constructive approach. There are clear communications with the audit practice on the importance of audit quality. The firm is measured in its approach to growing the audit business with a strong emphasis on sustainable growth.

Culture and conduct

Background

The firm's culture has a significant impact on audit quality and the speed at which audit quality is improved. Firms that have more advanced cultural programmes, where desired audit specific behaviours are promoted through their wider policies and procedures (in particular training and coaching, performance management and reward and recognition), typically have better or improving audit quality.

Reported instances of integrity issues or misconduct matters have a significant impact on trust and confidence in the profession. Ethical conduct must therefore be an intrinsic part of all firms' cultural programmes and the profession must strive to maintain a culture of integrity in which the highest standards of ethical values and professional behaviour are upheld.

Observations

We assessed the following:

- **Audit culture:** Grant Thornton has made good progress with culture initiatives with a focus on firm-wide values of doing the right thing and creating a strong speak up culture. The firm has initiatives in place to further embed their culture ambition including having a dedicated culture committee and applying more advanced culture assessment techniques.



The firm's culture has a significant impact on audit quality and the speed at which audit quality is improved.

-
- **Ethical conduct:** We have seen examples of misconduct including exam cheating and breaches of integrity at certain firms that impact the reputation of the profession as a whole. All firms need to ensure that their culture promotes individuals to operate to the highest ethical standards in order to maintain public confidence and trust.

Initiatives to ensure compliance with the Revised Ethical Standard 2019

Background

During 2022, we held biannual meetings with the Ethics Partner, undertook compliance testing and reviewed the firm's biannual reporting of identified breaches. The specific findings from this work are detailed in section 3.

However, we have the following, additional observations on the steps being taken to comply with the FRC's Revised Ethical Standard going forward.

Observations

We assessed the following:

- **Resourcing the Ethics Function:** Increasing the size, skills, and geographical coverage of its ethics team. This has enabled the team to increase their support of, and engagement with, the audit practice, with increased levels of ethics training, communications and clearance of consultations and queries.
- **Personal independence:** Enhancing the control framework and monitoring for personal independence, including review of independence for all new managers, the launch of a new personal independence system for partners and directors, and strengthening the annual declaration process. The firm's internal audit reviews in this area have shown improvements in personal independence compliance, with further improvements expected as the changes are embedded.
- **Approval of overseas non-audit services:** Working, with the Grant Thornton global network, to develop a new global relationship database which will standardise controls to prevent non-audit services commencing without identifying if these are relevant to a UK audit and obtaining approval by the UK audit partner. In the interim, the firm is reducing the risk of ethics breaches in relation to non-audit services provided by network firms by strengthening its templates and guidance for group audit communications, providing training to international independence groups, and reporting UK ethics breaches to overseas independence partners.

Operational separation of audit practices

After the end of the transitional period in 2024 we intend to publish an assessment of whether the four largest firms are delivering the objectives and outcomes of operational separation.

Appendix

Firm's internal quality monitoring

This appendix sets out information prepared by the firm relating to its internal quality monitoring for individual audit engagements. We consider that publication of these results provides a fuller understanding of quality monitoring in addition to our regulatory inspections, but we have not verified the accuracy or appropriateness of these results.

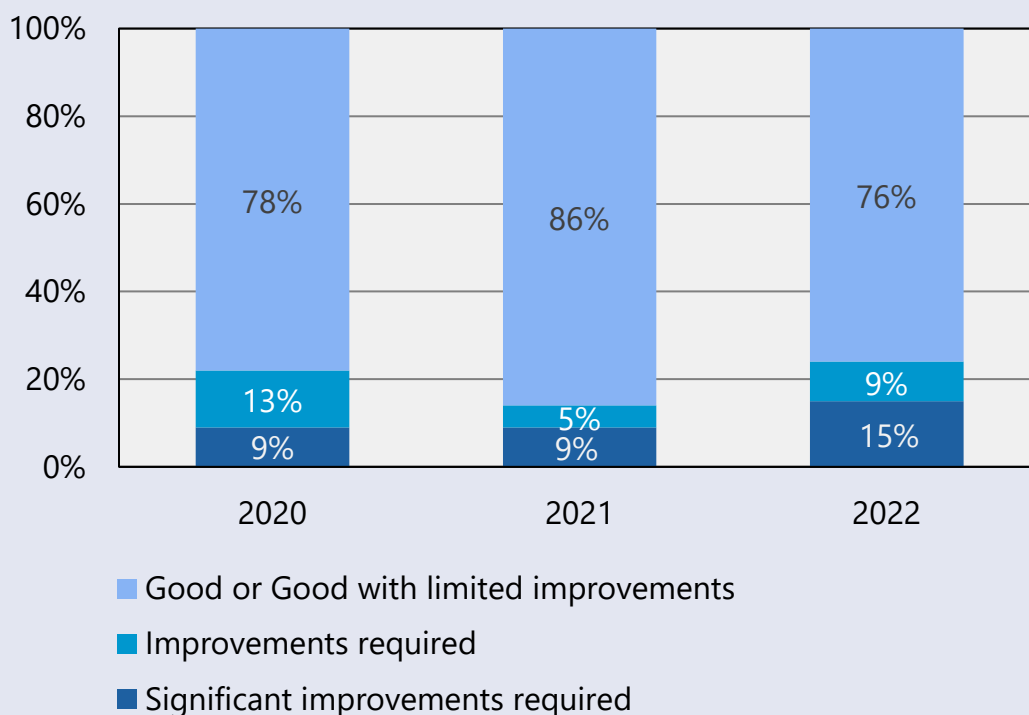
The appendix should be read in conjunction with the firm's Transparency Reports for [2021](#) and [2022](#) which provide further detail of the firm's internal quality monitoring approach and results, and the firm's wider system of quality control.

Due to differences in how inspections are performed and rated, the results of the firm's internal quality monitoring may differ from those of external regulatory inspections and should not be treated as being directly comparable to the results of other firms.

Results of internal quality monitoring



The results of the firm's most recent National Audit Review (NAR), which comprised internal inspections of 33 individual audits are set out below, along with the results for the previous two years. Of these audits, 4 were for periods ending on 31 December 2020, 28 for periods ending up to 31 December 2021 and 1 for the period ending 31 March 2022.



The grading categories used in the graph above are as follows:

- **Good or Good with limited improvements:** A limited number of concerns in a small number of areas.
- **Improvements required:** A number of matters in a number of areas but neither individually nor collectively significant.
- **Significant improvements required:** Significant concerns in relation to the sufficiency or quality of audit evidence, or the appropriateness of key audit judgements, or the implications of other matters that are considered to be individually or collectively significant.

Firm's approach to internal quality monitoring



The firm's internal inspection program considers the full population of audits performed. The NAR is designed to cover each engagement leader at least once every three years, with engagements biased towards more complex or higher risk assignments. Each entity in the scope of the FRC's AQR are reviewed internally at least once every 10 years. Audits that fall within the scope of the FRC's AQR are reviewed by the firm's central Audit Quality Monitoring Team (AQMT), with other reviews undertaken by experienced auditors and led by an experienced audit partner under the direction of AQMT or led by the AQMT. The setting of inspection grades is moderated by the AQMT to ensure consistency between reviews and with the approach of external regulators.

The firm undertakes RCA on all significant findings from the NAR. Findings are considered significant where audit procedures performed were not appropriate or where the audit procedure was not compliant with professional standards or the firm's policies. RCA is also completed on a selection of files graded as good or good with limited improvements to identify good practice. Local office leaders develop and implement targeted action plans to address the findings of all individual reviews undertaken and ensure that findings are addressed in the subsequent year's audit. The RCA findings are reviewed to assess where there are repeated incidences or themes of root causes arising and actions are identified to be implemented by the audit practice to address these. The root cause process also considers whether actions are required for isolated, or uncommon findings, with actions being proportionate to the incidence and severity of the findings.

Internal quality monitoring themes arising



The significant findings identified during internal quality monitoring were professional scepticism and challenge of management, revenue (principally occurrence) and quality of financial statements. The vast majority of the significant findings are isolated instances and therefore not identified as thematic themes. In 2022 there were increases in the number of significant findings relating to professional scepticism, challenge of management, revenue and quality of financial statements.



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