Public Report

Financial Reporting Council

May 2013

Deloitte LLP

Audit Quality Inspection

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1. Background information and key messages

1.1. Introduction

This report sets out the principal findings arising from the inspection of Deloitte LLP ("Deloitte" or "the firm") carried out by the Audit Quality Review Team of the Financial Reporting Council ("the FRC"), during the year to 31 March 2013 ("the 2012/13 inspection"). We inspect Deloitte annually. Our inspection was conducted in the period from April to December 2012 (referred to as "the time of our inspection"). The objectives of our work are set out in Appendix A.

Our inspection comprised reviews of individual audit engagements and a review of the firm's policies and procedures supporting audit quality.

We reviewed 14 audit engagements undertaken by the firm. These related to FTSE 100, FTSE 250, other listed and other major public interest entities, with financial year ends between June 2011 and March 2012. Our reviews were selected on a risk basis, utilising a risk model; each review covered only selected aspects of the relevant audit.

Each year we select a number of audit areas of particular focus. For 2012/13 these were: the valuation of assets held at fair value; the impairment of goodwill and other intangible assets; the recoverability of deferred tax assets; the assessment of going concern; revenue recognition and related party relationships and transactions.

Our responsibility is to monitor and assess the quality of the audit work performed by the UK firm. Accordingly, our reviews of group audits covered the planning and control of the audit by the group engagement team, including their evaluation of the adequacy of the work performed by component auditors, and selected aspects of other work performed by the UK firm at group and/or component level.

In addition, we undertook two follow-up reviews to assess the extent to which our prior year findings on those audits had been addressed in the following year's audit.

Our review of the firm's policies and procedures supporting audit quality covered the following areas:

Tone at the top and internal communications

Transparency report

Independence and ethics

Performance evaluation and other human resource matters

Audit methodology, training and guidance

Client risk assessment and acceptance/continuance

Consultation and review

Audit quality monitoring

Other firm-wide matters

We exercise judgment in determining those findings which it is appropriate to include in our public report on each inspection, taking into account their relative significance in relation to audit quality, both in the context of the individual inspection and in relation to areas of particular focus in our overall inspection programme for the relevant year. In relation to reviews of individual audits, we have generally reported our findings by reference to important matters arising. Where appropriate, we have commented on themes arising or issues of a similar nature identified across a number of audits.

Further information on the scope of our work and the basis on which we report is set out in Appendix A.

All findings requiring action set out in this report, together with the firm's proposed action plan to address them, have been discussed with the firm. Appropriate action may have already been taken by the date of this report. The adequacy of the action taken and planned will be reviewed during our next inspection.

The firm was invited to provide a response to this report for publication. The firm's response is set out in Appendix B.

We acknowledge the co-operation and assistance received from the partners and staff of Deloitte in the conduct of our 2012/13 inspection.

1.2. Background information on the firm

Deloitte is a UK limited liability partnership and is the UK member firm of Deloitte Touche Tohmatsu Limited ("DTTL"). The firm operates from 24 cities or towns in the UK through four service lines, being Audit, Tax, Consulting and Corporate Finance. In addition, the firm owns 100% of the shares of Deloitte AG, based in Switzerland. All statutory audit work is conducted through the Audit service line which comprises thirteen groups, based on geography and industry sectors.

For the year ended 31 May 2012, the firm's turnover was £2,329 million, of which £663 million related to the Audit service line. There was a total of 734 partners, of whom 160 were authorised to sign audit reports, and 36 employees who were authorised to sign audit reports.[1]

We estimate that the firm audited 343 UK entities within the scope of independent inspection as at 29 February 2012. Of these entities, our records show that 154 had securities listed on the main market of the London Stock Exchange, including 18 FTSE 100 companies and 64 FTSE 250 companies.

Audits of entities incorporated in Jersey, Guernsey or the Isle of Man whose securities are traded on a regulated market in the European Economic Area are subject to inspection under arrangements agreed with the relevant regulatory bodies. Our records show that the firm has 37 such audits, including four FTSE 100 companies and three FTSE 250 companies.

[1] As disclosed in the annual return to the ICAEW as at October 2012.

1.3. Overview

We focus in this report on matters where we believe improvements are required to safeguard and enhance audit quality. We set out our key messages to the firm in this regard in section 1.4. While this report is not intended to provide a balanced scorecard, we highlight certain matters which we believe contribute to audit quality, including the actions taken by the firm to address findings arising from our prior year inspection.

The firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, improvements are required to those policies and procedures in a number of areas, as set out in this report.

Our file review findings, as set out in section 2, largely relate to the application of the firm's procedures by audit personnel, whose work and judgments ultimately determine the quality of individual audits. The majority of the themes are similar to those in the previous year, although there has been an improvement in the nature and extent of the relevant findings, following actions taken by the firm.

1.4. Key messages

The firm should pay particular attention to the following areas in order to enhance audit quality or safeguard auditor independence:

- Ensure audit teams pay more attention to the audit of revenue, including the approach to substantive analytical review procedures.
- Ensure audit teams follow the firm's sampling methodology for substantive testing purposes and that the sample sizes adequately take into account materiality and risk.
- Improve the integration of the work of internal tax and IT experts within the audit, for example to ensure that matters raised by those experts are adequately addressed.
- Ensure audit teams adequately identify and respond to threats to independence arising from non-audit services.
- Place greater emphasis on rewarding partners for high quality work.
- Enhance the firm's audit quality monitoring in relation to financial services audits and the monitoring of the effectiveness of the firm-wide procedures.
- Implement the firm's agreed actions in relation to our findings on a more timely basis.

2. Principal findings

The comments below are based on our reviews of individual audits and the firm's policies and procedures supporting audit quality.

2.1. Reviews of individual audits

Follow-up of audits reviewed in the prior year

We undertook two follow-up reviews of audits we reviewed in the prior year. The issues arising from our prior year review had been addressed on these audits, resulting in improvements to audit quality in the relevant areas.

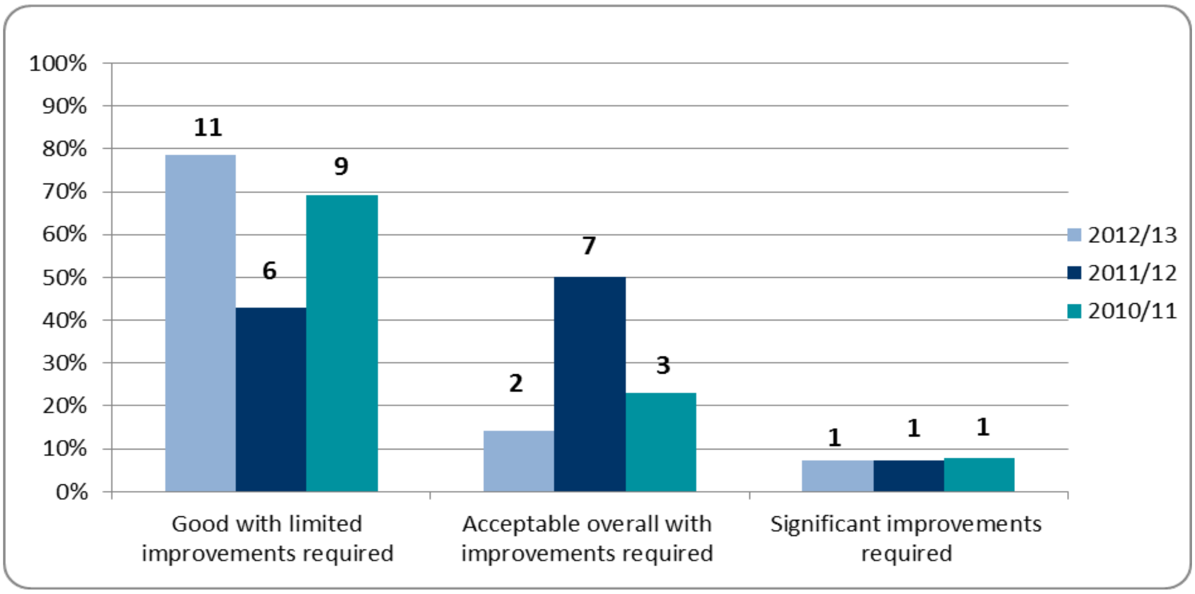
Audits reviewed in the current year

We reviewed and assessed the quality of selected aspects of 14 audits.

In our view, 11 of the audits we reviewed (2011/12: six) were performed to a good standard with limited improvements required; two audits (2011/12: seven) were performed to an acceptable overall standard with improvements required; and one audit (2011/12: one) required significant improvement, mainly in relation to the audit of revenue and journal testing.

An audit is assessed as requiring significant improvement if we had significant concerns in relation to the sufficiency or quality of audit evidence or the appropriateness of audit judgments in one or more key audit areas or the implications of concerns relating to other areas are considered to be individually or collectively significant. This assessment does not necessarily imply that an inappropriate audit opinion was issued.

The bar chart below shows the percentage of the audits we reviewed in 2012/13 falling within each grade, with comparatives for 2011/12 and 2010/11.



Changes to the proportion of audits reviewed falling within each grade from year to year reflect a wide range of factors, which may include the size, complexity and risk of the individual audits selected for review, changes to our areas of particular focus and the scope of the individual reviews. For this reason, and given the small sample sizes involved, changes in gradings from one year to the next are not necessarily indicative of any overall change in audit quality at the firm.

Findings in relation to audit evidence and judgments

Our reviews focused on the audit evidence and related judgments for material areas of the financial statements and areas of significant risk. We draw attention to the findings below which the firm should ensure are addressed appropriately in future audits.

The implication of such findings for our grading of an audit depends on their significance in the context of the individual audit. Even where our overall assessment of an audit was that the improvements required were limited in nature, we include these findings in this report if we consider them important in the broader context of improving audit quality at the firm.

Recurring findings

In response to our prior year findings, the firm has taken a number of actions to improve audit quality, especially in relation to group audits. Some of the actions were implemented after the audits reviewed by us in the current year had been undertaken. The firm believes these actions will help address the issues that continue to arise in these and other areas, as noted below.

We identified fewer findings in relation to group audit considerations and the impairment of goodwill compared with last year. However, the firm should continue to review the effectiveness and timeliness of its actions in these and the other areas noted below.

Group audit considerations

The group auditor is required to be involved in component auditors' risk assessments and to evaluate the appropriateness of the audit procedures planned to respond to the identified significant risks. While we were informed that planning discussions and reviews of the component auditors' work had taken place, in four audits there was insufficient evidence of these procedures.

Component materiality is required to be set at a level lower than materiality for the group financial statements as a whole. The basis for determining component materiality was not adequately justified in four audits.

Other findings related to the late issue of group instructions (two audits) and insufficient evidence of consideration by the component auditors of the risk of management override (three audits).

Impairment of goodwill and other assets

We identified issues in relation to the sufficiency of evidence or challenge in relation to the discount rate or other key assumptions used to support the carrying value of goodwill and other assets and in relation to the audit of the related disclosures (four audits).

On one audit, the audit team was not granted access to the goodwill impairment models prepared by management and alternative audit procedures were performed. We found it unusual that the Audit Committee did not ensure that the auditors were supplied with the information requested by them.

Revenue

We identified weaknesses in relation to the audit of revenue on nine audits, particularly in relation to the substantive analytical procedures performed, such as the basis of the expectations set or the corroboration of explanations obtained from management. In one of these audits, in our view, the testing performed was not adequately responsive to the identified significant risks relating to revenue.

One of the firm's planned actions agreed with us in our prior inspection, to develop specific guidance for the audit of revenue, was not implemented, as the firm considered, on reflection, that the existing guidance and training was sufficient to address the prior year findings. The mandatory audit training in the year on revenue primarily focused on risk assessment, and did not cover the approach to auditing revenue, including the use of substantive analytical procedures. We still consider that further guidance and training is needed to improve the quality of auditing in this area.

Substantive testing sample sizes

On ten audits, substantive testing sample sizes for one or more areas of the audit were not adequately justified. This included areas of significant risk, or where no reliance was placed on internal controls. The use of judgmental sampling for substantive testing purposes may not adequately take into account the significance of the identified risks, the materiality levels or the extent of reliance on controls. The firm should ensure audit teams make greater use of the firm's methodology for statistical sampling.

Internal experts - tax

Audit teams generally used internal experts to assist them in a number of key areas, such as property valuations, tax and pensions. On six audits, there were inadequate details of the audit work performed or evidence obtained to support the conclusions of the internal experts used, in particular tax experts. The firm is currently in the process of strengthening its procedures relating to the interaction between audit teams and tax experts.

Related parties

We identified weaknesses in the audit procedures performed for related party transactions and disclosures on six audits, including the adequacy of the procedures undertaken to ensure the disclosures were complete.

New findings

Substantive testing sample sizes - profiling

One of the firm’s sampling methodologies is “profiling”, whereby testing is focused on identified items of highest risk, with a reduced sample size to cover the remaining population. In two audits, where this sampling approach was applied to certain areas of the audit, there were no identified items of higher risk. The firm should re-consider the use of this sampling approach in these circumstances.

Internal experts – IT and other matters

On one audit, the internal IT experts identified a number of IT control deficiencies, but it was not clear how these were addressed by the audit team in order that reliance could be placed on those controls. The firm’s guidance does not make it clear that the internal IT experts should be involved in the resolution of IT control deficiencies identified by them and the guidance should therefore be revised in this respect.

The firm should also clarify its guidance in relation to which individuals should be regarded as having expertise in a specialised area of accounting or auditing, as opposed to expertise in other areas, as this affects how their work is to be treated for audit purposes.

Journal testing

In two audits, the extent of testing of journals was not adequately justified. On one of these audits, while the IT experts had selected a sample of journals for testing, the audit team only tested some of these journals and did not test those journals identified by the IT experts as demonstrating characteristics of fraud. In addition, for most of the journals selected, there was no supporting documentation or evidence of management’s review, and this was not challenged by the audit team.

Loan provisions

On one audit, there were weaknesses in the audit procedures for loan provisions relating to residential and corporate loans. There was insufficient challenge or testing of the information to support the basis of the provisions for some of the loans, or evidence of such, for example not challenging the fact that certain valuations had not been updated for a number of years. The firm should ensure that loan provisions are audited more effectively.

Other findings

Reporting to Audit Committees

In the audits we reviewed, there was generally a good link between the planned approach to significant risks and reporting on the audit findings in those areas. However, on one listed audit the audit findings and areas of judgment were largely incorporated into management’s report, rather than the auditor’s own report, and there was no clear link between the areas of significant risk and the matters in management’s report.

In two audits, the scoping of audit work, or the planned approach, for components of the group were not adequately communicated to the Audit Committee.

In two audits, there was no evidence that the audit team had requested that unadjusted audit differences be adjusted, as required by Auditing Standards. The firm's Audit Committee report template did not include a request that unadjusted misstatements be adjusted, and the firm subsequently amended the template when this was highlighted by us.

2.2. Review of the firm's policies and procedures

The firm's policies and procedures are largely developed globally and the UK firm puts significant resources into implementing them; in particular independence compliance and monitoring procedures, risk assessment, the Professional Standards Review ("PSR") function, the audit training and on-going technical communications.

The strategy of the audit practice emphasises the importance of maintaining or improving audit quality, and one of the key initiatives to assist in achieving this is the implementation of a new audit system over the next two years. The audit practice also continues to focus on revenue growth and audit efficiency, partly to address continuing audit fee pressures.

Improvements made during the year

The firm took action to address a number of our prior year findings and enhanced its procedures in certain areas, including those referred to in section 2.1 above, in relation to the performance of audits. We note the following in particular:

A number of actions were taken to improve the performance of group audits, including issuing new templates to group audit teams to assist in evidencing discussions with component audit teams, and issuing guidance on component materiality.

The staff performance evaluation system was enhanced to ensure improved consideration of audit quality, including amending the standard appraisal form which now sets out objectives under three headings linked to the firm's strategy, including quality.

The firm included a number of findings identified by us as areas of focus in its 2012 audit quality monitoring process.

Prior year findings not adequately addressed

The following findings raised in the prior year were not adequately addressed during 2012:

Technical reviews of financial statements

The output of internal technical reviews of financial statements is not retained and we were, therefore, not able to review this output as part of our inspection of completed audits. The firm should have addressed this matter sooner.

Methodology on audit materiality - scoping of account balances

The firm's methodology allows account balances, classes of transactions and disclosures higher than overall materiality, if assessed as low risk, to be excluded from audit testing. Although the firm issued some guidance on limiting the extent of this and required these situations to be communicated to Audit Committees, further consideration should be given by the firm to the appropriateness of this aspect of its methodology, given the relevant requirements of Auditing Standards.

Audit quality monitoring – gradings

The firm's grading profile from its annual review of audits continues to be more positive than our own, with nearly half of audits graded as excellent and nearly all other audits being graded as meeting expectations, being the highest two grades out of five. The firm should consider further whether its approach to grading is giving an overly positive impression of the quality of its audits, and the extent to which the approach to grading promotes continual improvements to audit quality.

Findings in the current year

We identified certain additional areas where improvements to the firm's policies and procedures are required, as set out below, which need to be addressed.

Transparency report

We reviewed the firm's transparency report for the year to 31 May 2012, which was published in August 2012, to assess whether the information in the report was consistent with our understanding of the firm's quality control and independence procedures.

The transparency report contains a number of statements which appear to describe how the firm's procedures to support audit quality are applied in practice. Certain of these statements are not always consistent with our findings. The firm should describe how its procedures are intended to apply in practice, rather than giving the impression that they are always applied in that way.

The transparency report includes the statements that the "internal quality control systems are robust and operating effectively" and "our internal practice review and other monitoring processes provide us with assurance that [the independence] policies are appropriately observed". We were informed that these statements were primarily based on a review of those procedures performed by the firm in its prior year "practice review", which concluded in September 2011. In addition, some procedures were reviewed in earlier years as they are covered on a three year rotational basis. The firm should ensure that it discloses when the monitoring processes supporting such statements were undertaken.

Audit proposal documents

A sample of audit proposal documents reviewed by us all stated that the firm had completed its client acceptance procedures, even though they had not been completed in all respects. For example, on one of these proposals, the former auditor stated, shortly after the proposal, that it had resigned due to a serious disagreement with the directors in relation to the appropriateness of an accounting treatment. This required further consideration before the firm could accept the audit, including further internal approval following an increase in the firm's risk rating of this entity.

One of the audit proposal documents stated that the FRC's "public report confirmed that Deloitte in the UK has over the past three years routinely performed higher quality audits than the other firms". We do not seek to rank firms in terms of audit quality and our reports indicate that they should not be used for this purpose.

The firm's quality control procedures for audit proposals do not require a review by its independence or audit compliance departments. In our view, enhanced quality control are required in this area.

Ethics awareness and whistleblowing procedures

The firm's practice review identified through interviews with certain audit personnel that, while there was generally a good awareness of Deloitte's ethical principles, this was not the case in one of the business units. The firm was planning to take action to increase the awareness of these principles across the firm at the time of our inspection.

The firm has also identified a need to enhance its whistleblowing procedures, which require communication to the Ethics Partner or certain other senior partners in the firm. The procedures may not be sufficiently well designed to encourage audit personnel to be involved in whistleblowing. The firm was in the process of determining the required actions at the time of our inspection.

We will follow up these actions in our next inspection.

Independence – non audit services

In four audits, there was an inadequate assessment of the specific independence threats and safeguards relating to non-audit services provided. In three audits, there was inadequate communication of these matters to the Audit Committee.

On one of these audits, the report to the Audit Committee identified the non-audit services provided as including "other relevant services such as sustainability and information technology services" and the identified threats to independence focused on the information technology services. However, no sustainability or information technology services had been provided. This illustrated a lack of attention by the audit team to independence threats arising and the related safeguards applied.

We were informed that the firm requires the safeguards against independence threats for tax advisory services, where permitted under the Ethical Standards, to include the use of separate tax audit and advisory teams. However, this requirement was not explicitly stated in the firm's policies and we found that it was not adequately applied on one of the audits we reviewed.

The firm had started a review of the adequacy of the assessment and approval of non-audit services for audited entities at the time of our inspection. We will follow up the results of this review in our next inspection.

Independence – partner rotation

On one listed audit reviewed by us, the audit engagement partner had been serving for eight years in that role. Prior to the group's equity listing in the UK in the year, the partner would have been due to rotate off the group audit. Consistent with Ethical Standards, Deloitte's policy states that "once the audit client becomes a public interest (or listed) entity, the audit engagement partner may continue to serve in that role for two additional years before rotating off". However, in this case, the group already had listed debt securities in issue (in a subsidiary) and, in our view, should have been treated as an existing listed or public interest entity, for the purpose of applying the partner rotation requirements.

The firm has informed us that there are other groups that are not considered to be listed or public interest entities for partner rotation purposes, even though they include subsidiaries with listed debt. The firm should review its practice in this area and ensure that these types of situations are appropriately considered on a case by case basis.

Partner performance evaluation – link between audit quality and remuneration

The firm's performance evaluation system includes consideration of a number of audit quality metrics and requires consideration of performance against audit quality in the partner appraisal forms. The firm's guidance states that a negative contribution to audit quality will adversely impact remuneration. Unlike revenue generation, a positive contribution to audit quality is not included as one of the criteria that influences the performance rating.

The firm has introduced a formal penalty system in relation to adverse quality review findings, to be applied from 2013 for both audit engagement partners and engagement quality control review partners, in order to formalise the impact on partner's remuneration for audits with the lowest grades. We believe the firm should do more to improve the link between audit quality and partner remuneration, including placing more emphasis on recognising high quality work.

Partner performance evaluation – review of partner appraisals

We reviewed a sample of partner appraisals and the firm undertook a comprehensive review of all audit partner appraisals, partly in response to our prior year findings.

While the partner appraisals reviewed by us included consideration of audit quality, a third of them did not include audit quality related objectives, as required by the firm. In addition, some partners indicated that the objective set for maintaining audit quality had been met or exceeded, when our own findings on their audits indicated otherwise. The setting of quality related objectives is important in ensuring that audit quality is adequately considered in the performance evaluation process.

In the case of one partner appraisal reviewed by us, there was reference to non-audit services provided to an audited entity in relation to revenue generation. We were informed that, in accordance with the firm's policies, this was not taken into account in setting remuneration. The firm's review of audit partner appraisals also identified some references to non-audit services by other partners. The comments made in the appraisal forms indicate that certain partners may seek recognition for the selling of non-audit services to audited entities and may believe such recognition will be given.

The firm’s review of audit partner appraisals identified other matters, such as the extent of timely completion of appraisals. A large number of partner appraisals were requested to be amended to comply with the firm’s guidance in this area. The firm is planning further actions to improve the standard of partner appraisal forms, including continued monitoring of their completion.

Audit quality monitoring – review of audit engagements

The internal practice review findings were communicated to the global DTTL team in September 2012, when the process was substantially complete. However, the findings were not communicated to audit personnel until two months later. In our view, these communications should have been made sooner, given the importance of timely improvements to audit quality.

The audits in the London business units are reviewed by the firm on a three year cycle. In 2012, the financial services business units were reviewed, including banking and insurance. No industry specific themes were identified in the firm’s report in relation to the reviews of bank or other financial services audits. This is partly related to the fact that the review system does not facilitate recording findings under specific financial services related topics, such as loan provisions, and the lack of a financial services supplementary questionnaire. In addition, a high proportion of reviewers, and the team leaders for one of the business unit reviews, did not have relevant financial services audit experience.

The firm’s procedures to monitor the quality of bank, insurance and other financial services audits should be strengthened, given the importance of this sector.

Audit quality monitoring – review of the firm’s policies and procedures

The firm reviews the effectiveness of its policies and procedures on a three year rotational cycle. Ethics and audit quality monitoring were the areas covered in 2012, in addition to Independence, which is covered every year. The firm graded the standard of its policies and procedures at the highest level in 2012 and communicated this to the global DTTL team who, in turn, would have communicated this information to the other network firms.

Other than in relation to independence, no testing was performed in 2012, as required by DTTL, which we were informed was due to an oversight. It is therefore not clear on what basis the firm was able to conclude on the effectiveness of its policies and procedures or the appropriateness of the overall grading communicated to DTTL.

Other matters

Off-shoring

To date, the UK firm has only used off-shore centres for audit work relating to some investment funds, using the services of a joint venture between Deloitte US and India. The firm is to consider more use of this off-shore centre in the future, with a pilot project for a small sample of audits in 2013.

Andrew Jones
Director
Audit Quality Review
FRC Conduct Division
31 May 2013

Appendix A – Objectives, scope and basis of reporting

Scope and objectives

The overall objective of our work is to monitor and promote improvements in the quality of auditing. As part of our work, we monitor compliance with the regulatory framework for auditing, including the Auditing Standards, Ethical Standards and Quality Control Standards for auditors issued by the FRC and other requirements under the Audit Regulations issued by the relevant professional bodies. The standards referred to in this report are those effective at the time of our inspection or, in relation to our reviews of individual audits, those effective at the time the relevant audit was undertaken.

Our reviews of individual audit engagements and the firm's policies and procedures cover, but are not restricted to, the firm's compliance with the requirements of relevant standards and other aspects of the regulatory framework. Our reviews of individual audit engagements place emphasis on the appropriateness of key audit judgments made in reaching the audit opinion together with the sufficiency and appropriateness of the audit evidence obtained. We also assess the extent to which the firm has addressed the findings arising from its previous inspection.

We seek to identify areas where improvements are, in our view, needed in order to safeguard audit quality and/or comply with regulatory requirements and to agree an action plan with the firm designed to achieve these improvements. Accordingly, our reports place greater emphasis on weaknesses identified which require action by the firm than areas of strength and are not intended to be a balanced scorecard or rating tool.

Our inspection was not designed to identify all weaknesses which may exist in the design and/or implementation of the firm's policies and procedures supporting audit quality or in relation to the performance of the individual audit engagements selected by us for review and cannot be relied upon for this purpose.

The professional accountancy bodies in the UK register firms to conduct audit work. Their monitoring units are responsible for monitoring the quality of audit engagements falling outside the scope of independent inspection but within the scope of audit regulation in the UK. Their work, which is overseen by the FRC, covers audits of UK incorporated companies and certain other entities which do not have any securities listed on the main market of the London Stock Exchange and whose financial condition is not otherwise considered to be of major public interest. All matters raised in this report are based solely on the work which we carried out for the purposes of our inspection.

Basis of reporting

We exercise judgment in determining those findings which it is appropriate to include in our public report on each inspection, taking into account their relative significance in relation to audit quality, both in the context of the individual inspection and in relation to areas of particular focus in our overall inspection programme for the relevant year. In relation to reviews of individual audits, we have generally reported our findings by reference to important matters arising. Where appropriate, we have commented on themes arising or issues of a similar nature identified across a number of audits.

While our public reports seek to provide useful information for interested parties, they do not provide a comprehensive basis for assessing the comparative merits of individual firms. The findings reported for each firm in any one year reflect a wide range of factors, including the number, size and complexity of the individual audits selected for review which, in turn, reflects the firm's client base. An issue reported in relation to a particular firm may therefore apply equally to other firms without having arisen in the course of our inspection fieldwork at those other firms in the relevant year. Also, only a small sample of audits are selected for review at each firm and the findings may therefore not be representative of the overall quality of each firm's audit work.

The fieldwork at each firm is completed at different times during the year and comprehensive quality control procedures are applied. As a result, there may be a significant period of elapsed time between the completion of our inspection fieldwork at a firm and the publication of a report on the inspection findings.

We also issue confidential reports on individual audits reviewed during an inspection. These reports are addressed to the relevant audit engagement partner or director but firms are expected to provide copies to the directors or equivalent of the relevant audited entities.

Purpose of this report

This report has been prepared for general information only. The information in this report does not constitute professional advice and should not be acted upon without obtaining specific professional advice.

To the full extent permitted by law, the FRC and its employees and agents accept no liability and disclaim all responsibility for the consequences of anyone acting or refraining from acting in reliance on the information contained in this report or for any decision based on it.

Appendix B – Firm's response

The Firm's response is on the following page.

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13 May 2013

Our ref: PKK/SDL/SMD

Dear Mr Jones

Public report on the FRC's 2012/13 Audit Quality inspection: Deloitte response

We are pleased to respond to the public report arising from the FRC Audit Quality Review Team's inspection of Deloitte for the year ended 31 March 2013.

We consider that the FRC's report provides a balanced view of the focus and results of its inspection, and we are therefore pleased to record our agreement with its overall conclusions and findings.

The external inspection process provides further impetus to our quality agenda and we give careful consideration to each of the FRC's comments and recommendations, as well as findings arising from our own quality review procedures. In many cases we have already taken concrete steps to respond to the themes arising, and are in the process of implementing a number of further actions.

Deloitte's Audit Transparency Reports provide further information regarding our approach to delivering quality and are available on our website.

Yours sincerely

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