



Financial Reporting Council

Mazars LLP

Audit Quality Inspection and Supervision Report



July 2022

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Introduction: FRC's objective of enhancing audit quality

The FRC is the Competent Authority for statutory audit in the UK and is responsible for the regulation of UK statutory auditors and audit firms, and for monitoring developments, including risk and resilience, in the market. We aim, through our supervision and oversight, to develop a fair, evidence-based and comprehensive view of firms, to judge whether they are being run in a manner that enhances audit quality and supports the resilience of individual firms and the wider audit market. We adopt a forward-looking supervisory approach to audit firms, and we hold firms to account for making the changes needed to safeguard and improve audit quality.

Auditors play a vital role in upholding trust and integrity in business by providing opinions on financial statements. The FRC's objective is to achieve consistently high audit quality so that users of financial statements can have confidence in company accounts and statements. To support this objective, we have powers to:

- Issue ethical, audit and assurance standards and guidance;
- Inspect the quality of audits performed;
- Set eligibility criteria for auditors and oversee delegated regulatory tasks carried out by professional bodies such as qualification, training, registration and monitoring of non-public interest audits; and
- Bring enforcement action against auditors, if appropriate, in cases of a breach of the relevant requirements.

In March 2021 we published [Our Approach to Audit Supervision](#) which explains the work that our audit supervision teams do.

In May 2022 the Department for Business Energy & Industrial Strategy (BEIS) published the Government's response to its consultation 'Restoring Trust in Audit and Corporate Governance', which sets out the next steps to reform the UK's audit and corporate governance framework.

Legislation is required to ensure the new regulator - the Audit, Reporting and Governance Authority (ARGA) - has the powers it needs to hold to account those responsible for delivering improved standards of reporting and governance

These reports, published in July 2022, provide an overview of the key messages from our supervision and inspection work during the year ended 31 March 2022 (2021/22) at the seven Tier 1 firms¹, and how the firms have responded to our findings.

¹ The seven Tier 1 firms are: 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 Tier 1 Overview Report.

Our supervisory approach

The AFS, AMS and AQR 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 AFS, AMS and AQR teams are comprised of over 80 experienced professional and support staff assessing the risks to audit quality and resilience at each firm and the actions needed to address those risks.

80+



Mazars²

RIs
63

Offices
16



2,466
Professional Staff

Mazars

Audits within the FRC's inspection scope

Inspection Cycle ³	FTSE 100 audits	FTSE 250 audits	Total audits in FRC scope
2022-23	0	2	81
2021-22	0	0	60
2020-21	0	0	46

Mazars Audit fee income⁴ £m



Mazars Audits inspected by the FRC⁵

2021-22
2020-21
2019-20



Mazars Local audits⁶



Major audits 51
Non-Major audits 72
Major audits inspected by the FRC 3

² Source - the ICAEW's 2022 QAD report on the firm.

³ Source - the FRC's analysis of the firm's PIE audits as at 31 December 2021.

⁴ Source - the FRC's 2020, 2021 and 2022 editions of [Key Facts and Trends in the Accountancy Profession](#).

⁵ Excludes the inspection of local audits.

⁶ The FRC's inspections of Major Local Audits are published in a separate annual report to be issued later in 2022. The October 2021 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 Mazars LLP (Mazars or the firm). As part of our 2021/22 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 public interest entities (PIEs⁷). 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 basis.

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.

The 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 at Appendix 1.

7 Public Interest Entity – in the UK, PIEs are defined in the Companies Act 2006 (Section 494A) as: Entities with a full listing (debt or equity) on the London Stock Exchange (Formally "An issuer whose transferable securities are admitted to trading on a regulated market" where, in the UK, "issuer" and "regulated market" have the same meaning as in Part 6 of the Financial Services and Markets Act 2000.); Credit institutions (UK banks and building societies, and any other UK credit institutions authorised by the Bank of England); and Insurance undertakings authorised by the Bank of England and required to comply with the Solvency II Directive.

1. Overview

Overall assessment

In the 2020/21 public report, we concluded that the firm's audit inspection results were unacceptable, set out how the firm and the FRC would respond to these actions and increased our level of supervision for this year. We assessed that the firm needed to address urgently the firm-wide and audit inspection review findings with a substantial update of its audit quality plan and initiatives to ensure that the pace of growth did not exceed the pace at which the firm was remediating audit quality findings raised. The firm is continuing to grow and in the last year the number of audits within the FRC's inspection scope has increased from 46 to 60. In 2022/23 the number of audits within the FRC's inspection scope is expected to be 81 with two FTSE 250 entities.

Increased supervisory activities included inspecting an increased number of audits and additional discussions and monitoring of the firm's action plans, specifically in relation to increasing resources and additional feedback on banking methodology.

The unacceptable audit inspection results in 2020/21 have continued in 2021/22 with 38% requiring significant improvements and 50% across the two lowest categories. The areas which contributed most to this were the audit of revenue, provisions for expected credit losses, other areas of estimation and judgement, all of which were findings to some extent last year, and insufficiently robust quality control procedures. As last year, we focussed on first year audits and two out of the four in our sample required significant improvements.

The firm has made some progress on actions to address our previous findings in relation to its firm-wide procedures and has sought to invest and make improvements, such as substantially expanding the central quality support team. Actions have also been taken to improve audit execution, but these have not yet had the desired effect.

The overall root cause analysis report is relatively high-level but nonetheless identifies significant areas such as growth (where the risks have not been properly understood or controlled) and slow progress on certain actions as the primary underlying root causes for the individual audit inspection results this year. Other causal factors also align with our assessment and the actions the firm has proposed in this report. The firm must improve the rate of progress on actions with specific focus on those actions that would prevent continued recurrence of certain findings and those related to first year audits and related growth.

38%
of audits
inspected
were assessed
as requiring
significant
improvement.
This is
unacceptable.

The results from other measures of audit quality, covering a broader population of audits, showed better results. The results from the Quality Assurance Department of the ICAEW (QAD) set out on pages 18 and 19, which is weighted toward higher risk and complex audits of non-PIE entities (within ICAEW scope), assessed all the audits inspected as good or generally acceptable both this year and in the prior inspection. The firm's internal quality monitoring process (covering both PIE and non-PIE audits) assessed 64% of audits as meeting its highest quality standards (top two categories combined), an improvement on 52% in the previous year (see page 32). Similarities can be seen in the findings with FRC inspection findings in areas of estimation and judgement and the adequacy of auditor challenge.

There are timing delays between our review cycle and seeing the impact of quality-related actions the firm has commenced or taken, and we recognise that the firm has made a step-change in investment in resources and other audit quality initiatives in the last year. Additionally, we acknowledge that the population of audits undertaken by Mazars includes a greater proportion of companies with less developed management functions and systems and controls. This may mean that they are disproportionately impacted by weaknesses in the market ecosystem.

Notwithstanding this, the current results are concerning and urgent additional action by the firm, is clearly still required to produce consistent high-quality audits.

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

- Increase the number of audits inspected from eight to nine.
- Review and assess the adequacy of training and methodology/approach in the audit of revenue and the use of Engagement Quality Control Review partners, including the ratio of those partners to audits and their understanding of the role.
- Additional focus on the quality and quantity of support provided on first year audits, such as review panels, while the expanded central support team becomes established.
- Further consideration of the bid/no bid process and whether the process allows resourcing plans to appropriately respond to higher risk audits.
- Require all actions to be included in a Single Quality Plan (SQP), subject to formal reporting and regular review by the FRC.

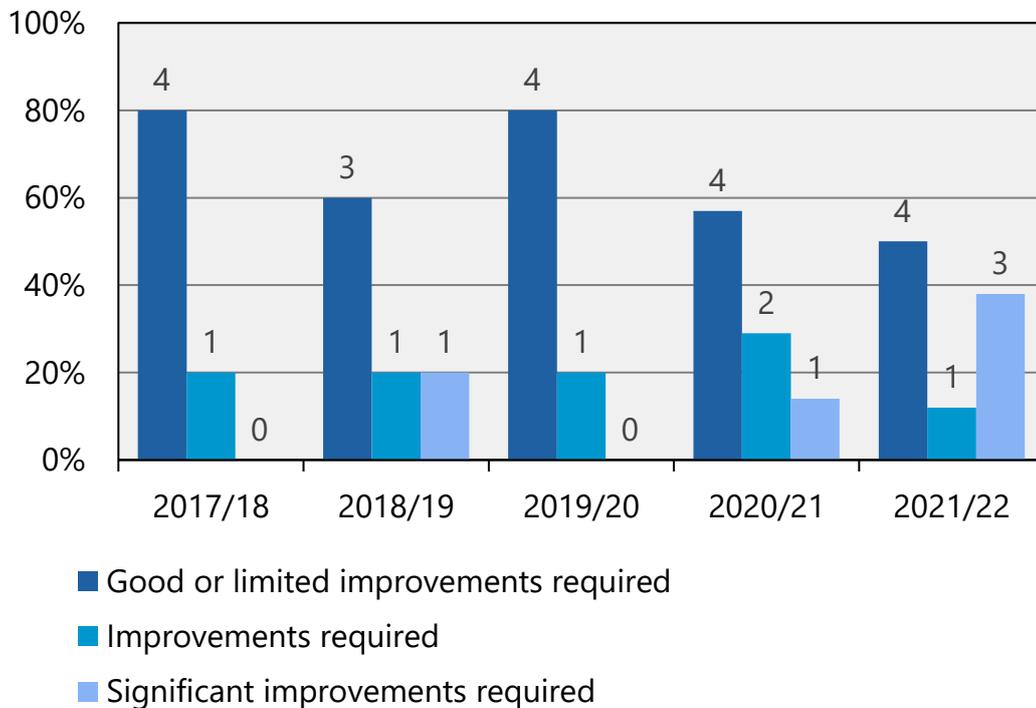


Firms must include all actions within a Single Quality Plan, subject to formal reporting and regular review by the FRC.

Inspection results: arising from our review of individual audits

We reviewed eight individual audits this year and assessed four (50%) as requiring no more than limited improvements.

Our assessment of the quality of audits reviewed: Mazars LLP



The audits inspected in the 2021/22 cycle included above had year ends ranging from October 2020 to April 2021.

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 review and the scope of individual reviews. 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 findings related to the audit of revenue, provisions for expected credit losses, other areas of estimation and judgement and deficiencies in quality control procedures performed by the partner and the Engagement Quality Control Review partner.

We identified good practice in each of 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: actions to implement the FRC's revised Ethical Standard; policies and procedures for engagement quality control reviews, auditor consultations and audit documentation; audit methodology relating to the fair value of financial instruments; and internal quality monitoring arrangements.

Our key findings related to the firm's actions to implement the revised Ethical Standard, the EQCR, audit documentation and archiving, methodology in relation to the auditing of fair value instruments and internal quality monitoring. We also raised good practice points on internal quality monitoring.

Further details are set out in section 3.

Forward-looking supervision

In response to our audit inspection results identified in our 2020/21 public report, the firm focussed on increasing central resources, aligning the Audit Quality Plan (AQP) to the firm's strategy, and developing its culture strategy, which included setting up a culture committee to drive the programme forward. The AQP remains very driven by the detailed actions upwards (a bottom-up approach) and it needs more structure from the top down to help with prioritisations and the interactions with the growth, culture, and resilience strategies as well as audit quality.

The firm has also made a number of enhancements to its approach to Root Cause Analysis (RCA) based on points raised in our report last year, matters discussed at the FRC roundtables, learning points from recent external training and input from a new member of the team.

Although we recognise there are timing delays between our review cycle and seeing the impact of quality-related actions the firm has taken, we are concerned about this year's results. In light of these results the firm must take stock and reconsider whether its RCA analysis is adequately identifying the root causes of the inspection findings, whether the actions taken have been



Our key findings on individual audits included the audit of revenue, provisions for expected credit losses and other areas of estimation and judgement.

With respect to quality control procedures, our key findings related to implementing the revised Ethical Standard, EQCR, audit documentation and archiving, methodology and internal quality monitoring.

sufficiently effective and whether, in hindsight, these were all the right actions, targeted in key areas on a timely basis.

Further details are set out in section 4.

Firm's overall response and actions



Quality is a central pillar of Mazars' values and strategy, and the delivery of high-quality PIE audits is a strategic priority for Mazars in the UK and across the international organisation. Our objective is to apply the highest quality standards in our work.

We are therefore very disappointed by the FRC findings on their reviews of 8 audits, selected by them in accordance with their risk criteria explained on page 4. We are fully committed to addressing the issues which have been identified as part of our broader quality plan, and to achieve quality results that reflect our high standards whether measured by regulatory or internal assessments.

Having established an appropriate Audit Quality Plan, which encompasses quality initiatives in five key areas (Tone at the top; Processes & tools; Reward & recognition; Team & resources and Training & technical expertise), we are now focused on the full delivery of this plan, on post-implementation reviews to assess the impact of these actions on quality and on ensuring that the plan and all quality initiatives, taken together, enable us to deliver both our PIE audit market strategy and our goal of quality without compromise.

While disappointed with the FRC findings on the individual file reviews, we are encouraged that the FRC acknowledges that Mazars has made improvements in a number of firm-wide processes and controls, such as in relation to the strengthening of our central support functions, our internal quality monitoring and root cause analysis programme. As the FRC note in their report, "... our inspection findings may not be representative of audit quality across a firm's entire portfolio of audits...". The QAD findings on their file reviews of our corporate sector and the FRC's own inspections of our Public Sector audits indicate a more positive assessment of the underlying quality of our audit work across our wider audit portfolio.

Mazars' actions and responses already taken

The FRC's file reviews cover audit work performed up until July 2021. Over the last 18 months, the firm has implemented a number of steps and measures to further enhance audit quality, including all those that we committed to in last year's FRC Public Report. As at the end of May 2022, the audit practice had grown year on year in revenue terms by 36% (including

impact of pricing movements on revenue). During this period, we have invested in and made improvements to audit quality notably through:

- significant investments in our client-facing teams, with more focus on their training and development, and a net increase in headcount between May 2021 and May 2022 of 280 people to reach 1,180 auditors. In particular over the last year we have promoted or recruited 7 new audit partners in our PIE audit teams;
- more than doubling the size of the central audit quality support team which provides our audit methodology, guidance, tools, technical learning & development, audit quality review program, root cause analysis and audit technical support;
- the development and increased monitoring of our Audit Quality Plan, with greater alignment to the firm's strategy;
- greater specialisation and focus of our audit teams to our four strategic markets of Financial Services, other large and listed entities, Public Sector and Privately Owned Business to ensure that the teams delivering audits have the required skills and expertise relevant to the markets they operate in;
- substantial investments in specialists to support our audit teams in delivering more complex engagements, notably IT specialists, Property Valuers, Actuaries and Quants;
- the introduction of more formal technical assessments for new Responsible Individuals (both internal promotions and external recruits);
- the launch of our audit culture project 'No Compromise', with a number of quality improvement initiatives arising from this being implemented;
- the design of Audit Quality Indicators with monthly review of these indicators notably in relation to resourcing and team wellbeing;
- enhanced our audit methodology in relation to IFRS 9 in order to better support our teams through guidance and tools to audit Expected Credit Losses (ECL), and in relation to IFRS 13 and auditing of fair value measurements;
- the continued development of our new global audit software and data analytics tools; and
- furthering the scope and reach of our root cause analysis processes.

The FRC notes that "There are timing delays between our review cycle and seeing the impact of quality-related actions the firm has commenced or taken, and we recognise that the firm has made a step-change in investment

in resources and other audit quality initiatives in the last year". Looking ahead, in addition to the above measures, the firm has initiated further steps as outlined below:

- continued investment in the central audit quality team, with a further substantial headcount growth in the next 12 months to enhance primarily our Methodology and guidance, Quality control and Quality monitoring teams;
- reviewing and enhancing our onboarding processes, to ensure that new joiners gain a better understanding of our culture, processes and tools and can be effective more rapidly in delivering quality audits;
- embedding the cultural and behavioural aspects of No Compromise in all those delivering or supporting audits;
- full deployment of our new global audit and data analytics software;
- prioritising a slower pace of growth across the audit service line in the coming year to more effectively embed the quality enhancement initiatives in progress and fully focus on the delivery of high-quality audits to existing public interest entities in the short term while these initiatives take full effect; and
- further improving our client acceptance and continuance process to ensure it is sufficiently robust so that we only perform audits that we are confident of delivering with the required level of quality.

Further actions and responses to this report

We have performed root cause analysis on those files requiring more than limited improvements in order to identify the underlying drivers of the failings identified by the FRC, and defined specific actions to prevent these failings from repeating in the future.

Taken together, we believe that the actions already initiated and described above, together with specific additional actions in respect of the five areas listed below are appropriate responses to both the root causes identified and the FRC findings.

1. Continued development of our team

As a profession we are currently faced with a very challenging employment market, due to both the reduction in the pool of available talent following Brexit and a perceived lack of attractiveness of the profession. Covid 19 has also presented practical challenges in relation to training and developing of teams. This issue has primarily been driven by the move to remote working, both by audit firms and by the finance teams of the companies we audit. It

has both impacted the effectiveness of coaching and development of our teams, and the quality and efficiency of the interactions with the audited entities. We are encouraging our teams to spend more time in the office and at clients, working together in teams to promote coaching and development, timely reviews of work, a culture of challenge and support and team spirit, but the process of reintroducing greater levels of 'in person' work is necessarily gradual. We have reviewed our approach to training with more in-class training. Finally, we have introduced new management and resourcing roles in the team to maximise the efficiency and effectiveness of Mazars' audit teams and these need more time to fully bed in.

2. Enhancing the focus on First year audits

We are conscious of the FRC's comments in relation to first-year audits. To address the enhanced risks associated with first-year audits, we have increased scrutiny and control over our 'Bid/No Bid' process to ensure that we are only taking new audits that we can deliver with the required level of high quality. In addition, we will introduce for the next audit season dedicated transition teams to support first year PIE engagements, with strong involvement from a consultant partner and from the central audit quality team to provide heightened challenge and support to engagement teams. This will be particularly in relation to risk assessment and key judgemental areas, including how to document and evidence all work performed and conclusions reached more clearly. Furthermore, we will now centrally allocate a resource contingency of 20%, over that budgeted by the delivery team, to ensure that the team can respond to unexpected events, and that there is sufficient capacity to deliver these first-year audits to an appropriate level of quality.

3. Further strengthening Quality Control

In relation to our quality control procedures, we are enhancing the challenge around client acceptance and continuance to clearly identify those entities that bear the highest inherent risks. Where we conclude that we have the required skills and knowledge to take on these audits, in particular at RI and manager levels, we will allocate an EQCR team to respond to the risk assessed. In addition, we are reviewing the portfolio and activities of our lead EQCRs to ensure they have sufficient time to provide the necessary level of challenge. We will start from September 2022 having full-time EQCR partners and we will progressively increase this pool of full-time EQCRs.

4. Clearer and more timely evidencing

We are supporting our teams, through tools, training, and the enhanced oversight mentioned above, to strengthen the clarity of the documentation, to evidence their risk assessments, key judgements, audit strategies and

conclusions, especially in relation to significant risk areas, in a more systematic and timely manner. We launched a milestones programme during the last year to support timely execution of audits, a rigorous audit close down process and effective monitoring.

We are also in the process of assessing how we can incorporate the new FRC's Professional Judgement Framework into our methodology, tools and training programmes to ensure that we more appropriately evidence challenge going forward.

5. Single Quality Plan

We are in the process of consolidating our Quality initiatives into a Single Quality Plan, to ensure that all initiatives and actions associated with improving audit quality are appropriately integrated and subject to regular and robust governance, in accordance with ISQM1. We acknowledge the FRC's comments that a more 'top down' approach needs to be applied to this plan. We are both strengthening the connection between our firm-wide and audit specific strategy and objectives, as well as increasing the frequency and nature of internal reporting of progress.

Mazars remains fully committed to the PIE audit market and to playing its part in the necessary evolution of the PIE audit market structure in the wake of the significant changes announced by the Government in its response to the consultation on its White Paper 'Restoring trust in audit and corporate governance'

The FRC notes that "the population of audits undertaken by Mazars includes a greater proportion of companies with less developed management functions and systems and controls. This may mean that they are disproportionately impacted by weaknesses in the market ecosystem". We have a responsibility to act in the public interest and believe that investors in all companies should be protected by high-quality audits. Where we deliver audits of less mature companies, or of companies in higher-risk sectors, a critical part of our role is to provide robust challenge to Audit Committees and management to foster improvement in governance, controls and processes, and capability of finance personnel.

We fully support the FRC's work to improve in the quality of audit work across the sector. Our very clear intent is to continue to build a team and infrastructure to achieve the standards of excellence that we demand of ourselves.

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 if they are considered key due to the extent of occurrence across the audits we inspected.

Prioritise actions to strengthen the quality and effectiveness of audit work on revenue

Revenue is a key driver of operating results and a key performance indicator on which investors and other users of the financial statements focus. Audit teams are expected to ensure that they design an approach which is responsive to the identified risks and undertake adequate audit procedures to address the risks to assess the reasonableness, accuracy and completeness of revenue recognised.

Last year we reported that the firm should strengthen the quality and effectiveness of audit work on revenue.

Key findings



We reviewed the audit of revenue on all trading audits inspected in this cycle and we continued to identify a range of issues associated with the audit of revenue. In five of the eight audits inspected, issues were identified in relation to the audit work over the occurrence, accuracy, and completeness of revenue, including three audits assessed as requiring more than limited improvements. Findings included:

- On two audits, insufficient audit evidence was obtained to conclude on the appropriateness of revenue recognised. On one of these audits, this included the appropriateness of revenue recognised. On the other audit, there was insufficient evidence that recorded inventory movements reflected physical movements across revenue types including sales dispatched directly by suppliers.
- On another audit, the operating effectiveness of relevant controls was not tested throughout the year, nor were transactions tested through to cash receipts or underlying source evidence beyond system generated information to confirm the occurrence and accuracy of revenue recognised. On this audit the testing of unbilled revenue was also insufficient, particularly the challenge and corroboration of the judgements made by management.



We reviewed the audit of revenue on all trading audits inspected and continued to identify a range of issues.

- On another audit deficiencies were identified in the performance of substantive analytical procedures.

Improve the audit of inputs and estimates in concluding on the sufficiency of provisions for expected credit losses

Determining the provision for expected credit losses (ECL) involves significant management assumption and estimation uncertainty. Audit teams are therefore expected to consider the complexity and subjectivity of management's judgements and inputs used to determine the provision and obtain appropriate audit evidence to assess their reasonableness, accuracy, and completeness.

In prior years we have reported that the firm needed to improve the quality of its audit work over areas of judgement including ECL. We reviewed the audit of ECL on four of the audits inspected this year, covering ECL provisions under both the general IFRS 9 ECL approach and the simplified IFRS 9 ECL approach for corporate entities.

Key findings



We continued to have findings concerning ECL on all these audits including one audit where the general IFRS9 approach was implemented which was assessed as requiring more than limited improvement.

- On one audit where the general IFRS 9 approach was implemented, the firm did not obtain sufficient and appropriate audit evidence over the provision for ECL. We identified significant concerns with the audit's team procedures and audit evidence in the following areas: data input testing; assessment of ECL methodology; ECL model review; significant increase in credit risk; and multiple economic scenarios.
- On the other audits, where the simplified ECL approach was adopted, there were findings relating to improvements required over the audit of ECL provisions including how the audit team: assessed the identified non-compliance with IFRS 9 to ensure these did not result in a materially different provision; tested the completeness and accuracy of historical credit losses which were used to derive the ECL rates; assessed the forward-looking financial and non-financial information used to determine ECL rates; and challenged the rates applied to each aged debtor and verified unique terms and conditions which were used to justify the non-recognition of ECL provisions.



We have continued to identify findings in relation to the audit of expected credit losses.

Further strengthen the quality of audit work in other areas of estimation and judgement

Financial statements include management's judgements and estimates when calculating provisions such as in impairment, future obligations, assessment of fair values on acquisition or cash flows supporting the going concern assumption. These estimates often involve uncertainty and rely on the assumptions and judgement of management, which may be prone to bias. Audit teams are expected to adequately assess and challenge management's judgements and estimates when concluding on the appropriateness of affected balances.

Key findings



We reviewed the audit of significant estimates and assumptions on all audits inspected in this cycle. We continued to identify instances where improvements could be made on five audits, including two audits assessed as requiring more than limited improvements. Findings included:

- Insufficient procedures and challenge performed over the accuracy and completeness of management's impairment assessment.
- On an audit where a material uncertainty was included in the audit report, the audit team did not appropriately review or challenge management's going concern cash flow forecasts to ensure these were reasonable to support the going concern assumption.
- No audit challenge was evidenced to assess the appropriateness and material accuracy of the accounting for a significant bonus.
- Appropriate procedures over aspects of investment property valuation were not performed.

As the audit of significant estimates and assumptions has been an area of recurring finding, the firm must, as a priority, update its audit quality plan to address our concerns in this area.

Improve the application of audit quality control, including Engagement Quality Control Review procedures

A clear and detailed quality review must be performed to enable audit teams to conclude that they have performed appropriate audit work to support their conclusions. Audit teams are expected to clearly evidence the audit procedures performed, the key judgements made and conclusions reached.

Key findings



We continue to identify key findings across the audits we have inspected and on three individual audits there were multiple key findings. The firm's review procedures, including those undertaken by the audit partner and Engagement Quality Control Reviewer, failed to identify these issues and, as a result, the quality control procedures were not sufficiently robust to prevent or detect potential material misstatements. Specifically, there were several areas where there was:

- Inadequate testing of account balances across significant risk areas;
- Failure to explain why the team concluded on a range of issues; and
- Lack of evidence to support the audit team's conclusions.

The firm must take robust action to ensure that its quality control and engagement quality control procedures, including review by senior members of the audit engagement team and the Engagement Quality Control Reviewer, are effective.



Across the audits we inspected, the quality control procedures were not sufficiently robust to prevent or detect potential material misstatements.

Implement measures to improve audit quality in response to other issues driving lower audit quality assessments

On one audit, the deficiencies in testing led to a material error not being identified in the total of operating expenditure although it did not impact net assets. This was identified by the auditor after the audit report had been signed and communicated to those charged with governance. Appropriate professional scepticism was not demonstrated in relation to this material increase in operating expenditure.

Review of individual audits: 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 which responds to those risks.

- **Risk factors:** On one audit, the audit team evidenced careful consideration of how risk factors might affect each component of the entity's revenue.

Execution

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

- **Use of experts:** On one audit, the audit team's evaluation of, and interaction with, internal property valuation experts was comprehensive, including the assessment of the reasonableness of yields and assumptions used for those property valuations.

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 raise any specific completion and reporting good practice examples on the audits reviewed.



Good practice examples included the consideration of how risk factors may impact revenue and the evaluation of, and interaction with, an internal property valuation expert.



Monitoring review by the Quality Assurance Department of ICAEW

The firm is subject to independent monitoring by ICAEW, which undertakes its reviews under delegation from the FRC as the Competent Authority. The 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. The ICAEW does not undertake work on the firm's firm-wide controls as it places reliance on the work performed by the FRC.

ICAEW reviews are designed to form an overall view of the quality of the audit. The 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.

The ICAEW has completed its 2021 monitoring review and the report summarising the audit file review findings and any follow up action proposed by the firm will be considered by the ICAEW's Audit Registration Committee in July 2022.

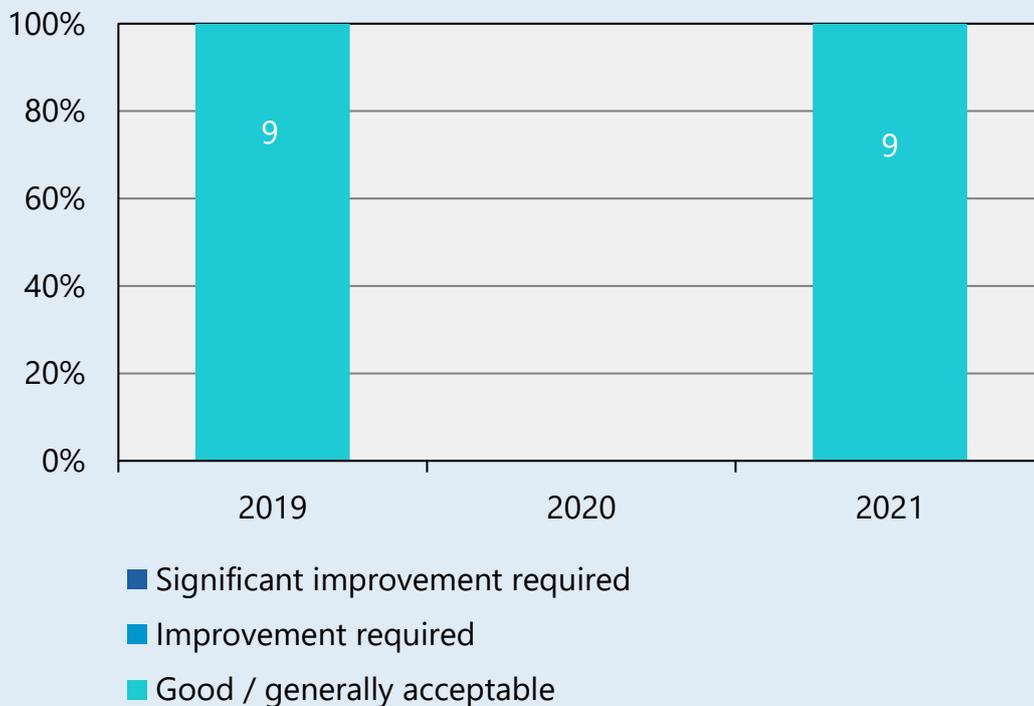
Summary

Overall, the audit work the ICAEW reviewed was of a good standard. All nine files were either good or generally acceptable. This is similar to the results of the previous review in 2019.

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

Results

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



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

The ICAEW identified good practice across the files we reviewed. Broad themes were:

- High quality reporting to management and those charged with governance.
- Clear audit work in key risk areas.
- A good understanding of the clients and the specialist services they provide.

3. Review of the firm’s quality control procedures

In this section, we set out the key findings and good practice we identified in our review of the following four areas of the firm’s quality control procedures, which we have inspected this year. This table shows how these areas in International Standard on Quality Control (UK) 1 (ISQC 1) map to International Standard on Quality Management (UK) 1 (ISQM 1), which will come into effect at the end of 2022, and the FRC [“What Makes a Good Audit?”](#) publication.

ISQC 1 area	ISQM 1 area 	What Makes a Good Audit 
<ul style="list-style-type: none"> Relevant ethical requirements - Implementation of the FRC’s Revised Ethical Standard (2019) 	<ul style="list-style-type: none"> Relevant ethical requirements 	<ul style="list-style-type: none"> Execution of the agreed audit plan
<ul style="list-style-type: none"> Engagement performance - EQCR, consultations and audit documentation 	<ul style="list-style-type: none"> Engagement performance 	<ul style="list-style-type: none"> Execution – Consultation and oversight
<ul style="list-style-type: none"> Audit methodology 	<ul style="list-style-type: none"> Resources – Intellectual Resources including methodology 	<ul style="list-style-type: none"> Resources – Methodology
<ul style="list-style-type: none"> Monitoring - Internal quality monitoring 	<ul style="list-style-type: none"> Monitoring and remediation 	<ul style="list-style-type: none"> Monitoring and remediation

We performed the majority of our review based on the policies and procedures the firm had in place on 31 March 2021. We also set out our approach to reviewing the firm’s quality control procedures and a summary of our findings in the two previous years at the end of this section.

Relevant ethical requirements – Implementation of the FRC’s Revised Ethical Standard

In 2019, the FRC revised certain requirements contained within the Ethical Standard for auditors (the “Revised Standard”). The revisions predominantly became effective for audits commencing on or after 15 March 2020. The focus

of the revisions was to enhance the reality and perception of auditor independence, necessities both for auditors to form objective judgements about the entity being audited and for stakeholders to have confidence in the outcome of the audit. Certain prohibitions, on the type of non-audit services that could be provided to entities audited by the firm, were enhanced or extended. The Revised Standard also strengthened the role and authority of the Ethics Partner in firms and expanded the definition of the important "Objective Reasonable and Informed Third Party test", against which auditors must apply judgements about matters of ethics and independence.

In the current year, we evaluated the firm's actions to implement the Revised Standard. We reviewed changes to policies and procedures and the support provided to audit teams to aid the transition (for example, communications, guidance and training events). We also conducted a benchmarking exercise to compare the implementation approaches across the firms and to share good practice.

Key findings



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

- Improve the firm's guidance on how to more consistently consider the perspective of an Objective Reasonable and Informed Third Party when taking decisions relating to ethics and independence, and in particular, that of non-practitioners, such as informed investors, shareholders or other stakeholders.
- Enhance its policies and procedures to maintain complete and up-to-date corporate trees, especially for international groups with complex structures, to inform decisions on independence matters.

Given the effective date of the Revised Standard, the majority of the audits inspected in the current year were performed under the previous Ethical Standard.

Our inspection work next year will assess whether audit teams have adhered to the firm's updated policies and procedures.

Engagement Performance – EQCR, consultations and audit documentation

An EQCR is required to be an objective evaluation, by a suitably qualified audit practitioner, of the significant judgements made by the audit team. The reviews are completed on public interest and other heightened risk audits before the audit report is signed. Our inspection evaluated the firm's policies and procedures in relation to the appointment of EQCR reviewers. Key factors

considered included the individuals' audit experience and level of seniority, availability and capacity, internal and external quality results and industry knowledge. We also considered how the challenges raised by the EQCR were made and resolved, as well as the training provided to reviewers.

Consultation with the firm's central functions, on difficult or contentious matters, enable auditors to be guided by the collective experience and technical expertise of the firm. We reviewed the firm's policies and procedures in relation to auditors consulting with the firm's central quality teams, including areas where mandatory consultations are required.

Audit documentation comprises the evidence obtained and conclusions drawn during an audit. Archiving ensures that the documentation is maintained should it be needed in the future. We reviewed the firm's arrangements relating to the assembly and timely archiving of final audit files, and the monitoring and approval of changes made to audit files after the signing of the audit report.

Key findings



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

- Strengthen and formalise its EQCR policies and procedures. We identified a number of improvement points in relation to the firm's appointment of EQCRs based on their experience, quality results, available time, and other factors. The firm must take action to ensure the EQCR reviews are effective by improving its policies and procedures.
- Improve its policies and procedures in relation to audit documentation and archiving. The firm's audit software does not record the date the audit report is signed, or expected to be signed, or identify when audit files should be archived. We also identified a number of improvement points in relation to monitoring compliance with the firm's archiving policy.

Key findings related to the EQCR on individual audits are set out in section 2.

Methodology

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, to help audit teams perform audits consistently and comply with auditing standards. In the current year, we evaluated the quality and extent of the firm's methodology and guidance relating to auditing the fair value of financial instruments, with a focus on the audits of banks and similar entities.



An EQCR is required to be an objective evaluation, by a suitably qualified audit practitioner, of the significant judgements made by the audit team.



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.

Key findings



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

- Issue methodology and improve the quality and extent of IFRS 13 guidance in relation to auditing the fair value of financial instruments for banks and similar entities. Comprehensive and precise action is required to guide audit teams in planning and executing audit procedures in this complex area. Since our original inspection work in early 2021, the firm has developed an initial methodology framework and has adjusted its approach to auditing certain key areas. Further improvements are needed, particularly given the firm is expanding the size and complexity of its banking audits.



We identified findings in all the firm-wide areas reviewed in the current year which the firm needs to address.

Monitoring – Internal quality monitoring

It is a requirement for firms to monitor their own quality control procedures to evaluate whether they are adequate and operating effectively. This allows action to be taken should deficiencies be identified.

We evaluated key aspects of the firm's annual process to inspect the quality of completed audits. This included the criteria for selecting audit partners and completed audits for review, the composition and allocation of quality review teams, the scoping of areas to review, the evidencing of the review, the identification of findings and the overall assessment. We planned to compare the scope and outcome of a sample of audits reviewed by the AQR team with the firm's internal quality monitoring team. We were not able to perform this due to the difference in timing between the firm's and AQRs inspection programs.

Key findings



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

- Ensure that the professional judgements made by the reviewer are recorded to support the depth of their review and the conclusions reached in key areas that have been reviewed where no findings have been raised. This is particularly important for high risk and complex areas where conclusions on the adequacy of the audit evidence obtained are inherently judgemental.

Good practice



We identified the following areas of good practice:

- The firm ensures that each audit partner is subject to a full internal quality monitoring review every two years.
- The firm performs targeted thematic reviews which have a wide scope and coverage. The reviews are designed to respond to themes arising from internal and external reviews, and to monitor areas where the firm is trying to implement changes, share good practice and drive continuous improvement.

Approach to reviewing the firm's quality control procedures

We review firm-wide procedures based on those areas set out in ISQC 1, in some areas on an annual basis and others on a three-year rotational basis. The table below sets out the areas that we have covered this year and in the previous two years:

Annual	Current year 2021/22	Prior year 2020/21	Two years ago 2019/20
<ul style="list-style-type: none"> • Audit quality focus and tone of the firm's senior management • Root cause analysis (RCA) process • Audit quality initiatives, including plans to improve audit quality • Complaints and allegations processes 	<ul style="list-style-type: none"> • Implementation of the FRC's Revised Ethical Standard (2019) • EQCR, 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 	<ul style="list-style-type: none"> • Partner and staff matters, including performance appraisals and reward decisions • Acceptance and continuance (A&C) procedures for audits

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 review on a rotational basis:

- For Audit methodology and training (2020/21) the firm needed to increase the amount of mandatory training for audit practitioners, introduce post-course assessments for technical training, improve the guidance in relation to auditing lease accounting and financial instruments accounting (non-banking entities) under IFRS 16 and IFRS 9 and to improve the quality and extent of IFRS 9 methodology and guidance relating to banking audits.
- For Partner & staff matters (2019/20) we identified a lack of compliance with the firm's requirements around objective setting and appraisal completion in staff appraisals. The firm also needed to make adjustments to its partner appraisal process in relation to how adverse quality results impact pay and to improve the evidence of the pay review process.
- For Acceptance and continuance procedures (2019/20) the firm needed to strengthen its process to ensure that audits did not commence until the continuance approval process had been completed. The firm also needed to improve its continuance form to give sufficient prominence to the assessment of the potential impact on the firm's brand and reputation risk and the resources required to undertake an engagement.

We provided an update on the firm's actions in our 2020/21 report.

Good practice



We did not raise any specific firm-wide good practice examples in our previous two public reports.

4. Forward-looking supervision

We supervise by holding firms to account through assessment, challenge, setting actions and monitoring progress. For instance, we do this through assessing and challenging: the effectiveness of the firms' RCA processes; the development of firms' audit quality plans; the firms' progress against action plans; the effectiveness of firms' responses to prior year findings; and the spirit and effectiveness of the firms' response to non-financial sanctions. We are currently introducing a single quality plan (SQP) to be maintained by each Tier 1 firm as a mechanism to facilitate our holding firms to account and monitor the progress and effectiveness of actions to improve quality. A fuller explanation of our forward-looking supervision approach is set out in Our Approach to Audit Supervision.

In our role as an Improvement Regulator, we also seek to promote a continuous improvement of standards and quality across the firms by sharing good practice, carrying out benchmarking and thematic work, and holding roundtables on topical areas. In 2021/22 we held two roundtables, attended by the seven largest firms, sharing good practices and success stories on RCA. We have been undertaking benchmarking and thematic-based work on areas including Tone at the Top, ISQM 1, Overseas Delivery Centres, and on Culture and Challenge of Management.

We have also carried out pre-implementation work on the firms' preparedness for ISQM 1. Further details are set out in our Tier 1 Overview Report.

In the remainder of this section, we set out our observations from the work we have conducted this year, and updates from previously reported findings, as follows:

- Audit quality initiatives
- RCA
- Other activities focused on holding the firms to account
- Operational separation

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

Audit quality initiatives

Background

Firms are expected to develop audit quality plans (AQPs) that drive measurable improvements in audit quality and include initiatives which respond to identified quality deficiencies as well as forward-looking measures which contribute directly or indirectly to audit quality.

Last year we reported that the firm had begun to formalise its quality plan and having entered into a new four-year strategic cycle, needed to align it to the audit strategy and growth plans. While the firm had a number of quality initiatives that had been operating for some time, the audit quality plan to bring them together and address audit quality concerns was relatively new.

We identified good practices in relation to the link between inspection findings, the firm's RCA output and the actions in the action plan and also in terms of the monitoring of the plan which included impact assessment from its early development. However, we also required the firm to invest further in the central quality and risk functions as these teams were under-resourced. We also found that the AQP would need to be aligned to the firm's culture as developed or include plans to develop that culture further.

Observations

We assessed the following:

- **Investment in central quality and risk functions:** The firm has invested in and strengthened the team and processes in these areas. Processes have been formalised and restructured to improve the firm's foundations from which to grow responsibly. The central quality team doubled between March 2020 and 2021 and has now doubled again as well as being expanded to include a team of different specialists with expertise in property valuations, pensions, and impairment, to support audits/audit teams further.
- **Oversight and governance of the AQP:** Monthly updates of the action plan within the AQP are provided to the Audit Executive for discussion with periodic sharing with the whole firm's UK executive and the Public Interest Committee.
- **Culture and the AQP:** The AQP covers actions assigned to the five categories used in the Firm's No Compromise culture programme, including: team/resource, process and tools, and rewards and recognition. The plan remains very much driven by the detailed actions upwards (a bottom-up approach) but the firm intends to use the categories as the overarching quality drivers of the AQP. More structure, from the top down, is needed to help with prioritisation and the interactions of strategies around growth,



Audit quality plans should include forward-looking measures which contribute directly or indirectly to audit quality.



Mazars has invested in the central quality and risk functions and strengthened the team and processes in these areas.

culture and resilience with the quality strategy and initiatives and then the individual actions.

We will continue to assess the AQP and encourage all firms to develop or continue to develop their audit quality plans including the focus on continuous improvement and measuring the effectiveness of initiatives.

Root Cause Analysis

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 1, when implemented, introduces 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.

When we reviewed the firm's RCA process last year, we assessed that the firm's overall approach to independent RCA was in its early stages relative to other firms. We identified good practice in relation to the consideration of key measurement points through the audit, the weighting of causal factors and the planned use of impact assessment. However, we found that the firm needed to continue to develop the RCA process at the same time as expanding the scope and coverage as well as the team. The firm has made a number of enhancements to its approach taking into account points raised in our report last year, matters discussed at the FRC roundtables, learning points from recent external training and input from a new member of the team.

Observations

We assessed the following:

- **Scope of reviews:** The scope and coverage of reviews has been expanded using a framework with different levels of RCA review. Level 1 reviews of good practices from audits graded good or limited improvements have a simplified and streamlined approach without a detailed cause-and-effect analysis; Level 2 reviews are rigorous RCAs involving all members of the team and support team on poorer graded audits; with Level 3 reviews being thematic or looking at recurring findings and emerging issues from other sources. Mazars must expand the team further to have the resource available to make the Level 1 reviews less streamlined. This will allow a better understanding of the characteristics of a good audit / what good looks like and will enable inconsistencies in audit quality to be addressed.



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

ISQM 1 requires firms to use RCA as part of their quality remediation process.



Mazars must expand the team further to have the resource available to make the Level 1 reviews less streamlined.

- **A three-step approach to action planning:** The firm has introduced a three-step approach to action planning intended to ensure that actions resulting from the RCA are targeted. Potential actions are identified by the audit teams, then they are assessed and evaluated, checking they have not been taken before and improving them into possible solutions. The final step is then to evaluate them further with a sponsor and create actions to be added to the action plan.
- **Current inspection results:** This year the firm's FRC inspection results are poor with three audits given the lowest quality grade and a number of recurring findings. Mazars must take stock and reconsider the depth and breadth of its RCA analysis and whether the actions it has taken have been effective and targeted at key areas on a timely basis.
- **Behavioural specialists:** Last year we observed that training from behavioural specialists had not been sought by the firm, nor had there been involvement from these specialists in the firm's RCA process. This remains the case. Given our inspection results and recurring findings, the firm must consider the benefits of this further as additional cultural/behavioural root causes could be identified and acted upon.
- **RCA reporting:** Due to the timing of the individual inspections and subsequent RCA process we have received the overall report late. As such our work on the underlying interviews is still to take place.

The overall report is relatively high-level but nonetheless identifies significant areas such as growth (where the risks have not been properly understood or controlled) and slow progress on certain actions as the primary underlying root causes for the individual audit inspection results this year. Other causal factors also align with our assessment and the actions the firm has proposed in this report. The firm must improve the rate of progress on actions with specific focus on those actions that would prevent continued recurrence of certain findings and those related to first year audits and related growth.

The RCA of the firm's own internal monitoring is due to be reported on in October 2022; the firm would benefit from aligning the RCA process timetables for internal and external reviews as a larger sample for consideration will better identify themes in the causal factors.

We will continue to assess the firm's RCA process and in particular for Mazars, we will complete our deeper assessment of the RCA outputs that we have not yet been able to complete. Our key focus will be on understanding whether the underlying root cause has been identified and that the actions have been correctly prioritised to have the required impact. 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.

Other activities focused on holding firms to account

Background

As part of our forward-looking supervisory approach we hold firms to account for making the changes needed. During the year we undertook increased supervisory activities on this firm including inspecting an increased number of audits and additional discussions and monitoring of the action plans, specifically in relation to increasing resources and additional feedback on banking methodology.

Observations

We assessed the following:

- **Responsiveness:** The firm has listened to and acted on external feedback and challenge in a large number of areas, taking actions on key areas such as resourcing, formalising and strengthening certain policies and procedures and developing its culture strategy.
- **Tone at the Top:** The firm is clear and consistent in its communications around the importance of audit quality and the firm's strategy is clear on the firm's commitment to the public interest.
- **Action plans:** Mazars has made progress in remedying some of its required actions from the action plan or has remained on target to progress those longer-term actions. The introduction of a milestone programme and the progress on developing the culture strategy including creating a culture committee to drive the project are positive steps to improving audit quality.
- **Current inspection results:** Despite the actions taken by the firm this year, its inspection results have remained poor with a number of findings recurring from one year to the next. Mazars must take stock and reconsider whether the actions it has taken have been fully completed and were effective and, whether in hindsight, these were all the right actions. For example, financial service methodology, actions to address poor first year audits and initiatives to improve quality control need further consideration.
- **Financial Services methodology:** Based on our reviews and given Mazars' planned growth in this sector, the firm would benefit from having overall financial services guidance that included but was not limited to: engaging and challenging specialists; shifting the focus on IT reliance; shifting the focus on controls and guidance, and materiality considerations. A key area of overall financial services methodology relates to IFRS 9, which the firm updated in 2021. Overall, the updates present a positive improvement compared to the guidance seen in the prior year inspection cycle. Notwithstanding the improvements identified, certain aspects of our prior year findings have not been sufficiently addressed.



Mazars must reconsider whether the actions it has taken have been fully completed and whether these were effective.

- **First year audits:** A number of the inspection findings this year and last year occurred on first year audits, although the quality results were inconsistent. During the year the firm revised templates on understanding the business, increased central resources and introduced a bid/no bid process that ensured that new work was not taken on without a pre-approved resourcing plan. This has not addressed the quality concerns and therefore further support is needed for first year audits (for example, risk panels to review and challenge planning where audits are known to have come from firms that are de-risking their portfolios). In addition, the bid/no bid process needs to build in plans for problematic audits, ensuring that the right resource is planned for a long enough period of time. The firm must only take on audits that can be delivered to a good standard.
- **Quality control and support:** Our observations for the past two years have included a need for the firm, as it grows, to improve various aspects of its quality control systems. The firm has focused on increasing the breadth and depth of the central quality team, which was urgently required and certain other initiatives. The findings this year include quality control points related to the reviews carried out by the partner and EQCR partner on individual audits. The significance of this finding is further increased by weaknesses identified in the firm's policies and procedures related to engagement quality reviews. The firm must develop training to address the findings as a matter of urgency and consider expanding the population of partners that can carry out EQCRs to reduce the number carried out by each reviewer.

We will continue to hold the firm to account through our ongoing supervisory activities.

Operational separation of audit practices

Operational Separation aims to ensure that audit practices are focused above all on the delivery of high-quality audits in the public interest. The requirements do not apply to Mazars but the firm has taken steps to consider the principles and is beginning to implement the following: forming an Audit Board or equivalent, appointing of ANEs and considering firm and audit culture and whether these should be differentiated.

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.

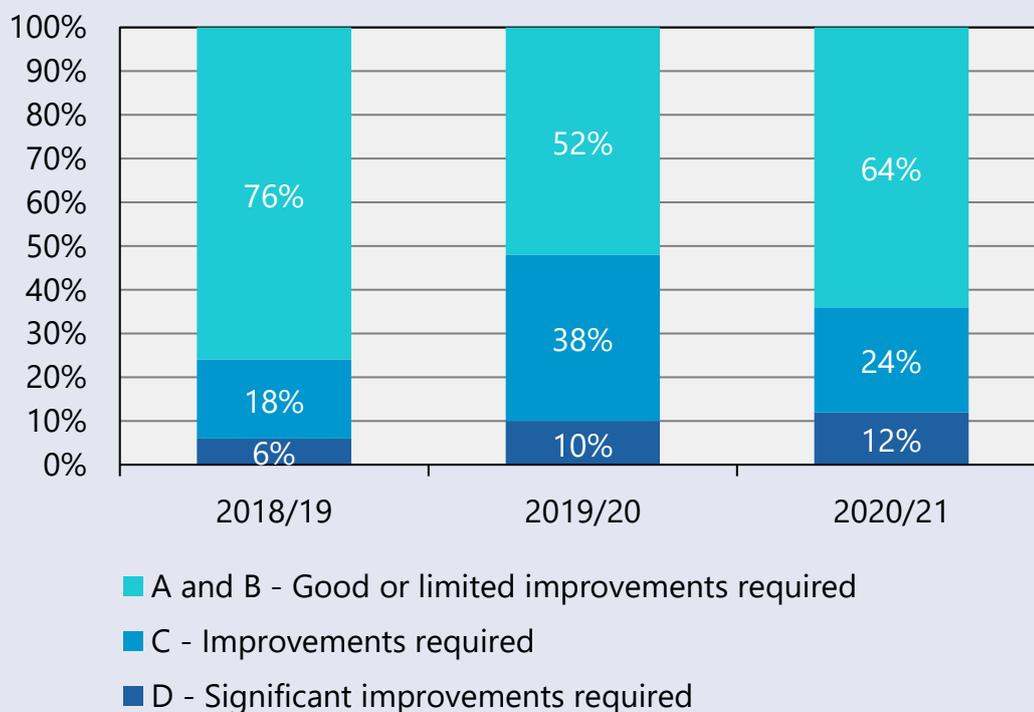
The appendix should be read in conjunction with the firm's [Transparency Report](#) for 2021 which provides further detail of the firm's internal quality monitoring approach and results, and the firm's wider system of quality control.

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 results⁸ of the firm's most recent Internal Quality Monitoring (iQM) program, for the period 1 September 2020 to 31 August 2021, which comprised internal inspections of 33 individual audit engagements with periods ending up to and including 31 December 2020, are set out below along with the results for the previous two years.



⁸ The firm's iQM program uses the same grading categories as the FRC. Decisions on grading are aligned as closely as possible to those that would result from the FRC's regulatory inspection process

Firm's approach to internal quality monitoring



The firm's iQM program considers the full population of audit engagements performed. The program is designed to cover each Responsible Individual (RI) and Key Audit Partner (KAP) at least once every two years. Audit files are selected for review based on a number of criteria, including risk and public interest. Reviews are supervised by the Quality Monitoring Lead and are conducted by appropriately trained and experienced reviewers, with specialist technical support where required. The Quality Monitoring Lead reviews all findings to ensure the firm's processes and grading criteria are applied appropriately and consistently. Proposed grades are reviewed by the Partner Responsible for Quality Monitoring before final findings are issued to the RI/ KAP and audit team.

Action plans are prepared for each audit engagement subject to iQM to address key findings at an engagement level in the subsequent period's audit. The implementation of these actions is followed up as part of the iQM programme. Where significant deficiencies are identified, the Partner Responsible for Quality Monitoring will meet with the RI/ KAP.

Root cause analysis (RCA) is undertaken, by an independent team of RCA reviewers, for those files where improvements or significant improvements were required.

The RCA team identifies potential causal factors by evaluating self-assessments completed by audit team members, analysing key measurement points, and carrying out in-depth interviews with key members of the audit team.

Self-assessment provides the audit team with an opportunity to reflect on what led to the quality finding and identify the factors they think contributed to it. Key measurement points are useful in assessing whether certain matters appear to correlate to audit quality.

Causal factors are weighted based on how direct and significant an impact they had on driving the quality of the audit.

RCA learning points are then evaluated to determine improvements that need to be made. These learning points are reported to the Audit Executive on a consolidated basis and are incorporated into the audit quality action plan

Internal quality monitoring themes arising



For the purposes of this section, a theme is where a finding was identified in 10% or more audit files reviewed by iQM.

Of the themes arising from the firm's 2020/21 iQM programme, the following were also identified in the prior year:

-
- Insufficient challenge of management judgement. The specific areas where deficiencies were identified varies from year to year. In 2020/21, deficiencies were identified in areas including asset valuations, goodwill, expected credit losses, and provisions.
 - Insufficient audit evidence in respect of journal entry testing. This included insufficient corroborating evidence and evidence to support the completeness of the journal population.
 - Deficiencies in the quality of audit documentation and review of audit files.

The following theme was identified in the 2020/21 iQM programme which was not identified in the prior year:

- Insufficient challenge of management judgement in going concern assessments, in particular in relation to the audit of judgements and assumptions applied by management in forecasts.



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