Financial Reporting Council

May 2015

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 2014/15 inspection of Deloitte LLP ("Deloitte" or "the firm") carried out by the Audit Quality Review team of the Financial Reporting Council ("the FRC"). The inspection was conducted in the period from March to December 2014 (referred to as "the time of our inspection"). We inspect Deloitte annually. 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 20 audit engagements undertaken by the firm, of which one was a further review of an audit reviewed in our last inspection. These related to FTSE 100, FTSE 250, other listed and other major public interest entities, with financial year ends between June 2013 and April 2014. Our reviews were selected on a risk basis, utilising a risk model; each review covered only selected aspects of the relevant audit. The further review included an assessment of the extent to which our previous findings on that audit had been addressed.

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. Our review did not cover audit work relating to components undertaken by other firms, within or outside the Deloitte international network.

Our review of the firm's policies and procedures supporting audit quality covered aspects of 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 which findings 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 any areas of particular focus in our overall inspection programme for the relevant year. Where appropriate, we have commented on themes arising or issues of a similar nature identified across more than one audit.

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 actions 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 2014/15 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 locations 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. While Deloitte AG is not within the scope of our inspection, its financial results are combined with those of the firm. 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 2014, the firm's turnover was £2,550 million, of which £706 million related to the Audit service line, and there were 739 equity partners. There were 211 individuals who were authorised to sign audit reports, of whom 155 were equity partners, 29 were non-equity partners and 27 were employees (directors)[1].

We estimate that the firm audited 361 UK entities within the scope of independent inspection as at 31 December 2013. Of these entities, our records show that 164 had securities listed on the main market of the London Stock Exchange, including 18 FTSE 100 companies and 67 FTSE 250 companies.

The UK firm audits a number of entities incorporated in Jersey, Guernsey or the Isle of Man whose securities are traded on a regulated market in the European Economic Area. These audits are inspected by us under separate arrangements agreed with the relevant regulatory bodies in those jurisdictions. The results of these reviews are included in this report. Our records show that, at the time of our inspection, the firm had 41 such audits, including three FTSE 100 companies and four FTSE 250 companies.

Deloitte supplies audit services to local authorities and the NHS (Local Public Audits - LPAs). Whilst we review LPAs undertaken by firms, this is done under separate arrangements agreed with the Audit Commission. The results of these reviews are not included in this report because the LPA inspections fulfil a different purpose to those considered in this report. These reviews of LPAs form part of the Audit Commission's assessment of the quality of contracted-out audits. The Audit Commission publishes its assessment both in overall terms and individually by firm. The most recent report can be found on its website.

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

[1] As disclosed in the annual return to the ICAEW as at October 2014.

client base. Nevertheless, we have identified certain areas where improvements are required to those policies and procedures. These are set out in this report.

Our findings relating to reviews of individual audits, 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 firm took a number of steps in response to our prior year findings to achieve improvements in audit quality. This included enhanced guidance, technical communications and audit training on the recurring themes. Certain aspects of the guidance could, however, have been issued on a more timely basis.

1.4 Key messages

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

- Ensure that audit teams focus more on the audit of valuations and accounting estimates, including appropriate challenge of management and enhancing the quality of audit evidence relating to the key assumptions.

- Improve the testing of management reports and other system generated information to obtain assurance on its reliability for audit purposes.

- Improve the testing of controls, including the assessment of the effectiveness of monitoring controls and how identified weaknesses in IT controls are addressed.

- Ensure more timely development of enhanced guidance when addressing internal and external quality review findings.

- Ensure that the firm's audit reports accurately describe the audit procedures performed to address the identified risks.

- Ensure that audit planning discussions are held with Audit Committees on a more timely basis to enable their input to be reflected appropriately in the audit plan.

2 Principal findings

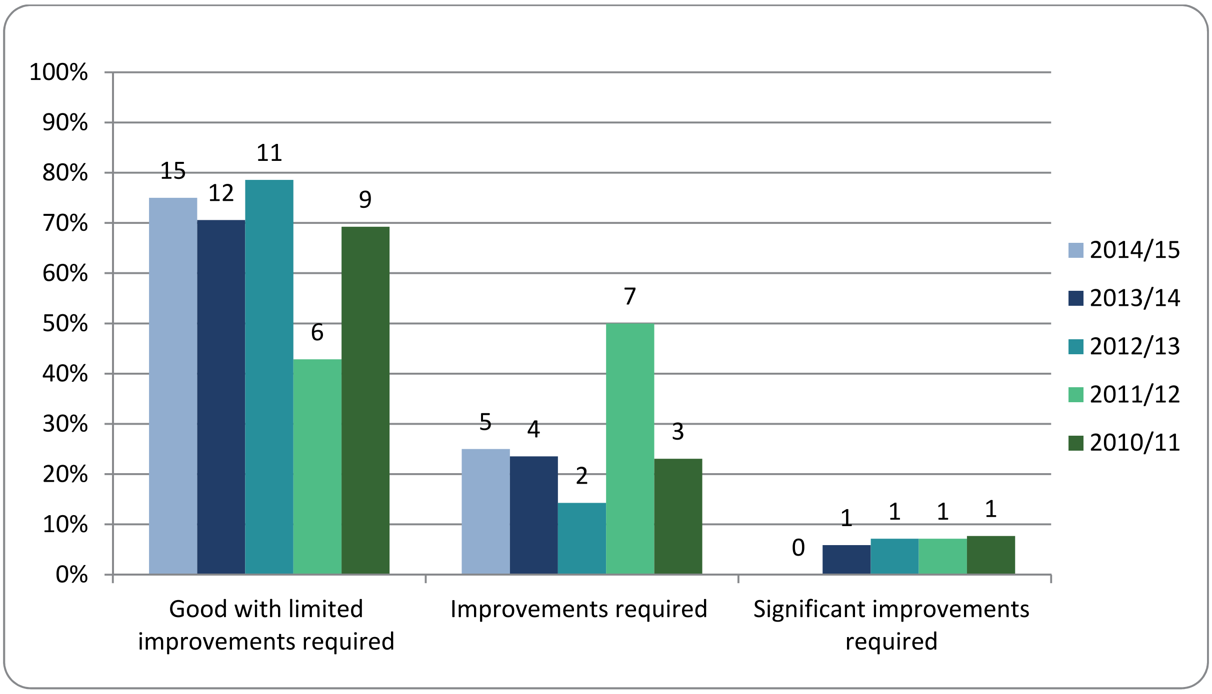
The comments below are based on our reviews of individual audits and the firm's policies and procedures supporting audit quality.

2.1 Reviews of individual audits

We reviewed and assessed the quality of selected aspects of 20 audits (2013/14: 17 audits), of which one was a further review of an audit reviewed in our last inspection, which included an assessment of how findings previously raised had been addressed.

Of the audits we reviewed, 15 were performed to a good standard with limited improvements required and five audits required improvements.

The bar chart below shows our assessment of the quality of the audits we reviewed in 2014/15, with comparatives for the previous four years. The numbers of audits within each category is shown at the top of each bar.



Changes to the proportion of audits reviewed falling within each category 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 and the scope of the individual reviews. For this reason, and given the sample sizes involved, movements 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 following findings, which the firm should ensure are addressed appropriately in future audits.

The significance of these findings in the context of an individual audit reviewed, and therefore the implications for our assessment of the quality of that audit, will vary. However, whatever the implications for the specific audits reviewed, we nevertheless include the relevant findings in this report if we consider them important in achieving improved audit quality.

Valuations and estimates

We reviewed one or more areas involving audit judgments relating to valuations or accounting estimates on all 20 audits. In the following cases, which had been identified as significant risks by the relevant audit teams, there were weaknesses relating to the quality of audit evidence and/or the evidence of challenge of management:

- Valuation models for assets – On one audit, certain assumptions used in the valuation models were tested by agreement to management information, without adequate testing of that information.

- Provision for construction contract losses/ inventory impairment – On two audits, the controls testing performed did not adequately cover the effectiveness of the management review processes in identifying matters relevant to the level of provisions required, such as the accuracy of forecasting the costs to complete on contracts. In addition, the auditors did not attend any of the relevant management review meetings and, on one of these audits, there were no site visits in the year.

- Provision for impairment of investments in content rights – On one audit, for certain items tested, there was insufficient evidence of challenge or corroboration of management explanations regarding the future revenue assumptions used in the assessment as to whether the investments required any impairment.

- Provision for inventory losses – On one audit, there was insufficient evidence of audit procedures performed to assess the completeness and accuracy of the inventory loss provision, to cover the estimated physical stock losses.

- Acquisition accounting, including fair value adjustments – On one audit, there were insufficient audit procedures performed on the acquired balances and on the post-acquisition operating results of the largest acquisition. There was also no evidence that the auditors challenged management on the appropriateness of adjusting the carrying value of the intangibles acquired as part of this acquisition.

Reliance on management reports and other system generated information

Audit teams often place reliance on management's reports and spreadsheets, where the information has been generated by the IT system. On ten of the 20 audits we reviewed, there was insufficient testing of aspects of certain reports or spreadsheets relied on for audit purposes, mainly relating to revenue, inventory valuations or bad debt provisions.

As planned, the firm issued new guidance on the testing of IT generated reports in May 2014 and provided training in the Summer of 2014. Following our review of the guidance, a further enhancement of the guidance was made later in the year.

Controls testing

On 11 of the audits we reviewed, the auditors planned to place reliance on internal controls in relation to one or more areas of the financial statements and tested the operational effectiveness of the relevant controls.

There were weaknesses in the testing of monitoring type controls on four of these audits, including testing of the effectiveness of the management review procedures.

On five audits, some of the sampling for controls testing purposes was not in accordance with the firm's methodology.

On five audits, the firm's IT specialists had identified weaknesses in the IT controls, and it was not clear how the audit procedures performed addressed those weaknesses.

On one audit, a fully substantive approach was adopted for a retailer with over 300 stores. This approach, which did not seek to place any reliance on internal controls, is unlikely to be fully effective in such an environment.

The guidance on testing IT controls, which the firm had planned to issue in 2014, was issued in January 2015, soon after the time of our inspection.

Audit of revenue

We reviewed the auditor's testing of revenue on 18 audits and identified issues regarding the extent, or nature, of the substantive testing of revenue on five of these audits, as described below.

On one audit, the sample of revenue transactions tested was limited to the higher risk part of the population. A sample was not selected from the remaining population, which represented the majority of the value of revenue.

On two audits, the sample sizes for certain substantive audit procedures were calculated on a judgmental basis, resulting in smaller sample sizes than would have been required under the firm's sampling methodology.

On two audits the testing performed was designed to cover only the completeness of revenue. While the firm has expanded its guidance on the audit of revenue, the guidance does not adequately consider the testing of the validity of recorded revenue.

Journals testing

We reviewed the testing of journals on 18 audits. While there has been an improvement in the use of computer assisted techniques to identify journals with fraud risk characteristics, on 14 of these audits the selection of journals was too narrowly focused on a small number of fraud risks and did not adequately take account of journals with more than one fraud risk characteristic.

Supplier rebates

We reviewed the audit of supplier rebates on one retail audit. There was insufficient evidence that adequate procedures had been performed to understand the supplier rebate arrangements and to assess the related risks. In addition, most of the accrued rebate income tested was agreed to e-mails, rather than being re-calculated or independently confirmed by the auditors.

Stock-count procedures

On two out of the three retail audits we reviewed, all with multiple locations, the extent of attendance at stock counts was not adequately justified. On one of these audits, six out of over 300 stores were visited and, on the other audit, five out of over 500 stores were visited, to observe and test the stock count procedures.

The firm issued guidance on the extent of audit testing required for multiple stock locations in December 2014. The guidance was issued later than planned and, had it been followed, would have resulted in attendance at a higher number of sites in the above audits.

Group audit considerations

We reviewed the group auditor's communications with the component auditors, and the involvement in their work, on 14 group audits.

On six group audits, the group instructions were not issued to the component auditors on a sufficiently timely basis, which restricted their ability to respond adequately to the group auditor's requirements.

On one group audit, there had been no visits by the group audit team, or attendance at the component audit closing meetings, in recent years for two of the five significant components. On another group audit, while there was a visit by a key audit partner of the group audit team, the group audit partner did not visit the component auditors in the year, even though all of the group operations were based overseas. On this audit, we would have expected greater evidence of the group audit partner's review of the work of the component auditors.

Other findings

Auditor's report

UK auditing standards introduced a requirement for extended auditor reports for listed and certain other entities[2], with effect from September 2013 year ends. The auditor's report is now required to include a description of those assessed risks of material misstatement which had the greatest effect on the audit, an explanation of how the concept of materiality was applied and an overview of the scope of the audit. The firm introduced detailed guidance and additional quality control procedures in this area.

Of the audits we reviewed, 16 were affected by these new requirements. On five audits, there were inaccurate or unclear descriptions in the auditor's report of certain audit procedures performed in response to the identified risks. On one of these audits, the auditor's report was factually incorrect by referring to certain audit procedures relating to inventory provisions that had not been performed. On three of these audits, the auditor's report did not sufficiently describe certain aspects of the scoping of the audit.

Communications with the Audit Committee

We reviewed the reports issued by the auditors to the Audit Committees on all 20 audits. In most respects, these reports were of a good standard. The firm's standard template was used on all audits we reviewed, which helped ensure consistency of the reporting to Audit Committees. One of the standard matters reported are the procedures planned to respond to the identified areas of significant risk. While these were generally in line with the actual procedures performed, on seven audits there were inaccurate communications relating to certain audit procedures performed for one or more areas of significant risk.

On six audits, the audit plan was not communicated on a timely basis, generally after the audit work had commenced. On one of these audits, there was no meeting with the Audit Committee to discuss the planning report. While the timing of these planning meetings were

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[2] Entities which apply the UK Corporate Governance Code

decided on by the Audit Committees, more could have been done by the firm to encourage earlier dialogue with the Audit Committees on planning matters.

UK auditing standards introduced enhanced requirements for reporting to the Audit Committees of listed and certain other entities[2], with effect from September 2013 year-ends. These enhanced requirements relate to the auditor's views on significant accounting policies, the effectiveness of internal controls and other matters relating to the annual report. While the firm enhanced its reporting templates to address the new requirements, these were not always followed in practice.

On three audits, not all misstatements or omissions above the reporting threshold were reported to the Audit Committee. In addition, the firm's standard template did not specifically request disclosure misstatements to be adjusted; it has subsequently been amended.

Materiality

We reviewed the basis of materiality used for audit purposes on all 20 audits. On seven audits, overall materiality had been determined based on adjusted profit before tax. While the adjustments included non-recurring items, profit had also been adjusted for certain recurring items, such as amortisation of intangibles, and the reasons for doing so were not clear.

Independence – non-audit services

Ethical Standards require an assessment as to whether informed management exists where there is a potential management threat arising from the provision of non-audit services to audited entities. There was little or no evidence of such an assessment, where relevant, for 11 audits, in relation to areas such as the provision of tax advice.

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 technical review (Professional Standards Review ("PSR")) function, audit training and technical communications. The implementation of the new audit system was completed in 2014, which has improved the linkage of identified risks to the audit procedures performed to address those risks.

While emphasising the importance of maintaining or improving quality, the firm's strategy also focuses on revenue growth and cost reduction. The audit strategy involves "the Distinctive Audit" which consists of a package of activities that the firm encourages audit teams to use. The key objectives are stated to be "to improve the quality, distinctiveness and efficiency of audits". The activities include the use of data analytical tools to improve the efficiency and effectiveness of the related procedures and the use of onshore and offshore centres (referred to as "Centres of Excellence" by the firm). We comment separately on the use of offshore centres below.

Improvements made during the year

In addition to the actions mentioned in section 2.1, such as the issue of enhanced guidance in a number of areas, the firm has taken a number of actions to address our prior year findings and has enhanced its procedures in a number of areas, including the following:

The Audit Quality Board was set up in January 2014, one of whose objectives is to review the quality review findings and root cause analysis of those findings on a regular basis, as part of the firm's consideration of the adequacy of its actions. In addition, the firm has enhanced the scope of its root cause analysis.

New data analytical software was introduced, which improves the effectiveness of selecting items with risk characteristics for testing, for example in journals testing.

Engagement team based learning was introduced for certain areas with recurring quality review findings, including the audit of revenue and journals. This is intended to supplement existing training, through structured training during the audit process.

Prior year findings not adequately addressed

The following prior year findings had not been fully addressed by the firm at the time of our inspection and we expect the firm to take further action to address these matters. In addition, as noted in section 2.1, the guidance on stocktake attendance at multi location sites and on IT controls testing was not issued until December 2014 and January 2015 respectively, which was later than planned.

Technical reviews of financial statements

The output of internal technical (PSR) 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 requires omitted disclosures and other financial reporting deficiencies identified in the PSR reviews to be noted on the audit file. However, we continue to see little or no evidence that this policy is being applied in practice.

The requirements have now been further enhanced, with templates issued, to record significant areas of challenge raised during the reviews by the Engagement Quality Control Reviewer (EQCR) and PSR. We will monitor how this is implemented in practice.

Use of offshore centres

In 2013, the UK firm started to use Deloitte's offshore centre, which is a joint venture between the US and Indian firms (known as "USI"), as part of the audit process, and the use of USI was increased in 2014. While this only involved about 2% of audit hours in 2014, the extent of use is planned to increase further in the future.

Last year we noted that the firm allows USI staff to be involved in areas of significant risk and those involving audit judgment. The firm has not yet issued guidance to explain in which circumstances this may or may not be appropriate.

During the year, the firm issued policies relating to the use of the USI centre. However, the guidance issued to audit teams is still limited. There have been improvements to the quality control procedures of the USI centre and the UK firm reviewed these procedures during the year, as part of its monitoring procedures. However, the monitoring of training attendance, including IFRS and UK requirements for USI staff, requires further improvement.

Methodology – letterbox companies

In May 2013, we wrote to the major audit firms regarding concerns arising from our reviews of audits of "letterbox companies[3]" and the need for them to take action to achieve improvements in their approach to such audits.

Deloitte subsequently communicated this to audit personnel and updated its existing guidance and standard work programme. The firm did this by adapting existing guidance, dealing with situations where the audit fieldwork is performed by another Deloitte member firm. While we have seen an improvement in the quality of these audits, the guidance is still too open to interpretation and should be tightened up. The firm has informed us that the relevant global policy and guidance is under review and is expected to be replaced by new guidance in 2015.

Audit quality monitoring – practice review of component audits

Deloitte's annual audit quality monitoring process is described within the firm as its "practice review". Significant UK component audits are still not consistently covered in the scope of the practice review of group audits. The AQR review of one audit, which was also reviewed as part of the practice review, identified findings concerning the audit of revenue and journals in certain UK components of a UK listed group, where the UK components accounted for 45% of group revenue. The practice review of this group audit did not identify these matters, as it had not included the UK component audits in the scope of the review.

Current year findings

We identified certain further areas, as set out below, where improvements to the firm's policies and procedures are required.

Audit tenders

We reviewed a sample of audit tender documents, which all stated that the "FRC's assessment is that, over the last five years, 68% of our audits were good, with minor improvements required, the highest proportion amongst our peers". The terminology in our reports was different, referring to "limited" rather than "minor" improvements. In addition, the wording in the tender documents did not make it clear that the percentage referred to was only in relation to a sample of audits we had reviewed.

Some of the wording in two of the tender documents was not clear in relation to the overriding need for auditor independence to be maintained. For example, one of the tender documents stated that "as your auditors we would proactively provide you with pragmatic and commercial solutions, whilst being mindful of our independence".

The firm's quality control procedures for audit tender documents do not require a review by its independence or audit compliance departments. While the PSR function is required to review tender documents before they are issued, there is no summary of the review findings prepared in order to identify areas of improvement.

[3] Letterbox companies are those groups or companies that have little more than a registered office in their country of registration, with management and activities being based elsewhere. In such situations, the auditor is usually based in the country of legal registration, rather than where management is based.

Audit quality monitoring – independence of reviewers

Guidance from DTTL (the global firm) states that a reasonable number of reviewers should be drawn from other Deloitte member firms in the annual practice review, to ensure a suitable level of independence. We were informed, however, that 95% of reviewers were from the UK firm in 2014, which compared with 84% the previous year. The firm is planning to increase the number of reviewers from other Deloitte member firms in the future.

Audit quality monitoring – reviews of partners with audits graded non-compliant

The DTTL practice review manual requires audit engagement partners receiving a non-compliant (i.e. the lowest) grade in the practice review to be reviewed in the subsequent cycle.

While the firm considers the extent of recurring findings in prior years for those partners with a non-compliant graded audit, the firm no longer reviews another audit for each relevant partner in the current year to identify whether there are any similar findings on those audits.

Audit quality monitoring – raising of findings and insights and moderation of review findings

Matters raised by reviewers on individual audits are categorised as either findings or insights. Unlike findings, insights do not contribute to the overall themes and do not affect the overall practice review grades. We identified inconsistencies in the way reviewers categorised matters raised between findings and insights.

In 2014, a moderation process was performed by the UK central team, focusing on audits graded non-compliant and improvement required. The extent of consistency of findings and insights was not reviewed centrally on all audits and the moderation process was undertaken after reviewers had communicated the findings and overall ratings to the engagement teams. The firm is planning to enhance its moderation processes in the future, with the objective of improving the consistency of findings and ratings.

Audit quality monitoring – review of firm-wide procedures

Deloitte's review of its firm-wide policies and quality controls procedures is performed in accordance with a work programme supplied by DTTL. In 2014, the review was undertaken by UK audit personnel who had not previously performed this work. Unlike the reviewers for audit engagements, they did not receive specific training by the firm.

The DTTL work programme and guidance does not specify the nature and extent of testing or sample sizes to be used. In some cases, a sample of one had been used for testing aspects of the firm's quality control systems.

DTTL performed a review of the UK firm's policies and procedures relating to ethics and independence, but no details of this review were retained.

Other matters

Banking thematic review

In December 2013, the FRC announced that, during 2014, it would perform a thematic review of the quality of bank and building society audits, focusing on the audit of loan loss provisions and related IT controls. The thematic review sought to identify why progress in improving audit quality in these areas had been slow and what further action was needed to achieve the necessary improvements. As part of the thematic review, we reviewed the policies and procedures applied by the firm in conducting bank and building society audits.

The firm has made significant improvements in addressing concerns raised previously, through the introduction of additional initiatives and increased leadership focus on loan loss provisioning. This includes the development of dedicated financial services resources to share best practice within audit teams.

While attendance at specific training for bank audits is strongly encouraged by the firm, it is not mandatory and the attendance is not adequately monitored.

The FRC published a report in December 2014 setting out the principal findings of the thematic review and identifying key messages arising for both auditors and Audit Committees.

Transparency report

We reviewed the firm’s transparency report for the year to 31 May 2014, which was published in August 2014, to assess whether the information in the report was consistent with our understanding of the firm’s quality control and independence procedures. We did not identify any such inconsistencies.

In common with certain other major audit firms, the transparency report was enhanced to identify factors which contribute to audit quality. Deloitte included a number of audit quality metrics in the report, including external investigations, quality reviews, training investment and the output of staff surveys. We believe this is a positive development.

We note that the internal audit quality results, included in the report as part of these audit quality metrics, includes the results of both the UK and Swiss Deloitte firms, as the Swiss firm is a wholly owned subsidiary of the UK firm. However, the report does not make it clear that this is the case.

Andrew Jones

Director

Audit Quality Review

FRC Conduct Division

29 May 2015

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 supporting audit quality 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 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 our 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 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, in the context of both the individual inspection and any areas of particular focus in our overall inspection programme for the year. Where appropriate, we have commented on themes arising or issues of a similar nature identified across more than one audit.

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 rigorous quality control procedures are applied. These procedures include a peer review process at staff level and a final review by independent non-executives who approve the issue of all reports. These processes are designed to ensure both a high quality of reporting and that a consistent approach is adopted across all inspections.

We also issue confidential reports on individual audits reviewed during an inspection. While these reports are addressed to the relevant audit engagement partner or director, they are copied to the chair of the relevant entity's audit committee (or equivalent body).

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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11 May 2015

Dear Mr Jones

Public report on the FRC's 2014/15 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 2015.

We share the FRC's mission of high quality reporting to foster investment, through our focus on delivering a trusted and distinctive audit. 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.

We give careful consideration to each of the FRC's comments and recommendations, and we use the external inspection process, as well as findings arising from our own quality review procedures, to drive further improvements to our quality agenda. We have already taken action to respond to the key themes of this report and will continue to undertake further activities to embed the changes into our practice.

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

Yours sincerely

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