



Financial Reporting Council

# Mazars LLP

## Audit Quality Inspection and Supervision



July 2023

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# Introduction: FRC's objective of enhancing audit quality

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

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

- Set ethical, auditing and assurance standards and guidance, as well as influence the development of global standards.
- Inspect the quality of audits performed by, and the systems of quality management of, firms that audit Public Interest Entities (PIEs<sup>1</sup>) and register auditors who carry out PIE audit work.
- Set eligibility criteria for auditors and oversee delegated regulatory tasks carried out by professional bodies such as qualification and the monitoring of non-PIE audits.
- Bring enforcement action against auditors for breaches of relevant requirements.

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

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

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

The seven Tier 1 firm<sup>2</sup> reports provide an overview of key messages from our supervision and inspection work during the year ended 31 March 2023 (2022/23) and the firms' responses to our findings.

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

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

## Our supervisory approach

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



## The supervisory staff producing our reports

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

90



## Mazars LLP

Rls  
66

Offices<sup>3</sup>  
17



3,461  
Professional Staff

### Audits within the FRC's inspection scope<sup>4</sup>

Inspection Cycle	FTSE 100 audits	FTSE 250 audits	Total audits in FRC scope
2023-24	0	3	98
2022-23	0	2	81
2021-22	0	0	60

Audit fee income<sup>5</sup>  
£m



Corporate audits inspected by the FRC<sup>6</sup>



Local audits<sup>7</sup>



Major audits 55  
Non-Major audits 66  
Major audits inspected by the FRC 1

<sup>3</sup> Source - the firm's ICAEW annual return up to 13 February 2023.

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

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

<sup>6</sup> Excludes the inspection of local audits.

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

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

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

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

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

This report also considers other, wider measures of audit quality. The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) did not inspect a sample of the firm's non-PIE audits this year, in accordance with its planned rotational inspection programme of the firm and therefore there are no results included in this report. The firm does, however, conduct annual internal quality reviews. A summary of the firm's internal quality review results is included in the Appendix.

# 1. Overview

## Overall assessment

In our 2021/22 public report, we concluded that the firm's audit inspection results continued to be unacceptable, set out how the firm and the FRC would respond to these actions and, for a second year, increased our level of supervision. We assessed that the firm needed to improve the rate of progress on actions with a specific focus on those actions that would prevent continued recurrence of certain findings and those concerning first year audits and related growth.

Increased supervisory activities included inspecting a greater number of audits and additional discussions and monitoring of the firm's action plans, specifically in relation to prioritisation of actions, changes to the Engagement Quality Control reviewer (EQCR) approach, support on first year and higher risk audits and additional feedback on revenue.

The firm has invested heavily in improving audit quality, launching a number of further initiatives in the last six months. These were prioritised by the firm as those likely to have a significant and timely impact on the quality of future audits. These initiatives may not, however, have a positive impact on FRC inspection results until the 2024 or 2025 public report. Some of the actions taken last year and during 2022 may be beginning to have an impact as we have seen early indications of improvements to audit quality on some individual audits. None of the audits we inspected were found to require significant improvements, compared with three last year. Whilst the overall results show a similar picture to last year, with only 56% (50% last year) of audits inspected requiring no more than limited improvements, two of these audits reviewed were assessed as good.

These changes are encouraging. More, however, needs to be done to reduce the number of audits assessed as requiring more than limited improvements. The urgent actions now being taken, along with those previously taken, by the firm must be effective and embedded in a short timeframe, at a minimum to impact December 2023 year-ends.

The areas that contributed to the audits assessed as requiring more than limited improvement were the work relating to: estimation and judgement (a recurring key finding) on provisions, including technical provisions and an aspect of expected credit loss provisions (ECL); investment valuations; audit of the cash flow statement and a financial statement key disclosure.

In a number of cases, our underlying concern related to the lack of sufficient challenge in these specific areas (also a recurring issue). The firm must do more



# 56%

**of audits inspected were found to require no more than limited improvements. The urgent actions now being taken by the firm must be effective and embedded in a short timeframe.**



**No audits inspected in the current cycle required significant improvements.**

to assess the impact of its current initiatives on promoting the fundamental behaviours of scepticism and challenging management in addressing this recurring finding / theme. First year audits were included in the sample as in prior inspections; the inspection results in this inspection cycle were in line with the results of non-first year audits.

The draft interim root cause analysis (RCA) report has been provided and will be finalised once the RCA has been completed on two of the poorer graded FRC individual audit inspections which were completed at the end of our inspection cycle. The root causes and contributing factors currently identified have been mapped to current actions with further actions being added to remediate the recurring nature of the finding. Further consideration should be given to discontinuing previous ineffective actions and replacing them rather than adding to them. This may be drawn out in the final report which we will consider further during our normal supervisory activities. The data analytics detailed in the report, whilst limited, appear to be being used to consider inconsistencies which is encouraging.

The results from other measures of audit quality, covering a broader population of audits, showed marginally better results. The firm's internal quality monitoring process (covering both PIE and non-PIE audits) assessed 63% of audits as meeting its highest quality standards (top two categories combined), consistent with 64% in the previous year (see page 37). Similarities with FRC inspection key findings can be seen in the themes identified from the firm's internal quality monitoring in the areas of asset valuation, estimation and judgement and the adequacy of auditor challenge. QAD of the ICAEW, which is weighted towards higher risk and complex non-PIE audits (within ICAEW scope), did not undertake any inspections in the current year, although we note that for their most recent inspection year (2021/22), and the one prior (2019/20), all the audits inspected were assessed as good or generally acceptable.

Last year we required Mazars and all Tier 1 firms to develop a Single Quality Plan (SQP) that included all actions needed to improve audit quality and resilience. The firm has collated all actions and also incorporated its previous Audit Quality Plan (AQP) into its SQP. The firm has begun to develop an Audit Quality Transformation Plan (AQTP). There is more work to be done, now that it has been shared with the FRC, to formally finalise the AQTP and to develop and agree how the effectiveness of actions in both the SQP and AQTP will be measured.

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

- Maintain the elevated number of audits inspected in our 2023/24 inspection cycle.
- Review and assess the adequacy of the AQTP and its monitoring and reporting.



**All firms are required to include actions within a Single Quality Plan, subject to formal reporting and regular review by the FRC.**

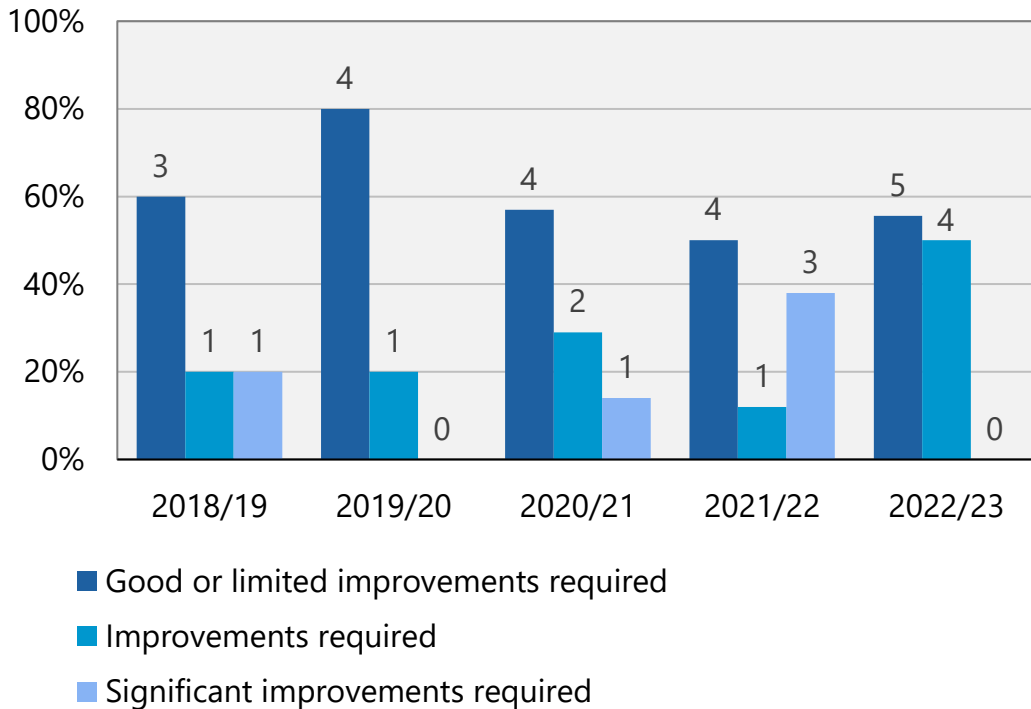
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- Increase our focus on the firm's ethics function and the changes being made in response to our findings.
  - Review and assess the adequacy of the firm's portfolio review, its related risk assessment and risk panels or other predictive audit quality actions.
  - Continue to review the SQP and use it to monitor the actions taken to improve audit quality, its effectiveness (over the short and long term) and its use in complying with ISQM (UK) 1.
  - Continue to monitor and assess the firm's initiatives in relation to audit quality, in particular resourcing, the hot review process and culture.



## Inspection results: arising from our review of individual audits

We inspected nine individual audits this year and assessed five (56%) as requiring no more than limited improvements.

### Our assessment of the quality of audits reviewed: Mazars LLP



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

Changes to the proportion of audits falling within each category reflect a wide range of factors, including the size, complexity and risk of the audits selected for inspection and the individual inspection scope. Our inspections are also informed by the priority sectors and areas of focus as set out in the Tier 1 Overview Report. For these reasons, and given the sample sizes involved, changes from one year to the next cannot, on their own, be relied upon to provide a complete picture of a firm's performance and are not necessarily indicative of any overall change in audit quality at the firm.

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

Our key findings, as noted above, concerned the audit work around estimation and judgement on provisions including technical provisions and an aspect of ECL, investment valuations and audit of the cash flow statement and a financial statement key disclosure. In a number of cases the underlying concern related to the lack of sufficient challenge in these specific areas which is also a recurring issue.

We identified good practice in execution of the audit and completion and reporting.

Further details are set out in section 2.

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

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

We identified a number of key findings in relation to compliance with the FRC's Revised Ethical Standard, partner and staff matters, and audit methodology relating to settlement and clearing processes.

We also raised a good practice point on compliance with the FRC's Revised Ethical Standard and acceptance, continuance, and resignation procedures.

Further details are set out in section 3.

## **Forward-looking supervision**

In response to the audit inspection results identified in our 2021/22 public report, the firm has taken a number of actions. These included:

- Restructuring, strengthening and embedding the central audit quality team.
- Improving the EQCR process and support.
- A complete portfolio review and risk assessment.
- Introducing risk panels for high risk audits and / or those assessed as having high risk attributes.

Some of these actions have only been started or completed in the last six months and therefore may not impact inspection results (internal and external) until 2025.

The firm has linked its overall audit strategy to the newly developed SQP. The AQP as referred to in prior years' reports now forms part of the SQP



**Our key findings on individual audits included the audit work around estimation and judgement on provisions, investment valuations, audit of the cash flow statement and a financial statement key disclosure.**



**With respect to quality control procedures, our key findings related to compliance with the FRC's Revised Ethical Standard, partner and staff matters, and audit methodology.**

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complimented with key priority actions to deliver the audit strategy. The firm has not yet rolled out the tool it is using in respect of firm-wide actions because it is exploring alternatives as part of embedding ISQM (UK) 1. The firm has begun reporting (to the Audit Executive) and monitoring and is beginning to develop effectiveness measures.

During our review of the SQP priorities and ongoing supervision, the firm had undertaken to develop a transformational plan to address audit quality more urgently. The firm has further prioritised actions and specific objectives from its AQP to begin to develop its focussed AQTP. There is more work to be done, now that it has been shared with the FRC, to formally finalise the AQTP and the firm must keep under review the prioritisation of actions. This may mean delaying other AQP objectives and actions but the firm should not lose sight of them. The SQP should avoid this through regular monitoring and reporting.

The firm has also made a number of enhancements to its approach to RCA, including further strengthening its RCA team and increasing RCA scope, the focus on behavioural and cultural factors and the use of data analytics. In addition, the process has also been further aligned to ISQM (UK) 1.

Our inspection work relating to quality control procedures identified a number of concerns relating to the strength and capacity of the ethics function. The firm has responded quickly to strengthen the team with five new members but more resource may be required. Other improvements are also required to improve efficiency and consistency, such as system improvements to improve record keeping.

The lack of significant improvement in overall inspection results, despite the firm's investment in prior years, and the timing of actions taken this year which are unlikely to have an impact until 2025 mean we remain concerned about this year's results. Whilst the draft RCA report covers recurring findings and inconsistency to a certain extent, further RCA is required to consider recurring findings and inconsistent audit quality across all inspections.

Further details are set out in section 4.



**The firm has continued to take actions to improve audit quality; investing in resources and new processes.**



### Introduction

We acknowledge the FRC's inspection results, and we are disappointed with the number of audits requiring improvement. We are however encouraged that the actions we had taken in FY21 appear to have had a positive impact on our quality performance as presented in this FRC's Public Report dated July 2023, compared to the previous year, notably with no audit requiring significant improvements. We thank our teams for their hard work in addressing the quality findings identified.

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 have made good progress on the measures and actions that we had committed to in last year's FRC Public Report. We are hopeful that our heavy investment in audit quality driven by the initiatives launched in the last months as explained on page 4 of this report will sustainably improve audit quality.

We have set a clear roadmap to improve audit quality through our Single Quality Plan (SQP) and Audit Quality Transformation Program (AQTP) and we have prioritised and emphasised the areas where urgency is needed. Our AQTP is focusing primarily on resources that will enable the delivery of good quality PIE audits, actions to further improve team performance, and initiatives that support sustainable growth and nurture a culture that prioritises audit quality.

We remain fully committed to achieving quality results that reflect our high standards whether measured by regulatory or internal assessments, in a sustainable manner.

We present below the key areas of priority where we have invested in FY22 and will continue to focus on and invest in as part of our SQP and AQTP. Considering the timing of these initiatives, they could not have a sufficient impact on this year's FRC inspection results. We can however reasonably anticipate that they will positively influence file gradings in future years.

### Audit Quality Focus and Investment

- **Continued development of our team**

We are grateful for our teams' hard work, tireless efforts and commitment and we will continue to invest in their development. As auditors we still face challenges with a perceived lack of attractiveness of the profession and a

challenging employment market. Our initiatives in relation to people are joined up with our initiatives in training and culture to create a more coherent and holistic approach. We encouraged 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. We also reviewed our approach to training with more in-class training.

- **Enhancing the focus on first year audits**

We strengthened the Acceptance and Continuance process and established a new Audit Acceptance and Continuance committee notably to enhance the challenge over the availability of appropriate resources, skills and expertise before we can accept a first-year audit. We now routinely monitor the resourcing of first year-audits with a particular attention on PIE engagements.

We standardised the resource planning process across all audit business units, including specialist time. We built a long-term strategic workforce planning tool, which has started to deliver insight and value, and which is now fully operational. We have invested and expanded the Resourcing team which currently has a headcount of ten (two years ago team of one). We have strengthened our monitoring of capacity and unstaffed hours closely as part of our Audit Quality Indicators.

- **Further strengthening Quality Control**

We designed and implemented a risk rating approach for our audit portfolio in order to drive its rationalisation. This is a key step and the foundation towards enhancing our monitoring of Engagement partners' and Engagement Quality Reviewers' ('EQRs') availability and capacity. Continuous efforts have been made to increase EQR capacity within our key strategic markets over the past year which included appointing a number of full-time EQRs. We introduced EQRts (Engagement Quality Review teams) to a number of our higher risk audits from December 2022 to reinforce the review process. We will continue to strengthen EQR capacity over the coming months.

- **Clearer and more timely evidencing**

We supported 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. To support improvements in this area we strengthened and transformed the Audit Quality Support Team (AQST). We created distinct pillars of Audit and Assurance Methodology and Training,

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Sectors, and specialist support led by partners reporting to the Head of Audit Quality. We also created an 'engagement performance' pillar focusing on second line of defence and 'in-flight' reviews. We recruited an additional audit quality partner which will increase the number of the firm's dedicated audit quality partners to five (from 1 partner when the audits reviewed in this year's cycle were delivered). For audits under the FRC's 2023/24 inspection review we performed targeted hot reviews and/or appointed an Engagement Quality Review Assistant.

- **Ethics and other areas**

We acknowledge the FRC's findings on ethics. In addition to our immediate response in increasing the headcount of the ethics team we have included the findings raised by the FRC as 'high' priority actions to our SQP and the firm's audit leadership is closely working with the ethics team and monitoring progress.

We are encouraged by the FRC's acknowledgement on the actions we have already taken to address the points in relation to the Partner and staff matters and audit methodology (settlements and clearing processes for banks and building societies) areas.

- **Single Quality plan**

We linked our Audit Strategy to the SQP. We identified eight distinct pillars in our Audit Strategy focusing notably on governance and leadership, culture, transformation and people to provide structure to our quality improvement plans with focus and urgency. We monitor the delivery of our commitments to each strategic pillar and of our commitments to the FRC through the SQP. The SQP is iterative and will be informed by internal and external monitoring activities and emerging issues. Our SQP actions form key responses to address quality risks. The first-time evaluation of ISQM(UK)1 will also inform our SQP.

In order to ensure that the above actions could be delivered and embedded, we prioritised over the last year a slower pace of growth across the audit service line with single digit volume growth.

## **Root Cause Analysis**

We performed root cause analysis (RCA) on the files requiring improvements to determine the underlying drivers of the failings identified by the FRC and defined specific actions to prevent these failings from repeating in the future.

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Most of the key themes are linked to areas where we have been focusing our audit quality investments on including:

- Enhancing the collaboration/engagement between the audit team and experts and central teams, for example in relation to the review of financial reporting requirements.
- Providing examples of 'what good looks like'.
- Focusing on appropriate project management.
- Nurturing and promoting a more consistent culture of challenge and consultation and highlighting the importance of applying professional scepticism.

We will continue our focus and investment to deliver our Audit Quality Transformation Program and we will enhance our actions to address the key themes identified through our RCA. We outline key initiatives that, together with the actions described in the above section Audit Quality Focus and Investment, aim to address the root causes identified. We expect that they will have a positive impact on quality in the FRC's next inspection cycles.

- **Sustainable growth:** We continue our focus on sustainable growth. We use the audit portfolio review and its risk rating as a foundation to deliver sustainable growth, to increase efficiencies and to prioritise resources. The Acceptance & Continuance Committee and the bid/no-bid process bring focus and challenge to acceptance and continuance decisions with a focus on resourcing, capacity, risk, technical skills and the involvement of experts and specialists. This contributes to the increased focus on the integration of experts and specialists and ensures better communication and collaboration.

The risk rating of our audit portfolio and its review is the first key step to ensuring sustainable growth by rationalising the firm's portfolio and making more informed growth decisions. Our FY24 strategy is being informed by this. The setting of budgets reflecting our revenue growth ambition in audit is cognisant of our audit quality related goals.

- **In-flight reviews:** We have designed a new process that runs in parallel to our Engagement Quality Review Assistant program. The process emphasises the importance of audit quality with a focus on areas of risk and regulatory findings and has a balanced coaching and risk management/challenging element. One of the main objectives of this process is to contribute to the delivery of good quality PIE audits by ensuring robust documentation and evidencing challenge. Furthermore, we have reviewed and expanded the scope of risk review panels to include situations that could adversely impact audit quality as reported

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by Business Unit Leaders, partners, In-flight reviewers, or Engagement Control Reviewers. The aim of this initiative is to improve decision making through a reinforced culture of openness, communication and collaboration between the audit teams and the firm's central support functions.

- **Continued development of our team:** We continue to invest in the development of our teams and to address issues of performance and/or gaps in knowledge through the integration of our culture, people and resourcing initiatives. We are increasing local engagement of partners and team members, by enabling constructive conversations to drive a culture of openness and transparency through establishing 'families' within each business unit. We have started and we will continue to refresh our communications plans (frequency / delivery channel / content) to ensure messages on culture and quality are cascaded appropriately and have maximum impact. We are improving the link between priorities and purpose by launching a 'Purpose Led Performance' initiative. This aims to bring to life why and how each audit task impacts overall audit quality and should drive a more questioning mindset and create professionals who seek to understand and challenge constructively.
- **Methodology:** We are making progress in completing and delivering our commitments to the FRC in relation to IFRS 9 and other areas of banking methodology. Two experienced members of the banking business unit are joining the Audit Quality Support Team to assist with these initiatives, to enhance collaboration within the audit service line and to strengthen the Quality Support Team's resource in banking.

We are also Introducing Practical Audit Support & Technical Advice to the audit service line, supporting the quality agenda by maximising methodology impact effectively. Additionally, a 'Mandatory consultations' list has been developed and shared with the audit service line. The culture of 'when in doubt, consult' is a message being shared throughout the on-going culture initiatives. Our methodology team will work to ensure that application guidance and templates for all sectors is improved, with specific reference to IFRS 9 risks and audit implementation.

We will continue to work on updating our SQP and AQTP and ensure that we have the appropriate responses to address the FRC findings. As we progress with the delivery of our plans, we will perform a review of the effectiveness of actions and flex our plans and responses accordingly.

The design of a process to assess the effectiveness of actions is in progress (for prior year actions as the ones included to the SQP in Q1



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and Q2 of 2023 are currently being delivered) and will be embedded within the ISQM(UK)1 monitoring and remediation process with the assessment of recurring findings and deficiencies.

We will, to the extent applicable and for core key actions, proactively monitor their effectiveness before the natural effectiveness review point i.e., the evaluation of our system of quality management in the last quarter of 2023.

## **Conclusion**

Mazars remains committed to the PIE market. We are proud of our people and their efforts throughout this period of change.

We acknowledge that our quality results must continue to improve. Our investments in audit quality will be sustained. We will work with the FRC, as we always have, to support their objectives of promoting continuous improvement and competition in the audit market.

Our very clear intent is to continue to build a team and infrastructure that can more consistently deliver 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 but are considered a key finding in this report due to the extent of occurrence across the audits we inspected.

### Urgently strengthen the quality of audit work relating to estimation and judgement on provisions

Financial statements are impacted by management's judgements and estimates when calculating provisions such as for expected credit losses (ECL), impairment and insurance technical provisions. These estimates often involve significant uncertainty and rely on management's assumptions and judgement, which may be prone to bias. Audit teams must adequately assess and challenge management's judgements and estimates and perform appropriate procedures to respond to relevant risks. In prior years we have reported that the firm needed to improve the quality of its audit work over areas of judgement, including ECL.

#### Key findings



We reviewed the audit of significant estimates and judgements on all audits inspected in this cycle. This year, we continued to identify instances where improvements could be made to audit quality on three audits, including two assessed as requiring more than limited improvements. Findings from the inspections were identified in the following areas:

- **ECL:** On one audit, the audit team did not obtain sufficient audit evidence to conclude on the appropriateness of the estimates and judgements used in computing the ECL provision. In particular, insufficient audit evidence was obtained over the completeness and accuracy of management's post-model adjustment including challenging management's allocation methodology and evaluation of risk factors applied.
- **Insurance technical provisions:** On another audit there was a lack of challenge of management or evidence of the audit team's justification for the absence of a provision for specific costs and inflation over the expected settlement period. On the same audit, the audit team did not perform the procedures required by Auditing Standards in connection



**Audit teams must adequately assess and challenge management's judgements and estimates and perform appropriate procedures to respond to relevant risks.**



**We continued to identify instances where improvements could be made to the quality of audit work over areas of judgement.**

with a service organisation to confirm the completeness and accuracy of the data it held for the purposes of computing the technical provisions.

- **Impairment:** On this audit, there was insufficient evidence of the evaluation of management’s assessment of impairment indicators to determine whether an impairment review was necessary.

## Improve the audit of investment valuation

Financial statements often include investments where there is a lack of observable transparent prices, i.e., level 2 and 3 investments. The valuation of these investments involves significant management judgement, assumptions and estimation uncertainty, with the potential for management bias. Auditors should appropriately assess the risks inherent in the valuations and perform audit procedures over key assumptions and inputs to ensure that appropriate evidence is obtained to support the determined values.

### Key findings



We reviewed the audit of investment portfolio valuation on three audits where such valuation was identified as a significant risk. We raised findings on all of these audits, two of which were assessed as requiring more than limited improvements.

- **Valuation of investments:** On two audits, there were deficiencies in procedures performed and evidence obtained supporting the valuation of investments. On one of these audits, the audit team provided insufficient information to its internal experts to enable them to assess whether the benchmarking of valuation inputs was appropriate for the company’s private equity investments.
- **Reliance on service organisation controls reports:** On one of the above audits, the audit team obtained inadequate assurance over the accuracy and reliability of the fund manager capital asset statements. This limited the firm’s internal valuation experts’ ability to assess whether the net asset value statements, used to assess the fair value of the fund investments, were appropriate.
- **Recognition of unrealised fund profits:** On another audit, insufficient audit procedures were performed to assess and challenge the appropriateness of management’s discount applied to the recognition of unrealised fund profits.



**We reviewed the audit of investment portfolio valuation on three audits where it was identified as a significant risk. We raised findings on all of these audits.**

## Improve the audit of the cash flow statement and financial statements / key disclosures

The financial statements include a number of primary statements and key financial disclosures. Auditors should perform sufficient procedures to ensure that items are correctly classified, presented and disclosed.

### Key findings



We reviewed the audit of primary statements and key disclosures in financial statements on all the audits inspected, and the audit of the cash flow statement on six of them. We raised findings on four of the audits inspected including one assessed as requiring more than limited improvements.

- **Cash flow statement misclassifications:** On one audit, insufficient audit procedures were performed to conclude that the Statement of Cash Flows was not materially misstated due to the classification of certain transactions.
- **Appropriateness of financial statement disclosures:** On two further audits, there was insufficient evidence to conclude on the appropriateness of certain financial statement disclosures in areas such as investments and loans and other information included in the annual report.
- **Accounting for a novation agreement:** On another audit, there was insufficient assessment of the appropriateness of the accounting for a novation agreement and its disclosure.



**We reviewed the audit of primary statements and related key disclosures on all audits inspected and raised findings on four of them, including one assessed as requiring more than limited improvements.**

## Other findings leading to more than limited improvements being required

### Key findings



On one audit, there were key findings leading to more than limited improvements being required not included in the key findings above:

- **Going concern:** The audit team did not sufficiently challenge the reasonableness and sensitivity of the data and the underlying assumptions used in management's going concern assessment.
- **Quality control and review procedures:** The quality control and review procedures, including those performed by the engagement leader and EQCR, did not provide sufficient challenge or rigour. There was a

significant lack of audit evidence to support the audit team's conclusions.

On another audit, there was a key finding leading to more than limited improvements being required:

- **Oversight of component auditors:** The audit team performed insufficient procedures over the direction, supervision and evaluation of the work of component auditors throughout the audit.

## Good practice



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

### Risk assessment and planning

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

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

### Execution

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

- **IFRS transition:** The audit team extensively involved a specialist from the firm's accounting technical team in the audit work particularly on the adoption of IFRS 16.
- **Revenue audit approach:** The audit team revised the revenue audit approach following the planned automatic technique not producing appropriate audit evidence.

### 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.

- **Consultation:** There was good evidence of detailed consultations with the central technical team regarding the material uncertainty over going concern and related disclosures.



**Good practice examples included extensive involvement of technical specialists and revising the revenue audit approach following the planned procedures not producing appropriate audit evidence.**

### 3. Review of firm-wide procedures

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

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

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

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

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

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

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

## Relevant ethical requirements – Compliance with the FRC’s Revised Ethical Standard 2019

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

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

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

### Key findings



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

- Implement additional personal financial independence compliance testing that covers all financial interests held by partners and staff, and the persons closely associated with them.
- Strengthen controls to ensure that non-audit services do not commence before approval by the UK audit partner.
- Perform robust assessments of independence threats and safeguards prior to the audit partner approving non-audit services. Such assessments need to reflect all relevant threats, their significance and how the safeguards appropriately mitigate the threats and are evaluated by reference to the perspective of an Objective, Reasonable and Informed third party.



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

- Ensure that all ethical consultations are resolved on a timely basis with evidence retained showing the basis for the conclusions reached.
- Increase and enhance central ethics monitoring and approval processes. In particular: timely identification of overdue fees, identification of connected party fees (including within private equity groups), timely consideration of potential or probable employment with audited entities, preapproval of certain types of gifts, hospitality, and favours, and increased controls over the disclosure of gifts and hospitality given and received.

### Good practice



We identified the following area of good practice:

- The firm requires that audit teams track overall time on the audit for all members of the audit team, including specialists. This enables a fuller assessment of long association risks and familiarity threats.

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

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

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



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



## Key findings



The firm had improved a number of its policies and processes since our review of this area in 2019/20, particularly in respect of the evidencing of quality in staff appraisals. However, we identified the following key findings:

- There were concerns with how the firm ensures sufficient focus on audit quality in partners' appraisals. Partners do not receive overall quality or performance ratings and are appraised against four areas, none of which specifically focus on audit quality. It was also unclear how audit quality is prioritised in the four-yearly partner development review process. Since our review, the firm has introduced overall quality scorecards for partners to drive consideration of all quality metrics and findings in the appraisal process.
- We also identified concerns around how the firm ensures that partners' remuneration is sufficiently influenced by audit quality. Partner remuneration is adjusted based on the results of internal and external reviews of audit files. However, the impact of awards for financial performance and team development can be more significant and outweigh quality-based deductions. The firm has subsequently increased the significance of quality when determining what increases and decreases the award to partners.
- There were further concerns around how the firm ensures sufficient focus on quality in staff's appraisals and remuneration decisions. Staff do not receive quality or performance ratings and the firm had no process to ensure that staff bonus awards considered positive or adverse audit quality. Since our review, the firm has implemented guidance on how quality should be considered in staff bonus allocations.

## Good practice



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

## Acceptance, continuance, and resignation procedures

A firm is required to establish policies and procedures for the acceptance and continuance of audits to ensure that it only undertakes audits: that it is competent to and has the resources to perform, where it can comply with the ethical requirements, and where it has considered the integrity of management,

those charged with governance and, where relevant, the owners of the entity. This assessment needs to be made prior to the acceptance or continuance decision for each engagement.

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

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

### Key findings



We had no significant findings to report. The firm had improved its policies and processes, particularly around the extent of evidencing considerations in key acceptance and continuance documents, since our last review of this area.

### Good practice



We identified the following areas of good practice:

- This firm requires that, prior to final acceptance of all new audits, a detailed resourcing plan is prepared showing who will work on the audit, their expected hours, and the expected timing of their work.

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

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

- Understanding the relevant financial statement line items and their linkage to internal and external applications.
- Performing appropriate risk assessment procedures.



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



**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.**

- IT specific guidance including the assessment of matching and other configuration rules and system generated report logic.
- Testing bank reconciliations (both controls and substantive testing).
- Guidance over external confirmations.

## Key findings



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

- Issue comprehensive guidance in relation to auditing the cash and payments process so that audit teams have a clear and consistent understanding of the audit procedures that are expected to be performed on the end-to-end payments process.

Since our review, the firm introduced a payments process framework and ancillary guidance. The firm has acknowledged that further enhancements will be required to this initial framework and has committed to making the necessary amendments in the near future.

## Good practice



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



**We identified good practice in ethical compliance and acceptance procedures.**

## Firm-wide key findings and good practice in prior inspections

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

- Implementation of the FRC's Revised Ethical Standard (2021/22): The firm needed to improve its guidance on how to consider the perspective of an Objective, Reasonable and Informed Third Party when taking decisions relating to ethics and independence. The firm also needed to enhance its policies and procedures to maintain complete and up to date corporate trees.
- EQCR, consultations and audit documentation (2021/22): The firm needed to strengthen and formalise its EQCR policies and procedures, particularly in respect of EQCR appointments. The firm also needed to implement controls to consistently ensure timely archiving of audit files.

- Audit methodology (fair value of financial instruments with a focus on banks) (2021/22): The firm needed 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.
- Internal quality monitoring (2021/22): The firm needed to ensure that reviewer's professional judgements were sufficiently recorded to support the depth of their review and the conclusions reached in key areas where no findings have been raised.
- 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.

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

### Good practice



Good practice was identified in one area:

- On internal quality monitoring the firm performed thematic reviews on selected key topic areas and ensured that all audit partners are subject to a full internal quality monitoring review every two years.

## Implementation of ISQM (UK) 1

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

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

- 
- Planned to undertake monitoring activities over its system of quality management on an ongoing basis.

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

In the 2022/23 inspection cycle, prior to the implementation of ISQM (UK) 1, (2023/24), we are focusing on the firm's identification of objectives, risk assessment processes and the completeness of the risks identified. In addition, we are reviewing certain components of the system of quality management, including governance and leadership, acceptance and continuance, network resources and service providers. In these areas we are looking at the design and implementation of responses. We will also review the firm's plans for ongoing monitoring and remediation of the system of quality management and the annual evaluation process.

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

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

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

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

## 4. Forward-looking supervision

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

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



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

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

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

- The firm’s Single Quality Plan, other quality improvement plans and audit quality initiatives
- Root cause analysis
- PIE auditor registration

- Other activities focused on holding the firms to account
- Culture & conduct
- Initiatives to ensure compliance with the FRC's Revised Ethical Standard 2019
- Operational separation

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

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

### Background

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

Last year we reported that we had reviewed key aspects of the firm's AQP which, whilst linked to the firm's key behaviours and values, still needed a more overarching link to the audit strategy. The strategy and objectives within the AQP have been incorporated into the more detailed SQP.

We identified good practice in relation to the capture of actions and to the oversight and governance of the AQP. However, during this inspection cycle and the development of the SQP, we have focused on the firm's need to make key changes to audit quality as a matter of urgency and we found that the firm needed to supplement its AQP and SQP with a transformational plan. The firm has further prioritised actions and specific objectives from its AQP to begin to develop a focussed AQTP. There is more work to be done, now that it has been shared with the FRC, to formally finalise the AQTP and the firm must keep under review the prioritisation of actions.



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



**The firm has developed an SQP that incorporates the priorities of its overall AQP and that is designed to encompass the FRC principles.**

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## Observations

We assessed the following:

- **SQP – development:** The processes for maintaining and monitoring Mazars' SQP, as well as analysing the data within the plan, were initially enabled using an interactive tool that works with the firm's method of recording actions. The firm has not yet rolled out the tool it is using in respect of firm-wide actions, because it is exploring alternatives as part of embedding ISQM (UK) 1.
- **Principles of SQPs:** The firm's SQP has been designed to encompass all the principles outlined by the FRC as we worked with firms to develop these plans. These principles include prioritisation, having a forward-looking focus, an ability to measure the effectiveness of individual actions and the overall SQP, and regular reporting.
- **SQP – low and medium priority actions:** The need to prioritise key actions to improve audit quality urgently may mean pausing or delaying taking other actions in the SQP. The firm should not lose sight of these lower priority objectives and actions. The consequences of any pauses or delays should be considered regularly with reprioritising decisions taken as necessary. The SQP should enable this with regular monitoring and reporting.
- **Measuring the effectiveness of individual actions and the overall SQP:** The firm needs to develop its SQP to include the evaluation of the immediate and long-term effectiveness of actions taken. The initiatives and actions in the AQTTP should be considered first.
- **First year audits:** The results of our inspections continue to show inconsistent quality results on first year audits, aligning with the overall inspection results for the firm. We understand that, following a portfolio review, all audits have been risk assessed. This includes first year audits where acceptance procedures include the consideration of the need for risk panels, in-flight reviews, and consultation. These initiatives have only begun in the last six months and therefore will have a limited impact on the results in our next inspection cycle.
- **Quality Control:** In response to key individual audit inspection findings and related findings on policies and procedures, the firm strengthened its quality control procedures by introducing some full time EQCRs as well as providing EQCR support more generally. This support was initially taken from the firm's in-flight review team which meant that only targeted reviews could take place during 2022/23. The firm is in the process of introducing a refreshed in-flight review process (June 2023). This is an important process to prevent key findings in relation to audit quality. Resources should be rebuilt as quickly as possible.



The firm has not yet rolled out the tool it is using in respect of firm-wide actions to other actions and must do more to develop the evaluation of the effectiveness of actions taken.



- **Financial services methodology:** The firm is continuing to develop overall financial services guidance which is almost complete (in terms of payments processes and IFRS 13) but still needs more work on IFRS 9. To improve results on areas such as ECL, the methodology and guidance in this area must be completed.
- **New audit quality initiatives:** In response to findings in previous inspections and as part of the firm's development of its AQTP, the firm has almost completed a full portfolio review and risk assessment on all existing and new audit clients (see above). Where an audited entity is identified as high risk or as having high risk attributes and the firm continues to be its auditor, a risk panel will support the audit team. This may, in turn, lead to required consultation, an in-flight review, additional EQCR support or ongoing risk panel involvement. These are all preventative measures and address the urgent need to improve audit quality. As these initiatives have only commenced in the last six months, there will still be a time lag with regards to their impact.

We will use the SQP alongside the AQP and AQTP to monitor the progress of actions and how the firm measures their effectiveness. We will continue to assess the actions and / or initiatives the firm adds to the SQP to facilitate continuous improvement.

## Root cause analysis process

### Background

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

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

When we reviewed the firm's RCA process last year, we assessed that the firm's overall approach to RCA needed to continue to develop. We identified good practice in relation to some of those developments, in particular an expansion of scope and a three-step approach to action planning. The firm has continued to make changes to its RCA approach during the year and these include: strengthening the team and increasing RCA scope, the focus on behavioural and cultural factors and the use of data analytics. In addition, the process has also been further aligned to ISQM (UK) 1.



**Root cause analysis is an important part of a continuous improvement cycle. The firm has continued to make a number of changes to its RCA approach.**

## Observations

We assessed the following:

- **Current inspection results:** Our current inspection results remain concerning. They demonstrate inconsistent audit quality and recurring findings. The firm's RCA process needs to further consider the specific causes and develop effective actions to achieve the necessary urgent improvement in audit quality.

In relation to the recurring findings, these often require actions that consider cultural and behavioural change. We have recommended the benefits of support from behavioural specialists for the last two years and it is encouraging that Mazars UK is working with the firm in the Netherlands to develop this part of their RCA process and related action setting.

- **RCA processes:** The changes made by the firm to the RCA process and detailed above are positive, leading to a more informative process.
- **Six-step action planning process:** The firm is moving from a three-step to a six-step action planning process with the aim of increasing audit team engagement and ensuring that actions are designed to be targeted and effective. The additional steps involve gathering early input for possible solutions, evaluating the design of actions and consideration of recurrence of a deficiency.
- **Detailed action plans arising from inspection findings:** A number of the responses to previous actions appeared to be additional training which is only effective if the training is annual or cyclical on a slightly less frequent basis. This potential lack of effectiveness in design, as well as findings that require behavioural change as part of the action, can often be the cause of recurring findings. The firm should ensure that the RCA process includes consideration, further to that of the data analytics, of why certain findings have recurred and the additional actions needed as a result.
- **RCA reporting:** The draft interim RCA report has been provided and will be finalised once the RCA has been completed on two of the poorer graded FRC individual audit inspections which were completed at the end of our inspection cycle. The root causes and contributing factors currently identified have been mapped to current actions with further actions being added to remediate the recurring nature of the finding. Further consideration should be given to discontinuing previous ineffective actions and replacing them rather than adding to them. This may be drawn out in the final report which we will consider further during our normal supervisory activities.

The RCA of the firm's own internal monitoring is due to start in July 2023, with reporting later in the year; the firm would benefit from aligning the RCA



The firm's RCA process needs to consider the specific causes of inspection findings and develop effective actions to achieve the necessary urgent improvement in audit quality.



The firm should ensure that the RCA process includes consideration of why certain findings have recurred and the additional actions needed as a result.

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

## PIE auditor registration

### Background

The FRC is now responsible for the registration of all firms which carry out statutory audit work on public interest entities (PIEs). This registration is in addition to the ongoing requirement for firms and Responsible Individuals (RIs<sup>8</sup>) to register with their Recognised Supervisory Body (RSB). The FRC's PIE auditor registration remit covers all firms and relevant RIs which audit one or more PIEs which includes: UK-incorporated entities listed on the London Stock Exchange (or another UK-regulated market); a UK registered bank, building society or other credit institution (but not credit unions or friendly societies); or are a UK insurance entity which is required to comply with the Solvency II regulations.

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

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

### Observation

On 5 December 2022, Mazars' transitional application for registration as a PIE auditor was approved and, as at 31 March 2023, 24 RIs had been approved. The following diagram shows the number of PIE and non-PIE RIs as a percentage of the total RIs at Mazars:

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

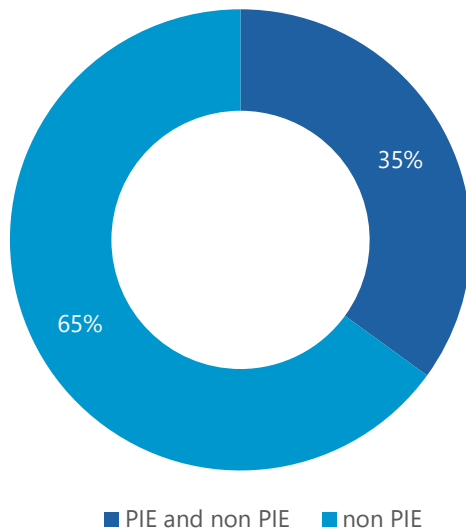


**The FRC is now responsible for the registration of all firms which carry out statutory audit work on public interest entities (PIEs).**

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## Mazars LLP

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## Other activities focused on holding firms to account

### Background

Our forward-looking supervisory approach includes a number of other activities designed to hold firms to account. We have carried out certain procedures during the year to consider tone at the top, the contents of the firm's Transparency Report and the firm's responsiveness to feedback, and where relevant to constructive engagement and non-financial sanctions.

For a second year, we have undertaken increased supervisory activities with this firm, including inspecting an increased number of audits, providing a feedback session on revenue, following up on EQCR (commented on above), engagement on culture, considering resourcing of audits within acceptance and continuance decisions (see section 3), and focusing on the firm's need to prioritise actions taken to transform audit quality in the AQP and SQP (commented on above).

### Observations

We assessed the following:

- **Constructive engagement:** Where we have engaged on constructive engagement cases throughout the period, the firm has taken prompt action to strengthen policies, procedures and training aimed at preventing future recurrence of specific findings.
- **Tone at the top:** The firm remains consistent in its communications around the importance of audit quality and the public interest and it responds well to feedback from the regulator. There has been an improvement in the strength

of messaging relating to audit quality and growth to clarify the importance of audit quality as the firm's key priority.

## Culture and conduct

### Background

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

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

### Observations

We assessed the following:

- **Audit culture:** Through its "Without Compromise" initiative (adapted from the previous "No Compromise"), the firm has designed audit-specific behaviours and run its first culture survey to assess audit culture. We acknowledge Mazars' initiatives are in the early stages; the firm must further develop and implement these initiatives to embed the desired behaviours across the firm. Mazars must also continually monitor the effectiveness of the initiatives to ensure that they drive the desired outcomes. In particular, Mazars must do more to assess the impact of its current initiatives on promoting the fundamental behaviours of scepticism and challenging management in addressing our recurring inspection findings.
- **Ethical conduct:** We have seen examples of misconduct including exam cheating and breaches of integrity at certain firms that impact the reputation of the profession as a whole. All firms need to ensure that their culture promotes individuals to operate to the highest ethical standards to maintain public confidence and trust.
- **Conduct matters:** Mazars has taken a reactive approach to conduct-related matters and would benefit from a greater emphasis on the cultural aspects of ethical behaviour.



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



Mazars must do more to assess the impact of its current initiatives on promoting the fundamental behaviours of scepticism and challenging management.

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## Initiatives to ensure compliance with the FRC's Revised Ethical Standard 2019

### Background

During 2022, we held biannual meetings with the Ethics Partner, undertook compliance testing and reviewed the firm's biannual reporting of identified breaches. The specific findings from this work are detailed in section 3. However, we have the following additional observations on the steps being taken to comply with the Ethical Standard going forward.

### Observations

We assessed the following:

- **Ethics function capacity:** The Ethics function did not have sufficient capacity to respond in a timely manner to the demands of the practice and undertake appropriate monitoring. We have noted delays to training, re-messaging, and consultation responses, and a failure to plan and perform sufficient monitoring procedures.

The firm is currently strengthening the Ethics function with five new members, who should, once fully 'on-boarded', represent a significant step towards implementing a full compliance and monitoring processes.

The firm should now carefully evaluate whether any further resources are needed both from a business-as-usual perspective and to implement improvements to the function as a whole. Furthermore, investment in system improvements is needed to improve record keeping (for example, a database of consultations would improve the efficiency and consistency of responses given and actions taken). We will continue to monitor the firm's progress and implementation of new processes and systems.

### 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 and are financially resilient. The requirements do not apply to Mazars but the firm continues to take steps to consider the principles. An Audit Board has been formed with two Audit Non-Executives (ANEs) that are also Independent Non-Executives (INEs) and one ANE that is solely an ANE. A further ANE is being recruited.



The firm should now carefully evaluate whether any further additional ethics function resources are needed both from a business-as-usual perspective and to implement improvements to the function as a whole.

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# 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.

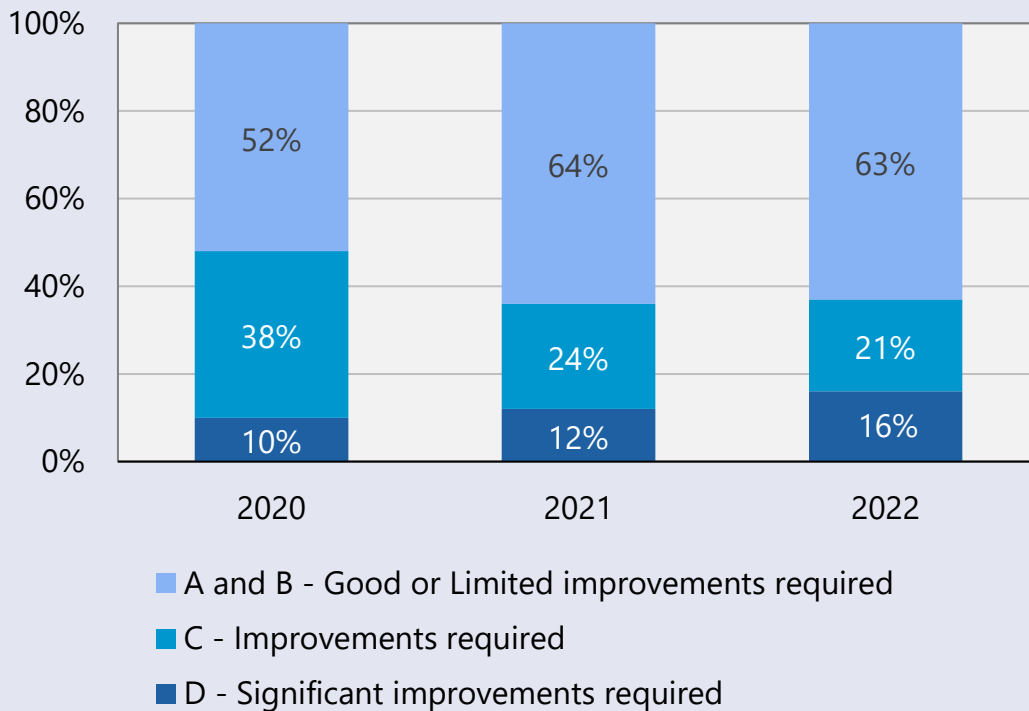
The appendix should be read in conjunction with the firm's [Transparency Report](#) for 2022 which provides further detail of the firm's internal quality monitoring approach and results, and the firm's wider system of quality control.

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 results<sup>9</sup> of the firm's most recent Internal Quality Monitoring (iQM) programme, for the period 1 September 2021 to 31 August 2022, which comprised internal inspections of 38 individual audit engagements with periods ending up to and including 31 December 2021, are set out below along with the results for the previous two years.



<sup>9</sup> 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 programme considers the full population of audit engagements performed. The programme 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 Audit Quality Monitoring before final findings are issued to the RI / KAP, the individual assigned as the lead Engagement Manager, and the EQCR (where applicable).

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 those actions is followed up as part of the iQM programme.

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.



Of the quality findings identified from the firm's 2021/22 iQM programme, the following themes were also identified in the prior year programme:

- Evidence obtained as part of journal entry testing. This included insufficient corroborating evidence and evidence to support the completeness of the journal population.
- Procedures performed or evidence obtained over asset valuations, including impairments. This included procedures over impairment indicators and impairment reviews.
- Challenge of management judgement in going concern assessments, in particular in relation to the audit of judgements and assumptions applied by management in forecasts.

Of the quality findings identified from the firm's 2021/22 iQM programme, the following themes were identified that were not identified in the prior year programme:

- Procedures performed or evidence obtained to support audit risk assessments, including in relation to fraud.
- Procedures performed over defined benefit pension assets for entities that were members of multi-employer pension schemes, specifically in the housing and education sectors.
- Procedures performed over business combinations.
- Scoping of group audit engagements and the supervision, direction, and review of component auditors of significant components.



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