Annual Review of Audit Quality 2026

Financial Reporting Council

July 2026

1. Foreword: Executive Director of Supervision

Anthony Barrett
Executive Director of Supervision

Audit quality, and trust in the audit market and profession, are central both to well-functioning markets and UK economic confidence. Reliable audits support informed investment decision making, strengthen accountability, and underpin sustainable growth.

Supervision sits at the centre of the FRC's regulatory model. Our activities are designed to identify risks early, understand how those risks are being managed within firms and drive system-wide improvements. This requires a forward-looking approach that goes beyond inspection outcomes to assess whether firms' operational processes, governance and culture are focused on, and capable of, delivering consistent high-quality audits over time.

Sustainable improvements in audit quality depend on understanding and strengthening the system in which those audits are delivered. Well-designed and effective systems of quality management create the conditions in which high-quality audit can be delivered consistently. Individual audit inspections (including non-graded follow-up inspections and thematics), provide direct evidence of audit quality in practice and an anchor for our assessment of firms' systems of quality management.

Alongside our enforcement colleagues, whose work is reported through individual decision notices and the Annual Enforcement Review, we provide a holistic approach to regulation. This approach enables us to identify risks and issues early, supports remediation and improvement and holds firms to account when things go seriously wrong. By engaging with firms, delivering clear feedback, and focusing on the root causes of identified issues, we promote timely remediation and sustained improvements in audit quality. Our supervisory approach and investigatory and enforcement activities are integrated, enabling a more rounded view of audit firms. This supports both continuous learning and improvement and an effective response when failures occur.

Our revised supervisory approach is now more risk-based and made up of three core elements; the assessment of firms' systems of quality management, individual audit engagement inspections and continuous engagement with a dedicated supervisor. Our revised approach preserves our commitment to high standards while applying supervisory effort in a more targeted and proportionate way. Audits are vital to the UK economy, and public confidence in their delivery matters. What has changed is that our supervision is more appropriately tailored to the size, structure and risk profile of a firm, continuing to recognise that one-size does not fit all. Smarter regulation through our new supervisory, investigatory and enforcement approaches supports well-functioning markets. Confidence in the audit market and profession depends on the maintenance and improvement of high standards, as well as assurance that risks are being addressed and appropriate action will be taken where needed.

2. Executive Summary

This report brings together findings from all our supervisory activities to provide a comprehensive assessment of audit quality across audit firms that undertake Public Interest Entity[1] audits (PIE audit firms). It sets out our perspective on the current state of audit quality overall, the factors influencing its delivery, and the actions needed to support sustained improvement across the PIE audit market.

All firms within the scope of this report are registered[2] on the FRC's PIE Auditor Register. They must meet the requirements of the FRC's PIE Auditor Registration Regulations and are subject to on-going supervision in terms of capability, capacity and quality management arrangements.

Across the PIE market, audit quality, measured both by the maturity of a firm's Systems of Quality Management (SoQM) and individual audit inspection results, remains broadly stable, with evidence of sustained improvement among the largest firms and some improvement in the rest of the wider PIE audit market. However, this overall position masks important variation between firms and across individual audits. Audit quality is not yet consistently high, and consistency remains the central challenge for firms and for our supervision.

Largest firms show continued maturity but must translate improvement into consistent execution

The largest firms have the greatest impact on the PIE audit market, given the scale and profile of their PIE portfolios. They have generally operated in the PIE market for longer and consequently have been subject to FRC supervision over a more sustained period.

The majority of largest firms are continuing to strengthen and mature their SoQMs. These firms are continuing to invest and develop these systems, and our evolving approach reflects the increasing confidence we can take from their SoQMs as they continue to mature. Improvements are evident in areas such as monitoring, evaluation and remediation.

Progress with SoQM is not yet always translating into consistently high-quality audit execution at audit engagement level. Audit inspection findings remain variable between these firms and across individual audits. They continue to arise in areas requiring significant judgement and robust challenge; these include impairment, revenue, valuation, provisions, inventory, ethics and independence.

[1] Public Interest Entities (PIEs) are entities whose audits are considered of particular importance to investors and the wider public. Under the Companies Act 2006, this includes UK-listed companies, banks and other credit institutions, and certain insurers. The FRC has specific supervisory and inspection responsibilities in relation to the audits of these entities.
[2] The registration for any firm (both initially and annually) can be with or without undertakings or conditions which are largely not published. For further details, including the number of firms registered with conditions and/ or undertakings, see our website.

Firms outside the largest are showing progress, but there is a need to accelerate the pace and depth of change

For firms outside the largest, including more recent entrants to the PIE market, progress is evident but uneven. These firms typically have smaller PIE portfolios and, in many cases, have been subject to FRC supervision for a shorter period and not on an annual basis.

The SoQMs for these firms vary in terms of maturity and effectiveness with some firms needing to make significant improvements to ensure that quality risks are appropriately identified, responses are operating effectively and deficiencies are remediated in a timely manner.

Audit inspection results for these firms remain below those of the largest firms with only half of those inspections requiring limited improvement and more significant findings than the largest firms. However, there is considerable variation in inspection results at the individual firms.

Effective SoQMs are the foundation for sustainable improvement

The most important route to sustained improvement is through firms' SoQM. This is the framework through which firms should identify risks to audit quality, design and operate responses, monitor whether those responses are effective, and remediate deficiencies. It is, therefore, the mechanism by which firms should prevent recurring weaknesses and drive consistent and sustainable high-quality audits. As a result, it is a central focus of our supervisory approach.

The changing audit environment presents both opportunities and risks

Audit quality is also influenced by wider developments across the audit market. Technological advances, evolving resourcing models and increased restructuring and external investment are reshaping how firms operate. These developments create opportunities to enhance audit quality, but they also introduce new and evolving risks. Firms should ensure that their SoQMs remain responsive and adaptable, supported by appropriate governance, oversight and accountability arrangements.

The FRC will continue to support improvement and market resilience

The responsibility to improve audit quality lies primarily with the firms, but the wider financial ecosystem, including the FRC, audited entities and audit committees, must play their part in supporting a resilient, competitive and well-functioning market.

Alongside targeted FRC supervisory oversight (made up of inspections of both SoQM and individual audit engagements, and supervisor engagement), FRC initiatives such as Building Capacity and Capability (including Scalebox and Scalebox-SoQM), are helping firms strengthen their quality management systems and build capability. Together, these efforts support a more resilient and competitive audit market capable of delivering consistently high-quality audit over the longer term. Where required, we will continue to use PIE Auditor Registration measures and enforcement procedures to hold firms to account. This report also highlights broader market challenges, including concentration and capacity constraints, and the importance of supporting the development of smaller and mid-market firms.

3. Purpose and use of this report

The FRC's objectives for public reporting are to enhance transparency (especially for users of audit), foster improvements in audit quality and provide insight into the key issues affecting the UK audit market. This ensures we meet our statutory obligations and support investor confidence.

This 2026 report presents the themes, trends and challenges arising from our supervisory oversight during the 2025-26 inspection cycle. Alongside our inspection programme, we hold firms to account for addressing quality findings promptly, we encourage proactive improvement and share good practice to facilitate improvements across firms and the wider audit market. We identify and prioritise actions needed to enhance audit quality and resilience in the public interest, including in response to emerging risks and future challenges.

More detailed findings on key matters relating to the SoQMs of the firms that we regulate, including our independent inspection of individual audit engagements and wider supervision, are set out in the appendices. Appendix A provides important context, which is relevant to all the firms reported on. Appendix B covers the largest six firms individually, which includes the firm's own assessment of its SoQM and the quality of audits it inspected, as well as the firm's response. It also covers the next six other higher impact audit firms. Appendix C lists all the PIE audit firms covered in this report.

These appendices should be used alongside the main body of this report, which provides overall themes and commentary, including coverage of other PIE audit firms. The report is not intended for the direct comparison of firms but will support informed discussion with them. Firm-specific commentary reflects each firm's impact in the market, risk and developments during the year.

We have also separately published Audit Firm Metrics for a second year which provide additional insights. See page 22 for their purpose and uses.

The results of audit engagement inspections completed by the Institute of Chartered Accountants in England and Wales (ICAEW), the Institute of Chartered Accountants of Scotland (ICAS) and Chartered Accountants Ireland (CAI) (together the Recognised Supervisory Bodies (RSBs)) have been included in the seven appendices referred to above, with aggregated results of the RSBs also included in the body of this report.

- Audit firms should use this report, alongside the detailed action plans provided to them privately, to acknowledge and deliver on specific areas for improvement outlined in the appendices. This will facilitate continuous improvement and help to fulfil their responsibilities to the whole market. Other audit firms of all sizes can learn from examples of good practice.
- Audit Committees can use this report to help them assess firms' SoQMs and the quality of firms' audits. This report may also be helpful in a tendering process and in facilitating richer conversations with audit firms.
- Investors and other users of financial reports may find this report helpful in making assessments about the quality of audit, transparency and accountability in relevant markets.

Contents

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4. FRC supervisory approach

The supervision of audit firms is an important part of our regulatory toolkit and underpins trust and confidence in the UK audit market. Our approach is grounded in the principle of active, risk-based supervision in the public interest, balancing accountability with system-wide improvements and learning. Our ambition is to ensure our approach focuses on the public interest and a resilient and attractive audit market and profession.

Our approach incorporates three core elements:

- Inspection of SoQMs against the International Standard on Quality Management (UK) 1 (ISQM (UK) 1) to understand how firms identify, manage and respond to risks to audit quality and consider how firms deliver improvement over time.
- Inspection of individual audit engagements, providing direct evidence of audit quality in practice and helping us assess whether firms' quality management processes are operating effectively in delivering consistent audit quality outcomes.
- Continuous supervisory engagement with Supervisors to maintain an evidence-based understanding of the firms' audit quality and related improvement initiatives. This supports a more forward-looking view of firms' actions and whether they are likely to strengthen and sustain audit quality over time. These activities also inform initiatives to address challenges and opportunities in the audit market. Many of the Supervisors' activities are undertaken and reported on privately.

An evolving regulatory approach

As set out in our Statement in March 2026, our regulatory approach continues to evolve in response to audit market developments and insights from our supervisory work. We are now placing greater emphasis on SoQMs as the foundation for delivering and sustaining audit quality, supported by targeted audit inspection and ongoing engagement with firms. Our supervisory activity is underpinned by consistent, evidence-based risk assessment, enabling us to focus on areas of greatest risk to audit quality. This matters because high-quality audit is driven not by retrospective inspection in isolation, but by effective systems and a sustained focus on quality - factors our approach seeks to assess and influence in real time.

Our approach to Supervision is driven by:

- A risk-based approach: supervisory activity targeted where it matters most. Robust risk assessment underpins our work, supported by audit inspections and thematic reviews.
- Scalability: reflecting differences in firm size, complexity and impact. Smaller PIE audit firms will see a reduction in the scope of inspections, including both engagement reviews and ISQM (UK) 1 assessments.
- Integration: our supervisory activity does not operate in silos. We are undertaking targeted activity, working directly with firms to improve audit quality. This includes our Scalebox and

Building Capacity and Capability initiatives. This will be supported through learnings gained from initiatives such as the Small and Medium-sized Enterprises (SME) Market Study and Audit, Technology and AI Sandbox. Our ongoing work with the RSBs to support the wider market and extend the principles of audit quality beyond the PIE market complements this approach.

We are not reducing our regulatory effort, but the changes we have made to our approach reflect a shift to a more targeted and proportionate deployment of that effort. High-quality audit remains vital for the UK economy, and we recognise the need to build on system-wide learnings and improvements. Ongoing engagement with firms and wider users of financial reporting is central to ensuring that our revisions are effective, agile and responsive.

We will continue to develop this approach, including through deeper use of thematic analysis, enhanced risk identification and, where appropriate, closer supervisory engagement. We will also continue to consider how our reporting of supervisory outcomes can evolve alongside developments in the audit market and stakeholder expectations.

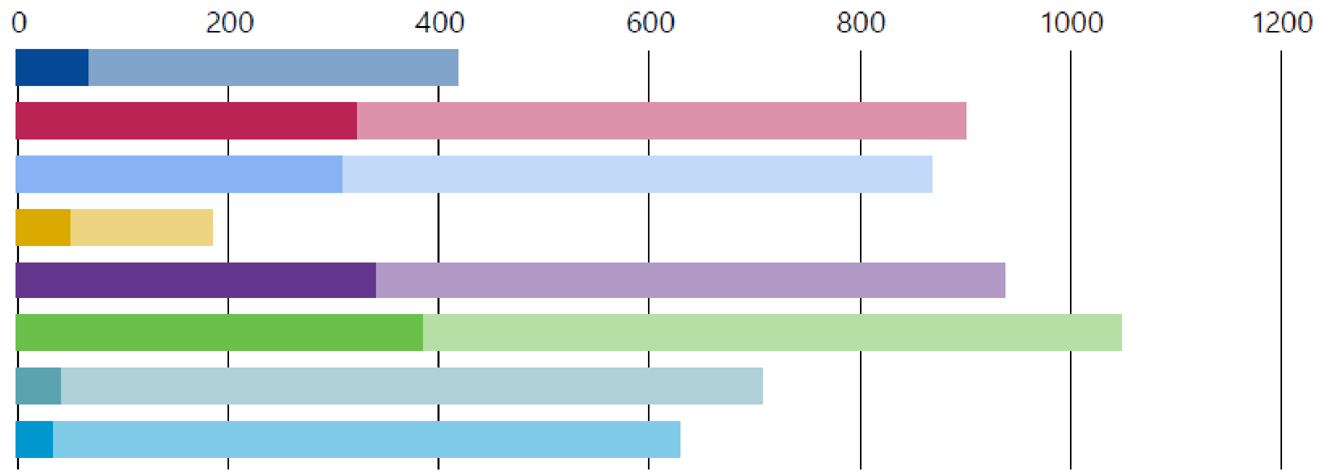
Public reporting is an important part of that framework. It provides transparency on our work and our assessment of audit quality, supports informed stakeholder engagement and drives improvements across the profession. As with our supervisory activities, our reporting will evolve to reflect market developments while continuing to provide insights into the UK audit market.

Our revised approach reflects a more integrated and forward-looking framework of supervision. It is designed to be risk-based, scalable and focused on system-wide improvements and accountability.

At a glance

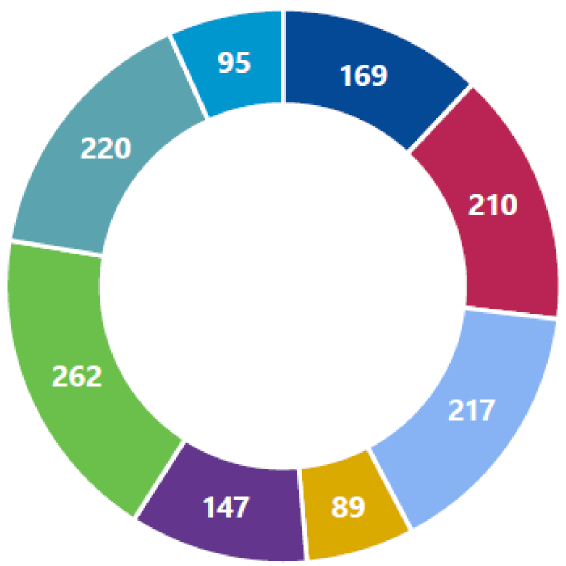
This page illustrates the significance of the individual PIE audit firms to the overall market, and therefore our approach to reporting on our supervision of these firms. A list of the PIE audit firms detailing the largest and next six 'Other higher impact' firms has been included at Appendix C.

Annual audit fee income

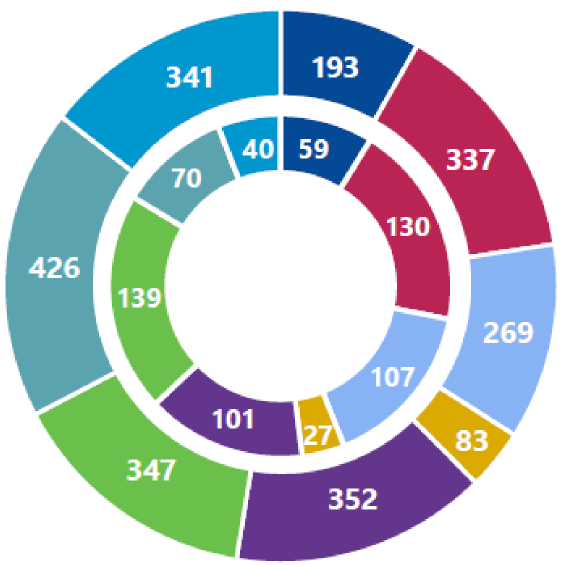


Darker line represents PIE audit fee income. *Lighter line represents* non-PIE audit income. In £m's.

Share of PIE audits by number



Share of Responsible Individuals



Outer ring represents All RIs.
Inner ring represents PIE registered RIs.

Key

BDO, Deloitte, EY, Forvis Mazars, KPMG, PwC
Other higher impact firms, Remaining PIE audit firms

This data is sourced from the most recent submissions by firms to the FRC for the Key Facts and Trends publication and other purposes, except that for PIE-registered Responsible Individuals (RI), which is sourced from the FRC PIE Auditor Register as of 31 December 2025. Audit fee income may be prepared to different reference dates by different firms.

5. Systems of Quality Management

Why the SoQM is important

ISQM (UK) 1 establishes the foundation and requirements for a firm's SoQM. It should not be viewed as a compliance framework or a set of procedural requirements to be documented and maintained. At its core, a SoQM is designed to be embedded within the firm's strategy and operations, providing the framework through which the firm creates the conditions in which high quality at the engagement level can be achieved consistently and sustainably. A well-designed SoQM enables firms to embed accountability, sound judgement, learning and continuous improvement into the way they operate. It requires firms to think critically about their quality objectives, the risks that could undermine them, and the actions and behaviours needed to respond effectively. In doing so, the SoQM becomes not only a framework for managing quality risks, but a foundation for resilience, trust and long-term confidence in the firm's work and public interest responsibilities.

Improvements driven by ISQM (UK) 1

ISQM (UK) 1 sets requirements across eight components of quality management. It requires firms to establish quality objectives, identify and respond to risks, monitor and remediate deficiencies, and evaluate annually whether their SoQM is operating effectively. The standard is scalable, allowing firms to tailor their approach to their size, structure and complexity while continuing to support high-quality audit. For examples see Scalability of ISQM (UK) 1 Information Sheet.

The introduction of ISQM (UK) 1 and firms' implementation of SoQMs has begun to drive important developments in the way firms manage and oversee audit quality, including:

- Reinforcing accountability for quality through governance and leadership oversight
- Promoting attitudes and behaviours that demonstrate a stronger commitment to quality
- Strengthening monitoring and driving earlier remediation to reduce the risk of further issues
- Creating feedback loops that support continual improvement and responsiveness to change
- Building resilience and long-term confidence in the firm's ability to deliver quality consistently
- Increasing transparency and challenge through formal evaluation of the SoQM

The FRC has published thought pieces sharing challenges and good practice observed in the processes of risk assessment, monitoring and the annual evaluation.

6. SoQM inspection and other supervisory activity

Overall results

From our SoQM inspection and other supervisory activities, we continue to see that firms are investing in and improving their SoQMs, including in response to actions and feedback from the FRC. Overall, we have seen a trend of improvement in how firms undertake and evidence their monitoring processes over SoQM responses and other sources of information, and how firms evaluate the results of those monitoring activities to identify deficiencies within the SoQM. Firms continue to develop and iterate their SoQMs to respond to audit quality matters and to changes in their environment and operating models.

Largest six audit firms

Consistent with our observations in the previous inspection cycle, the largest four firms continue to demonstrate generally well-established and appropriately tailored SoQMs. Thematic areas of improvement for these four firms relate to further strengthening aspects of monitoring within their SoQMs, improving their responses to drive compliance with certain elements of the relevant ethical requirements, and enhancing their evidencing of monitoring and evaluation processes to support the identification of deficiencies in their SoQMs. We specifically note that EY has undertaken remedial actions in response to severe deficiencies identified regarding rotation requirements and whistleblowing procedures. The firm needs to continue prioritising the monitoring of the operation and effectiveness of these actions.

BDO and Forvis Mazars are continuing to significantly develop, strengthen and mature their SoQMs, including continuing to identify and remediate severe deficiencies within their SoQMs. Both firms need to strengthen how findings and deficiencies are assessed, including evaluating their impact on the attainment of SoQM objectives. The improvements in Forvis Mazars' FRC audit engagement inspection results over the last two years supports the impact of its remediating activities so far. Whilst BDO has seen recent improvements in its internal audit engagement inspection results, the firm needs to continue to develop and implement remediating actions to drive sustainable and holistic improvements in audit quality across its entire portfolio. Our supervisory activities are intended to support and inspect the development, implementation and monitoring of these remediating actions.

Other audit firms

Amongst the next six largest firms (the other higher impact firms), there is significant variety in the maturity and robustness of their SoQMs. This is reflected in the number and severity of deficiencies identified by the firms and in our inspection findings. We have seen that these firms are all investing to strengthen their SoQMs and address deficiencies identified. Some firms need to further develop their remediation plans to ensure they address the underlying causes of deficiencies and thereby deliver improved audit quality.

For the firms outside of the largest twelve (the other PIE audit firms), there is a need for increased understanding of the standard and continued reflection by firms on how to design, implement, operate and monitor areas of their SoQMs. Our Building Capacity and Capability initiative supports this.

FRC SoQM inspection and supervisory activities: Scope

We assess and inspect each firm's SoQM in the context of the firm's specific nature and circumstances, focusing on whether responses are appropriately designed and implemented to address quality risks. The scale and approach of our inspection activities reflect the complexity and extent of firms' risks and responses, as well as the risk associated with firms of different sizes.

Our inspection scope for the twelve largest firms' SoQMs is detailed in Appendix A. Our inspection activities for the smaller six firms for the 2025/26 activities commenced in the latter portion of the cycle and are in the process of completion.

For other PIE audit firms, we undertake an inspection of their SoQM once every six years. For all firms that are not subject to an inspection in the current cycle, we are undertaking a Building Capacity and Capability initiative. This includes reviewing and benchmarking procedures across these firms, identifying common challenges and areas of positive practice, and highlighting opportunities for further improvement. We engage directly with individual firms, alongside facilitating roundtable discussions, to support shared learning, challenge and exchange of experience.

FRC SoQM inspection and supervisory activities: Findings and good practice

Findings – By audit firm

In our individual appendices for the largest six audit firms and short summary reporting for other higher impact firms (set out in Appendix B), where relevant, we report firm-level findings on individual SoQM inspections. A summary of the areas, with at least one finding reported in each audit firm's appendix is set out below:

Reported findings in appendices

	Audit firm	Areas of finding	Link to appendix
	BDO	• Firm's evaluation of its SoQM • Relevant ethical requirements • Engagement performance • Monitoring and remediation	Page 39
	Deloitte	• Relevant ethical requirements	Page 49
	EY	• Information and communication	Page 58
	Forvis Mazars	• Firm's evaluation of its SoQM	Page 67

	Audit firm	Areas of finding	Link to appendix
		• Relevant ethical requirements • Information and communication	
	KPMG	None	Page 77
	PwC	• Relevant ethical requirements	Page 86
	Other higher impact firms	Details are currently only provided to the respective firm	Page 96

Good practice – Root cause analysis undertaken by firms

As well as holding audit firms to account, we recognise and share areas of good practice or highlight common themes across processes to support wider improvement. Details of the good practice identified for the largest six audit firms and other higher impact audit firms are set out in Appendix B. In this report, we have selected root cause analysis (RCA) as an area to highlight common themes.

Effective RCA is integral to a firm's monitoring and remediation activities. It supports firms in identifying the underlying circumstances that caused deficiencies (including inspection findings) and evaluating the severity or pervasiveness of those deficiencies. The process informs the design and implementation of appropriate remedial actions. It therefore plays a critical role in driving continual improvement in the design, implementation and operating effectiveness of the SoQM.

Most of the largest firms have mature and well-developed RCA processes embedded within the SoQM. This reflects sustained investment in resources and methodologies, and established approaches to assess if they are effectively identifying the root causes for audit inspection findings.

Among the other higher impact firms, we observed greater variability in maturity and effectiveness. RCA procedures will appropriately vary with firms' size, complexity and the nature of deficiencies analysed. Certain firms lack sufficiently developed and consistent frameworks to effectively identify underlying causes and drive sustainable improvements. In response, we have held RCA roundtables to share anonymised findings and examples of good practice from our inspection and supervisory activities.

In our last thematic review of RCA, we set out the requirements of the standard. We also identified eight elements of an effective RCA programme, sharing observations and good practice. This thematic review was undertaken across six firms, and the concepts and examples need to be considered in the context of the nature and circumstances of other firms.

The table below summarises common root causes, identified across the market related to key barriers to audit quality on individual engagements, and the remedial actions firms are taking in response.

Root causes related to:	Remediation
Ineffective planning and project management. Common themes identified include: 1) Inadequately tailored risk assessments, often due to overreliance on prior-year approaches. 2) Unclear or poor allocation of roles across core teams, specialists and components. 3) Weaknesses in the quality and timeliness of management information, with teams failing to mitigate the associated risks. Firms reflected that robust, upfront planning drives effective execution, enabling earlier challenge of key judgements and greater clarity over required audit procedures.	Firms focus on embedding existing project management practices, tools and workflows to support appropriate risk assessment. This includes reiterating expectations around upfront planning. Actions being implemented include: • Issuing guidance and handbooks to support audit teams and audited entities in setting expectations and delivering effective audits. • Introducing handover protocols for effective transitions when personnel changes. • Enhancing the use of data and analytics to identify the drivers of tight deadlines and inform targeted interventions.
Auditor mindset and behaviours. Common themes identified related to **insufficient challenge and scepticism** as a result of: 1) Overreliance on assumed knowledge and audit work from the previous year. 2) Insufficient focus on audit areas perceived as routine or lower risk. 3) Confirmation and familiarity biases, and underestimating the judgements and evidence required to substantiate conclusions. Firms observed that fostering open, psychologically safe environments where all team members feel empowered to challenge helps mitigate behavioural risks.	Firms are making targeted enhancements to their training materials, including a focus on behavioural biases to improve self-awareness and support sound professional judgement. Further actions being implemented include: • Engaging external cognitive behavioural psychologists to better understand and address barriers to effective change. • Embedding consistent and meaningful coaching to support a questioning mindset and constructive challenge. • Issuing audit-specific performance review guidance setting clear expectations for feedback on core audit behaviours.
Weaknesses in quality management procedures. Common themes identified related to **ineffective supervision and review**, including: 1) Insufficient stand-back, with senior team members often too close to the detail. 2) Late engagement of senior reviewers and specialists, limiting effective challenge. Firms identified early and engaged senior team involvement, visible leadership, live reviews and effective coaching as key enablers of audit quality.	Firms are taking further actions to improve the quality and timeliness of senior reviews. Actions being implemented include: • Involving specialists during planning in the review of prior-year stand-back assessments. • Performing thematic reviews to inform targeted enhancements to quality management tools to improve consistency and robustness of challenge. • Workshops and other initiatives aimed at the reviewer population, targeting behavioural drivers of ineffective review.

7. Inspections of individual audits

FRC inspection results

All inspections

116 audits inspected

79% of audits inspected assessed as requiring no more than limited improvements (2024/25: 79%)

3 audits inspected assessed as requiring significant improvements (2024/25: 10 audits)

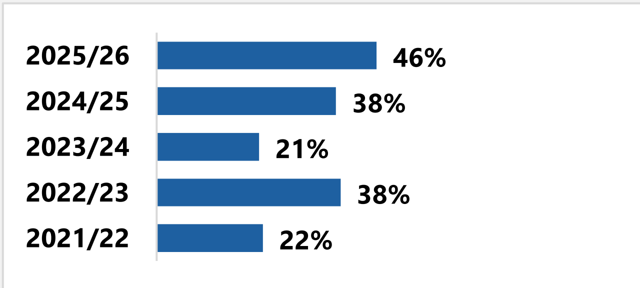
Largest 6 audit firms

% of audits inspected requiring no more than limited improvements

1 audit inspected in 2025/26 required significant improvements.

Other PIE audit firms

% of audits inspected requiring no more than limited improvements



2 audits inspected in 2025/26 required significant improvements.

RSB inspection results

Largest 6 audit firms

% of audits inspected classified as good / generally acceptable

0 audits inspected in 2025/26 required significant improvements.

Other PIE audit firms

% of audits inspected classified as good / generally acceptable

1 audit inspected in 2025/26 required significant improvements.

FRC and RSB inspections of individual audits: Overall results

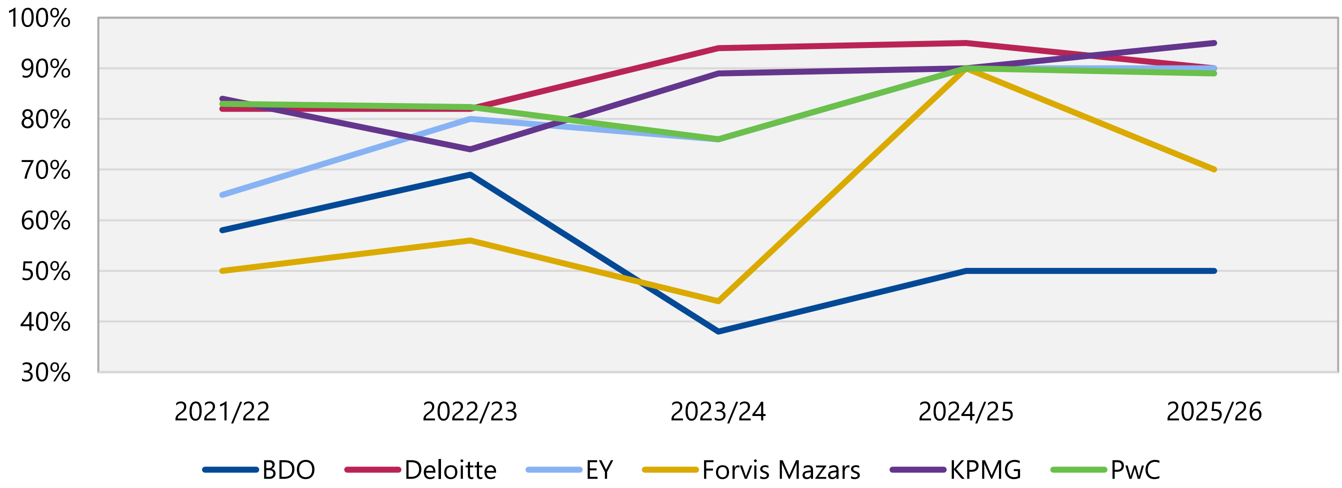
The overall quality of audit work delivered by PIE audit firms continues to be of a good standard, based on the inspections performed by the FRC and RSBs this year.[3] Further improvements are still required across all audit firms to ensure a consistently high standard of quality on all audit engagements.

The FRC reviewed a total of 116 individual audits (2024/25: 120) across all PIE audit firms this year. Of the audits inspected, 79% were categorised as good or limited improvements required (2024/25: 79%), and three audits were assessed as requiring significant improvements (2024/25: 10). The results from RSB inspections showed a similar positive trend, with 92% of all audits inspected in the year being assessed as good or generally acceptable (2024/25: 85%) and no audits assessed as requiring significant improvements.

Largest six audit firms

The results of the FRC's inspections of individual audits over the last five years performed by the largest six audit firms are set out below:

% of audits inspected requiring no more than limited improvements



The inspection results for Deloitte, EY, KPMG and PwC reflect the progress that these firms have made in audit quality over a five-year period. The current year results show largely consistent year on year outcomes with sustained high-quality, with all four firms achieving positive audit quality outcomes on 89% or more of the audits inspected by the FRC for the second year running.

The inspection results for Forvis Mazars also show a trend of improvement in audit quality over a five-year period. Whilst there has been a fall in the year-on-year inspection results in the current

[3] PIE audit firms are also subject to independent monitoring by RSBs. RSB inspections cover audits of private companies, smaller AIM listed companies, charities and pension schemes, where inspection responsibility has been delegated by the FRC.

year, we do not consider this to be indicative of an overall decline in audit quality. The results for BDO, meanwhile, continue to be lower than for the other largest firms, with only 50% of inspections receiving positive outcomes (2024/25: 50%) and one audit assessed as requiring significant improvements (2024/25: four audits). While we note improvements in some respects, overall audit quality has not improved to the level expected and the level of recurring findings remains unacceptable.

RSB inspections continue to assess a high standard of audit quality on non-PIE audits, with 92% of inspections performed this year[4] at the largest firms being assessed as good or generally acceptable (2024/25: 90%).

Further details of the inspection results at the largest six audit firms, and the overall assessment of each firm, are set out in Appendix B.

Other PIE audit firms

The overall results of the FRC's inspections of individual audits performed by other PIE audit firms (the six other higher impact firms[5] and other remaining PIE audit firms (as listed in Appendix C) continue to be lower than those for the largest six audit firms, with only 46% of these inspections assessed as good or requiring limited improvements this year (2024/25: 38%). However, within this overall figure, there is considerable variation in inspection outcomes at individual firms.

Particular care should be taken when interpreting annual trends in these results, due to both the lower number of inspections performed at each firm and the fact that the audit firms inspected in any given year will vary. The improvement seen in inspection outcomes for these firms in recent years is encouraging. However, firms will need to achieve consistently stronger outcomes over time to reflect a sustained improvement in audit quality across this sector of the market.

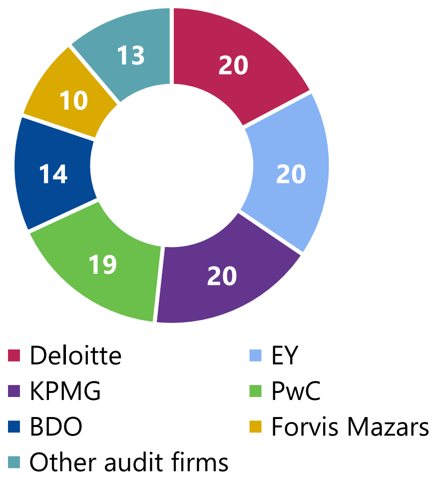
The results from the RSB inspections this year continue to be significantly better than the results from FRC inspections, with 92% of inspections at other PIE audit firms achieving positive outcomes (2024/25: 81%). This difference in the inspection outcomes may, in part, reflect the relative size and complexity of audits inspected, including the additional challenges associated with PIE audits that fall within the FRC's inspection scope.

Further details of the inspection results and overall assessment for the six other higher impact firms with the greatest impact on the PIE market, are set out in Appendix B – other higher impact firms.

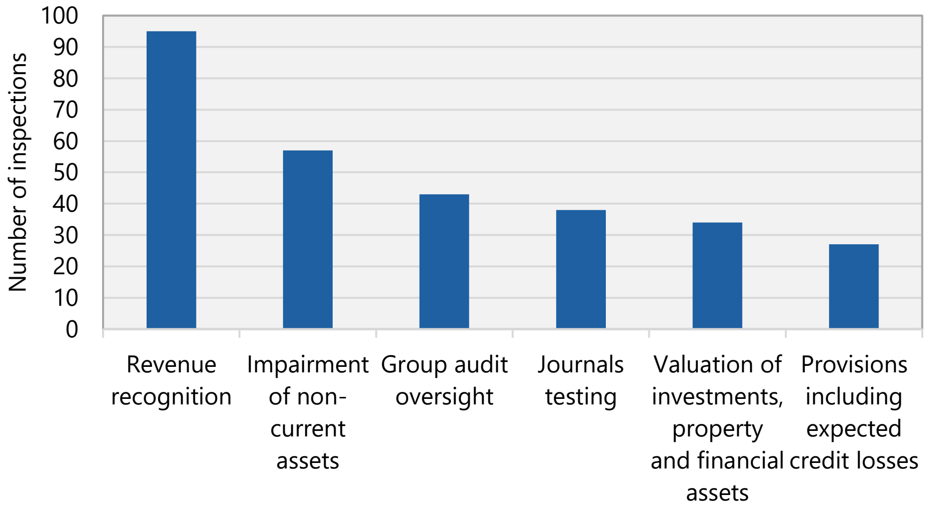
[4] The ICAEW performed monitoring visits at five of the largest six firms (Deloitte LLP, Ernst and Young LLP, Forvis Mazars LLP, KPMG LLP and PricewaterhouseCoopers LLP) in 2025/26.
[5] These firms comprise Crowe U.K. LLP, Grant Thornton UK LLP, Johnston Carmichael LLP, MHA Audit Services LLP, PKF Littlejohn LLP and RSM UK Audit LLP.

FRC inspections of individual audits: Scope

Number of inspections[6]



Most frequently inspected audit areas



Our audit inspections monitor the quality of the audits of PIEs and certain other entities. They are an independent measure of the quality of audit execution, complementing our work on SoQMs. The FRC takes a proportionate, risk-based approach to the scoping of audits for inspection.

Number of inspections at each audit firm: We perform annual audit inspections at the twelve largest audit firms and inspect other PIE audit firms at least every three or six years, dependent on the composition of the firm's PIE audit portfolio. As in previous inspection cycles, the majority of our inspections this year (103 out of 116) were performed at the largest six audit firms.

Selection of audits for inspection: We select individual audits for inspection based on a wide range of factors, including the market impact of, and assessed level of risk, in relation to individual audited entities and priority sectors announced by the FRC.[7] This year, for the largest six audit firms, our inspection selections also included a sample of inspections from the residual population of lower-risk audits not meeting these factors, to provide a more representative assessment of audit quality across each firm's full portfolio of PIE and other FRC scope audits. There was no significant difference in assessed audit quality between the high risk and lower risk populations.

Scoping of individual audit inspections: We focus our inspections of individual audits on areas that are significant to the entity's financial statements and of the greatest risk and importance to the audit. The graph above sets out the six most frequent areas that we inspected this year, which are unchanged from the previous year. In addition to these areas, we also reviewed risk assessment, audit planning and communications to Audit Committees on all inspections.

Further details of the FRC's scoping and monitoring approach for individual audit inspections can be found on the FRC website and in Appendix A.

[6] The FRC performed 116 inspections of AQR in scope audits conducted by PIE audit firms in 2025/26. The FRC also performs inspections of certain other audits, under other legislation or contractual arrangements, that are not covered in this report.
[7] A list of audits inspected by the FRC (updated for completed inspections on a quarterly basis) is available on the FRC website.

FRC inspections of individual audits: Findings and good practice

Findings – all inspections

We categorise the findings that we identify on individual inspections between key findings (those of greater significance) and other findings.[8] The table below sets out the most significant areas with inspection findings from all inspections at PIE audit firms in our last two cycles, based on the number of key and other findings in those areas. It also shows the frequency of findings, based on the number of inspections where the related area was included in our scope.

Most significant areas with inspection findings – all inspections

	2025/26			2024/25		
	Key findings	Other findings	% of inspections with findings	Key findings	Other findings	% of inspections with findings
Impairment of non-current assets	11	17	49%	7	17	47%
Revenue	4	19	24%	5	14	19%
Valuation of investments, property and financial assets	3	7	29%	4	9	33%
Provisions including expected credit losses	3	5	30%	5	10	50%
Inventory	2	4	26%	4	8	48%
Ethics and independence	2	3	36%	2	6	53%

The analysis highlights that the areas with the greatest number of inspection findings this year were impairment and revenue. These are important areas for many audits, often involving significant estimation, uncertainty and judgement. For impairment, the findings most commonly related to the evaluation and challenge of key assumptions and judgements. For revenue, they covered a variety of issues, with no common theme identified. These have been the two most significant areas of findings in our inspections for several years, highlighting the ongoing need for firms to take action to improve the consistency of audit quality in these areas. We will continue to focus on these areas in our supervisory work and in our specific support activities with firms.

For the other most significant areas of inspection findings, we identified findings relating to the audit of the valuation of investments, property and financial assets, provisions, inventory and ethics on more than one quarter of the inspections where these areas were included in our scope.

[8] Key and other findings are defined and linked here.

Although the frequency of findings in each of these areas has reduced since the prior year, such areas can be significant by nature (e.g. ethics and independence) and firms also need to take further action to improve the consistency of audit quality in these areas.

Findings – by audit firm

In our individual appendices for the largest six audit firms and aggregated reporting for the other higher impact firms (set out in Appendix B), we report firm-level findings for those areas where we identified key findings on individual inspections or other findings across several inspections. A summary of the findings reported in each audit firm's report is set out below:

Reported findings in appendices

	Audit firm	Areas of finding	Link to appendix
	BDO	• Impairment of non-current assets • Valuation and recognition of assets and liabilities • Revenue • Inventory • Quality management procedures	Page 39
	Deloitte	• Impairment of non-current assets • Accounting judgements - consolidation	Page 49
	EY	• Revenue • Impairment of non-current assets • Ethics and independence • Dividends	Page 58
	Forvis Mazars	• Impairment of non-current assets • Technical provisions • Inventory	Page 67
	KPMG	• Impairment of non-current assets	Page 77
	PwC	• Impairment of non-current assets • Ethics and independence	Page 86
	Other higher impact firms	• Impairment of non-current assets • Provisions (including expected credit losses) • Revenue	Page 96

Good practice

As well as holding audit firms to account where work is not performed to the requisite standard, our inspections also seek to recognise where firms have performed high-quality audit work. A key method by which we do this is through the identification of good practice. This typically relates to where audit firms demonstrate a particularly robust or innovative response to an audit area, or to address specific circumstances and challenges of the audit. We share these to highlight the good practices and enable others to consider such approaches, if relevant, for their circumstances.

Our inspections this year have continued to identify a wide variety of good practice examples across the audit firms and individual audits inspected. This reflects the high quality of much of the audit work that we have inspected, particularly at the largest firms, and the continued innovation and improvements being made by audit firms in their audits.

Details of the good practice identified for the largest six audit firms and other higher impact audit firms are set out in Appendix B of this report.

RSB inspections of individual audits: Scope, findings and good practice

RSBs are important system partners and their inspection results provide important context for understanding audit quality across the wider market. Whilst the FRC's inspection programme focuses on PIE audits, RSB reviews offer insight into non-PIE audit work carried out by PIE firms across a broader range of entities and sectors. In 2025, the RSBs' audit monitoring teams carried out a total of 1,252 audit file inspections. Of these, 118 inspections (9.4%) were of non-PIE audits performed by audit firms that are registered with the FRC as PIE audit firms.[9] Further information on the RSBs' performance of their delegated responsibilities is set out in the FRC's annual report to the Secretary of State for Business and Trade.

The findings from RSB inspections demonstrate that many of the common areas of findings identified in PIE inspections covered by this report are similar to those for non-PIE inspections, indicating cross-market challenges rather than matters confined to the largest audits. The findings this year mainly relate to requiring improvements in obtaining and documenting sufficient appropriate audit evidence, especially in judgemental areas. There are also common areas of findings across all PIE audit firms including insufficient challenge of management assumptions, particularly in revenue recognition and impairment, as well as gaps in supporting evidence and incomplete documentation of conclusions. For smaller firms, weaknesses were also identified in quality control on some audits, including engagement quality reviews and oversight of component auditors.

Despite insufficient challenge of management being a general theme, there were examples on certain engagements of this being performed well. There were also other examples of good practice, including effective use of specialists, strong documentation in high-risk areas, and improved fraud risk assessment. Many firms showed evidence of effective remediation through root cause analysis, enhanced training, stronger methodologies and increased internal monitoring, indicating a culture of continuous improvement in response to inspection findings.

Further details of RSB findings at the largest six audit firms may be found in Appendix B.

[9] RSB annual returns to the FRC. The annual returns cover work performed in the relevant calendar year and therefore the data in these may vary to the information presented elsewhere in this report, due to differences in the period covered.

8. Audit firm metrics

For the second successive year, the FRC is publishing data on Audit Firm Metrics alongside the Annual Review of Audit Quality. Firms engage with this initiative on a voluntary basis, which recognises that inspection findings for individual audits and SoQMs are not the only metrics to assess audit quality. The FRC also considers other data points which may be useful, particularly to audit committees. These include the firms' own systems of internal monitoring (see Appendix B), monitoring by the RSBs, and other factors that contribute to audit quality, which are described in our Audit Firm Metrics Definitions Note.

This data is intended to inform and stimulate meaningful conversations between the firms and other stakeholders about how quality is defined and managed by a firm. In particular, audit committees may wish to consider these metrics when undertaking a tender for, or reviewing the quality of, statutory audits. While quantitative in nature, Firm Metrics may also provide useful context to inform further discussion and challenge with audit firms, particularly when considered alongside firms' Transparency Reports and other relevant publications (for example, FRC publications such as the Audit Committees Minimum Standard and What Makes a Good Audit?). Audit committees may also wish to review year-on-year movements in the metrics and, where relevant, any differences between firm metrics overall and those relating to the specific engagement team responsible for the audit.

These latest firm metrics present a broadly positive picture of audit quality, with external inspection results remaining positive across most firms with continued investment in training and partner involvement. There is still significant variation in internal inspection outcomes, coupled with sustained workload pressures and elevated attrition among experienced staff. However, as noted above, it is important to emphasise that no single indicator is sufficient and that audit quality should be assessed through a balanced set of measures.

9. Other supervisory oversight

In addition to our inspections and supervision, we undertake focused work in areas critical to audit quality and market resilience. This includes our monitoring of operational separation and our work on firm resilience, which together provide important insights into how firms are structured, governed and prepared to respond to disruption.

Case study: Operational separation

Under operational separation, introduced in 2020, the four largest firms have agreed to separate their UK audit and non-audit practices to ensure that audit practices remain focused on delivering high-quality audits in the public interest. The FRC considers all four firms to be materially compliant with the Principles of Operational Separation for their financial years ended in 2025.

To maintain a proportionate and risk-based approach, the FRC is trialling an alternating assessment cycle, under which two firms will undergo full reviews each year. Therefore, as part of this year's monitoring cycle, we conducted full assessments at two firms, while the remaining two firms provided attestations confirming their continued compliance.

We value the significant progress all four firms have made by implementing operational separation and welcome the positive outcomes, such as improved audit quality and a clearer focus on audit culture.

Case study: Risk and resilience – crisis management and continuity

Promoting a resilient and competitive UK audit market forms an important part of the FRC's broader public interest role. We supervise various aspects of the largest audit firms' operational and financial resilience, beyond those directly related to SoQM. This contributes to the foundations that enhance audit quality and market competitiveness.

In a volatile geopolitical and economic climate, firms must not only manage known risks but also remain agile and capable of responding to unexpected disruption. We have engaged with the largest firms, through a mixture of engagement meetings, private thematic reviews, and a roundtable event, to understand the effectiveness of their crisis management and business continuity arrangements and to promote continuous improvement.

We also recognise the systemic risk posed by the most extreme scenario of the disorderly exit of a large firm from the UK audit market. We have issued guidance on Recovery and Resolution Planning, setting a benchmark for how the largest firms should consider threats to their existence and strategies to manage such situations effectively. In collaboration with the FCA, Bank of England and Department for Business and Trade, the FRC has also run a simulation of a large audit firm failure to test the coordination, readiness and responsiveness of key audit market stakeholders in such an event. The results of this exercise inform our ongoing supervision of the largest audit firms.

10. FRC response to UK audit market matters

The UK audit market continues to operate in a challenging and evolving environment, shaped by economic uncertainty, rapid technological innovation, changing regulatory and stakeholder expectations, and shifting patterns in capital market activity. Audit firms are continuing to adapt their operating models, governance arrangements and resource structures in response to these pressures, while also investing in technology, specialist capabilities and quality management. At the same time, the market remains characterised by a high degree of concentration among the largest firms, alongside capacity and capability constraints in certain areas of the profession. These pressures require firms and audit committees to balance efficiency and commercial considerations with the sustained investment needed to support both resilience and the consistent delivery of high-quality audits.

In response to evolving risks, market conditions and challenges within the audit market and drawing on insights from our inspection and wider supervisory activities, we continue to evolve our supervisory approach and wider regulatory response. This helps ensure that our supervision remains effective, responsive to risk and forward-looking.

Market matter	FRC response
A developing UK audit market (as discussed in Section 11)– opportunities and risks are presented by the dynamic market. These are amplified by rapid development of technology and external investment.	Our role is to provide clarity and protect audit quality and market resilience. Areas of focus for the FRC continue to be: • Technology (page 26) • Resourcing (page 27) • Restructuring and private equity investment (page 29) • Sustainability assurance
Smaller and mid-market firms – concentration, capacity and capability.	We are committed to supporting these firms, as they develop capability, strengthen resilience and grow within the market. Initiatives include: • Our revised approach to audit supervision (page 7) • Our Building Capacity and Capability initiative (page 32) • PIE Auditor Registration (page 33) In addition, we are continuing to monitor movements of audits in the market considering public interest and audit quality.

Market matter	FRC response
Barriers to growth and access to audit services – risk of limited capacity and uneven quality may reduce access to quality audits for small and medium-sized enterprises (SMEs).	The FRC carried out a market study into the audit market for SMEs and issued its final report in March 2026. We found that while this market is broadly functioning well, we identified issues that, if resolved, can result in meaningful improvements for SMEs and those who provide audit services to them. While addressing these issues is not solely for the FRC, we have issued 'Practice Note 28: Guidance for audits of small and medium-sized entities' and will engage with SME auditors, in particular through the technology sandbox. We will also set up a working group with the RSBs and engage with stakeholders on the international Less Complex Entities auditing standard. Further details are on our website.
Regulatory oversight – the challenge remains to balance necessary oversight with the avoidance of excessive regulatory burden that could stifle innovation or market growth.	Our revised approach to audit supervision has been developed to achieve proportionality, effective supervision and clear reporting. Details of our approach were published in March 2026 and it will continue to evolve. We have also reviewed our enforcement approach to strengthen governance, decision-making and operational effectiveness. We have developed a more graduated and proportionate approach to enforcement activity, supporting timely, transparent and effective regulatory outcomes. The PIE Auditor Regulations have recently been revised to, amongst other things, reduce administrative burden, provide flexibility and respond to increased activity in the areas of restructuring, reorganisation and private capital ownership of PIE-registered audit firms.

11. A developing UK audit market

Technology

Technology use and related risks to audit quality

The use of advanced technologies in audits, particularly generative AI (GenAI), is accelerating. Moving beyond peripheral tasks, some firms are now deploying GenAI tools to perform audit procedures and generate audit documentation. This trend is expected to continue, with firms placing increasing reliance on technology generated outputs. The use of agentic AI, which is capable of autonomously coordinating multiple tasks towards a defined objective, is also expected to emerge in the near future within audit, with even greater potential to transform audit execution.

This is an area of significant focus for many firms, including large scale investment to update or replace audit platforms to better integrate GenAI and other advanced technologies into the audit process. While these developments offer significant opportunities, they also introduce new risks to audit quality. Firms need to ensure that their SoQMs have robust governance, certification and monitoring processes that evolve appropriately alongside the use of these technologies, including maintaining effective human and firm oversight and accountability.

The increasing use of AI and advanced technologies also has implications beyond individual audits. As technology changes how audit work is performed, so too will it change the required skills. This will impact firms' staffing structures, training models and recruitment. Traditional audit fee structures will be challenged to balance technology-related efficiencies against the investment required to develop and deploy them. Private equity investment in firms, discussed on page 29, may also be a disruptive factor in the profession, increasing focus and investment in technology.

Third-party software providers play a crucial role, offering firms access to advanced capabilities that they may not have the resources to develop internally. This is an evolving market, with new entrants challenging established providers.

The use of technology by audited entities is also an important consideration. While the impact to date has been minimal, firms must ensure that audit teams are appropriately trained to identify and respond to the use of advanced technologies by the entities they audit. Conversely, the use of disconnected and archaic IT systems by entities can impact the availability and quality of data, restricting the ability to deploy some newer audit technologies and techniques.

> The FRC recognises its important role in supporting innovation in the use of technology in audit, while ensuring a continued focus on audit quality.

Using a risk-based assessment and an emphasis on the firms' SoQM, we will maintain forward-looking visibility over planned developments (including GenAI and agentic solutions) and respond proactively as risks and use cases evolve. Core elements of our supervisory approach and wider work of the FRC include:

Our **SoQM inspection work** considers how firms identify, assess and respond to risks arising from the use of technological resources. Also important is how audit teams understand and respond to the use of AI by audited entities.

We will perform a **thematic review** on how the largest firms govern, control and monitor the deployment and use of GenAI in audits. Observations and examples of good practice arising from this work will be published to support innovation across the market and promote audit quality.

We continue to observe the use of established technology through our **audit inspections**. The use of AI-enabled techniques, such as transaction scoring procedures and automated evidence matching, are increasingly common. However, limited use of GenAI on audits was observed in the past year.

We engage with smaller firms through the **SoQM Scalebox** as part of Building Capacity and Capability to discuss the use of technology and supporting SoQMs, as well as indirectly through supervision of the RSBs.

We released **guidance** on the use of GenAI and agentic AI in March 2026. This discussed the audit quality risks associated with the use of these technologies, along with possible mitigations based around system design and development, certification, staff education and 'human in the loop' review.

We have initiatives through our Innovation & Improvement Hub, including the Audit Tech & AI Sandbox, to promote innovation and support the use of technology by firms.

Resourcing

Audit resourcing challenges and risks to audit quality

Audit firms continue to evolve their resourcing models to remain competitive in a dynamic audit market and respond to the changing needs of audit clients. Drivers of this transformation include rapid technological change (see page 26), sustainability assurance, evolving professional standards and regulations, and the need for firms to respond to cost pressures whilst maintaining audit quality. Collectively, these factors present complex choices for firms when deploying human capital and making the profession attractive for their staff.

Some firms are moving away from the traditional pyramid staffing model and are increasing the use of offshore delivery platforms to incorporate remote teams into the onshore team, sometimes referred to as the extended team model. To maintain audit quality amidst this pace of change, firms should ensure they have adequate oversight over their remote audit teams which are increasingly being asked to exercise professional judgement, including on complex audit matters. This and other resourcing changes will require the ongoing adaptation and future-proofing of firms' quality management approaches to sustain audit quality.

The use of advanced technologies in audit has added an extra dimension to how audit firms attract and retain suitably skilled staff, with a recent spike in the demand for AI specialists across both audit and consultancy services. Firms need auditors who are sceptical, curious and technically proficient across both localised and remote teams. They must also continue to foster a cultural environment that supports high-quality audit delivery amidst all this change.

We continue to monitor, challenge and guide firms, involving where relevant, RSBs and other audit stakeholders, in addressing their resourcing challenges and the related impact on audit quality. This is through on-going supervision and various initiatives including 'Audit Qualification 2030 and Beyond' and Scalebox through the Building Capacity and Capability initiative.

Whilst attractiveness of the profession is not a direct FRC objective, we aim to ensure that our regulation supports a resilient and competitive audit market, enabling firms to invest in people, capability and the consistent delivery of audit quality.

Over the next year, we will continue to monitor how the largest audit firms meet the respective challenges of building and sustaining their expanded resource models and adapting to changes driven by new technologies. Building on our work in recent years, we are actively laying the groundwork to forge new agreements and Memorandums of Understanding with countries that support high standards of education and training in audit methodology and practices. We will also obtain further resourcing insights through ongoing engagement with the firms and by repeating our Audit Firm Culture Survey, completed by staff working at the largest 12 audit firms.

The Audit Firm Metrics, with further explanation on page 22 give insight into resourcing matters, including people surveys, partner and RI involvement in audits, staff workload, attrition, training and staff diversity.

Audit firm culture

ISQM (UK) 1 places significant emphasis on culture as a foundation for audit quality. It requires firms to promote a culture that recognises and reinforces the importance of quality through leadership behaviour, accountability, decision-making and the firm's actions and communications. The standard recognises that audit quality is not driven by controls alone, but also by the behaviours, incentives and values embedded across the firm and consistently demonstrated by leadership and engagement teams.

Case study: Insights from our work in relation to culture

Some firms expanded their use of remote audit teams while embedding them fully within quality management arrangements. They ensured remote staff were included in culture monitoring and management (including surveys, working groups, town halls and local action planning), and adapted management approaches to reflect cultural differences. This helped to achieve consistency of audit quality across locations.

Case study: Insights from our work in relation to culture (continued)

Some firms have modified their hiring processes to place greater emphasis on curiosity and the ability to question, challenge and explore uncertainty. This is seen as increasingly important where there is risk of technology bias or over-reliance on automated outputs. By positively selecting for curiosity and reinforcing it through training and performance management, firms are promoting the effective application of professional judgement and scepticism as audit methodologies and technologies evolve.

Firms demonstrate a commitment to quality through the way they monitor and manage culture, and have established mechanisms which draw on quantitative and qualitative sources. Combining the evidence from these multiple sources and documenting this, supports their conclusion on whether the firm's culture underpins quality and supports the SoQM. Good practices include the use of dashboards that triangulate operational and cultural indicators. Analysis by geography, demographic and team, and insights from focus groups and other listening exercises, help to identify areas where greater cultural consistency is required. Where practice varies between firms is in how explicitly this cultural monitoring is linked to audit quality. Some firms have identified quality-critical cultural metrics and have mapped relevant observations to specific quality objectives.

Restructuring and private equity investment

Over the past year, the UK has continued to see restructuring activity, including growing private equity investment involving audit firms. External investment in audit firms may create opportunities for firms to strengthen capability, technology and operational resilience, but these benefits depend on effective safeguards and a clear focus on audit quality.

Whatever the ownership structure, providing that statutory and regulatory requirements are met, the FRC's focus remains on audit quality, independence and the public interest. Firms remain accountable for complying with supervisory and enforcement requirements (and cooperating with us) regardless of ownership model. External investment may create both opportunities and risks, and our role is to ensure appropriate safeguards remain in place. We have updated the PIE Audit Registration framework to support earlier and more substantive engagement with firms when considering external investment or restructuring.

Our Audit Firm Restructuring webpage explains what firms can expect from the FRC's dedicated restructuring team when they engage in restructuring activity.

Restructuring and investment trends

While the number of completed transactions remains relatively limited, broader market activity indicates growing investor interest in audit firms and related restructuring activity. Current market observations include:

- Consolidation activity which primarily involves firms seeking growth capital rather than widespread changes in ownership structures.
- Restructuring activity which increasingly appears linked to broader strategic investment themes rather than isolated one-off transactions.
- Greater focus on operational efficiency, with investor interest linked to scale, resilience, technology and operating model transformation, rather than solely capital investment.

International context: International Forum of Independent Audit Regulators (IFIAR) and International Organisation of Securities Commissions (IOSCO)

These developments are not unique to the UK and are part of a broader international pattern of evolving ownership structures and investment models in the audit and accounting sector. International regulatory organisations, including IFIAR and IOSCO, are examining the implications for audit quality, firm resilience and the public interest. Their work provides important international context for the UK market and reinforces the need for appropriate safeguards. IOSCO's review[10] focuses on the growing volume of deals, including audit firm transactions, evolving ownership models and the associated risks relating to independence, conflicts of interest, and culture. At the same time, IFIAR has identified that capital investment may deliver potential benefits, including investment in technology, and enhanced competition, while also identifying related risks.[11] These themes are also relevant in the UK context.

Impacts on the UK market

Competition and value – Access to new capital may increase competitive pressures, particularly in parts of the public interest entity audit market. This may support innovation and increase competitive choice while also creating pressures linked to scale, technology and capability.

Network mergers and global impacts – Potential market development may include increased network integration, greater cross-border collaboration and wider use of shared services or technology platforms.

[10] IOSCO, 2026 Work Program, Section 3, 'The Evolution of Public and Private Markets,' page 6.
[11] IFIAR Statement on Private Equity Investment in Audit Firms (December 2024). The statement discusses both the potential opportunities and the associated risks of external/private capital

Changes in audit firms

Purpose and capability - Investing in technology, data and analytics specialists to enhance audit quality, supported by strong SoQMs.

Leverage and financial risk - Some investment structures may increase leverage affecting firms' resilience and ability to sustain long-term audit quality. Evidence continues to develop.

Fees and resourcing - The impact on fees and resourcing remains uncertain. The FRC will continue to monitor resourcing, technology adoption and audit quality.

Culture and service delivery - Ownership changes may affect culture, audit quality, ethics and the balance between audit and non-audit services.

Looking ahead - Evolving ownership and funding models may increase focus on cost management, governance and quality management frameworks. UK and international consolidation is likely to continue.

12. Building Capacity and Capability for smaller firms

The FRC's Building Capacity and Capability initiative supports smaller audit firms in strengthening and embedding their SoQMs. This builds on the Scalebox programme[12] launched in 2023 to support smaller audit firms in developing and maintaining audit quality as they enter and operate within the PIE audit market and scale their business. It complements our work with the RSBs in areas such as education and training. Participating firms commit to working with the FRC within Scalebox-SoQM and are subject to a reduced supervisory regime to enable them to do so. Where any of these firms had Conditions or Undertakings attached to their registration, the reporting requirements have been paused, except in particular risk areas, to give these firms capacity to concentrate on improvements to their SoQM. Engagement from participating firms has been strong, reflected in the uptake of Scalebox-SoQM (13 member firms), the quality of responses to our information requests and the depth and openness of the resulting discussions.

Key workstreams of Scalebox-SoQM include:

- Follow up on action plans with firms that have previously had firmwide findings, including consideration of the wider implications for the design and operation of their SoQM
- ISQM (UK) 1 component reviews,[13] assessing firms' SoQMs in relation to a range of components within the standard. Anonymised observations and firm-specific feedback is provided to support learning and benchmarking.
- Monthly roundtables supporting continuous improvement in firms' SoQMs have included:

Sharing Insights	**Focused discussions**	**Scenario based discussions**	**Deep dives**
ISQM (UK) 1 anonymised review observations Anonymised benchmarking in relation to specific components comparing approaches and maturity across participant firms.	Leadership and behaviours underpinning effective SoQMs FRC ISQM (UK) 1 thematic publications – interpretation and practical application of regulatory expectations. Scalability embedded in ISQM (UK) 1 and its practical application.	Monitoring and remediation – including how to assess, identify and respond to deficiencies. Annual evaluation processes with tailored examples.	Technology including AI – audit focused opportunities and risks.

[12] The programme is continuing to attract interest with 15 firms as current members.
[13] Components for review in 2026 include risk assessment, engagement performance, human resources, monitoring and remediation and annual evaluations

13. PIE auditor registration

PIE Auditor Registration Regulations require the FRC to assess whether Registered or Applicant firms and RIs have the capability, capacity and quality management arrangements necessary to undertake PIE audits. This supports audit quality and confidence in the resilience of the UK audit market.

The Regulations provide the FRC with a range of available powers that can be used to support market confidence and audit quality in the PIE audit market. The FRC's PIE Auditor Registration function assesses the applications of firms and RIs to be registered on the PIE Auditor Register. It also conducts regular registration reviews. Firms and RIs must comply with the PIE Auditor Registration Regulations (the Regulations) or obtain a waiver in order to maintain their registration.

The Regulations were updated in April 2026. The updated Regulations, Guidance and associated documents are available on the Public Interest Entity (PIE) Auditor Registration webpage. This webpage also includes information on the PIE auditor registration function, the number of registered audit firms, as well as details of Conditions and Undertakings.[14]

A key change in the updated Regulations is the requirement for registered firms to notify the FRC as early as possible of any changes to governance and/or ownership, restructurings or private capital investments.

The Regulations also set out the FRC's processes and timeframes that will apply when considering such transactions, to ensure PIE-registered firms continue to comply with the Regulations and seek to ensure that the public interest is met.

Case study: The use of Conditions and Undertakings in the supervision of a PIE audit firm

The FRC's PIE Auditor Registration function imposed Conditions to formalise the requirement for a PIE audit firm to develop and implement an Audit Quality Improvement Plan, alongside the ongoing development and monitoring of its SoQM. In accordance with these Conditions, the PIE audit firm engaged well with the FRC and provided periodic updates to its Supervisor and the registration team on progress it made through its structured improvement plan. This included its assessment of the effectiveness of the changes implemented.

The registration team provided feedback on these updates, and the Supervisor held targeted meetings with the firm to agree key areas of focus and development. As improvements in the firm's systems and controls were observed, and the working relationship with the PIE audit firm strengthened, the Conditions were reviewed. They were replaced with Undertakings, which were mutually agreed between the PIE audit firm and the FRC, for a period of one year before reconsideration for end, amendment or extension.

[14] The registration for any firm (both initially and annually) can be with or without Undertakings and/or Conditions. The publicity of which is considered on a case-by-case basis in accordance with the Publications Policy.

Appendix A: Introduction to firm appendices

Firms included in the appendices

The following appendices set out the FRC's findings on key matters relevant to audit quality at the 12 higher impact firms in 2025/26:

- The six largest firms with their own appendices: BDO LLP, Deloitte LLP, Ernst & Young LLP, Forvis Mazars LLP, KPMG LLP and PricewaterhouseCoopers LLP.
- The other higher impact firms with a combined appendix: Crowe U.K. LLP, Grant Thornton UK LLP, Johnston Carmichael LLP, MHA Audit Services LLP, PKF Littlejohn LLP and RSM UK Audit LLP.

Information in the appendices

Each appendix sets out the FRC's findings on key matters relevant to audit quality at the firms. It should be read along with earlier sections of the Annual Review of Audit Quality (ARAQ) which contain combined results and themes for these firms.

Certain market-wide developments affecting all firms, which do not constitute firm-specific findings, are discussed in the main body of the ARAQ rather than within the individual firm appendices. This includes the rapid evolution of advanced technologies and firms' responses to these developments, including deployment of new audit tools and platforms. Given the potential implications for audit quality, we will continue to evolve our supervisory approach and focus in response to the opportunities and risks these developments present.

Symbols used in the appendices

The following symbols are used in the appendices:

Represents a finding where the firm must take action to improve audit quality.

Represents an example of good practice that we identified in our supervision. We encourage other firms to consider applying these if appropriate to their circumstances.

SoQM inspections and supervisory activity

Approach to supervisory activity

Our supervisory activity covers all ISQM (UK) 1 components, comprising focus areas undertaken across all firms, and additional risk-based procedures tailored to firm-specific, strategic and forward-looking risks, as follows:

Focus areas for all firms	Examples of risk-based procedures
• Messaging from senior leadership on audit quality. • Firms' Root Cause Analysis process. • Firms' SQPs / audit quality plans. • Constructive Engagement and Non-Financial Sanctions. • Firms' responses to emerging risks and trends relating to technology in audits and changes to the workforce.	• Targeted 'deep dives' or thematic reviews. • Monitoring firms' responses to Registration Undertakings and Conditions. • Focused engagement with senior leadership and key stakeholders on audit quality and risk matters. • Pre-appointment meetings for key senior roles. • Review of restructuring transactions.

For the six largest firms, a Single Quality Plan (SQP) brings together audit quality related actions and is expected to be fully integrated within the firms' SoQM. It is used to hold the firms to account for effective delivery and remediation. We support the other higher impact firms in developing audit quality plans through providing challenge, constructive feedback and sharing good practice.

Approach to SoQM inspections

We inspect the firms' SoQMs as at their latest annual evaluation dates, as set out in each firm's appendix. In the interests of proportionality, we adopt a rotational approach to inspections, illustrated below. We also incorporate proportionality into our approach by setting expectations for the complexity and formality of responses to risks in line with the firm's size and circumstances, benchmarking between firms of a similar nature and scaling sample sizes. The focus areas for 2025/26 were as follows.

Component or specified responses	Focus area of our inspection for the largest six firms	Focus area of our inspection for the other higher impact firms
Firm's evaluation of the SoQM	The basis for the firm's conclusion and the supporting evidence.	
Firm's risk assessment	Changes to quality risks and the risk assessment process.	
Governance and leadership	Leadership accountability and culture	Not in scope for 2025/26 inspection.
Relevant ethical requirements	• Prohibited financial investments, fee ratios, non-audit services. • Targeted prior-year action plan follow-up.	Targeted prior-year action plan follow-up.
Acceptance and continuance	Not in scope for 2025/26 inspection. Significant work on this area has previously been carried out.	Judgements over information obtained about nature and circumstances of engagements.

Component or specified responses	Focus area of our inspection for the largest six firms	Focus area of our inspection for the other higher impact firms
Engagement performance, including ISQM (UK) 2	Policies and procedures for allocating EQRs, and firm-level mechanisms for monitoring the effectiveness of EQRs.	
Resources	• Technological resources and intellectual resources: Processes & controls for identifying gaps, monitoring appropriate use, training and support for resources. • Human resources not in scope for 2025/26.	• Technological resources and intellectual resources were not in scope for 2025/26. • Assignment of engagement team members to engagements, including engagement partner.
Information and communication	Not in scope for 2025/26 inspection (except in relation to Transparency Reports where relevant)	
Monitoring and remediation	Monitoring activities covering audits inspected by the firm, assessment of SoQM responses, consideration of other information sources and follow-up of prior-year action plans.	

Inspections of individual audits

By the FRC

The audits of PIEs, and certain other entities, inspected by the FRC in the 2025/26 cycle had year-ends ranging from June 2024 to May 2025 (one audit had a December 2023 year-end).

In selecting individual audits to inspect, we take account of a range of factors, including periodic coverage of FTSE 350 constituents and the assessed level of risk in relation to individual audited entities. Our inspections of individual audits focus on the quality of the audit work performed in the areas selected for review, the appropriateness of key audit judgements made, and the sufficiency and appropriateness of the audit evidence obtained. Each year, we have focus areas which influence the areas we select to inspect on individual audits. In 2025/26 these were: risks related to the economic environment (for example, going concern, impairment, recoverability and recognition of tax assets/liabilities), group audits (including the implementation of International Standard on Auditing (UK) 600 Revised) and the audit of inventory.

Changes to the proportion of audits falling within each grading category reflect a wide range of factors, including the size, complexity and risk of the audits selected for inspection and the individual inspection scope. 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. Given our risk-based approach, it is important that care is taken when extrapolating our findings or assessment of quality to the whole population of audits performed by the firm. Information on how the FRC assesses audit quality and classifies findings between key findings and other findings, on individual inspections is available here.

By the RSBs (including ICAEW)

The ICAEW undertakes independent monitoring of the non-PIE audits for the six largest firms and four of the other higher impact firms, under delegation from the FRC as the Competent Authority. ICAEW's work includes private companies, smaller AIM listed companies, charities and pension schemes. This is currently every year for the four largest firms and every other year for the other two firms (BDO LLP and Forvis Mazars LLP). This year, BDO LLP did not have an ICAEW inspection, so there are no results shown in the firm's appendix. ICAEW assesses audit quality as 'good', 'generally acceptable', 'improvement required', or 'significant improvement required.'

File selection is weighted towards higher risk and more complex audits. Given the sample size, changes from one year to the next cannot be relied upon to provide a complete picture of a firm's performance or overall change in audit quality. Also, due to differences in the nature, timing and extent of the inspections performed and the nature of the audits, the results of the ICAEW inspections are not directly comparable to those of the FRC. ICAS performs similar independent monitoring with similar oversight, categorisation and file selection processes for the remaining two other higher impact firms.

By the firms

The results in each appendix (section 4) of the six largest firms are prepared by the relevant firm relating to its inspection of individual audits. We have not verified the accuracy or appropriateness of these results. The appendices should be read together with the firm's latest transparency report (links provided in each appendix), which provide further details. Due to differences in how inspections are performed and rated, the results of the firm's own inspections are not directly comparable to those of other firms or the FRC or ICAEW inspections.

Appendix B: Firm-specific appendices, individually for the largest six audit firms and combined for the other higher impact audit firms

Appendix to ARAQ:

BDO LLP

Appendix B – BDO LLP

1. Overview

This appendix provides our independent assessment of audit quality at BDO LLP (BDO, or 'the firm'). The FRC findings and good practice come from our supervision and inspection of the firm's SoQM, and inspections of individual audits. The firm has evaluated its SoQM and made an overall judgment on whether the system provides reasonable assurance that the firm's quality objectives are being achieved (See Section 4). We do not seek to reach an independent opinion, or form a judgement, on whether the firm's conclusion is accurate. However, we do highlight to the firm where aspects of their evaluation were not fully supported by evidence we have obtained.

The firm's SoQM and audit inspections continue to highlight severe deficiencies and recurring findings. The firm has invested in a programme of strategic initiatives which we recognised last year as a multi-year approach, and it continues to execute against this plan. While the firm recognises that action taken has not yet delivered the intended outcomes, it is continuing to respond through a series of targeted initiatives aimed at delivering significant change. We recognise the firm's commitment to delivering sustainable improvements in audit quality and the firm must ensure decisive actions and initiatives are implemented swiftly and effectively.

SoQM inspections and supervisory activity (Section 2)

The firm has a clear commitment to its SoQM and recognises the positive impact that an effective system has on the delivery of consistent audit quality. The firm has made improvements to its SoQM, including risk assessment, the design and implementation of responses and monitoring procedures. Given recurring findings, the firm must better evidence the basis for its assessment of the completeness and pervasiveness of deficiencies.

While the firm continues to execute against its multi-year plan, to date, we have not seen the required improvements in FRC's individual audit inspection results. The firm is redesigning its RCA process to strengthen the robustness and timeliness of remediation. The firm's Single Quality Plan, integrated into its SoQM, has prioritised actions in the most critical areas and this is subject to challenge and oversight by the Audit Quality Executive and Audit Board.

Inspections of individual audits (Section 3)[15]

The proportion of audits inspected by the FRC requiring no more than limited improvements remains at 50% (2024/25: 50%) with one audit requiring significant improvement (2024/25: four audits). While we note improvements in some aspects, overall audit quality has not improved to the level expected and the level of recurring findings remains unacceptable. The firm must address the behavioural root causes underlying audit inspection findings. Through its SoQM, the firm should

[15] In accordance with its planned rotational inspection programme, the ICAEW did not inspect a sample of the firm's non-PIE audits this year.

Appendix B – BDO LLP

embed a mindset of challenge and scepticism that is applied consistently across audit engagements. Such actions support meaningful and sustained improvements in audit quality.

Our supervisory focus going forward

Our supervisory focus reflects this year's findings, identified audit quality risks, our statutory duties and wider professional developments. Our approach is proportionate to each firm's size, nature and audit portfolio, and will include the following activities:

- Broader engagement in relation to the firm’s strategic initiatives and quality actions to hold the firm to account to deliver change and significant improvements to audit quality.
- Conducting SoQM inspection work focusing on the ongoing development and operation of the firm’s SoQM, and how the SoQM supports consistent audit execution in practice. This will be done in line with our revised approach to audit supervision.
- Performing an increased number of graded individual audit inspections compared to our baseline assessment for this firm, to address the identified and on-going quality risk.
- Performing four non-graded follow-up individual audit inspections to assess the actions taken by the firm to address identified issues on those audits.
- Undertaking two thematic reviews – one targeting the evolution and progress of the firm’s initiatives on behaviours (particularly mindset, challenge, scepticism and accountability), and one focusing on remediation, including a critical evaluation of the actions taken to respond to issues arising and recurring findings (as outlined in Section 3).

Appendix B – BDO LLP

2. SoQM inspections and supervisory activity

We set out below the most significant findings arising from our supervision and inspection of the firm's SoQM and its compliance with the requirements of ISQM (UK) 1.

Findings

Firm's evaluation of its SoQM

Evaluation of deficiencies

The firm did not sufficiently justify how the results of its internal inspections of audit files, together with its evidence on the implementation and impact of audit quality initiatives, supported that deficiencies identified were not pervasive.

Assessment of findings

The firm did not sufficiently justify that its findings in respect of culture and resource management did not give rise to deficiencies. In particular, it did not demonstrate how this assessment considered the progress of remedial actions.

Relevant ethical requirements

Global conflict check system

Consistent with the prior year, the firm recognised a deficiency relating to its global process for identifying and assessing conflicts of interest and independence risks. The firm could not obtain sufficient assurance that member firms consistently undertake the required conflict and pre-approval procedures when providing non-audit services to UK audited entities. The introduction of a new approval system is planned for the end of 2026, and following this, the global firm will begin the roll-out of a compliance monitoring process. Until this is fully operational, there remains a heightened risk of breaches of the FRC Ethical Standard.

Engagement Performance

Exercising professional scepticism

Monitoring activities continue to identify recurring inspection findings regarding the lack of appropriate application of professional scepticism, across both FRC and firm reviews. Root cause analysis highlighted persistent matters related to cultural mindset. While leadership has taken actions to promote a quality focused culture, these actions must be embedded and applied consistently across audit engagements. The effectiveness of these actions should be evaluated by the firm to drive quality improvements.

Appendix B – BDO LLP

Monitoring and remediation

For the last five years, the firm has received unsatisfactory results from regulatory inspections, with recurring findings arising (see Section 3). These are not isolated to external inspections but have also been identified by the firm. Delays have arisen in undertaking RCA, meaning that root causes may not be identified until after the subsequent audit, hindering the effectiveness of the remediation processes.

Alongside the multi-year transformation programme, the firm has invested in short-term quality management processes during the execution phase of an audit. The effectiveness of these changes is not being seen consistently. This cycle we reviewed eleven audits where specific changes had been made to improve quality as part of a targeted plan. However, in four of these audits, these measures did not address the issues and the audits were assessed by us as requiring improvement. The firm must ensure that its remediation is effective and delivers the necessary improvements to audit quality at pace.

Good practice

We identified examples of good practice related to the following:

Monitoring and remediation

Holistic evaluation of each SoQM objective

The firm adopted a logical and structured approach to identifying and assessing findings for each objective, by preparing a paper consolidating the results of all relevant monitoring activities, including culture monitoring.

Monitoring of remediation of prior deficiencies

The firm evidenced its analysis of progress towards remediating prior year SoQM deficiencies, and clearly evidenced the effectiveness monitoring undertaken to support its conclusions on whether deficiencies were remediated, continuing, or aggregated into a new deficiency.

Other monitoring procedures

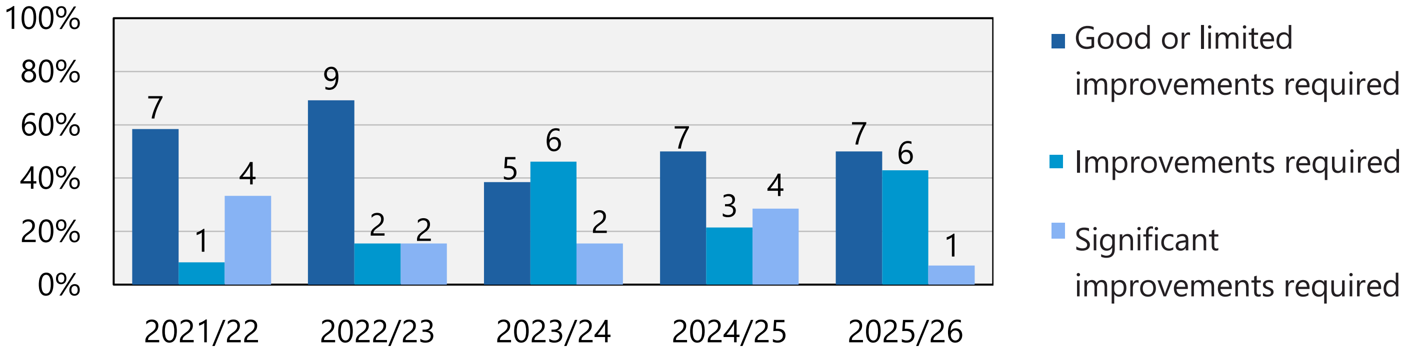
The firm has a comprehensive and well-structured template for internal firm inspections of completed audit files, which provides clear guidance on what to consider in each scoped-in area and prompts reviewers to evidence how they reached conclusions for each area reviewed.

Appendix B – BDO LLP

3. Inspections of individual audits

FRC assessment of the quality of audits inspected

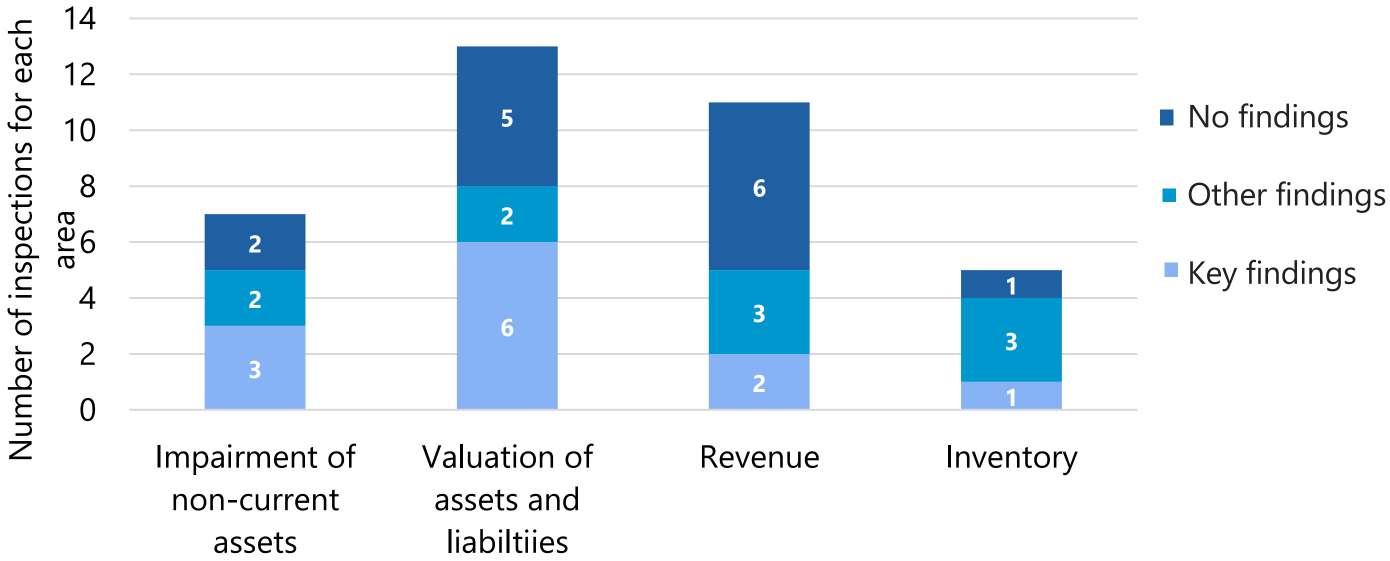
We inspected 14 individual audits this year and assessed seven (50%) as requiring no more than limited improvements. This is the same as in the previous year.



FRC findings and good practice

Analysis of areas with findings

We set out below the most significant areas with findings and the number of inspections they arose on. These reflect key findings, and other findings that occurred more frequently, on the audits inspected. Details of the distinction between key and other findings can be found here.



Appendix B – BDO LLP

Findings

Impairment of non-current assets, including parent company investments and goodwill

- **Challenge of management**: On three audits, there was an inadequate assessment and challenge of key assumptions in impairment models, including short-term cash flow forecasts, discount rates and other material adjustments to recoverable values.
- **Accounting treatment – recognition**: On two audits, insufficient scepticism was applied when assessing whether impairment charges and reversals were recognised in the appropriate period.
- **Impairment indicator assessment**: When assessing for potential impairment indicators, two audit teams did not sufficiently evidence challenge of aspects of management's assessment.
- **Recoverability of parent company investments**: An audit team performed inadequate procedures to conclude on the valuation of parent company investments, resulting in an unidentified material misstatement in the carrying value.

Valuation and recognition of assets and liabilities – Scepticism and challenge

- **Challenge of key assumptions**: On six audits there was inadequate evidence of the challenge and evaluation of the reasonableness of key assumptions used in the valuation of assets and liabilities. This included the valuation of property assets, level 3 investments, provisions, contingent consideration and intangible assets arising from an acquisition.
- **Use of experts**: On five of the above six audits, there was insufficient evidence to support the involvement of the auditor's expert in this area. In some cases, there was also insufficient challenge and evaluation by the audit team of the conclusions of the auditor's expert. On another audit, there was a lack of challenge of management expert's judgement over recognition of a receivable. The audit team failed to consult internally or involve an auditor's expert when assessing the judgement reached.
- **Pension assets and liabilities**: An audit team did not perform sufficient procedures to conclude on the valuation of pension assets, specifically the reliability and accuracy of confirmations received from the fund managers. On another audit, there was insufficient challenge on a judgement related to the valuation of pension liabilities.

Revenue

- **Timing of recognition**: Insufficient procedures were performed to support the timing of revenue recognition on two audits. One audit team did not identify an appropriate revenue population for cut-off testing and another performed insufficient testing of key data inputs.
- **Contract accounting**: An audit team did not adequately evidence its assessment of the contract terms for a sample of revenue items, nor did it perform sufficient procedures or obtain sufficient evidence over forecast income and costs.

Appendix B – BDO LLP

- **Internal Controls**: Insufficient procedures were performed to demonstrate the design and operating effectiveness of the controls tested, including how these were effective in responding to the risks identified.

Inventory

- **Accounting treatment**: In relation to an employee leasing arrangement, an audit team did not demonstrate sufficient scepticism and did not perform adequate procedures to support both the accounting treatment and manual adjustments to inventory related to the scheme.
- **Inventory existence**: On the same audit, insufficient procedures were performed over the existence of consignment inventory. On another audit, the group audit team did not sufficiently challenge the adequacy of the component audit team's approach to inventory counting.
- **Inventory provisioning**: On two further audits, insufficient procedures were performed over inventory provisioning. There was insufficient assessment of aged or slow-moving items, a lack of testing of data in the calculation of the provision and inadequate challenge of management's provisioning policies.

Quality management procedures

On three audits, there was insufficient review and challenge by the responsible individual or engagement quality review over key areas of the audit.

Good practice examples

- **Risk assessment and planning**: On two audits, we identified strong collaboration and clarity in strategy between the group, component auditors and auditor's experts. On one of these audits a granular and precise risk assessment of revenue streams was observed. This demonstrated a detailed understanding of the audited entity's operations.

- **Audit strategy – independent expectations**: On one audit, the team independently developed expected ranges for a key assumption, which provided a strong basis for challenging the reasonableness of management's valuation inputs.

- **Response to IT control deficiencies**: An audit team's response to control deficiencies was robust, with a comprehensive revised risk assessment informing enhanced substantive testing of system-generated data.

- **Data inputs**: An audit team performed an extensive review of the data inputs used in an expected credit loss model, evidencing a clear assessment of those inputs it considered to be key and agreeing the inputs back to the original service organisation documents.

Appendix to ARAQ – BDO LLP

4. Firm's own assessments

Firm's annual evaluation of its SoQM

The firm's annual evaluation of its SoQM, under ISQM (UK) 1, as at 30 June 2025 and reported in its Transparency Report, is set out below. This is the firm's conclusion.

Overall Evaluation: Source: BDO LLP Transparency Report 2025 (page 90)

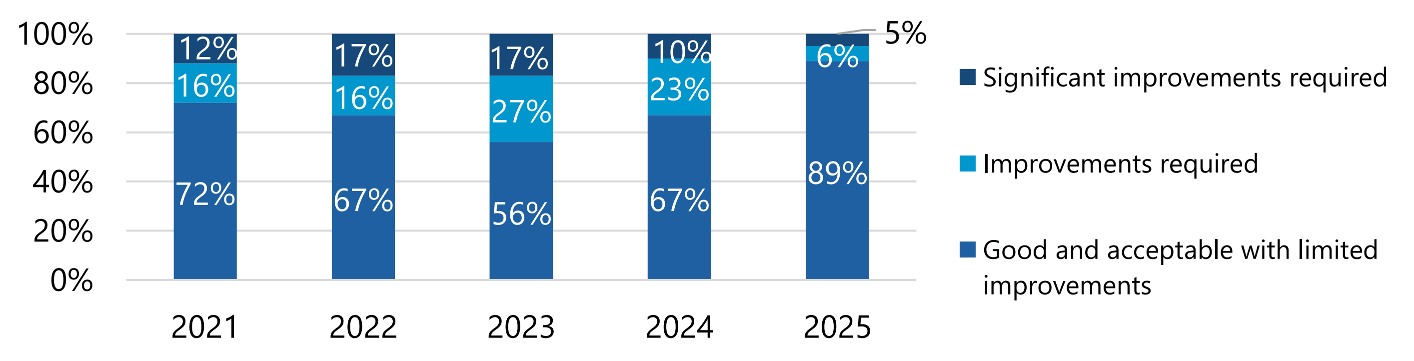
"The Leadership Team (LT), which has ultimate responsibility and accountability for the SoQM under ISQM (UK) 1, has carried out a review of the evaluation conclusion of the SoQM as at 30 June 2025. The LT concluded – in line with paragraph 54(b) of ISQM (UK) 1 – that, except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the SoQM, the SoQM provides the firm with reasonable assurance that the objectives of the SoQM are being achieved."

Severe but not pervasive deficiencies: (summarised from page 91 of the transparency report)

These deficiencies relate to challenges in consistent practical application of the firm's methodologies, measuring the effectiveness of key processes within the SoQM, quality control processes and the global conflicts checking process.

Firm's assessment of the quality of audits inspected

The results of the firm's Practice Review (PR) for 2025 and four previous years are set out below[16]. The 2025 PR comprised inspections of 119 individual audits (2024: 82), of which 55 were for periods ending before December 2024 (introduction of the enhanced central in-flight review) and 64 for periods ending between December 2024 and July 2025.



Grade driving findings group into themes including: risk assessment; the audit of information produced by the entity; challenge of management, and the sufficiency of evidence obtained and/or conclusions reached. The firm's Transparency Report for 2025 provides further detail of the firm's approach, results, root cause analysis, remediation, and wider SoQM.

[16] The grading categories used by the firm are: *Good and Acceptable with limited improvements* – key findings which are limited in significance and number (if any); *Improvements required* - weaknesses in audit evidence, documentation and / or significant judgements that are unlikely to have material impact, and *Significant improvements required* – audits that do not provide reasonable assurance that there are no undetected material misstatements, or there are significant concerns over the appropriateness of a significant judgement(s), which are likely to be material.

Appendix to ARAQ – BDO LLP

5. Firm's response and actions

Delivering sustainable, consistent, high-quality audits remains the core objective of our audit practice and informs our strategy, investment and performance management. We continue to execute our multi-year transformation programme focused on further strengthening audit quality. Key actions underway include a programme of standardisation enabled by the latest technology to increase consistency in execution, support precise application of methodology and enhance how our audits are evidenced. Due to the year-ends of files selected for review the full benefit will be seen in later inspection cycles. In the shorter term, a key action is providing central support on in-flight audits through enhanced real-time reviews and targeted interventions.

None of the audits reviewed by the FRC that were subject to our enhanced real-time reviews required significant improvement, and our internal inspection results indicate a strengthening quality profile. This provides early evidence that the multi-year programme of actions is having an effect. While these early indicators are encouraging, we recognise that sustained improvement requires continual development and embedding of actions within our transformation programme.

Root causes of FRC findings and key actions to drive sustainable high-quality audits

Through our SQP, we continue to prioritise, embed and refine our actions in response to RCA and effectiveness assessments. Areas of focus include:

- Effectiveness of coaching and review processes: Delivering structured coaching development programmes to enhance curiosity and critical thinking, and support continuous learning - equipping our teams for the AI-enabled audit of today and tomorrow.
- Challenge and professional scepticism: strengthening consistent application of effective scepticism and challenge, particularly supporting identification and evaluation of alternative outcomes and clear evidencing of the basis for key audit judgements.
- Digital and data-enabled auditing: expanding the use of advanced analytics and emerging AI capabilities to support data-led, more risk-focused auditing.
- Sector specialism: focussing on sectors where we have established strength and expertise.
- Redesigning our RCA approach: strengthening the linkage between identified causes and remedial actions, enabling more timely practice-wide learning where common themes emerge.

These actions are underpinned by our SoQM, which we continue to strengthen, including by enhancing analysis of the severity of deficiencies in our annual evaluation.

While further progress is required, the direction of travel is positive and reflects the sustained effort of our Partners and audit teams, whose continued focus and discipline we recognise and value. Delivery of partner-led, sustainable, high-quality audits remains the central priority for our business. As a firm, we remain committed to serving the public interest and the growth agenda for 'UK plc'; this includes a sustained focus on auditing its entrepreneurial, growing and ambitious businesses which are our core markets.

Appendix to ARAQ:

Deloitte LLP

Appendix B – Deloitte LLP

1. Overview

This appendix provides our independent assessment of audit quality at Deloitte LLP (Deloitte, or 'the firm'). The FRC findings and good practice come from our supervision and inspection of the firm's SoQM, and inspections of individual audits. The firm has evaluated its SoQM and made an overall judgment on whether the system provides reasonable assurance that the firm's quality objectives are being achieved (See Section 4). We do not seek to reach an independent opinion, or form a judgement, on whether the firm's conclusion is accurate. However, we do highlight to the firm where aspects of their evaluation were not fully supported by evidence we have obtained.

Overall, the firm has a mature and well established SoQM and current inspection results show a sustained level of high quality, with outcomes remaining strong year-on-year. We expect the firm to continue to take action to improve consistency in audit procedures over impairment estimates and to further strengthen its processes for non-audit service approvals.

The firm is establishing a new UK Board and implementing changes to its governance and leadership arrangements, supported by transition measures intended to maintain robust continuity of oversight and accountability. Based on our supervision and inspection work to date, these arrangements currently support effective oversight with a continued focus on audit quality.

SoQM inspections and supervisory activity (Section 2)

The firm's SoQM has an effective risk assessment process, with overall sound monitoring and remediation processes. Governance and leadership arrangements support accountability for the SoQM and evaluation process. Elements of the SoQM require further strengthening by ensuring that UK approvals for non-audit services provided by network firms have been obtained.

The firm's central quality infrastructure is mature, with clear oversight, co-ordination and a structured organisation-wide approach to quality improvement, including initiatives such as the Continuous Improvement Group and the Actions Development Group.

The Head of Audit Quality and Risk, who is part of the Audit and Assurance (A&A) Executive has overarching responsibility for monitoring audit quality initiatives using the SQP which is integrated into its SoQM. The firm has continued to enhance its processes to ensure that emerging issues affecting audit quality are identified.

Inspections of individual audits (Section 3)

The proportion of audits inspected by the FRC requiring no more than limited improvements was 90% (2024/25: 95%), with no audits requiring significant improvement. Further improvements to support consistent audit quality are required in relation to the impairment of non-current assets. ICAEW inspection outcomes (90% good or generally acceptable) were consistent year-on-year.

Appendix B – Deloitte LLP

Our supervisory focus going forward

Our supervisory focus reflects this year's findings, identified audit quality risks, our statutory duties and wider professional developments. Our approach is proportionate to each firm's size, nature and audit portfolio, and will include the following activities:

- Engaging with the firm on its priority areas and actions to address the matters identified in this report, as set out in its response (in Section 5). This will include targeted engagement in relation to network firm non-audit services.

- Conducting SoQM inspection work focusing on the ongoing development and operation of the firm's SoQM, including implementation of the revised governance model, and how the SoQM supports consistent audit execution in practice. This will be done in line with our revised approach to audit supervision.

- Performing 17 graded individual audit inspections selected to reflect the size and nature of the firm's portfolio.

- Performing one non-graded follow-up inspection to assess the actions taken to respond to identified issues on that audit.

Appendix B – Deloitte LLP

2. SoQM inspections and supervisory activity

We set out below the most significant findings arising from our supervision and inspection of the firm's SoQM and its compliance with the requirements of ISQM (UK) 1.

Findings

Relevant ethical requirements

Network firms seeking all relevant UK approvals

The firm recognised a risk that network firms may not obtain all relevant UK approvals. While the firm mapped existing responses to the risk, it had not performed design and implementation assessments or determined whether these controls were operating effectively. The firm also introduced mandatory engagement level audit procedures to further address the completeness risk. These require additional embedding and monitoring to ensure operational effectiveness.

Good practice

We identified examples of good practice related to the following:

Monitoring and remediation

Roll forward process

The firm has a structured roll forward approach to update an initial evaluation, used for network reporting, to their transparency reporting date several months later. This supports the identification of new matters relevant as at the annual evaluation date. The roll forward approach includes structured update meetings with business process owners.

Triannual reporting of first-line monitoring

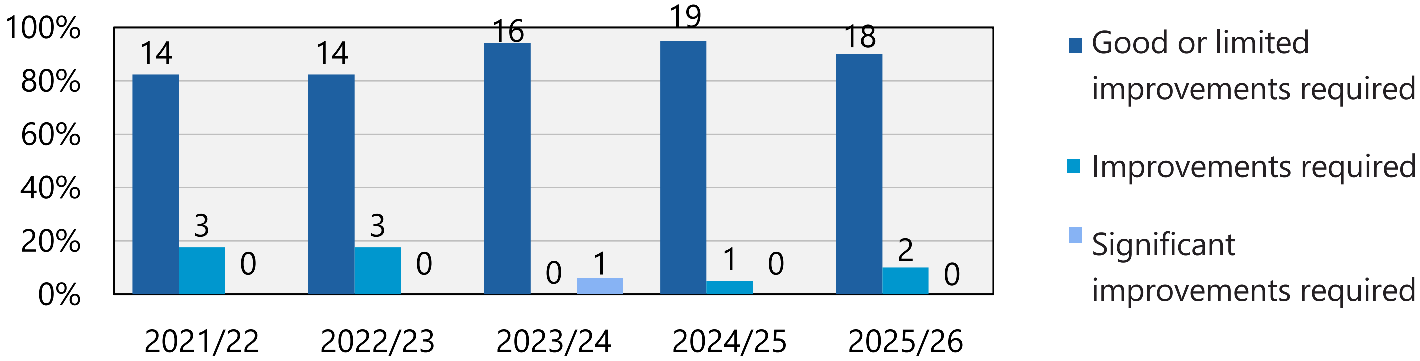
The firm has a structured triannual process that requires business process owners to complete a detailed self-assessment of their resources, processes and the results of their ongoing monitoring activities. All matters flagged by this are analysed by the central SoQM team and reported to leadership, to support timely identification of potential deficiencies.

Appendix B – Deloitte LLP

3. Inspections of individual audits

FRC assessment of the quality of audits inspected

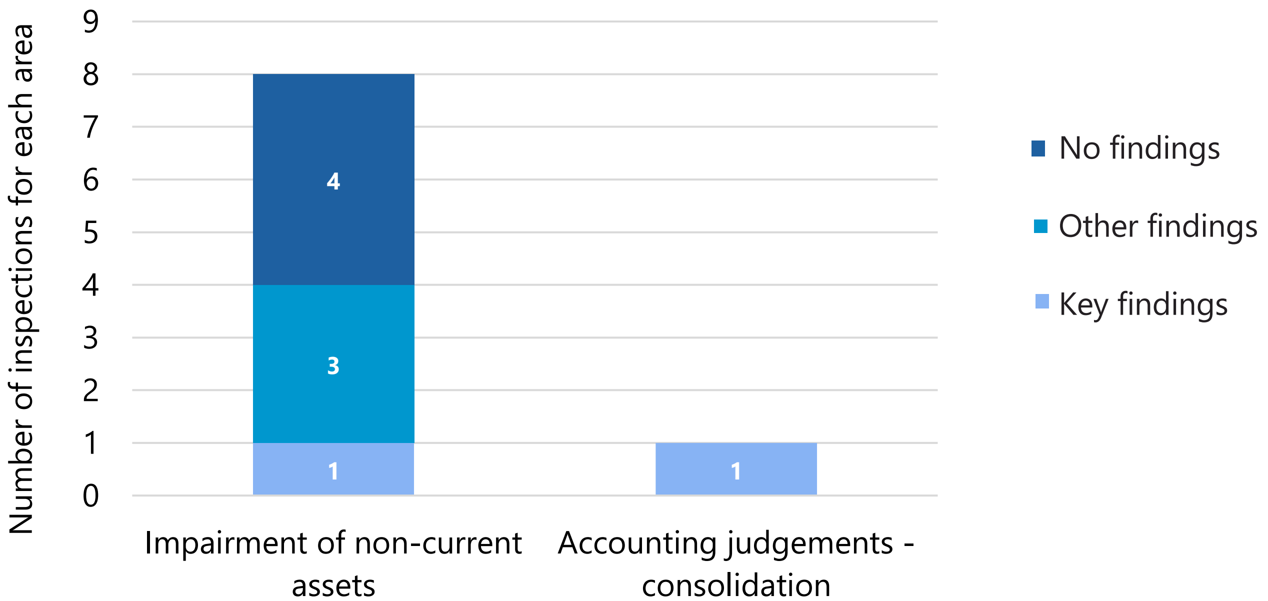
We inspected 20 individual audits this year and assessed 18 (90%) as requiring no more than limited improvements.



FRC findings and good practice

Analysis of areas with findings

We set out below the most significant areas with findings and the number of inspections they arose on. These reflect key findings, and other findings that occurred more frequently, on the audits inspected. Details of the distinction between key and other findings can be found here.



Appendix B – Deloitte LLP

Findings

Impairment of non-current assets

- **Corroboration and challenge of forecast assumptions**: We identified findings on three audits, including one key finding, where insufficient procedures were performed to corroborate or challenge certain assumptions in the cash flow forecasts supporting management's impairment assessments for non-current assets.
- **Assessment of contradictory information**: On the audit with a key finding, the audit team also did not sufficiently justify its conclusion in relation to the impact of potential contradictory information on the impairment assessment arising from alternative valuation approaches.
- **Allocation to cash generating units**: On one other audit, insufficient procedures were performed to test the accuracy of the allocation of revenue to individual cash generating units.

Other key findings leading to improvements required

- **Accounting judgements**: On one audit, we identified a key finding where the audit team did not perform adequate procedures to evaluate and challenge a critical accounting judgement relating to the consolidation of certain subsidiaries.

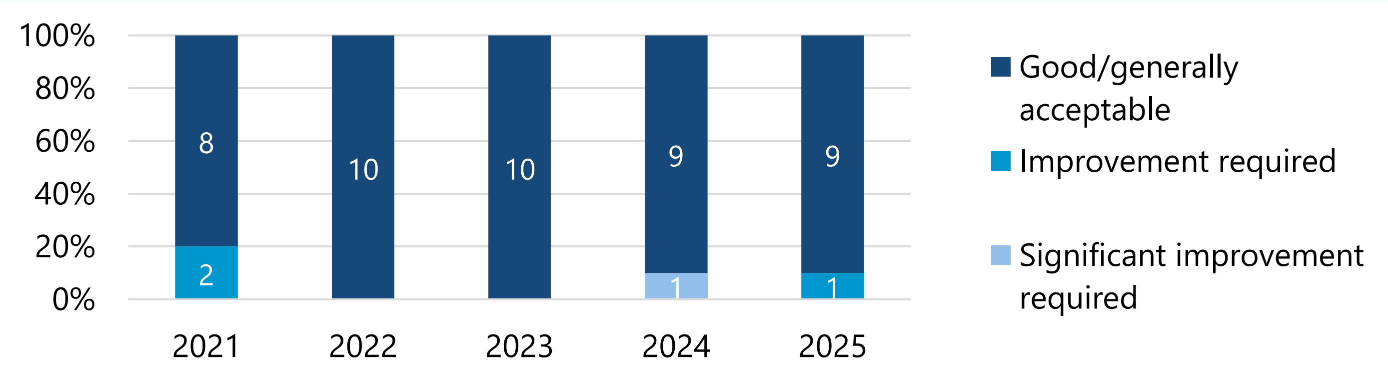
Good practice examples

- **Risk assessment and business understanding:** We identified several high-quality risk assessments on the audits we inspected this year. These included examples relating to revenue contracts, fraud risk assessments, expected credit losses as well as other areas. The assessments were supported by a strong business understanding which assisted the audit teams in designing and executing robust audit procedures to respond to the risks identified.
- **Effective corroboration and challenge:** We observed examples of effective corroboration and challenge of management in the audit of provisions and other estimates on four audits.
- **Effective use of data:** One audit team used data analytics to independently assess the mechanical accuracy of management's impairment calculation for certain operating lease arrangements. Another audit team made effective use of the entity's project data to prepare its own analyses and challenge management's assessments.
- **Other areas:** We also identified examples of good practice relating to addressing General IT Control deficiencies, first year audit procedures, group audit oversight and audit committee reporting.

ICAEW assessment of the quality of audits inspected

The results of the ICAEW's inspections of the firm's non-PIE audits are set out below.

Appendix to ARAQ – Deloitte LLP



In the audit where improvement was required, insufficient procedures were performed to test the completeness and accuracy of system generated reports used in substantive analytical procedures and insufficient evidence was obtained to test income and cost of sales.

A detailed report summarising the audit file review findings and any follow-up action proposed by the firm was considered by ICAEW's Audit Registration Committee on 15 July 2026.

Appendix to ARAQ – Deloitte LLP

4. Firm's own assessments

Firm's annual evaluation of its SoQM

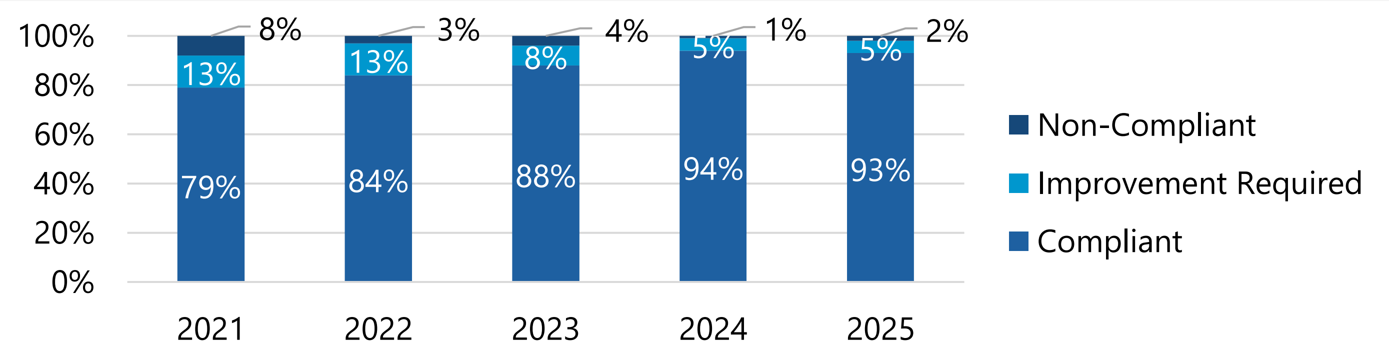
The firm's annual evaluation of its SoQM, under ISQM (UK) 1, as at 31 May 2025 and reported in its Transparency Report, is set out below. This is the firm's conclusion.

Overall Evaluation: Audit Transparency Report | Annual Review 2025 | Deloitte UK (page 81)

"This year's evaluation of the SQM took place as at 31 May 2025, and concluded with two deficiencies identified (neither severe nor pervasive) which did not have an impact on the evaluation of the SQM, confirming it provides reasonable assurance that the objectives of International Standard on Quality Management (UK) 1 (ISQM (UK) 1) are being met."

Firm's assessment of the quality of audits inspected

The results of the firm's Practice Review for 2025 and four previous years are set out below[17]. The 2025 Practice Reviews comprised inspections of 113 individual archived audits (2024: 128), with audit reports signed between 1 June 2023 and 30 September 2024.



Key areas with findings in 2025, which contributed to non-compliant or improvement required ratings included granularity of risk assessments performed, clarity in work performed in relation to management override of controls and appropriate challenge over key accounting estimates.

The firm's Transparency Report for 2025 provides further detail of its approach, results, root cause analysis, remediation, and wider SoQM.

[17] The grading categories used by the firm are: *Compliant* - There are no or a limited number of engagement level findings relating to instances of non-compliance with applicable firm policies, professional standards, and/or requirements set out in the firm's audit approach manual; *Improvement required* - There are a number of engagement level findings relating to instances of non-compliance with applicable firm policies, professional standards, and/or requirements set out in the firm's audit approach manual; *Non-compliant* - There are one or more high/significant engagement level findings, or an extensive number of engagement level findings relating to instances of non-compliance with applicable firm policies, professional standards, and/or requirements set out in the firms audit approach manual. The firm's internal reporting date has been moved to 15 June 2025 to align with its overall self-assessment cycle. Comparative data for previous years has been restated accordingly.

5. Firm's response and actions

We are proud of the continuing strength of our inspection results. Our consistently strong inspection results over the last five years reflect the effectiveness of our ongoing audit quality investments and commitment to delivering high-quality audits in the public interest. This is underpinned by our robust control environment, the strength of our firm's culture and the support provided to our teams. Our SoQM is a cornerstone of our audit and assurance (A&A) practice and is mature and stable, as recognised by the FRC. We remain focused on investing in the changes required to continually improve and enhance the effectiveness of our SoQM. Our SQP sets out our priorities critical to A&A quality with clear linkage to our SoQM. During the course of the year we have updated our SQP to reflect those emerging matter that may require prioritisation.

Key priorities relating to audit quality

Following the launch of the Deloitte EMEA, Deloitte UK established a new Board on 1 June 2026, with newly defined governance arrangements and responsibilities. It will work closely with our UK Exec to ensure the continued robust governance of the UK firm, including our A&A business.

We continue to invest significantly in technology to enhance the quality of our work. AI is transforming how we work and we are committed to both adapting to the opportunities and managing the risks of the evolving landscape in delivering valuable, high-quality outcomes.

Summary of root cause analysis (RCA) of FRC findings and key actions taken / to be taken

We value the observations raised and have performed RCA for all findings identified, alongside the numerous areas of good practice. Key behaviours driving high audit quality include strong partner and director leadership, early and sustained involvement of specialists/ independent reviewers, strong project management and effective challenge of management.

In connection with the AQR inspection findings, we identified a root cause where knowledge obtained through the audit, or from previous audits, was not explicitly evidenced on the audit file to support the stand back performed and conclusions reached. This was identified in instances where senior team members were heavily involved in the detail of the work performed which made an effective stand back assessment to ensure adequate audit evidence was obtained more challenging. *Impairment of non-current assets* – we are making enhancements to our existing guidance, templates and impairment consultation scope to promote further consistency in our work.

Network firm seeking all relevant UK approvals - our focus continues to be on embedding manual detective controls at the UK level alongside global monitoring of controls that operate across our network member firms. We continue to monitor the output of these controls and will further enhance these where appropriate.

Appendix to ARAQ:

Ernst & Young LLP

Appendix B – Ernst & Young LLP

1. Overview

This appendix provides our independent assessment of audit quality at Ernst & Young LLP (EY or 'the firm'). The FRC findings and good practice come from our supervision and inspection of the firm's SoQM, and inspections of individual audits. The firm has evaluated its SoQM and made an overall judgment on whether the system provides reasonable assurance that the firm's quality objectives are being achieved (See Section 4). We do not seek to reach an independent opinion, or form a judgement, on whether the firm's conclusion is accurate. However, we do highlight to the firm where aspects of their evaluation were not fully supported by evidence we have obtained.

Overall, the firm has a mature and well established SoQM and the results of inspections of individual audits show an overall consistent year-on-year outcome with sustained high quality. We expect the firm to retain its focus on continuous improvement and to continue to embed and monitor the actions taken to prevent the recurrence of independence breaches related to auditor rotation.

SoQM inspections and supervisory activity (Section 2)

In the FY25 evaluation of its SoQM, the firm identified two severe and unremediated deficiencies in respect of breaches in rotation requirements and the handling of a whistleblowing report. The firm responded to these deficiencies by undertaking review procedures on the related audit to satisfy itself that audit quality had been maintained. It also responded through its SoQM by undertaking root cause analysis over the breaches, additional monitoring activities in respect of rotation on other audits, and planning and implementing remediating actions. The firm needs to continue to monitor the effective operation of these remediating actions and complete the broader initiatives it has underway to improve its Ethics & Independence function including changes to its operating model.

The identified deficiences and remediating actions have been taken seriously by the firm and it has engaged with the FRC constructively. In other areas of its SoQM, the firm has demonstrated robust risk assesment and monitoring processes over the design, implementation, and operation of responses. The firm has integrated a well developed SQP into its SoQM to implement and monitor actions to continuously improve audit quality, including those from its audit quality strategy which is refreshed annually.

Inspections of individual audits (Section 3)

The proportion of audits inspected by the FRC requiring no more than limited improvements was 90% (2024/25: 90%), with no audits requiring significant improvement. The findings related to the audit of revenue and impairment of non-current assets, where more consistency is needed. The ICAEW's inspections (100% good or generally acceptable) show consistent year-on-year results.

Appendix B – Ernst & Young LLP

Our supervisory focus going forward

Our supervisory focus reflects this year's findings, identified audit quality risks, our statutory duties and wider professional developments. Our approach is proportionate to each firm's size, nature and audit portfolio, and will include the following activities:

- Engaging with the firm on its priority areas, as highlighted in its response (in Section 5). This will include continued engagement on its actions to remediate the severe deficiencies it identified in respect of rotation breaches and whistleblowing processes, including the firm’s assessment of the effectiveness of these actions.

- Conducting SoQM inspection work focusing on the ongoing development and operation of the firm’s SoQM and how the SoQM supports consistent audit execution in practice. This will be done in line with our revised approach to audit supervision.

- Performing 16 graded individual audit inspections, selected to reflect the size and nature of the firm’s portfolio.

- Performing one non-graded follow-up inspection to assess the actions taken to respond to the identified issues on that audit.

Appendix B – Ernst & Young LLP

2. SoQM inspections and supervisory activity

We set out below the most significant findings arising from our supervision and inspection of the firm's SoQM and its compliance with the requirements of ISQM (UK) 1.

Findings

Information and Communication

Insufficient detail in the Transparency Report on reported deficiences

The firm identified two unremediated severe deficiencies in respect of auditor rotation and the whistleblowing process, related to Ethical Standard breaches. This was reported in the firm's Transparency Report. However, the firm's reporting did not provide sufficient detail for an informed and objective understanding of the matter, including how the deficiencies arose, or to reflect that following the firm's investigation, a process was still underway to determine the extent of individual responsibility for the matters identified.

Good practice

We identified examples of good practice related to the following:

Monitoring and remediation

Monitoring for themes in non-completion of mandatory workpapers

At the end of each completed inspection cycle, the firm collates a list of all instances where reviewers identified that audit teams had not completed mandatory work papers. The methodology team reviews this and looks for recurring themes. This supports identification of actions needed to improve the design, promotion and usage of these work papers.

Reliance on network monitoring

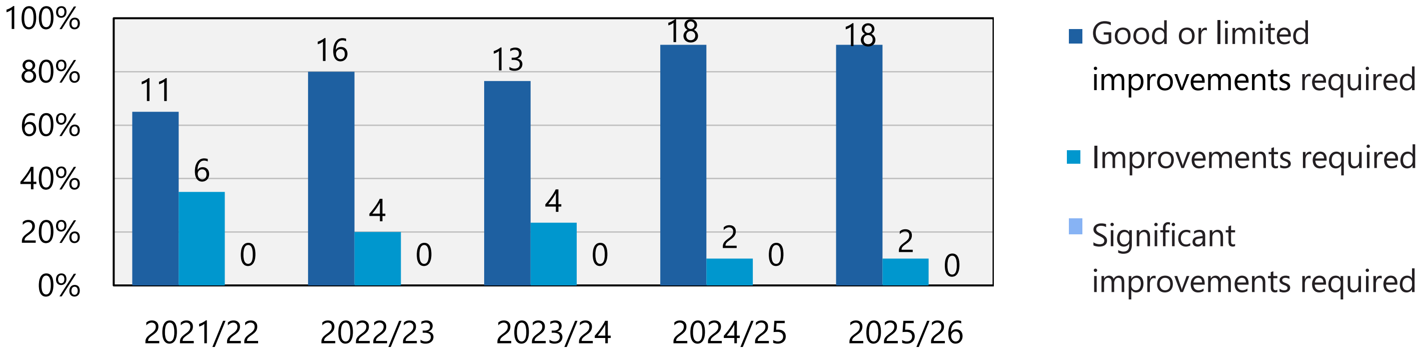
To support its reliance on the monitoring procedures undertaken by the network over network operated responses, the firm reviewed a sample of the network's monitoring procedures over these responses. This review was robustly evidenced.

Appendix B – Ernst & Young LLP

3. Inspections of individual audits

FRC assessment of the quality of audits inspected

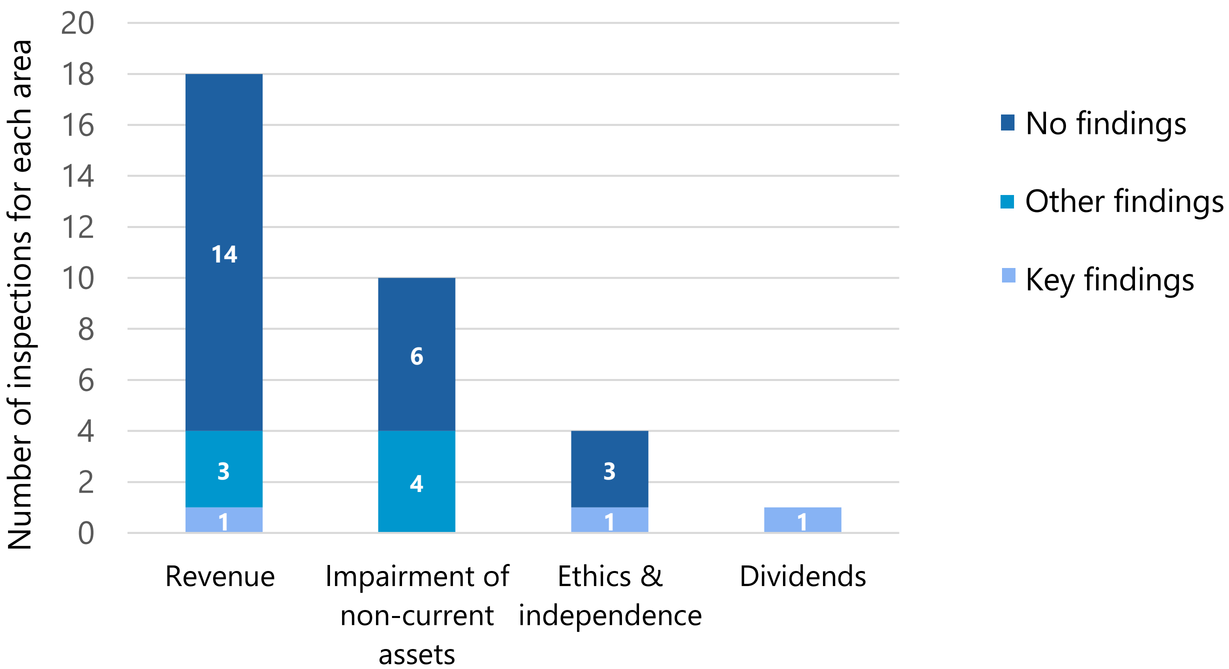
We inspected 20 individual audits this year and assessed 18 (90%) as requiring no more than limited improvements.



FRC findings and good practice

Analysis of areas with findings

We set out below the most significant areas with findings and the number of inspections they arose on. These reflect key findings, and other findings that occurred more frequently, on the audits inspected. Details of the distinction between key and other findings can be found here.



Appendix B – Ernst & Young LLP

Findings

Revenue

- **Data analytics**: There was a key finding on one audit relating to the approach taken to testing material variances between trade receivables and cash journals within the revenue data analytics procedures, performed over the total population of a material revenue stream. In particular, there was inadequate evidence of how a significant portion of the journals contributing to these variances were tested.
- **Other testing**: There were findings relating to inadequate procedures or insufficient evidence of the testing of revenue, related to the reliability of data and effective interest rates.

Impairment of non-current assets

- **Short-term growth and cost assumptions:** On one audit, there was insufficient assessment or challenge of the short-term revenue growth rates for a Cash Generating Unit (CGU). Another audit had insufficient evidence of challenge over the achievability of the fixed forecast costs.
- **CGU cash flows:** An audit team did not sufficiently evidence its procedures to challenge and evaluate the reasonableness of the cash flow projections at the CGU level. Another audit team did not sufficiently evidence how the change to the CGU grouping was appropriate.

Other key findings leading to improvements required

- **Ethics and independence**: On one audit the firm identified, in the year after the audit, that the audit engagement partner (AEP) should not have carried out the role of AEP for that audit, as the AEP had exceeded the maximum permitted involvement in the engagement (EQR and AEP roles) required by the FRC Ethical Standard, having been involved in a half year review.
- **Dividends:** On one audit, the audit team did not identify that interim accounts had not been prepared and filed at the time of approval of the dividend and that it was, therefore, unlawful.

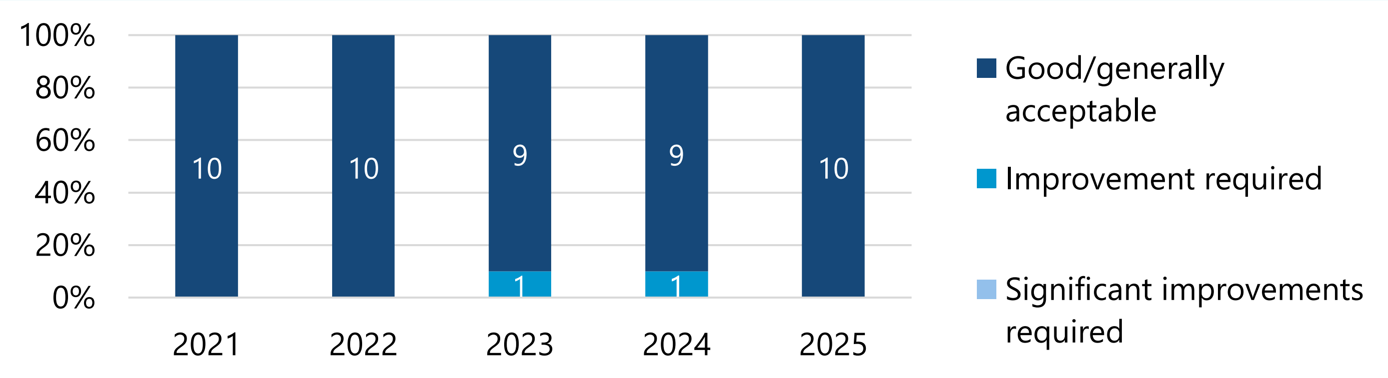
Good practice examples

- **Robust impairment assessments:** We identified this on two audits, where extensive use of specialists and subject matter experts were used to assist with the audit of complex impairment assessments and valuation models. This led to robust and effective challenge of key assumptions.
- **Effective group audit oversight:** This was seen on two group audits, including where senior members of the group audit team engaged in regular discussions with the component auditor’s valuation specialists and management’s specialists. They also robustly challenged the component management's judgements and the component audit team's procedures.
- **Challenge of management**: An audit team demonstrated professional scepticism by robustly challenging management on key assumptions when testing both accrued income and the appropriateness of the capitalisation of development costs. As a result, the audit team identified misstatements in these areas, which were reported to the Audit Committee.

Appendix B – Ernst & Young LLP

ICAEW assessment of the quality of audits inspected

The results of the ICAEW's inspections of the firm's non-PIE audits are set out below.



A detailed report summarising the audit file review findings and any follow-up action proposed by the firm was considered by ICAEW's Audit Registration Committee on 15 July 2026.

Appendix B – Ernst & Young LLP

4. Firm's own assessments

Firm's annual evaluation of its SoQM

The firm's annual evaluation of its SoQM, under ISQM (UK) 1, as at 30 June 2025 and reported in its Transparency Report, is set out below. This is the firm's conclusion.

Overall Evaluation: Source: EY UK 2025 Transparency Report (page 20)

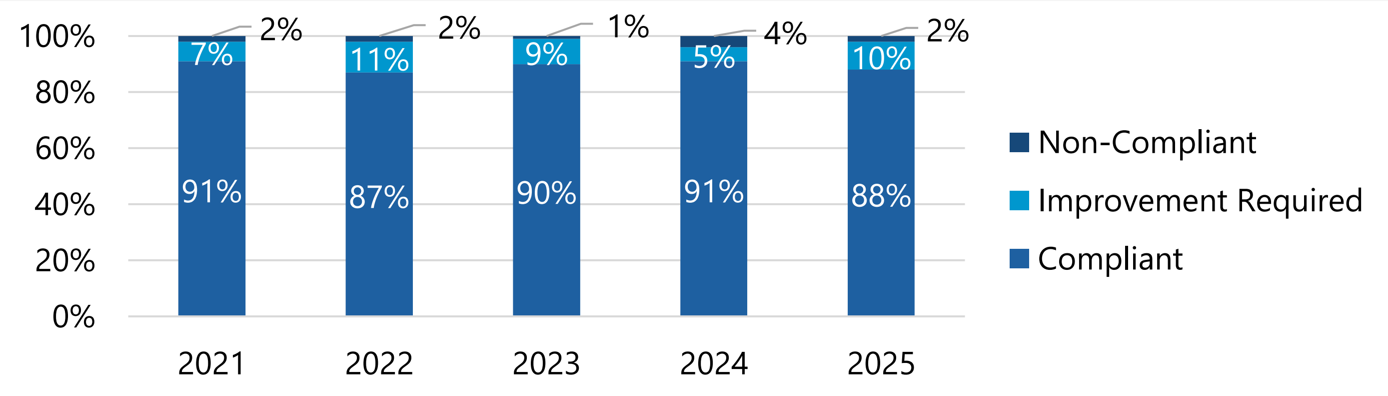
"The annual evaluation conclusion for EY UK as of 30 June 2025 is that the System of Quality Management provides reasonable assurance that the objectives of the System of Quality Management are being achieved, except for the following two matters related to identified deficiencies, not remediated at the time of this report, that had a severe but not pervasive effect on the design, implementation and operation of the System of Quality Management."

Severe but not pervasive deficiencies: (summarised from page 20 of the transparency report)

These deficiencies related to designations for rotation purposes and the treatment of an issue raised via the EY Ethics Hotline.

Firm's assessment of the quality of audits inspected

The results of the firm's Audit Quality Review (internal AQR) for 2025 and four previous years are set out below[18]. The 2025 internal AQR process comprised inspections of 121 individual corporate audits (2024: 124) with financial year ends between 30 September 2023 and 31 March 2025 inclusive.



Material findings in 2025 related to unsuitable change in the basis for materiality measurement, insufficient audit procedures performed or documented in relation to revenue, and insufficient audit procedures performed or documented in relation to controls testing.

The firm's Transparency Report for 2025 provides further detail of the firm's approach, results, root cause analysis, remediation, and wider SoQM.

[18] The finding categories used by the firm (which drive the related gradings) are: *Minor findings* - generally require additional explanation or limited additional documentation for clarity of the audit file; *More than minor findings* - typically require more detailed documentation improvements or arise when a more significant piece of audit evidence was omitted from the audit file; *Material findings* - either require additional audit procedures to be performed subsequent to the audit report or significant remediation of the audit file.

Appendix B – Ernst & Young LLP

5. Firm's response and actions

At EY, we remain committed and proud to consistently deliver high quality audits that uphold the public interest. Our FRC, ICAEW and internal inspection results demonstrate that our engagement teams continued to deliver strong audit quality, with a further reduction in the number of findings compared to prior years. This gives us confidence that our Audit Quality Strategy, underpinned by our comprehensive SoQM and commitment to continuous improvement, is effective and targeted appropriately.

Summary of root causes of FRC findings and key actions the firm has taken: Comprehensive root cause analysis (RCA) has identified the following quality drivers associated with positive quality outcomes, and identified as being necessary to deliver good quality audits: a high degree of timely partner/executive involvement; well-developed audit planning; and promotion of a strong culture of quality (through communication, teaming and coaching). Conversely, our RCA has identified that lack of use, understanding or interpretation of guidance can lead to findings. Actions taken to support engagement teams in consistently achieving high quality audit outcomes include: refreshing and updating our standardised work programmes; sharing good practice; further standardising our planning and risk assessment through guided workflows; and regularly sharing findings and insights from RCA. Our key actions are captured in our Single Quality Plan that is integrated into our SoQM. Our SoQM continues to evolve, and we are committed to simplifying and rationalising related processes to optimise the risk framework and monitoring responses.

Matters disclosed in the Transparency Report: In relation to the two unremediated severe deficiencies disclosed in our FY25 Transparency Report, we recognised the seriousness of these findings and acted immediately. Under the instruction of our Country Managing Partner, and with support from our Risk Management and Professional Practice teams, we engaged external legal counsel in the UK and US to conduct an independent investigation into the underlying root causes and developed the appropriate remedial response. This led to targeted Quality Improvement Plans, which have now been implemented and remain subject to ongoing oversight and monitoring.

Other key priorities relating to audit quality: Globally, EY is investing in the Future of Audit, Now, to fundamentally transform audit by rolling out a streamlined audit methodology, built on an AI-powered platform. As well as continuing to enhance audit quality, this approach will enhance the experience and career opportunities for all our audit professionals. Our UK Audit Quality Strategy for FY27 continues to focus on the importance of a strong quality culture embedded in connected teaming, curiosity, personal accountability alongside having courage in transformation and adopting evolving technology at pace.

We are proud of our people and all that they continue to do to consistently deliver high quality audits that uphold the public interest.

Appendix to ARAQ:

Forvis Mazars LLP

Appendix B – Forvis Mazars LLP

1. Overview

This appendix provides our independent assessment of audit quality at Forvis Mazars LLP (Forvis Mazars, or 'the firm'). The FRC findings and good practice come from our supervision and inspection of the firm's SoQM, and inspections of individual audits. The firm has evaluated its SoQM and made an overall judgment on whether the system provides reasonable assurance that the firm's quality objectives are being achieved (See Section 4). We do not seek to reach an independent opinion, or form a judgement, on whether the firm's conclusion is accurate. However, we do highlight to the firm where aspects of their evaluation were not fully supported by evidence we have obtained.

Following significant investment to improve audit quality, the firm is able to move from a period of transformation in terms of audit quality, to one focusing on consistency and sustainability. Due to the reduction in number and severity of the findings of the FRC individual audit inspections, with no significant improvements required this year, and no themes identified in the findings, we do not consider the results to indicate an overall decline in audit quality from the previous year. The firm is making good progress towards improving its SoQM to the level of maturity required to create an environment that supports consistent high audit quality. Some variability in outcomes remains evident, but efforts continue to further develop the SoQM and the firm remains committed to, and engaged in, remediation activity.

SoQM inspections and supervisory activity (Section 2)

The firm has significantly developed its risk assessment, responses and monitoring procedures and demonstrated significant improvements in the design, implementation, and monitoring of its SoQM, but has identified three severe but not pervasive deficiencies that need to be remediated. Its approach to aggregating findings to identify deficiencies should be strengthened along with improving the resource in its Ethics Function (to achieve its target operating model). RCA, which has improved each year, is a key part of the firm's monitoring and remediation process. Where the firm's RCA identifies behavioural root causes for deficiencies and audit inspection findings, the firm must do more to remediate these causes to drive consistent behaviours. RCA was also performed on positive outcomes from audit inspections, but further work is needed to take actions that are scalable across all audits.

Direct audit engagement interventions, including "in-flight reviews" and a "risk panel" process developed under the firm's Audit Quality Transformation Plan (AQTP), have contributed to positive results and supported good practice in respect of engagement performance. Further progress is needed to ensure consistent behaviours in planning, project management and evidencing work performed. These were identified by the firm's RCA as thematic factors contributing to inspection findings.

Appendix B – Forvis Mazars LLP

Strengthening the firm's SoQM, alongside continued clear and consistent internal messaging on audit quality, will be key to delivering consistent audit quality.

As the firm transitions its remediation action monitoring from its AQTP to an SQP, integrated into its SoQM, with a focus on consistency and sustaining audit quality, testing the effectiveness of these responses remains essential.

Inspections of individual audits (Section 3)

The proportion of audits inspected by the FRC requiring no more than limited improvements was 70% (2024/25: 90%), with no audits requiring significant improvements (2024/25: one). Further work is required to ensure consistency of audit quality in relation to evidencing audit work and judgements made by the audit team. All of the ICAEW's inspections were graded good or generally acceptable (2023/24: 80%), showing improved outcomes compared to previous inspections with an overall trend that indicates a good level of consistency.

Our supervisory focus going forward

Our supervisory focus reflects this year's findings, identified audit quality risks, our statutory duties and wider professional developments. Our approach is proportionate to each firm's size, nature and audit portfolio, and will include the following activities:

- Additional engagement with the firm as it further develops its priority areas. This will include monitoring delivery of the Ethics Function's target operating model and a focus on actions and messaging to deliver consistent audit quality, especially as use of offshore teams increases.
- Conducting SoQM inspection work focusing on the ongoing development and operation of the firm's SoQM, and how the SoQM supports consistent audit execution in practice. This will be done in line with our revised approach to audit supervision.
- Performing a slightly decreased number of baseline graded individual audit inspections (nine) selected to reflect the size and nature of the portfolio.
- Performing a non-graded follow-up inspection to assess the actions taken to respond to the identified issues on that audit.

Appendix B – Forvis Mazars LLP

2. SoQM inspections and supervisory activity

We set out below the most significant findings arising from our supervision and inspection of the firm's SoQM and its compliance with the requirements of ISQM (UK) 1.

Findings

Firm's evaluation of its SoQM

Evidencing the identification and evaluation of deficiencies

The firm did not adequately evidence how it used the results of its monitoring activities to conclude that its deficiencies were not pervasive, individually or in aggregate. The firm also did not adequately evidence its assessment of certain findings to conclude that there were no further deficiencies, specifically in relation to culture, resource management, and variations in quality outcomes between different business units.

Relevant ethical requirements

Ethics Function

The detailed findings from our work on prohibited financial interests indicate that the resourcing concerns that we have raised in prior years remain.

The firm sampled an inadequate number of non-partners despite limited preventative measures and historically low percentages of individuals being subject to financial interests' inspection and testing. In addition, the firm's own findings included untimely follow-up of both personal independence declarations and compliance testing exceptions which exacerbate these concerns.

Consistent with the prior year, the capacity of the Ethics Function remains a concern and does not appear aligned with the firm's needs. The firm has recognised this and refreshed its target operating model and planned recruitment. The firm must ensure that its current and interim plans address the need for safeguards until resourcing reaches the firm's planned optimal level and improvements are delivered.

Information and Communication

Transparency Report

The firm did not have adequate support for the statement in its Transparency Report that its severe deficiencies did not impact engagement performance.

Appendix B – Forvis Mazars LLP

Good practice

We identified examples of good practice related to the following:

Monitoring and remediation

Identification of findings

The firm identified a broad range of relevant information sources and, through monitoring, derived a wide and comprehensive set of observations. These were assessed and categorised into themes to determine which indicated findings. This supported the completeness of findings.

Formalisation and consistency of internal engagement inspection procedures

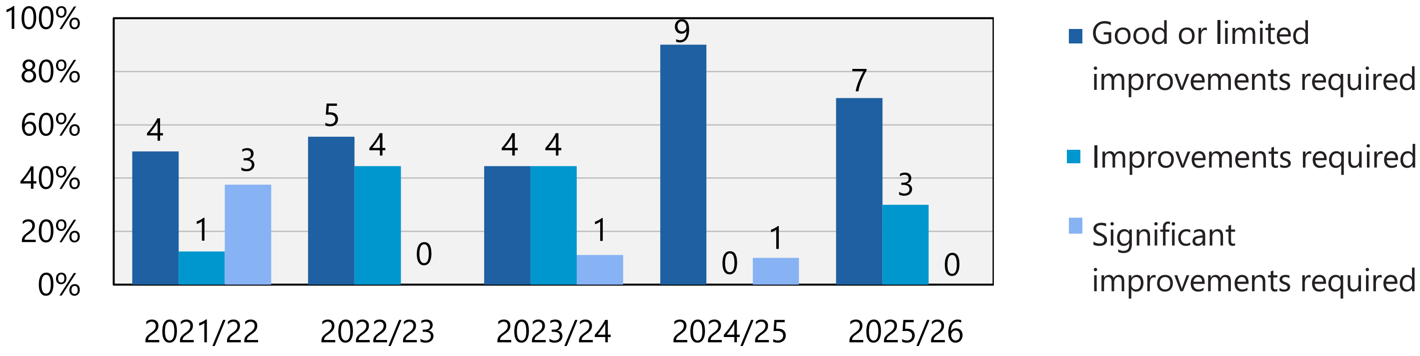
Reviewers use structured review forms when inspecting significant and other key risk areas and maintain detailed query logs capturing challenge, responses and conclusions. This results in clear evidencing of reviewer judgements and the basis for inspection outcomes. A defined grading rationale process supports robust consideration and aggregation of findings across each inspection.

Appendix B – Forvis Mazars LLP

3. Inspections of individual audits

FRC assessment of the quality of audits inspected

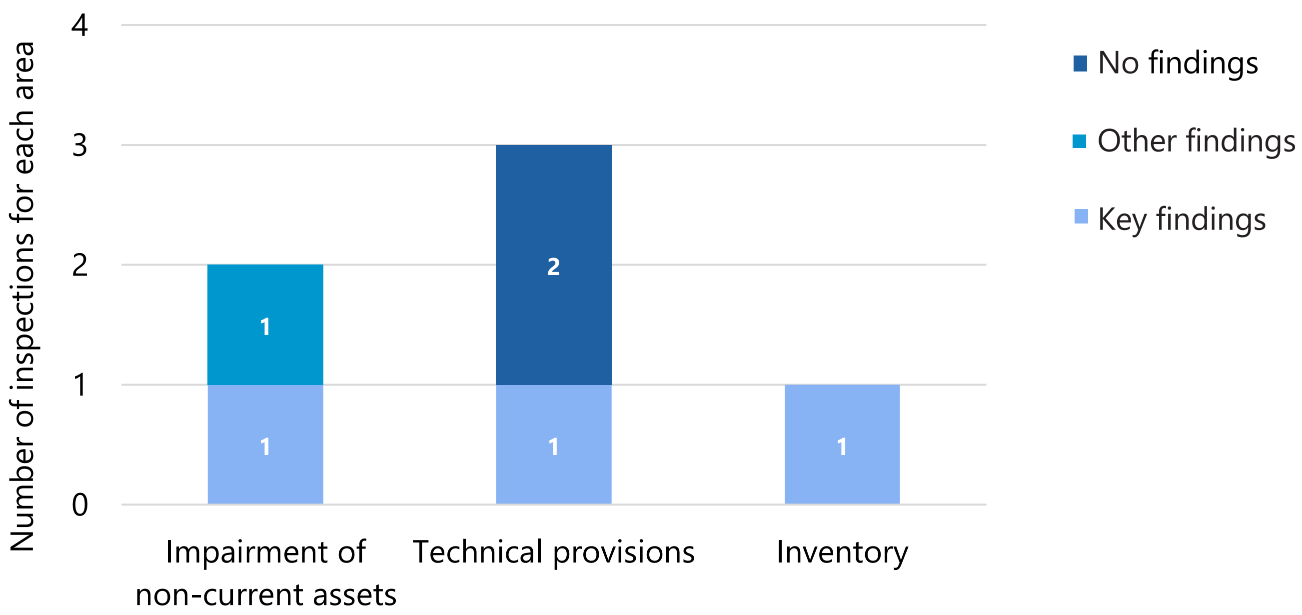
We inspected ten individual audits this year and assessed seven (70%) as requiring no more than limited improvements.



FRC findings and good practice

Analysis of areas with findings

We set out below the most significant areas with findings and the number of inspections they arose on. These reflect key findings, and other findings that occurred more frequently, on the audits inspected. Details of the distinction between key and other findings can be found here.



Appendix B – Forvis Mazars LLP

Findings

Impairment of non-current assets

- **Forecast assumptions:** On one audit, we identified a key finding where insufficient procedures were performed to evaluate and challenge certain key assumptions supporting management's impairment assessment for parent company investments in subsidiaries.

- **Store-based assets:** On another audit, we identified a finding relating to aspects of the procedures performed to test the recoverability of store-based assets.

Technical provisions

- **Actuarial data:** On an audit of an insurance entity, the audit team did not obtain sufficient, appropriate audit evidence over the reliability of actuarial data used for the calculation of technical provisions.

Inventory

- **Inventory existence:** An audit team did not obtain sufficient, appropriate audit evidence to support the existence of store inventory. This included not retaining an output of the inventory counts attended and not performing an appropriate assessment of count variances.

Good practice examples

- **Expected credit losses:** On a banking audit, there was a thorough assessment of data inputs to the calculation of expected credit losses, including robust testing of specific inputs and independent recalculations of key qualitative ratios.

- **Technical provisions:** There was extensive testing of a key assumption used in the valuation of technical provisions on an insurance audit. This included building an independent model that supported a greater degree of challenge to management.

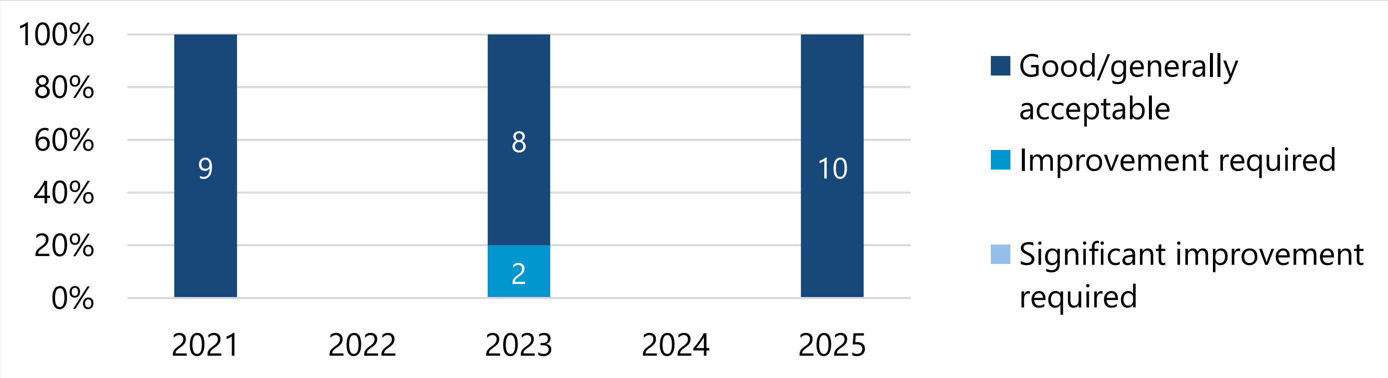
- **Group oversight:** On one complex group audit, the evidence of the group audit team's involvement in and oversight of the work of overseas component auditors was of a high standard. On another audit, there was robust oversight and challenge of the work performed by a non-network firm.

- **Contract accounting:** On one audit of an entity with long-term contracts, the audit team demonstrated a detailed understanding of certain significant-risk contracts. This supported the design and execution of appropriate audit procedures to respond to these risks, including extensive challenge of management on certain assumptions.

Appendix B – Forvis Mazars LLP

ICAEW assessment of the quality of audits inspected

The results of the ICAEW's inspections of the firm's non-PIE audits are set out below.



A detailed report summarising the audit file review findings and any follow-up action proposed by the firm was considered by ICAEW's Audit Registration Committee on 15 July 2026.

Appendix B – Forvis Mazars LLP

4. Firm's own assessments

Firm's annual evaluation of its SoQM

The firm's own evaluation of its SoQM, under ISQM (UK) 1, as at 31 August 2025 and reported in its Transparency Report, is set out below. This is the firm's conclusion.

Overall Evaluation: Source: Transparency Report 2024/2025 (Appendix 12, page 113)

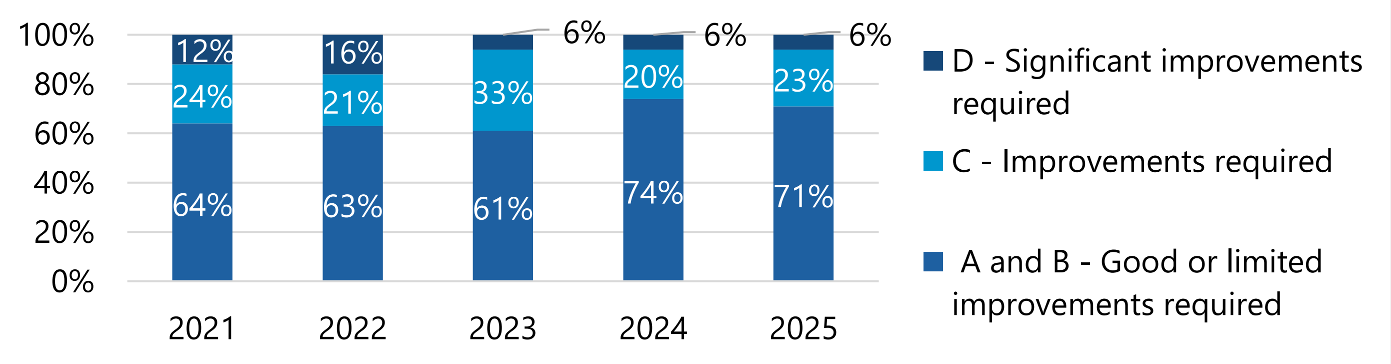
"Having conducted the evaluation as at 31 August 2025, the Executive, in line with paragraph 54(b) of ISQM (UK) 1, has concluded that, except for matters related to deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the SoQM, the SoQM provides the firm with reasonable assurance that the objectives of the SoQM are being achieved. No pervasive deficiencies were identified."

Severe but not pervasive deficiencies: (summarised from the transparency report):

These deficiencies relate to: lack of formal documentation and evidence across multiple processes and controls; accuracy and completeness of data across several processes and systems, and mandatory training attendance and monitoring mechanisms.

Firm's assessment of the quality of audits inspected

The results of the firm's Internal Quality Monitoring (IQM) for 2025 and four previous years are set out below[18]. The 2025 IQM comprised 34 individual audits with periods ending from 31 March 2023 to 31 December 2024.



Key findings in 2025 included risk assessment, revenue, impairment, expected credit losses and group audit oversight.

The firm's Transparency Report for 2025 report provides further detail of the firm's approach, results, root cause analysis, remediation and wider SoQM.

[18] The grading categories used by the firm are aligned as closely as possible to those used in the FRC's regulatory inspection process.

Appendix B – Forvis Mazars LLP

5. Firm's response and actions

We acknowledge the FRC's assessment, including its recognition of our ongoing transition to sustaining audit quality and the progress made in improving our SoQM. Audit quality remains a core strategic priority for our firm, and we remain committed to delivering consistently high-quality audits. We also recognise and appreciate the continued dedication and commitment of our teams.

Our system of quality management: We welcome the FRC's recognition of enhancements to our risk assessment, responses and monitoring procedures and RCA process, as well as areas of good practice. We acknowledge that we could have more clearly supported and robustly evidenced our assessment that there were no indications that the severe, but not pervasive, deficiencies had a significant or direct impact on engagement performance. We remain committed to further strengthening our SoQM and reinforcing clear, consistent messaging on audit quality. Whilst we have enhanced the design, implementation and evaluation of our SoQM, we recognise that further development is required, particularly in evidencing the identification and evaluation of deficiencies. We will continue to address the FRC's observations by strengthening our SoQM.

Results of individual file inspections: We are encouraged by a second consecutive year of positive file inspection outcomes, with 70% of AQR-inspected audits assessed as good or requiring only limited improvements. Whilst this represents a reduction compared to prior year, no audits were assessed as requiring significant improvements, and there has been a reduction in both the number and severity of findings, with no recurring themes identified. Areas of good practice were observed on ECL, technical provisions, group oversight and long-term contracts. As noted by the FRC on page 73 of the report, changes in AQR results, on their own, are not necessarily indicative of an overall change in audit quality at the firm. We are also pleased by the outcome of the QAD inspections, with 100% of audits assessed as either good or generally acceptable.

Summary of root causes and key actions: We performed RCA across all file inspections. This identified positive behaviours, including a strong professional scepticism and challenge mindset, effective coaching, a collaborative 'one team' approach, robust upfront planning, and effective audit quality support through inflight reviews, consultations and risk panels. Areas of improvement included gaps in judgement, ineffective planning and project management, and insufficient challenge and professional scepticism. Key themes such as professional scepticism and planning drive quality when applied consistently, but contribute to findings where execution is less robust. We have implemented targeted actions, including sharing findings and good practice, reinforcing audit quality expectations with a focus on the expected behaviours, expanding the scope of inflight reviews, and strengthening guidance on impairment assessments, data testing and stock counts. We continue to implement further actions, particularly in relation to project management, professional scepticism and sector-specific guidance, whilst also embedding positive learnings.

Our ongoing commitment to audit quality: As we transition from our AQTP to a comprehensive SQP embedded within our SoQM, we are strengthening a consistent, firm-wide culture of quality and building on this progress to deliver sustained, measurable improvements.

Appendix to ARAQ:

KPMG LLP

Appendix B – KPMG LLP

1. Overview

This appendix provides our independent assessment of audit quality at KPMG LLP (KPMG or 'the firm'). The FRC findings and good practice come from our supervision and inspection of the firm's SoQM, and inspections of individual audits. The firm has evaluated its SoQM and made an overall judgment on whether the system provides reasonable assurance that the firm's quality objectives are being achieved (See Section 4). We do not seek to reach an independent opinion, or form a judgement, on whether the firm's conclusion is accurate. However, we do highlight to the firm where aspects of their evaluation were not fully supported by evidence we have obtained.

The firm has a mature and well established SoQM, and the FRC inspection results show a consistent year-on-year outcome with sustained high quality. We expect the firm to continue to focus on supporting consistent execution across audit teams and we also expect the firm to address the root causes of inspection findings.

SoQM inspections and supervisory activity (Section 2)

From our inspection, we identified that the firm has robust processes around risk assessment, design and implementation of responses and monitoring within the SoQM. The firm also has a strong governance and evaluation process over its SoQM, with appropriate engagement from senior leadership. The firm continues to make effective use of its Single Quality Plan, which is integrated into its SoQM, to identify, prioritise and monitor audit quality risks. The firm inputs outcomes from its monitoring activities, root cause analysis and emerging issues. Its approach to monitoring is further strengthened by a focus on identifying outliers and directing targeted interventions to higher risk audit engagements. Continued focus is required to support sustained high-quality execution across audit engagements.

Inspections of individual audits (Section 3)
The proportion of audits inspected by the FRC requiring no more than limited improvements was 95% (2024/25: 90%), with no audits requiring significant improvement. Further improvements are required to the audit of impairment of non-current assets. The ICAEW results show a decline, with 63% (2024/25: 100%) of audits graded good or generally acceptable. Refer to Section 3 and the firm's response in Section 5 for further details.

Appendix B – KPMG LLP

Our supervisory focus going forward

Our supervisory focus reflects this year's findings, identified audit quality risks, our statutory duties and wider professional developments. Our approach is proportionate to each firm's size, nature and audit portfolio, and will include the following activities:

- Engagement with the firm on its priority areas and its actions to sustain and further embed audit quality improvements, as set out in its response (in Section 5). This will include targeted engagement on the firm’s approach to driving consistent engagement team behaviours, including effective challenge, supervision and review.

- Conducting SoQM inspection work focusing on the ongoing development and operation of the firm’s SoQM, and how the SoQM supports consistent audit execution in practice. This will be done in line with our revised approach to audit supervision.

- Performing 15 graded individual audit inspections selected to reflect the size and nature of the firm’s portfolio.

- Performing one non-graded follow-up inspection to assess the actions taken to respond to identified issues on that audit.

Appendix B – KPMG LLP

2. SoQM inspections and supervisory activity

We did not identify any significant findings from our supervision and inspection of the firm's SoQM and its compliance with the requirements of ISQM (UK) 1.

Good practice

We identified examples of good practice related to the following:

Governance and leadership

Accountability of those with ultimate and operational responsibilities

The firm has set out detailed and role-specific SoQM goals for leadership, which include defined outcomes, KPIs, and provide clarity over individual SoQM responsibilities and expectations.

Sampled appraisal files demonstrated comprehensive qualitative assessments that directly addressed each leader's SoQM performance, incorporating a wide range of metrics, including culture and conduct indicators and a Partner Balanced Scorecard. Documentation showed evidence of challenge and the consideration of SoQM results and relevant KPIs.

Monitoring and remediation

Assessment of findings and deficiencies

The firm considers findings, individually and in aggregate, to identify 'close calls' over which they perform robust assessment to determine if they give rise to deficiencies. This assessment considers a range of factors, including recurrence, the extent of impact on quality outcomes, and potential indicators of weakness in leadership. This supports the completeness of deficiencies.

Reliance on network monitoring

To support its reliance on the monitoring procedures undertaken by the network over network-operated controls, the firm performed a review of these monitoring procedures for a sample of responses. This review was robustly evidenced.

Risk-based and differentiated oversight of audit quality

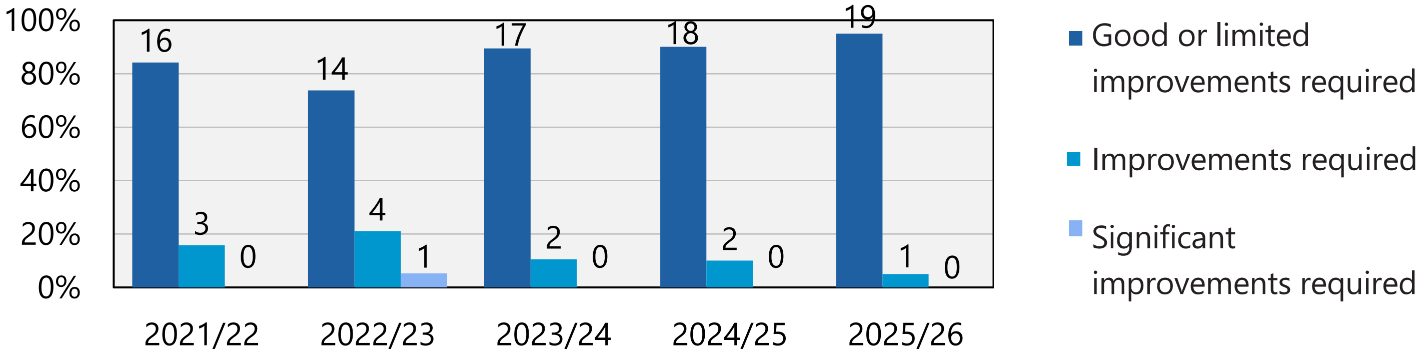
The firm has enhanced its ability to identify and respond proportionately to quality risks by adopting a more targeted, risk-based approach to monitoring and intervention. This includes focusing on outliers within the population of audits through targeted engagement monitoring programmes and the use of insights from continuous assessment pilots. This approach supports more timely and focused oversight and intervention based on evidence.

Appendix B – KPMG LLP

3. Inspections of individual audits

FRC assessment of the quality of audits inspected

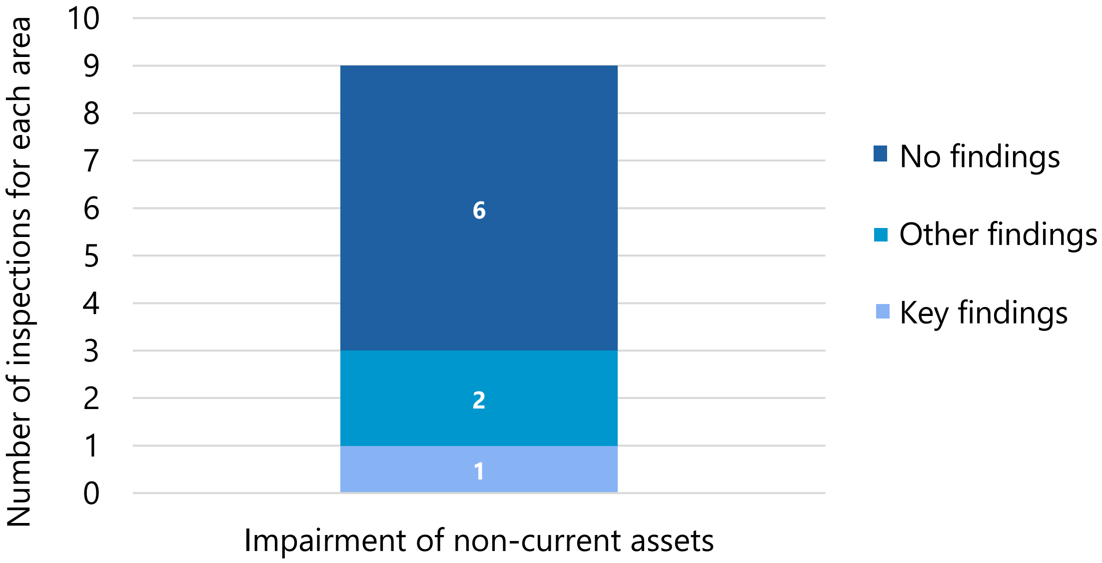
We inspected 20 individual audits this year and assessed 19 (95%) as requiring no more than limited improvements.



FRC findings and good practice

Analysis of areas with findings

We set out below the most significant areas with findings and the number of inspections they arose on. These reflect key findings, and other findings that occurred more frequently, on the audits inspected. Details of the distinction between key and other findings can be found here.



Appendix B – KPMG LLP

Findings

Impairment of non-current assets

- **CGUs**: There was a key finding on an audit relating to inadequate procedures performed to evaluate or challenge the grouping of assets in management's assessment of cash generative units (CGUs). On another audit there was insufficient evidence of the assessment of the appropriateness of management's identification of CGUs.
- **Discounting of cash flows**: There was inadequate assessment, on the same audit above, of the impact of not applying discounting to certain cash flows in the impairment model or justification for the level of the discount rate for those cash flows that were discounted.
- **Cash flow assumptions**: On an audit, there was insufficient evidence of the assessment of working capital movements used in management's forecast.
- **Carrying value of parent company investments**: Another audit team's procedures for the recoverability of parent company's investments and receivables were insufficient and did not demonstrate how the intercompany balances were supported by underlying assets.

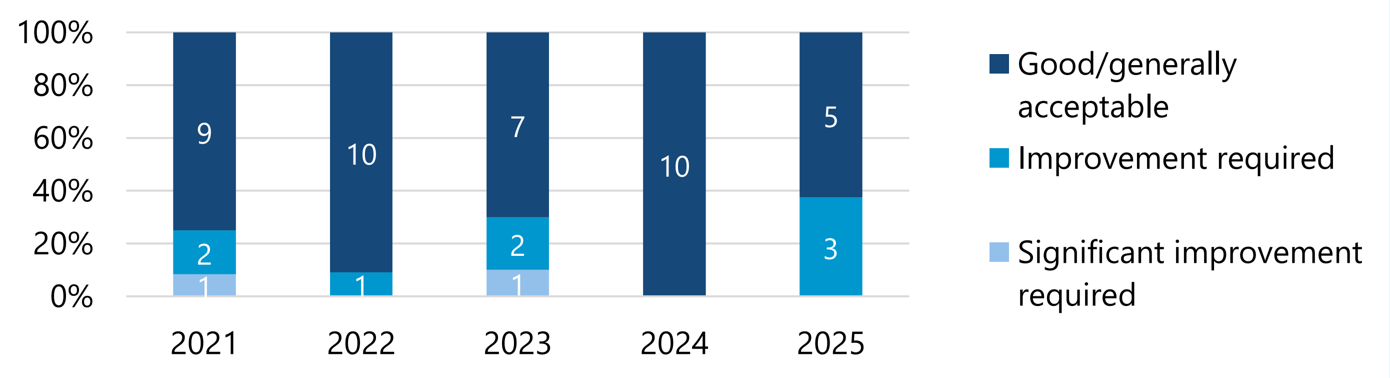
Good practice examples

- **Robust risk assessment procedures:** We identified comprehensive risk assessment procedures on six audits. This included, in respect of revenue on two audits, a detailed analysis of the revenue system and detailed analytical procedures to evaluate the sensitivity of revenue to certain inputs. On another audit, forensic specialists were engaged as part of its fraud risk assessment, which enhanced the effectiveness of the journals testing.
- **Effective response to risks:** There were examples of particularly effective responses to risks on five audits, including for revenue and the testing of valuation models, or data. On one of these there was a comprehensive stand-back assessment of the Level 3 fair value positions.
- **Challenge of management and use of specialists:** There were examples of this on five audits. On two audits there was significant challenge of the assumptions used in the goodwill impairment model. On another audit there was strong professional scepticism through challenging of the provisions, using its specialists to independently assess the reasonableness of estimated costs. Another audit adopted a well-executed approach for expected credit losses and fair values, with extensive use of specialists. Another robustly challenged management's methodology to estimate the recoverability rates used in assessing expected credit losses.
- **Effective group audit oversight:** Two group audit teams demonstrated a high standard of direction and supervision of the work of component auditors. For example, one of these held an in-person global planning conference to ensure consistency of the risk assessment and group audit approach and there were particularly frequent interactions with the component audit teams to robustly challenge them on the audit procedures undertaken.

Appendix B – KPMG LLP

ICAEW assessment of the quality of audits inspected

The results of the ICAEW's inspections of the firm's non-PIE audits are set out below.



On the first audit that required improvement, there was insufficient audit work over highly material goodwill. On the second audit, more work was needed to support the unmodified audit report in respect of going concern. On the third audit, group scoping procedures did not sufficiently consider qualitative factors across the entire group.

ICAEW identified a significant thematic finding across several audits related to risk assessment, including robustness of justifications for risk conclusions.

A detailed report summarising the audit file review findings and any follow-up action proposed by the firm was considered by ICAEW's Audit Registration Committee on 15 July 2026.

Appendix B – KPMG LLP

4. Firm's own assessments

Firm's annual evaluation of its SoQM

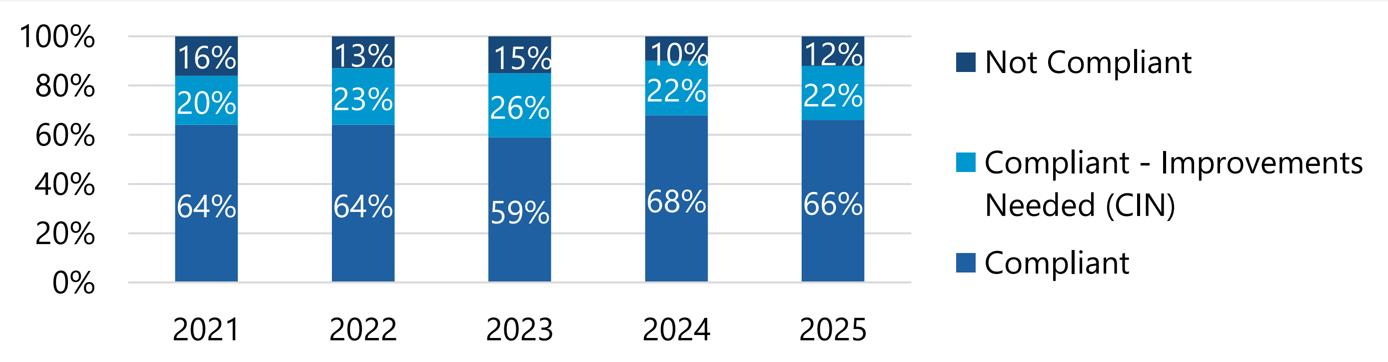
The firm's annual evaluation of its SoQM, under ISQM (UK) 1, as at 30 September 2025 and reported in its Transparency Report, is set out below. This is the firm's conclusion.

Overall Evaluation: Source: KPMG UK Transparency Report 2025 (page 3 of "Quality and Control & Risk Management" section)

"Based on the annual evaluation of the firm's System of Quality Management as of 30 September 2025, the System of Quality Management provides the firm with reasonable assurance that the objectives of the System of Quality Management are being achieved."

Firm's assessment of the quality of audits inspected

The results of the firm's Quality Performance Review (QPR) for 2025 and four previous years are set out below[19]. The 2025 QPR comprised inspections of 97 engagements (2024: 103), 95 of which covered periods ending between 31 December 2023 and 31 March 2025.



In 2025, findings which contributed to Not Compliant outcomes or were observed as more frequently requiring improvements related to the extent of challenge of management's forecasting assumptions when testing impairments and revenue from long-term contracts. Other findings also related to the execution of data and analytics routines, oversight of component auditors, and group audit team risk assessment and scoping. In addition, they included: evidence obtained to support errors identified in substantive samples; testing of relevant data elements used in the journals' identification process and evidence obtained and/or documented to support the appropriateness of high-risk journal entries. The firm's Transparency Report for 2025 provides further detail of the firm's approach, results, root cause analysis, remediation, and wider SoQM.

[19] The grading categories used by the firm are: *Compliant ('C')* – audits that comply with relevant standards in all significant respects; *Compliant – Improvements Needed ('CIN')* - audits that have an audit report supported by evidence but required additional information in the view of the reviewer, documentation of evidence obtained, or did not follow the firm's methodology in a specific area, and *Not Compliant ('NC')* – audits that were not performed in line with relevant standards in a more significant area or had a deficiency in the financial statements.

Appendix B – KPMG LLP

5. Firm's response and actions

KPMG's response and actions: We are pleased with the positive messages in this year's report, including recognition of our mature and established SoQM. Our SoQM is central to sustaining high audit quality and continues to evolve in response to emerging risks from a complex, changing external environment. We also welcome the good practice points highlighted by the FRC which reflect our robust processes around risk assessment, design and implementation of responses and monitoring within our SoQM. The effectiveness of this system is evident in our strong FRC inspection result of 95%. This builds on a sustained track record of robust outcomes over the past three years and demonstrates our commitment to delivering high audit quality. It reflects the judgement, professionalism and consistent standards applied by our people across engagements and their focus on delivering audits that serve the public interest.

We take all findings seriously and remain committed to continuous improvement, including taking action to strengthen our ICAEW outcomes and support greater consistency across non-PIE audits. Through our Single Quality Plan, we address findings and use good practice to prioritise and respond to potential audit quality risks, informed by monitoring activities and our root cause analysis. These activities are integral to supporting our iterative SoQM risk assessment and evaluation process.

Root causes and actions: Our root cause analysis is performed across both findings and areas of good practice, enabling us to use these insights to drive consistent execution. We are encouraged by the breadth of good practice identified by both regulators and are embedding these learnings.

Where engagement-level findings were identified, the underlying drivers were primarily behavioural, including instances of insufficient challenge arising from assumed knowledge, confirmation bias and over-reliance on prior period understanding. We are addressing these through targeted actions to further strengthen professional scepticism as part of our established Culture programme. This is supported by practical behavioural interventions and focused learning designed to reinforce critical thinking in practice.

These behavioural drivers were often reinforced by broader delivery factors, including limited time and opportunity to stand-back and reflect effectively. This was more evident in the ICAEW findings, where second line support was not routinely assigned. In response, we are continuing to embed clear audit phasing to enable more structured stand-back at key points, particularly on non-PIE engagements, and strengthening requirements for more formal challenge of risk assessment. Where supervision and review were not sufficiently focused on areas driving quality outcomes, we are sharpening review emphasis across the audit. Alongside these, we are also simplifying elements of audit delivery to enable our people to focus on the key areas.

Other key priorities relating to audit quality: Critically, we continue to invest in the adoption of technology as a key enabler of audit quality, supported by clear governance and an ongoing focus on using it effectively, with appropriate auditor oversight, judgement and challenge.

Appendix to ARAQ:

Pricewaterhouse Coopers LLP

Appendix B – PricewaterhouseCoopers LLP

1. Overview

This appendix provides our independent assessment of audit quality at PricewaterhouseCoopers LLP (PwC or 'the firm'). The FRC findings and good practice come from our supervision and inspection of the firm's SoQM, and inspections of individual audits. The firm has evaluated its SoQM and made an overall judgment on whether the system provides reasonable assurance that the firm's quality objectives are being achieved (See Section 4). We do not seek to reach an independent opinion, or form a judgement, on whether the firm's conclusion is accurate. However, we do highlight to the firm where aspects of their evaluation were not fully supported by evidence we have obtained.

The firm has a mature and well established SoQM and current inspection results show an overall consistent year-on-year outcome with sustained high quality. There are some continuing areas for improvement related to the consistency of the audit of impairment and the completeness of non-audit service approvals.

SoQM inspections and supervisory activity (Section 2)

The firm's SoQM has effective risk assessment and sound monitoring and remediation processes. Governance and leadership arrangements support accountability for the SoQM and the evaluation process.

The firm is focused on continuous improvement as part of its monitoring and remediation activities, including a well-established root cause analysis process. The Audit Executive has overarching responsibility for monitoring audit quality initiatives using a SQP that is integrated into its SoQM, and has enhanced processes for the identification of emerging issues affecting audit quality.

Elements of the firm's SoQM need further improvement, particularly to mitigate the risk that UK approvals for relevant non-audit services provided by overseas network firms are not obtained in all instances.

Inspections of individual audits (Section 3)

The proportion of audits inspected by the FRC requiring no more than limited improvements was 89% (2024/25: 90%), with no audits requiring significant improvement. Further improvements to ensure consistent audit quality are required in relation to the impairment of non-current assets. Impairment matters have recurred as a theme from earlier periods. The results of the ICAEW's inspections (100% good or generally acceptable) show consistent year-on-year outcomes.

Appendix B – PricewaterhouseCoopers LLP

Our supervisory focus going forward

Our supervisory focus reflects this year's findings, identified audit quality risks, our statutory duties and wider professional developments. Our approach is proportionate to each firm's size, nature and audit portfolio, and will include the following activities:

- Engagement with the firm on its priority areas as highlighted in its response (in Section 5). This will include targeted engagement on actions taken in relation to the approval of network firm non-audit services.
- Conducting SoQM inspection work focusing on the ongoing development and operation of the firm's SoQM, and how the SoQM supports consistent audit execution in practice. This will be done in line with our revised approach to audit supervision.
- Performing 18 graded individual audit inspections, selected to reflect the size and nature of the firm's portfolio. This is broadly consistent with the prior year.
- Performing one non-graded follow-up inspection to assess the actions taken to respond to the identified issues on that audit.

Appendix B – PricewaterhouseCoopers LLP

2. SoQM inspections and supervisory activity

We set out below the most significant findings arising from our supervision and inspection of the firm's SoQM and its compliance with the requirements of ISQM (UK) 1.

Findings

Relevant ethical requirements

Independence matters

The firm has identified a small number of instances where overseas network firms provided non-audit services alongside the audit without securing the required UK approvals. The firm is currently performing a detailed assessment to establish the potential for, and extent of, any further breaches. In addition, in the prior year, we reported that, in the absence of a global, integrated finance and service approval system, the firm did not identify sufficient preventative controls to mitigate the risk that network firms commence non-audit services prior to obtaining all relevant UK approvals. The firm has introduced new initiatives to strengthen UK approvals for non-audit services, but to date these have primarily focused on services delivered by the UK firm. While the firm is continuing to develop its control framework in respect of approvals for non-audit services provided by overseas network firms, the previously identified increased risk that not all relevant UK firm approvals are obtained, remains.

As a result of recent monitoring activities, the number of Ethical Standard breaches identified for staff prohibited financial interests has been higher in absolute terms, than for peers. The breaches primarily relate to staff or their immediate family holding financial interests, either through personal pension arrangements, or in entities relevant to an engagement where the individual worked in the same area of activity as the engagement. Further, independence compliance testing by the firm in FY25 identified that a number of staff were not appropriately recording their personal investments, resulting in a policy breach rate above the firm's own internal target.

Good practice

We identified examples of good practice related to the following:

Engagement performance

Safeguarding the EQR's objectivity

The firm has established robust criteria for EQR objectivity which are considered and evidenced on role appointment. The objectivity criteria include specific situations that necessitate additional approvals, which are tracked through a centralised monitoring process.

Appendix B – PricewaterhouseCoopers LLP

Resources

Strategic Workforce Planning team

Audit firms are experiencing significant changes and evolving resource challenges. In response, the firm has established a Strategic Workforce Planning (SWP) team to take a forward looking and proactive approach to assessing both current and future resourcing needs. The SWP team produces regular, detailed analysis and modelling for the Audit Executive on a long term and rolling basis. This enables a well-informed approach that considers multiple timelines and scenarios, while also factoring in resourcing across other service lines as well as utilising relevant information from other PwC network firms.

Monitoring and remediation

Assessment of network responses and monitoring procedures

The firm undertook a detailed review of the global responses to risks and associated monitoring procedures provided by the network, including for global responses over the appropriateness of methodology and audit tools made available to the firm. This supported the firm in assessing if these monitoring procedures provided it with sufficient assurance.

Continuous improvement in the RCA process

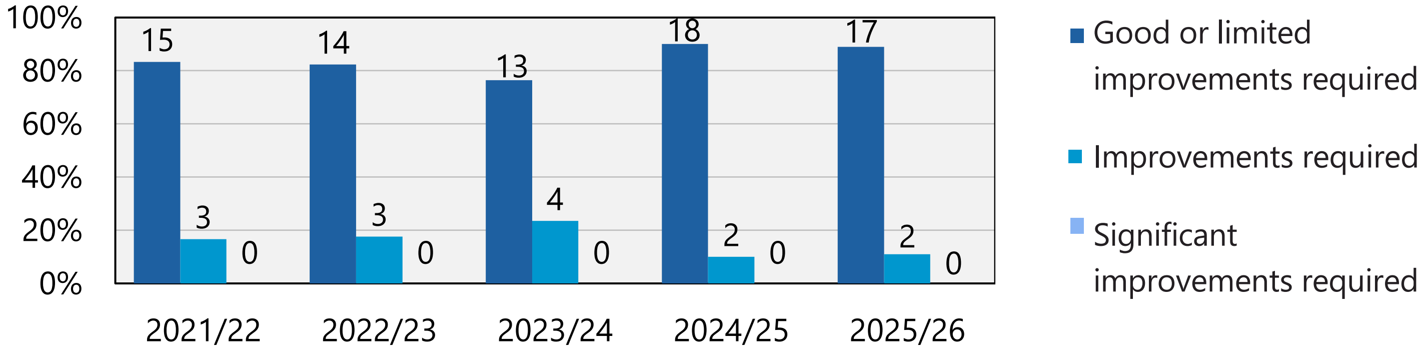
The firm actively seeks innovative approaches to further enhance its RCA process. For example, recent changes to methodology utilise behavioural insights to reduce bias. This includes separate independent assessment of causal factors by each RCA interviewer, using GenAI to challenge the assessment of causal factors, and the structured sequencing of interviews to mitigate authority bias. In addition, there is a deliberate rotation of resources, with a mix of permanent staff and secondees to reduce groupthink and promote ongoing challenge to established approaches.

Appendix B – PricewaterhouseCoopers LLP

3. Inspections of individual audits

FRC assessment of the quality of audits inspected

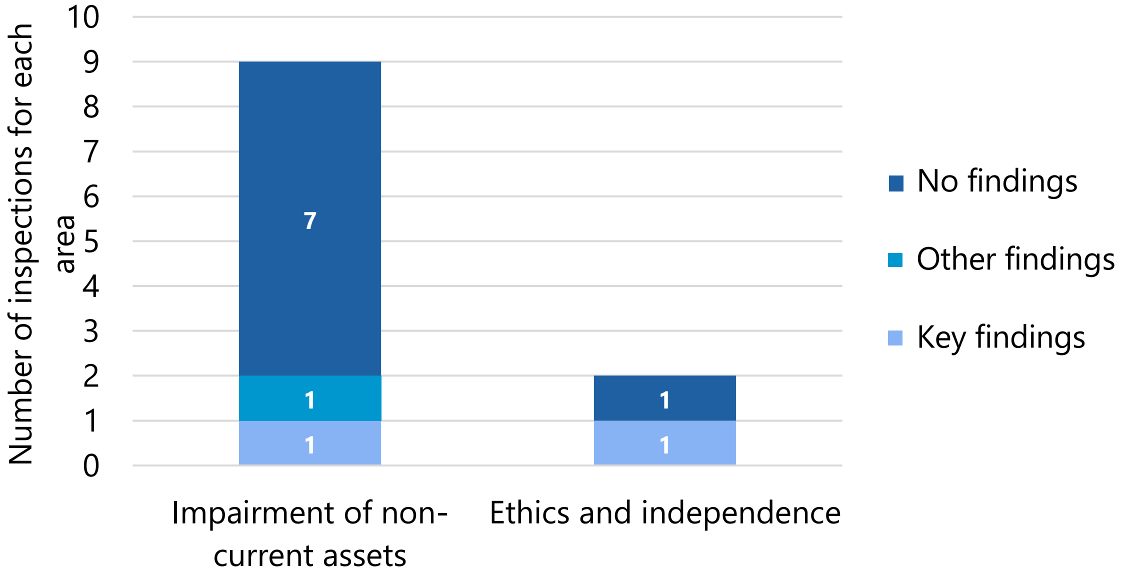
We completed 19 individual audits this year and assessed 17 (89%) as requiring no more than limited improvements.[20]



FRC findings and good practice

Analysis of areas with findings

We set out below the most significant areas with findings and the number of inspections they arose on. These reflect key findings, and other findings that occurred more frequently, on the audits inspected. Details of the distinction between key and other findings can be found here.



[20] We had selected 20 audits to inspect in the current inspection year. For one of these audits, WH Smith plc, the FRC's Conduct Committee opened an investigation before the inspection was completed. Accordingly, only 19 audits are included in the completed numbers.

Appendix B – PricewaterhouseCoopers LLP

Findings

Impairment of non-current assets

- **Impairment of intangible assets**: There was a key finding relating to insufficient procedures performed to evaluate, corroborate and challenge management's impairment assessment of a cash generating unit.
- **Goodwill impairment**: An audit team did not sufficiently evidence its assessment over how foreign currency inputs impacted the discount rates used in the impairment models.

Ethics and independence assessments

- **Long association and business relationship**: There was a key finding where the audit team did not adequately respond to the threat to its independence and objectivity arising from the overseas audit director's continued involvement in the group audit. Additionally, on the same audit, there was another finding that the audit team did not sufficiently consider and evidence how an objective, reasonable and informed third party may have viewed the overseas auditor's commercial relationship with the entity.

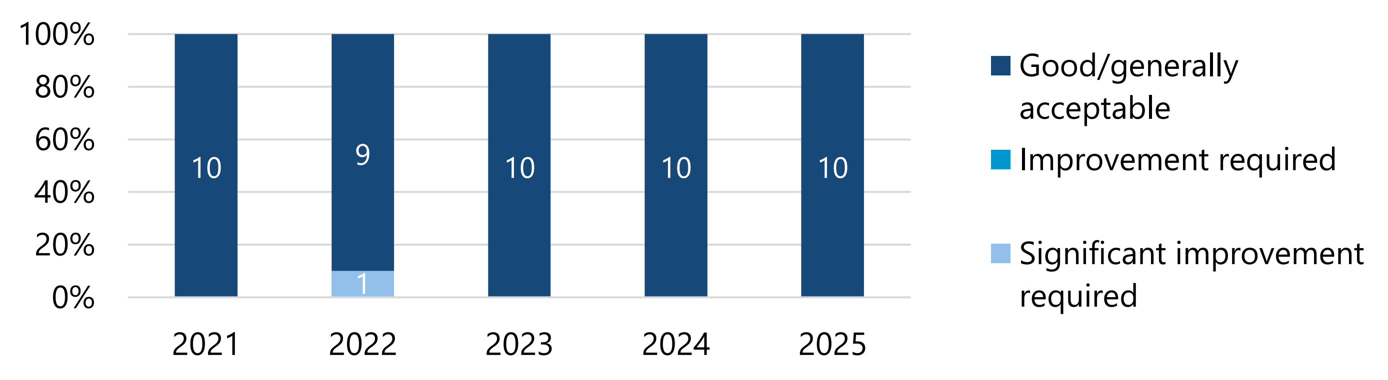
Good practice examples

- **Robust risk assessment and group planning procedures:** In this area, we identified good practice on three audits. An example being a thorough insurance revenue fraud risk assessment.
- **Effective response to risks:** Good practice was identified on four audits, where audit teams responded effectively to identified risks through focused well-evidenced procedures and strong engagement leadership. An example being where comprehensive first year audit procedures incorporated early engagement with predecessor auditors.
- **Challenge of management:** There was comprehensive evidence of appropriate challenge in relation to the valuation of insurance contract liabilities, including a granular assessment of longevity and credit default methodology and assumptions.
- **Use of specialists:** One audit team, with the use of risk modelling specialists, executed a well evidenced expected credit loss model review, including code reviews for new elements.
- **Use of technology:** Digital tools were used to confirm the accuracy of consolidation and to recalculate the foreign exchange gains and losses reported.

Appendix B – PricewaterhouseCoopers LLP

ICAEW assessment of the quality of audits inspected

The results of ICAEW assessment of quality of audits inspected are set out below.



A detailed report summarising the audit file review findings and any follow-up action proposed by the firm was considered by ICAEW's Audit Registration Committee on 15 July 2026.

Appendix B – PricewaterhouseCoopers LLP

4. Firm's own assessments

Firm's evaluation of its SoQM

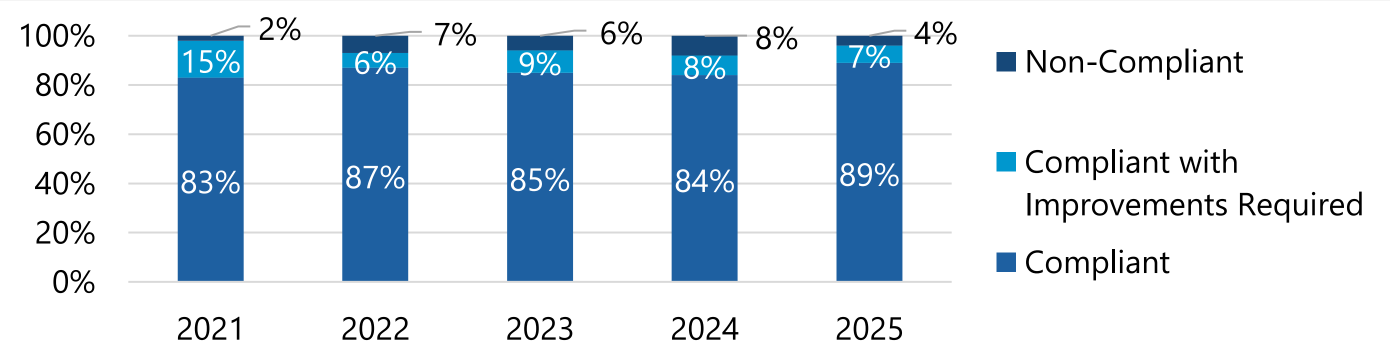
The firm's evaluation of its SoQM, under ISQM (UK) 1, as at 30 June 2025 and reported in its Transparency Report, is set out below. This is the firm's conclusion.

Overall Evaluation: Source: PwC UK Transparency Report 2025 (Page 24)

"Based on the evaluation of the firm's SoQM, as at 30 June 2025, we believe our SoQM provides us with reasonable assurance that the objectives of the SoQM noted above have been achieved".

Firm's assessment of the quality of audits inspected

The results of the firm's Engagement Compliance Review (ECR) for 2025 and four previous years are set out below[21]. The 2025 ECR comprised internal inspections of 165 individual audits (2024: 151) covering periods ending between 31 March 2023 and 31 March 2025.



Within the Non-Compliant and Compliant with Improvements Required) outcomes, there was one grade driving technical theme identified – errors in audit reports. A number of specific independence related matters were identified, leading to one NC outcome.

The firm's Transparency Report for 2025 provides further details of the firm's approach, results, root cause analysis, remediation, and wider SoQM.

[21] The grading categories used by the firm are: *Compliant (C)* – audits which comply with relevant standards in all material respects; *Compliant with Improvements Required (CwIR)* - when the issues identified for improvement are mitigated by other procedures which had been performed in the audit, are not considered to be a significant departure from relevant standards, or where there are audit report (opinion) issues that are more than grammatical/punctuation errors, but which do not mislead the user, and *Non-compliant (NC)* – audits which do not comply with relevant standards in respect of a material matter.

Appendix B – PricewaterhouseCoopers LLP

5. Firm's response and actions

We are pleased with the consistently positive outcomes of the FRC's inspections of individual audits and our SoQM, and thank our teams for their ongoing commitment to audit quality. We welcome the FRC's inspection insights as an important driver of continuous improvement and accountability, which support our responsibility for delivering audits of the highest quality that serve the public interest. These outcomes reflect the impact of our sustained investment in audit quality and our ongoing quality management activities, underpinned by a quality-focused culture. To enhance focus and enable further consistency in execution our teams are trained in and are currently using data, AI and other technology. At the same time, we recognise that there is more to do to respond effectively to regulatory findings, particularly in recurring areas.

Root causes of FRC findings and actions - We continually seek to strengthen our existing SoQM. Our primary focus for 2026/27 is on improving wider network timeliness and completeness of non-audit service approval requests provided by overseas network firms. This has been elevated to a high priority area in our SQP, with additional root cause activities and the identification of additional broader actions. Separately, our FY26 compliance testing indicates a marked reduction in the number of internal and external personal independence breaches following a programme of focused activity over the last two years.

Both impairment findings from the FRC's inspection of individual audits involved the application of professional judgement that was not adequately supported, resulting in weaknesses in auditor challenge or the conclusions reached. On one impairment and the key independence finding, the audit teams did not respond adequately to points raised by specialists and experts. In these cases there was a lack of clarity in the specialist or experts' analysis which was a contributory factor. A further common root cause across both areas with findings was a lack of clarity in roles and responsibilities in the team, which led to instances of insufficient coaching or a lack of objectivity during review.

Key responses include the introduction of additional thematic focus on the audit of impairment through our Real Time Reviews, enhancing our formal consultation output templates to capture clearer follow-up expectations, and review of our team contracting communications and materials. These actions will be supported through mandatory training and targeted communications.

Other key priorities relating to audit quality - Looking forward, underpinned by a culture of quality and a robust and dynamic SoQM, we're focused on delivering consistently high quality audits and innovating our use of advanced technology. The dynamic nature of our strategic workforce planning, which includes our broader resourcing model, alongside our technology focus, enables us to keep pace with the speed of external developments. We welcome the FRC's evolved supervisory approach for 2026/27, and will continue to use its observations, alongside our own monitoring and root cause analysis, to further enhance our audits and sustain high audit quality.

Appendix to the ARAQ:

Other higher impact firms

Appendix B - Other higher impact firms

1. Overview – other higher impact firms

The six firms covered in this Appendix have all been assessed by the FRC as having a higher impact on the PIE audit market. Therefore, for the first time, we are publishing an overview of each of these firms, as set out in Section 2 of this Appendix.

There is significant variation across the six firms in terms of the nature of their audit practices and the types and number of PIEs they audit[22]. The outcomes from our supervision and inspection work also vary significantly across the firms.

In terms of their SoQMs, all firms are required to continually monitor, review and enhance their SoQMs to ensure they remain responsive to changes, address identified weaknesses and support ongoing improvement in audit quality. The SoQMs at two of these firms are comparatively more mature. The SoQMs at several of the other firms remain in earlier stages of development and require further strengthening across multiple elements, including their annual evaluation processes.

In aggregate, across the six firms over the latest three years, 50% of individual audit inspections conducted by the FRC have been assessed as requiring more than limited improvements. Within this aggregate, three of the firms have achieved consistently positive or generally positive outcomes with the remaining three achieving poorer quality results. The aggregate results of RSB inspections over the latest three years is more positive with 90% of audits being assessed as good or generally acceptable. Further details of our inspection findings are set out in Section 3 of this Appendix.

Our supervisory focus

Our supervisory focus at firms with better inspection outcomes is on supporting continuous improvement in response to firm-specific and audit market developments. At firms with significant or continuing inspection findings, in relation to their SoQMs and audit files, we focus on holding firms' leaders to account for the design, implementation and effectiveness of their quality improvement plans, integrated within the SoQM. This includes how these are reflected in, and supported by, the firms' monitoring and remediation processes. In line with our revised approach to audit supervision, we will, at each firm, conduct baseline inspection procedures, including an SoQM annual evaluation, and at least one audit file. We also conduct additional risk-based inspection and supervisory procedures in response to the specific risks we have identified.

[22] Details of firms' PIE audits and audit fees, alongside other information about the firms, are disclosed in their Transparency Reports. Links to firms' most recent Transparency Reports are included in Section 2 of this Appendix.

Appendix B - Other higher impact firms

2. Overview of each firm

Crowe U.K. LLP

The firm's SoQM is at an early stage of maturity and requires ongoing, substantive development. The firm is currently progressing a range of actions to strengthen its SoQM and improve audit quality. The firm's new leadership should reinvigorate its focus on remediating identified deficiencies, addressing the FRC's findings and assessing the effectiveness of the actions taken to improve audit quality.

Our inspection of the firm's SoQM, covering its 30 September 2024 annual evaluation (see Appendix A for details of the scope of this inspection), identified numerous findings, including in respect of the firm's risk assessment, the design and monitoring of responses, and other monitoring procedures. The firm is currently progressing remediation activities to address these findings, with particular emphasis on enhancing its monitoring and remediation framework, including RCA. Our current inspection, which covers the firm's 30 September 2025 annual evaluation, is ongoing, and the results will be reported to the firm in due course.

Results from FRC inspections of individual audits have remained below the required standard. The firm has introduced a range of initiatives, including with respect to its audit methodology and culture. The pace and depth of change, however, have not yet been sufficient to deliver the necessary improvement in audit quality. The outcome of the most recent ICAEW inspection was more positive.

The firm is developing a plan to transform audit quality as a key element of its SoQM remediation activities, bringing together and prioritising actions into a single, coherent programme to address identified deficiencies and improve audit quality. Our supervisory oversight will continue to be focused on the design and implementation of the audit quality transformation plan, its integration into the firm's SoQM, and how the firm evaluates the effectiveness of the actions it is taking.

The firm's own evaluations of its SoQM, under ISQM (UK) 1, as at 30 September 2024 and 30 September 2025, as reported on its website, concluded that, in line with paragraph 54(b) of ISQM (UK) 1 *"except for matters related to deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the SoQM, the SoQM provides [the firm] with reasonable assurance that the objectives of the SoQM are being achieved".*

The deficiencies reported as at 30 September 2024 relate to audit file completion and archiving, non-audit services controls, audit procedures in certain areas, EQR effectiveness, quality and reward linkage, RCA effectiveness, and the process for implementing remediation activities.

Those reported as at 30 September 2025 relate to the EQR process, inconsistent application of the firm's methodology and audit process, resourcing, adherence to firm procedures and policies, and monitoring and remediation.

Appendix B - Other higher impact firms

Grant Thornton UK LLP

The firm has maintained a strong focus on audit quality and its SoQM is well developed, with robust risk assessment and comprehensive responses.

Our inspection of the firm's SoQM, covering its 31 December 2024 annual evaluation (see Appendix A for details of the scope of this inspection), identified only limited findings in relation to the firm's documentation of its monitoring processes and how it identifies deficiencies and causal factors. The firm is currently progressing remediation activities to address these limited findings. Our current inspection, which covers the firm's 31 December 2025 annual evaluation, is ongoing, and the results will be reported to the firm in due course.

The results from inspections of individual audits by the FRC and ICAEW have continued to be positive with sustained high quality across several years.

The firm accepted private capital investment in 2025. During the transaction both the firm and investor worked constructively with the FRC on the arrangements put in place to maintain the firm's focus on audit quality. Our supervisory activity is focused on the impact of this investment including the firm's own monitoring of the operation of these new arrangements

The firm's own evaluations of its SoQM, under ISQM (UK) 1, as at 31 December 2024 and 31 December 2025, as reported in its Transparency Reports, concluded that, in line with paragraph 54(a) of ISQM (UK) 1, "*the Firm's SoQM provides the Firm with reasonable assurance that the objectives of the SoQM have been achieved.*"

Appendix B - Other higher impact firms

Johnston Carmichael LLP

The firm has maintained its strong focus on audit quality and made good progress in developing its SoQM in a manner appropriate to its circumstances. Further work is needed to develop certain key elements.

Our inspection of the firm's SoQM, covering its December 2024 annual evaluation (see Appendix A for details of the scope of this inspection), identified findings in relation to the firm's risk assessment, the identification and monitoring of responses, and the completeness of other monitoring procedures, including RCA. The firm is currently progressing remediation activities to address these findings, with particular emphasis on its RCA and other monitoring activities. Our current inspection, which covers the firm's 2025 annual evaluation, is ongoing, and the results will be reported to the firm in due course.

Results from recent inspections of individual audits by the FRC and ICAS have been largely positive. Where findings have been identified, the firm has undertaken RCA and developed remediation activities.

The firm has developed an Audit Quality Plan (AQP) to monitor its key audit quality initiatives. Our supervisory oversight will continue to focus on the AQP, its integration into the firm's SoQM, and the clarity of the current and emerging audit quality priorities, remediation actions and effectiveness measures.

The firm's conclusion from its evaluation of its SoQM as at December 2024, as reported in its Transparency Report, was that, in line with paragraph 54(b) of ISQM (UK) 1:

"Our conclusion was that, except for severe but not pervasive deficiencies and thematic findings, the SoQM provided reasonable assurance that the firm's quality objectives were achieved."

The firm reported that it had identified deficiencies and initiated remediation actions in relation to compliance with the annual fit and proper questionnaire process, the timeliness of conflict check confirmations for new client acceptance, documentation of the RI footprint within audit engagement files, and the timeliness of EQR sign offs in audit engagement files.

At the date of publication of this report, the firm's evaluation for 2025 has not yet been published (expected in September 2026).

Appendix B - Other higher impact firms

MHA Audit Services LLP

The firm's SoQM requires significant development. Its annual evaluation as at 31 March 2025 concluded that the firm was unable to obtain reasonable assurance that the objectives of the system of quality management were being achieved. The firm has been, since its March 2025 conclusion, undertaking ongoing extensive remedial actions to address identified weaknesses in its SoQM with the aim of strengthening its procedures and outcomes. This includes investing in additional resources, making enhancements to risk assessment, monitoring and remediation, and governance and leadership. The effectiveness of these actions will need to be demonstrated through implementation, monitoring and the firm's subsequent SoQM evaluation.

Our inspection of the firm's SoQM, covering its 15 December 2023 annual evaluation (see Appendix A for details of the scope of this inspection), identified numerous findings. These findings related to the firm's risk assessment, monitoring and remediation processes, including RCA. Our current inspection, which covers the firm's 31 March 2025[23] annual evaluation, is ongoing and the results will be reported to the firm in due course.

Results from inspections of individual audits by the FRC and the ICAEW have remained below the required standard. The firm is prioritising remediating actions to address its highest quality risks, and measures aimed at directly improving audit quality. This is alongside improving the timeliness and effectiveness of its RCA and remediation process.

Our supervisory oversight remains focused on holding the firm to account to improve audit quality, including challenging the prioritisation and design of remedial actions being taken, monitoring progress on the implementation of those actions and how the firm is assessing the effectiveness of the actions it has taken.

The firm's conclusion from its evaluation of its SoQM as at 31 March 2025, as reported in its Transparency Report, was that, in line with paragraph 54(c) of ISQM (UK) 1, "*the Firm is not fulfilling the requirements of ISQM (UK) 1 to meet its quality objectives and the Firm is not able to conclude with reasonable assurance that the Firm's SoQM is operating effectively.*"

At the date of publication of this report, the firm's evaluation as at 31 March 2026 has not yet been published (expected in July 2026).

[23] The firm has changed its annual evaluation date from 15 December to 31 March.

Appendix B - Other higher impact firms

PKF Littlejohn LLP

The firm's SoQM requires significant development. The firm is currently progressing a range of actions to strengthen its SoQM and improve audit quality. The firm's leadership must maintain a strong focus on remediating identified deficiencies, addressing the FRC's findings, and assessing the effectiveness of the actions taken to improve audit quality.

Our inspection of the firm's SoQM, covering its 15 November 2024 annual evaluation (see Appendix A for details of the scope of this inspection), identified numerous findings. These findings related to the firm's risk assessment, governance structures, the identification and monitoring of responses, completeness of other monitoring procedures, including RCA, and the completeness and robustness of the identification and evaluation of findings and deficiencies. The firm is currently progressing remediation activities to address these findings. Our inspection, which covers the firm's 30 September 2025 annual evaluation, is ongoing and the results will be reported to the firm in due course.

Results from inspections of individual audits by the FRC have remained below the required standard, while inspections of individual audits by the ICAEW have had better results. Actions to remediate the FRC's findings have been agreed and in a number of cases actioned by the firm but the effectiveness of these actions has not yet been assessed by the FRC.

Alongside specific actions in response to internal and regulatory findings, the firm has developed an Audit Quality Enhancement Plan (AQEP) to underpin improvements in audit quality through a range of remedial and forward-looking workstreams.

Our supervisory oversight will continue to be focused on the design and implementation of the AQEP, its integration into the SoQM, the activity of the AQEP workstreams and how the firm is assessing the effectiveness of the actions it has taken.

The firm's conclusion from its evaluation of its SoQM as at 15 November 2024, as reported in its Transparency Report, was that, in line with paragraph 54(b) of ISQM (UK) 1, "*Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the Firm with reasonable assurance that the objectives of the system of quality management are being achieved*".

The firm reported that it had identified one severe deficiency, in relation to the monitoring of the suitability of Service Providers used by the firm which was remediated by March 2025, and a small number of non-severe deficiencies, including in relation to the documentation supporting the SoQM itself.

At the date of publication of this report, the firm's evaluation as at 30 September 2025 has not yet been published (expected in September 2026).

Appendix B - Other higher impact firms

RSM UK Audit LLP

The firm has maintained a strong focus on audit quality. Its SoQM is generally well-developed, with robust risk assessment and response design.

Our inspection of the firm's SoQM, covering its 30 September 2024 annual evaluation (see Appendix A for details of the scope of this inspection), identified only limited findings, including the need to enhance documentation of the monitoring processes and the evidence obtained to fully support its conclusions on the operating effectiveness of the SoQM. The firm is progressing remediation activities to address these findings. Our inspection, which covers the firm's 30 September 2025 annual evaluation, is ongoing, and the results of this will be reported to the firm in due course.

Results from inspections of individual audits by the FRC and ICAS have continued to be positive with sustained high quality across several years.

Our supervisory oversight has been, and will continue to be, focused on the firm's governance structures in light of recent changes, including the arrangement entered into with the RSM network firm in the USA in early 2026. This is in the context of compliance with the Audit Firm Governance Code.

The firm's conclusion from its evaluation of its SoQM as at 30 September 2024, as reported in its Transparency Report, was that, in line with paragraph 54(a) of ISQM (UK) 1, *"the system of quality management provides reasonable assurance that the objectives of the system of quality management are being achieved."*

At the date of publication of this report, the firm's evaluation as at 30 September 2025 has not yet been published (expected in July 2026).

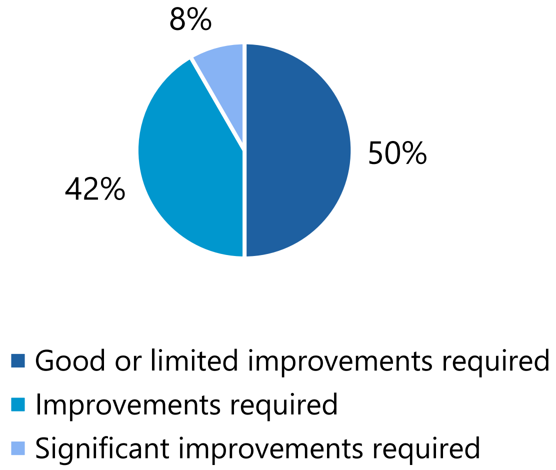
Appendix B - Other higher impact firms

3. Inspections of individual audits

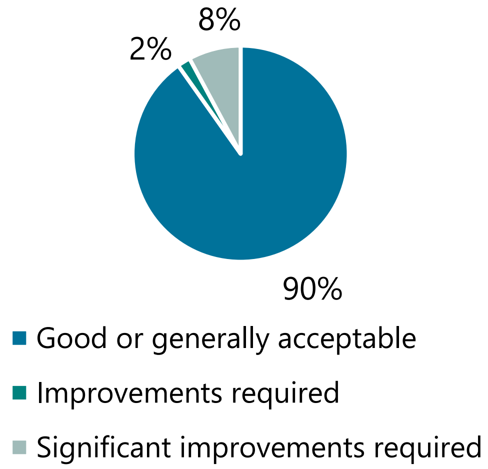
Assessment of the quality of audits inspected

The aggregated results of the FRC and Recognised Supervisory Body (RSB) inspections of audits performed by the six other higher impact firms are set out below:

FRC inspection results: 2023/24- 2025/26[24]



RSB inspection results: Most recent inspection visits[25]



Due to the small number of inspections performed each year by the FRC and RSBs, it is important not to focus on single year movements in inspection results, as these are likely to vary across firms and individual audits inspected. The analysis above therefore considers FRC and RSB inspection results over a three year period. When forming an overall view on audit quality, audit inspection results should be considered alongside other supervisory activity, such as the inspection of the firm's SoQM, as set out in Section 2 above.

The FRC's inspection results indicate that some of these firms are not consistently achieving the expected level of audit quality on their PIE audits, with half of the audits inspected in the last three years being assessed as requiring more than limited improvements, and 8% (two audits) assessed as requiring significant improvements. However, these results vary considerably by audit firm, with three of these firms achieving positive or generally positive results over the three year period, and the remaining three having poorer quality results.

The results from the most recent monitoring visits at each firm by the RSBs (ICAEW and ICAS) are significantly better than the results of FRC inspections over the last three years, with 90% of audits inspected achieving a good or generally acceptable outcome. This is a consistent trend with previous years, where the inspection results for PIEs and other entities in the FRC's scope have generally been lower than those for the population of audits inspected by the RSBs.

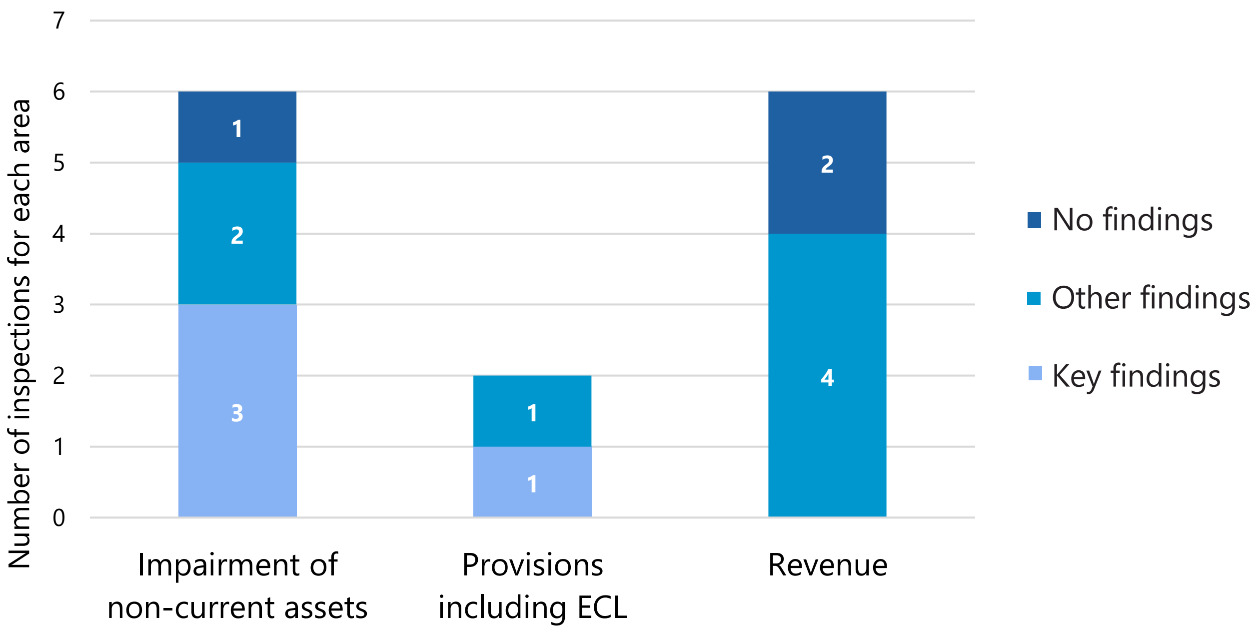
[24] The analysis covers FRC inspections of individual audits performed at other higher impact firms during the 2023/24, 2024/25 and 2025/26 inspection cycles. A total of 24 audit inspections were performed over this period (eight audit inspections each year).
[25] Based on the most recent full inspection visits for each audit firm to 31 March 2026. Of these, one audit firm was last inspected in the 2023/24 inspection cycle, three in 2024/25 and two in 2025/26. A total of 51 full audit inspections were performed in these visits.

Appendix B - Other higher impact firms

FRC findings and good practice

Analysis of areas with findings

Set out below are the most significant areas with findings from our 2025/26 inspections of audits performed by other higher impact firms, and the number of inspections they arose on. These reflect key findings, and other findings that occurred more frequently, on the audits inspected. Details of the distinction between key and other findings can be found here.



Findings

Impairment of non-current assets

- **Cash flow forecasts**: On three audits, insufficient procedures were performed to test the appropriateness of significant assumptions underpinning the cash flow forecasts used in management's impairment assessments.
- **Impairment assessment methodology**: On one audit, the audit team did not adequately challenge management to prepare a formal impairment assessment in accordance with the applicable financial reporting standards. On another audit, the audit team did not obtain sufficient appropriate audit evidence to support its conclusion that management's method for assessing the recoverable amount of the parent company's investment in subsidiaries was appropriate.
- **Impairment indicators:** On two audits, inadequate procedures were performed to evaluate the completeness and / or appropriateness of impairment indicators identified by management. On one of these audits, the procedures performed to test which CGUs were impacted by each impairment indicator were also not sufficient.

Appendix B - Other higher impact firms

- **CGU assets and liabilities**: On three audits, we identified weaknesses in aspects of work performed to test the allocation of assets and liabilities to cash generating units.

Provisions including ECL

- **Measurement and completeness of provisions:** On one audit, the audit team did not obtain sufficient, appropriate audit evidence to support its conclusions over the accurate measurement and completeness of certain provisions.
- **ECL allowances:** On another audit, the audit team did not sufficiently challenge or obtain sufficient corroborative evidence to support management's assessment of the impact of forward-looking adjustments on expected credit loss allowances.

Revenue

- We identified other findings on four of six inspections where revenue was inspected. These included findings relating to the evaluation and challenge of contract accounting assumptions, the assessment of manual adjustments to revenue and the testing of revenue transactions.

Good practice examples

- **Going concern:** One audit team performed a comprehensive analysis of the audited entity's trading circumstances as part of its assessment of going concern.
- **Group audit oversight:** One group audit team increased its level of oversight and involvement with a component audit to robustly respond to specific risk factors identified in the year.

Appendix C – Audit firms covered in this report

Largest six audit firms

- BDO LLP
- Deloitte LLP
- Ernst & Young LLP (EY)
- Forvis Mazars LLP
- KPMG LLP
- PricewaterhouseCoopers LLP (PwC)

Combined, these firms perform 77.7% of all PIE audits by volume and 95.1% by audit fees. 83.7% of all PIE registered RIs are registered with these firms. Please see Appendix B for firm specific reports.

Other higher impact audit firms

- Crowe U.K. LLP
- Grant Thornton UK LLP
- Johnston Carmichael LLP
- MHA Audit Services LLP *(MHA – previously MacIntyre Hudson LLP)*
- PKF Littlejohn LLP
- RSM UK Audit LLP

Combined, these firms perform 15.6% of all PIE audits by volume and 2.7% by audit fees. 10.4% of all PIE registered RIs are registered with these firms. Please see Appendix B – Other higher impact firms for the aggregated results related to these firms.

Remaining PIE audit firms

- Anstey Bond LLP
- Beever and Struthers (now part of Menzies)
- Bright Grahame Murray
- Deloitte (NI) Limited
- Ernst & Young *(Ireland)*
- Gerald Edelman LLP
- Grant Thornton (NI) LLP
- Gravita Audit II Limited
- HaysMac LLP
- Johnsons Financial Management Ltd
- KPMG *(Ireland)*
- KPMG Audit Limited *(Jersey)*
- KPMG Audit LLC *(Isle of Man)*
- Kreston Reeves Audit LLP *(previously Kreston Reeves LLP)*
- LB Group Ltd
- MCA Audit Limited *(previously Macalvins Limited)*
- Menzies LLP
- Moore Kingston Smith LLP
- Parker Russell UK LLP
- Pointon Young Limited
- Price Bailey LLP
- Royce Peeling Green Limited
- RPG Crouch Chapman LLP
- Zenith Audit Ltd

These remaining firms which were registered in the period covered by the report perform 6.7% of all PIE audits by volume and 2.2% by audit fees. 5.9% of all PIE registered RIs are registered with these firms. In Section 7 of this report, “other PIE audit firms” refers to both “other higher impact firms” and “remaining PIE audit firms” above.

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