



Financial Reporting Council

BDO LLP

Audit Quality Inspection and Supervision

July 2025

Using this publication

The Financial Reporting Council (FRC) is responsible for the regulation of UK statutory auditors and audit firms. We assess, via a fair evidence-based approach, whether firms are consistently delivering high-quality audits and are resilient.

This report sets out the FRC's findings on key matters relevant to audit quality at BDO LLP (BDO or the firm). It should be used alongside the FRC's [Annual Review of Audit Quality](#), which contains combined results and themes for all firms¹ that were inspected this year.

Given our risk-based approach to selecting audits for inspection, 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. 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.

Individual audit and System of Quality Management (SoQM) inspection findings are not the only metrics to assess audit quality. This report also considers other wider measures, such as the results of audit inspections completed by the Institute of Chartered Accountants in England and Wales (ICAEW) and results from the firm's own internal quality reviews. The firm's response to the findings and the actions it plans to take as a result are included on page five and Appendix B.

This report is for general use by interested parties. However, we expect the following:

- BDO to use this report and its peers' reports to facilitate continuous improvement through actions in its Single Quality Plan (SQP).

- Other audit firms of all sizes to use this report for examples of good practice.
- Audit Committees to use this report to help them assess the quality of their audit/auditor and when appropriate as part of the process of appointing a new auditor.
- Investors to use this report in making assessments about the quality of audit, transparency and accountability in the relevant markets.

Throughout this report, the following symbols are used:



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



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



Represents an observation relating to the firm's initiatives to improve audit quality.

Our Supervisory Approach²

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



Further details on our approach to audit supervision can be found [on our website](#). We also separately publish the findings of our major local audit inspections each year, the latest publication was in July 2025 and can be found on our [website](#).

¹ The six annually inspected firms in 2024/25 were: BDO LLP, Deloitte LLP, Ernst & Young LLP, KPMG LLP, Forvis Mazars LLP, and PricewaterhouseCoopers LLP. We have published a separate report for each of these firms along with a cross-firm [Annual Review of Audit Quality](#), which also includes results of firms not inspected annually.

² We are currently reviewing our future approach to audit supervision. Further details can be found in the [Annual Review of Audit Quality](#).

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1. Overview – overall assessment

The firm’s new Leadership Team have renewed their commitment to, and investment in, audit quality. However, there remains much to do, including improving the firm’s system of quality management, as the inspection results at BDO are significantly short of expectations and we continue to identify recurring underlying findings. We recognise that removing barriers to change can take time. We expect BDO to not be complacent and ensure change happens at pace. We are pleased that the firm is taking a holistic approach with initiatives across a number of key areas. While the firm continues to work on improving its quality, we will work with it to perform additional activities to assess quality and the rate of improvement and have taken and will continue to take appropriate regulatory measures, given the firm’s strategic importance to the market.

Firm’s system of quality management (SoQM)

The firm is committed to improving its SoQM and has made progress since the previous year. The firm needs to fully implement and monitor responses to all its quality risks, strengthen its assessments of the design, implementation, and operation of these responses, and assess the effectiveness of remediating and mitigating actions. The firm’s assessment of pervasiveness of deficiencies must be strengthened, particularly in aggregate, to ensure that its annual evaluation conclusion is appropriately supportable.

FRC audit quality inspections

The percentage of audits inspected by the FRC requiring no more than limited improvements was 50%. Of the 14 audits we inspected, four (29%) were found to require significant improvements. There were, again, recurring findings related to the challenge and testing of estimates and assumptions, the audit of revenue, and quality control procedures, plus we have identified findings in other areas including audit planning procedures. BDO must urgently reassess how to improve its quality in these areas and take appropriate action, and in addition assess and address the emerging findings from our follow-up reviews.

SoQM inspection approach

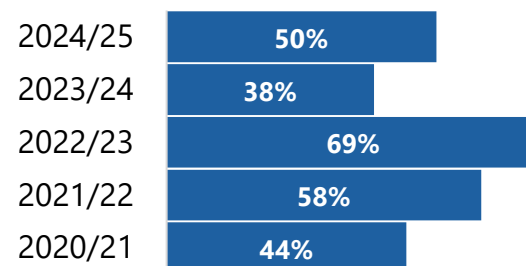
We assessed the following aspects of the scoped in areas of the firm’s SoQM, with each one building upon the next.

- Do the quality risks appear complete and appropriate?
- Have appropriate responses been identified and described to demonstrate how quality risks can be mitigated?
- Was there adequate monitoring of these responses and other relevant information?
- Have deficiencies been identified and individually assessed?
- Was the aggregate impact of deficiencies assessed?

See good practice points and findings in **section 3**.

FRC audit quality review inspection results at BDO

% of audits inspected by the FRC requiring no more than limited improvements (Section 2)



4
audits inspected
by the FRC in
2024/25 required
significant
improvements

Other audit quality inspection results at BDO

The overall results profile for inspections by the ICAEW is 70% classified as good or generally acceptable (page 14). The results of the firm's own internal quality monitoring are set out at Appendix A.

1. Overview – Firm and FRC actions

BDO's response

Our AQR results do not meet the consistent high standards we expect on all our engagements and findings continue to recur. We are encouraged by the increase in the number of engagements requiring no more than limited improvements. However, the number of engagements requiring significant improvements has deteriorated, this is not acceptable to us and as a Firm we are focussed on delivering consistency in our audit quality.

In late 2024 the firm elected its new Managing Partner, and a new Leadership Team (LT) was formed. Under the new LT a Strategic Refresh has been undertaken, a significant inflection point. A key pillar of the new LT strategy is to improve audit quality. Through the Strategic Refresh we have critically assessed our challenges and the barriers to delivering consistent high-quality audits. In response we have adopted a suite of forward-looking, practical initiatives which will affect positive change. Pivotal to the success of these initiatives is breaking down behavioural barriers to change and continuing to drive a culture of scepticism and challenge in all our professionals. Building on our High Performing Teams programme, we are working with performance analysts to support us in cementing the continuous improvement mindset that is critical to improving the consistency of our audit quality.

We have reaffirmed our steadfast commitment to the PIE audit market. We are committed to building on the investment made to date - we are not, and never will be, complacent. We embrace the further change required, underpinned by a constructive and open relationship with the FRC.

BDO's actions

Strategic initiatives directly targeting audit quality include: investing in standardisation, digital tools and automation, creation of on demand targeted learning supported by on-the-job coaching and continued embedding of our High Performing Teams audit culture framework to embrace the benefits of alignment, continuous learning and improvement.

These strategic initiatives are complemented by short-term measures, including a significant expansion of in-flight reviews, heightened monitoring and support for live audits and establishment of an Audit Quality Executive (AQE).

FRC's actions

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

- Maintain the number of audits to be inspected at 14.
- Undertake further targeted follow-up reviews to assess quality and the rate of improvement.
- Maintain a level of intensive supervision in relation to the effectiveness of short-term measures taken, the firm's strategic audit quality transformation and implementation of an effective SoQM, including through additional activities.
- Hold the firm to account for setting appropriate actions, enhanced engagement on delivery of remediation, and monitoring of their effectiveness through the SQP process.

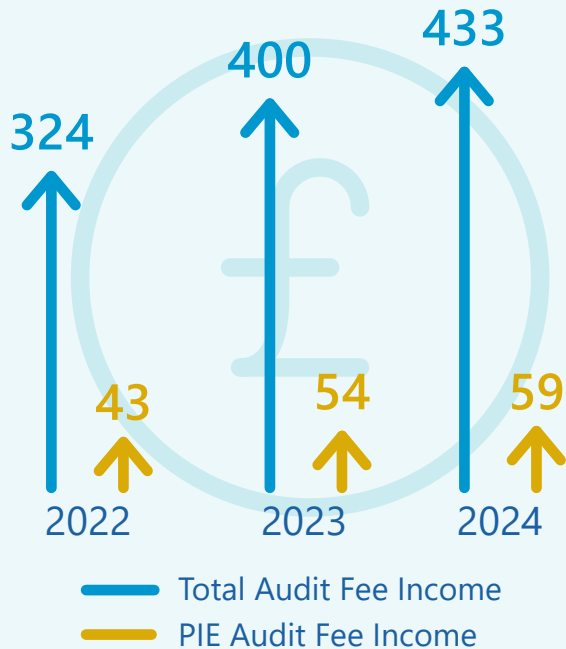
BDO LLP – at a glance

Audits within the FRC’s inspection scope³

Inspection cycle	FTSE 100 audits	FTSE 250 audits	Total audits in FRC scope	Public Interest Entity (PIE) audits ⁴	Number of PIE Responsible Individuals ⁴
2025/26	2	26	206	183	67
2024/25	1	23	230	189	69
2023/24	0	25	264	215	68

PIE Auditor Registration data

Audit fee income⁵ £m



Total Audits⁶
6,805

Responsible Individuals⁶
188



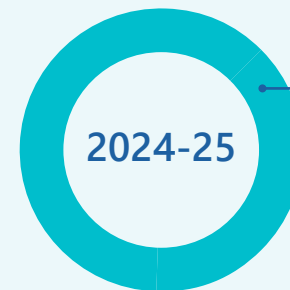
Professional Staff⁶
7,278

Offices⁶
18

Audits inspected by the FRC⁷



Local audits⁸



Non-major audits **0**

Major audits **5**

Major audits inspected **1**

3 Source – FRC analysis of the firm’s PIE audits and other audits included within the Audit Quality Review scope as at 31 December 2024.

4 Source – FRC’s PIE Auditor Registration data as at 31 December 2024. There may be timing differences between the collation of this data and the FRC inspection scope data.

5 Source – FRC’s 2023, 2024 and 2025 editions of [Key Facts and Trends in the Accountancy Profession](#). Audit fee income may be prepared to different reference dates by different firms.

6 Source – ICAEW’s 2025 Quality Assurance Department (QAD) Report on the firm. Data has been prepared by different firms using different reference dates and methodologies. The FRC has not validated the methodologies used.

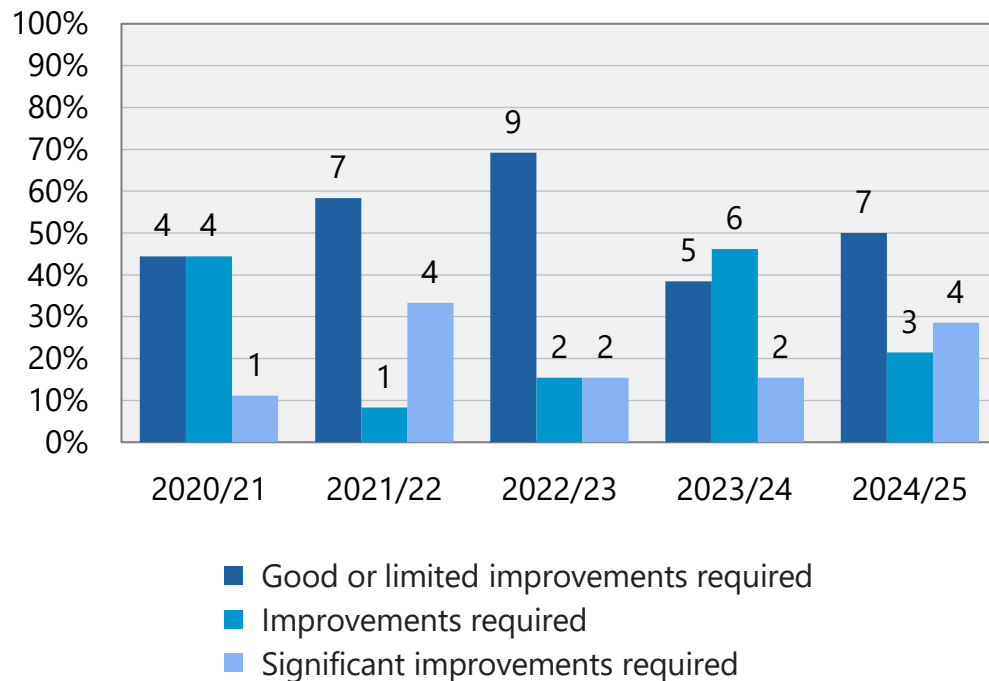
7 Excludes the inspection of local audits.

8 Source – FRC analysis of Major Local Audits (MLA) as at 31 March 2024. The FRC’s inspections of MLAs are published in a separate annual report which can be found on [our website](#).

2. Inspection of individual audits

Our 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. Whilst this is an improvement on the 38% shown in the prior year, the number of audits assessed as requiring significant improvements doubled to four, which is unacceptably high within the sample of audits inspected.



The audits inspected in the 2024/25 cycle had year-ends ranging from June 2023 to March 2024. Changes to the proportion of audits falling within each category reflect a wide range of factors, including the size, complexity and risk of the audits selected for inspection and the individual inspection scope. Our inspections are also informed by the priority sectors and areas of focus. 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 on our [website](#).

2. Inspection of individual audits

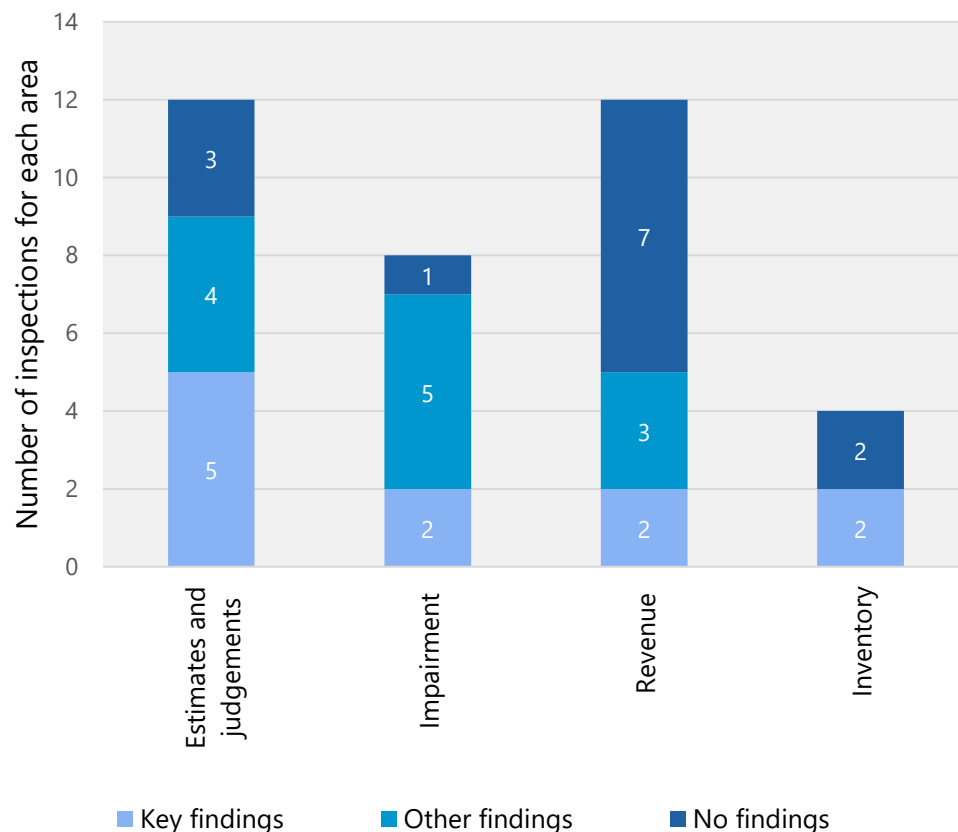
We set out below the **findings** in areas where, based on our inspections, we believe improvements in audit quality are required. These findings related to key findings on our individual inspections, which impacted our assessment of quality in those audits (as set out on the previous page), as well as other findings in the same areas that occurred frequently.

Findings	Why it is important
Improve the audit team's challenge of assumptions and judgements in areas of key estimation uncertainty	Auditors should adequately assess and challenge the reasonableness of management's estimates and assumptions to respond to the risk of management bias.
Improve the audit of impairment of goodwill and non-current assets	Auditors should adequately assess and challenge management's evaluation of impairment as this often involves significant judgement and can be subject to management bias or error.
Improve the firm's audit quality control procedures	Rigorous audit quality control procedures enable auditors to conclude that they have performed an appropriate level of audit work to support their conclusions and their audit report.
Improve the audit of revenue	Auditors should obtain sufficient and appropriate audit evidence to assess whether revenue is accurately recognised as it is a key driver of the entity's results.
Improve the quality and extent of audit planning procedures, including group scoping and risk assessment	Auditors should perform a robust planning and risk assessment to identify significant and other risks and determine the appropriate audit response to mitigate them.

Further details of the above findings, as well as good practice points, are set out on the following pages.

2. Inspection of individual audits

Analysis of areas with findings by significance



The above graph is an analysis of findings over the areas of focus. We also identified findings in the overarching areas of quality control and planning procedures.

Most findings are in recurring areas, including the audit of revenue, estimates and judgements and quality control procedures. These have all been recurring findings for five or more years. The firm must take immediate and substantial steps to reduce the occurrence of issues in these areas and work to eliminate the proportion of audits assessed as requiring significant improvements.

Improve the audit team's challenge of assumptions and judgements in areas of key estimation uncertainty



Last year we stated that the firm should urgently address the deficiencies in the quality of the audit work over key estimates and judgements, having reported on issues for five consecutive years. Our recent inspections have identified findings across five financial statement line item areas.

- Valuation of receivables and expected credit losses:** On two audits, there was a lack of challenge by the audit team of the methodology and assumptions applied in determining an expected credit loss provision. On one of these audits, this included an inadequate assessment of the impact of an ongoing dispute on the expected credit loss model. On the other audit, there was also insufficient corroboration of key judgements relating to the recognition and measurement of receivables. On a further audit, there were insufficient procedures over the completeness and accuracy of data used to compute a provision.

2. Inspection of individual audits

- **Valuation and completeness of provisions:** The audit team did not demonstrate appropriate professional scepticism in the audit of a defects provision, including a lack of challenge of the criteria for recognition and the accuracy of the assumptions applied. On the same audit, there was insufficient evidence to support both the completeness of provisions and the assessment of the impact of a change in accounting standards on onerous contract provisions.
- **Valuation of pension assets:** Three audit teams performed inadequate procedures to challenge the valuation methodology for pension assets. In addition, weaknesses were identified in the audit team's assessment of control reports used to support the valuation and existence of these assets.
- **Valuation of other assets held at fair value:** On two audits, the team did not perform sufficient procedures to conclude on the appropriateness of the methodology and key assumptions supporting the asset valuations. On one of these audits, the team did not evidence an evaluation of the sufficiency and appropriateness of work performed by an auditor expert in the valuation's team.
- **Capitalisation of internal costs:** Three audit teams did not sufficiently challenge or corroborate the key judgements in capitalising internal costs. Specifically, there was a lack of assessment of ratio assumptions used to capitalise costs and whether the capitalisation criteria of the accounting standards had been met.

Improve the audit of impairment of goodwill and non-current assets



Last year we reported that the firm needed to improve the quality of its audit work over impairment of goodwill and non-current assets. We continue to identify findings in the current inspection cycle.

- **Cash flow assumptions:** On three audits, there was inadequate challenge and sensitivity analysis performed by the audit team of cash flow forecasts, particularly revenue and margin assumptions, used in impairment models. On another audit, there was inadequate assessment of management's forecasting accuracy and the impact of this on forecast assumptions.
- **Methodology assessment:** On two audits, the team did not assess whether the impairment methodology or information provided by management met the requirements of the accounting standards.
- **Allocation of assets:** When assessing potential impairments, two audit teams did not adequately evidence their assessment of the completeness and accuracy of assets allocated to individual cash generating units.
- **Use of experts:** On one audit, we identified a lack of evidence of the audit team's review and resolution of matters raised by the auditor's expert over discount rates in the impairment model. On another audit, there was insufficient evidence of the audit team's understanding and evaluation of work performed by management's experts.

2. Inspection of individual audits

- **Assessment of accounting treatment:** An audit team performed inadequate procedures to conclude that a material impairment reversal was recognised in the correct accounting period.
- **Controls reliance:** One audit team relied upon a management review control to provide assurance over impairment, without appropriately evaluating the precision and robustness of the control.

Improve the firm's audit quality control procedures



For the fifth year in succession, we have identified issues with the firm's quality control procedures.

- **Rigour of quality control procedures:** The review processes performed by the audit partner and Engagement Quality Reviewer (EQR) on three audits lacked sufficient rigour, challenge or precision over key areas of the audit.
- **Evidence of EQR review:** On another audit there was insufficient evidence of the EQR's review and their challenge of the audit work.

Improve the audit of revenue



We have seen improvements in the volume of findings in the audit of revenue. However, for the sixth year in succession, we have identified findings in this area.

- **Long-term contracts:** On one audit, the audit team performed inadequate procedures over long-term contracts to conclude on the revenue recognised. Specifically, there was insufficient corroboration and challenge of the level of forecast hours for each contract. On another audit, there was insufficient evidence to support both the recognition of unagreed claims and variations on certain contracts and the level of aggregation risk in untested populations.
- **Sales rebates:** On one audit, sales rebate transactions were not audited to appropriate third party or independent evidence, with the audit team instead relying on one financial control, over which undue reliance was placed due to limited precision and evidence of the control operating. The audit team also failed to test material amounts of older rebate accruals, in order to conclude that the sales rebate balance was free from material misstatement. In addition, on this audit and one further audit, there was insufficient evidence of procedures over completeness of rebate accruals, particularly enquiries with individuals outside of the finance team.
- **Cut-off procedures:** The audit team did not sufficiently assess and respond to errors identified in its substantive testing procedures over revenue cut-off.

2. Inspection of individual audits

Improve the audit of the valuation of inventory

Last year we reported that the firm needed to improve its audit work over inventory. However, findings have continued.

- **Net realisable value (NRV) assessment:** On one audit, the team did not adequately challenge and sensitise the assumptions in management's NRV assessment, especially given a material proportion of the inventory was long-term in nature.
- **Impact of post balance sheet events:** On another audit, the audit team did not demonstrate sufficient scepticism when assessing the risk of impairment of inventory, particularly following a significant loss on disposal being recognised post year-end.
- **Inventory provisions:** On the above audit, the team also did not adequately assess the completeness of slow-moving or aged inventory items, nor the appropriateness of provision percentages applied to such items.

Improve the quality and extent of audit planning procedures, including group scoping and risk assessment

We reviewed planning and risk assessment procedures on all fourteen audits we inspected and identified findings on half of them.

- **Risks arising from General IT Controls (GITC):** On two audits, we identified a lack of appropriate assessment and subsequent response in the financial statement audit to risks arising from GITC testing, specifically user access and segregation of duty risks. In addition, in one of these audits, insufficient risk assessment procedures were performed to support the audit team's GITC testing approach.
- **Group audits:** Two audit teams did not appropriately justify their group scoping plan, where there was an inadequate evaluation of the level of coverage and residual risk of components not subject to full-scope audit procedures. On another audit, there was insufficient challenge of a disparity in risk assessment between the group and component audit team across three audit areas.
- **Other risk assessment findings:** On three audits, insufficient risk assessment procedures were performed to substantiate the audit approach adopted or in justifying limiting certain audit procedures. Weaknesses included insufficient sensitivity analysis and a lack of evidence and understanding of processes, controls and the nature of balances being audited.

2. Inspection of individual audits

We also identified **good practice** in the audits we inspected, including:



Risk assessment and planning

- **Revenue contracts:** On one audit, the team's analysis of long-term contracts for sample testing was granular and incorporated multiple risk factors.
- **Group audits:** We observed aspects of a group audit being well-planned, including detailed templates for the audit of revenue designed by the group audit team for use at the component level.
- **Loan book:** The audit team's understanding of the loan book resulted in the identification of risks at a granular level and a focused testing response.

Execution

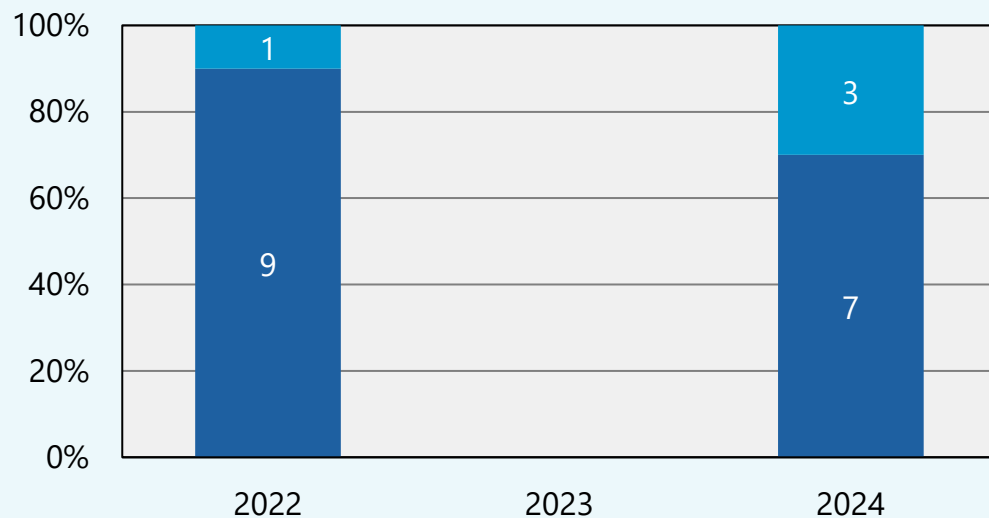
- **Challenge of management:** We identified examples of robust audit challenge over managements accounting policies, resulting in material audit adjustments in two audits.
- **Use of experts:** The audit team's actuarial experts demonstrated a good understanding of the entity's business on this audit and performed multiple procedures to conclude on the reasonableness of a financial statement balance.
- **Group audits:** In one audit, the team performed a stand back assessment of the consolidation journal entries, focusing on the aggregate impact by individual financial statement line item.
- **Revenue:** We observed aspects of a revenue approach being well executed, including robust analysis of transactions and targeted procedures on outliers.

Monitoring review results by the Quality Assurance Department of ICAEW

ICAEW undertakes independent monitoring of the firm's non-PIE audits, under delegation from the FRC as the Competent Authority. ICAEW's work covers private companies, smaller AIM listed companies, charities and pension schemes. The FRC is responsible for monitoring the firm's firm-wide controls and ICAEW additionally reviews training records for a sample of the firm's staff involved in the audit work within ICAEW remit.

Of the ten files we reviewed, seven files were either good or generally acceptable, and three files required improvement. On one of the files requiring improvement, the audit file lacked evidence of sufficient oversight and supervision of component auditors and there were weaknesses in key areas of audit work where component auditors were used. On the other two files that required improvement, we found weaknesses in different aspects of the audit work on inventory.

A detailed report summarising the audit file review findings and any follow-up action proposed by the firm will be considered by ICAEW's Audit Registration Committee in July 2025.



- Significant improvement required
- Improvement required
- Good/generally acceptable

Good practice



ICAEW identified good practice across most of the files reviewed. Examples included:

- Good use of the Risk and Response screen to document the assessment of risks and planned responses.
- Clear documentation with cross referencing in areas including impairment assessment, IT Application Controls and data analytics.
- Good challenge of management on the methodology applied in determining profit recognition and the basis of their estimates of contract outcomes.

ICAEW assesses audit quality as 'good', 'generally acceptable', 'improvement required', or 'significant improvement required'. File selection is focused 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.



3. Inspection of the firm's system of quality management ISQM (UK) 1 and 2

In this section, we set out the findings and good practice identified in our inspection of the firm's SoQM. 2024/25 is the first inspection cycle that we have solely inspected firms under ISQM (UK) 1, as 2023/24 was a transitional cycle from ISQC (UK) 1. In the interests of proportionality, we adopt a rotational approach to inspection, ensuring all components of the SoQM are inspected across a three-year cycle. Details of our ISQM (UK) rotational testing can be found on our [website](#). A glossary of some key ISQM (UK) terms can be found in Appendix C.

Inspection approach in 2024/25 cycle

In this inspection cycle, we inspected the firm's SoQM **risk assessment** and the **design and implementation of responses** in the Governance and Leadership (G&L), Information and Communication (I&C), Human Resources (HR), and Relevant Ethical Requirements (RER) components of the firm's SoQM.

For each component we also inspected a small sample of the **monitoring procedures** performed by the firm to assess the operating effectiveness of responses. This sample focused on responses with significant elements of judgement, including management review controls and processes.

We also inspected the process, evidence, and outcome for the firm's **annual evaluation** of its SoQM as at 30 June 2024. This included how other sources of information on audit quality and the firm's SoQM were considered, and how the aggregated significance of findings and deficiencies were assessed. We did not independently perform, or reperform, this annual evaluation. As ISQM (UK) 1 is focused on how firms achieve continuous improvement, we assessed how the firm has developed its SoQM, including in response to the findings we shared during the inspection period.

We scoped our inspection of each component based on consideration of risk, including the results of previous monitoring and root cause analysis. We focused on high-risk areas in respect of:

Component	Focus areas
G&L (annual review)	Reporting to leadership on the SoQM and the culture of quality
I&C (rotational review)	Promoting and driving two-way communication with and between audit personnel
HR (rotational review)	Resource management and allocations for audit engagements and SoQM activities
RER (annual review)	Approval of non-audit services (NAS), and the length of involvement, on audit engagements, by key audit partners and the firm

3. Inspection of the firm's system of quality management ISQM (UK) 1 and 2

BDO is committed to improving its SoQM and has made progress since the previous year. The firm needs to fully implement and monitor responses to all its quality risks, strengthen its assessments of the design, implementation, and operation of these responses, and assess the effectiveness of remediating and mitigating actions. The firm's assessment of pervasiveness of deficiencies must be strengthened, particularly in aggregate, to ensure that its annual evaluation conclusion is appropriately supportable.

In this section, we are solely reporting on the specific matters where we have identified that further improvement is needed and areas where we have observed particularly good practice.

Design and implementation of responses to quality risks



- **Completeness and design assessment of responses:** The firm did not undertake walkthroughs and perform design assessments for all responses. For example, it was not clear how the design of the RER responses mitigated all relevant risks, including that of incomplete NAS approvals, and the firm's policies and procedures not being followed, how certain I&C were appropriately designed to fully mitigate the relevant risks, and how the HR responses covered resource management for internal and external individuals performing SoQM monitoring activities.
- **Workload monitoring:** The firm used various workload monitoring processes to identify and respond to instances of individuals whose workloads may be too high. However, these were not captured as responses in the SoQM, so were not assessed to ensure they were appropriately designed, implemented and operating effectively. Therefore, it was overall

not clear how the firm ensured it identified and addressed, on a timely basis, where individuals may not have sufficient capacity.

Monitoring procedures



- **Insufficient evidence on how specific risks were mitigated:** In certain areas, the firm did not monitor if there was effective mitigation of risks, such as those relating to the probation process, as operating effectiveness was not assessed for any mapped response.
- **Monitoring procedures over responses:** Within the sample reviewed, the operating effectiveness testing did not consistently assess whether all elements of the responses operated consistently as designed. In particular, the monitoring did not always assess how review responses were undertaken to identify and follow up concerns. Therefore, the firm did not evidence how it concluded if its responses effectively mitigated risks.
- **Identifying ineffective responses through monitoring:** In some instances, the monitoring identified exceptions and the firm concluded that these exceptions were isolated and did not indicate ineffective response, without sufficient justification.
- **NAS provided by non-network component auditors:** Our sample testing of four non-network component auditors found one instance where the firm was unaware of an overseas NAS provided by the component auditor. This indicated an increased risk of unidentified ethics breaches at the firm.

3. Inspection of the firm's system of quality management ISQM (UK) 1 and 2

Annual evaluation process



- Aggregate assessment of the pervasiveness of deficiencies:** The firm did not adequately assess why its identified deficiencies were not pervasive in aggregate, based on the range and extent of quality objectives. The firm also did not adequately justify why there was not a pervasive deficiency in respect of the engagement performance component, based on the findings and deficiencies identified including those identified in recent internal and external audit inspections.
- Assessment of the effectiveness of remediating and mitigating actions:** The firm did not adequately assess the effectiveness of remediating and mitigating actions that were fully or partly relied upon when evaluating SoQM findings and potential deficiencies. Therefore, the firm did not sufficiently evidence how findings and potential deficiencies were mitigated and therefore there could have been additional severe deficiencies which were not included in the evaluation.
- Completeness of other sources of information:** When identifying SoQM findings, the firm did not adequately consider the number and nature of identified prior year adjustments, or the results of staff surveys. Therefore, the firm did not sufficiently evidence how it ensured that all SoQM findings were identified.
- Deficiency regarding the global conflict check system:** The firm recognised a deficiency as it did not have assurance over the global conflict check system. The firm did not sufficiently assess compensating responses, such as engagement level

reconciliations, to manage the risk of network firm's providing non audit services that compromise the UK firm's independence.

Good Practice



- RI portfolio reviews:** The firm gathers and uses a wide array of data to inform its assessment of RI capacity, competence, and capability and drive decisions on RI portfolios.
- Evidencing elements of the annual evaluation:** For the annual evaluation process, the firm prepared a paper to assess the attainment of each objective, bringing together the results of monitoring of the related responses and the matters arising from monitoring of other sources of information. This supported a holistic assessment of each objective based on capturing and comparing a wide array of information to help ensure all inputs were considered and contradictory information could be assessed. These papers included some examples of robust assessment.

4. Forward-looking supervision

We adopt a risk-focused, outcome-based, and proportionate approach to supervising firms, which complements our inspection programme. We balance holding firms accountable for promptly addressing quality findings with encouraging proactive improvement behaviours and sharing best practices to facilitate improvements across the firm and audit market. Each firm has a dedicated Supervisor who gathers evidence and risk indicators, identifies and prioritises actions firms must take to serve the public interest by enhancing audit quality and resilience. This includes anticipating future challenges and potential issues. Our observations from this year's work, along with updates on what the firm must do regarding previous observations, are set out below. When we identify findings, we require the firm to include actions in their SQP.

Single Quality Plan and other key quality initiatives

We require the largest PIE audit firms to maintain an SQP to drive measurable improvements in audit quality and resilience, and to demonstrate the effectiveness of actions taken. The SQP ensures action is prioritised in the most critical areas and enables firms to be held to account by us and their non-executives.

Observations



- Standardisation:** The firm has identified that lack of standardisation poses a risk to delivering consistent audit quality. A multi-year initiative is underway that should improve the consistency of methodology applied, the adequacy and consistency of analysis performed, and the documentation of audit evidence.
- Actions to support audit quality:** The firm acted to expand the coverage and scope of its inflight review programme to better support audit teams. The firm's quality controls have been strengthened including safeguards in relation to individuals.
- Three lines of defence model:** The firm has implemented a new operating model based on three lines of defence which puts deliberate emphasis on the critical role the first line plays in achieving consistent audit quality. A Quality Leaders Council and Quality Leaders Network provide oversight and connectivity to support the embedding and effectiveness of the new model.
- SQP:** The firm's SQP effectiveness reviews have highlighted where actions taken are not yet effective and where consideration needs to be given to further initiatives or cultural change. The firm's SQP process has identified Specialists & Experts as a thematic priority that will drive improvements across a range of audit areas. The SQP process has continued to evolve and facilitates a holistic and forward-looking approach to improving audit quality.

Knowledge and mindset: The firm must address identified knowledge gaps. It must also ensure audit team mindsets, degree of autonomy and behaviours are aligned to consistently deliver high-quality audits.



4. Forward-looking supervision

Upholding high standards and continuous improvement

We expect firms to take prompt action to address quality findings and to set a tone at the top that prioritises continuous improvement.

Observations



- **Tone at the top:** Under the new Leadership team the firm remains clear and consistent in its communications around the importance of audit quality. Audit leadership have reinforced that this is the responsibility of the whole audit practice.
- **Constructive engagement:** We have engaged on six cases in the period since the last report, one of which is ongoing. The firm has responded positively.
- **Financial Services:** Actions taken under the firm's Financial Services Audit Quality Improvement Plan underpin progress in delivering high-quality audits. These include reshaping of the audit portfolio, active engagement with audit teams on methodology, and the introduction of a Centre of Excellence. Financial Services has had demonstrably improved results in the firm's internal quality monitoring.
- **Follow up reviews:** Our follow-up review process across six audit files concluded that there was still a high number of findings where sufficient or appropriate action had not been taken by the firm, although our number of findings was reduced.

Recurring findings: The firm must leverage its investment in its System of Quality Management and ensure that actions taken are consistently embedded to mitigate the persistent recurring findings.



High Performing Teams: The firm has demonstrated strong engagement and speed of progress in developing and embedding its High Performing Teams framework and Audit Specific Behaviours programme within audit.

The areas where there had been insufficient progress included: revenue recognition, impairment of goodwill and other assets, inventory, and valuation of financial instruments. The firm's strategic quality initiatives must take the causal factors from these follow-up reviews into account.

- **Root Cause Analysis (RCA):** There is a deepening linkage between RCA and the firm's SoQM. Specific SoQM findings have been identified from in depth analysis and aggregate consideration of RCA findings, which in turn has led to consideration of whether additional quality objectives are required. SoQM findings are being used to support deeper analysis and probing in RCA interviews.
- **RCA toolkit:** The RCA function's toolkit has been strengthened by bespoke training from a behavioural expert on managing difficult conversations, biases, and how to influence leadership. More consistent challenge in the interview process and deeper consideration of biases has improved its causal factor analysis. At the RCA function level, an appreciation of key organisational structures has provided a vehicle to invigorate and leverage the relationship with audit management to support continuous improvement.



4. Forward-looking supervision

Emerging risks and trends

Our forward-looking supervision aims to aid firms by anticipating challenges and risks from emerging trends before quality issues occur.

Industry trends: All firms are impacted by emerging risks and trends in the industry related to:

- The use of technology and AI in the audit; and
- Changes to workforce and staff / partner development needs as a result of the above and other drivers.

These are addressed further in the 2025 [Annual Review of Audit Quality](#). We are working with firms to understand how they are responding to these trends whilst safeguarding audit quality.



Observations

- **Offshore delivery centres:** The firm is continuing to evolve its offshore operating model with a view to increasing the audit work done offshore. Changes include a dedicated offshore entity controlled by the UK and a co-investment in an Extended Delivery Team (EDT) vehicle which will provide support across the network. While these changes will provide opportunities for better control of EDTs there are risks to quality in their set up, implementation, ongoing operation, review from the UK and oversight.
- **Technological change and conduct issues:** There have been a handful of issues this year where technological advancement, or lack of systems integration, have afforded the opportunity for misconduct by individuals. The firm must continue to proactively reinforce its audit culture, set clear expectations and appropriately mitigate identified risks.
- **Regional offices:** The firm must remain alert to the operational challenges and portfolio dynamics of regional offices which could detract from consistently delivering audit quality. Robust succession planning must be in place.



Audit Leadership engagement: the new Audit Leadership Team have undertaken a series of roadshows to directly engage with all the audit partners in developing its holistic plan for the actions needed to drive quality improvement.

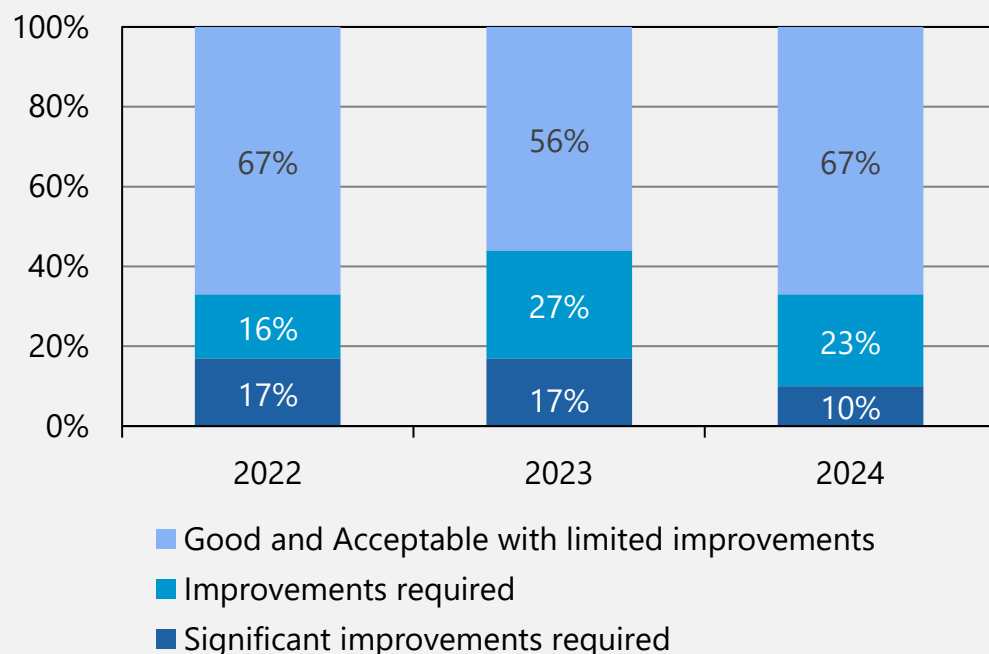


Appendix A – Firm’s internal quality monitoring

This appendix sets out information prepared by the firm relating to its internal quality monitoring for individual audit engagements (Practice Review, or PR). We have not verified the accuracy or appropriateness of these results. The appendix should be read together with the firm’s [Transparency Report](#) for 2024 and its 2025 report (when published) which provide further detail of the firm’s internal quality monitoring approach, results, root cause analysis, remediation, and wider system of quality management. Due to differences in how inspections are performed and rated, the results of the firm’s internal quality monitoring are not directly comparable to those of other firms or external regulatory inspections.

Results of internal quality monitoring⁹

The results of the PR for 2024 and two previous years are set out below. The 2024 PR comprised inspections of 82 individual audits (2023: 98), of which 32 were for periods ending before June 2023 and 50 for periods ending between June 2023 and March 2024.



Themes arising from internal quality monitoring

During 2024 the attention of PRs continued to be aligned to the most significant focus areas the firm had identified in its Audit Quality Plan: the audit of revenue; going concern and viability; detecting material fraud (particularly around journal testing) and specialists & experts.

Whilst there has been a reduction in grade-driving findings in the first three areas resulting in an improvement in the overall grade profile, we continue to see key themes in the areas above. These findings include risk assessment, challenge of management and the sufficiency of evidence obtained and/or conclusions reached. Other recurring findings relate to unidentified errors and omissions in financial statements and audit reports and the audit of estimates and inventory. New themes this year include findings related to the audit of groups, planning considerations, and deficiencies in communications with those charged with governance. There has been a reduction in the number of findings related to evidence of Responsible Individual and Engagement Quality Reviewer (where applicable) involvement.

⁹ 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; 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 B – BDO responses and actions

The Strategic Refresh – a significant inflection point

Strategic Initiatives

A Strategic Refresh was undertaken by the Audit Executive (AE) in late 2024, built upon the Standback Review completed by the Senior Partner and learnings taken from Root Cause Analysis (RCA). The output of the Strategic Refresh focused on forward-looking, practical, strategic initiatives which we will drive to affect positive change. Such initiatives include standardisation to drive consistency in the application of our methodologies; augmented by automation, technology and digital audit tools, to not only enhance the audits currently undertaken but also innovate with future technology. This multi-year initiative includes collaboration with our global network to shape a future audit platform.

In autumn 2024 we launched our Audit Connect training, which is based on detailed analysis of our professionals' learning needs. This programme is a central part of our rollout of a tailored learning and development curriculum. This is complemented by a strategic initiative to create accessible, bite-sized, learning to provide point-of-use training to our people, focussed on the practical application of methodology and tools, where appropriate, these are being embedded in our new standardised releases.

We recognise the key role managing the audit process plays in the delivery of consistent high-quality outcomes. Our Excellence in Delivery strategic initiative focusses on strengthening how we engage with audited entities, alongside measures to improve the quality of information provided by management.

Short-term measures

The strategic initiatives have commenced. Whilst these strategic initiatives are executed, the AE initiated a number of shorter-term measures. The most significant of which was the expansion of our inflight review programme, doubling the number of entities included in the programme, expanding the number and experience levels of reviewers and broadening the scope of each review. This has been complemented by enhanced mechanisms to drive consultation and is supported by heightened oversight from both the leadership team and AE on a live basis.

Culture

A culture of scepticism and challenge in all our professionals is vital to affect the improvements we need. We are actively and deliberately working to integrate the Professional Judgement Framework and embed our High Performing Teams audit culture programme, recognising the behavioural factors that are crucial to a challenge mindset. The AE has reflected on the RCA outcomes and the recurring AQR findings. In response, to reinforce our High Performing Teams culture, we are working with performance analysts to support a long-term continuous improvement mindset within the stream. This will be multi-phase and is critical to support the embedding of our quality improvement programme.

We are striving for continuous learning and improvement, and therefore we expect all audit teams to learn from file reviews and take active steps to ensure findings could not recur. We are disappointed that, historically, this has not consistently taken place. We have made changes to our internal processes in light of this feedback and RCA will be undertaken.

Appendix B – BDO responses and actions

Oversight

The new AE has strengthened the oversight of audit quality to support the Strategic Refresh and the short-term measures. The Audit Board has endorsed the commitment to audit quality and fully supports the actions being taken. Leadership at all levels recognises the need for change, the urgency of implementation, and the sustained energy and drive required. Key actions taken include:

- Audit Quality Executive (AQE). The AQE is an integral part of the AE providing it with greater oversight of audit quality. The AQE is a single, agenda-driven, decision-making body charged with driving change, aligning with the three lines of defence model.
- Safeguard Committee. Formed to support the AE on the safeguards required over both the individuals who execute our audits and the entities we engage with, this includes iterative challenge of continuance decisions and calibrating our risk appetite for certain sectors, industries and geographical locations.
- Quality Leaders Council (QLC). To provide local leadership within the first line of defence, and day-to-day oversight of audit quality, this Council of audit Partners are being tasked with specific responsibility for embedding change activity in the stream.
- Embedding the SoQM. The AE decision making process and agenda has been aligned to the SoQM to place this at the centre of all AE activity to drive improvement.

ISQM (UK) 1 – The bedrock of audit quality

We recognise and embrace the critical – and foundational - role which our SoQM has in driving consistently high-quality audits. We are pleased to read the FRC’s recognition of the progress we have made through our commitment to implementing an effective SoQM. This reflects the substantial investment we made in the year to 30 June 2024. Significant investment has continued to be made during the last year. Our workplan for the year has included: design of remedial actions to address deficiencies identified as at 30 June 2024 and reported in our Transparency Report; design and implementation of changes to our SoQM in response to RCA; enhancement of our risk assessment process and mapping to responses; revisions to our testing and evaluation approach.

Our remediation programme for ISQM (UK) 1 in the year to 30 June 2024 was rapid and intense. This was necessary to enable our progression from concluding under paragraph 54(c) of ISQM(UK)1 to paragraph 54(b) and we were satisfied with the improvement made in the year. Our commitment to enhancing our SoQM remains, and we were pleased to see that the majority of the FRC’s findings on their SoQM inspection work were already self-identified and embedded in the programme of work that we planned for the year to 30 June 2025 as part of our continuous improvement. We have embraced the opportunity to learn from the FRC’s inspection work and are open to the challenges and actions they raise in order to support our progression.

Root Cause Analysis: The RCA function has continued to enhance its identification and reporting on issues affecting the firm's SoQM. By exploring recurring causal factors in greater depth and gaining a better understanding of mindset and behaviours, more detailed causal factors can be pinpointed, potentially requiring specific interventions. RCA covered 29 engagements in the period. 12 focus groups were held on five thematic topics. The table outlines key causal factors of poor audit quality identified through RCA and the related responsive actions. These actions form part of our strategic initiatives.

Appendix B – BDO responses and actions

Mindset	Quality Control	Managing the Audit
<p>Insufficient challenge and professional scepticism driven by an overreliance on previous audits, cumulative knowledge of the entity, or industry knowledge that is not evidenced on the file.</p> <p>Depth of audit work performed falling below the level required due to a perceived sense of improvement to quality having been made, either by the audit team identifying errors that were corrected by management or having enhanced audit testing from the prior year.</p> <p>Bias acting as a barrier to quality, including oversimplification bias, confirmation bias, expertise bias or the halo effect.</p> <p>Insufficient challenge by central functions, due to a lack of depth or breadth of questioning, integration of quality control activities and maturity of processes.</p>	<p>EQRs have not provided sufficient independent challenge of key audit judgements because their mindset was too closely aligned with that of the engagement team.</p> <p>EQR challenge that has taken place verbally has not always been sufficiently evidenced.</p>	<p>Insufficient audit response to audited entities with weaker control environments and lower quality deliverables.</p> <p>Some engagement teams have designed less robust audit approaches trying to work around these challenges, rather than requesting direct resolution from entities.</p>
Actions	Actions	Actions
<ul style="list-style-type: none"> Integrating our Professional Judgment Framework throughout learning, tools and standardisation Performance analysts have been engaged to support embedding continuous improvement Our High Performing Teams audit culture framework is being leveraged to support enhanced coaching within audit teams, alongside an effective review initiative. 	<ul style="list-style-type: none"> Our EQR documentation tool has been mandated and will be supported by examples EQR-specific training covering ISQM (UK) 2 requirements AQE to provide oversight and challenge of EQR allocations 	<p>The actions to address these root causes are aligned to those designed to address mindset root causes. These actions will be supported by the roll out of our Excellence in Delivery strategic initiative.</p>

Engagements that received **positive quality outcomes** demonstrated the following key success factors:

- Regular involvement from senior staff, effective communication among team members and the prioritisation of learning and coaching.
- Appropriate resourcing, with team members possessing the necessary skills and experience for the entity's complexity.
- Demonstration of a challenge mindset and a focus on continuous improvement, enabling the team to identify areas for enhancement and improve upon past approaches.

Appendix C – ISQM (UK) 1 Glossary

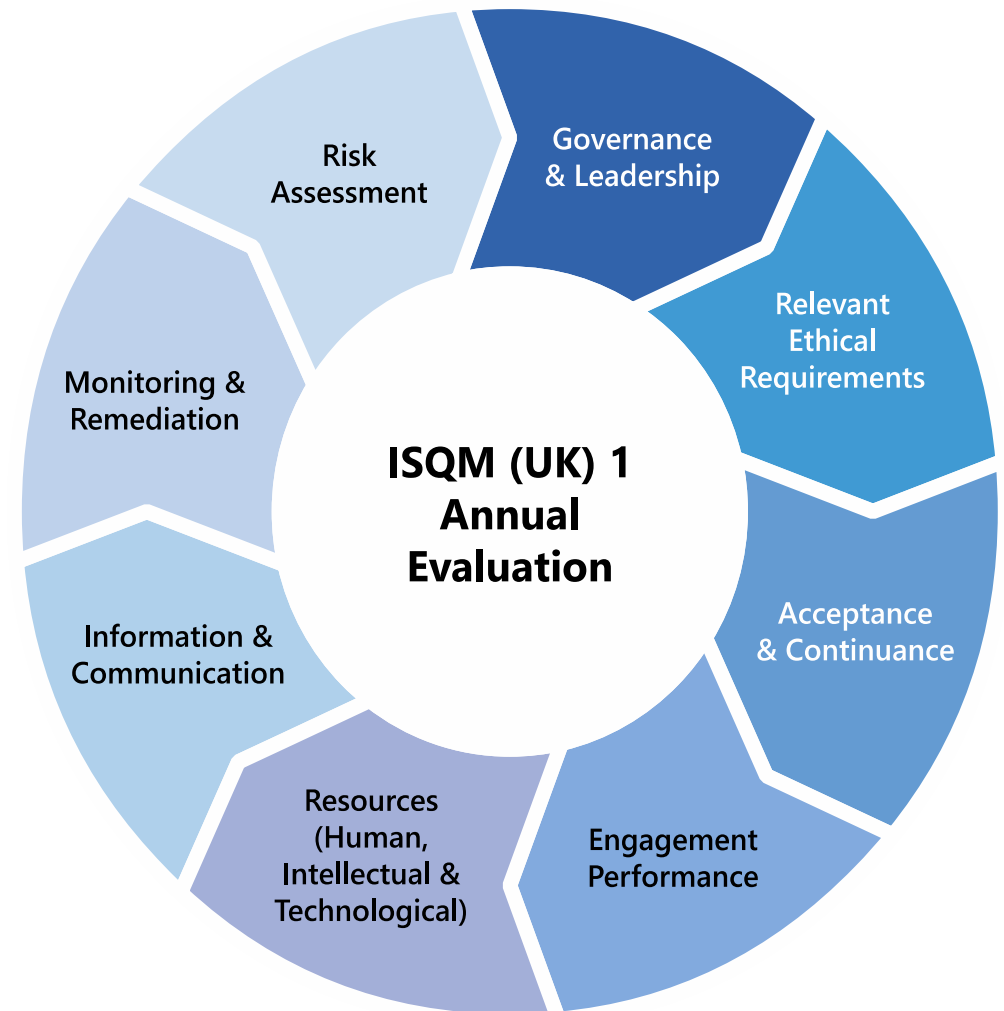
The following definitions were extracted from ISQM (UK) 1¹⁰.

<p>System of quality management (SoQM)</p>	<p>A system designed, implemented and operated by a firm to provide the firm with reasonable assurance that:</p> <ol style="list-style-type: none"> i. The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and ii. Engagement reports issued by the firm or engagement partners are appropriate in the circumstances. <p>A system of quality management under ISQM (UK) 1 addresses the following eight components:</p> <ul style="list-style-type: none"> • The firm’s risk assessment process; • Governance and leadership; • Relevant ethical requirements; • Acceptance and continuance of client relationships and specific engagements; • Engagement performance; • Resources; • Information and communication; and • The monitoring and remediation process. <p>Firms are required to perform their first annual evaluation of the SoQM by 15 December 2023.</p>
<p>Quality objectives</p>	<p>The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.</p>
<p>Quality risk</p>	<p>A risk that has a reasonable possibility of:</p> <ol style="list-style-type: none"> i. Occurring; and ii. Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.
<p>Response</p>	<p>Policies or procedures designed and implemented by the firm to address one or more quality risk(s) in relation to its system of quality management:</p> <ol style="list-style-type: none"> i. Policies are statements of what should, or should not, be done to address a quality risk(s). Such statements may be documented, explicitly stated in communications or implied through actions and decisions. ii. Procedures are actions to implement policies.
<p>Findings</p>	<p>Information about the design, implementation and operation of the system of quality management that has been accumulated from the performance of monitoring activities, external inspections and other relevant sources, which indicates that one or more deficiencies may exist.</p>

¹⁰ <https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/auditing-standards/isqm-uk-1/#current-edition-62b2d5ca>

Appendix C – ISQM (UK) 1 Glossary

Deficiency	<p>A deficiency in a firm’s system of quality management exists when:</p> <ol style="list-style-type: none"> A quality objective required to achieve the objective of the system of quality management is not established; A quality risk, or combination of quality risks, is not identified or properly assessed; A response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented or operating effectively; or An other aspect of the system of quality management is absent, or not properly designed, implemented or operating effectively, such that a requirement of this ISQM (UK) 1 has not been addressed.
Ultimate responsibility	<p>Individual(s) assigned ultimate responsibility and accountability for the firm’s SoQM should evaluate the SoQM, on behalf of the firm, and shall conclude, on behalf of the firm, whether or not the SoQM provides the firm with reasonable assurance that the objectives of the SoQM are being achieved, required under ISQM (UK) 1 paragraph 54.</p>





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