Financial Reporting Council

Deloitte 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 Deloitte LLP (Deloitte or the firm). It should be used alongside the FRC's Annual Review of Audit Quality, which contains combined results and themes for all firms[1] 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:

- Deloitte 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 Approach[2]

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

Deloitte has continued to maintain audit quality at the centre of its business, which has enabled it to improve further on last year's results. Senior leadership has driven improvements in culture, with a focus on 'tone from the top' which empowers their people to maintain consistently high quality. The firm remains focused on maintaining these levels. The firm has made good progress with its SoQM. Going forward, investment should focus on ensuring a robust and sustainable approach to identifying and applying appropriate effectiveness measures. Senior Executives are responding to this challenge through its Single Quality Plan, and we will work with them to test and assess the approach as it develops.

Firm's system of quality management (SoQM)

Deloitte has an established SoQM structure, with robust governance, risk assessment, and second line monitoring processes. The firm is working on clarifying and strengthening its evidencing of quality risks and demonstrating that its assessment of the design and implementation of the responses to the risks is consistent and appropriate. This should continue to be a priority for the firm.

FRC audit quality inspections

The percentage of audits inspected by the FRC requiring no more than limited improvements was 95%. This continues the pattern of improvement seen in the firm's results over recent years. The equivalent results for FTSE 350 audits inspected was 91%. The findings that contributed most to this year's inspection results related to the quality and consistency of the audit of valuation and impairment assessments and aspects of the audit of revenue. Certain aspects of these findings were recurring from previous inspection cycles. Our inspections also identified examples of good practice in these areas on other audits. The firm should continue to review the effectiveness of its actions to ensure greater consistency.

SoQM inspection approach

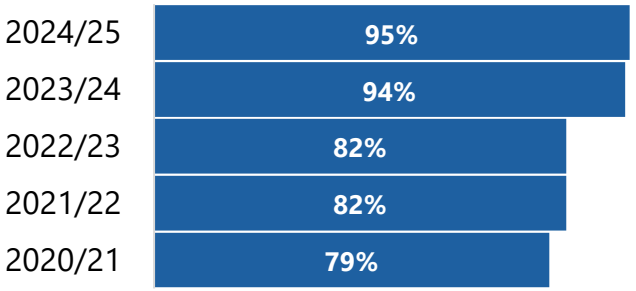
We assessed the following aspects of the scoped in areas of the firm's SoQM, with each one building upon the next.

- 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 Deloitte

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



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

Other audit quality inspection results at Deloitte

The overall results profile for inspections by the ICAEW is 90% classified as good or generally acceptable (page 11). The firm's internal quality monitoring results (Appendix A) show a year-on-year improvement.

1. Overview – Firm and FRC actions

Deloitte's response

- We are proud of the continuing strength the results of our FRC inspections show. 95% (2024/5: 94%) of our public interest audits were rated as 'good or limited improvements' and 90% (2024: 100%) of our audits reviewed by the ICAEW's QAD were assessed as good or generally acceptable.
- Over the last five years, our AQR results have consistently improved. This reflects our commitment to excellence, our mindset, behaviours, controls and processes. These are all critical to our achieving high-quality outcomes in the public interest.
- We value the observations raised by the FRC Supervision teams and the QAD, both in identifying areas for improvement and also the ongoing focus on sharing good practice.
- Consistent with our culture of continuous improvement, we are not complacent and recognise there is always more we can do. We put a significant level of investment, resource and effort into taking real-time actions throughout the year to address findings and to enhance our system of quality management (SoQM).
- We have performed root cause analysis for all findings, including the numerous areas of good practice. Key behaviours driving high audit quality include positive tone at the top, strong culture of coaching and project management, active engagement with Engagement Quality Reviews (EQR) and a challenge mindset.
- In connection with the inspection findings, we identified a root cause where there were examples of over-reliance on industry knowledge or prior conclusions in situations where circumstances had not changed. There had also been instances where, while we had appropriately prioritised higher risk or complex areas, findings arose in non-significant risk areas where we had placed less focus. Further detail is provided in Appendix B.

Deloitte's actions

In response to FRC observations, we will or have already taken the following actions (please see Appendix B for further detail):

- Valuation and impairment assessments – enhancements to impairment specialist consultation policy and delivery of mandatory training on use of data and audit of cash-flow forecasts to promote further consistency.
- Revenue – ongoing development of industry focused guidance alongside planned further actions to support teams in the consistent execution of substantive analytical procedures.
- ISQM (UK) 1 – ongoing work to standardise the capture of risks and responses and enhance decision-making documentation.
- Ethics and Independence – the addition of a quality risk and enhanced engagement level reconciliations, alongside a suite of monitoring activities including the completeness and accuracy of our underlying restricted entity data.

FRC's actions

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

- Continue our inspection of completed audits and the firm's SoQM, including how the firm is responding to our findings.
- Maintain our supervision of the SQP to assess the actions taken to improve audit quality. This will include actions relating to the firm's culture and controls relating to non-audit service approvals.
- Continue to review the effectiveness measures used in the firm's assessment of quality risks in the SoQM.

Deloitte LLP – at a glance

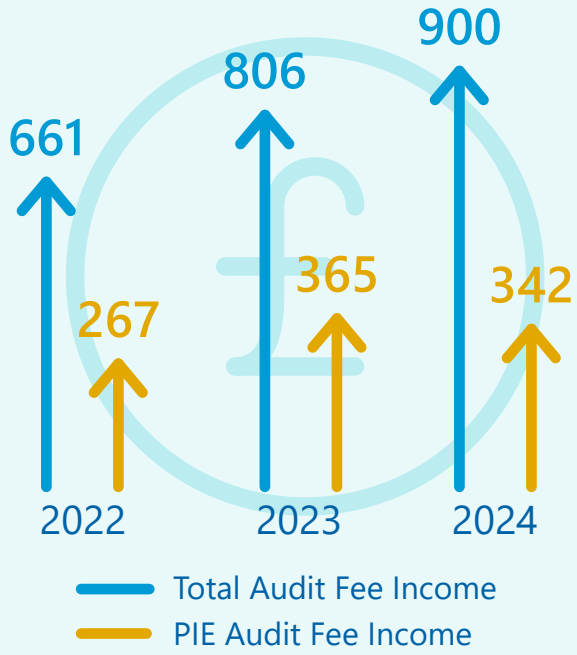
Audits within the FRC's inspection scope[3]

Inspection cycle	FTSE 100 audits	FTSE 250 audits	Total audits in FRC scope
2025/26	24	38	251
2024/25	23	37	277
2023/24	23	40	307

PIE Auditor Registration data

Public Interest Entity (PIE) audits[4]	Number of PIE Responsible Individuals[4]
207	127
224	118
245	113

Audit fee income[5] £m



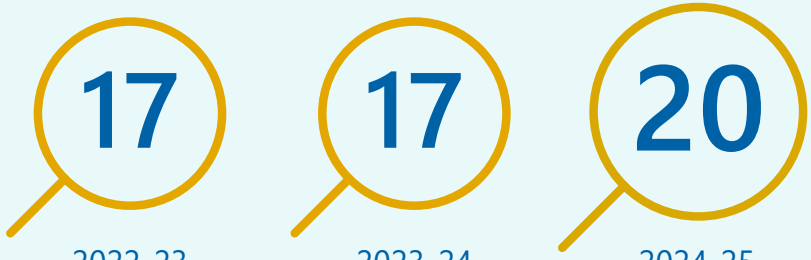
Total Audits[6]
8,081

Responsible Individuals[6]
307

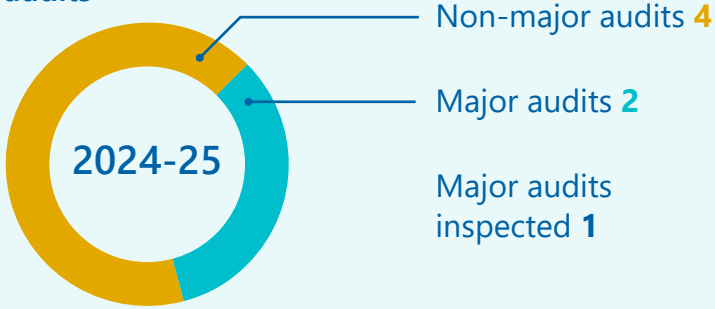
Professional Staff[6]
17,487

Offices[6]
33

Audits inspected by the FRC[7]



Local audits[8]



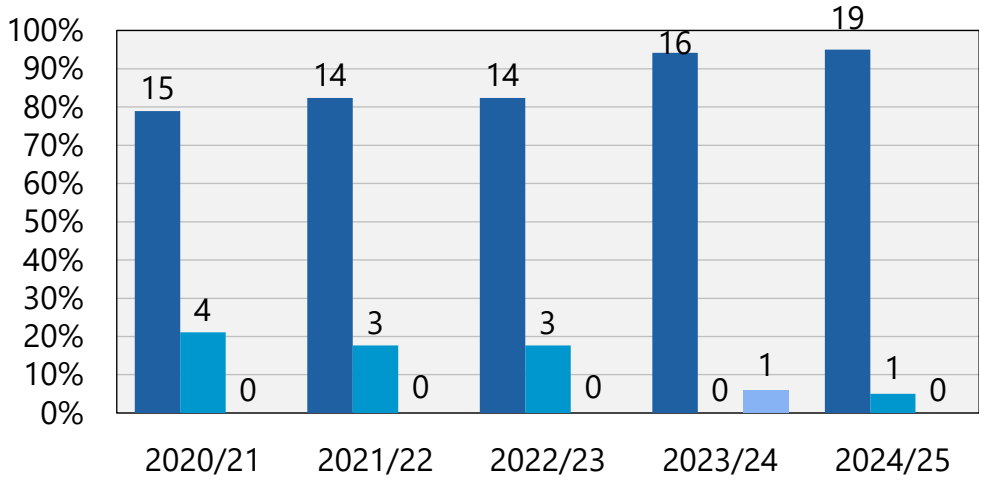
3 Source – FRC analysis of the firm's PIE audits and other audits included within the Audit Quality Review scope as at 31 December 2024.
4 Source – FRC's PIE Auditor Registration data as at 31 December 2024. There may be timing differences between the collation of this data and the FRC inspection scope 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:

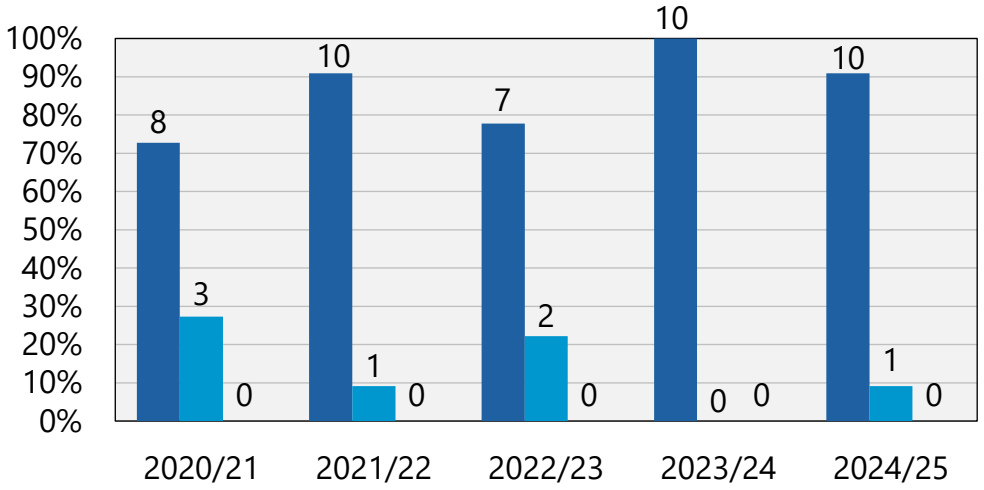
All

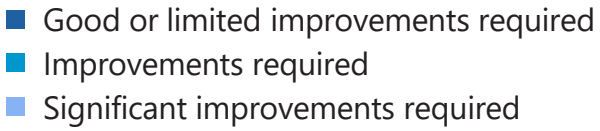
We inspected 20 individual audits this year and assessed 19 (95%) as requiring no more than limited improvements. The results show continued improvement from prior years.



FTSE 350

Of the 11 FTSE 350 audits we inspected this year, we assessed 10 (91%) as requiring no more than limited improvements.





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.

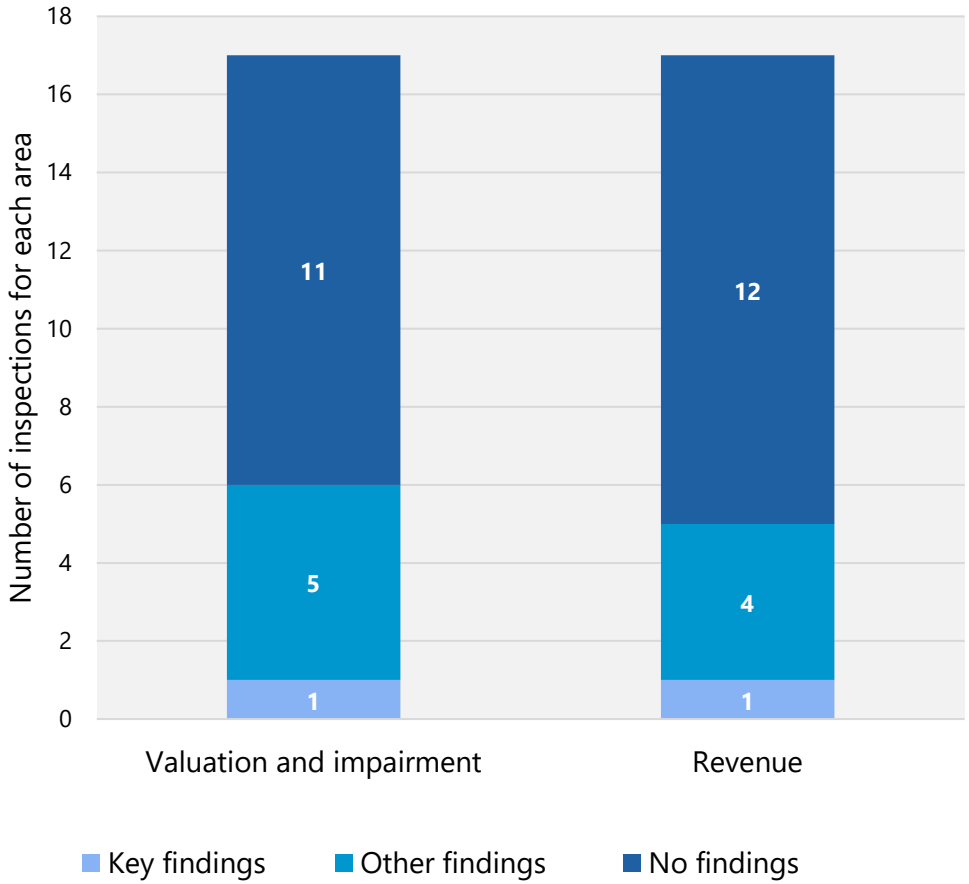
2. Inspection of individual audits

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 quality and consistency of the audit of valuation and impairment assessments	Auditors should adequately evaluate and challenge management's valuation and impairment assessments, as these often involve significant judgement and can be subject to management bias or error.
Improve aspects of the audit of revenue	Auditors should obtain sufficient and appropriate evidence to assess whether revenue is recognised correctly as it is a key driver of an entity's results.

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

Analysis of areas with findings by significance



2. Inspection of individual audits

Improve the quality and consistency of the audit of valuation and impairment assessments

We inspected the audit of valuation and impairment assessments for areas including goodwill and intangible assets, investments, property, financial assets and deferred tax assets in our inspections this year.

We raised findings in the following areas:

- **Evaluation and challenge of forecasts and other key assumptions:** On one audit, the audit team did not obtain sufficient, appropriate audit evidence to support its conclusion over the recoverability of deferred tax assets against future profits. On three other audits, insufficient audit procedures were performed to evaluate and challenge aspects of the forecasting and other key assumptions in management's impairment or valuation assessments.
- **Indicators of impairment:** On two audits, the audit team did not sufficiently evaluate and challenge potential indicators of impairment.
- **Completeness and accuracy of data:** Three audit teams performed insufficient audit procedures to test the completeness and accuracy of data inputs into models that supported asset valuations or impairment assessments.

Improve aspects of the audit of revenue

We raised findings in relation to the audit of revenue on five audits in our inspections this year. These covered the following areas:

- **Contract accounting:** On one audit, the audit team performed inadequate audit procedures in relation to the forecast revenue supporting the valuation of a contract asset.
- **Substantive analytical procedures:** On four audits, there were weaknesses in the substantive analytical procedures performed by the audit team over revenue. These included cases where the precision in the expectations set, the investigation of variances between expected and actual revenue and the testing of the reliability of data inputs was insufficient.
- **Revenue cut-off:** On two audits, insufficient audit procedures were performed to test revenue cut-off and the recognition of accrued income.

2. Inspection of individual audits

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

Risk assessment and planning

- **Robust risk assessment procedures:** We identified several examples of robust risk assessment at the audit planning stage. These included one audit team that performed extensive work to identify and respond to potential fraud risks, including engaging forensic specialists and holding a quality control panel. We also observed detailed risk assessment and well-tailored audit responses in judgemental areas being performed on a number of other audits.

Execution

- **Effective group audit oversight:** We observed a number of complex group audits where the group audit team demonstrated a high standard of oversight of, and involvement with, component auditors, including detailed review and evaluation of component audit work.
- **Accounting estimates and judgements:** We identified examples on multiple audits of robust audit procedures being performed over accounting estimates and judgements. These included robust procedures to evaluate and challenge management models and assumptions in areas including asset valuations and impairments. We also identified good practice in the audit of accounting for business combinations and insurance provisions.
- **Revenue:** On one audit, effective use was made of data analytics tools to audit high-volume, low value revenue efficiently. On another audit, the audit team performed extensive alternative audit procedures to confirm revenue completeness in response to the entity being unable to provide a complete listing of revenue transactions.
- **Quality Management:** On one audit, a quality panel that included the firm's central audit and accounting technical partners met on several occasions during the audit to assess and challenge the audit team's approach and conclusions relating to a complex area of accounting.
- **Climate disclosures:** The audit team provided suggested improvements to TCFD disclosures, which included illustrative examples for each of the improvement points from annual reports of peer companies.

Completion and reporting

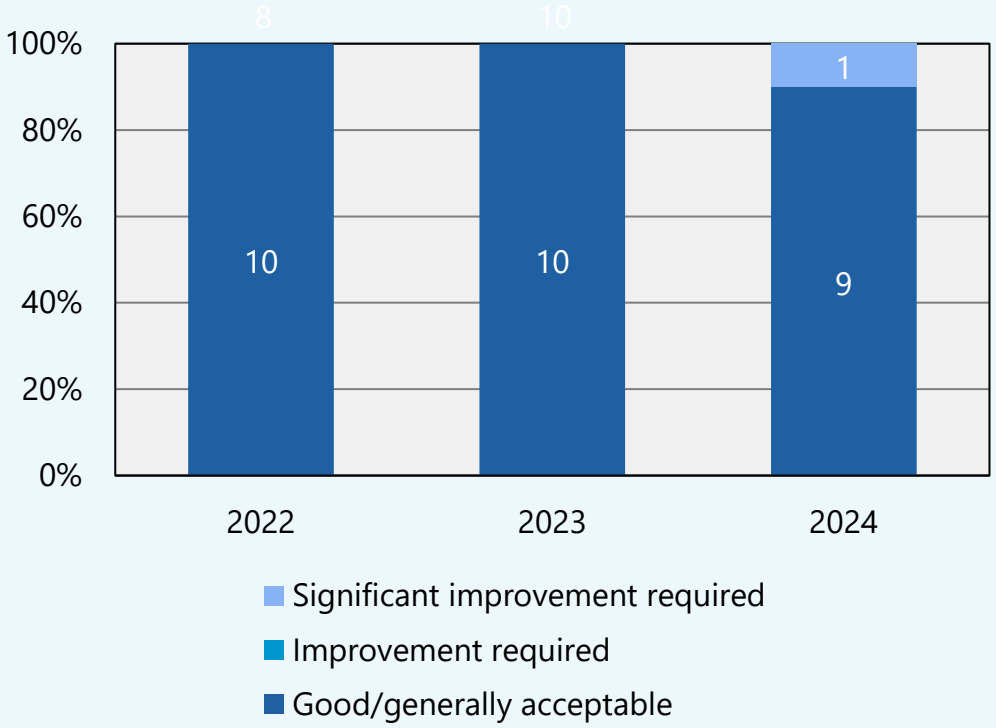
- **Reporting to the Audit Committee**: The reporting to Audit Committees on the audits we inspected was typically of a good standard. We identified specific examples of detailed and effective reporting to the Audit Committee in relation to risk assessment, valuation assumptions and sensitivities across three audits.

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, nine files were either good or generally acceptable and one file required significant improvement. In the file which needed significant improvement, the firm relied on a substantive analytical procedure (SAP) to test revenue and did not perform sufficient audit work on the internal pricing and usage data forming the basis of the expectation used in the procedure.

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.



Good practice

ICAEW identified good practice, examples included:

- Good documentation of work performed on going concern, including challenge of management and judgements made.
- Comprehensive documentation of the audit team's assessment and challenge of key assumptions within impairment models.
- A well thought out and considered approach to the audit of a client where operations were conducted entirely overseas.

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 31 May 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

Deloitte has an established SoQM structure, with robust governance, risk assessment, and second line monitoring processes. The firm is working on clarifying and strengthening its evidencing of quality risks and demonstrating that its assessment of the design and implementation of the responses to the risks is consistent and appropriate. This should continue to be a priority for the firm.

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.

Identification and assessment of quality risks

- **Completeness and granularity of quality risks:** The firm did not adequately consider the completeness of its quality risks. It did not clearly capture the risks relating to engagement teams not following the firm's policies, matters arising from specific themes in root causes from audit inspection findings, or the completeness of UK approvals obtained by network firms for NAS. The firm's risk around competence and capacity of the teams undertaking central SoQM activities did not refer to the team as a whole.

Design and implementation of responses to quality risks

- **Accurate articulation of the design of responses:** In some instances, the firm had not yet updated its assessment of the design and implementation of responses, to address where second line monitoring had identified that responses operated differently to how they were described.

Monitoring procedures

- **Monitoring procedures over responses:** In some instances, the firm did not evidence how the scoping of responses and response steps, for sample testing, was sufficient to cover all risks. Additionally, within the sample we reviewed, the procedures undertaken to monitor the operation of certain responses did not consistently assess if all elements of the responses operated robustly, and in particular, how monitoring reviews were undertaken to identify and follow up concerns, to robustly assess if the relevant risks were sufficiently mitigated.
- **Monitoring NAS provided by network firms:** The firm did not identify or monitor sufficient responses to ensure relevant UK approvals, for NAS, are obtained by network firms, to safeguard UK audit independence. There is no global integrated billing system, to prevent NAS commencing without relevant UK approvals, and the firm did not obtain sufficient assurance over alternative preventative controls at network firms, including compliance with global approval policies. The firm also did not perform engagement level reconciliations that were sufficiently robust to ensure completeness of approval requests received. The firm recognises that aspects of the conflict management system monitoring need to be enhanced, including over the accuracy and completeness of the corporate entity data and the approval routing to appropriate individuals.

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

Annual evaluation process

- **Assessment of AQR inspection findings and other sources of information:** When identifying SoQM findings, the firm did not sufficiently evidence consideration of the following matters: assessment of whether a recent audit inspection key finding was isolated, the nature and causes of ethics breaches and speak up reports, and the significance of RCA themes, including where themes were similar to those identified in previous years.

Good Practice

- **RI portfolio reviews:** The firm has issued a comprehensive pack for interviewers undertaking partner portfolio reviews to support robust and consistent RAG rating of partner portfolios. This includes an expected list of questions and criteria to assess capacity, risk management, portfolio risk and risk of isolated working, as well as guidance on hot topics, industry risks and regulatory risks.
- **Second line monitoring of the SoQM:** The rigour of the firm's second line monitoring team, who test the operating effectiveness of responses, is supported by segregation of duties from the team that manages the SoQM and by use of comprehensive and clearly structured sample testing templates.
- **First line monitoring of the SoQM:** In first line monitoring, the business process owners completed tri-annual reviews, with detailed self-assessment of their resources, processes, and identified concerns. The SoQM team then robustly reviewed these responses to ensure concerns were understood and addressed.

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

- **Internal quality monitoring reviews:** The firm has increased the number of archived file reviews although proportionately it remains an outlier. Whilst results do not indicate a need for any increase currently the firm should ensure it re-assesses regularly and responds to any changes in quality.
- The firm should ensure it has sufficient awareness of the nature and extent of the network monitoring programs and understands any significant or pervasive issues raised through central SQM reporting mechanisms.
- **Effectiveness measures:** Significant effort has been invested in developing better effectiveness measures for quality risks. As more analysis and data become available these measures will need to be continuously assessed to ensure they remain relevant and adaptable.
- **SQP:** The firm will continue to focus on improved functionality, including providing a more holistic overview of audit quality matters, up-to-date analysis and effectiveness measures, to enable a forward-looking approach. These improvements will support senior management and help improve planning and oversight.

Approval of Non-Audit Services (NAS):
The firm is enhancing its detection of whether network firms seek relevant UK approval for non-audit services. Actions have been taken throughout the year to address this. A specific risk will be recognised in the firm's quality management system. The global network requires effective approval and conflict check controls to prevent the firm from being vulnerable to the risk of ethical breaches. The UK firm needs reasonable assurance that effective controls are embedded and functioning well, with a focus on preventative measures.

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:** The firm continues to be clear and consistent in its communications around the importance of audit quality. Audit leadership have reinforced that this includes the quality of the culture across the whole audit practice.
- **Continuous Improvement Group (CIG):** The CIG has continued to broaden the scope of its work. It has direct access to the Audit Executive and regularly reports to the Independent Non-Executives. The CIG will need to become more agile and responsive to additional opportunities for improvement, which will be identified through better use of the SQP tool.
- **Non-Financial Sanctions (NFS) and constructive engagement:** We have engaged on one NFS in the period since the last report, which is now closed. The firm has responded positively. No further NFS have been opened in the period. There are no active constructive engagement cases.
- **RCA:** Deloitte continues to have a robust RCA process.

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

- **Use of advanced technology:** The firm is investigating ways of safely expanding the use of improved technologies and automated tools which may include the opportunities presented by AI.
- **Resourcing**: Recent changes made to the resourcing profile are designed to help reduce the risk to the business from the challenges of a lack of appropriate resources.

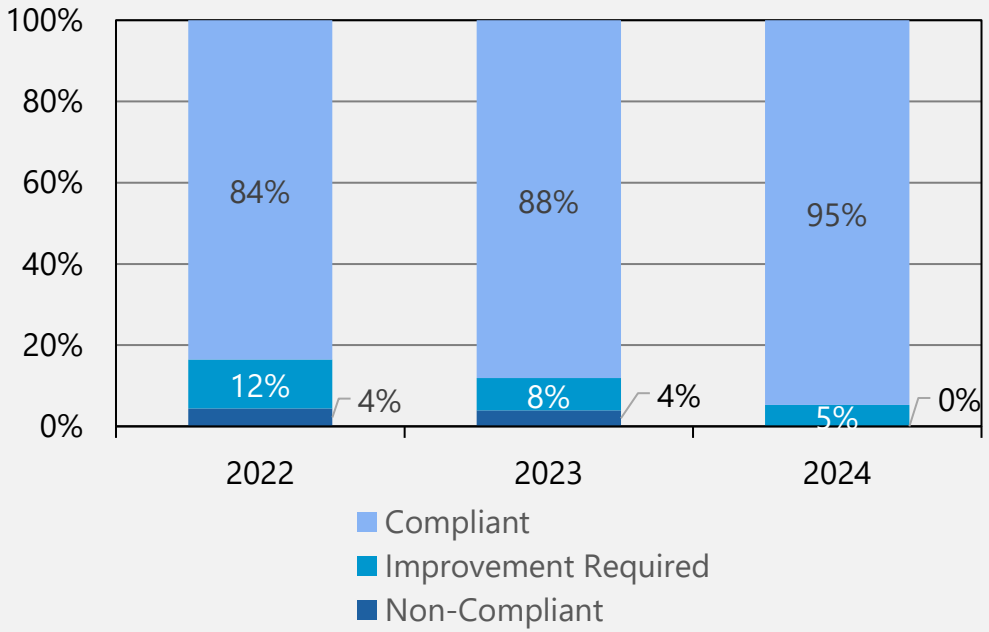
Culture Oversight: The firm continues its proactive approach to culture with new initiatives including cultural dashboards and a leadership behavioural risk framework. The consistent application of culture design and assessment methodologies across the business, benefits the firm.

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). 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 monitoring[9,10]

The results of the firm's Practice Review for 2024 and two previous years are set out below. The 2024 Practice Review comprised inspections of 133 individual audits (2023: 101) with opinions signed between 1 July 2022 and 31 May 2024.



Themes arising from internal quality monitoring

The firm continues to see the severity and total number of findings decreasing in each of the key areas with findings when compared to the prior year.

Key areas with findings in 2024 included:

- The evidencing of tests and thresholds utilised to identifying journal entries for further testing as part of management override of controls (recurring from 2023).
- The sufficiency of audit documentation on file to support a fact-based risk assessment (recurring from 2023).
- Areas in relation to audit planning activities, including determining materiality.
- Areas in relation to concluding the audit, including consideration around going concern and effective communication with those charged with governance.

Further key areas of findings in the current year relate to performing of tests of detail, mostly relating to the testing of revenue.

9 The grading categories used by the firm are: Compliant - no exceptions or very minor/isolated instances of non-compliance with certain policies, requirements or standards; Improvement Required - a small number of findings relating to these areas; Non-Compliant - non-compliance with several policies, requirements or professional standards or an individually significant matter was identified.
10 In 2023 the firm's Practice Review reporting year was updated to the year ended 15 July 2023. Comparative data for 2022 has been restated accordingly.

Appendix B – Deloitte's responses and actions

Our Audit and Assurance business strategy, technology and culture

The audit culture and the audit quality environment we create is critical to our resilience and reputation as a business. Together, our Strategy Execution Framework, Single Quality Plan (SQP), Audit Quality Plan (AQP) (which underpins the SQP) and our Cultural Ambition help us design, prioritise and drive impactful change in the business. We are proud of our purpose-led culture and to be operating in a ringfence as a fully transparent business, independently governed by the Audit Governance Board (AGB).

Each year, we determine in-year strategic priorities to accelerate seeing the results of our strategy. For FY25, these were focused on our strategic objectives relating to building and upholding a purpose led culture, embracing new technology and new thinking, and strengthening industry organisation and engagement to drive audit quality and grow our business.

To recognise the essential role of technology, we have refreshed our Audit and Assurance (A&A) business structure this year, drawing together the existing skillsets in IT audit and our data and analytics teams to form a new team within our A&A business: IT, Data and Analytics. This sets us up well to deliver technology-led audits and gives us the ability to respond quickly to emerging technologies, risks and trends in the market. We continue to innovate to shape the future of audit, including piloting and launching GenAI technologies aimed at supporting our practitioners to execute high-quality audits.

Our culture today will build our business of the future. We are therefore pleased to see the good practice highlighted by the FRC with respect to the progress we have made in the last twelve months post the launch of our cultural ambition and associated Audit & Assurance behaviours.

Last year, we completed our first baseline measurement of our A&A purpose-led culture, and this measurement is now being rolled out firmwide for the current year. This helps us to understand both where we are today but also where we need to continue to focus to drive strategic change in our business, shape the future of our profession and achieve our purpose to protect the public interest and build trust and confidence in business.

ISQM (UK) 1

We believe that an effective SoQM is crucial for the delivery of audit quality in every single engagement we deliver. We were pleased to issue our second conclusion on the effectiveness of our SoQM as of 31 May 2024, being satisfied that our SoQM provides the firm with reasonable assurance that the objectives of ISQM (UK) 1 are being achieved.

In the time since ISQM (UK) 1 was implemented our SoQM has continued to mature. As our SoQM embeds in our day-to-day operations, we are pleased to see the FRC have identified continued areas of good practice. We remain focussed on continuous improvement to refine and enhance our operations to ensure our approach to managing the quality of all engagements is consistent and strong. We have already taken action to address a number of the points raised by the FRC including adding further risks to our SQM which map to existing responses and enhancing areas of our decision-making documentation.

The environment in which we operate is complex and continues to evolve. We remain focussed on identifying and investing in the changes required to continually improve and enhance the effectiveness of our SoQM.

Appendix B – Deloitte's responses and actions

Single Quality Plan

During the year, we have further developed our SQP by improving the linkage between the SQP and ISQM (UK) 1, developing a formal assessment of emerging and future priority areas and continued the ongoing monitoring of both current and historic priority areas. We are committed to continuously evolving our SQP to further embed its use and ensure our ongoing prioritisation in the delivery of consistently high-quality audits.

Continuous improvement and root cause analysis

Overall, we have seen a reduction in the number of findings arising from regulatory inspections as well as a reduction in the number of findings where the root cause was direction, supervision or review. We are pleased to see the positive impact of actions taken over the last 12 months to address certain findings raised by the FRC and their associated root causes.

We welcome the breadth and depth of good practice points raised by the FRC and ICAEW, particularly in respect of accounting estimates and judgements, which includes robust procedures performed over impairment and asset valuations, revenue and effective group oversight. These have all been areas where we have taken specific actions to support the high-quality execution of audit work.

Improving the effectiveness of our testing of revenue and the audit of impairment have both been SQP priority areas over the last year, and our focus remains on supporting consistent execution.

Root cause analysis (RCA)

Our root cause analysis identified the following factors which contributed to inspection findings:

1. Risk related behaviours to prioritise audit focus on higher risk and complex areas – We observed that where a strong culture of coaching at all grades was present, team members were able to efficiently and effectively collaborate to resolve issues identified. However, where teams prioritised more complex areas, this sometimes led to findings in areas of the audit where less focus and collaboration had been applied. Given the limited number of findings in areas of significant risk compared with previous cycles, this illustrates that our teams are focused on the right areas.
2. A reliance on industry knowledge or conclusions made in previous audits where facts or circumstances have not changed – Where continuity was observed within the team, coupled with a mindset of challenge to eliminate assumed knowledge, we observed high quality audit work. Where findings were identified, gaps in audit evidence to support audit judgements were caused due to an over-reliance on other work performed on the audit file or due to industry specific judgements which were considered obvious to the team.

Continuous Improvement Group (CIG)

CIG has carried out a broad scope of challenge of audit quality actions this year, including regular reviews of the SQP and underlying documentation, as well as deep dives on key areas such as the Revenue Centre of Excellence and long-term contracts. CIG continues to use both the SQP and the AQP tool as a regular part of its work. In addition, CIG's regular participation in other meetings, including with the Actions Development Group (including approval of actions arising), the A&A Quality Board and members of the Audit Executive, enables CIG to contribute and respond on a live basis to matters as they arise and are discussed. Through this broad interaction across the firm's quality framework, CIG is able to maintain a responsive and forward-looking approach.

Appendix B – Deloitte's responses and actions

Key findings and observations

Following an assessment of the RCA themes arising and actions already taken, we have determined where further action is required. All AQR findings have been communicated in our monthly regulatory briefings.

Valuation and impairment assessments

We are pleased to continue to see numerous examples of good practice highlighted by the FRC in respect of our work on valuation and impairment assessments. Our focus therefore continues to be on executing high quality audit work in this area consistently. We have taken action during the inspection cycle to communicate the small number of findings in this area to the A&A practice, including holding industry-specific sessions. We have also revised our impairment specialist consultation policy to expand the scope of engagements that meet the consultation criteria and in certain instances extend the extent of involvement of the impairment specialist. Our mandatory annual technical training in summer 2025 will also include a specific focus on data and the evaluation and challenge of key assumptions in cash-flow forecasts.

Revenue

This is also an area where the FRC continue to highlight good practice and therefore as with valuations/impairment, our focus is on promoting further consistency in the execution of our audit work in this area. Our revenue centre of excellence (CoE) is a partner-led team that has provided coaching support to over 60 engagement teams since its inception. Over recent months, the CoE has launched industry-specific playbooks which incorporate industry related guidance, including in areas of regulatory focus and findings. Further actions are also planned to support teams in consistent high-quality execution of substantive analytical review procedures.

Ethics and Independence

The firm remains committed to obtaining sufficient assurance in relation to cross border non-audit services (NAS) approvals and this is an SQP priority area. Alongside recognising a new quality risk, we have placed significant focus throughout the year on the design, implementation and embedding of further detective controls to confirm timely and complete approvals for NAS provided by network firms. This has included working closely with our Global network to further understand adherence to global processes and policies. Following the FRC's testing of our engagement level reconciliations with no findings relating to unapproved NAS, we have extended the scope of these engagement procedures and put in place mandatory completeness checklists for all audits with periods ending on or after 14 December 2024. Training has also been delivered alongside further supporting guidance for engagement teams. We are actively monitoring these checklists and will respond further as needed depending on the outcome of our monitoring.

Our program of targeted actions aimed at the completeness of corporate entity data and approval routing in the conflict management system that is relied upon to mitigate Relevant Ethical Requirements (RER) risks is underway, including monitoring to maintain and enhance the quality of this information on an ongoing basis.

Internal quality monitoring reviews

Each year, we undertake an extensive selection process to identify those audit engagements to be reviewed in the upcoming period. We believe the number of reviews performed is achieving the desired outcome. We will continue to monitor the results of our internal quality monitoring, external inspections and other quality outcomes and will adjust the number of reviews performed should this be required.

Appendix C – ISQM (UK) 1 Glossary

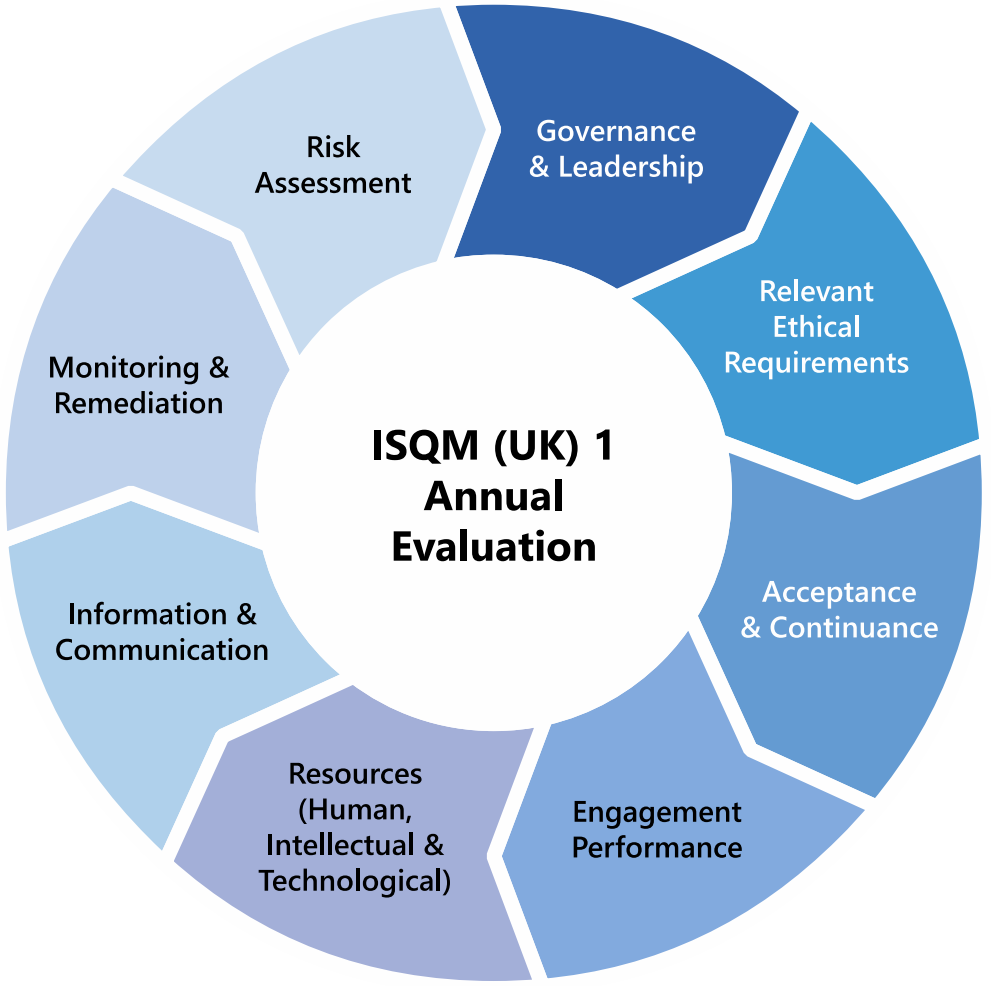
The following definitions were extracted from ISQM (UK) 1[11].

System of quality management (SoQM)	A system designed, implemented and operated by a firm to provide the firm with reasonable assurance that: 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. A system of quality management under ISQM (UK) 1 addresses the following eight components: • 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. Firms are required to perform their first annual evaluation of the SoQM by 15 December 2023.
Quality objectives	The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.
Quality risk	A risk that has a reasonable possibility of: i. Occurring; and ii. Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.
Response	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: 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.
Findings	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.

11 https://www.frc.org.uk/documents/4691/ISQM_UK_1_Issued_July_2021_Updated_March_2023_7S8WvVE

Appendix C – ISQM (UK) 1 Glossary

Deficiency	A deficiency in a firm's system of quality management exists when: i. A quality objective required to achieve the objective of the system of quality management is not established; ii. A quality risk, or combination of quality risks, is not identified or properly assessed; iii. 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 iv. 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	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.



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