



Financial Reporting Council

Forvis Mazars LLP (formerly Mazars LLP)

Audit Quality Inspection and Supervision

July 2024

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 Forvis Mazars LLP, formerly Mazars LLP (hereafter Forvis Mazars or the firm). It should be used alongside the FRC's [Annual Review of Audit Quality](#), which contains combined results and themes for all Tier 1 firms¹ that are inspected annually.

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.

This report also considers other, wider measures of audit quality such as 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:

- Forvis Mazars 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 key finding where the firm must take action to improve audit quality.



Represents examples 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

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 [here](#). We also publish a separate inspection report on the quality of major local audits, the latest version of which can be found [here](#) and was published in December 2023.

¹ The six Tier 1 firms in 2023/24 were: BDO LLP, Deloitte LLP, Ernst & Young LLP, KPMG LLP, Mazars LLP, and PricewaterhouseCoopers LLP. With effect from 1 June 2024, Mazars LLP changed its name to Forvis Mazars LLP. We have published a separate report for each of these firms along with a cross-firm Annual Review of Audit Quality.

Contents

1.	Overview	4
2.	Review of individual audits	7
3.	Review of the firm's system of quality management	12
4.	Forward-looking supervision	15

Appendix

A:	Firm's internal quality monitoring	18
B:	Firm's responses and actions	19
C:	ISQM (UK) 1 Glossary	22

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1. Overview – overall assessment

Forvis Mazars must significantly improve its audit quality. The firm has committed to improve and has invested significantly. However, this has not yet resulted in a sustained improvement in audit quality. The firm has taken actions over recent years, especially in relation to strengthening firm-wide systems and audit quality functions. However, it is evident that more focus on front-line audit delivery was needed to impact the results quickly. The most recent actions taken by the firm, as part of its audit quality transformation programme, were not in place for audits inspected in this cycle. Improving audit quality takes time. However, we may take stronger action, which could include using our PIE Auditor Registration powers, if we do not see improvements in 2025. We will continue to work with Forvis Mazars to help it succeed, given its strategic importance in the market.

Audit quality inspections

The percentage of audits inspected by the FRC requiring no more than limited improvements was 44%. One of the nine audits we inspected (11%) was found to require significant improvements. These results are worse than the prior year and continue to be unacceptable.

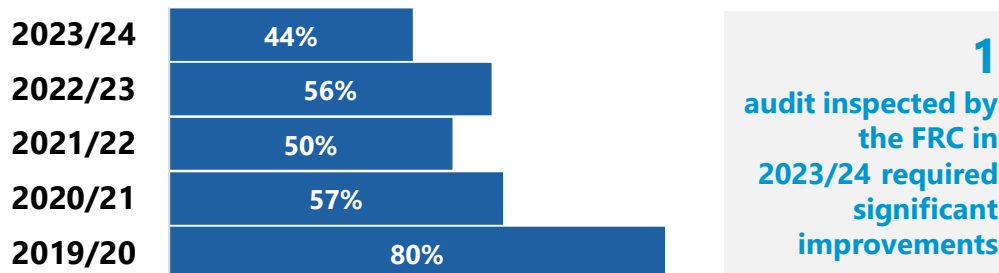
The firm's own internal quality monitoring (Appendix A) and that of the ICAEW (page 11) show better results, although similar themes were identified. Over the last two years, there have been recurring findings relating to the evaluation and challenge in the audit of estimates and judgements, the audit of revenue and quality control procedures. It is essential that the firm uses its root cause analysis to understand whether previous actions should have had more of an impact.

Firm's system of quality management (SoQM)

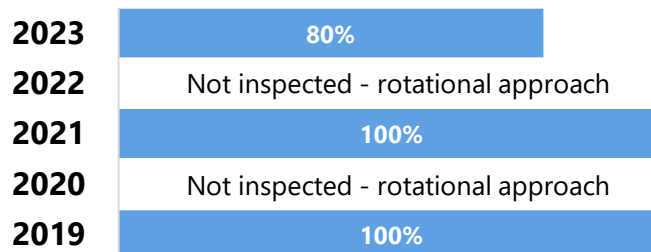
Forvis Mazars has implemented ISQM (UK) 1, including monitoring and remediation processes, and completed its first annual evaluation of its SoQM. Within the process of iterative improvement of the SoQM, the firm needs to significantly enhance the evidencing and monitoring of its SoQM, and the extent of support for its annual evaluation process.

Regulatory audit inspection results at Forvis Mazars

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



% of audits inspected by the ICAEW classified as good / generally acceptable (Section 2)



FRC's firm-wide areas of focus (Section 3)

Area	Good practice	Key finding
International Standard on Quality Management (UK) 1 (ISQM (UK) 1) ²		
Compliance with the FRC's Revised Ethical Standard 2019		
ISQC (UK) 1: Training and methodology		

² The new standard is a significant change to ISQC (UK) 1, requiring firms to take a more proactive and risk-based approach to managing quality. The standard also required a step change in firms' monitoring, as well as the introduction of a self-evaluation of their SoQM. Page 10 of the Annual Review of Audit Quality sets out the key differences.

1. Overview – Firm and FRC actions

Forvis Mazars' response

We are encouraged by the FRC's acknowledgement that transforming audit quality takes time and grateful for their support to help us succeed in the public interest. We continue to take positive actions in relation to consistently delivering high levels of audit quality and strengthening the firm-wide systems and audit quality function. Over the last year, we have dedicated significant focus to developing an Audit Quality Transformation Plan (AQTP) which was introduced in October 2023. Whilst the audits inspected in this AQR cycle did not benefit from our AQTP, we anticipate next year's results will reflect this investment.

Audit quality inspections: We acknowledge the FRC's inspection results and are disappointed with the AQR grades. As part of the improvements being made in ensuring a sustainable audit quality, we are encouraged that the majority of key findings were not systemic and by the good practice points identified by both the AQR and QAD. The combined results of AQR inspections together with the firm's iQM reviews on PIE audits this cycle shows 64% (2022/23: 58%) as either good or limited improvements required, which indicates the progress we are making in audit quality.

Firm's system of quality management: Whilst we are focusing our resources on addressing the issues noted in the delivery of audits, we welcome the FRC's feedback in respect of ISQM1 and have created a dedicated SoQM team to address the points raised.

Looking ahead: We remain committed to serving the public interest by delivering high-quality audits and by taking the appropriate actions and care to safeguard audit quality, including when acting as auditors of companies that could meet the definition of a "challenging" company as defined in the ACCIF's [The Spring Report](#).

Forvis Mazars' actions

We are fully committed to delivering the necessary improvements without delay, through robust execution of our audit quality transformation plan and continuous monitoring of its effectiveness, including notably:

- Further integration of our SoQM through the audit portfolio review, people and resources management, methodology, use of technology and culture initiatives;
- Enhancing and focusing on the effectiveness of existing actions in the AQTP and/or developing new actions as needed to address the root causes identified on project management, working with specialists and experts, and on-the-job coaching and evidencing of challenging management; and
- Strengthening and improving our in-flight review programme and 'real-time' quality interventions.

FRC's actions

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

- Increase by one the number of audits to be inspected to 10.
- Maintain our review of the AQTP and SQP using them to monitor the actions taken to improve audit quality, their effectiveness (over the short and long term) and their use in complying with ISQM (UK) 1.
- Maintain a level of intensive supervision in relation to the continuing changes to ethics, conduct and culture, and of specific actions within the AQTP. This includes increased discussions on areas such as strategy and resource capacity in certain audit sectors, roundtable technical discussions and quarterly progress discussions on the AQTP, holding the firm to account on effectiveness monitoring and revising or setting new actions.

Forvis Mazars LLP – at a glance



Audits within the FRC’s inspection scope³

Inspection cycle	FTSE 100 audits	FTSE 250 audits	Total audits in FRC scope
2024-25	0	4	87
2023-24	0	3	98
2022-23	0	2	81

Total audit fee income⁴ £m



Responsible Individuals⁵ 66



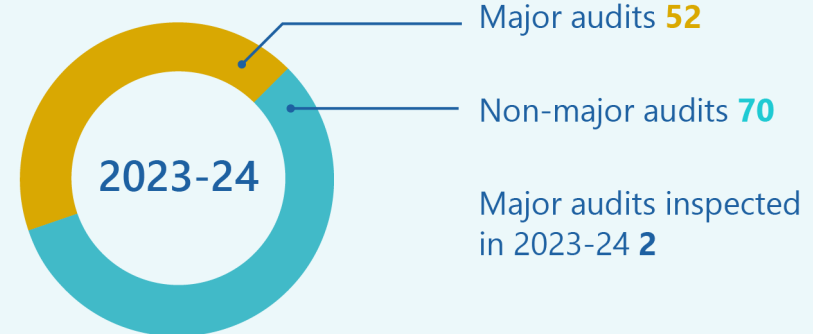
Offices⁵ 17

3,100
Professional Staff⁵

Corporate audits inspected by the FRC⁶



Local audits⁷



³ Source – the FRC’s analysis of the firm’s PIE audits and other audits included within AQR scope as at 31 December 2023.

⁴ Source – the FRC’s 2022, 2023 and 2024 editions of Key Facts and Trends in the Accountancy Profession. Audit fee income relates to all audits performed by the firm, and not only those within the FRC’s inspection scope.

⁵ Source – the ICAEW’s 2024 QAD Report on the firm.

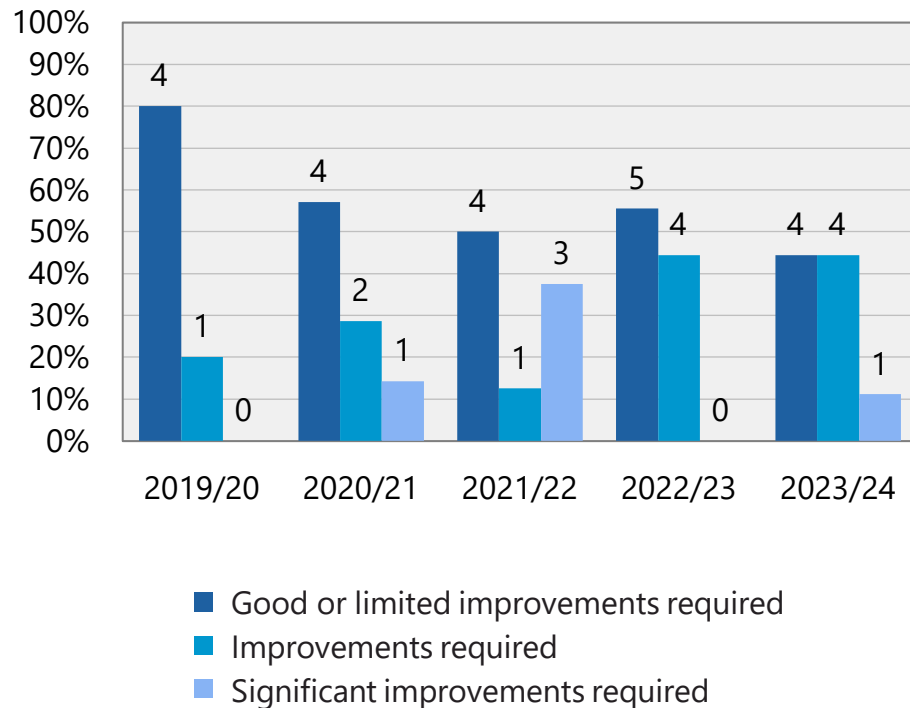
⁶ Excludes the inspection of local audits.

⁷ Source – the FRC’s analysis of Major Local Audits as of 31 March 2023. The FRC’s inspections of Major Local Audits are published in a separate annual report. The December 2023 report can be found [here](#).

2. Review of individual audits

Our assessment of the quality of Forvis Mazars' audits reviewed

We reviewed nine individual audits this year and assessed four (44%) as requiring no more than limited improvements. The overall results are worse than the prior year and appear to have partially reversed the improvement seen between the 2021/22 and 2022/23 cycles.



The audits inspected in the 2023/24 cycle included above had year-ends ranging from July 2022 to February 2023. Changes to the proportion of audits falling within each category reflect a wide range of factors, including the size, complexity and risk of the audits selected for inspection and the individual inspection scope. Our inspections are also informed by the priority sectors and areas of focus as announced annually. 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.

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

2. Review of individual audits

We set out below the **key findings** in areas where, based on our inspections, we believe improvements in audit quality are required. These findings may also include those on individual audits assessed as requiring limited improvements, due to the extent of occurrence across the audits we inspected.

Key findings	Why it is important
Urgently strengthen the quality of audit work relating to areas of estimation and judgement.	Auditors should adequately assess and challenge the reasonableness of management's estimates and judgements to respond to the risk of management bias.
Improve the audit of revenue relating to long-term contracts.	Auditors should adequately assess and challenge management's accounting for revenue recognition in long-term contracts, as they can be highly judgemental and susceptible to management bias.
Improve the audit of General IT Controls and the quality of audit responses to identified deficiencies.	Where an audit approach relies on IT systems, data and associated automated controls, related General IT controls should be tested to a satisfactory level to support the reliance placed and ensure that sufficient, appropriate audit evidence is obtained overall.

Further details of the above key findings are set out on the following pages, including the number of audits where we raised findings in these areas.

2. Review of individual audits

Urgently strengthen the quality of audit work relating to areas of estimation and judgement



Last year we stated that the firm should urgently strengthen the quality of audit work relating to estimation and judgement on provisions. This year, we inspected the audit of accounting estimates in the areas of provisions and impairment on six audits and identified findings on four of these audits, three of which were assessed as requiring more than limited improvements.

- **Impairment of assets:** The audit team did not perform sufficient procedures to evaluate and challenge the methodology, forecasts and other assumptions used in management's valuation model, or to evaluate and test alternative third-party valuations.
- **Expected credit losses (ECL):** On one audit we identified several weaknesses in the audit work performed to test the valuation of ECL. On another, the audit team did not evidence sufficient consideration and challenge of certain assumptions.
- **Provisions:** The audit team performed insufficient audit procedures to corroborate and challenge management's assumptions used in the calculation of a key provision.

Improve the audit of revenue relating to long-term contracts



We inspected the audit of revenue across five audits. For two of these, the majority of revenue related to long-term contracts. We identified findings on both of these audits, which were assessed as requiring improvements.

- **Performance obligations:** There was insufficient evidence that the audit team considered whether customer approvals may have represented performance obligations, contrary to management's policy of recognising revenue over time.
- **Long term contract accounting:** The audit team performed insufficient audit procedures over the completeness and accuracy of costs incurred and forecast costs to complete in the accounting for certain long-term construction contracts.

Improve the audit of General IT Controls and the quality of audit responses to identified deficiencies



We inspected the audit of General IT Controls across three audits and raised findings on all three, for which two audits were assessed as requiring more than limited improvements.

- **Segregation of duties and privileged user access:** On one audit, the audit team performed insufficient procedures to conclude on the appropriateness of segregation of duties and privileged user access within key IT systems. It also did not sufficiently demonstrate how related risks were addressed through its audit approach. On another audit, the audit team did not adequately consider or respond to specific issues of privileged user access.

2. Review of individual audits

Other findings leading to more than limited improvements being required



On one audit, there were a number of additional key findings that contributed to the overall assessment of significant improvements being required that are not included in the key findings above.

- **Quality control and review procedures:** The firm's quality control and review procedures were ineffective on this engagement. There were also numerous instances of omitted working papers, incomplete working papers retained, and amendments made to working papers after the date of the auditor's report that were not explained in the archived version of the audit file.
- **Group audit considerations:** A number of weaknesses were identified in the audit team's direction, supervision and evaluation of work performed by other participating audit firms that supported certain key areas of the audit.
- **Payments process:** The audit team performed inadequate procedures to assess a key third-party service organisation assurance report, including a lack of any procedures to assess, identify and test relevant 'complementary user entity controls'.

On another audit, weaknesses in the audit team's procedures over a **bonus accrual** also contributed to an overall assessment of improvements being required.

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



Risk assessment and planning

- **Audit take-on procedures:** The audit team performed a comprehensive set of take-on procedures. These included a robust review and challenge of accounting policies and changes in the nature and extent of the planned audit approach. These procedures resulted in certain prior year accounting and disclosure errors being identified and corrected.

Execution

- **Revenue and income:** On one audit, there was robust evidence of the audit team's evaluation and challenge of the completeness of investment income. On another audit, the audit team performed a comprehensive analysis of the development of insurance income to enhance its testing approach.
- **Insurance technical provisions:** The audit team's specialists performed extensive procedures and demonstrated robust challenge of assumptions in the audit of insurance technical provisions.

Completion and reporting

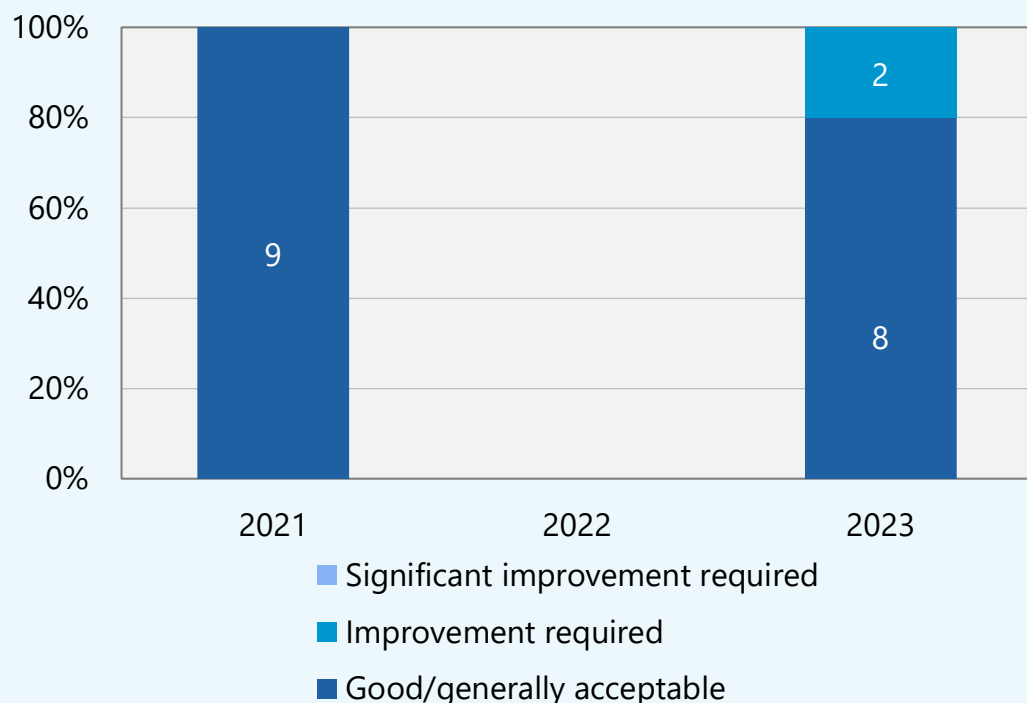
- **Delay to signing the audit report:** The audit team delayed the signing of its report to allow further audit procedures to be performed to respond to specific risks it had identified.

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 Continuing Professional Development records for a sample of the firm's staff involved in the audit work within ICAEW remit.

Overall the audit work reviewed was of a generally acceptable standard. Eight files were either good or generally acceptable and two files required improvement. In both of the files that required improvement, there were weaknesses in audit work over revenue. On one of the files, there was a lack of evidence of challenge to support management's conclusion on going concern.

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 2024.



Good practice

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

- Well thought-out use of proof in total for the audit of revenue.
- Component auditor checklists providing a good summary of the group audit engagement team's review and conclusion on that work.
- Challenge of management's assumptions relating to expected credit loss provision and going concern.



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. Review of the firm's system of quality management

In this section, we set out the key findings and good practice identified in our review of the firm's system of quality management (SoQM). ISQM (UK) 1 replaced the quality control standard (ISQC (UK) 1), which firms had been applying for many years, and introduced a fundamental change for firms' quality management approaches. Forvis Mazars has invested considerable effort in implementing and operating the ISQM (UK) 1 requirements and has responded positively to our feedback.

2023/24 was a transitional inspection cycle covering both standards (details of our new ISQM (UK) 1 & 2 rotational testing can be found [here](#)). A glossary of some key ISQM (UK) 1 terms can be found in Appendix C.

ISQM (UK) 1 - Risk Assessment, Governance and Leadership, Acceptance and Continuance, Monitoring and Remediation and Annual Evaluation

We reviewed the firm's implementation of ISQM (UK) 1, focusing on its risk assessment processes and completeness of risks, the design and implementation of responses to mitigate quality risks in the Governance and Leadership and Acceptance and Continuance components, and the design of monitoring procedures over these responses and the attainment of the firm's quality objectives.

We also reviewed a small sample of the monitoring procedures performed to assess the operating effectiveness of responses. This sample focused on responses containing significant elements of judgement, such as management review controls.

We reviewed the process, evidence, and outcome for the firm's annual evaluation of its SoQM. This included how other sources of information on audit quality and the firm's SoQM were considered,

and how matters were aggregated. We did not independently perform, or reperform, the firm's overall annual evaluation. As ISQM (UK) 1 is focused on how firms achieve iterative improvement, we considered how the firm is developing its SoQM, including in response to our findings we shared during the inspection period. Our inspection findings in this area are reflective of our assertive and forward-looking approach as we seek to support firms in their development of effective, proportionate SoQMs.

Key findings



- **Responses to quality risks:** The firm's description of a number of responses were not sufficiently detailed to demonstrate clearly how these mitigated the risks, could facilitate consistent operation of each response, or covered all specified responses required by ISQM (UK) 1. The firm's design assessments also did not always show how each risk was sufficiently mitigated by responses individually or in aggregate. The firm also did not keep the documentation of its SoQM up-to-date, reflecting where responses were changed or added to support consistent operation of these responses. There were changes to a number of processes and responses during the year.
- **Monitoring:** In the small sample of planned and completed monitoring procedures reviewed, we could not see how the firm monitored that all the relevant steps of responses had operated effectively in line with the design. The firm's monitoring evidenced testing that responses were performed at the right time by the right individuals but did not always evidence testing that the responses were performed as expected to mitigate the related quality risks.

We understand that the firm is undertaking iterative improvements to its SoQM, including to address these findings.

3. Review of the firm's system of quality management

- **Insufficient evidence of the monitoring procedures that underpin the annual evaluation:** There was insufficient evidence of the performance of certain monitoring procedures to support the firm's annual evaluation. Specifically, the firm did not demonstrate how it assessed the significance of the following matters: RCA themes from audit inspection findings, including the extent of effective remediation of these causes; open SQP or AQTP actions that were not yet effectively completed; reported ethics breaches and conduct matters; a significant minority of its response being assessed, by the firm, as ineffective; and the aggregate impact of SoQM findings.
- **Sample testing of engagement level controls (ELCs):** The firm did not justify how its sample testing provided sufficient assurance over the operation of each ELC. It sampled audit files based on its maximum control sample size for moderate risk controls, pro-rated for the period. Where a control was only relevant for a subset of audits, it only tested the relevant audits in this sample. The firm did not identify the population of each ELC or determine a sample size based on this. The firm is reviewing and updating its guidance for this sample testing.

Good practice

The firm identified a culture component with additional quality objectives, beyond the specified objectives of the ISQM (UK) 1. This showed how the SoQM had been tailored for its facts and circumstances.



Relevant ethical requirements - Compliance with the FRC's Revised Ethical Standard 2019

In the current year, we evaluated the firm's compliance with the Ethical Standard. We focused our work on non-audit services. Our targeted sample testing included: checking for the provision of prohibited services; reviewing independence threats and safeguards assessments; and evaluating the completeness of independence reporting made by component auditors to the group auditors.

Key findings

- **Breaches assessment:** The firm test 25 non-audit services every quarter. The latest results contained two regulatory breaches. The firm did not assess if the breaches were more widespread, and, where necessary, increase monitoring samples further.
- **Group audits:** The firm did not assess whether two proposed services, to overseas entities within one group, were compliant with the Ethical Standard before giving approval, instead placing reliance on the group auditors' consideration under different ethics rules.



3. Review of the firm's system of quality management

- **Conflict checks:** The firm did not identify all conditions and/or relationships that could impact independence, including historic non-audit services, for new audits. We welcome the firm's review of its audit acceptance process from an ethics perspective.
- **Threats and safeguards assessments:** In 2023, we reported that the firm did not perform robust assessments before approving non-audit services. In the current year, for one of three legal and litigation services we reviewed, we identified that a robust assessment of threats and safeguards had not been performed, which includes the circumstances when re-consultation is required.

Our SoQM inspection work is undertaken on a risk-focused, cyclical basis. This is supported by targeted thematic work on particular aspects of firms' SoQMs. In this current year, we conducted four audit thematic reviews on the Tier 1 firms to complement our monitoring of ISQM (UK) 1. The areas covered in these thematic reviews were: Sampling; Hot Reviews; Network Resources and Service Providers; and Root Cause Analysis. Published reviews can be found [here](#).

ISQC (UK) 1: Training and methodology

Given the transition to ISQM (UK) 1, we performed our final supervision of training and methodology under ISQC (UK) 1. We reviewed the firm's processes for identifying methodology updates and training needs. We also considered how the methodology updates and training were then designed, approved, and communicated to the audit practice. We paid specific attention to revisions following changes to ISA (UK) 240 and ISA (UK) 315. We also reviewed the firm's training processes, including monitoring attendance and evaluation of learning objectives.

No key findings were identified at the firm.

4. Forward-looking supervision

We take a risk-based, assertive and proportionate approach to the supervision of firms, which is complementary to our programme of inspections. We balance holding firms to account to take prompt action to address quality findings, with acting as an improvement regulator and sharing good practice to facilitate improvements across the sector. A Supervisor dedicated to each firm draws together evidence and indicators of risks, identifying and prioritising what firms must do to improve audit quality and enhance resilience, alongside identifying what could go wrong in the future.

Our observations from the work we have conducted this year, and updates on what more the firm must do in respect of previous observations are set out below. Where we raise key findings, we require the firm to include actions in their Single Quality Plan (SQP).

Audit Quality Transformation Plan

The firm's Audit Quality Transformation Plan (AQTP) is, as described in the firm's transparency report, "a fundamental initiative to sustainably improve audit quality across [Forvis] Mazars, consistently and effectively over a period of two years." The AQTP, launched in May 2023, was needed by the firm to prioritise those actions required to directly improve audit quality urgently.

The AQTP and audit strategy are interrelated, with the AQTP intended to strengthen the quality commitment within the audit strategy and ensure that there is focus and prioritisation.

Observations



- **Desired outcome wheel:** The AQTP prioritises and focuses on seven key outcomes, which are underpinned by the firm's culture.
- **Developing the AQTP:** AQTP actions that have been delivered must undergo an effectiveness assessment before they can be marked as complete. This effectiveness testing must be done on a timely basis, so that actions can be modified to be more effective or timely as required.

A number of initial actions, under the seven prioritised outcomes headings, have been taken already, including:

- **Portfolio risk assessment:** This has been carried out to assess the quality of the firm's client base and identify risks related to the business type, entity or specific audit areas of concern. Plans to mitigate the risk were implemented, where possible, covering areas such as wider planning discussions, mandated in-flight reviews, risk panels and the use of quality review assistants to help the partner carry out the engagement quality review.
- **In-flight reviews:** The in-flight review programme for 2023-24 was redesigned. It has and will continue to include full and focused scope reviews, follow-up reviews of audits where there were AQR findings, thematic reviews, and audit re-engineering reviews / input to assist teams in changing their approach in a key area.

Whilst the impact or effectiveness of these actions has yet to be seen, there remains a lot more to do to achieve consistent high-quality audits and the firm must accelerate efforts to impact audit delivery.



4. Forward-looking supervision

Single Quality Plan

We require all Tier 1 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 that action in the most critical areas is prioritised and enables firms to be held to account by us and their non-executives.

Observations



In order to focus on the AQTP and ISQM (UK) 1, the firm split its SQP into separate action plans and has now revised the SQP to cover all the medium and low priority actions.

A single plan collating and monitoring actions and their effectiveness is necessary as part of the firm's continuous improvement journey.

We have reviewed the current position and future plans the firm has for the SQP and will be monitoring it alongside our monitoring of the AQTP and underlying actions. It is important that focus on high priority actions is maintained but revising the SQP will enable lower priority objectives and actions to be more easily monitored and reported on.

Additionally, as part of our monitoring we will ensure that the firm reintegrates the AQTP into the SQP, as it is planning to do.

Root cause analysis

Root cause analysis (RCA) is an important part of an effective continuous improvement cycle designed to identify the causes of quality issues so that action can be taken to address the risk of recurrence. Further, ISQM (UK) 1 has made RCA a requirement for all firms when deficiencies are identified in the system of quality management.

Observations



The RCA process was strengthened last year, with the focus on behavioural and cultural factors and the use of Audit Quality Indicators and data analytics noted as positive steps to a more informative process.

Our current inspection results remain concerning. They continue to demonstrate inconsistent audit quality and recurring findings. The firm's RCA process alongside assessing the effectiveness of actions taken as part of the AQTP needs to consider further enhancements taken or to be taken and their timing.

The timing of the FRC inspections and related reporting does not align easily to the firm's internal quality monitoring or the ICAEW's work. As a result, the firm reports RCA findings throughout the year with a specific report on the FRC findings, root causes and actions. The firm would benefit from periodically revisiting the root cause work and reports from throughout the year and considering the larger sample to better identify themes in the causal factors.

4. Forward-looking supervision

Continuous engagement and holding the firm to account

We hold firms to account to take prompt action to address quality findings and set an appropriate tone from the top.

Observations



- **Tone at the top:** The firm remains clear and consistent in its communications around the importance of audit quality.
- **Constructive engagement:** We have engaged with the firm on two constructive engagement cases, one of which is ongoing. The firm has taken prompt actions including strengthening procedures, guidance and training aimed at preventing future recurrence of findings.
- **Non-financial sanctions:** In respect of non-financial sanctions, one has been imposed and agreed since the end of the last inspection cycle. The firm will report to the FRC on its actions to improve the relevant areas over the next one to two years.
- **Culture:** Whilst the firm has made progress on culture initiatives, more work is required to ensure that the actions the firm is taking to improve audit quality are underpinned by a culture that promotes this ambition.

Ethics function capacity: Resourcing levels within the Ethics function have increased and been strengthened with further increases expected in line with the newly developed Target Operating Model (TOM). An enlarged team is critical to ensure planned improvements can be implemented on a timely basis. Additionally, the TOM contains improvements to processes and procedures, which include technological solutions, both custom tools for the UK and global system developments.



Emerging risks and trends

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

Observations



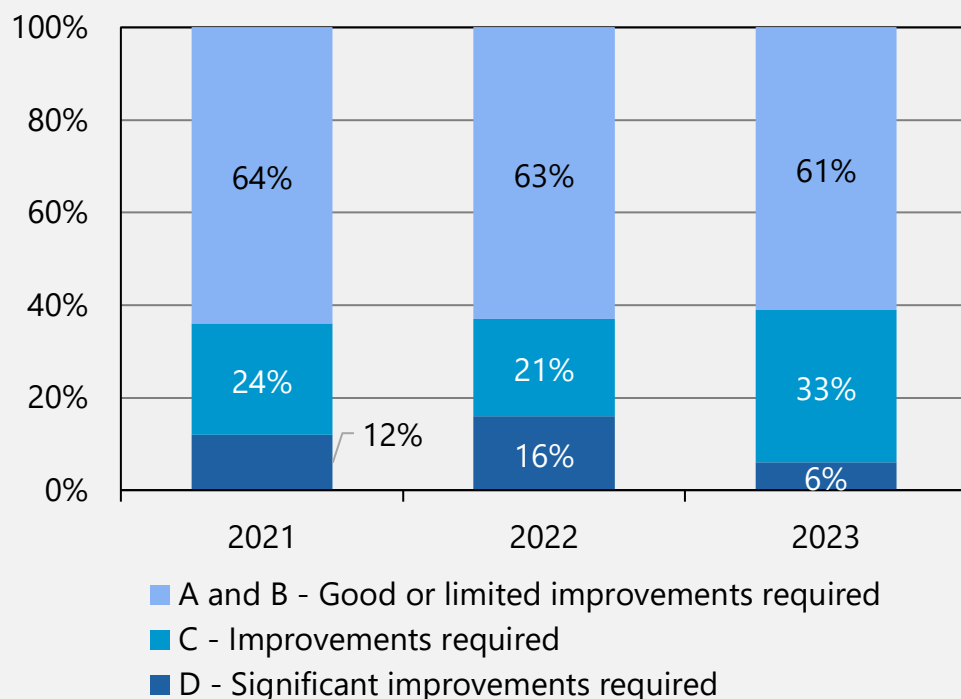
- **Resourcing:** Given past high recruitment levels, the firm must ensure that new hires are onboarded, trained and integrated effectively in order to deliver high standards of audit quality.
- **Alternative delivery model:** The firm is currently using offshore delivery centres on a low volume of non-PIE audits to audit non-judgemental areas. As volume increases or the type and focus of work changes, the quality control processes to mitigate current risks will need to be re-evaluated.
- **Growth and changing audited entity base:** It is essential that as the firm's audited entity base changes / grows that the development of the firm's audit methodology keeps up with the pace of change. Currently the complete development of the firm's banking specific methodology is behind the firm's growth in this sector. Solutions in place to minimise the risks are only a temporary fix and may still lead to inconsistent audit quality.
- **Forming a network with Forvis:** Undertaking all appropriate conflict checking before the new, combined network was formed was essential. Thereafter, it is also important for the UK firm to obtain reasonable assurance that this new network firm does not have conditions or relationships which compromise the independence of the UK firm.
- **Personal financial investments:** The frequency and extent of monitoring the new database for partners needs to be determined, along with how financial interests of staff will be considered.

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 (Internal Quality Monitoring, or IQM). We have not verified the accuracy or appropriateness of these results. The appendix should be read together with the firm’s [Transparency Report](#) for 2023 which provides further detail of the firm’s internal quality monitoring approach, results, root cause analysis, remediation, and wider system of quality control. 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 monitoring⁸

The results of the firm’s 2023 iQM and two previous years are set out below. The firm’s 2023 iQM comprised inspections of 33 individual audits (2022: 39), with periods ending from 31 December 2021 to 31 March 2023.



Themes arising from internal quality monitoring

The quality findings from the firm’s 2022/23 iQM programme had the following themes, the first five of which were also identified in the prior year:

- Procedures or evidence obtained to support fraud risk assessment including consideration of account balances and assertions with fraud risk indicators.
- Procedures performed or evidence obtained over revenue, in particular verifying that performance obligations had been satisfied for revenue recognition.
- Procedures performed or evidence obtained over asset valuations, including impairments indicators.
- Challenge of management’s going concern assessments, in particular in relation to the audit of judgements and assumptions applied by management in forecasts.
- Evidence obtained as part of journal entry testing including sufficient testing on journals selected per risk criteria.
- Challenge of management over judgements applied on estimated credit loss models.
- Procedures or evidence over transfer pricing arrangements.

⁸ The grading categories used by the firm are aligned as closely as possible to those that would result from the FRC’s regulatory inspection process.

Appendix B – Forvis Mazars’ responses and actions

Our commitment to audit quality and the public interest

At Forvis Mazars, we are fully committed to delivering high-quality audits. We acknowledge our responsibility to serve the public interest and provide companies with high-quality audits that stakeholders can confidently rely on. A high-quality audit needs a high performing audit practice and a strong risk management focus. The delivery of high-quality requires continuous focus and improvement, and as a Tier 1 firm in the UK PIE market, we strive to operate to the highest standards.

A well-defined quality transformation plan

We are making continued progress in improving audit quality, from introducing our Audit Quality Transformation Programme (AQTP) in October 2023 and refreshing our Single Quality Plan (SQP). The AQTP serves as both a quality transformation and culture initiative, focusing on high priority actions that will sustainably improve front-line audit quality. We maintain a firm dedication to promote and nurture a high-quality culture, emphasizing actions that significantly improve the delivery of high-quality audits. We continue to support our teams to deliver quality audits with the right tools, right mindset and right behaviours. We have made substantial investments in audit quality and continue to improve our SoQM. We anticipate that aligning our AQTP and SoQM will continuously improve audit quality, promoting trust and confidence.

Reflecting on the results of audit quality inspections

We are disappointed that this year’s AQR grading profile does not demonstrate the improvements that we believe we are making. The audits inspected by AQR in this cycle did not benefit from our AQTP.

We are encouraged that two of the audits inspected by the FRC were assessed as good with no findings identified and two audits were assessed as requiring limited improvements. We are also encouraged by the fact that the majority of key findings were not systemic. Although we are disappointed that four audits inspected were assessed as requiring improvements and one audit as requiring significant improvements, the findings identified on the latter were not considered to be systemic and we have taken robust actions to address the findings identified.

The AQR team has identified examples of good practice on the audits that were inspected, including on two audits that were assessed as requiring improvements. These included additional procedures performed on first year audits which resulted in audit adjustments, extensive procedures and challenge of assumptions on technical provisions, audit work on revenue, and delaying the signing of the audit report to appropriately respond to specific risks identified. This is a good indication of the effectiveness of a number of our quality actions which are now better embedded into our SoQM. We are particularly encouraged by the positive AQR inspection results in certain business units. We expect to sustain audit quality in those business units and see evidence of improvement in the next AQR inspection cycle for the other business units.

Furthermore, the ACCIF’s [The Spring Report](#) noted that a “risk adjusted” view of the challenges faced in providing high-quality audits for challenging companies may be required by all stakeholders in terms of demonstrating proportionality.

Appendix B – Forvis Mazars’ responses and actions

We are pleased that the results of the ICAEW’s QAD reviews had two audits that were assessed as good, six audits were assessed as generally acceptable, and no audits were found as requiring significant improvements. However, we do acknowledge that two of the audits inspected required improvements. The QAD team has also identified examples of good practice, including the proof in total approach to the audit of revenue, the evaluation by the group engagement team of the work performed by the component team, the procedures performed over ECL including the challenge of management’s assumptions, and robust challenge on going concern.

The results of our internal Quality Monitoring (iQM) reviews this year were broadly consistent with last year, with 61% found to be either good or requiring limited improvements compared to 63% in the prior year. However, there is a significant positive trend in those assessed as requiring significant improvements, with 6% graded as D compared to 16% in the prior year. Moreover, most of the audits that were reviewed by the iQM team and had key findings related to 2021/22 year-ends and therefore did not benefit from the quality initiatives undertaken in the last year. Our iQM team has reviewed five PIE audits in this cycle which were all assessed as either good or requiring limited improvements.

Firm’s system of quality management, ethics and other areas

During the period since the FRC’s review of the firm’s SoQM and in response to the points raised, we are embedding our audit quality initiatives and transformation plans to our SoQM. We are in the process of addressing the findings raised including redesigning process narratives to ensure the documentation is up-to-date, improving the evidencing of monitoring and how responses mitigated risks, and justifying sample sizes. We will also sufficiently evidence how certain monitoring procedures support the firm’s annual evaluation.

We acknowledge the FRC’s findings on ethics and have strengthened our Ethics function, including the addition of a Deputy Ethics Partner bringing further capability and capacity to the Ethics function. We continue our investment in Ethics, and work to build our target operating model.

Whilst we seek to make ongoing enhancements on training and methodology, we are encouraged that the FRC has not identified any key findings in these areas.

Insights from our root cause analysis (RCA)

The RCA process is an essential component of our SoQM. Whilst the RCA output will inform future actions, the findings from the RCA may not represent the current state of the firm’s audit quality as the RCA considered audits which did not benefit from our AQTP.

We undertook an RCA on all nine audits that were inspected by the FRC to determine the underlying drivers of any failings. As part of the RCA, we also reflected on whether the root causes were specific to the audit engagements or indicative of a systemic issue. We identified eight root causes that did not equally apply to all audits inspected by AQR, of which four were recurring in nature. The root causes identified included issues with project management, working with specialists and experts, and on-the-job coaching and evidencing our challenge of management. We are performing RCA on the findings identified by QAD and iQM; these are expected to be completed in the second half of 2024.

Delivering our quality actions

We have been following a prudent strategy of sustainable growth, as we recognise the risks associated with rapid growth, which includes careful consideration of PIE and AQR in-scope audits. Whilst we acknowledge the need to temper growth with achieving quality, we also recognise that we have accepted the challenge to play a part in maintaining and developing a viable audit market for PIEs in the UK.

Appendix B – Forvis Mazars’ responses and actions

We continue to deliver actions in our AQTP and SQP to drive quality improvements, such as controlling growth and building additional resource capacity with the right skills to deliver high-quality audits, strengthening specialists and audit quality support teams, revising methodology as required, improving training and launching quality and culture initiatives. Remedial actions in our AQTP that address behavioural and cultural issues need a longer time to embed. The audits inspected by AQR as part of their most recent cycle did not benefit from our AQTP and new SoQM, and we anticipate next year’s results will demonstrate the improvement that we believe we are making in audit quality.

Through the current AQTP actions, notably portfolio reviews, we continue to develop a more holistic and coherent approach that informs our strategic decisions. We ensure that we have the appropriate resources and support on our audits, and we are prepared to take all actions necessary to ensure that any risks to audit quality are appropriately assessed and managed. We are performing further analysis of the root causes, and we will refresh our AQTP as required to reflect enhanced actions and/or new actions.

We have undertaken urgent actions to address the AQR findings as they were emerging, including issuing additional guidance to teams, expanding the review focus of our in-flight reviewers and EQR teams, strengthening our construction methodology, holding audit and financial reporting workshops including on revenue and construction, developing a banking audit enabler and IT aide-mémoire to assist teams in considering the various regulatory findings, communicating the findings and themes to audit teams, and IT peer reviews.

We continue to strengthen our audit quality team, including the addition of a senior banking expert to further develop and enhance our banking methodology.

Our AQTP includes distinct pillars and targeted audit quality interventions. To address the root causes identified, we will direct our efforts on people and culture initiatives including Audit Quality Roadshows, organising our second Audit Quality Conference, sharing audit quality stories and the importance of evidencing our challenge of management. We will also focus on project management and on the ‘working as one team’ model with strong collaboration across experts and specialists and the audit team.

Looking ahead to the future

Audit quality remains our priority. We are fully committed to delivering high-quality audits and we remain committed to the UK PIE market.

We are encouraged by the FRC’s observation that “the firm remains clear and consistent in its communications around the importance of audit quality.” We are thankful to our teams for all their hard work, commitment and support, and we will continue to invest in our people, skills and systems which underpin the delivery of high-quality audits.

Our commitment to audit quality reflects our high standards whether measured by regulatory or internal assessments. We are hopeful that our heavy investment in audit quality driven by the initiatives launched in the past year will sustainably deliver the audit quality that we demand of ourselves.

Appendix C – ISQM (UK) 1 Glossary

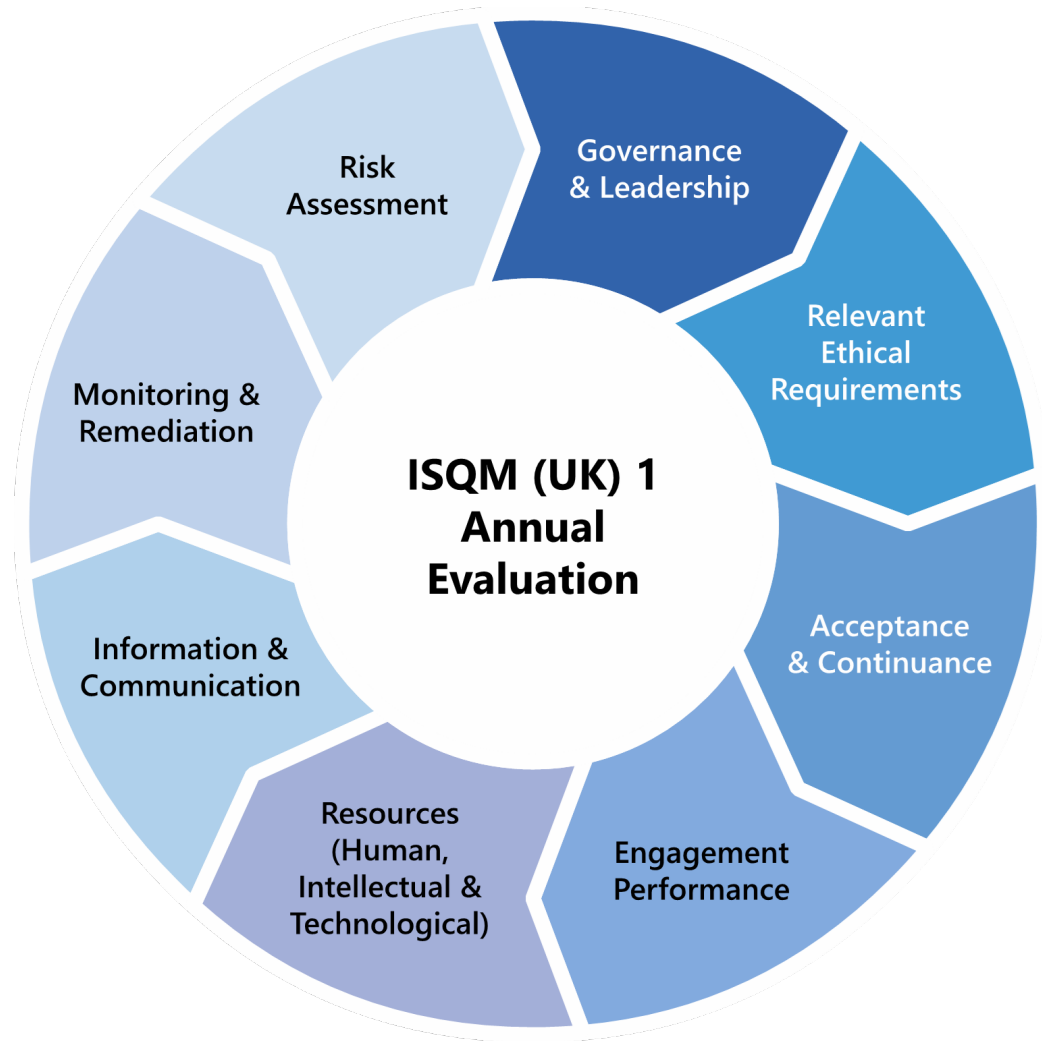
The following definitions were extracted from ISQM (UK) 1⁹.

System of quality management (SoQM)	<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">The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; andEngagement 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>	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: <ol style="list-style-type: none">Occurring; andIndividually, 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: <ol style="list-style-type: none">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.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.

⁹ https://media.frc.org.uk/documents/ISQM_UK_1_Issued_July_2021_Updated_March_2023.pdf

Appendix C – ISQM (UK) 1 Glossary

<p>Deficiency</p>	<p>A deficiency in a firm’s system of quality management exists when:</p> <ol style="list-style-type: none"> 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.
<p>Ultimate responsibility</p>	<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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