Annual Review of Audit Quality 2025

Financial Reporting Council

July 2025

Foreword from the Executive Director of Supervision

Audits are vital to the UK economy. They underpin an environment of trust and transparency in financial statements that is essential to keeping capital flowing, and maintaining the UK's status as a leading global destination to build and scale a business. A well-run company with accounts that are signed off by directors and assured with a quality audit gives investors and the public confidence in companies that enables them to access capital and support the economy.

Audit quality in the UK has improved since 2018 and continues to compare favourably internationally. We welcome the work being undertaken by firms in the market, including operational separation, improvements to audit firm culture, and the adoption of the International Standard on Quality Management (UK) (ISQM). However, it is crucial that we do not become complacent, and that we continue to hold audit firms to account, because we expect continued growth, development and investment in the UK Public Interest Entity (PIE) market. While the larger firms have built on recent progress and invested significantly in the quality of audits delivered, there continues to be a gap between the larger and other firms in the PIE market. This gap persists in the establishment of robust Systems of Quality Management (SoQM) across the market. At the same time, developments in technology, ownership structures and the business environment, present challenges and opportunities for the future of the UK audit landscape. The audit market is not static and our regulatory approach must keep evolving to meet these changes.

It is vital that smart regulation continues to underpin the importance of audit quality without creating disproportionate barriers. To that end, while we wait for draft legislation, over the coming year we are reviewing and refining our supervisory approach, with particular emphasis on targeted interventions that address specific quality issues rather than broad-brush requirements. The aim is to develop richer conversations with the firms about their own risks, learning and improvements. Our current approach to supervision has helped drive improvements in audit quality in the PIE market, particularly with the larger firms. Our review is focused on enhancing and building on these processes to ensure that the supervision model is fit for the future of the whole audit market.

There is a strong degree of consensus on what matters among all involved in the audit landscape: public confidence, high quality and values, supporting growth and positioning the audit sector for future success. We want to see a thriving audit profession that meets the needs of UK businesses and provides the assurance investors require. The responsibility for this does not rest with us alone. Firms, investors, company directors, professional bodies, and educators all have a role to play.

Sarah Rapson
Executive Director of Supervision

Contents

Appendix

1. Introduction

The Annual Review of Audit Quality sets out our view of audit quality and summarises the work we have carried out and our findings. It also gives our overview of the challenges and opportunities facing the market and how our approach to supervision considers them. This year, we have also taken the opportunity to outline progress on our Future Audit Supervision Strategy (FASS) and the changes we are already beginning to make (Section 9).

Sections 2 to 4 focus on:

- Our view on the implementation of International Standard on Quality Management (UK) 1 (ISQM1), as this is the first inspection cycle when ISQM has been applicable for the whole period.
- Our assessment of the delivery of audit quality over the past year by firms through inspections of individual audit files using the current tiering system[1].
- Other key supervisory activities carried out this year.

Sections 5 to 8 look at the developments in the audit landscape over the past year. We outline how our regulatory approach is taking into account our impact on the market and how we are taking these developments into consideration.

Where appropriate we have included case studies to demonstrate how our work as an improvement regulator reinforces our commitment to serving the public interest and supporting UK economic growth.

Using this publication

This report on the audit quality results of PIE audit firms and our approach to the UK audit market is for general use by interested parties. This report can be used by:

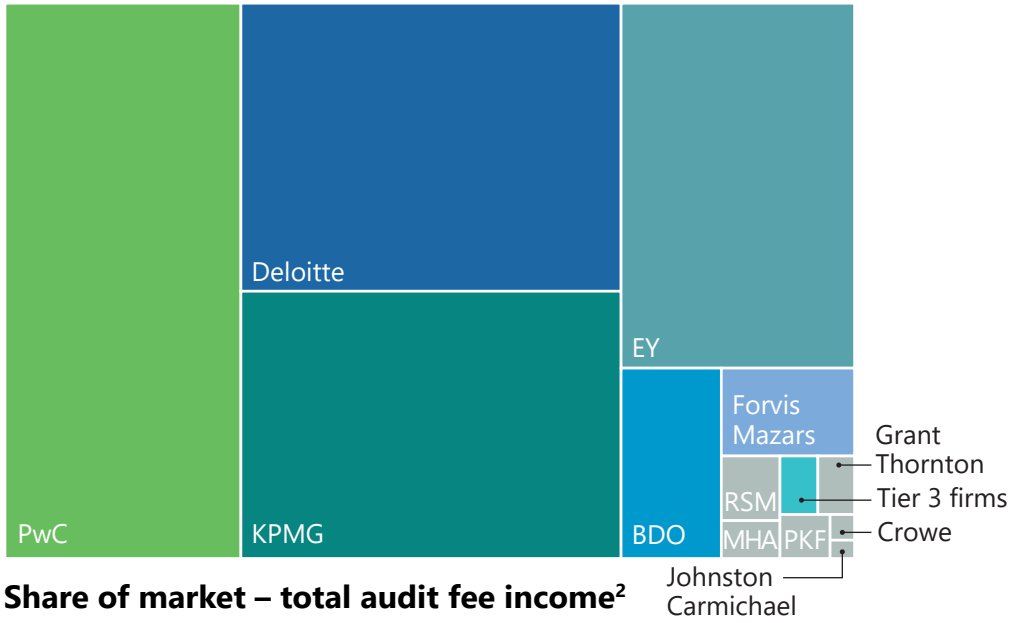
- Audit firms to acknowledge and deliver on the areas for improvement outlined in their reports and their responsibilities to the market as a whole.
- Audit Committees to assess the quality of the audit that they are getting from their current audit firm and also, if they are running a tender process in the near future, to think about which firms to invite to tender.
- Investors and users of financial reports to make assessments about the quality of audit, transparency and accountability in relevant markets.

Given our risk-based approach to selecting individual audits for inspection, it is important not to extrapolate our findings or assessment of quality to the whole population of audits performed by a 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.

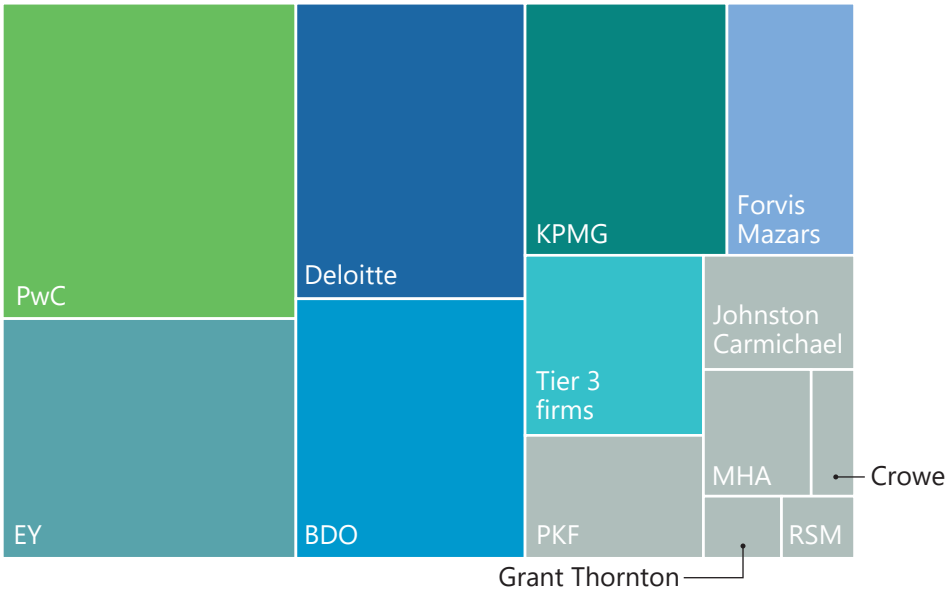
Individual audit and SoQM inspection findings are not the only metrics to assess audit quality. The FRC considers other data points, including: the firms' own systems of internal monitoring and their own metrics, as well as monitoring by the ICAEW. For the first time, we have published data on Audit Firm Metrics, an initiative voluntarily engaged with by the firms. This data is intended to inform and stimulate meaningful conversations between the firms and audit committees about how quality is defined and managed by a firm.

1. Our current approach groups the PIE audit firms into three tiers, based on their impact on the UK audit market. While it was never our intention, this system has been perceived to create a 'league table' of audit firms. We recognise that this system will need to evolve with the developments of the market. This will be the last time we report on audit firms using this tiering system. Appendix A sets out the firms in each tier.

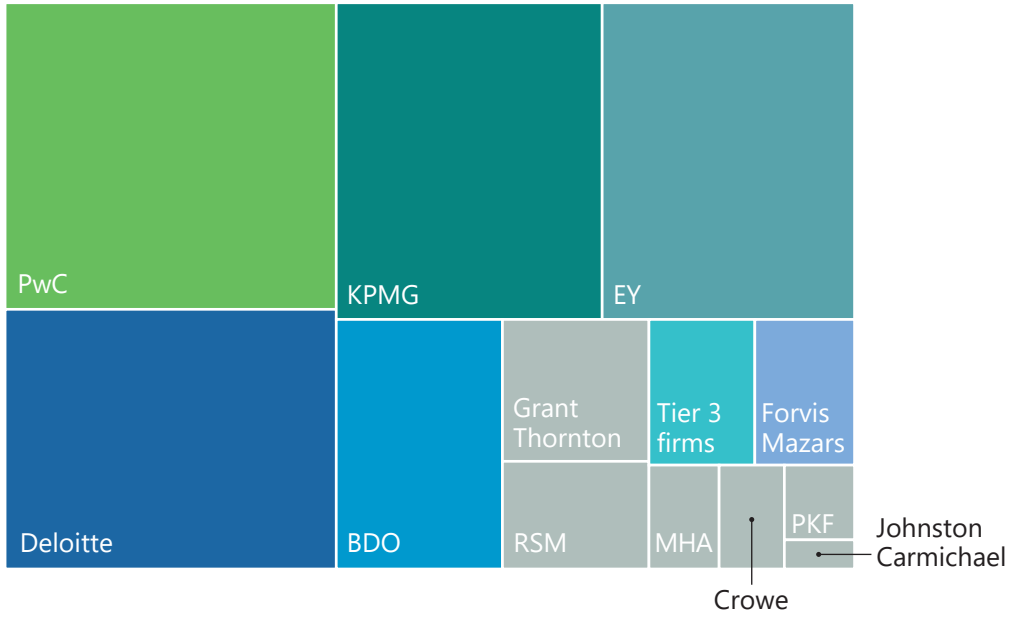
Share of market – PIE audit fee income[2]



Share of market – number of PIE audits[3]



Share of market – total audit fee income[2]



Audits inspected in 2024-25

BDO	14	KPMG	20
Deloitte	20	PwC	20
EY	20	Tier 2	8
Forvis Mazars	10	Tier 3	8
Total 120			

Major Local Audits inspected in 2024-25

BDO	1	KPMG	1
Deloitte	1	PwC*	0
EY	1	Tier 2	1
Forvis Mazars	1	Tier 3	0
Total 6			

*PwC does not undertake Major Local Audits.

2 Source – Submissions by firms to the FRC for the Key Facts and Trends publication, and other purposes, and other information held by the FRC, including firms' Transparency Reports. Audit fee income may be prepared to different reference dates by different firms. Total PIE audit fee income equals £1.5 billion. Total audit fee income for these firms equals £5.0 billion.

3 Source – FRC's PIE Auditor Registration data as at 31 December 2024. The total number of PIE audits equals 1446.

2. Systems of Quality Management

Firms' SoQMs vary significantly based on individual firms' facts and circumstances

All firms have numerous processes and procedures that underpin audit quality and that seek to ensure that every audit is conducted to the required standard. These processes and procedures are the basis of a firm's system of quality management and the ISQM1 sets the formal requirements for this system.

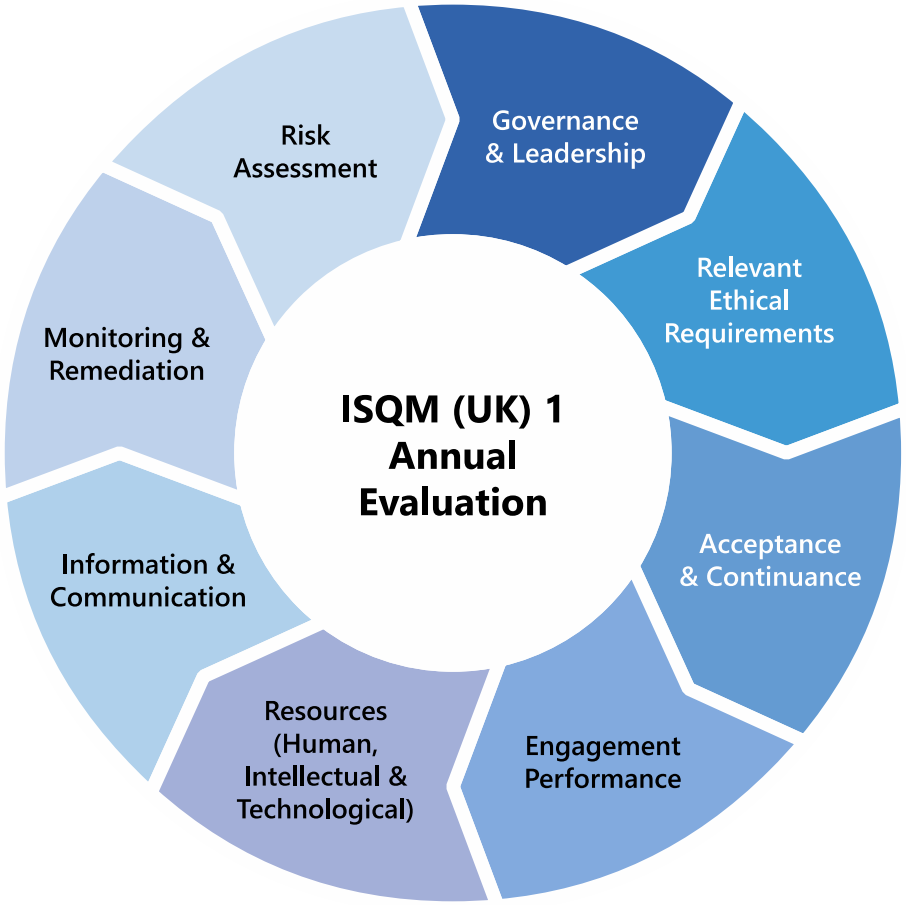
This is the first inspection cycle when ISQM has been applicable for the whole period, as 2023/24 was a transitional cycle from the International Standard on Quality Control (UK) 1. We have undertaken inspections at the twelve largest audit firms. For each firm, we inspected the firm's risk assessment, and the design, implementation, and operation of components, as scoped in on a rotational basis (details of our ISQM rotational testing can be found here).

As a proportionate regulator, we scoped in fewer components at the smaller firms. For each component we inspected a small, risk-based sample of the monitoring procedures performed by the firm to assess the effectiveness of responses to quality risks. For the firms' annual evaluations of their SoQMs, in the inspection cycle, we also looked at the process, evidence, and outcome, including how other sources of information were considered, and how the aggregate significance of findings and deficiencies were assessed. We did not independently perform, or reperform, this annual evaluation.

As expected, the SoQMs of firms vary based on firm size, complexity, audit portfolio, and business strategies, with differences in the:

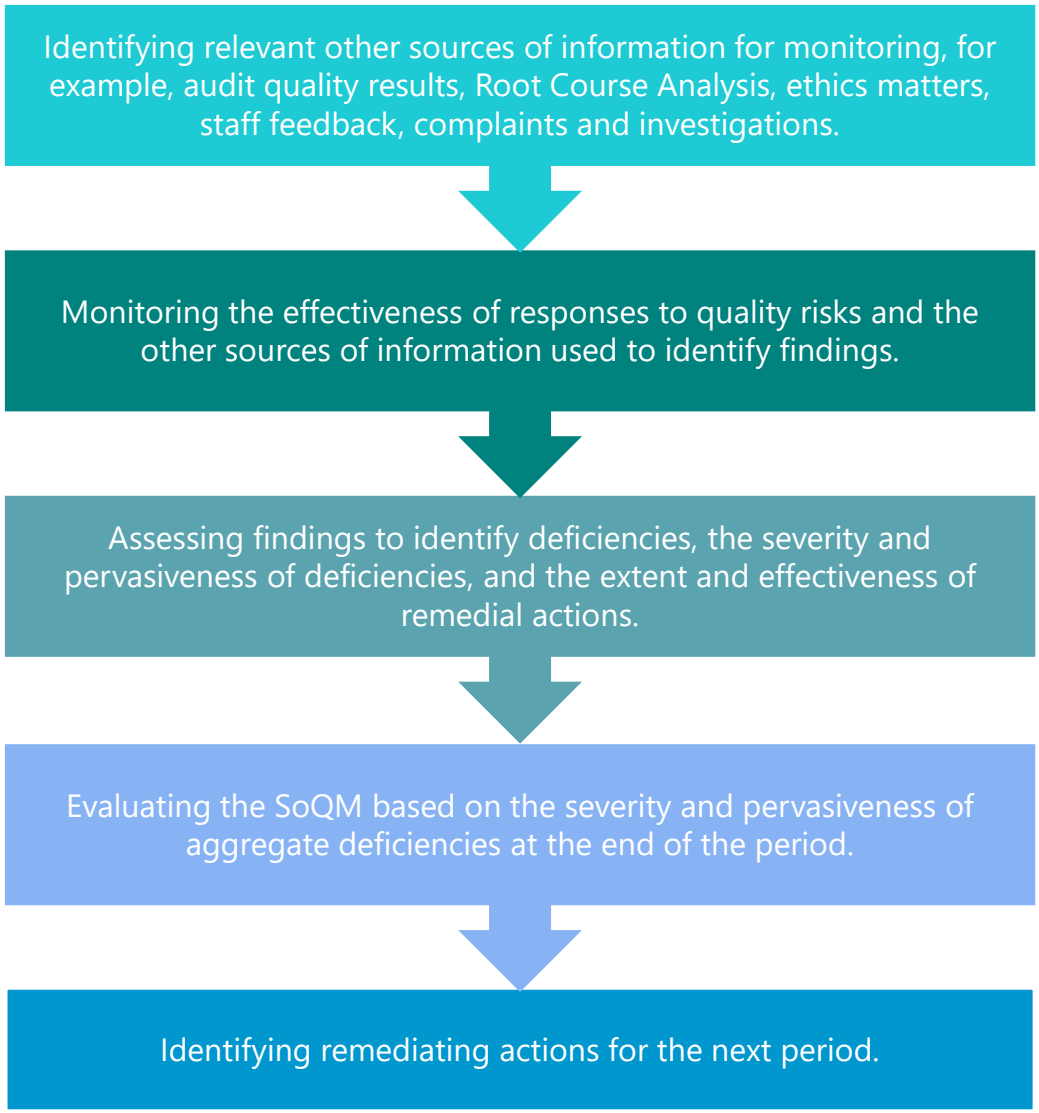
- Formality of risk assessment processes.
- Granularity and formality of responses to quality risks.
- Number of responses to quality risks.
- Complexity of monitoring.
- The extent that monitoring is independent of the underlying responses; and
- The extent and frequency of formal reporting to leadership bodies.

In our review, we have considered whether firms' SoQMs are proportionate to their specific circumstances.



2. Systems of Quality Management

Annual evaluations of SoQM – A key focus for our review of firms' SoQMs is assessing their process for monitoring and evaluating. The steps in this process are:



Assessing aspects of the SoQM - For all firms we assessed these aspects of the SoQM, with each one building upon the next, so a weakness in any will impact the subsequent aspects.

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 robustly identified and individually assessed?

Was the aggregate impact and significance of deficiencies assessed?

2. Systems of Quality Management

The table below sets out the areas we looked at this year and why they are important.

ISQM1 Component	Why it is important	Focus areas of our inspection
Governance and Leadership (G&L)	Firms should ensure leadership has sufficient insight into the SoQM and ongoing monitoring to exercise timely oversight and take necessary actions. Firms should also ensure they promote and support a culture of quality throughout the firm.	Reporting to leadership and the culture of quality.
Information and Communication (I&C)	Firms should ensure audit personnel are kept informed regarding the SoQM activities and matters relevant to their roles and responsibilities. Firms should also ensure audit personnel share their concerns and questions, on a timely basis, so that these can be appropriately addressed.	Promoting and driving two-way communication with, and between, audit personnel.
Human Resources (HR)	Firms should ensure that personnel allocated to audit engagements and SoQM activities have the appropriate capacity and capability.	Resource management and allocations for audit engagements and SoQM activities.
Relevant Ethical Requirements (RER)	Firms should ensure they comply with the requirements of UK Ethical Standards, so that audit engagements can be performed in a sufficiently independent and objective manner.	Approval of non-audit services (NAS), and the length of involvement, on audit engagements, by key audit partners and the firm.

For the Tier 1 firms, we scoped in G&L, I&C, HR and RER components, with a focus on monitoring and remediation processes.

For Tier 2 and Tier 3 firms, we only scoped in G&L and RER components. For these firms we scoped in fewer components and tailored our inspection of these areas with consideration of the standard's scalability. This is the first year we have inspected these firms alongside each other, to increase the potential for benchmarking and sharing learnings.

Within the monitoring and remediation processes, we also focused on these firms' programs for cold file reviews and root cause analysis (RCA). Our review of Tier 2 firms is still in progress.

2. Systems of Quality Management

Overall, the largest four firms' SoQMs are well-established and robust.

Across the six Tier 1 firms we have seen that firms have invested significantly in their SoQMs, including to address key findings identified in the prior year.

We have identified that the largest four firms have well-established and tailored SoQMs, with overall robust processes to assess and monitor responses to quality risks and perform their annual evaluations, as well as strong reporting and governance processes. For these firms, the key thematic areas of improvement related to:

- Ensuring the identification and timely monitoring of responses to quality risks to mitigate the risk of teams and individuals not following the firm's processes and policies.
- Enhancing the monitoring procedures for responses to quality risks to ensure the firm consistently and robustly tests each step of the process to ensure effective operation.
- Improving the performance and evidencing of annual evaluations, particularly, the review of RCA results and the effectiveness of remediating actions taken.

BDO and Forvis Mazars have shown significant commitment to investing in their SoQMs.

For these firms, the key findings relate to:

- Enhancing and implementing some responses to quality risks to ensure sufficient mitigation.
- Improving monitoring procedures for responses to ensure they consistently test the effective operation of the full responses.
- Ensuring robust assessment of a range of other sources of information, such as RCA themes, prior period adjustments, ethics and independence matters and insights from staff engagement.
- Improving their assessment of the effectiveness of remedial actions.
- Strengthening their identification of SoQM findings and deficiencies, as well as the assessment of the severity and pervasiveness of deficiencies, including in aggregate, to support their evaluations.

Among Tier 2 and Tier 3 firms, there are differing levels of maturity in the development of their SoQMs.

There is significant variation between the Tier 2 and Tier 3 firms regarding their size, structures, and the breakdown of their audit portfolios, which affects our expectation for how they should proportionately apply the requirements of ISQM1. However, we have also seen significant variation in how far these firms have progressed in designing, implementing, and operating an effective and proportionate SoQM, with several firms still in the process of major investment and change to their SoQMs.

Overall, we have seen that most (but not all) Tier 2 and all Tier 3 firms need to make significant improvements across; the design and implementation of the scoped in components, as well as in their processes and the evidencing of those processes for monitoring, remediation, and evaluation of their SoQMs. Tier 3 firms require greater improvements across all components to meet the requirements of the standard. We are supporting these firms to develop their SoQMs through: increased benchmarking, discussions and a roundtable to share learnings and better practice, and we are working with them to develop and agree their responses to our action plans including considerations of timing and prioritisation.

3. Inspections of individual audits: Overall inspection results of Tier 1 firms

There has been a significant improvement in the overall quality of the audits delivered by Tier 1 firms this year. Five out of six achieved positive audit quality outcomes on 90% or more of their audits.

We reviewed 104 individual audits (2023/24: 92) across these firms this year. Of the audits inspected, 86% were categorised as good or limited improvements required (2023/24: 74%)[4]. These results are a significant step forward in audit quality and form part of a continued trend of improvement over a five-year period.

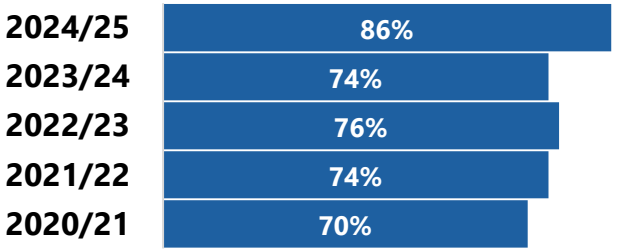
Within the above inspections, we reviewed 47 audits of FTSE 350 entities (2023/24: 39). The percentage of these audits requiring no more than limited improvements this year was 85% (2023/24 87%) and this is consistent with the high standard of audit quality we have seen for such audits over the past five years.

We continue to assess a small number of audits as requiring significant improvements, with 5% of our inspections this year having this outcome (2023/24: 5%), one of which was an audit of a FTSE 350 entity.

The overall results from similar measures of audit quality, covering the broader population of audits, also show an improvement. The Institute of Chartered Accountants in England and Wales (ICAEW) reviewed 50 audits across the Tier 1 firms this year, weighted toward higher risk and complex audits of non-PIE entities within their scope. The results showed 90% of reviews carried out were graded good or generally acceptable. See Appendix D on page 30. Although five of the six firms have achieved strong quality outcomes this year, the results for BDO continue to be behind its peers, and this must be urgently addressed by the firm.

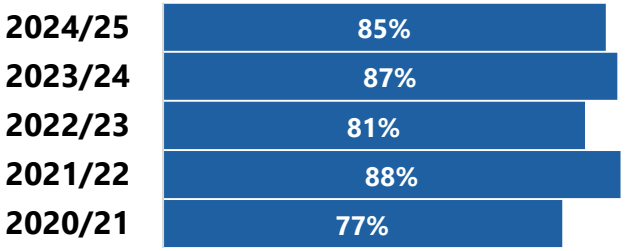
Regulatory audit inspection results at the six firms

% of audits inspected by the FRC requiring no more than limited improvements



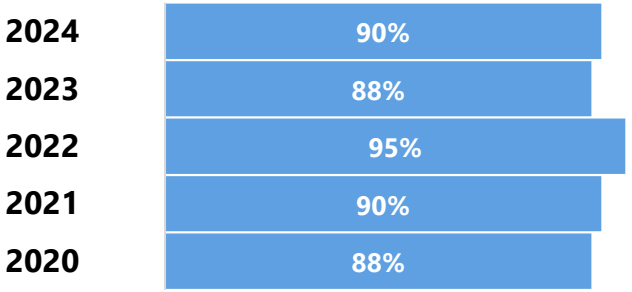
5 audits inspected by the FRC required significant improvements

% of FTSE 350 audits inspected by the FRC requiring no more than limited improvements



1 FTSE 350 audit inspected by the FRC required significant improvements

% of audits inspected by ICAEW classified as good / generally acceptable

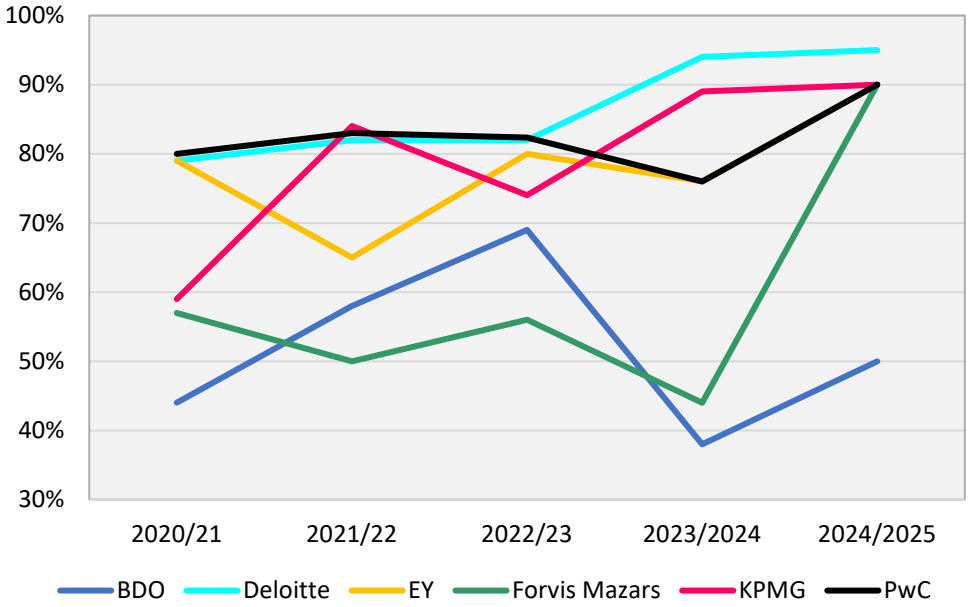


1 audit inspected by the ICAEW required significant improvements

4 Audit Quality Categories are defined in Appendix B on page 28

3. Inspections of individual audits: Audit firm inspection results of Tier 1 firms

Percentage of audits assessed as good or limited improvements by Tier 1 firm



Deloitte, EY, KPMG and PwC have continued to build upon the substantial progress that they have made in audit quality over recent years. There has been steady and consistent improvement in the quality of audits inspected by the FRC at these firms over the last five years. The assessed quality of audits for these firms is now at a level that is, on average, the highest it has been in this period.

Our supervision teams continue to work closely with each of these firms to support their continuous improvement. While we welcome the achievements in recent years, it is important that these firms are not complacent and that they continue to invest in and maintain their strong commitment to audit quality.

There has been an improvement in the audit quality inspection results for Forvis Mazars. The percentage of audits assessed as requiring no more than limited improvements has more than doubled this year to 90% (nine of ten audits inspected), from 44% in the prior year. The remaining audit that we inspected this year was found to require significant improvements. While it is too soon to identify this improvement as a trend, it is an encouraging indication that the actions being taken by the firm are having an impact. Continued effort is needed by the firm to ensure lasting improvement.

Significant recurring audit quality findings continue to persist at BDO. Although there has been improvement in the percentage of audits assessed as requiring no more than limited improvements (50% compared to 38% in the prior year), the results of BDO are significantly short of expectations. We continue to identify recurring underlying findings in several areas in our inspections, including quality management. BDO must urgently and robustly reassess how to improve its audit quality in these and other areas with findings and take appropriate action. We will also continue to take appropriate regulatory measures given the firm's strategic importance to the market.

Though encouraged by the acknowledgement by the new Leadership Team that the results do not meet consistent high standards, BDO will remain under close supervision. We recognise that actively working to remove barriers to change can take time. However, we expect BDO to not be complacent and ensure change happens at pace. We will continue to work with the firm and will perform additional activities to assess quality and monitor the rate of improvement.

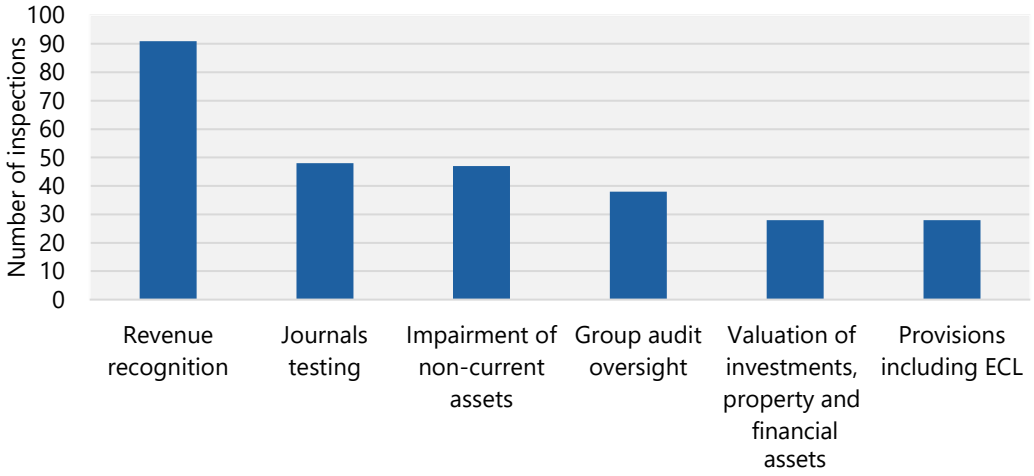
3. Inspections of individual audits: Tier 1 inspection scoping

We take a risk-based approach to determine the areas we review on individual audits. We focus on areas that have a significant impact on an entity's financial statements should they not be fairly stated and on which investors and users of financial reports may rely.

The graph below sets out the most frequent audit execution areas we reviewed this year. In addition to these areas, we reviewed risk assessment, audit planning, and communications to Audit Committees on all inspections.

Our inspection scoping also paid particular attention to our supervisory areas of focus[5]. For the 2024/25 cycle, these included the current economic environment (impairment and valuation being the most common related audit areas selected), climate related risks (selected on 17 inspections), cash flow statements (21 inspections) and the implementation of IFRS 17 (see case study).

Most frequently inspected audit areas



5 The published areas of focus for the 2024/25 inspection cycle are available on the FRC website.
6 The reports on the results of CRR's reviews of IFRS 17 disclosures are available on the FRC website.

Case study: IFRS 17

IFRS 17 Insurance Contracts became effective in the UK for reporting periods beginning on or after 1 January 2023. The standard established new principles for the recognition, measurement, presentation and disclosure of insurance contracts. It replaced the different approaches previously adopted by insurers and supports greater transparency and comparability in financial reporting.

As the standard represented a fundamental overhaul of accounting for insurance contracts, insurers undertook major projects to identify and implement the necessary changes to their systems and procedures to comply with the new requirements. Audit firms also undertook projects to develop new audit tools and design procedures for teams to adopt in the audit of insurer's financial statements. The FRC's own IFRS 17 project started in December 2021 and involved three key workstreams:

- **Financial reporting disclosures:** The FRC's Corporate Reporting Review (CRR) team performed a review of the quality of insurers' disclosures in its sample of interim and final financial reporting for the year to December 2023[6].
- **Audit tools and procedures:** The FRC's Audit Quality Review (AQR) team liaised with the four largest audit firms to understand the materials and approaches they had developed to audit insurers' financial statements.
- **Audit quality:** AQR inspected the audit quality of five insurers' financial statements that included the first-time adoption of IFRS 17, of which four were audited by Tier 1 firms. In each case, the quality of the audit was assessed as good or requiring limited improvements.

3. Inspections of individual audits: Tier 1 inspection findings

We categorise the findings we identify on individual inspections between key findings (those of greater significance) and other findings[7]. The table on page 14 sets out the most common areas of findings in our last two inspection cycles, based on the number of inspections with key or other findings in these areas. It also analyses the frequency of these findings, based on the number of inspections where the related area was included in our inspection scope.

Our analysis shows that, as has been the case for several years, the most common findings from our inspections continue to relate to the audit of revenue and impairment. For revenue, our findings included shortcomings in the audit of contract accounting, substantive analytical procedures and the testing of sales rebates and cut-off. For impairment, our findings most often related to weaknesses in the evaluation of key assumptions and judgements and the related challenge of management.

We are encouraged to see a reduction in the frequency of findings in four of the most common areas of inspection findings: revenue, impairment, provisions including expected credit losses ('ECL'), and journals testing. This reflects progress that has been made by individual firms, but all firms must continue to take robust action to improve their audit work in these areas. Firms should also take further action to improve the audit of inventory and the oversight of group audits, where we have seen an increase in the number of findings this year.

We report firm-level findings in areas where we identify key findings on individual inspections or frequently occurring other findings. The analysis on page 14 maps out the most common inspection findings to related firm-level findings in individual firm reports. This shows that revenue and impairment continue to be the areas with the greatest number of firm-specific findings, impacting the most firms. Further details of firm-specific findings are set out in our individual firm reports.

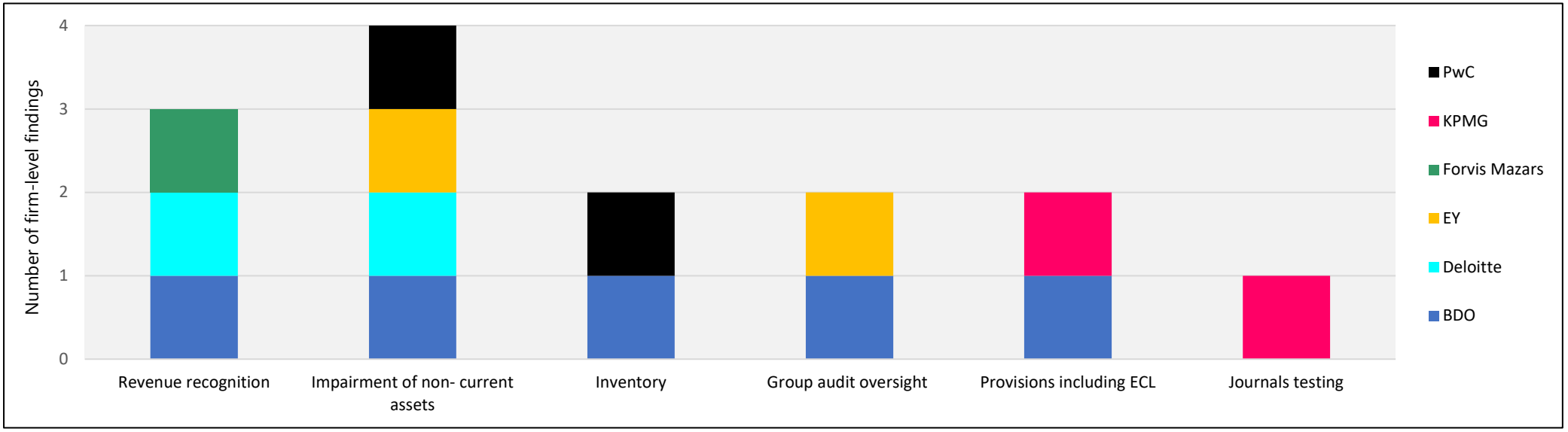
7 Key and other findings are defined in Appendix B on page 28.

3. Inspections of individual audits: Tier 1 inspection finding

Common inspection findings – by inspection

	2024/25			2023/24		
	Key findings	Other findings	Findings when scoped	Key findings	Other findings	Findings when scoped
Revenue	5	13	20%	4	19	31%
Impairment of non- current assets[8]	4	16	38%	10	13	48%
Inventory	4	8	50%	5	2	50%
Provisions including ECL	3	10	46%	5	7	71%
Group audit oversight	1	11	32%	1	8	22%
Journal testing	1	8	19%	1	10	24%

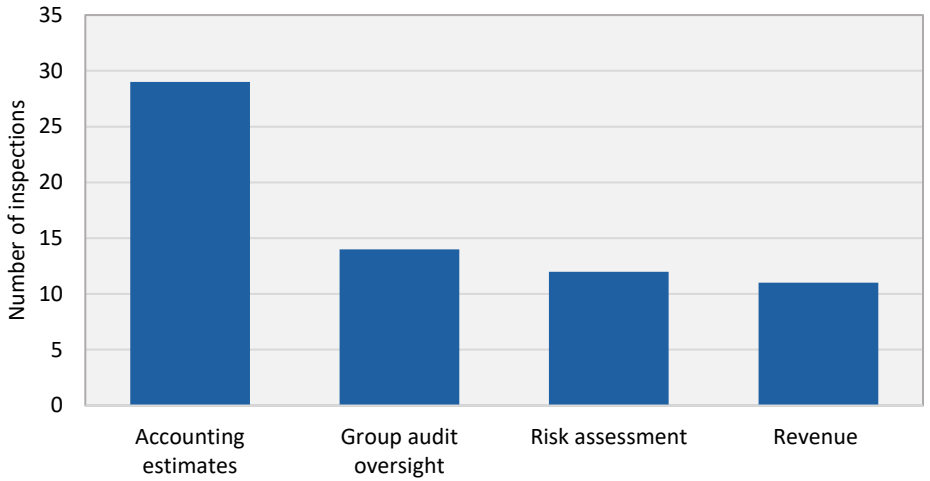
Common inspection findings – mapping to firm reports[9]



8 The totals for this category include findings relating to impairment of parent company investments in subsidiaries, which were separately categorised in our last report.
9 This mapping shows where common inspection findings have been included, or form part of a firm-level finding included in an individual firm's inspection report.

3. Inspections of individual audits: Tier 1 good practice

Common areas of good practice on inspections



We typically identify good practice in our individual inspections when we observe robust or innovative ways in which an auditor or audit firm has addressed a requirement or responded to the specific circumstances and challenges of the audit. We share these in order to highlight the good practices and to enable others to consider such approaches, if relevant, to their circumstances.

The most common areas in which we have identified good practice in our inspections this year are largely similar to previous inspection cycles. These areas comprise the audit of accounting estimates, including several examples of the effective use of specialists and robust challenge of management, risk assessment, group audit oversight and revenue. While the frequency of good practice findings varies by firm, we have continued to observe examples of good practice in the area of accounting estimates at every firm this year, and in each of the other areas for the majority of the firms. Our analysis continues to show that many of the common areas in which we identify examples of good practice are also areas of common inspection findings, in particular the audit of impairment, provisions, revenue, and group audits. This demonstrates that consistency in audit execution continues to be a key area of challenge for audit firms, and that there is a need for all firms to take further action to ensure consistent quality across their audits.

Further details of good practice identified in our inspections are set out in our individual firm reports.

Challenging audits

An audit may be seen as challenging[10] if the entity being audited is poorly governed (for example through having ineffective processes and controls), among other indicators. Auditors are expected to identify circumstances that may be particularly challenging to audit and respond appropriately to such issues.

We have seen firms address challenging audits through a variety of measures. For example, a firm may choose to assign a more experienced team or greater specialist support to the audit, or enhance its quality management procedures (by incorporating risk-panels, in-flight reviews or other additional procedures).

Where it is appropriate, we identify these measures as good practice in our inspections. Not all measures will necessarily lead to good practice being identified, as this will depend on the underlying circumstances and the quality of the design and execution of the firm's responses.

Regardless of whether an audit is seen as challenging or not, firms must continue to respond appropriately to the risks impacting all audited entities, in order to achieve consistent, high-quality audits.

10 ACCIF's "The Spring Report" explained: A "challenging company is as seen from the auditor's perspective and may include growing and immature companies as well as simply poorly governed companies with ineffective processes and controls."

3. Inspections of individual audits: Tier 2 and 3 inspection results

Our inspection results for this year indicate that many Tier 2 and Tier 3 firms are still not delivering an adequate level of quality on their PIE audits. We are however encouraged that some firms outside of Tier 1 are able to deliver good audit quality.

We reviewed 16 individual audits (2023/24: 16) across 12 Tier 2 and Tier 3 firms this year. Of the audits inspected six (38%) were categorised as good or limited improvements required (2023/24: 21%). A further five (31%) were categorised as requiring significant improvements (2023/24: 33%).

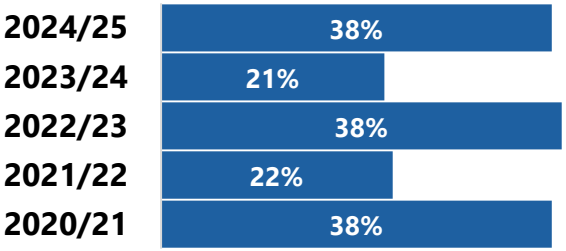
Although we have seen some improvement in the inspection results for Tier 2 and 3 from the prior year, the majority of these results continue to be below the level required for firms operating in the PIE market. There also continues to be a significant gap between the inspection results for Tier 2 and Tier 3. Over the last three years, 43% of Tier 2 inspections were categorised as good or limited improvements required, while for Tier 3 only 20% of inspections achieved this outcome.

Care should be taken in applying the overall results to individual firms, as the underlying inspection results vary significantly. For Tier 2, some firms have had 100% of their audits categorised as good or limited improvements required over the last three years of inspections, while some others have had 0% assessed in this category over the same timeframe. For Tier 3, a small number of firms achieved higher quality outcomes than those for the Tier as a whole.

The inspections of Tier 2 and 3 firms' non-PIE audits by the Recognised Supervisory Bodies (RSBs) continue to show a higher quality trend, with 81% of the 64 audits inspected in 2024 being assessed as good or generally acceptable. This reflects the lower complexity of firms' non-PIE audits or differences in the scope of these inspections.

Regulatory audit inspection results at Tier 2 and 3 firms

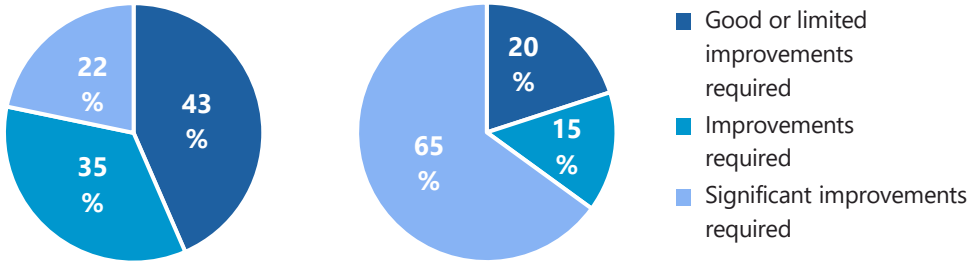
% of audits inspected by the FRC requiring no more than limited improvements - Tier 2 and 3



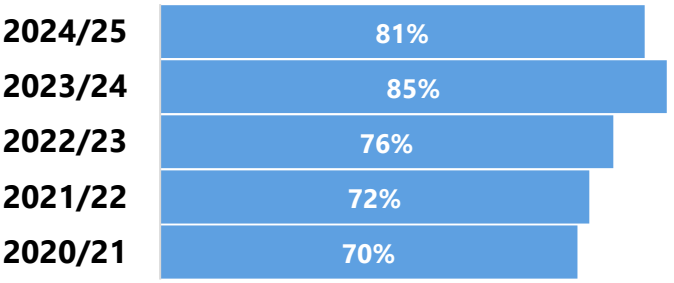
5 audits inspected by the FRC required significant improvements

FRC Tier 2 inspections 2022/23 - 2024/25

FRC Tier 3 inspections 2022/23 - 2024/25



% of audits inspected by RSBs classified as good / generally acceptable



5 audits inspected by RSBs required significant improvements

3. Inspections of individual audits: Tier 2 and 3 inspection results (continued)

Inspection findings

Due to the smaller number of audit inspections that we perform for Tier 2 and Tier 3 firms compared to Tier 1, we often see greater variability in the most common findings each year, as these reflect the specific circumstances of the audits inspected.

The most common inspection findings arising from our inspections of Tier 2 and Tier 3 firm audits this year were as follows:

- **Valuation of investments, property and financial assets:** Our findings in this area included weaknesses in the evaluation and challenge of valuation assumptions, the assessment of valuation methodology and the testing of the reliability of data inputs used in valuations.
- **Impairment of non-current assets:** Our findings in this area generally related to shortcomings in the corroboration and challenge of cashflow forecasts and other key assumptions in impairment models.
- **Journals testing:** We identified weaknesses on certain audits in the identification of higher-risk journals for testing, the corroboration of journals to supporting evidence, and the procedures performed to ensure the completeness of the population of journals tested.
- **Going concern:** Our findings included a lack of sufficient audit procedures to evaluate and challenge the going concern basis of accounting on one audit, and a failure to report material uncertainties to the FRC by audit teams on the same and certain other audits.
- **Ethics and independence:** We identified findings on a number of audits where breaches of the FRC Ethical Standard had not been identified or satisfactorily addressed, or where circumstances that could lead to potential breaches had not been adequately evaluated.

As in previous years, weaknesses in firms' quality management procedures, including the review of audit work by the Engagement Partner and Engagement Quality Reviewer, were a contributory factor to many of the key findings identified in our inspections. This was particularly the case for our inspections of Tier 3 firms, where we identified related findings on the majority of the inspections that we performed this year.

Case study: Proportionality in our Tier 3 inspections

We recognise the importance of tailoring our inspection approach, to ensure that it is proportionate to the size, complexity and risk of individual audits, and the audit firms involved.

This year, we have implemented various changes to our inspection approach for Tier 3 audits, which involve the smallest audit firms and comprise many of the smallest audits within our scope. The aim of these changes has been to improve the proportionality of our work, reducing unnecessary burden on firms and improving the effectiveness of our inspection process.

The changes cover all aspects of our inspection process, including tighter scoping of inspection areas and more focused, shorter fieldwork. As part of these changes, we have also significantly reduced the number of formal written inspection interactions, in favour of greater and more frequent dialogue with those inspected.

Our inspection process is always evolving, and we continue to explore further opportunities to enhance our inspection approach and improve the proportionality of our work.

4. Other key supervisory activities

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 the audit market. Other key supervisory activities in this report include: the work of a Supervisor, PIE Auditor Registration, Case Assessment, the Scalebox initiative, and work on operational separation and firm culture.

The work of a Supervisor: Each firm has a dedicated Supervisor who gathers evidence and risk indicators, identifying and prioritising actions firms must take to serve the public interest by enhancing audit quality and resilience. This includes anticipating future challenges. Observations from this year's work and updates on previous observations are in the individual firm's reports. This year, we continued carrying out intensive supervision with certain firms. For firms across the three tiers we worked on Constructive Engagement cases and Non-Financial Sanctions. Other areas of focus included RCA, single quality plans and audit planning.

A case study from our joint supervisory and inspection work shows how our approach can be responsive to each firm's circumstances. This is something we will build on further. As can be seen, a proportionate approach does not mean compromising on fundamental quality requirements. Rather, it means applying those requirements intelligently in ways that recognise different contexts while serving the ultimate goal of reliable financial reporting that underpins public confidence.

This year, in response to firm restructures, we carried out detailed work with certain firms. Early learnings are included on page 24.

Next year, Supervisors will focus on further restructuring work, emerging risks and trends linked to technology in audits (including AI) and changes to the workforce and staff / partner development needs. We will work with firms to understand how they are responding to these trends while safeguarding audit quality.

Case study: Our tailored supervisory approach can be responsive to the circumstances of each firm. In response to certain ongoing risk and quality findings at one of the audit firms, we have carried out a series of additional procedures, including:

- **Follow-up reviews:** For six audits where we had previously identified quality issues, we performed a limited inspection of the most recent audit. This was focused on whether the audit team had addressed the risk and issues raised from our previous inspection and whether the remedial actions had been performed. These reviews provided an indicator of how audit engagement teams, and the firm are responding to the quality issues raised, including the timeliness and sufficiency of actions being taken and the understanding and culture regarding improving audit quality.
- **Focused thematics:** We reviewed two areas with recurring quality findings – the Engagement Quality Review and audit of key estimates and judgements - to understand recent firmwide initiatives, guidance and methodology. Alongside this, we performed a limited review of related audit work on seven audits. We reviewed audit work to see if the firm's new guidance was consistently used properly by engagement teams. We then gave timely feedback on the actions taken and benchmarked this across the sampled audit files.

The results of this work, including both further findings and good practice, are being used to engage with the firm on forward looking improvements to its audit quality.

4. Other key supervisory activities

PIE Auditor Registration has now been operating for over two years. All audit firms and Responsible Individuals (RI) must register with the FRC before undertaking any PIE audit work.

The registration team considers a wide range of information when making registration decisions. Where appropriate, the FRC uses measures on the registration of firms and RIs to protect the public interest. These include conditions, undertakings and suspension or involuntary removal of a firm's, or an RI's registration. Registration tools not only support market confidence but allow the FRC to support firms and work constructively with them. During the year, we registered 63 RIs (last year: 64) and one new firm (last year: three).

Further details of our PIE Auditor Registration regime and anonymised information on conditions and undertakings may be found at Public Interest Entity (PIE) Auditor Registration.

We will shortly be consulting on our registration regulations, which have been in place for two and a half years.

Case assessment is responsible for undertaking enquiries up to the point of a decision to either refer a matter to the Conduct Committee (whether as a Referral Case[11] or for the Committee to decide whether an investigation should be opened), to decide that the matter can appropriately be resolved via Constructive Engagement, or to take no further action. If Constructive Engagement is deemed to be suitable, cases are transferred to the supervisor team who conduct and manage the process.

Details of opened and closed cases and related outcomes will be published in the Annual Enforcement Review. We are undertaking a full review of our end-to-end enforcement process and procedures to ensure that they remain fit for purpose, and this includes our approach to case assessment.

Scalebox: The Audit Firm Scalebox is an improvement initiative, launched in summer 2023, to help smaller audit firms develop and maintain the standards of audit quality expected in the PIE audit market. Though it is still too early to assess the impact of Scalebox, to date we have been encouraged by the commitment to audit quality that firms joining the initiative have demonstrated:

- Scalebox is continuing to grow and now has 14 participating firms (one without PIE audits).
- Some recent roundtable topics included: root cause analysis, clarifying what to expect from an audit file review, and discussing audit survey results.
- Following demand from participants, we have a renewed focus on confidential full file reviews, enabling us to give more holistic feedback on different audit areas.
- Some firms have taken learnings and incorporated these into their training programmes.

Our dialogue with smaller and mid-market firms suggests targeted regulatory support could significantly reduce barriers while improving quality outcomes. We are actively exploring opportunities for proportionate regulation and will continue to support smaller firms to develop their approach to delivering high-quality audit services and challenge ourselves to ensure our systems and processes enable this.

Our approach to supervision and enforcement increasingly reflects this nuanced understanding, with greater emphasis on the substance of quality outcomes rather than procedural compliance alone. This shift represents an important evolution in regulatory philosophy that balances rigour with pragmatism.

11 'Referral Case' has the meaning given in the Audit Enforcement Procedure (Guidance for the Case Examiner) which took effect on 30 June 2023.

4. Other key supervisory activities

Case study: Operational separation

This is a major initiative introduced in 2020 which required Deloitte, EY, KPMG and PwC to voluntarily split their UK audit and non-audit practices.

The key objective of operational separation is to ensure that audit practices are focused above all on the delivery of high-quality audit in the public interest.

In October last year, we published an update confirming that the Big Four had concluded the transition period of operational separation.

All four firms have made significant improvements to their governance to prioritise the delivery of audit quality and developed audit-specific cultures, with behaviours focused on challenge, openness, and professional scepticism.

For their financial years ending in 2024, the FRC considers that all four firms were broadly compliant with the Principles of Operational Separation.

We recognise the significant efforts that all four firms have put into complying with operational separation and are pleased with the benefits this work has delivered. We will continue to work with them to ensure that the public interest in audit quality and a resilient audit market remains at the forefront of their efforts.

Case study: Culture and the audit firm survey

In 2023 and 2024 we surveyed audit professionals to obtain profession-wide data and cross-firm benchmarking on the factors that contribute to a good audit environment. The surveys were the first of a kind with over 4,000 respondents from 12 firms answering 80 questions on 10 different topics including audit quality, firm systems and processes, culture, attractiveness of the profession and the ecosystem.

On culture, our analysis of the survey data demonstrates that a significant cultural shift has occurred within the audit practice of the firms in the last few years, with a move from a client-centric, financials-first culture to one with a much greater focus on audit quality.

The results show sustained improvement across several areas and provide evidence of the outcomes of our work as a continual improvement regulator, with firms taking many initiatives as a direct result of our supervision approach and the survey responses providing evidence of the effectiveness of these initiatives.

The survey considered the systems of quality management at the firms and the extent to which it facilitates a high-quality audit. We found that responses highlighted improvements were needed in software, digital audit tools and other audit processes.

We also found that more work still needs to be done to reinforce the public interest purpose of audit.

5. Smaller and mid-market firms

The audit market cannot be truly resilient if it is over-reliant on a small number of large firms. Smaller and mid-market firms play a vital role in ensuring choice, stimulating growth and innovation, and providing audit services across the breadth of the UK economy. We remain committed to creating the conditions under which these firms can succeed, grow, and contribute to a high-quality, multi-firm market.

This year, we have observed early signs of improvement in some areas of practice. However, results from our inspections of Tier 2 and Tier 3 firms remain concerning - too many audits require significant improvement. Inconsistency in quality across the market threatens confidence, undermines choice, and poses a systemic risk to investment in the UK.

A key challenge remains achieving proportionality in regulatory requirements while maintaining quality standards. We must acknowledge that different market segments have different risk profiles and capabilities, requiring a proportionate supervisory approach.

We will continue to identify and share good practice, support continuous improvement and challenge firms where there is an inconsistent approach to delivering quality audits. While we expect a firm's leadership to take clear and sustained responsibility for audit quality, we will also consider how we can develop our approach to help firms delivering this.

We have continued to support smaller firms through the Audit Firm Scalebox, supervisory engagement, and sharing insights from our research into the challenges these firms face. These include:

- Difficulty in attracting and retaining talent.
- The cost of compliance and regulatory change.
- Access to finance and investment.
- Barriers to entry into the PIE audit market.

We must tackle these barriers and leverage the tools we have available to provide continued support mechanisms and engagement that create genuine opportunities for growth. The Audit Firm Scalebox (see page 19) represents an important step and we are supporting the profession in developing the audit and accountancy qualification.

6. Barriers to growth and access to audit services

We recognise that persistent structural barriers continue to impede market development. We are committed to fostering an environment that enables new market entrants and supports all audit firms to deliver high-quality audits.

An evolved supervisory approach requires acknowledging these barriers while developing a proportionate regulatory framework, and we continue to closely consider and monitor the impact of our actions. However, if necessary, we take targeted action to support choice, growth, and resilience in the audit market.

We are aware of the concerns about the cost and accessibility of audit services for smaller companies. There is a risk that rising costs, limited capacity, and uneven quality may reduce access to quality audits for small and medium-sized enterprises. We undertook research into audit fee trends across companies in the main market, which indicated that positive drivers, such as improved audit quality and an enhanced ability to deal with complex audits, had resulted in fee increases.

We are exploring ways to provide guidance on proportionate application of standards to smaller audits, without diluting quality or professional scepticism. We are also monitoring how economic changes, audit pricing, and new service models affect access and market diversity.

Case study: The FRC SME campaign

In February 2025 we launched a market study to examine how effectively the audit market serves small and medium-sized enterprises (SMEs). The study is also looking at opportunities to reduce the reporting burdens on SMEs where possible.

As the Competent Authority for all audit, and the regulator responsible for overseeing professional bodies, one of the FRC's priorities to support economic growth is to understand the markets we oversee to identify whether they work effectively to support UK companies' growth.

Our engagement has identified a series of themes from SMEs and their advisers, capital providers to SMEs, and their auditors. These include:

- The value of audit for SMEs.
- Regulatory burdens and complexity.
- Engagement from senior auditors.
- Impact of technological investment.

We will continue engaging with stakeholders and gathering further information for the market study, including through the recently commenced external research with SMEs.

International auditor recognition agreements

In June 2025, the Department of Business and Trade (DBT) published the UK's Modern Industrial Strategy. The strategy recognised the FRC's ongoing support of growth and trade. It highlighted our role in audit reform, international recognition of UK qualifications, and our commitment to enhancing audit skills. We are proud to support the Government's growth agenda through progressing mutual recognition agreements with Australia, New Zealand, and Switzerland which now allow qualified auditors to operate across jurisdictions. Further agreements are in development, supporting the UK's growth and trade ambitions.

7. The future of the audit profession

The audit profession is a fundamental enabler for maintaining and enhancing the UK's status as a leading global destination to build and scale a business. Its future depends on its ability to attract and retain skilled individuals, adapt to developments in the market, and sustain public confidence in its work.

The concept of the public interest is something that defines the nature of a profession and sets it apart from being like any other service industry. Public trust and confidence must be earned and maintained through the application of professional scepticism, professional judgement, fraud detection, and high-quality ethics and values. These behaviours have been the focus of our Developing the quality of auditor education and training project, and we will be reporting on its findings later this year.

We have worked closely with professional bodies and the firms to modernise qualifications and promote the profession as a career of choice. A multi-generational workforce has diverse expectations - from flexible working to purpose-led careers. Firms must meet these expectations, not only to retain talent but to reflect the society they serve. The FRC is launching a new project (AQ 2030) to work with the sector to ensure audit qualifications continue to evolve in ways that support the resilience of the profession. This could be through developing relevant and engaging content, delivery and assessment that support the attraction and retention of future auditors and keeping pace with developments in technology and professional qualifications in other sectors and countries.

The capacity needs in the future are becoming less easy to predict because of changes in the profession such as the use of offshore delivery centres and technology advancements such as AI, but the number of registered audit firms is declining, likely because of mergers, and the number of accounting students including those in audit maybe plateauing. We will continue to monitor the risks to capacity in the market.

There is a public expectation that the audit profession will be held to high standards underpinned by independent regulation. We will continue to engage and work with all in the audit landscape, such as professional bodies, firms, and investors to commit to a shared effort to build a skilled, ethical, and future-ready audit workforce. This includes:

- Embedding the importance of culture and scepticism from the outset.
- Supporting continuous learning in areas such as AI and data.
- Prioritising the development of audit to continue to be a trusted profession.
- Making the public interest the guiding purpose of the profession.

8. A developing UK audit market

The audit market is not static. New dynamics - such as private equity (PE) investment, climate and sustainability reporting, and the adoption of AI - present both opportunities and risks. Our role is to provide clarity, and support to protect audit quality and market resilience.

Capital restructuring: There has been continued interest in the capital restructuring of UK audit firms. Capital restructuring could generate investment to enhance audit quality and drive innovation, choice and growth in the sector. However, there are important risks that will need to be carefully managed. Any party interested in a capital restructuring must be able to continue to provide assurance that it will be able to support the public interest, the independence dimensions of audit and all applicable regulatory expectations. We are monitoring developments and welcome engagement directly with any investors or parties considering new capital structures in the UK audit market.

The FRC is not, in principle, against alternative sources of capital, capital restructuring and/or ownership changes in the UK audit market. While ownership structures are a matter for the firms themselves, our focus is to protect the public interest and support growth. In all cases, the FRC welcomes early and candid engagement. We will continue to actively engage directly, and in confidence, with firms and the wider business community to help explain the regulatory framework and expectations.

Firm restructures: Early lessons learned

- Our focus on proposals received will be in the following areas:
  - *Safeguarding auditor independence.*
  - *Application of the Audit Firm Governance Code.*
  - *Control requirements.*
  - *SoQM.*
  - *Supervisablility of any revised structures, for example, that the FRC can see through any revisions to ensure it can continue to identify, assess and supervise any risks to its objectives.*
- Firms must ensure they meet the eligibility criteria as required by law and should build in regular monitoring procedures.
- All parties need to consider how the new governance arrangements, including the positioning of the committees in the new structure, safeguard auditor independence and audit quality. Early consideration of succession planning will also be needed.
- Even a simple transaction takes time. We need an appropriate period to work through the implications of the transaction and to work effectively with other regulators.
- The new entity will need strong and effective Independent non-executives (INEs).
- There may be more complex information sharing considerations and there will need to be an upfront agreement to transfer any ongoing enforcement cases to any new entity.
- We will shortly be consulting on how our PIE Audit Registration Regulations regime can evolve in response to new structures and control.

8. A developing UK audit market

Sustainability assurance: Earlier this year we published our report which outlined the key findings from our study into the assurance of sustainability reporting.

- There is a wide variety and choice of providers but there are concerns over the consistency in the quality of the assurance provided.
- A preference amongst the largest companies to use the Big Four audit firms to carry out sustainability assurance in the UK market, which could limit future choice.
- Concerns about the immaturity of the UK sustainability assurance market and a lack of clarity on the UK's regulatory position.
- Without an established regulatory framework, the UK sustainability assurance market may not produce consistent high-quality sustainability information for decision-making.

We have recommended three actions to support the development of the market:

- Establish a clear UK policy framework for sustainability assurance that provides medium-term certainty, supports investment, and aligns with international frameworks where appropriate. To this end we have launched a consultation for use of International Standard on Sustainability Assurance (ISSA) 5000 for use on a voluntary basis for assurance providers.
- Create a unified regulatory regime that consolidates standard setting, oversight, enforcement, and market monitoring to maximise certainty for companies, providers, and investors.
- Improve the calibre of available information on the quality of sustainability assurance to support how the assurance market functions.

Technology: Technology and AI continue to be prominent topics in the audit and reporting landscape, though we are yet to see the transformative shift many expected. In financial reporting, AI adoption is still limited. In audit, generative AI is mostly used for support functions rather than core procedures.

We recognise that technology and AI are areas where firms are investing significantly, and many AI-enabled tools could support audit work this year. We engage with firms through initiatives such as our External Techology Working Group, Sandbox, and Scalebox, while working with international bodies to promote consistent and forward-looking policies.

Automated Tools & Techniques (ATTs) is the collective term for technology used on an audit engagement to perform risk assessment procedures and/or obtain audit evidence. We recognise that there is an increasing use of ATTs on audits, and, given their importance to audit quality, we undertook a thematic review to develop our understanding of the certification processes in place at the six largest audit firms.

We shared our observations of common practice, and examples of better practice, in a thematic report so that the largest firms, and other audit firms, may consider these against their own processes and implement improvements or enhancements if required.

We must continue to monitor these developments closely ensuring that market evolution serves the broader goals of quality, access, and choice. We will provide guidance and expectations where appropriate to ensure a consistent regulatory response.

9. An evolving regulatory approach

We must avoid complacency in our regulatory approach. The challenge remains to balance necessary oversight with avoidance of excessive regulatory burden that could stifle innovation or market growth.

To that end, we are undertaking a comprehensive review of our supervisory and enforcement approaches. As a forward-looking regulator, it is important that we proactively ensure our activities remain adaptable, reflective of the evolving needs of the market, and support the public interest and reduce unnecessary regulatory burdens.

Our Future Audit Supervision Strategy (FASS) will consider how to evolve our approach, so that it is more effective, proportionate, agile and fit for the future. Our End-to-End Enforcement Review will review and refresh our enforcement processes and procedures, considering our governance structures, decision-making processes, and operational efficiency and effectiveness.

While our reporting directs readers to other relevant evidence, including the firms' internal inspection results and those of the professional bodies, our reporting under FASS will represent a broader perspective of audit quality, considering all aspects of a firm's SoQM rather than figures based on a snapshot of individual file inspections. Our regulation of audit is perceived to be over-indexed on AQR inspection scores. While inspections will continue to be an important part of our regulatory approach, we are putting more weight on how firms manage and assure their own quality management systems. This will place more emphasis on the role of the firm rather than the individual auditor.

This programme is also considering appropriate investment in technology and automated tools to enhance the impact and effectiveness of our supervisory activity.

Future of Audit Supervision Strategy: Engagement

We are challenging ourselves to ensure that the output of our future supervisory model is a fair and just approach which considers the impact of and responds to the risks arising in regulated firms.

Three key themes have emerged through our initial conversations with our stakeholders.

- **Proportionality** by adopting a fair and just regulatory approach which considers the impact of, and responds to, the risk in the audit firms.
- **The supervisory model** to improve its effectiveness, efficiency and reducing duplication/information requests.
- **Clear reporting** to outline the FRC's views of the audit market and the prioritisation of findings - highlighting good practice, rather than a disproportionate focus on file inspection scores.

These themes will be used throughout our engagement with all of those involved in the UK landscape to consult on how we can implement a regulatory approach that is fit for the future. This engagement will be key to challenging ourselves on the impact of our regulation and aligning our model with the developments in the market.

We will maintain focus on consistent quality performance, reduce regulatory burdens and support improvement in firms' capabilities and in maturing their own quality management systems.

Appendix A – List of audit firms in each tier in 2024/25

The following tables set out the firms in Tier 1, 2 and 3 for 2024/25 together with details of their audit portfolios:

Tier 1	Audit fee income (£m)[12]	PIE audit fee income (£m)[12]	FRC scope audits[13]
BDO LLP	433	59	206
Deloitte LLP	900	342	251
Ernst & Young LLP (EY)	837	266	259
Forvis Mazars LLP	150	37	101
KPMG LLP	878	318	178
PricewaterhouseCoopers LLP (PwC)	1,064	410	322

Tier 2	Audit fee income (£m)	PIE audit fee income (£m)	FRC scope audits
Crowe U.K. LLP	71	2	26
Grant Thornton UK LLP	216	7	26
Johnston Carmichael LLP	21	1	48
MacIntyre Hudson LLP[14] (MHA)	77	7	47
PKF Littlejohn LLP	55	7	99
RSM UK Audit LLP	165	12	24

Tier 3	Audit fee income (£m)	PIE audit fee income (£m)	FRC scope audits
Anstey Bond LLP	0.5	0.05	2
Beever and Struthers	11.1	1.61	19
Bright Grahame Murray	2.1	0.13	2
Deloitte (NI) Ltd	5.4	0.40	5
Gerald Edelman LLP	6.3	0.24	2
Grant Thornton (NI) LLP	7.7	0.45	5
Gravita Audit II Limited	5.4	0.68	2
HaysMac LLP	34.7	0.30	6
Johnson Financial Management Ltd	3.5	0.45	6
Kreston Reeves LLP	17.6	0.32	13
LB Group Ltd	3.9	0.09	4
Macalvins Ltd	0.7	0.03	5
Moore Kingston Smith LLP	41.4	0.70	9
Pointon Young Limited	0.1	0.03	2
Price Bailey LLP	12.0	0.04	1
Royce Peeling Green Limited	1.7	0.39	11
RPG Crouch Chapman LLP	6.5	0.93	14
Zenith Audit Ltd	1.4	0.15	1

12 Source - Submissions by firms to the FRC for the FRC Key Facts and Trends publication, and other purposes, and other information held by the FRC, including firms' Transparency Reports. Audit fee income may be prepared to different reference dates by different firms.
13 As per information held by the FRC as at 31 December 2024.
14 MacIntyre Hudson LLP ceased to be a PIE auditor as of 31 March 2025. The audit business was transferred to a new entity, MHA Audit Services LLP.

Appendix B – Definitions

Audit Quality Categories for FRC audit inspections

Category	Description
Good (1)	We identified no areas for improvement meriting inclusion as a finding in our report
Limited improvements required (2)	We identified one or more **other findings** requiring limited improvements. An **other finding** is raised when we believe specific action should be taken in response on future audits.
Improvements required (3)	We identified one or more **key findings** requiring more substantive improvements. A **key finding** relates to the sufficient or quality of the audit evidence obtained, the appropriateness of key audit judgements or another important matter.
Significant improvements required (4)	We identified one or more **key findings** requiring significant improvements.

We exercise judgement in assessing the significance of our findings on each inspection, both individually and collectively. Further details of how the FRC assesses audit quality and classifies findings on individual inspections is set out on our website here.

Appendix C – Areas of findings and why they are important

On slide 14, we set out the most common Tier 1 inspection findings where, based on our inspections, we believe improvements in audit quality are required. Firms must take action to improve audit quality in these areas.

Area of finding	Why it is important
Revenue	Auditors should obtain sufficient and appropriate audit evidence to assess whether revenue is accurately recognised as it is a key driver of the entity's results.
Impairment of non-current assets	Auditors should adequately assess and challenge management's evaluation of impairment as this often involves significant judgement and can be subject to management bias or error.
Inventory	Auditors should perform appropriate procedures to assess the existence and valuation of inventory as it can be significant to an entity's balance sheet.
Provisions including expected credit loss provisions	Auditors should adequately assess and challenge the reasonableness of management's estimates and assumptions to respond to the risk of management bias.
Group audit oversight	The group audit team is responsible for the oversight of the group audit, including audit work at a component level, and should therefore demonstrate sufficient involvement throughout the audit.
Journals testing	Journals testing is a key procedure to address the risk of management override of controls and fraud. Auditors should test the appropriateness of journals entries, including examining the supporting evidence for the items selected.

Further details of these findings are set out in our individual firm reports.

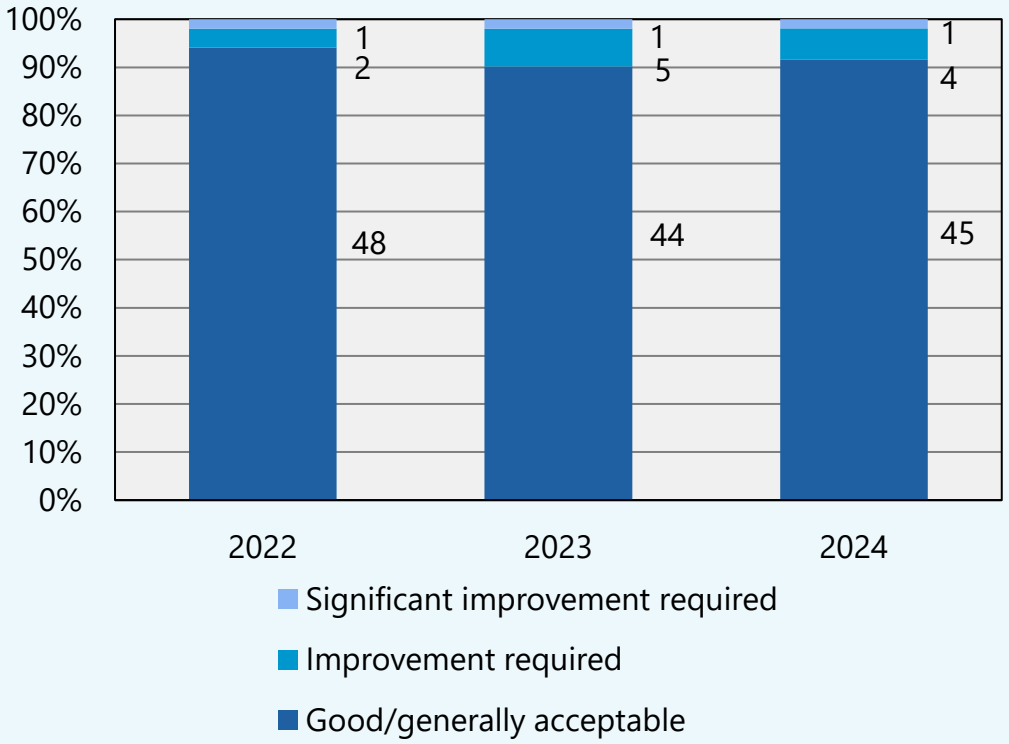
Appendix D – Monitoring of Tier 1 firms by the Quality Assurance Department of ICAEW

ICAEW undertakes independent monitoring of 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 firms' firm-wide controls and ICAEW additionally reviews training records for a sample of the firms' staff involved in the audit work within ICAEW remit.

ICAEW has completed 2024 monitoring reviews on BDO LLP, Deloitte LLP, Ernst & Young LLP, KPMG LLP and PricewaterhouseCoopers LLP.

Detailed reports summarising the audit firm review findings and any follow-up action proposed by each firm will be considered by ICAEW's Audit Registration Committee.

Results of ICAEW's reviews for the last three years are set out below:



ICAEW did not inspect a sample of Forvis Mazars LLPs non-PIE audits in 2024, in accordance with its planned rotational inspection programme.

All three years include inspection results of Deloitte, EY, KPMG and PwC. Forvis Mazars is included in the 2023 results only. BDO is included in the 2022 and 2024 results.

File selection is focused on 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 performance or overall change in audit quality.

ICAEW assesses audit quality as 'good', 'generally acceptable', 'improvement required', or 'significant improvement required'.

Appendix D – Monitoring of Tier 1 firms by the Quality Assurance Department of ICAEW

The quality of audit work reviewed across the five firms was of a generally good standard, with 90% of reviews graded either good or generally acceptable. Four audits required improvement, and one audit required significant improvement. There was good practice identified across a range of audit areas. Where a weakness led to an audit requiring improvement, in some cases there was good practice in the same area identified in another audit reviewed at that firm.

Key findings

Key findings on the audits requiring improvement or significant improvement:

- Weak substantive analytical procedure over revenue, with insufficient resting of the completeness and accuracy of data used in forming expectations
- Lack of oversight and supervision of component auditors, and failure to identify key weaknesses in their audit work
- Insufficient evidence to support going concern conclusion
- Weakness in audit of stock (two audits).

Good practice

Examples of good practice identified include:

- In audit planning including:
  - Thorough audit risk assessment using a tool to document risks and responses, and use of digital resources in assessing fraud risk
  - Well designed audit approach in respect of an entity with operations entirely overseas, and opening balances on a new audit
  - Involvement of component auditors
- Challenge of management in respect of:
  - Accounting estimates underpinning contract accounting, defined benefit pension scheme valuations, share based payments and impairment considerations
  - Judgements in respect of going concern
- In auditing procedures including:
  - Operating effectiveness of controls
  - Substantive analytical review
  - Use of digital tools to test significant risk areas
- Comprehensive audit documentation including:
  - Impairment assessments and going concern
  - Using work of others including auditor's or management's experts; and a firm's 'shared service centre'
  - Data analytics

Appendix E – Monitoring of Tier 2 and 3 firms by the Recognised Supervisory Bodies

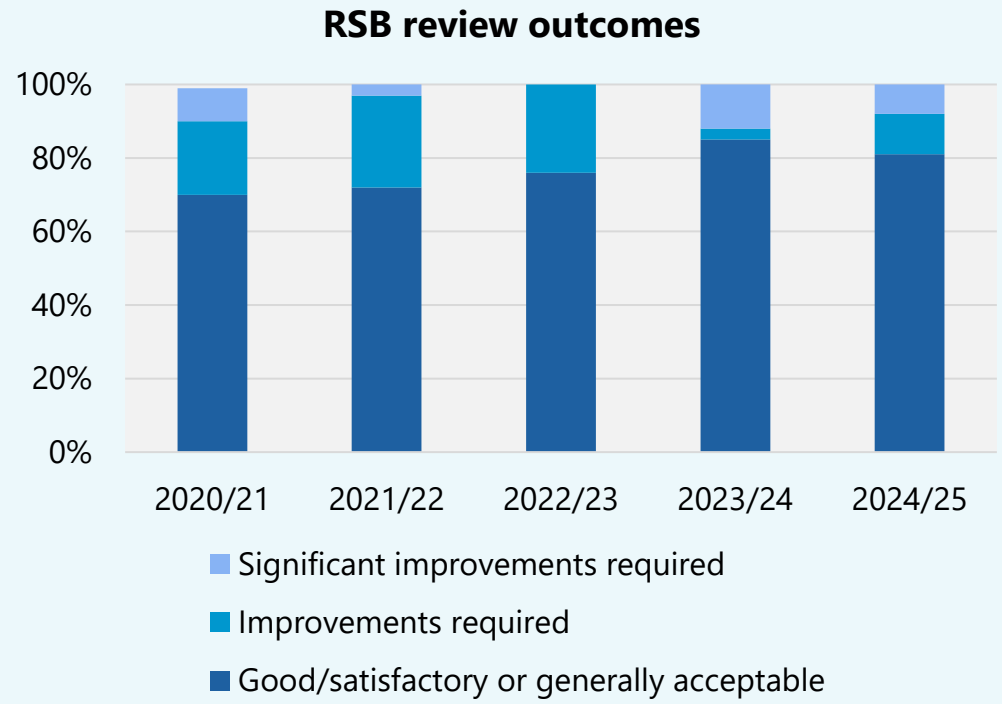
Tier 2 and Tier 3 firms are also subject to independent monitoring by their RSBs: the Institute of Chartered Accountants in England and Wales (ICAEW), the Institute of Chartered Accountants of Scotland (ICAS) and Chartered Accountants Ireland (CAI), under delegation from the FRC as the Competent Authority.

The RSBs monitor audits of private companies, smaller AIM listed companies, charities and pension schemes, and review the CPD records of a sample of the staff involved in those audits. The FRC is responsible for reviewing Tier 2 and Tier 3 firms' Systems of Quality Management.

The frequency of an RSB review at a Tier 2 or Tier 3 firm will depend on the size and nature of a firm's audit practice and other risk factors, but is typically between every two and six years. The selection of audits for monitoring is focused towards higher risk, more complex entities. As a result, and as different firms receive visits each year, the outcomes for any year do not indicate overall audit quality for any individual firm, or for Tier 2 and 3 firms as a whole. No conclusion on trends in audit quality should be drawn based on changes from one year to the next.

A total of 64 audit files were reviewed at 11 firms in the year ended 31 March 2025 and 81% of audits were assessed as either good or generally acceptable (2023/24: 85%). Five audit files were assessed as requiring significant improvement (2023/24: four).

The outcomes of the RSBs' reviews of Tier 2 and 3 firms for the last five years are set out below:



Financial Reporting Council

Financial Reporting Council

London office:
13th Floor, 1 Harbour Exchange Square, London, E14 9GE

Birmingham office:
5th Floor, 3 Arena Central, Bridge Street, Birmingham, B1 2AX

+44 (0)20 7492 2300

www.frc.org.uk

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