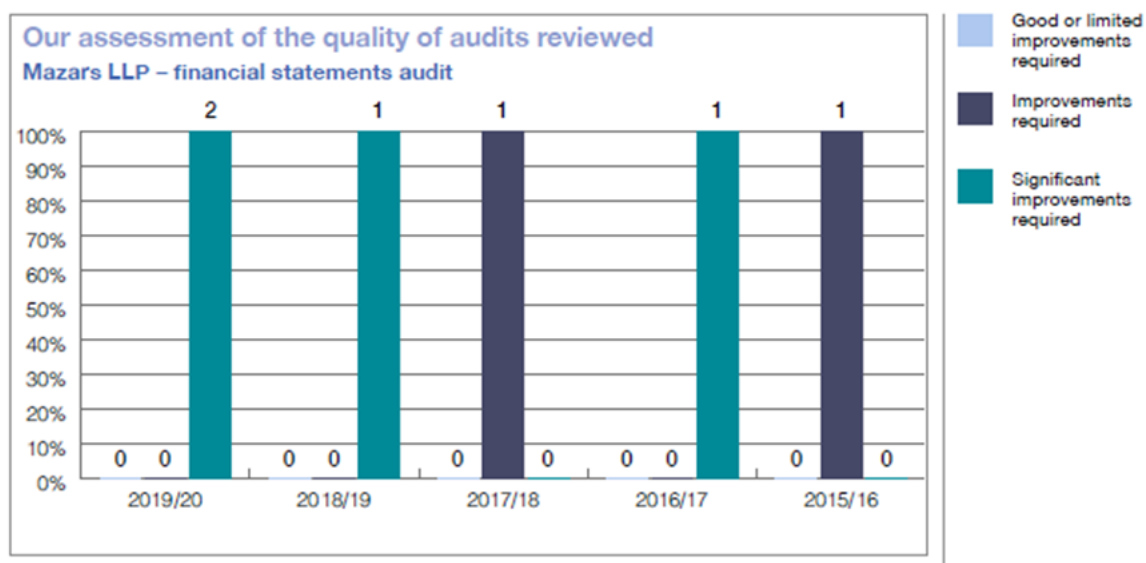


Mazars' response to the Financial Reporting Council Report



Both audits reviewed by AQR were assessed as requiring significant improvement. This is clearly unacceptable and follows a trend of poor inspection results.

Following its poor results over the past five years, the firm needs to commit to an action plan for local audit quality improvement. Key areas of quality focus for the firm include the audit of property valuations, group audit oversight, the sufficiency of audit testing over income and receivables and expenditure, and EQC review procedures. The firm should submit to AQR a full RCA for each audit and should also undertake RCA over the firm’s own quality monitoring programme and the inspections performed by ICAEW to establish how audit quality can be restored.

AQR will assess the firm’s local audit quality action plan and will then determine whether any additional procedures of increased audit reviews will be required in the scope of our 2020/21 inspection programme for Mazars.

VfM arrangements conclusion – both reviews were assessed as requiring no more than limited improvement.

Firm’s response:

Our commitment to audit quality is at the core of our values and we are dedicated to the continuous improvement of our audit work and the service we provide to our audit clients. Whilst we are pleased with the results of the AQR’s reviews of our work on Value for Money conclusions (which show only limited improvements identified for a number of years), we are disappointed with its findings on our work on the audit of the financial statements at 2 of our local audit clients. The firm will robustly respond to the findings and has plans in place to improve the quality of our local audit work.

We have prepared a Local Audit Quality Plan, which is a sector-specific element of our firm-wide Audit Quality Plan. These draw together information on risks to audit quality from a range of sources including quality monitoring findings, changes to auditing and financial reporting standards, and feedback from auditors. The Local Audit Quality Plan has also taken account of the AQR's findings and emerging audit quality risks arising from the update of Practice Note 10 and the National Audit Office's Code of Audit Practice. This plan will be maintained by the firm's Audit Quality Team and subject to oversight from our Audit Board.

Root cause analysis (RCA)

Our Audit Quality Team has undertaken a detailed RCA project to identify and understand the drivers of poor audit quality in some of our local audit work. The RCA project has focused on all local audits where the need for improvements or significant improvements have been identified either by the AQR, ICAEW or our internal Quality Monitoring Team.

A report on the findings of the RCA project was considered by our Audit Quality Board in August 2020 and our Local Audit Quality Plan will be refreshed to ensure key findings from the RCA are addressed. Our next RCA project cycle, which is due to commence in October 2020, will consider the two files reviewed by the AQR for audit years ended 31 March 2019.

Engagement Quality Control Review (EQCR)

Prior to the AQR findings, we had recognised a need to increase our capacity in relation to engagement quality control reviews. We have made investments in this area by increasing the number of individuals with detailed knowledge of local audit who are licensed to undertake this key role. We have also targeted our engagement quality control reviewer resources more effectively for the March 2020 year-end audits, focusing on those local audits that are of a significant scale, complexity, or which present additional risks to audit quality.

We recognise that our engagement quality control reviewers need a broad understanding of the particular complexities and nuances of the local government and NHS sectors, as well as emerging audit and financial issues relevant to those sectors. Therefore, from the March 2021 year-end audits, all engagement quality control reviewers who do not have significant sector expertise will attend a mandatory sector briefing, provided by the Audit Quality Team.

We have also undertaken a thematic review of our firm-wide engagement quality control review processes during 2020 in order to identify potential improvements. The report will be presented to the Audit Board in its October meeting. The findings and recommendations will help us improve the impact of our engagement quality control reviews upon audit quality.

The audit of property valuations

The nature of property valuations makes it a complex area which involves the application of a high degree of management judgement, which must be appropriately challenged by auditors. We are disappointed that the AQR has identified a need for improvements in respect of our work on property valuations.

We have developed a comprehensive suite of guidance to auditors over recent years. This has been refreshed during early 2020 to ensure that our teams are clear on the level of testing that is required in key areas such as the accuracy and completeness of source data, the challenge of management and expert judgements, and the assessment of potential risks of material misstatement arising from rolling valuation programmes. In response to the latest reviews, use of a sector-specific audit testing programme will be mandated from our 2020/21 audits onwards (having been strongly recommended for the 2019/20 audit year).

To further respond to the complexity associated with the audit of some property valuations, we have re-visited the arrangements in place for auditors to access valuations expertise to support their audit work, where required. This support is being used extensively during the audit of 2019/20 financial statements.

Group audit oversight

Our audit approach is fully compliant with underlying auditing standards. To support auditors in meeting the requirements in respect of group audit oversight, a range of mandatory templates is in place. A briefing from our Audit Quality Team to Key Audit Partners reminded them of the importance of documenting how they have exercised appropriate oversight of the group audit through, for example, their direction, supervision and review of the work of component auditors.

The audit of income and expenditure

Sector-specific briefings have reminded local auditors of the importance of fully documenting their judgements relating to the testing of income and expenditure. Such judgements include those made in determining the appropriate period before and after the year-end which should be subject to cut-off and completeness testing.

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