

2023

Audit Quality Unit

**Report on 2022 quality  
assurance review of  
Mazars**

6 March 2023



## Vision

Public trust and confidence in quality auditing and accounting



## Mission

Upholding quality corporate reporting and an accountable profession

## Our Values



### Excellence

Striving to be the best we can be



### Independence

Regulating impartially and objectively



### Integrity

Being trustworthy and respectful

## Introduction

### Overview of Mazars (the Firm)



**3**

offices in Dublin, Galway and Limerick



**65**

audits of public-interest entities in 2022



**15**

audit partners



**8%**

market share based on audit fees associated with public-interest entities in 2022

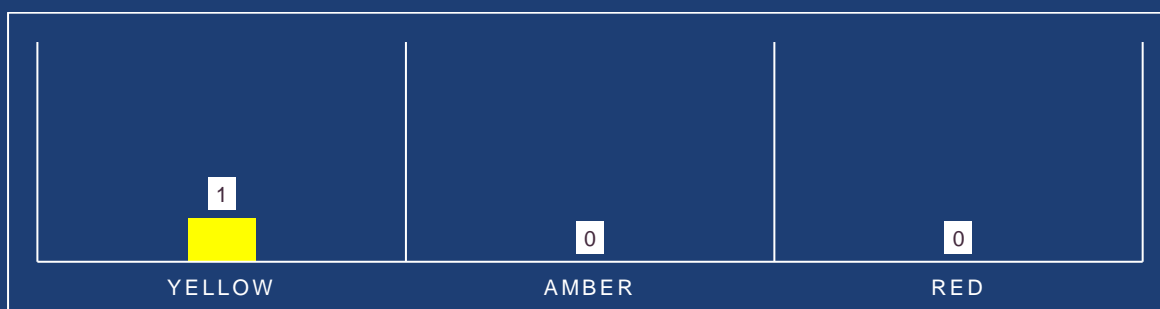


**317**

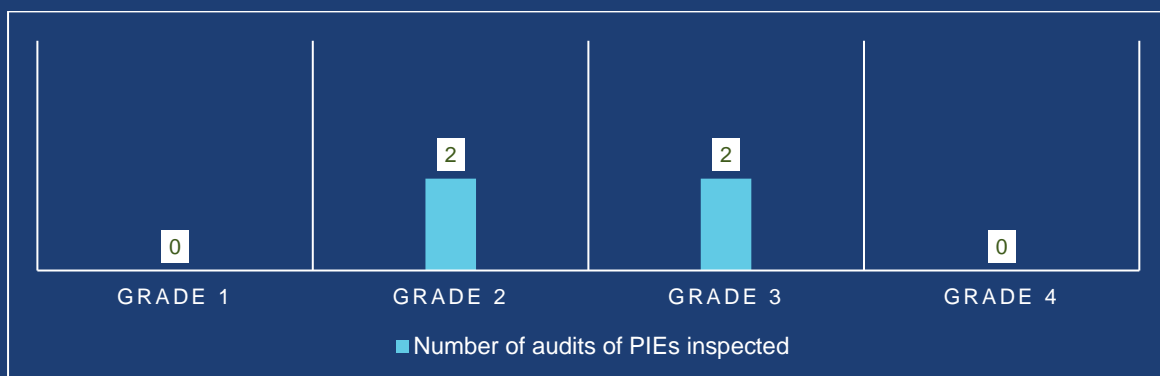
personnel working in the audit function

### Outcome of the quality assurance review

#### Firm's system of quality control - findings with related recommendations<sup>1</sup>



#### Audits of PIEs – grading<sup>1</sup>



<sup>1</sup> See Appendix for detailed description of ratings and grades.

## Guide to IAASA's reports on quality assurance reviews

A guide to assist readers in understanding IAASA's reports on quality assurance reviews of audit firms is available [here](#).

The guide sets out what users can expect from the quality assurance review report. It also explains how IAASA's quality assurance review process drives the form and content of these reports.

## Quality assurance review explained

The purpose of a quality assurance review is to assess the effectiveness of the Firm's system of quality control.

A quality assurance review:

- assesses the design of the Firm's system of quality control
- performs compliance testing around the implementation of the Firm's procedures
- evaluates the quality of a sample of audits of public-interest entities (PIEs)

Note that a quality assurance review is not designed to identify all weaknesses that may exist in the Firm's system of quality control.

Assessing the design of the Firm's system of quality control involves a review of the Firm's policies and procedures and their impact, if any, on audit quality. Compliance testing involves a review of the Firm's implementation of its policies and procedures.

The Authority selects the sample of audits of PIEs using a risk based approach. A risk based approach allows for audits with particular complexities to be selected, as well as audits of varying sizes. As the sample of audits of PIEs is not a representative sample, results cannot be extrapolated to make inferences about audits that have not been selected. In evaluating the quality of an audit of a PIE, the Authority considers the sufficiency and quality of audit evidence across a number of selected audit areas.

## Scope of the quality assurance review of the Firm

### The Firm's policies and procedures

The assessment of the Firm's system of quality control is performed across 13 areas on a three year cyclical basis. In 2022, the quality assurance review assessed the design of the system of quality control in four areas:

- ethics and independence
- acceptance and continuance
- partner evaluation and compensation
- staff evaluation and compensation

For each of the four areas assessed, the Authority evaluated the Firm's policies and procedures and obtained evidence of the implementation of the Firm's policies.

## **Audits of public-interest entities**

In 2022, the Authority selected a sample of four audits of PIEs.

For each audit selected, the Authority evaluated the quality of the communications with those charged with governance, review of financial statements and the audit procedures performed in relation to related parties and analytical reviews. For each audit selected, the Authority also evaluated the quality of audit evidence across additional audit areas. The additional audit areas were selected at the discretion of the Authority, taking into consideration the specific risks pertaining to the audit as well as other areas of focus for the Authority.

## **Overview of findings**

There was one finding with a related recommendation identified in the areas reviewed in relation to the effectiveness of the design or implementation of the Firm's system of quality control.

The Authority assigned a grade of 2 (limited improvements required) to two audits of PIEs and a grade of 3 (improvements required) to two audits of PIEs.

The results of the quality assurance review are set out in detail in the next section of this report.

A description of ratings and grades is set out in the appendix to this report.

The Firm must implement each recommendation raised by the Authority within 12 months of the date of the recommendation. The Authority follows up to ensure each recommendation is implemented. Where the Firm fails to satisfactorily implement the recommendation within the 12 month timeframe, the Authority will refer the matter to its Enforcement Unit.

# Results of the quality assurance review

## Overview of areas

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Acceptance and continuance	The Authority evaluated whether the Firm had adequate procedures to ensure appropriate acceptance and continuance of audit clients. The Authority performed procedures to understand the Firm's policies around the acceptance and continuance of audit clients, including whether the Firm's policies ensure an appropriate response to any issues identified. The Authority obtained evidence of the Firm's implementation of its policies.
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**The Authority notes that, for one of the client acceptances reviewed, there was insufficient evidence of approval by the risk committee. Full details of this finding and recommendation are set out below. (Finding 1).**

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Ethics and independence	The Authority evaluated whether the Firm had adequate procedures to provide reasonable assurance that the Firm and its personnel comply with relevant ethical and independence requirements. The Authority performed a range of procedures to understand the Firm's policies around ethics and independence. These included examining policies regarding financial interests, conflicts of interest and the independence of partners and staff from the Firm's audit clients. The Authority obtained evidence of the Firm's implementation of its policies.
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**The Authority has no findings with related recommendations to report in this area**

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Partner evaluation and compensation	The Authority evaluated whether adequate remuneration policies were in place for audit partners to provide sufficient performance incentives to secure audit quality. The Authority performed procedures to understand the Firm's policies around the evaluation and compensation of audit partners. The Authority obtained evidence of a sample of partner appraisals, and the related remuneration, in order to ensure that audit quality was appropriately reflected.
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**The Authority has no findings with related recommendations to report in this area.**

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Staff evaluation and compensation	The Authority evaluated whether adequate remuneration policies were in place for audit staff to provide sufficient performance incentives to secure audit quality. The Authority performed procedures to understand the Firm's policies around the evaluation and compensation of audit staff. The Authority obtained evidence of a sample of staff appraisals, and the related remuneration, in order to ensure that audit quality was appropriately reflected.
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**The Authority has no findings with related recommendations to report in this area.**

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## Findings and recommendations on the Firm's system of quality control

Area and significance rating	Background	Issue	Recommendation
<p><b>Acceptance and continuance</b></p> <p><b>Finding 1</b></p> <p><b>● Yellow</b></p>	<p>The International Standard on Quality Control (Ireland) (ISQC 1) requires the Firm to establish policies and procedures for the acceptance and continuance of client relationships and specific engagements.</p> <p>As part of acceptance and continuance testing the Authority selected a sample of three PIE audit clients and obtained the letters of engagement as well as documentation of the continuance decisions.</p> <p>The Firm's policies and procedures require approval by the Risk Committee for all Public Interest Entity (PIE) clients.</p> <p>Risk Committee approval is evidenced by sign off in the relevant section of the client due diligence (CDD) checklist.</p>	<p>For one of the PIE audit clients included in our sample there was insufficient evidence of Risk Committee approval of the continuance decision.</p> <p>Audit engagement partner review and approval of the continuance decision was evidenced on the CDD checklist however the relevant section of the CDD checklist for Risk Committee signature and date was blank.</p> <p>There is insufficient evidence that the Risk Committee reviewed the CDD checklist for the PIE audit client, and approved continuance for the PIE audit client.</p>	<p>The Authority notes that the Firm has acknowledged that the CDD checklist was not physically signed, due to an administrative oversight. The Authority further notes that the Firm plans to remediate through the provision of additional training.</p> <p>The Authority agrees with the Firm's remediation plan.</p>
<p><b>Ethics and independence</b></p>	<p>The Authority has no findings with related recommendations to report in this area.</p>		

**Partner  
evaluation and  
compensation**

The Authority has no findings with related recommendations to report in this area.

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**Staff  
evaluation and  
compensation**

The Authority has no findings with related recommendations to report in this area.



## Summary of audits of PIEs inspected

	Assigned grade <sup>2</sup>	Audit areas reviewed
Audit one	2	<ul style="list-style-type: none"> <li>• IT audit</li> <li>• Communications and auditor's report</li> <li>• Management override of controls</li> <li>• Related parties</li> <li>• Financial statement review</li> <li>• Impairment allowance for expected credit losses</li> <li>• Valuation of level 3 traded loans and loans and advances to customers at fair value through profit or loss</li> </ul>
Audit two	3	<ul style="list-style-type: none"> <li>• Analytical reviews</li> <li>• Statement of cash flows</li> <li>• Communications and auditor's report</li> <li>• Financial statement review</li> <li>• Management override of controls</li> <li>• Related parties</li> <li>• Valuation of financial instruments at fair value through profit or loss</li> <li>• Revenue recognition</li> </ul>
Audit three	2	<ul style="list-style-type: none"> <li>• Analytical reviews</li> <li>• Statement of cash flows</li> <li>• Communications and auditor's report</li> <li>• Financial statement review</li> <li>• Management override of controls</li> <li>• Related parties</li> <li>• Revenue recognition</li> <li>• Valuation of financial instruments at fair value through profit or loss</li> </ul>
Audit four	3	<ul style="list-style-type: none"> <li>• Financial instruments</li> <li>• Revenue recognition</li> <li>• Analytical reviews</li> <li>• Statement of cash flows</li> <li>• Communications and auditor's report</li> <li>• Financial statement review</li> <li>• Management override of controls</li> </ul>

<sup>2</sup> See Appendix for detailed description of ratings and grades

- Related parties

## Key recommendations arising from the inspection of audits of PIEs

This table sets out the key recommendations for the Firm arising from the inspection of audits of PIEs. These are recommendations deemed by the Authority to be key to an individual inspection or which were recurring across inspections. Not all recommendations apply to all audits of PIEs inspected and not all recommendations issued are included in this table.

Audit area	Recommendation
Financial statement disclosures	The Authority recommends that, going forward, the audit file sufficiently evidences substantive procedures for each material financial statement disclosure.
External confirmations – investigation of exceptions	The Authority recommends that, going forward, the engagement team ensures that when using external confirmation procedures, any exceptions are investigated to determine whether or not they are indicative of misstatements, and that this investigation is sufficiently evidenced on the audit file.
Communications and auditor’s report	<p>The Authority recommends that, going forward, the engagement team communicates accurately the planned scope of the audit.</p> <p>The Authority recommends, going forward, the engagement team documents their consideration as to whether a matter is a significant deficiency and evaluates it against the requirements of the auditing standards.</p>
Auditor’s report – review and consideration of other information in the financial statements	The Authority recommends that, going forward, the engagement team considers whether there is a material inconsistency between the other information contained in the financial statements and the auditor’s understanding obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit.
Derivative financial instruments - valuation	The Authority recommends that, going forward, when the Firm’s sampling calculator tool is used to determine a sample size sufficient to reduce sampling risk to an acceptably low level, it is completed correctly and formulae are not overridden.
Financial assets at fair value through profit or loss - valuation	The Authority recommends that, going forward, the audit file sufficiently evidences independent valuation of the securities included in the sample, and that the audit file sufficiently

evidences investigation of any differences that exceed the Firm's tolerance threshold.

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External confirmations –  
evidencing procedures  
performed

The Authority recommends that, going forward, the audit file sufficiently evidences external confirmation procedures designed and performed to support the existence of notes issued.

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Engagement  
partner review

The Authority recommends that, going forward, the audit partner completes a final review of the completed audit file prior to the signing of the opinion to ensure that all relevant evidence is included on the audit file, and to ensure that sufficient appropriate audit evidence has been obtained to support the conclusion reached.

## Results of follow up procedures

The Firm is required to implement the Authority's recommendations within 12 months. The Authority is satisfied that all recommendations made to the Firm in 2021 were appropriately implemented in 2022.

## Purpose and limitations of this report

The purpose of the quality assurance review is to assess the effectiveness of the Firm's system of quality control. The purpose of this report is to communicate any deficiencies identified through the quality assurance review and the recommendations arising.

This report is not intended to serve as a balanced scorecard or as an overall rating tool. Although this report on the quality assurance review may comment positively on certain items, it is not designed to give a balanced analysis of all areas of the Firm.

Where an inspection of an audit of a PIE identifies an area where the Firm did not obtain sufficient audit evidence, this does not necessarily indicate that the audit opinion is inappropriate or that the financial statements are misstated. Furthermore, it would be inappropriate to infer that any issues identified in this quality assurance review report are replicated in audits that have not been inspected by the Authority.

## Appendix – Detailed description of ratings and grades

### Ratings

Findings arising in relation to the effectiveness of the design or implementation of a firm's system of quality control have their significance rated by way of a red-amber-yellow (RAY) system.

● **Red** indicates that a finding is a significant deficiency<sup>3</sup>. Failure to implement a recommendation and/or remediation set out in a prior finding in relation to a firm's system of quality control, or, in relation to a matter arising from a PIE inspection is also likely to be assigned a red grading.

● **Amber** indicates that an improvement is required. This is a less than significant failure to:

- meet the requirements of the ethical standards and (ISQC 1); or
- apply a firm's processes or procedures.

● **Yellow** indicates that a finding is a minor deficiency. This is:

- a minor failure in the application of a firm's procedures or processes; or
- a low level deficiency that has the potential to develop into a significant or less than significant failure to meet the requirements of the ethical standards and ISQC 1.

### Grades

Each of the audits of PIEs inspected as part of the quality assurance review is assigned a grade.

- 1** A **1** grade is a good audit with no concerns regarding the sufficiency and quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Any concerns are very limited in their implications (both individually and collectively).
- 2** A **2** grade is an audit that requires limited improvements. There are only limited concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be some concerns, their implications (both individually and collectively) are limited.
- 3** A **3** grade is an audit that requires improvements. There are some concerns, assessed as less than significant<sup>4</sup>, regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be concerns, their implications (both individually and collectively) are less than significant.
- 4** A **4** grade is an audit that requires significant improvements. There are significant concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit

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<sup>3</sup> A significant deficiency is a significant failure to meet the requirements of the ethical standards or ISQC 1; or, a pervasive failure to apply a firm's processes or procedures where there is more than a remote likelihood that the deficiency could affect the firm's independence or the quality of audits performed by the firm.

<sup>4</sup> For audits of PIEs, four key factors will be considered in assessing 'significance' of findings, these are as follows: the materiality of the area or matter concerned; the extent of any concerns regarding the sufficiency or quality of audit evidence (e.g. whether they relate to specific elements of the audit evidence only or are more pervasive to the overall sufficiency or quality of audit evidence in the areas concerned); whether appropriate professional scepticism appears to have been exercised in forming audit judgements; and the extent of any non-compliance with standards or the firm's methodology identified.

judgements in the areas reviewed. There may be concerns in other areas, with implications that are individually or collectively significant.



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