

2020

Audit Quality Unit

# Report on 2019 quality assurance review of Mazars

March 2020

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## Mission

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest.

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## About IAASA

The Irish Auditing and Accounting Supervisory Authority ('IAASA' or 'the Authority') is designated as the competent authority<sup>1</sup> in Ireland responsible for quality assurance reviews of statutory auditors and audit firms that carry out statutory audits of public-interest entities (audits of PIEs).

**The Authority accepts no liability and disclaims all responsibility for the consequences of anyone acting or refraining from acting in reliance on the information contained in this report or for any decision based on it.**

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## Guide to reports on quality assurance reviews

The Authority has published a guide to assist readers in understanding reports on quality assurance reviews of audit firms. The guide sets out what users can expect from the quality assurance review reports and explains how the quality assurance review process drives the form and content of these reports and can be accessed [here](#).

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<sup>1</sup> Audit reform legislation requires the designation of a competent authority in each member state. .Audit reform legislation comprises EU Regulation 537/2014 and Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 [OJ No. L 157, 9.6.2006, p.87] on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC, as amended by Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 [OJ No. L 158, 27.5.2014, p.196] amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts. The Directive is transposed into Irish law in the Companies Act 2014.

# 1. Introduction

## Overview of Mazars (the Firm) and the outcome of quality assurance review

### The Firm



**3**

Offices in Dublin, Limerick and Galway



**45**

Audits of public-interest entities in 2019



**15**

Audit partners



**2.2%**

Market share based on audit fees associated with public-interest entities in 2019



**210**

Personnel working in the audit function

### The review

#### The Firm's system of quality control

There were no findings on the Firm's system of quality control

#### Audits of PIEs



## 1.1. Contents of this report

This report documents the findings and recommendations from the Authority's quality assurance review of the Firm, which took place in 2019.

Where improvements are required in the design and/or implementation of the Firm's system of quality control, this report details those findings and sets out the Authority's recommendations for the Firm. This report also provides a summary of the three audits of PIEs inspected as part of the quality assurance review and discloses the grade that has been assigned to each of the audits inspected.

This report also sets out the Authority's conclusions on whether actions have been taken by the Firm to implement the recommendations made by the Authority in the first quality assurance review.

## 2. Quality assurance review explained

The purpose of a quality assurance review is to assess the effectiveness of the Firm's system of quality control. This involves an assessment of the design of the system of quality control, performance of compliance testing around the implementation of the Firm's processes and procedures, together with inspection of a sample of audits of PIEs. The quality assurance review is not designed to identify all weaknesses which may exist in the Firm's policies and procedures or in the implementation of those policies and procedures.

The assessment of the design of the Firm's system of quality control involves a review of the Firm's policies and procedures together with consideration of the impact of deficiencies identified, if any, on audit quality. Performance of compliance testing involves a review of evidence to corroborate the implementation of the Firm's policies and procedures.

The sample of audits of PIEs is selected on a risk basis, selecting audits which have particular complexities as well as ensuring that audits of varying sizes are selected. The sample is not a representative sample and therefore results cannot be extrapolated to make inferences about audits not inspected. An inspection of an audit involves review of the sufficiency and quality of audit evidence across a number of selected audit areas.

## 3. Scope of the quality assurance review of the Firm

The assessment of the Firm's system of quality control involves review of 13 areas over a three year period. The quality assurance review which took place in 2019 assessed the design of the system of quality in the following areas:

- Tone at the top
- Partner and staff evaluation and compensation
- Engagement quality control
- Offshoring

For each of the four areas reviewed, the Authority assessed the Firm's policies and procedures and performed compliance testing.

Further to this, a sample of three audits of PIEs were selected for inspection. The following areas were review as part of each audit inspection:

- Audit planning
- Communications with the audit committee, or equivalent
- Completion areas

Certain additional areas were selected at the discretion of the Authority, taking into consideration specific risks pertaining to the audit as well as other areas of focus for the Authority.

## **4. Overall view on the Firm's audit quality**

There were no findings or recommendations identified in relation to the effectiveness of the design or implementation of the Firm's system of quality control arising from this review.

One PIE audit inspected in the course of the quality assurance review was assigned a grade of 1 (good audit). One PIE audit inspected in the course of the quality assurance review was assigned a grade of 2 (limited improvements required). One PIE audit inspected in the course of the quality assurance review was assigned a grade of 3 (improvements required).

For each finding, the Authority follows up to ensure that the recommendation is implemented within twelve months. Where the recommendation is not satisfactorily implemented, the Authority refers the matter to its enforcement team.

Further details on the results of the quality assurance review are set out in section 5. A description of ratings and grades is set out in the Appendix.

## 5. Results of the quality assurance review

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### Overview of areas reviewed

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Tone at the top	<p>The purpose of testing in this area is to ensure that the senior leadership of the Firm communicates effectively that audit quality is of significant importance in the Firm. In order to assess this, the Authority interviews those holding key leadership positions in the Firm and reviews communications issued in relation to audit quality and strategy in general. This testing also includes a review of audit tender documentation and an assessment of whether the communications made at the audit tender phase are consistent with the audit work that is subsequently performed.</p> <p>The Authority noted that audit quality was consistently communicated as being of vital importance. The Firm seeks to foster a culture of consultation and encourages open dialog within the audit function. Further, the Firm was very open and co-operative and all information requested during the review was provided on a timely basis.</p> <p><b>The Authority has no findings or recommendations in this area arising from the 2019 review.</b></p>
Partner and staff evaluation and compensation	<p>The testing in this area involves understanding the policies and procedures around the evaluation and compensation of partners and staff and assessing compliance with these policies and procedures by selecting samples of appraisals for both partners and staff and reviewing these against changes in compensation in order to ensure that audit quality is reflected in compensation.</p> <p>The Authority noted that the processes and procedures in place for partner and staff performance evaluation, and the approval of compensation, were extensive. Documentation was provided to the Authority to evidence these processes and procedures, including how audit quality was considered as part of the appraisal and remuneration process.</p> <p><b>The Authority has no findings or recommendations in this area arising from the 2019 review.</b></p>
Engagement quality control	<p>The testing in this area seeks to understand the policies regarding the Firm's engagement quality control (EQC) reviews, which form part of the Firm's overall quality programme. The testing involves selecting a sample of engagements to review for compliance with those policies.</p> <p>The Firm has a policy in place relating to EQC reviews, whereby a second partner performs an independent review of an audit in advance of the audit engagement partner signing the auditor's report, with the aim of ensuring that the engagement has been carried out to a high level of quality.</p> <p>The Authority selected a sample of two audit engagements for testing in this area. For each of the five engagements, there was evidence of the EQC review being completed in accordance with the Firm's own policy. For each of the two audit engagements selected for testing, there was evidence of the EQC reviewer being involved throughout the audit, from the planning stage through to the completion stage.</p> <p><b>The Authority has no findings or recommendations in this area arising from the 2019 review.</b></p>
Offshoring	<p>The Firm does not offshore any of its audit work and therefore no testing was performed in this area.</p>

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

Area	Findings and recommendations
Tone at the top	The Authority has no findings or recommendations in this area arising from the 2019 review.
Partner and staff evaluation and compensation	The Authority has no findings or recommendations in this area arising from the 2019 review.
Engagement quality control	The Authority has no findings or recommendations in this area arising from the 2019 review.
Offshoring	The Firm does not offshore any of its audit work and therefore no testing was performed in this area.

## Summary of audits of PIEs inspected

	Grade assigned	Summary of inspection
Audit one	1	In addition to audit planning, communications with the Audit Committee, or equivalent, and completion areas, this review assessed the audit work in relation to accounting estimates and journal entry testing. Audit work was of a good standard.
Audit two	2	In addition to audit planning, communications with the Audit Committee, or equivalent, and completion areas, this review assessed the audit work in relation to accounting estimates, revenue, and journal entry testing. Audit work was generally of a good standard with some limited improvements required.
Audit three	3	In addition to audit planning, communications with the Audit Committee, or equivalent, and completion areas, this review assessed the audit work in relation to accounting estimates, revenue, and journal entry testing. Improvements are required to the audit going forward.

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

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

Audit evidence	The Authority recommends that, in cases where documents are important in supporting the auditor's report, the engagement team retains these documents as part of the audit file.
Communications	<p>The Authority recommends that the engagement team ensures that risks are documented in a consistent manner throughout the audit file, including those risks communicated to those charged with governance (TCWG).</p> <p>The Authority further recommends that the engagement file evidences completion of those audit procedures that have been communicated to TCWG as having been performed to address key audit matters.</p>
Design and implementation of controls	The Authority recommends that the engagement team evidences their understanding of the design and implementation of the internal controls over significant risks.
Financial statements' disclosures	The Authority recommends that the engagement file retains evidence of the engagement team's review of the entity's financial statements for compliance with the financial reporting framework. The Authority also recommends that the engagement team evaluates whether all required disclosures are made.
Information produced by the entity	<p>The Authority recommends that the engagement team evaluates whether information produced by the entity is sufficiently reliable for the auditor's purposes, including obtaining audit evidence about the accuracy and completeness of data used by the engagement team in their testing. The Authority recommends that the engagement team evaluate the origin of data and plan and perform appropriate procedures to assess the completeness and accuracy of any system generated information that is relied upon.</p> <p>The Authority further recommends that the engagement team evaluate the completeness and accuracy of data used by management's expert to prepare accounting estimates.</p>
IT audit	<p>The Authority recommends that the engagement team evidences their assessment of prior year IT observations and/or findings that were communicated to management and clearly evidence their rationale for the assessments made. The engagement team should also evidence the scope of the IT audit work and document any deviations from the planned scope.</p> <p>The Authority further recommends that the engagement team reviews the interface and data flow scoping and identifies any gaps within the system testing where neither the engagement team nor the group auditors have performed sufficient procedures to address the relevant audit risks. Appropriate procedures should be designed and performed to address any gaps identified.</p> <p>Where an IT control is deemed to be ineffective, the Authority recommends that the engagement team assess the effectiveness of the controls identified as mitigating controls. The engagement team should assess and document how the controls identified as mitigating controls fully mitigate the risk and objective of the control deemed to be ineffective.</p> <p>The Authority further recommends that the engagement team tests the IT system controls for the entire period in scope. Where interim controls testing is performed, the engagement team should also evidence how they concluded that there had been no significant changes to the IT system controls post interim controls testing.</p>
Journal entry testing	<p>The Authority recommends that procedures are designed, performed and evidenced to ensure that the journal listing is complete and accurate.</p> <p>The Authority recommends that procedures are designed, performed and evidenced to ensure that automated journals are appropriately tested. It also recommends that, where unusual items are identified, the results of any subsequent investigations should be appropriately evidenced on the file</p>

Subsequent events                      The Authority recommends that the engagement partner dates the auditor's report no earlier than the date on which sufficient appropriate audit evidence has been obtained regarding subsequent events.

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Use of experts                              The Authority recommends that, in cases where the engagement team relies on the work of management's expert, the competence, capabilities and objectivity of that expert are evaluated.

The Authority recommends that the engagement team evidences on audit files their communication with the auditor's expert agreeing the scope, nature and objectives of the expert's work. The Authority further recommends that the engagement team evidences on audit files how the nature, timing and extent of communications between the engagement team and the auditor's expert were agreed, including the form of report to be provided by the auditor's expert.

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## **6. Results of follow up procedures**

The report on the first quality assurance review was issued to the Firm in July 2019. The reports on the first quality assurance reviews were not published. The Firm is required to provide a written submission to the Authority within twelve months of the date of the report. The Authority will review the submission to ensure that all recommendations are implemented. Where the Firm is in the course of implementing a recommendation, that recommendation is not restated in this report.

## **7. Purpose and limitations of this report**

While 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 overall rating tool. Although this quality assurance review report may comment positively on certain items, this report 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 which 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>2</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 international standard on quality control (Ireland) 1 (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 with limited improvements required. There will be only limited concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. There may be some concerns but their implications (both individually and collectively) are limited.
- 3** A “3” grade is an audit with improvements required. There will be some concerns, assessed as less than significant<sup>3</sup>, regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. There may be concerns, the implications of which (both individually and collectively) are less than significant.
- 4** A “4” grade is an audit with significant improvements required. There will be significant concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. There may also be concerns in other areas, the implications of which are individually or collectively significant.

<sup>2</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>3</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.



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