

Annual Audit Outreach

23rd February 2022

Opening Remarks

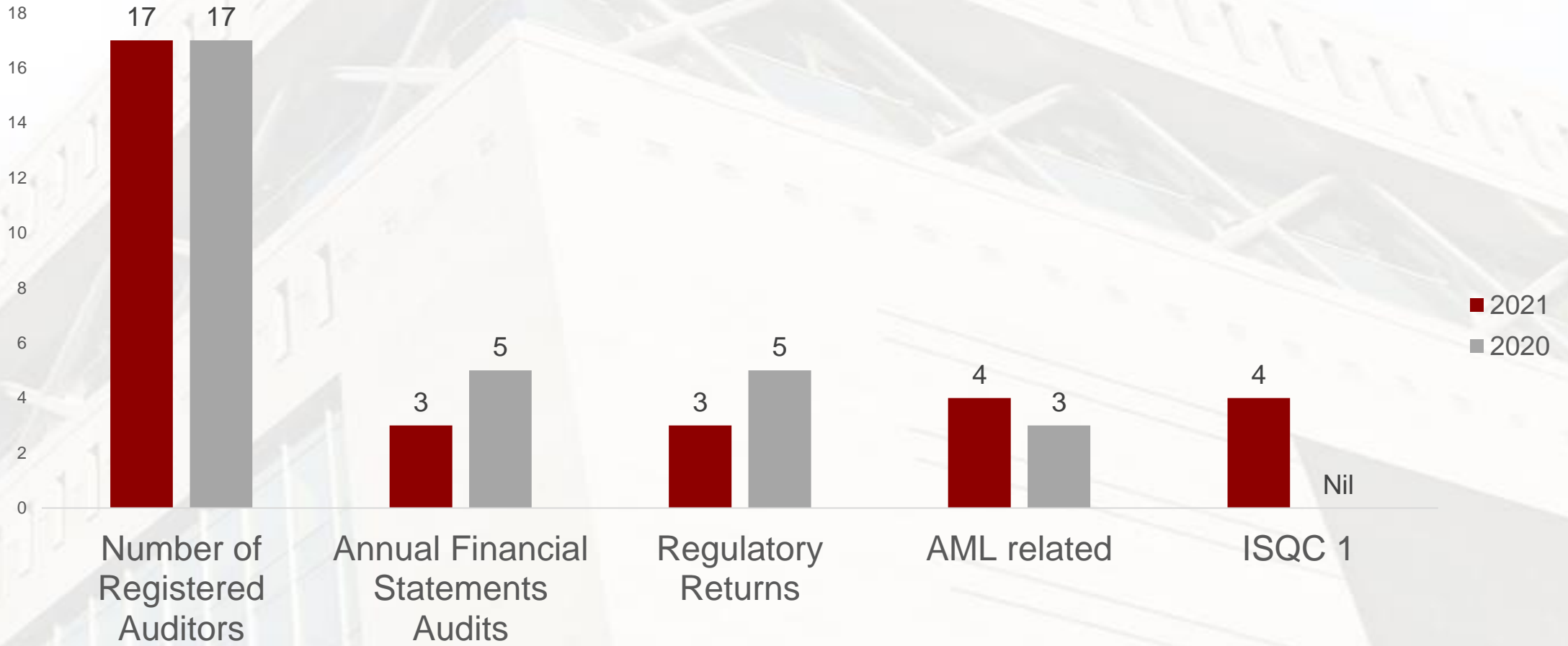
F. Christopher Calabia
Chief Executive

2021 Audit Monitoring Findings

Stephen Albrecht
Senior Manager – Supervision

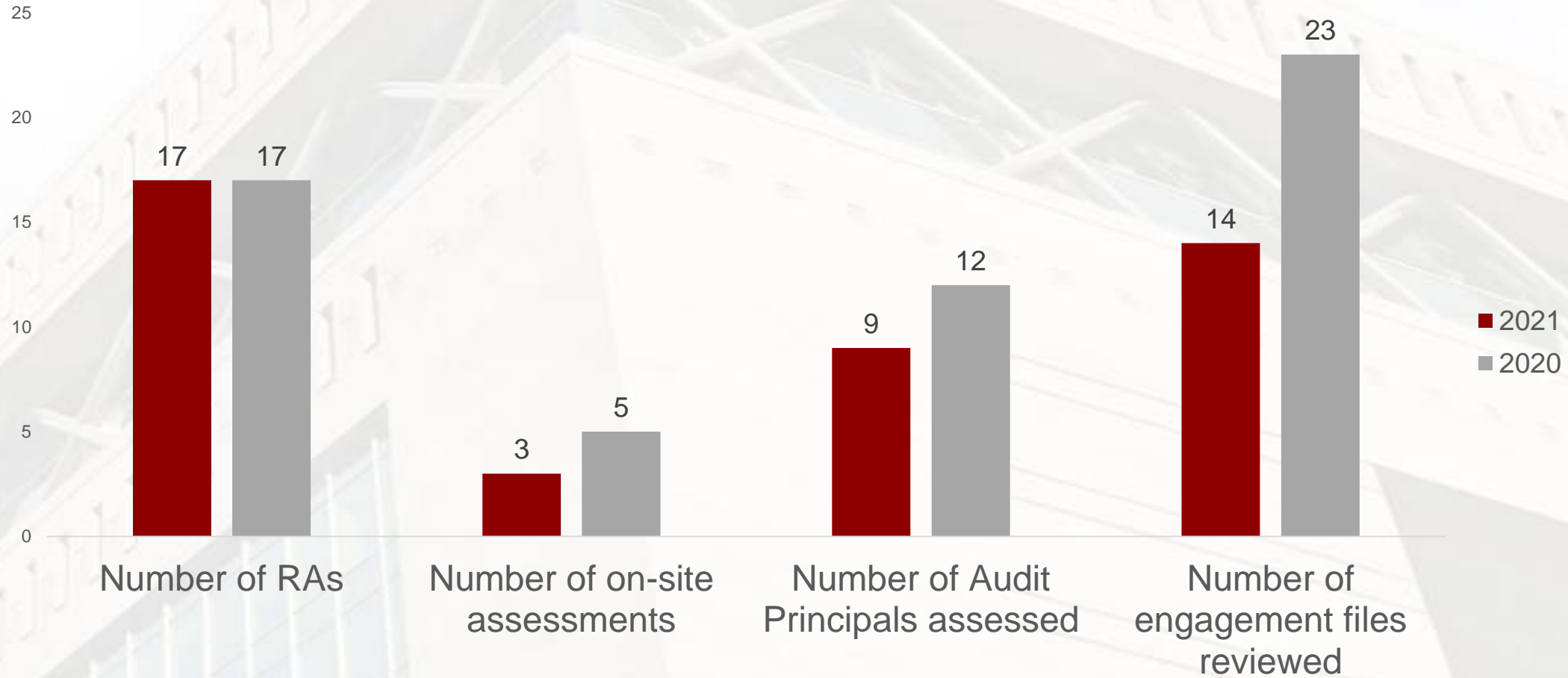


2021 Inspections

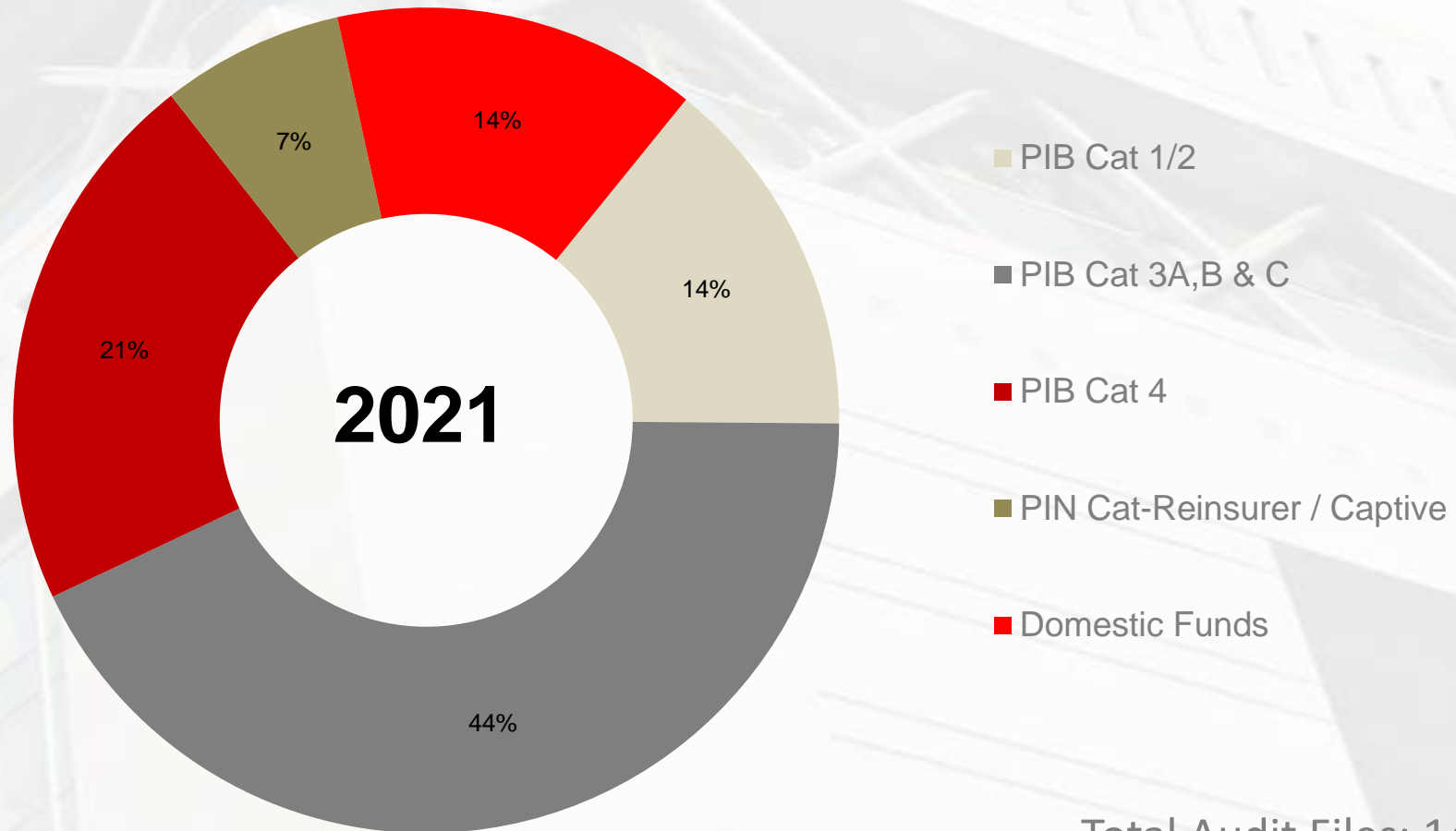


Total Inspections: 14

2021 Annual Audit Inspections



Types of Engagement Files Reviewed

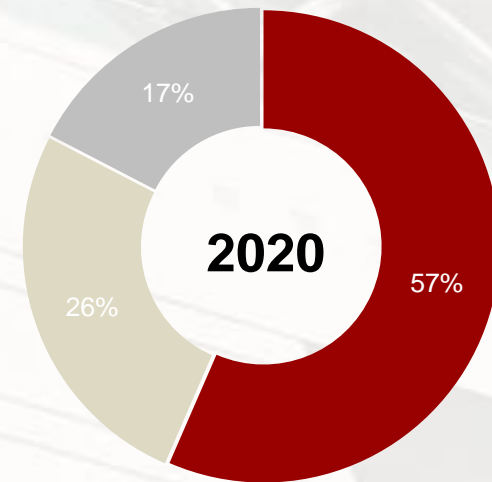
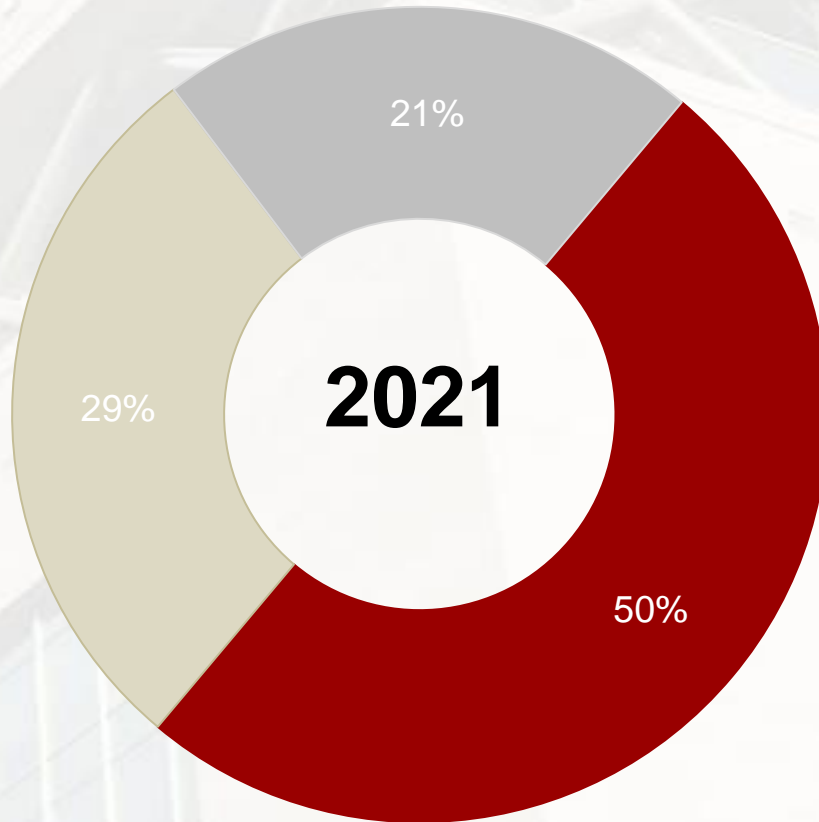


Total Audit Files: 14

Starting Position

appropriately **IF IT'S NOT
DOCUMENTED IT'S
NOT DONE!**

File Grading



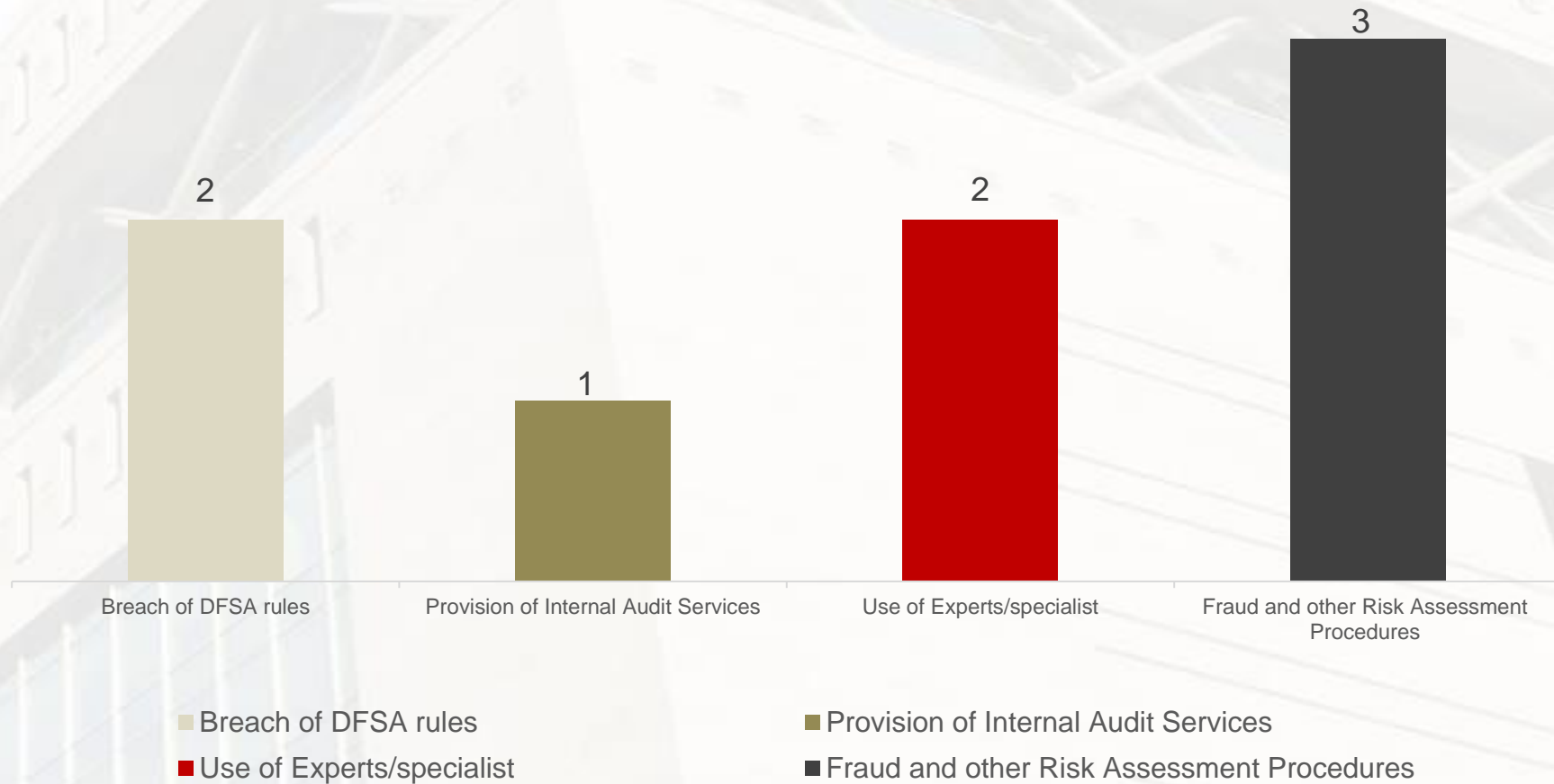
■ Satisfactory ■ Generally Acceptable ■ Improvement required

Total Audit Files: 14

Good Audit Work



Principal Findings



Breach of DFSA rules

- Refusal to provide access to Network Member Firm's Quality Review Report [Article 73 (1)].
- Use of non-registered address and contact details.



73. Powers to Obtain Information

- (1) The DFSA may require an Authorised Person, DNFBP, Domestic Fund, Registered Auditor or any director, officer, employee or agent of such person by written notice to:
 - (a) give, or procure the giving of, such specified information; or
 - (b) produce, or procure the production of, such specified documents;to the DFSA as the DFSA considers necessary or desirable to meet the objectives of the DFSA.

Provision of Internal Audit Services

- An affiliate of an RA intended to provide Internal Audit Services to one of the RA's external audit clients.



Use of Experts/Specialist

- No documentation and review of work conducted by the RA's internal valuation expert.
- No work done to verify the adequacy of internal valuation expert's work done.



Fraud and other Risk Assessment Procedures

- Risk of Material Misstatement (RMM) due to Fraud.
- Responses to Assessed Risks of Material Misstatement Due to Fraud.
- No documented relevant assertions and RMM for significant account balances or class of transactions.

**What Is a Fraud
Risk Assessment?
And Why Do I
Need One?**



Other Findings

Communication with those Charged with Governance

ECL assessments not conducted

Subsequent events
ISA 560

Related Parties

No revenue cut-off
Procedures

Inadequate journal
entry testing (ISA 315)
conducted

No Systems
Walkthrough

IFRS 16 - Leases

No recoverability
testing on due from
related party and
receivable balances

Test for unrecorded
liabilities not
conducted

Key documents not on
file

Inadequate audit
procedures conducted
for guarantees/
commitments and
contingencies



Other Findings

DFSA Public Register not reviewed by the engagement team

Analytical Procedures – ISA 520

Planning documentation signed by AP at or around conclusion of the Audit

AP not involved in the team planning discussions

Professional clearance letter not obtained

No reference to DFSA Rules or DIFC Laws

Completeness of possible litigations not assessed

No consideration of the use of specialist at the planning stage of the audit

Competence, capabilities, and objectivity of Management's experts not considered

Incorrect reference to the Regulatory Status of the RA

No demonstration of professional scepticism

No documented sampling basis



Other Findings

- No signed independence declarations on file.
- Caveats in Type 2 – Service organisation report not considered and addressed in audit procedures.
- No/inadequate verification of the basis of assumptions used in Property Valuation.
- Basis of selecting Significant Accounts and relevant assertions not documented.



Other Findings

- Failure to report a breach of the DFSA Rules.
- Incomplete documentation of the critical path of revenue and receivable process.
- Unreconciled/unexplained differences between:
 - audit lead schedules and signed FS
 - Completeness of GL testing
- IFRS Disclosure checklists not on file.



Firmwide (ISQC 1) Inspections

Henry Gadagbui
Manager – Supervision

Good Observations

Benchmarking -
determined
sufficiency and
quality of
consultation
resources

Shorter archival
time policy and
automated
archival
reminders

Monitoring of
Archival statistics

Full paperless
audit processes
instituted in some
RAs

Well developed
Root Cause
Analysis including
focus group
sessions

Good Observations

Audit quality considered
in Audit Principal (AP)
appraisals

Internal and external
inspection results
considered in AP
appraisals

Improved internal audit
quality monitoring –
international reviewers

Dedicated teams
conducting hot reviews
on a real time basis

Other Matters and Improvement Opportunities

Executive Management - Gender Diversity

Workload Management / Benchmarking of Portfolio hours/ No formal policies restricting engagement leaders' portfolio hours/ Periodic monitoring of portfolio hours

Consultations - Difference in Opinion

Consultation Data Base

Consultation Team resourcing adequacy

Investment in Quality Evaluation

Ownership Structure

Third Party complaint lodgment / Ethics and Independence Portal visibility for 3rd parties

Signing of AML Reports by Governing body

External Complaint



Other Matters and Improvement Opportunities

Professional Membership - no control in place to ensure completeness of professional memberships

Training Records (DFSA specific trainings)

Independence Testing – Restricted Investments Testing

Disciplinary Actions / reporting omissions

Meetings of Minutes not maintained – Ethic Oversight Committee

No minutes maintained for the management team meetings

Internal Reviews for DFSA regulated entities not conducted

Provision of Timely Information

Approval of Non-Audit Services (NAS) prior to provision of NAS

Risk and Quality approval of portfolio changes

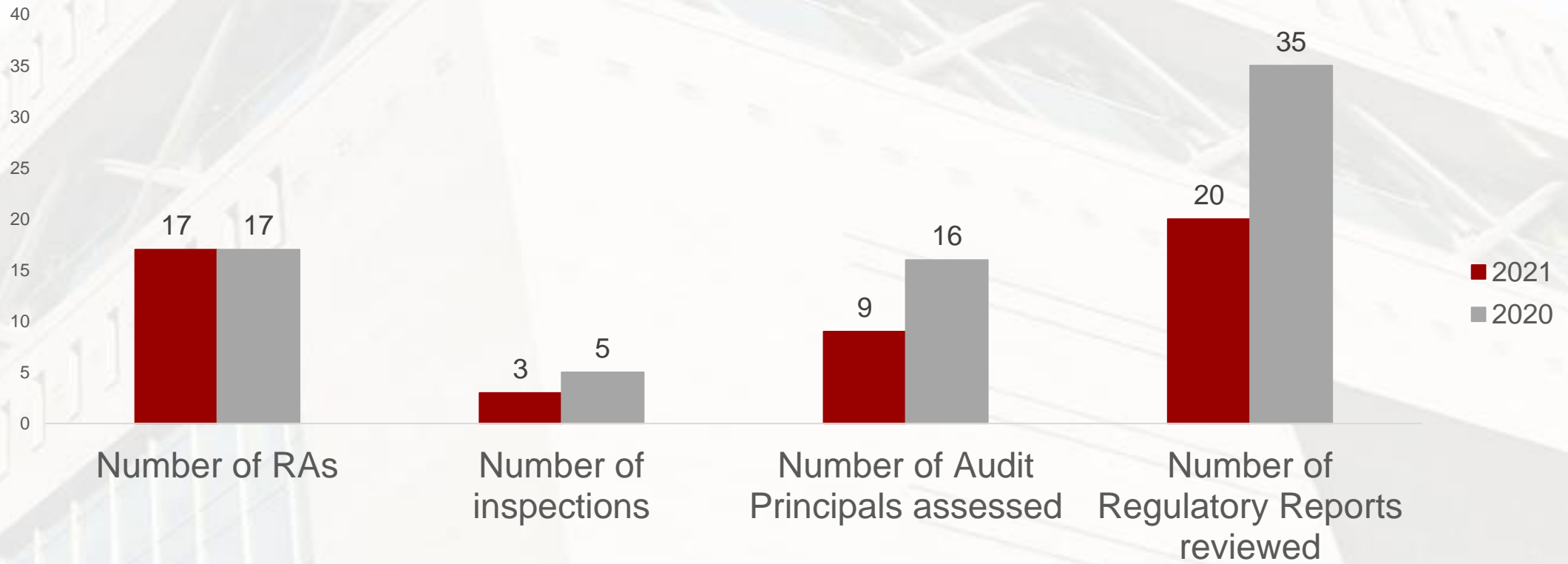
HR Survey not analysed



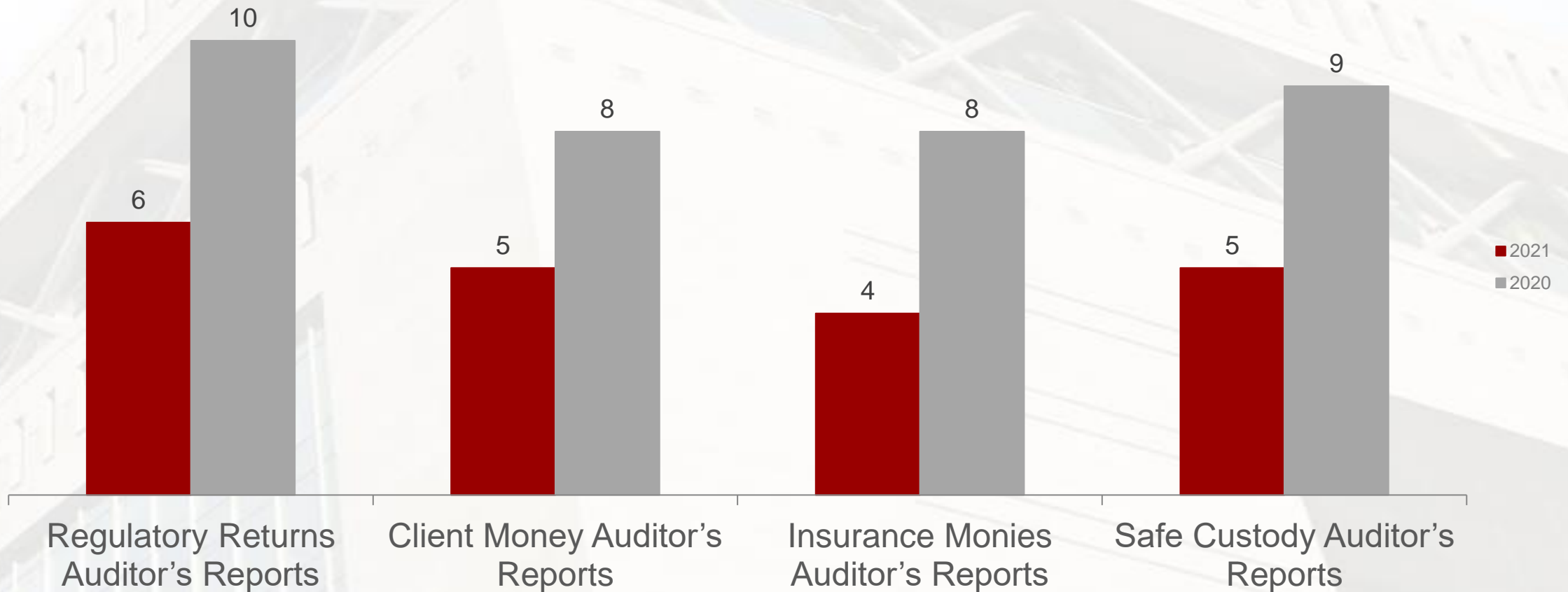
Regulatory Reports

Henry Gadagbui
Manager – Supervision

Regulatory Reports Inspections



Types of Regulatory Reports reviewed



Regulatory Returns Auditor's Report

- Generally, of satisfactory standard.
- Few recurring matters:
 - Name of the signing Audit Principal not included on the Regulatory returns Auditor's Report.
 - Reconciling differences between quarterly returns and annual returns not reported.
 - Annual regulatory return reconciled to draft financial statements and not the audited financial statement.



Client Money Auditor's Report

- Failure to report inadequate systems and controls – Client Money Bank Accounts.
- Incorrect understanding of the definition of holding or controlling Client Money.
- Failure to maintain systems and controls not reported in the Client Money Auditor's Report.
- Incorrect reference to the Regulatory status of the RA.



Insurance Monies Auditor's Report

- Insurance Monies Auditor's Report was generally of good standard.
- However, we identified the below finding:
 - Failure to identify the need to maintain Insurance Monies systems and controls.



Safe Custody Auditor's Report

- Failure to identify the need to maintain Safe Custody systems and controls.
- Variance noted between total value of Safe Custody per the audit working papers and the Safe Custody Auditor's Report.
- Reliance on custodian suitability and periodic due diligence documents not signed and dated by the AF.



Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)

Stephen Albrecht
Senior Manager – Supervision

AML Inspections



In 2021 the DFSA:

- Conducted four AML risk assessments of RAs.
- Identified a number of deficiencies; and
- Forwarded an Inspections Finding Letter which included Risk Mitigation Plan.

AML Inspection Findings

AML 14.5.1 – Annual AML Return - Guidance

Entity-wide Business AML Risk Assessment – AML 5.1

AML Manual – AML 5.2

AML rule 11.4.1
Responsibilities of a MLRO

Ongoing sanctions screening – AML 10.2

Ongoing CDD – AML 7.6

AML 7.4 – Enhanced Due Diligence (EDD) - Source of Funds / Origin of Wealth



AML Risk Rating – AML 6.1.1

Ultimate Beneficial Owner (UBO) identification and screening – AML 7.3

Missing CDD documentation – AML 7.3

Politically Exposed Persons (PEPs) – AML 7.3

Money Services Auditor's Report

Ken Coghill

Director – Supervision

Requirements

Client Money Auditor's Report (AUD App2):

- Amount of client money held/ controlled in accordance with client money provisions
- Whether:
 - the firm has maintained systems and controls to comply with COB6/ App5.
 - the firm's controls are such that client money is identifiable and secure at all times.
 - client money belonging to clients is segregated in accordance with client money provisions.
 - the firm was holding the appropriate amount of client money on the date of the audit.
 - there have been any material discrepancies in the firm's reconciliations of client money.

Money Services Auditor's Report (AUD App7):

- Nature of money services being provided.
- Accounting information on the amount of client money held/ amount of stored value issued/ payment transaction volumes in the reporting period.
- *Opinions on:*
 - *the firm's compliance with the DFSA money service rules.*
 - *the firm's technology, security and authentications standards.*

Common Issues

Firms not having adequate systems and controls in place to **identify the types of money service activity it is offering and therefore the amount of client funds to be segregated** – including:

- identifying how much of each money service activity is being offered (i.e. stored value vs payment account, money transmission etc.).
- identifying what funds as part of a Firm's money service activity form part of the client asset pool vs. which funds are the Firm's own operational funds to ensure the Firm is not incorrectly comingling client funds.
- Firms not conducting both internal (i.e. has the Firm correctly identified what is client money vs. what isn't) and external (i.e. is the Firm holding, in Client Money accounts, the funds that it thinks it should) reconciliations.
- Firms not conducting reconciliations at the prescribed frequency (DFSA COB A5.11 - at least every 25 days).

Firms not having adequate oversight and controls over **client money bank accounts** – including:

- access rights over client money bank accounts.
- four-eyes checks on transactions in and out of client money bank accounts.
- timing of fund movements in and out of accounts to ensure the correct amount of funds are being protected.
- client money accounts not meeting the criteria as set out in DFSA COB A5.7.2 (i.e. no right of set-off, counterclaim, titled correctly).

Rules / Guidance

- PIB 6.6 – Information Technology (IT) Systems
- PIB 6.7 – Information Security
- PIB 6.13 – Management of Operational Risks in Money Services
- [Guidelines for Financial Institutions Adopting Enabling Technologies](#)

Audit Monitoring Focus for 2022

Henry Gadagbui
Manager – Supervision

New Standards on Quality Management

- International Auditing & Assurance standards Board issued new Quality Management (QM) Standards.
- Effective 15 December 2022
 - ISQM 1 – Quality Management for Firms that Perform Audits or Reviews of Financial Statements.
 - ISQM 2 – Engagement Quality Reviews.
 - ISA 220 (Revised) – Quality Control for an Audit of Financial Statements.
- DFSA will look to ensure RA's have considered requirements of new QM and prepared for timely implementation of the standards.



Amendments to International Ethics Standards Board for Accountants - Code of Ethics

- Effective 15 December 2022.
- Non-Assurance Services (NAS).
 - Main change relates to provision of accounting and bookkeeping services.
 - Provision of these services creates a self-review threat when services impact accounting records in which the RA will express an opinion.
 - Code makes clear provision of accounting and bookkeeping.
- Fee-related Provisions:
 - A prohibition on allowing audit fee to be influenced by the provision of NAS.
 - guidance to identify, evaluate and address threats to independence from other fee-related matters, including the provision of fees for NAS.
- The DFSA's audit monitoring visits will include a consideration of how the RA's have addressed revision to the Code as they relate to NAS and fee related provisions.



Audit Evidence - Effect of Covid-19

- Covid-19 has presented challenges in obtaining audit evidence.
 - not changed the requirements around the nature or extent of audit evidence required to support audit opinions.
 - often requires RAs to use audit procedures, including remote working and technology to obtain audit evidence.
 - changed the extent and nature of risks that RAs should consider when determining audit procedures to be performed.
- During the upcoming inspection cycle, the DFSA will consider how the RAs have addressed challenges in obtaining audit evidence resultant from Covid-19.
- We will look for evidence that RAs have considered the impact of Covid-19 on material areas of the audit, such as:
 - going concern;
 - impairment of tangible and intangible assets;
 - valuation of non-current assets, such as property; and
 - expected credit losses for receivables.



Other Focus Areas

- The DFSA will continue to undertake onsite visits in relation to their reporting of DFSA regulated entities in accordance with AUD Rule 6.2.1.
- This is the first time RA's will be required to provide Money Services Auditor's Reports.
- DFSA will continue to assess engagement teams, competencies and the level of training provided to their personnel to enable them to perform work:
 - a. Regulatory Returns Auditor's Report;
 - b. Client Money Auditor's Report;
 - c. Insurance Monies Auditor's Report;
 - d. Safe Custody Auditor's Report; and
 - e. Money Services Auditor's Report.

Regulatory Reports (AUD 6.2.1)

- Regulatory Returns
 - Client Money
 - Insurance Monies
 - Safe Custody
-
- New – Money Services

Questions & Answers Closing Remarks

Naweed Lalani
Director, Supervision

Thank You