



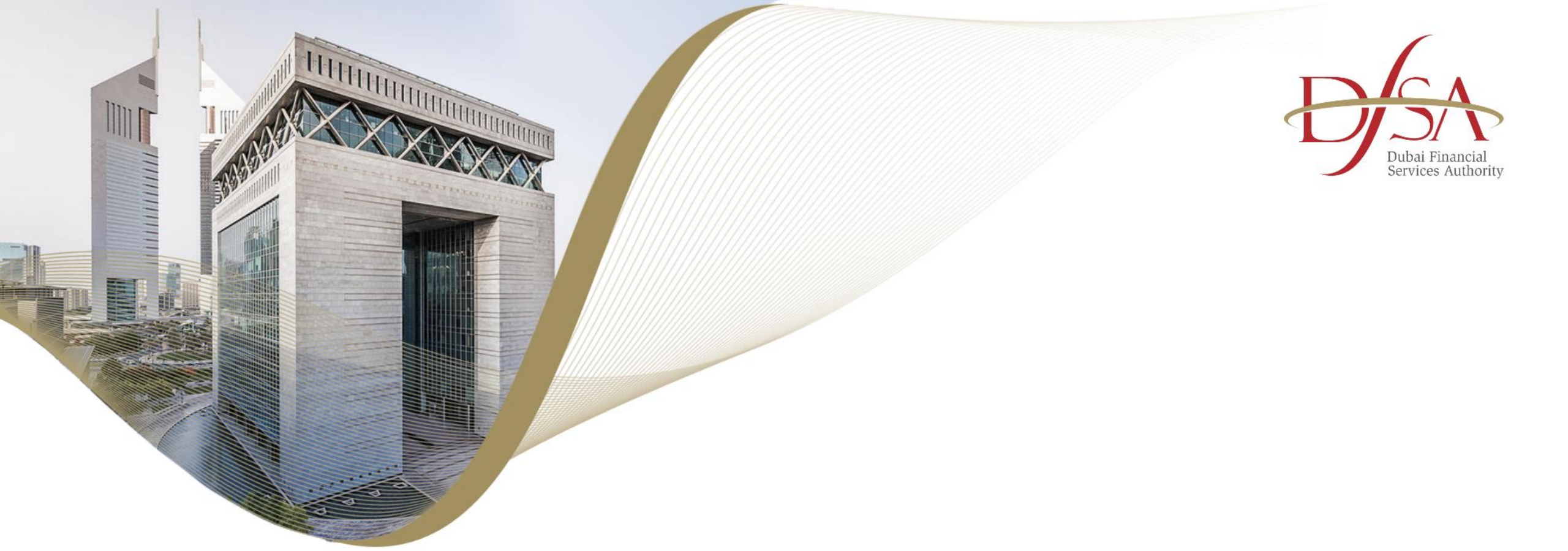
15th Annual Audit Outreach

08 February 2024



Opening Remarks

Ian Johnston
Chief Executive



Supervision Overview

Justin Baldacchino
Managing Director, Supervision

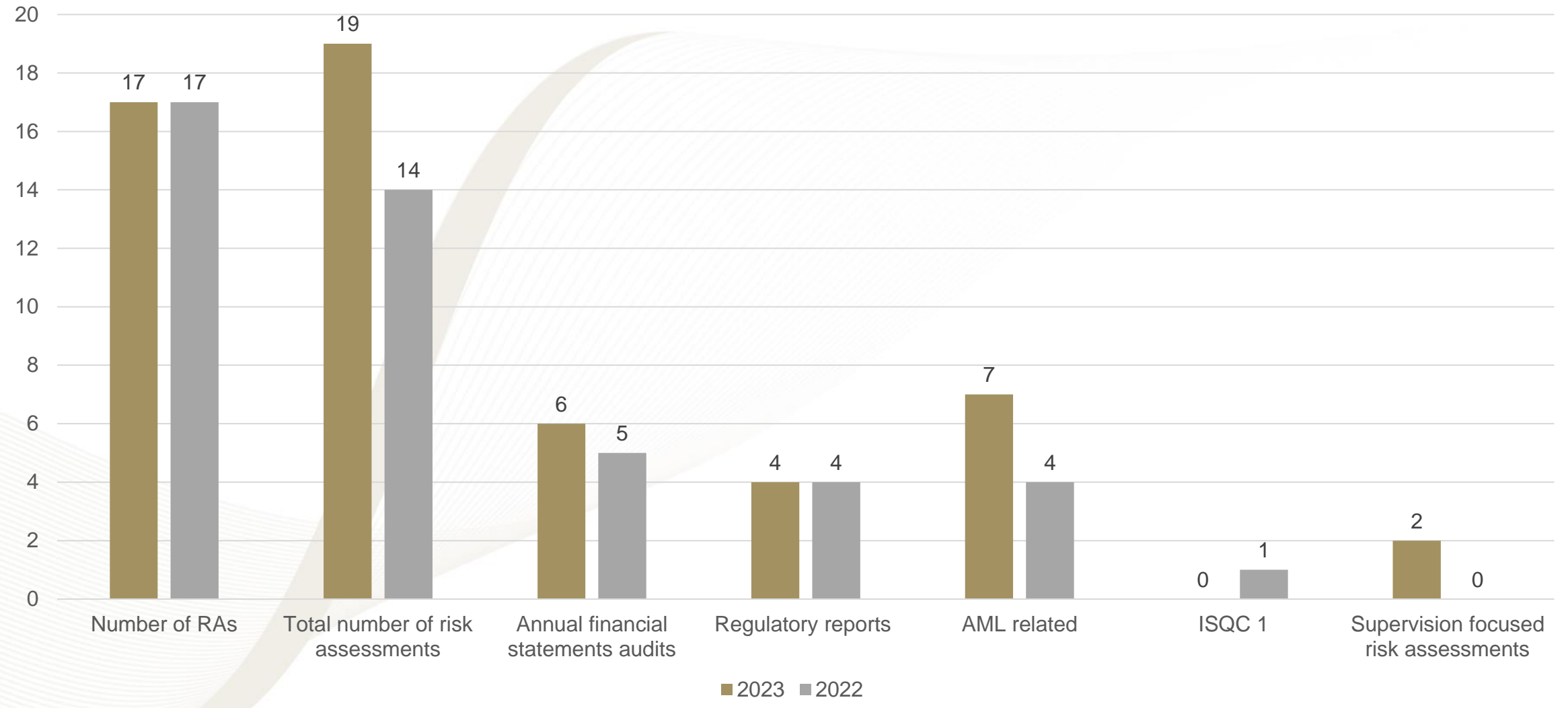


2023 Audit Monitoring Findings

Tom Crous
Senior Manager, Supervision

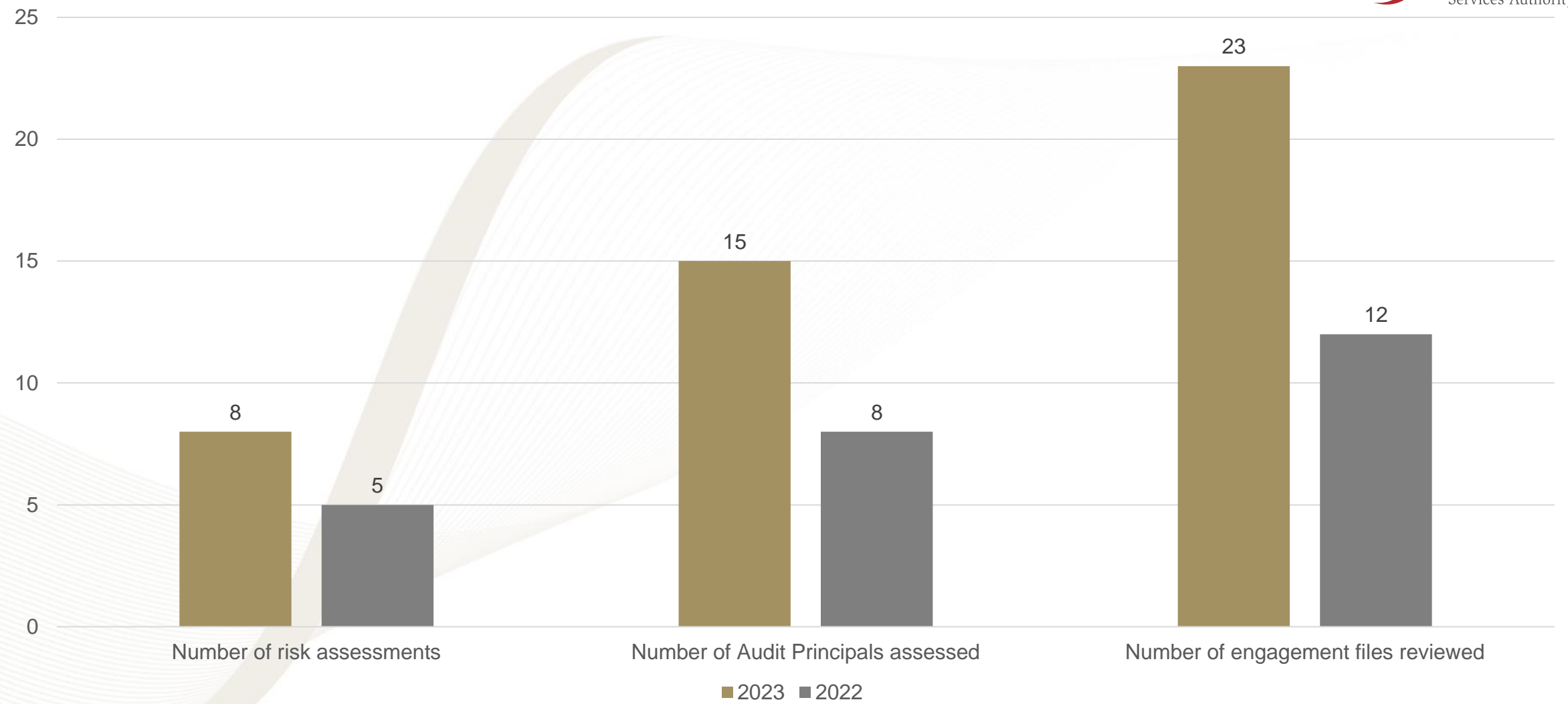


2023 Overview





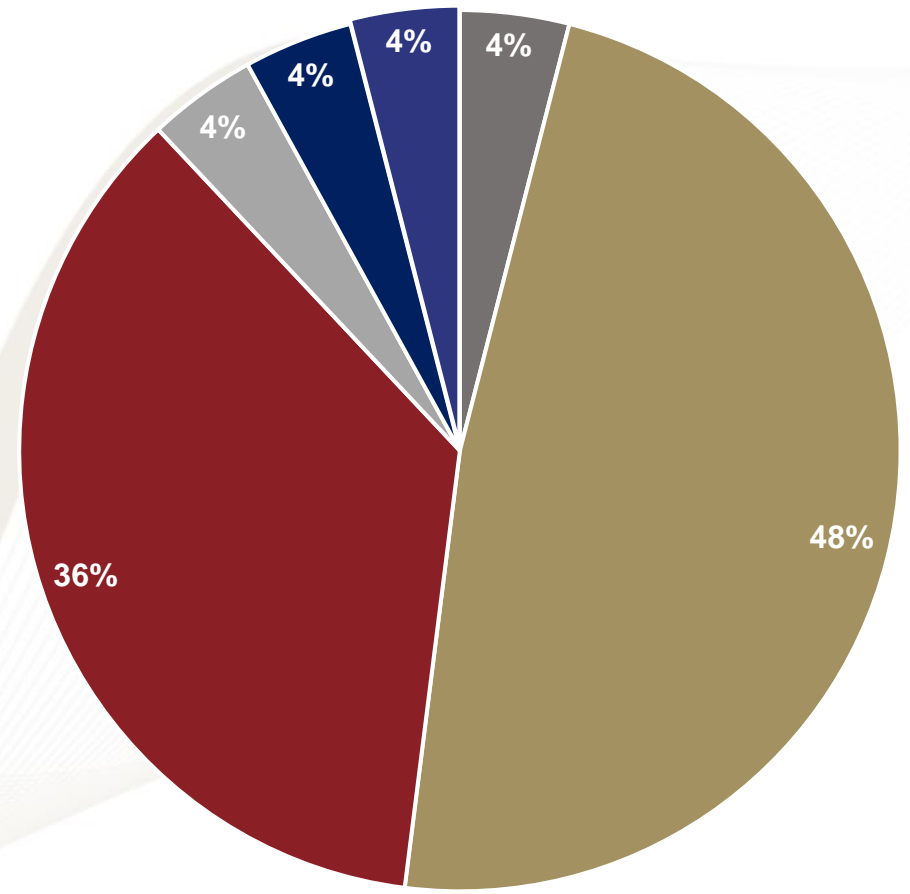
Financial Statements Auditor's Reports



Including 2 focused risk assessments



Types of engagement files reviewed



- PIB Cat 1/2
- PIB Cat 3A, 3B, 3C, 3D
- PIB Cat 4
- PIN Cat-Captive
- CIF QIF
- Public Listed Companies

Total Audit Files:23

Starting Position

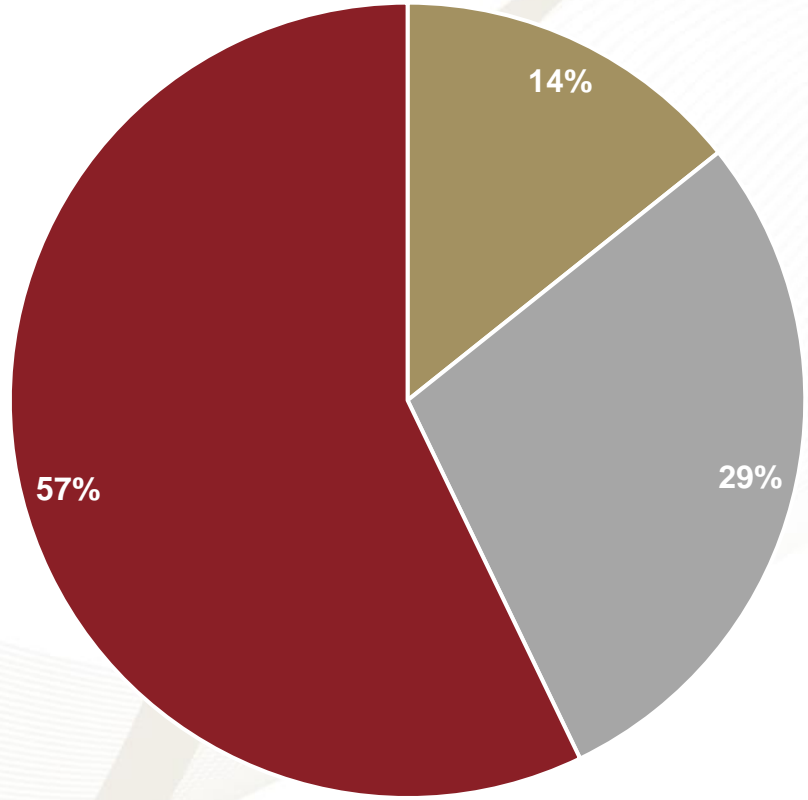


**IF IT'S NOT
APPROPRIATELY
DOCUMENTED
IT'S NOT DONE!**

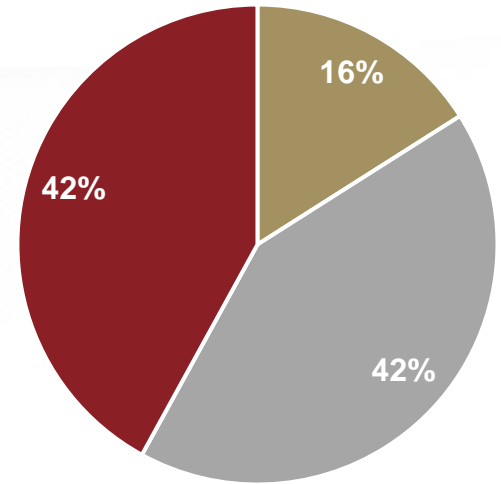
File Grading



2023



2022



■ Satisfactory ■ Generally acceptable
■ Improvement required
Total Audit Files: 12

■ Satisfactory ■ Generally acceptable ■ Improvement required

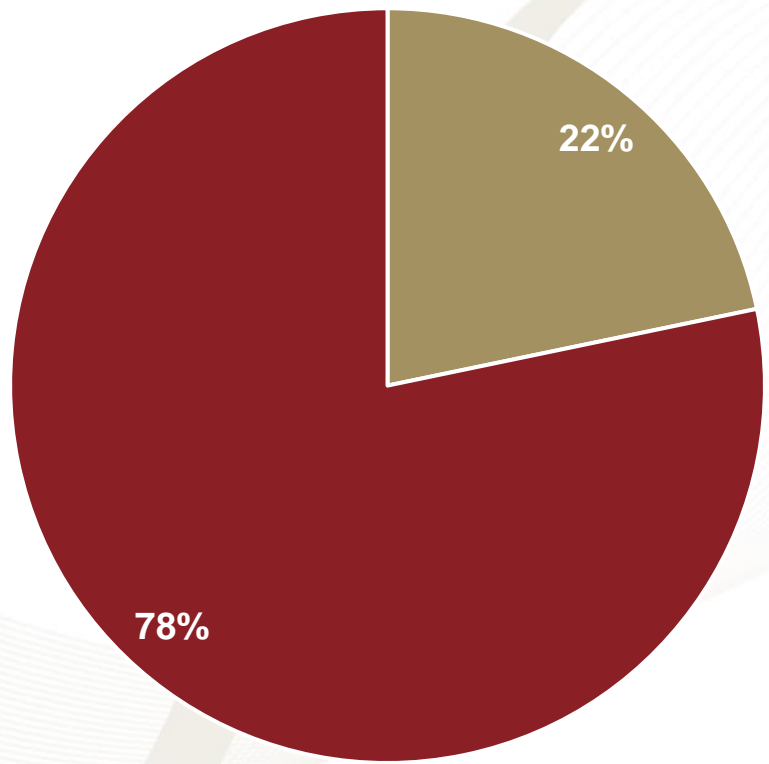
Total Audit Files: 21*

**excluding 2 files under focused risk assessments*

Percentage of Files Reviewed with and without Principal Findings



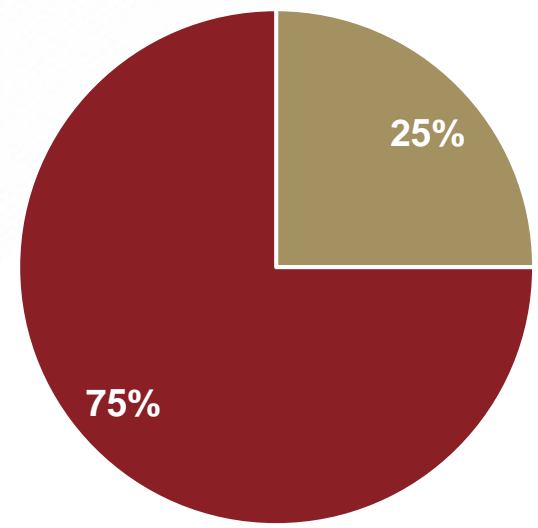
2023



- No Principal Finding
- With Principal Finding

Total Audit Files: 23

2022

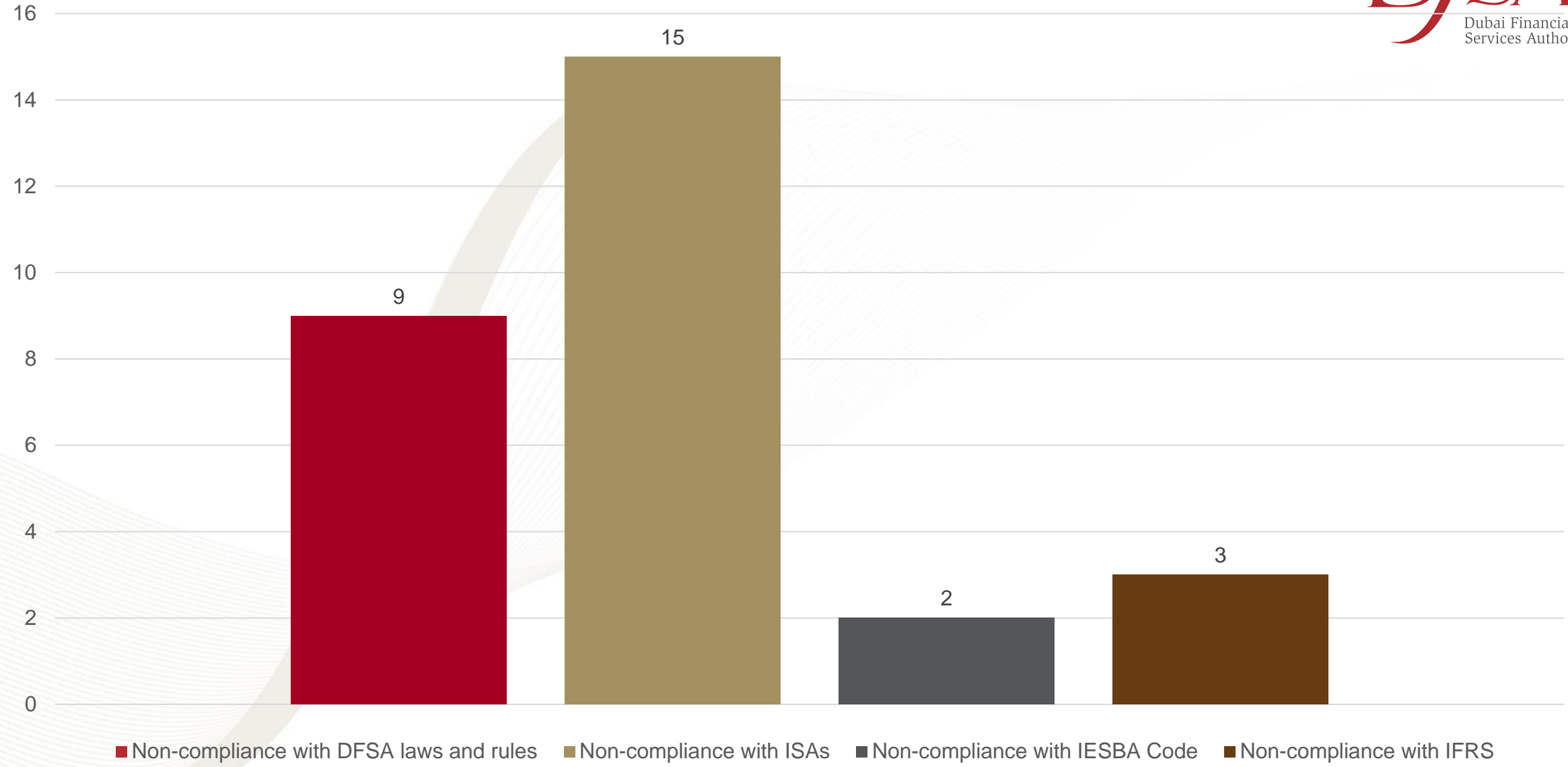


- No Principal Finding
- With Principal Finding

Total Audit Files: 12



Principal Findings



Total Principal Findings: 29

Principal Findings Theme 1: Non-compliance with the International Standards on Auditing (ISAs)



ISA 315 (Revised) – Identifying and Assessing the Risks of Material Misstatement

- No documentation on the impact of the risk assessment to the audit approach.
- Failure to obtain understanding of the components of internal controls and to document information flows through the entity's information system including financial statement close process.
- Failure to assess the impact of information obtained during client acceptance and its impact on risk assessment.
- Incomplete/inconsistent determination of significant risks, relevant assertions, and related risk assessment methodology.

Principal Findings Theme 1: Non-compliance with the ISAs

ISA 315 (Revised) – Identifying and Assessing the Risks of Material Misstatement

- Failure to identify and walkthrough controls for significant risk accounts; and
- Failure to identify and test relevant IT General Controls (ITGCs) and IT Application Controls (ITACs) relevant to the audit.

ISA 510 – Initial Audit Engagements – Opening balances

- Inadequate opening balance testing and failure to obtain professional clearance letter.



Principal Findings Theme 1: Non-compliance with the ISAs

ISA 240 - Auditors Responsibility Relating to Fraud in Financial Statements

Concerns regarding the adequacy of procedures to address risk of fraud in revenue recognition including:

- Audit of IT systems and IT generated reports that are relevant to revenue;
- No IFRS 15 assessment conducted for revenue and inadequate revenue cut-off testing;
- Adequacy of samples; and
- Assessment of variances identified during substantive testing of revenue.

ISA 540 – Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

- Recoverability of related-party receivables - engagement team failed to comprehensively assess financial information of related party; and
- Lack of sufficient and appropriate audit procedures to test the valuation of Investments, including the use of experts.

Principal Findings Theme 1: Non-compliance with the ISAs

- **ISA 505 – External Confirmation process**
 - Control over the bank confirmation process were not evidenced.
 - Failure to report the non-receipt of bank confirmation responses in ISA 260 letter.
 - Test of completeness assertion for bank balances not evidenced.
 - Lack of assessment of the appropriateness of the confirming party as required by ISA 505 - External confirmations.
 - RA's internal guidance/requirements for non-receipt of bank not adhered to and the matter not raised as a significant challenge during the audit in ISA 260 letter.
- **ISA 220 – Quality Management for an Audit of Financial Statements** - Lack of control over the sign-off dates and user identity sign-offs.
- **ISA 230 – Audit Documentation** - Failure to timely archive final sets of audit documentation.
- **ISA 570 – Going Concern** - Insufficient audit evidence regarding appropriateness of management's use of going concern – in circumstances where there are going concern triggering events.
- **ISA 600 – Group Audits** - Significant reliance on the work performed by a network audit firm without sufficiently evaluating the adequacy of the nature, timing, scope, and results of the audit procedures performed by the network team.

Principal Findings Theme 2: Non-compliance with the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants Code



- Failure to completely assess the services performed by other member firms in the current period as required by the IESBA Code.
- Incomplete assessment and documentation of ethical and independence matters including management integrity and missing team independence confirmations.

Principal Findings Theme 3: Non-compliance with the DFSA's Laws and Rules



- Workload of the Audit Principals (APs) and certain related fitness and propriety concerns.
- AP's responsibility for managing the conduct of audit work.
- Breach of Article 98 (5) of the Regulatory Law – Failure of the AP to act within scope of AP registration.
- Misrepresentation of regulatory status with the DFSA.
- Failure to assess compliance with the requirements of DFSA Markets Rules.
- Failure to assess compliance with additional independence requirements of the DFSA as set out in AUD 5.2.1 in section 3.1 (Ethics and independence) of the Group audit instructions.



The DFSA Rulebook

Auditor Module

(AUD)

Supervisory Actions



5 Regulatory Concerns Letters

2 Private Warning Letters

2 Cease and Desist Letters

1 Article 73 Notice

- **Regulatory Concerns Letters:**
 - Failure to have adequate resources, systems, and controls, including policies and procedures, to comply with applicable AML requirements under Federal AML legislation, the Law and the DFSA Rulebook;
 - Failure of an AP to comply on a continuing basis with the registration criteria in AUD 2.4.2; and
 - Failure to have timely archive Working papers;
- **Private Warning Letters:**
 - Audit Principal acting outside the scope of their DFSA registration; and
 - Use of DFSA logo on its prospectus without an express written permission from the DFSA.
- **Cease and Desist Letters:**
 - Use of DFSA logo on its prospectus without an express written permission from the DFSA; and
 - Misrepresentation of their regulatory status with the DFSA.
- **Article 73 Notice**
 - Requiring production of books and records.

Principal Findings Theme 4: Non-compliance with the IFRS



- Incorrect valuation and fair value hierarchy classification of a Simple Agreement for Future Tokens (SAFT)
- Failure to document the basis of recognizing a SAFT instrument as a Financial Instrument under IFRS 9
- Failure to adequately test appropriate recognition and measurement of Intangible Asset as required by IAS 38 – Intangible Assets.

Other Matters

Lack of assessment of audit implications of a cyber security incident	Component audits – lack of evidence of timely sign off	Documentation – insufficient or not updated	Going concern issue or Component not assessed	EQCR timing of sign off
Bank confirmation caveats not tested	Third-party Service Organization report not obtained	Extent of involvement Service Delivery Centre not documented	Insufficient IPE testing	Investment Valuation methodology testing not documented
Independence confirmation – Internal experts	Insufficient JE testing	Prepaid – failure to document basis of accounting	Lack of assessment of Client Money recognition	Foreign currency cash balances – rates and variances
Change in accounting estimate – PPE estimated useful life	No IFRS Disclosure Checklists (DC) / Incomplete DC	Incomplete disclosure on reclassifications made	Incomplete disclosure on related-party transactions	Incorrect liquidity risk disclosures

Other Matters

Uncorrected Misstatements – not reported in ISA 260 letter	Lack of appropriate evaluation of misstatements	Lack of assessment of resources at planning stage	IFRS 16 discount rates not tested	IFRS 16 Lease arrangements not assessed
Material untested balances – sampling considerations issue	ISA 260 – late issuance	Internal audit – nature and extent of reliance not documented	Subsequent events testing not done	No Signed management representation letter
Bonus provisions – sole reliance on management representation	Substantive analytical procedures threshold not documented	Practical Expedient applied on Lease not included in the Accounting Policy	No statement of cashflows testing	Certain share-based compensation disclosures not tested
Restricted cash balances included in Cash and cash equivalents	AP not included in planning meeting	Missing testing table for unrecorded liabilities test	No assessment of impact of potential non-compliance with data protection law	Inputs to ECL not adequately tested

Other Matters

Component auditor – restriction on working paper access not assessed	Missing US GAAP vs. IFRS assessment	Incorrect financial services documented	Incorrect revenue contract start dates	Unrelated working papers added
Missing rationale for Working Paper modifications after report date	Bank balances – Rights and obligations assertions not addressed	Concerns on sufficiency of expenses and payroll samples	Errors noted in lease recalculation	Documentation suggesting that ET prepared the FS
Incorrect EL reference to UAE Federal Law	Inconsistencies, Errors and Superseded documents	Insufficient evidence for Other income	JE completeness testing not documented	Period-end JE not tested
Ineffective manual selection of JE samples	Exceptions on JE samples not adequately investigated	Planning documents incorrectly noted no material related party	UK IFRS and UK GAAS incorrectly noted	Receivable balance confirmation letters referenced an unrelated AP

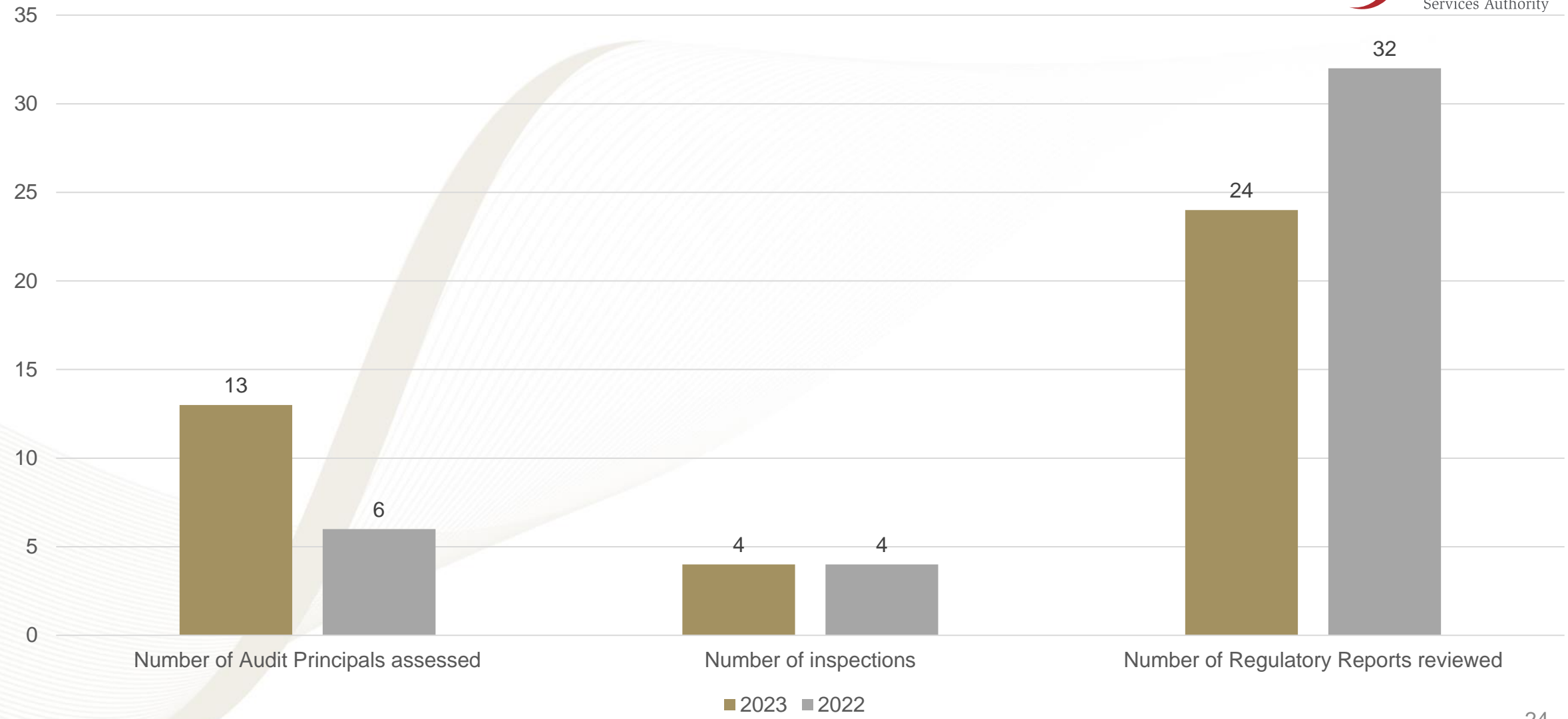


Regulatory Reports

Henry Gadagbui
Manager, Supervision

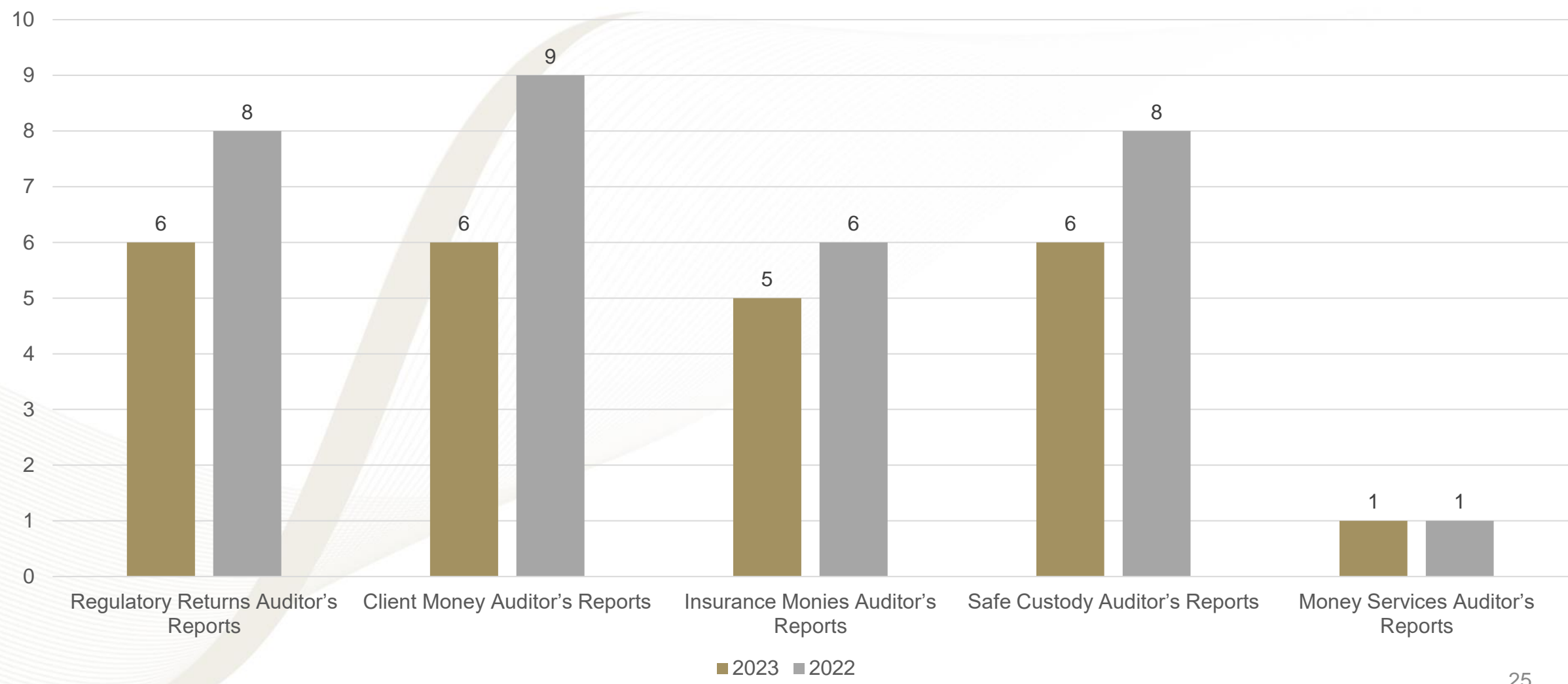


Regulatory Reports Inspections





Types of Regulatory Reports reviewed



Regulatory Returns Auditor's Report

Principal Findings

- Detailed reconciliation on item-by-item classification of annual regulatory return to the audited financial statements not performed. This oversight led to misclassifications across various items presented in the regulatory return.
- No random testing done to confirm Capital Resources maintained always exceed the Capital Requirement.



Regulatory Returns Auditor's Report

Other Matters

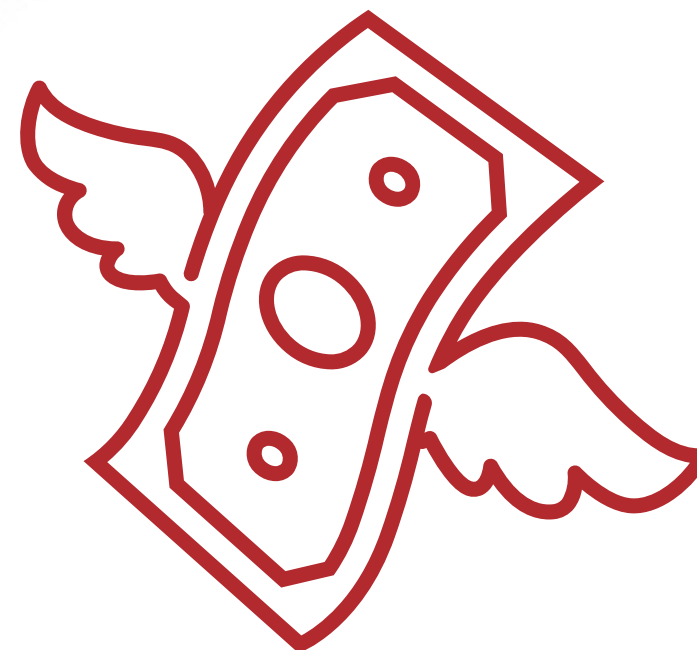


- Failure to document audit work done to test compliance with the DFSA's six (6) years record retention requirements.
- Reconciliation of the quarterly submissions to the financial statements was only performed at the net income/loss level.
- Failure to document how the ET verified the staff bonuses used in the EBCM calculation.
- the Regulatory Returns Auditor's Report did not include the required sections regarding professional ethics and quality control.
- Signed engagement letter not documented on file.

Client Money Auditor's Report

Principal Findings

- Unregistered Audit Principal managing the conduct of the audit in contravention of Article 97 (C) of the Regulatory Law, DIFC Law No.1 of 2004 (the Regulatory Law).
- Lack of adequate testing and documentation of the audit work done to confirm that systems and controls adopted are as per provisions of COB chapter 6 and COB APP5.



Client Money Auditor's Report



Other Matters

- Imprecise descriptions of audit procedures such as “examine”, “ascertain” without specifying the nature and extent of the procedures to be performed in the engagement letters as required by ISRS 4400(R).
- Certain procedures included in the Client Money Auditor's Report engagement letters were limited to “inquiry”.
- Documentation on file did not reflect the time audit work was completed.
- Incomplete audit documentation including failure to document key discussions with management on the audit file.

Insurance Monies Auditor's Report



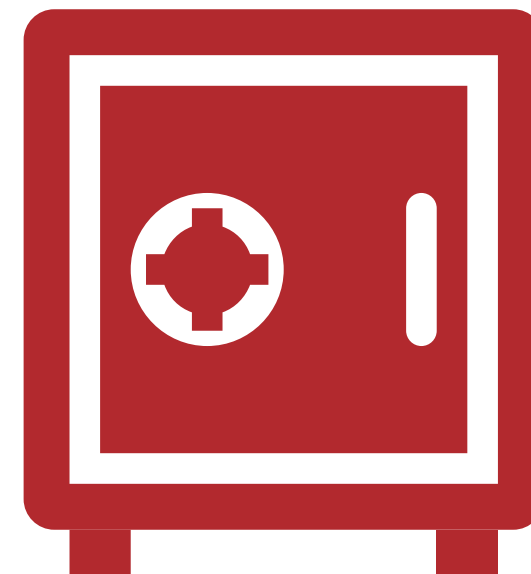
There were no Principal Findings or Other Matters noted from our review of Insurance Monies Auditor's Reports audits conducted over the period.



Safe Custody Auditor's Report

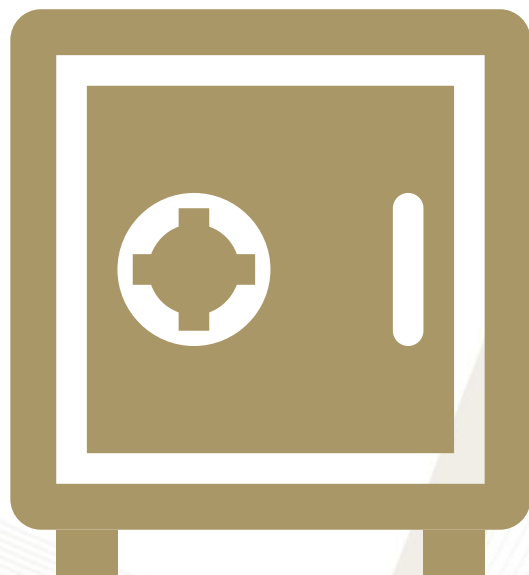
Principal Findings

- Failure to test the requirements in COB 6.13.4 to 6.13.9 regarding holding Client Investments as Collateral.
- Failure to disclose the amount of Client Investments for which the Safe Custody Provisions in App6 of the COB module do not apply.
- Failure to identify and report potential non-compliance with AUD A4.1.1(b)(i) and Conduct of Business (COB) A6.4.3 (3) regarding the details of the master list.
- Lack of adequate testing and documentation of the work done to assess systems and controls requirements.
- Incorrect amount disclosed in the Safe Custody Auditor's Report.
- Appropriate Working Papers not included in the final engagement file as required by ISAE 3000.79 and ISAE 3000.81 respectively.



Safe Custody Auditor's Report

Other Matters

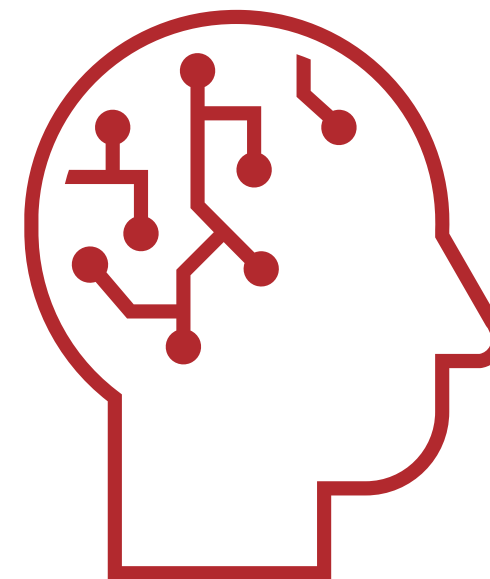


- Exceptions noted in the review of an Authorised Firm's Third-Party suitability assessment not highlighted in the Safe Custody Auditor's Report.
- Imprecise descriptions of audit procedures such as "examine", "ascertain".
- Failure to disclose confirmation replies did not include the words 'Client Account' in the title of accounts as required by AUD A4.1.1(b)(i) and COB A6.4.2.
- The Safe Custody Auditor's Report for some audits was not appropriately updated.

Money Services Auditor's Report

Principal Findings

- AUD App A7.1.1(c) (Accounting information in relation to Money Services activity conducted) – Failure to document procedures performed to verify the reported numbers in the Money Services Auditor's Report.
- AUD App A7.1.1 (d) – Failure to assess whether control deficiencies identified and reported in management letter qualified to be reported in the Money Services Auditor's Report.
- AUD App A7.1.1 (e) (expert opinion from a qualified payment and security specialist), we noted the following:
 - ET relied on prior year's specialist report
 - Failure to assess the impact of prior year findings prior year's specialist report on current year's audit.
- AUD App A7.1.1 (f) and (g), the ET included a conclusion with no reference on what work has been done to support their conclusion.



Regulatory Reports Questions



06 Registered Auditors responded

39 Questions received

16 Regulatory Returns Auditor's Report

14 Client Assets

02 Insurance Monies Auditor's Report

07 Money Services Auditor's Report

Regulatory Reports Questions

Regulatory Returns Auditor's Reports

- AUD A1.1.1 (d) – Financial resources clarification
- Clarification on the presentation of ECL on financial assets
- Market value of investments in shares and treasury bonds as liquid assets

Client Assets

- Should a Brokerage firm offering leveraged OTC products, consider the margin money/payment as Client Money?
- Are branches of the same Group considered TPAs?
- AUD A2.1.1 (v) – Clarification on what is "appropriate amount of Client Money" on Client Money Report.



Regulatory Reports Questions

Insurance Monies Auditor's Report

- Is the DFSA amending the PIN Return to comply with the IFRS 17?
- Use of premium money from Cedant for other purposes

Money Services

- AUD A7.1.1 (e) - Expert Opinion from a qualified payment and security specialist
- AUD A7.1.1 (d) An opinion on any contraventions and its materiality





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

Erica Rose Francisco
Associate Manager, Supervision

AML Inspections



In 2023 the DFSA:

- Conducted three (3) AML risk assessments of RAs.
- Identified a number of deficiencies;
- Forwarded an Inspections Finding Letter which included Risk Mitigation Plan; and
- Conducted four (4) follow-up inspections to test the implementation of the Risk Mitigation Plan.

AML Inspection Findings

Responsibility for compliance with the AML Module

AML 1.2.1

Entity-wide Business AML Risk Assessment

AML 5.1

AML Systems and Controls

AML 5.2.1

AML Risk Rating

AML 6.1.1

Missing CDD documentation

AML 7.3

Politically Exposed Persons (PEPs)

AML 7.3



AML Inspection Findings



UBO
identification
and screening

AML 7.3

Simplified CDD

AML 7.5

Ongoing
sanctions
screening

AML 10.2

Annual AML
Return

AML 14.5.1

Record keeping

AML 14.4

Suspicious
Activities Report

AML 13.3

AML Inspection Findings

AML Training and
Awareness

AML 12.1

Qualities of MLRO

AML 11.3.1

Government
regulatory and
international
findings

AML 10.3.1

Ongoing CDD

AML 7.6

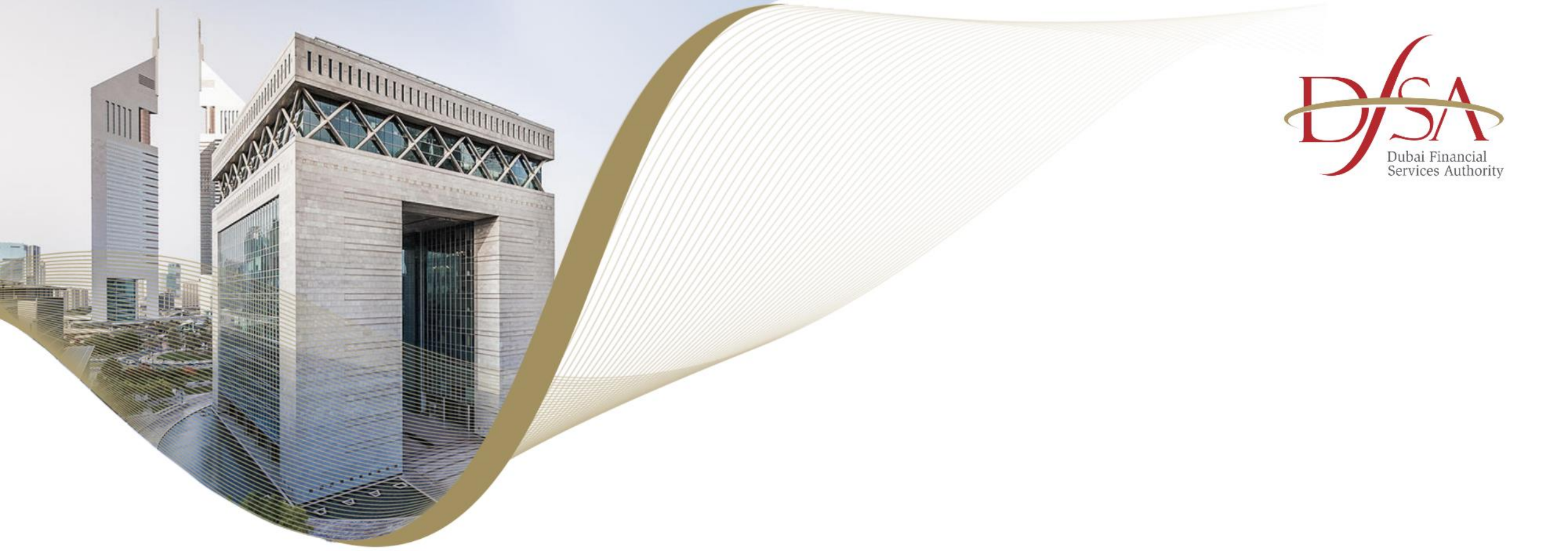
Enhanced Due
Diligence (EDD)

AML 7.4

Source of Funds /
Origin of Wealth

AML 7.3





Audit Monitoring Focus for 2024

Revised Risk Assessment Cycle

The following are the revised standard risk cycles for Registered Auditors:

Type of Registered Auditor	Risk assessment cycle
Auditor of Public Listed Company / Big4 Registered Auditors	Once every four (4) years
All Others	Once every six (6) years

*These risk cycles are determined based on the level of activities a Registered Auditor undertakes in the DIFC and their individual significance to the DFSA's risk tolerance. The DFSA may determine a more frequent cycle subject to assessment.

Audit Monitoring Focus for 2024

Assembly of the engagement file (archiving)

Managing the conduct of an audit (including the use of service delivery centres)

Related party transactions

Assembly of the engagement file (archiving)



- ISA 230 and ISQM 1 both sets out the specific requirements.
- Failure may impair the accuracy and integrity of engagement files and also impede the DFSA in carrying out its supervisory activities.
- A survey seeking relatively high-level information on each Registered Auditors' Working Paper Archiving and Retention practices has been sent out.
- The initial survey responses indicated certain gaps that needs further evaluation which will be done on the next stage of the thematic review.

Managing the conduct of an audit (including the use of service delivery centers)

- Article 97(C) of the DIFC Regulatory Law 2004 prohibits any person from carrying out the responsibilities of an Audit Principals (AP).
- RAs utilizing offshore delivery centers, virtual secondments, and engagement partners supporting APs will need to demonstrate that these approaches comply with applicable DFSA legislation.
- RAs must also ensure their assessments and documentation is sufficient and appropriate.
- The DFSA's audit monitoring visits will continue to focus on ensuring that RAs operating models meet this requirement.



Related party transactions



In particular, engagement teams should, amongst other actions:

- a) consider whether the related-party's confirmation of revenue is appropriate and independent and whether the arrangements are at arm's length;
- b) perform sufficient audit procedures to verify the related-party transactions;
- c) perform additional audit procedures to confirm the recoverability of any outstanding related-party balances; and
- d) assess, challenge, and consider the accuracy and completeness of the financial statements disclosures in relation to the related-party relationships and transactions.



Questions & Answers

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Thank you!