

Annual Audit Outreach

10th February 2021

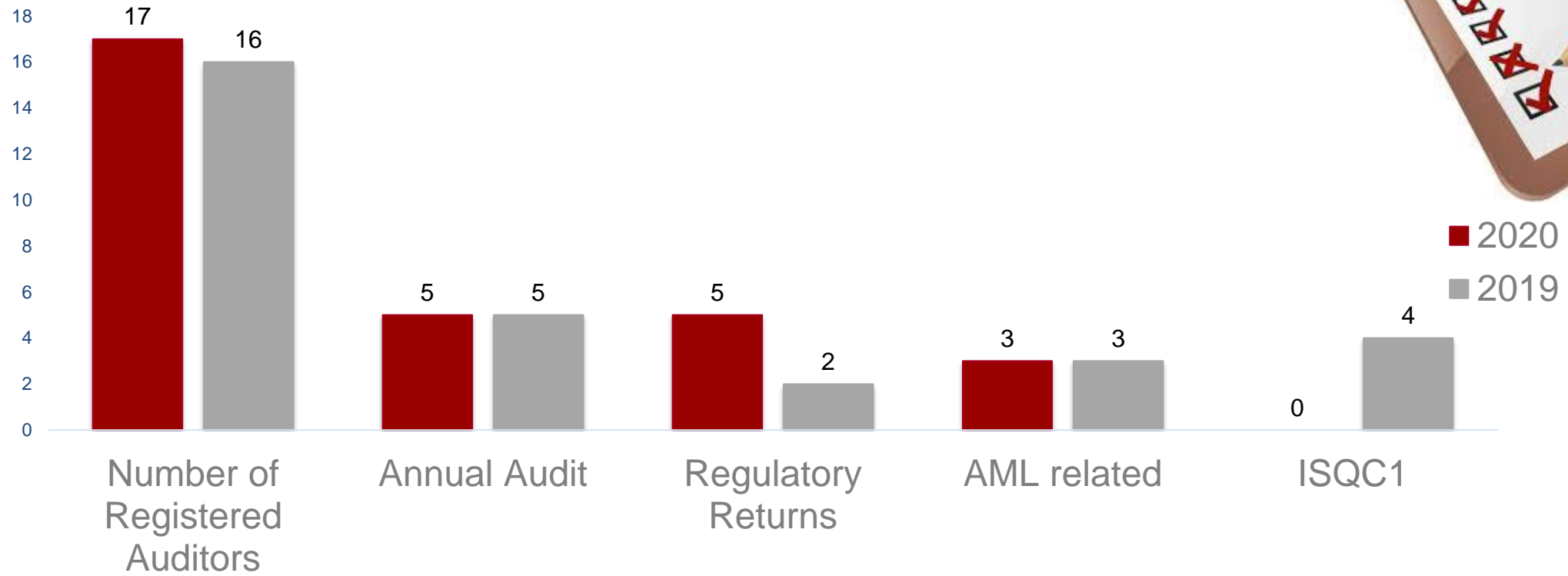
Opening Remarks

Bryan Stirewalt
Chief Executive

2020 Audit Monitoring Findings

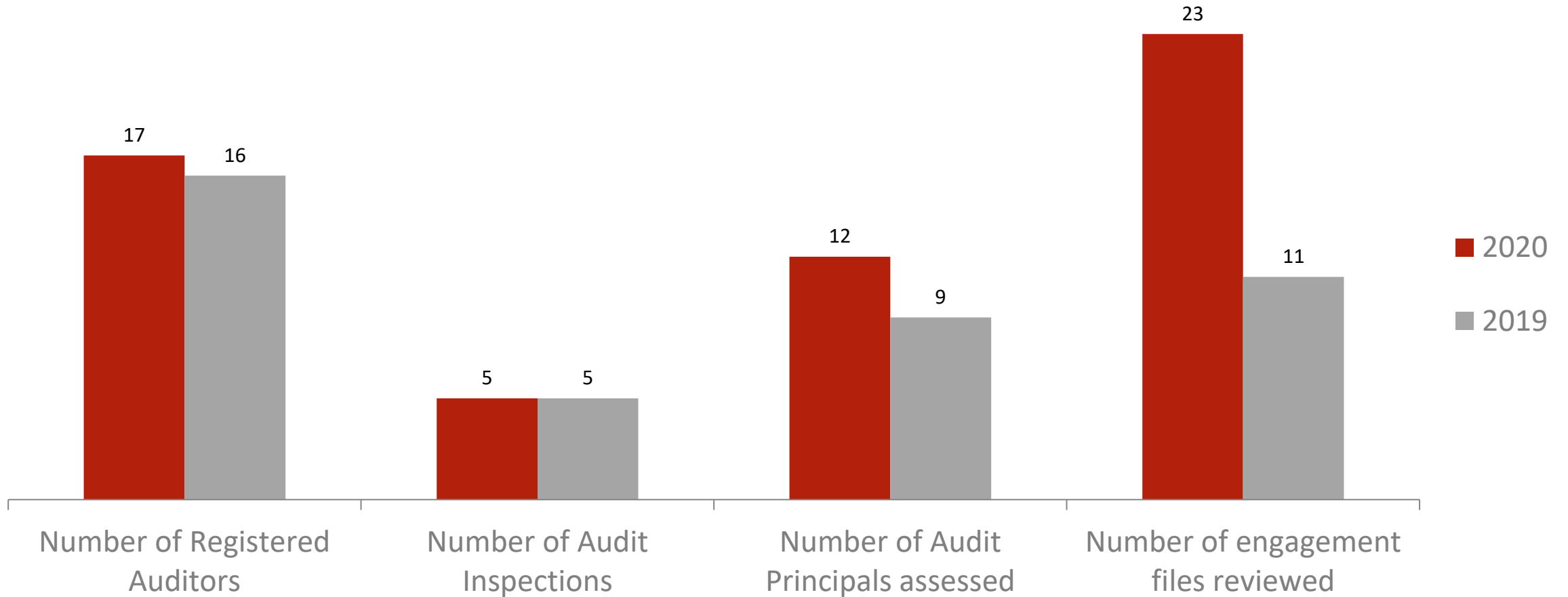
Stephen Albrecht
Senior Manager – Supervision

2020 Inspections

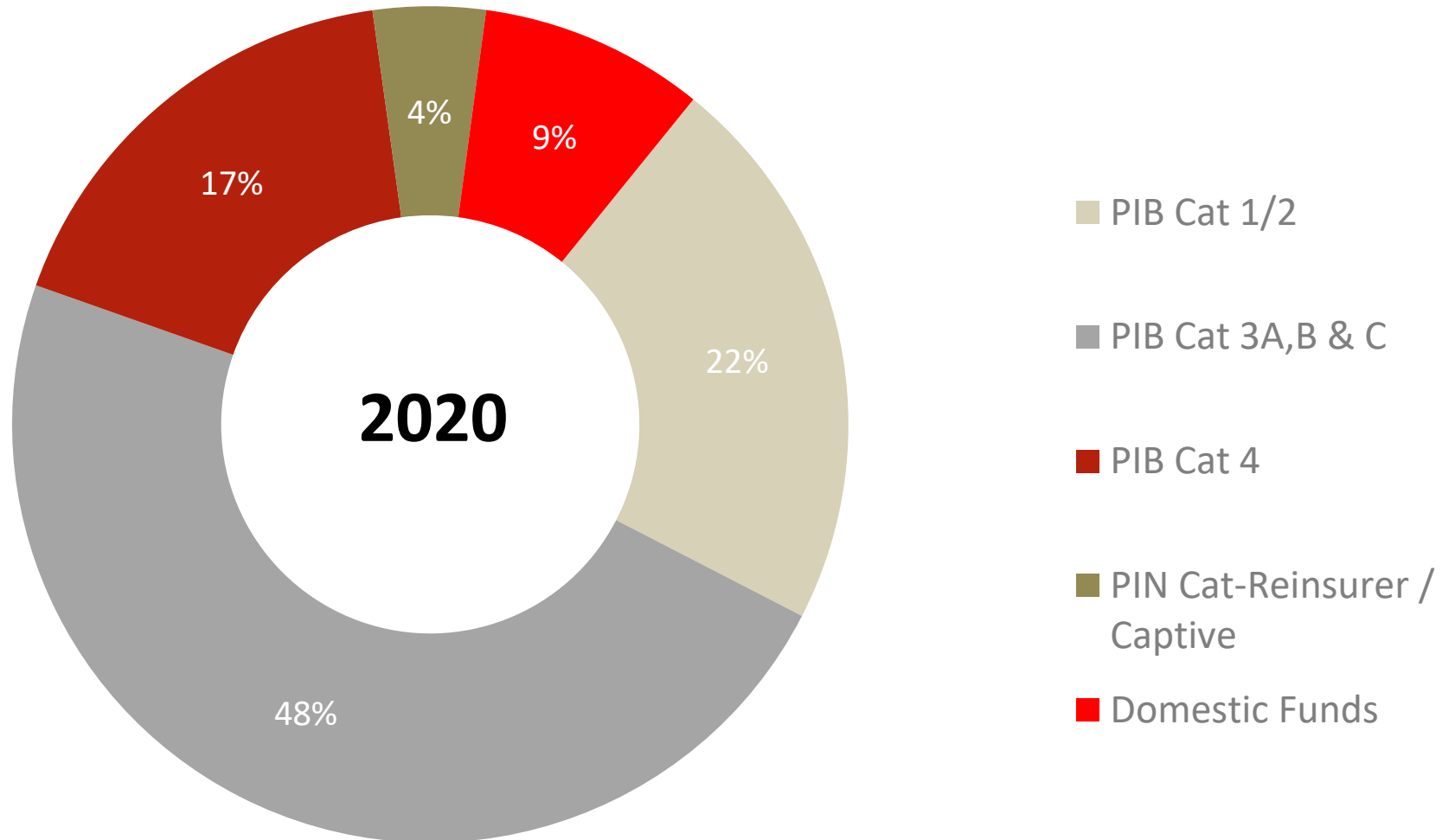


Total Inspections: 13

2020 Annual Audit Inspections



Types of Engagement Files Reviewed

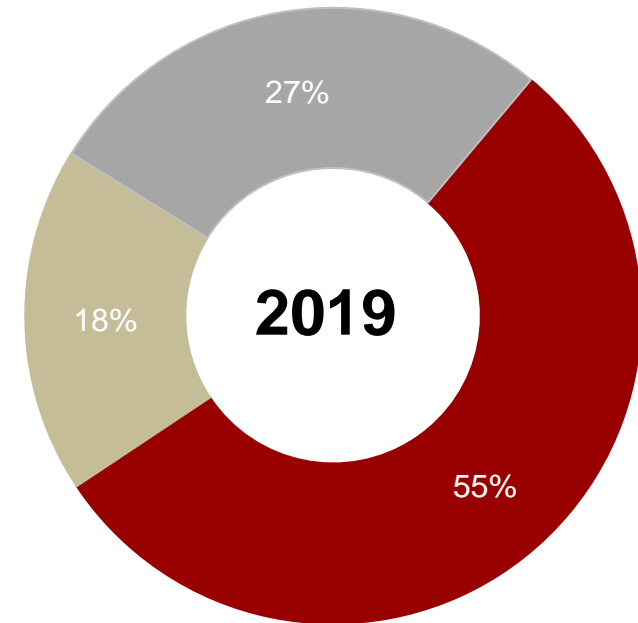
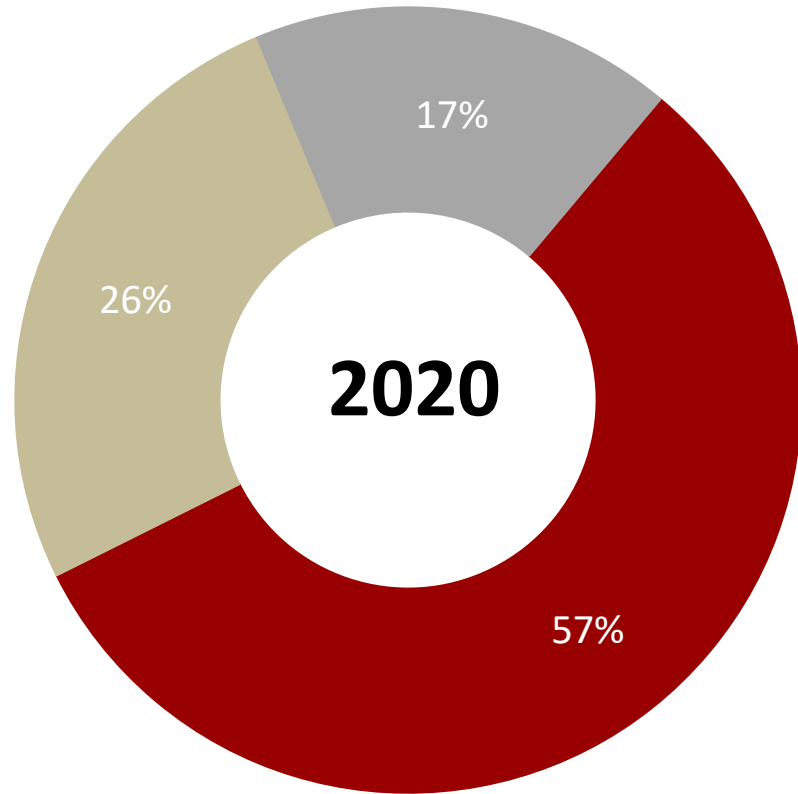


Total Audit Files: 23

Starting Position

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

File Grading



■ Satisfactory ■ Generally Acceptable ■ Improvement required

Total Audit Files: 23

Good Audit Work

Independence
Declarations

Rationale around
Sample Size

Summary of
Unadjusted Audit
Difference

Challenge of
Management
Assumptions

Review of
Public Register



Testing of
Debtor
Recoverability

Review of
breach
registers

Going Concern
Consultations on the
effect of Covid-19

Board Minutes
Review

Obligations of
Disclosure to
DFSA

Sufficiency &
Reasonableness of
Significant Estimates

Principal Findings

- Reviews raised a number of issues regarding the sufficiency and appropriateness of evidence obtained by Auditors to support their conclusions on significant areas of the audit.



Non-registered Audit Principal

- Breach of Article 97C (2) of the DIFC Law No 1 of 2004 (Regulatory Law).
- Prohibits any person to undertake any of the responsibilities of an Audit Principal unless that person is registered with the DFSA as an Audit Principal.
- Planning and audit oversight conducted by a non-registered Audit Principal based in a foreign jurisdiction.

NOT REGISTERED

Bank confirmation process – ISA 505

- The DFSA has raised this issue on a number of occasions.
- ISA 505 requires the engagement team to maintain control over the bank confirmation process at all times.
- The confirmation requests were sent by the AF and not by the engagement team.



Inappropriate Use of IFRS for SMEs

- DFSA rules allow Cat 4 AFs which do not hold or control Client Assets or Insurance Monies to prepare and maintain Financial Statements under IFRS for Small and Medium-Sized Entities (SMEs).
- Cat 4 AF holding or controlling Insurance Monies prepared its Financial Statements under IFRS for SMEs without an express approval from the DFSA.
- The RA failed to identify the inappropriate use of IFRS for SMEs.



ISA 220 – Quality Control for an Audit of Financial Statements and ISA 230 – Audit Documentation

- No evidence of the Audit Principal's involvement at the planning stages or during the audit e.g. Audit strategy, team planning event, materiality.
- The Audit Principal should be:
 - Involved at appropriate stages of the Audit to allow significant matters to be resolved on a timely basis – ISA 220; and
 - Document the extent and timing of his involvement – ISA 230.



Confirmation not obtained for high-risk assets

- AF held high-risk assets.
- Value of high-risk assets was above the materiality threshold.
- Independent confirmation was not obtained.



Reliance on IT System

- The engagement team relied on the Parent entity's core banking system.
- No evidence of IT controls testing on the Parent entity's core banking system.



Inadequate alternate procedures on bank balances

- Bank did not respond to confirmation request.
- Inadequate alternate procedures adopted.
- Failure to identify potential contingent liabilities e.g. bank guarantees.
- Failure to communicate bank non-response in the letter to those charged with governance.

INADEQUATE

Audit Principal's name not on the Auditor's Report

- The AUD Rule 6.2.2 – requires Audit Principal's name on the Auditor's Report.
- An instance was noted where the Audit Principal's name was not printed on the Auditor's Report.



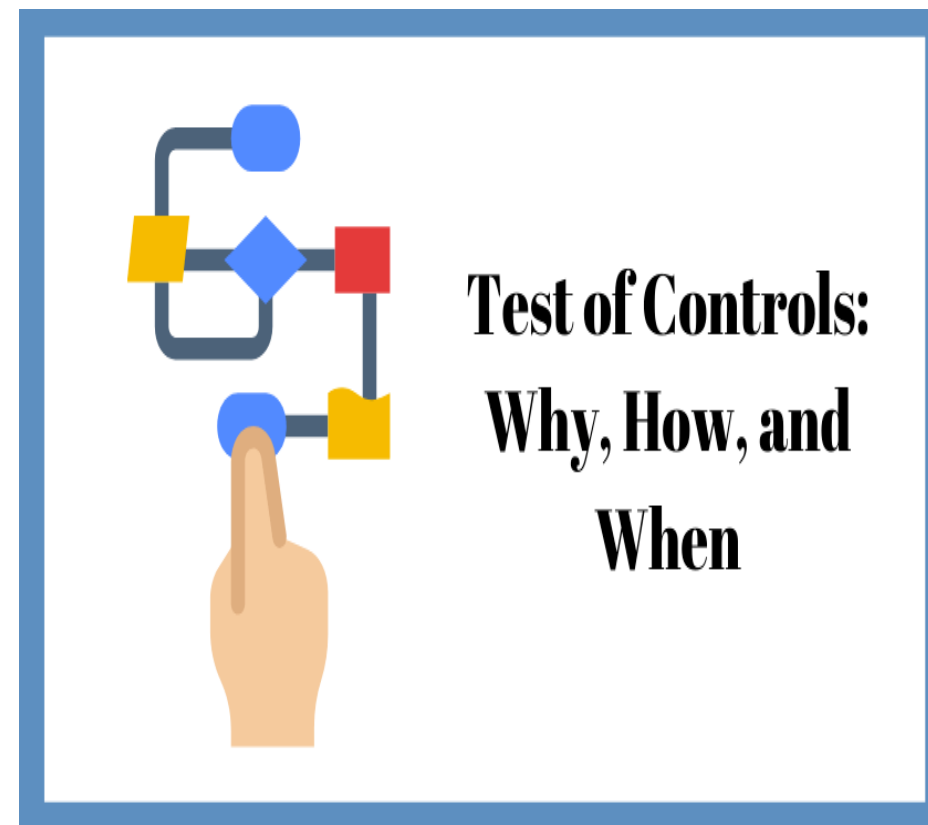
General lack of understanding of a number of ISA requirements

- ISA 240 - The Auditor's Responsibilities Relating to Fraud:
 - The risk of management override of controls as a significant risk; and
 - Audit procedures in response to the risk of management override of controls.
- ISA 315 - Identifying and Assessing the Risks of Material Misstatements.
- Analytical procedures near the end of the audit as per ISA 520 - Analytical Procedures.



Failure to identify and test controls

- The engagement team adopted a controls reliance strategy for selected accounts.
- However, failed to identify and test controls for the selected accounts.



2020 Focus Areas – Professional Scepticism

Recognition of a contingent asset – IAS 37

- Material receivable was recognized – recoverability wasn't virtually certain.
- IAS 37 requires contingent assets not to be recognized where an inflow of economic benefits is uncertain.



Leases – IFRS 16

- Emirates Interbank Offered Rate (EIBOR) was used in the Right-of-Use (RoU) asset and lease liability computation. No display of professional scepticism in assessing the use of EIBOR in computing RoU asset.
- IFRS 16 requires the use of either:
 - The interest rate implicit in the lease; or
 - Lessee's incremental borrowing rate.

Other Findings

Revenue
recognition fraud
risk presumption
(ISA 240)

Recoverability
Testing –
Receivables and
related parties

Communication
with those charge
with governance

Timing of
subsequent
events – ISA 560



Going concern
assessments –
ISA 570

Audit Risk Assessments
– Systems Walkthrough
(ISA 315)

Insufficient audit work to
ensure that the parent had
financial ability.

Miscellaneous Findings

- No Financial Statements Disclosure Checklist.
- Incorrect license category.
- Basis of concluding on asset recoverability not documented.
- Incorrect reference to the AF's old name.
- No copy of signed Financial Statements on file.
- DFSA not included in the list of regulators which have separate independence rules.



Miscellaneous Findings

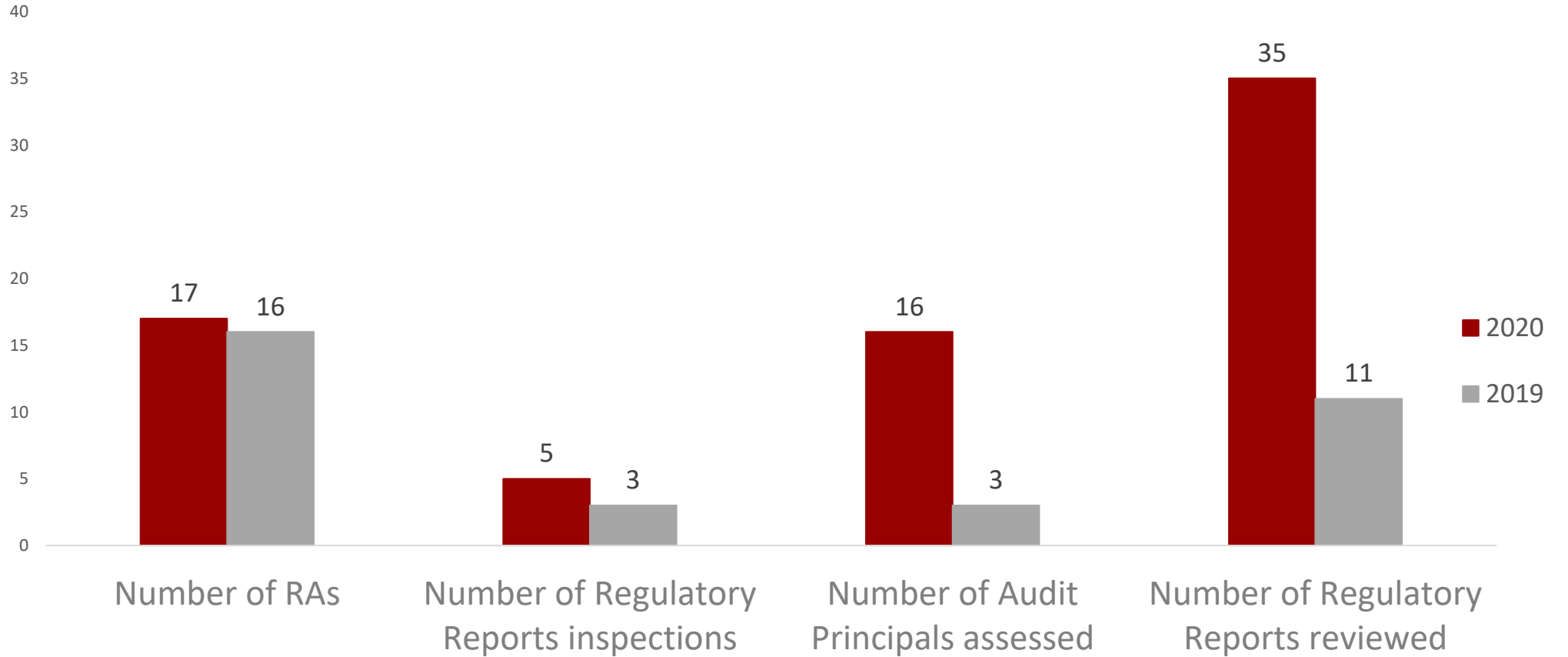
- No testing of forward looking rates used in ECL computation.
- Confirmation response not received directly from the requested party.
- No test of unrecorded liabilities.
- No documented Financial Statement Close Process.
- Reference to documents not on the audit file.
- No consideration of classification of long outstanding receivables.



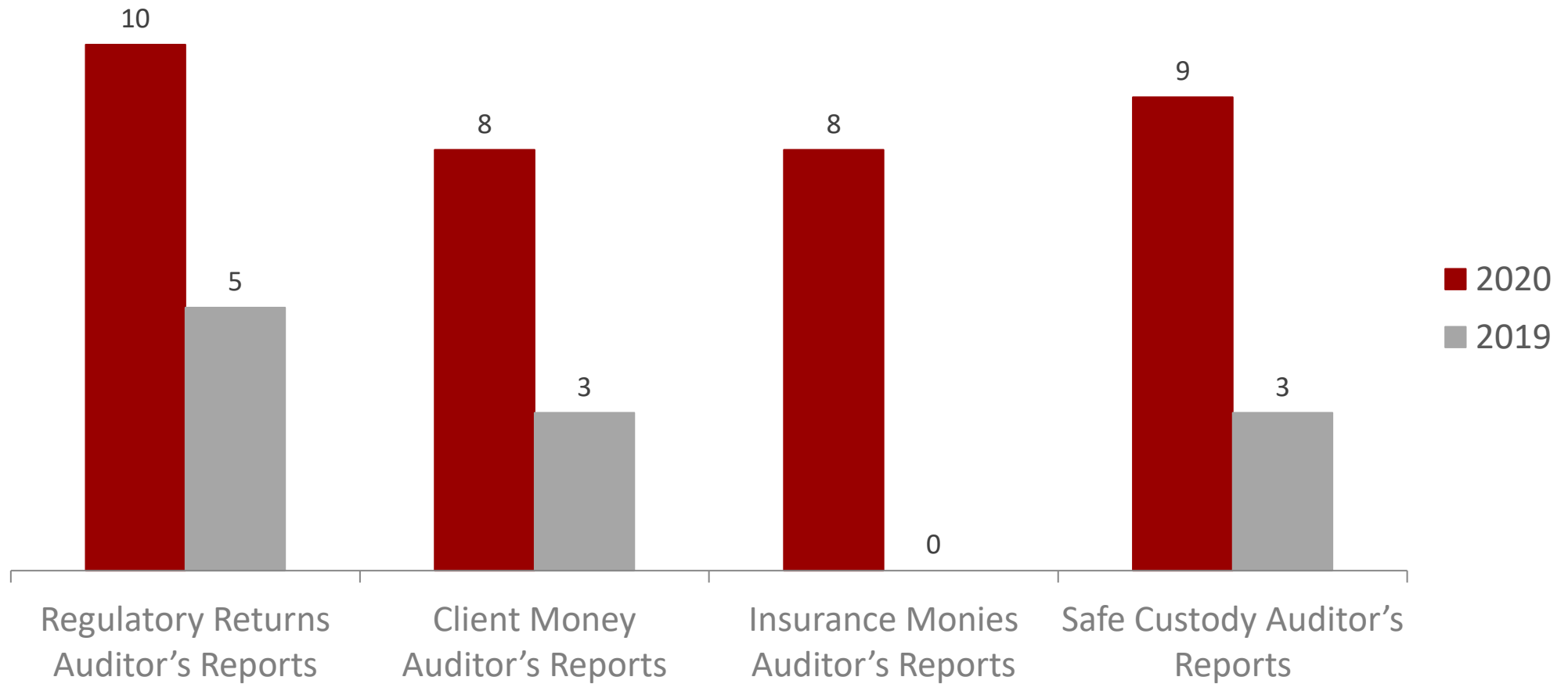
Regulatory Reports

Henry Gadagbui
Manager – Supervision

Regulatory Reports Inspections



Types of Regulatory Reports reviewed



Regulatory Returns Auditor's Report

- Generally of satisfactory standard.
- Few recurring matters:
 - No / Insufficient evidence of testing to ensure DFSA's capital and liquid assets requirements were met at all times during the year;
 - No testing to support proper books and records maintained;
 - Review by an Audit Principal after signing the Auditor's Report;
 - No / Incomplete work program; and
 - No explanation of differences between:
 - Quarterly returns and annual returns; and
 - Financial statements and annual PIB returns.



Client Money Auditor's Report

- Failure to report inadequate systems and controls – Client Money Bank Accounts.
- Failure to report the absence of a confirmation from Third-Party Agent (TPA).
- No documented work program.
- Engagement letter did not cover Client Money Auditor's Reports.
- Deposits and withdrawals conducted without TPA acknowledgement in place.
- Other documentation issues.



Insurance Monies Auditor's Report

- Insurance Monies Auditor's Report was generally of good standard.
- However, we identified a number of findings as outlined below:
 - Engagement letter did not cover Auditor responsibilities;
 - No written confirmation from eligible Bank confirming no co-mingling of Insurance Bank Account (IBA) funds;
 - Inadequate systems and controls;
 - No documented work program;
 - No testing to ensure IBA are used for Insurance money purposes only;
 - Auditor's Report did not reflect actual procedures conducted; and
 - Other documentation issues.



Safe Custody Auditor's Report

- Inadequate systems and controls.
- No evidence to support Safe Custody procedures conducted.
- Engagement letter did not cover Auditor responsibilities.
- Auditor's Report refers to incorrect DFSA rules reference.
- Auditor's Report did not reflect actual procedures conducted.



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

Stephen Albrecht

Senior Manager – Supervision

AML Inspections



In 2020 the DFSA:

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

AML Inspection Findings

Record Keeping – AML
14.4

Entity-wide Business AML Risk
Assessment – AML 5.1

AML Manual – AML 5.2

Ongoing sanctions screening
– AML 10.2



AML Risk Rating – AML
6.1.1

Ongoing CDD – AML 7.6

UBO identification and
screening – AML 7.3

Source of Funds / Origin of
Wealth – 7.3

Politically Exposed
Persons (PEPs) – AML 7.3

Missing CDD
documentation – AML 7.3

Audit Monitoring Focus for 2021

Henry Gadagbui
Manager – Supervision

Sufficient and appropriate audit evidence – ISA 500

- Sufficient and appropriate audit evidence to enable RAs draw reasonable and informed conclusions on which to base their opinion in times of Covid-19.
- DFSA will challenge Audit Principals on whether the evidence obtained and documented on audit engagement files for specific audit assertions is:
 - sufficient and appropriate; and
 - supports significant judgements.



Risk of material misstatements due to fraud and error

- Effective risk based audit is dependent on:
 - ability to identify risks of material misstatement due to fraud and error;
 - appropriate basis for assessing the risks identified; and
 - design and implement responses to address the risks identified.
- The DFSA's audit monitoring visits will focus on how engagement teams identify and assess the risk of material misstatements due to fraud and error.



Effect of Covid-19 on Financial Statements disclosures

- RAs may need to revise previous risk assessments for specific financial statement areas due to impacts of COVID-19.
- Potential areas that may be impacted are:
 - going concern;
 - accounting estimates, including fair value measurements;
 - asset valuation, including impairment triggers and related assessments;
 - provisions, allowances, and loss contingencies;
 - revenue recognition, including effects of contract modifications;
 - debt covenants, other regulatory ratios, and minimum capital requirements;
 - risks-related and liquidity-related disclosures; and
 - subsequent events.



A reminder on Professional Scepticism

- DFSA wishes to remind RAs of their duty to remain professionally sceptic. Professional scepticism is critical to the assessment of audit evidence.
- It is an **attitude** which requires the RAs to:
 - have a questioning mind;
 - be alert;
 - critically assess the audit evidence;
 - be independent from the client; and
 - adopt a questioning approach.



Other Focus Areas

Monitoring visits of selected RAs with regards to their reporting of the DFSA regulated entities.

Assessment of the engagement teams with respect to their competencies and the level of training provided by the RAs.

Regulatory Reports (AUD 6.2.1)

- Regulatory Returns
- Client Money
- Insurance Monies
- Safe Custody

Questions & Answers

Naweed Lalani
Director, Supervision

Closing Remarks

Justin Baldacchino
Managing Director, Supervision

Thank You