



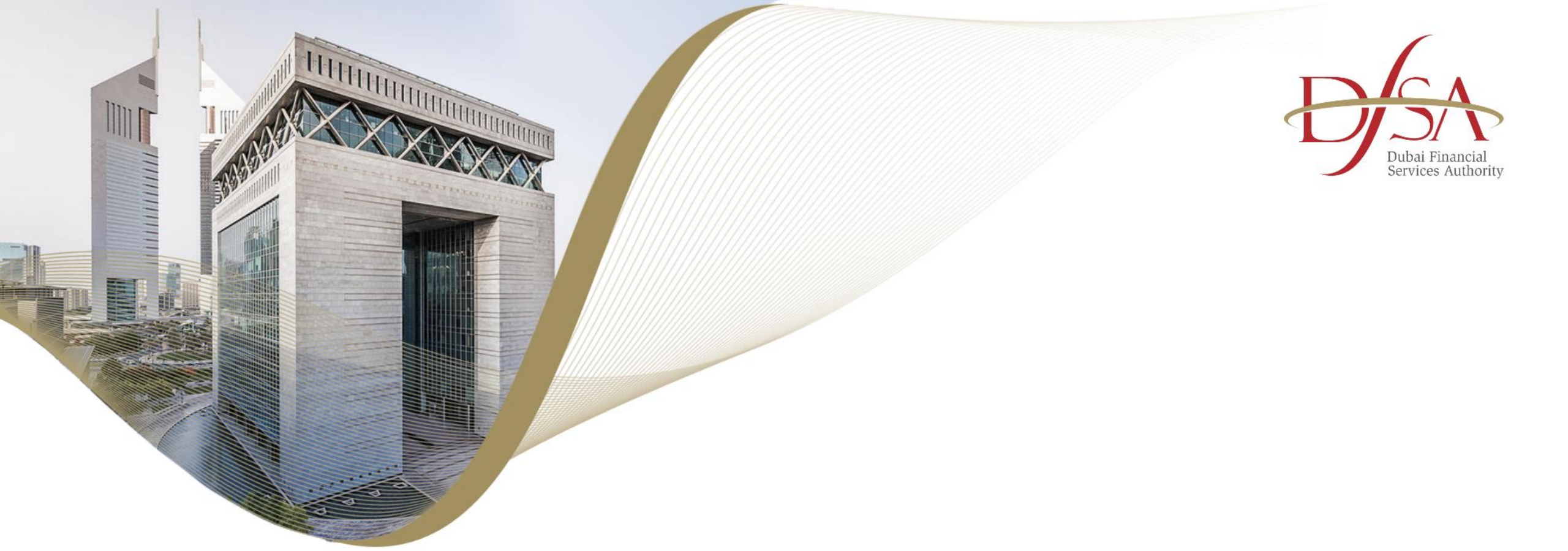
Annual Audit Outreach

15 February 2023



Opening Remarks

Ian Johnston
Chief Executive



Supervision Overview

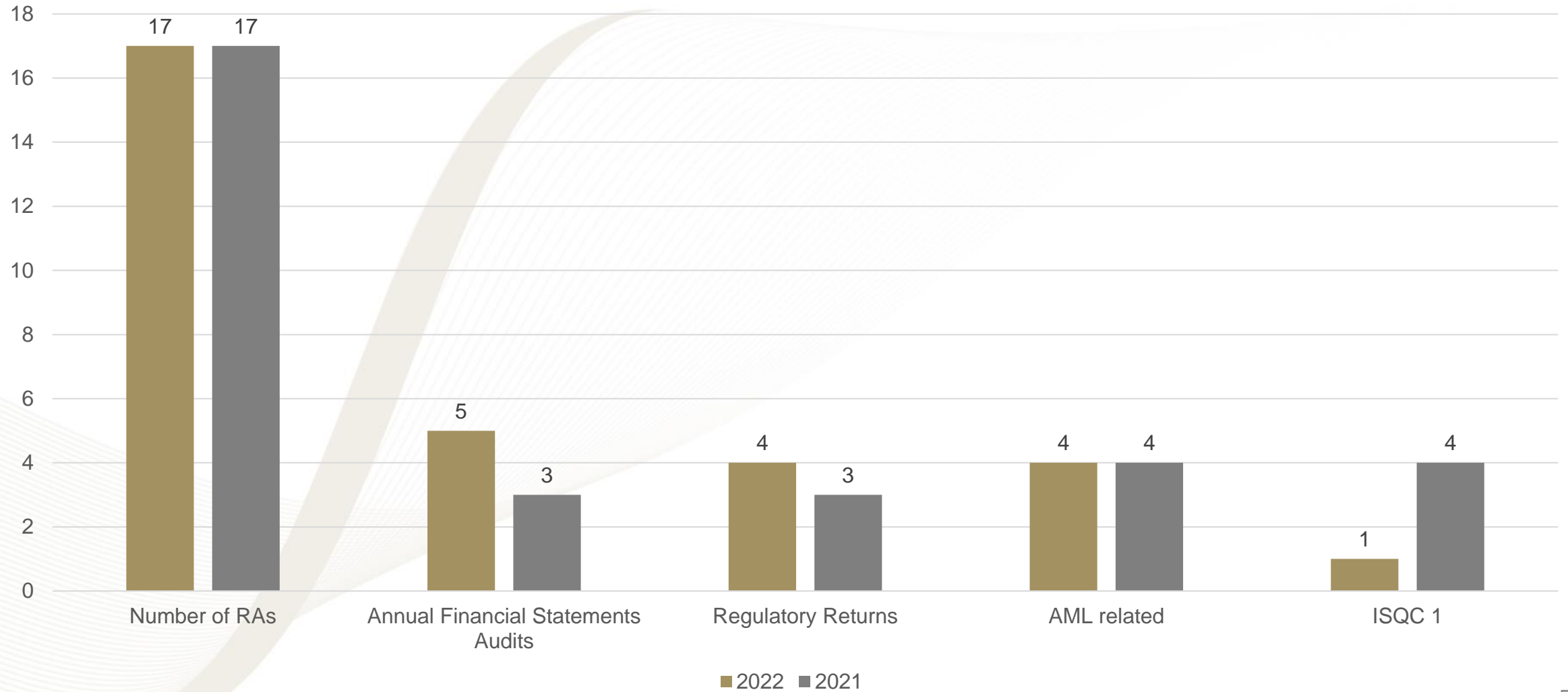
Justin Baldacchino
Managing Director



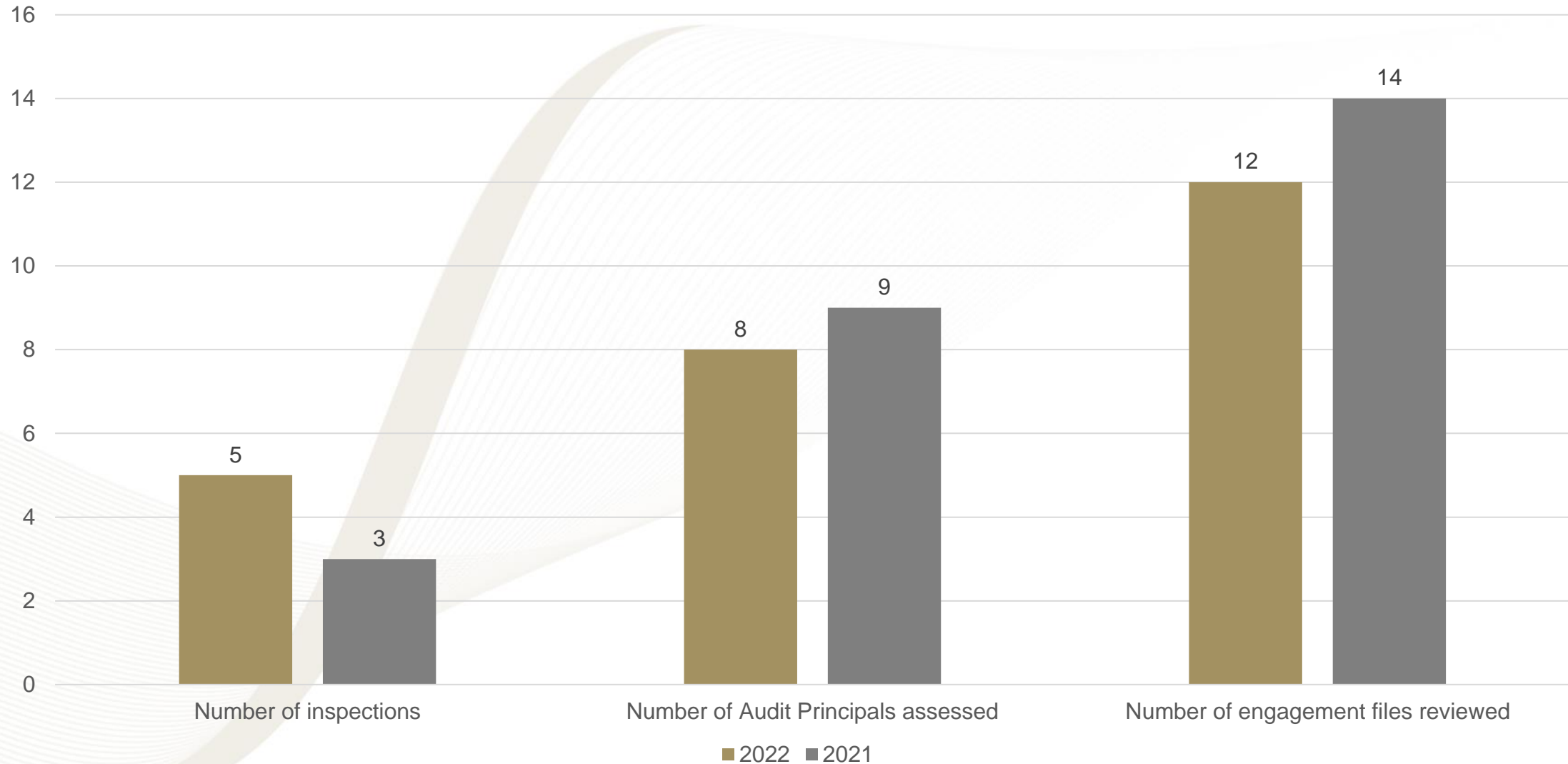
2022 Audit Monitoring Findings

Stephen Albrecht
Senior Manager – Supervision

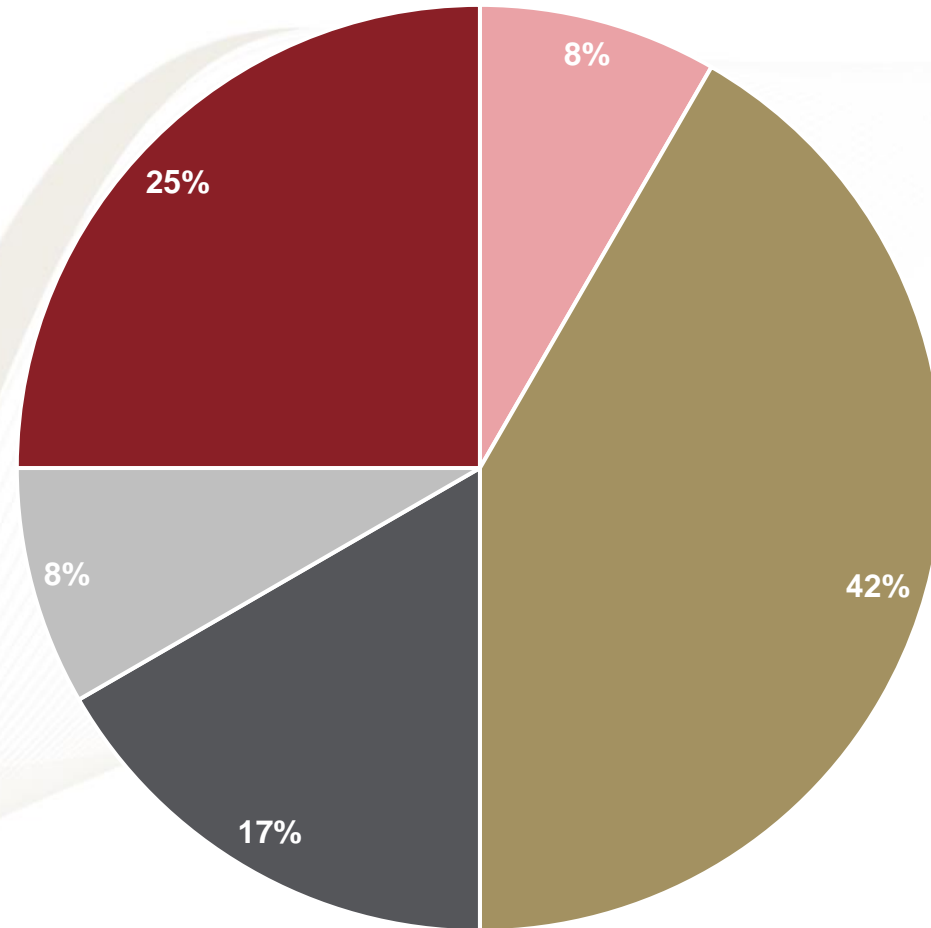
2022 Inspections



Financial Statements Auditor's Reports



Types of Engagement Files Reviewed



PIB Cat 1/2 PIB Cat 3A,B & C PIB Cat 4 Authorised Market Institution Public Listed Companies

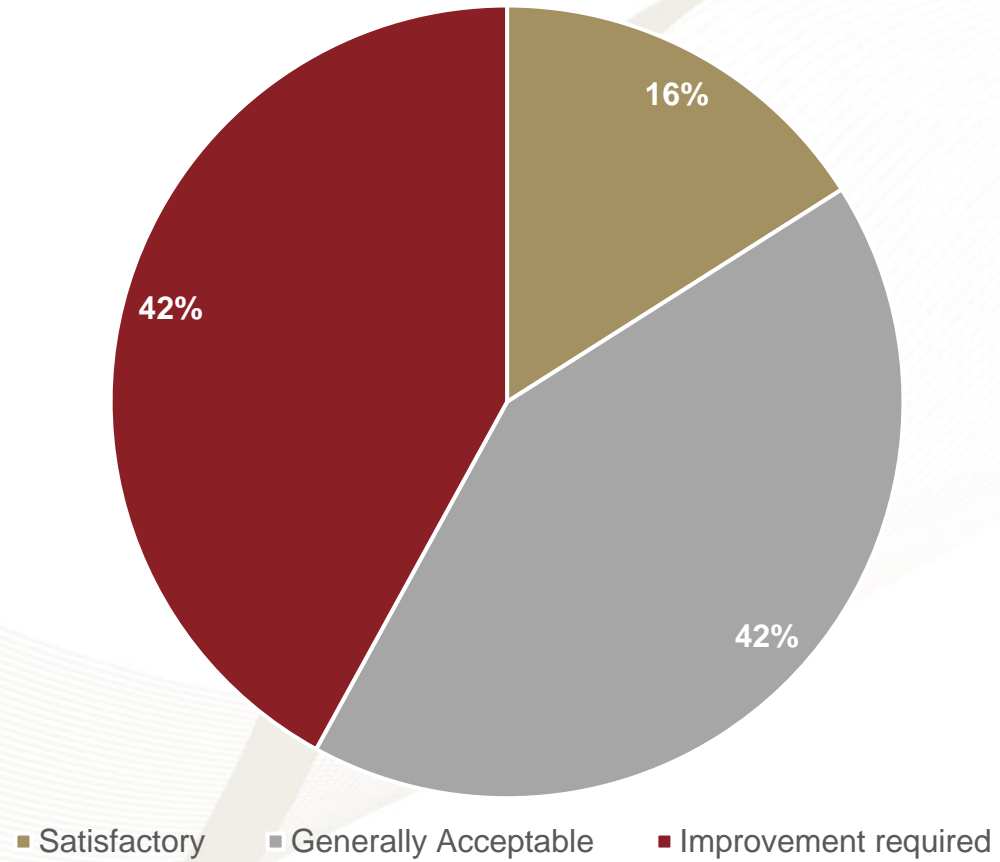
Total Audit Files: 12

Starting Position

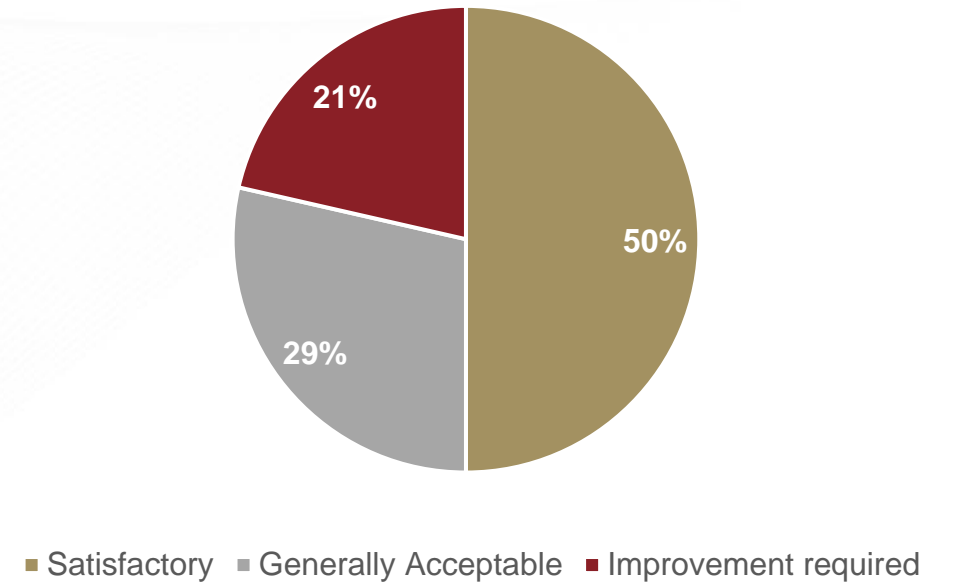
**IF IT'S NOT
APPROPRIATELY
DOCUMENTED
IT'S NOT DONE!**

File Grading

2022



2021

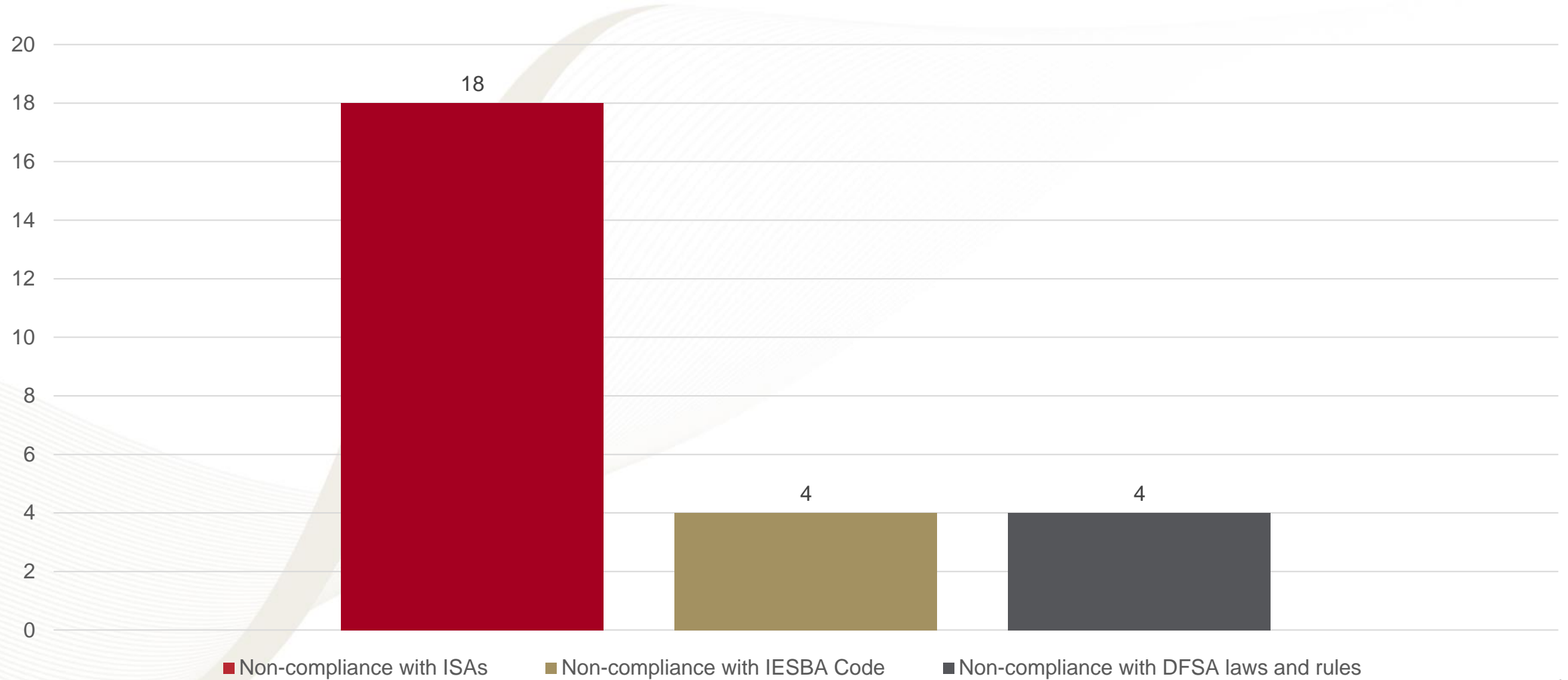


Total Audit Files: 12

Good Audit Work

- Comprehensive fraud risk assessment
- Look-back procedures done on impairment assessment
- Robust use of consultations
- Shortening of the archiving period
- Good evidence of EQCR involvement
- Evidence of quality reporting to the Audit Committee

Principal Findings



Total Principal Findings: 26

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

- **ISA 315 Identifying and Assessing the Risks of Material Misstatement**
 - Planning analytics and Significant accounts assessment - Several material variances at financial statement level were identified on the working papers on Analytical procedures and Significant Accounts and Risk assessment (current year and prior year numbers).
 - Identification of Significant Accounts – No documentation of the basis of selecting significant accounts and related assertions. Only quantitative threshold was considered for significant accounts assessment and no basis provided.
 - No documentation on the impact of the risk assessment to the audit approach.



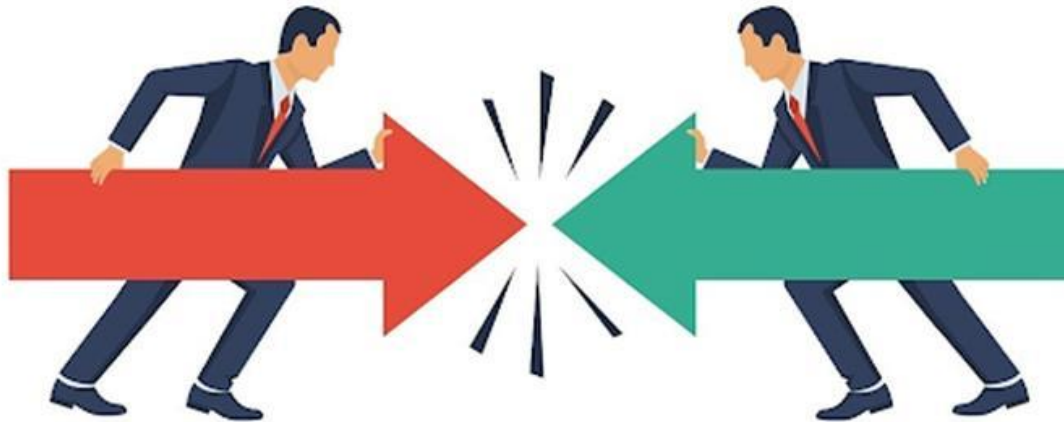
Principal Findings Theme 1: Non-compliance with the International Standards on Auditing (ISAs)

- **ISA 240 - Auditors Responsibility Relating to Fraud in Financial Statements**
 - No documentation of presumption of fraud risk with revenue recognition. No documentation of the engagement team's reasons, if any, for rebutting the presumption of fraud risk in revenue recognition.
 - Risk of management override of controls was not identified as a significant risk.
- **ISA 540 – Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures**
 - Recoverability of receivables - engagement team only relied on management representation regarding the recoverability of balance receivable.
 - No testing of the percentages used in the ECL calculation.
 - Failure to identify all significant accounts estimates – ECL.
 - Insufficient testing of certain inputs used in the valuation of properties (leasable area, property income and expenses, vacancy rates and occupancy rates).
 - Insufficient assessment of variances noted in property valuation inputs testing.

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

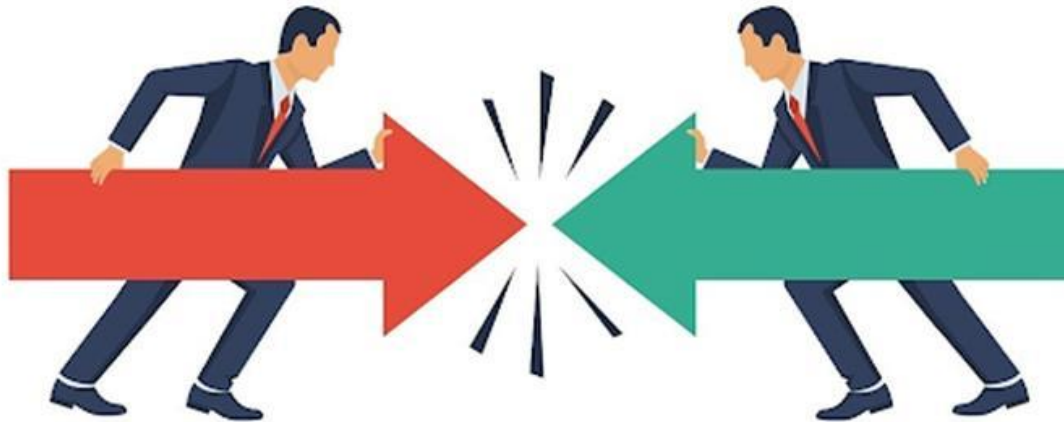
- **ISA 210 - Terms of Audit Engagements**
 - Engagement letters – Reference to UK ISA.
 - Engagement letters – Reference to Accountants & Auditors Association (AAA).
 - Terms of business used is not updated.
- **ISA 220 – Quality Management for an Audit of Financial Statements** - Audit Principal (AP) and engagement manager’s review of significant account balances were not evidenced on the audit file.
- **ISA 230 – Audit Documentation and ISA 530 – Audit Sampling** - Failure to document the basis of determining the sample size and concerns regarding the adequacy of the sample selection procedures in relation to test of rights and existence of the properties.
- **ISA 260 - Communication with those charged with governance** – Failure to identify the appropriate person to communicate the matters.
- **ISA 505 – External Confirmation process** - On two audit files selected, control over the bank confirmation process were not evidenced. This is a recurring finding.
- **ISA 620 – Using the work of auditor’s experts** - Failure to review the auditor’s expert’s underlying working papers.

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



- Engagement letter - Reference to non-audit services were included.
- Failure to completely assess the services performed by other member firms in the current period as required by the IESBA Code.

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



- The signed independence declarations do not document the specific independence matters considered. It only states “relations, interests if any”.
- Provision of Non-Audit service documented on working papers – “Preparation of accounts from trial balance” and that the “team is compiling the financial statements from the trial balances”

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



- Engagement letters - Reference to the Firm affiliates who are not registered as DFSA Registered Auditors (RA) on the Firm's letterhead. The DFSA does not license or register 'groups' on any basis. The Firm should maintain separate stationery which refers to and provides contact details solely for the DFSA RA.
- Incorrect Financial Services documented as a result of a failure to review the DFSA Public Register at the planning stage of the audit.
- Loss of books and records by the Firm's third-party archiving service provider.
- AUD 7 Inaccurate Information – year-end dates were incorrect.



The DFSA Rulebook

Auditor Module

(AUD)

Regulatory Concerns and Private Warning Letters



- During the year, a number of regulatory concerns and private warning letters were issued. These letters outline the DFSA concern letters in relation to the following matters:
 - Failure to have adequate infrastructure, systems, and controls to undertake audits;
 - Auditor’s reports signed on behalf of the Firm by persons who are not registered Audit Principals;
 - Workload of the Audit Principals and certain related fitness and propriety concerns; and
 - Loss of Archived Audit files.
- Further, the DFSA issued a number of Article 73 Notices requiring production of books and records.

Appointment of Audit Principals and MLROs



We noted a number of issues in relation to the appointment of Audit Principals and MLROs.

Audit Principals:

- Applicants not meeting the Criteria for registration of APs (AUD 2.4.2). In particular:
 - AUD 4.2 (c) - has at least five years of relevant post qualification audit experience in the past seven years, including at least one year of experience in a managerial role supervising and finalising audits.
- Existing Audit Principals not meeting Continuing Obligations to remain registered as an AP (AUD 2.5.1). In particular, not maintaining relevant experience.

MLROs:

- did not have a sufficient level of seniority and independence;
- was unable to describe the RA's business and risk profile;
- was unable to outline the core legal and regulatory requirements;
- had little or no relevant experience;
- could not describe how they would manage their responsibilities; and
- could not demonstrate their competence and capacity.

Other Findings

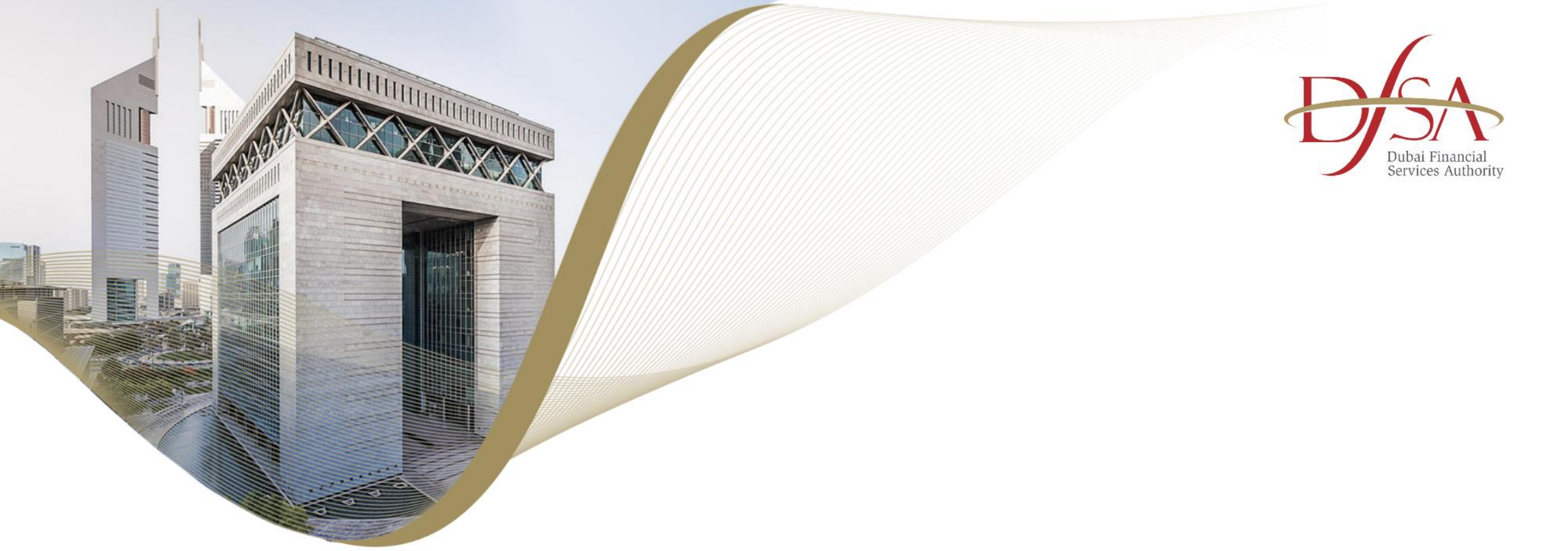
Engagement letter – DFSA reporting requirements not mentioned	Test of classification not performed	Reviewer Sign off after Opinion date	Board minutes review not documented
No external legal confirmation	No IFRS 16 assessment	No bank confirmation for a bank guarantee	Requirements under DFSA whistleblowing regime not implemented
No IFRS FS disclosure checklist	Inconsistent Risk Documentation	JE testing – period end entries not tested	EQCR Objectivity



Other Findings

Planning meeting – Attendees not included	Failure to Identify all Related Parties	Significant Accounting Estimates documentation	Use of lower materiality level for specific balances – no documentation
Use of previous year consultation on materiality benchmark	Failure to identify and assess potential Independence conflicts of management's expert	Reference to Component Auditor in the Audit report on the Group Financial Statements	Issues on Timing of Sign
Going Concern assessment documentation is not appropriately updated	No Signed management representation letter	Impairment Review - inconsistencies in documentation on conclusion	Misstatements above the trivial threshold were not summarised and assessed as per ISA 540





Firmwide (ISQC 1) Inspections

Henry Gadagbui
Manager – Supervision

Good Observations and ISQC 1 Expectations

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

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

- Failure to notify the DFSA of the Firm's change in leadership
- Perceived conflict of interest – Senior Management performing two designated roles
- Failure to notify the DFSA of the set up of offshore centre
- No Ethics & Independence portal
- Terms of business template not updated
- No testing to ensure compliance with its restricted investment policies and procedures



Other Matters and Improvement Opportunities

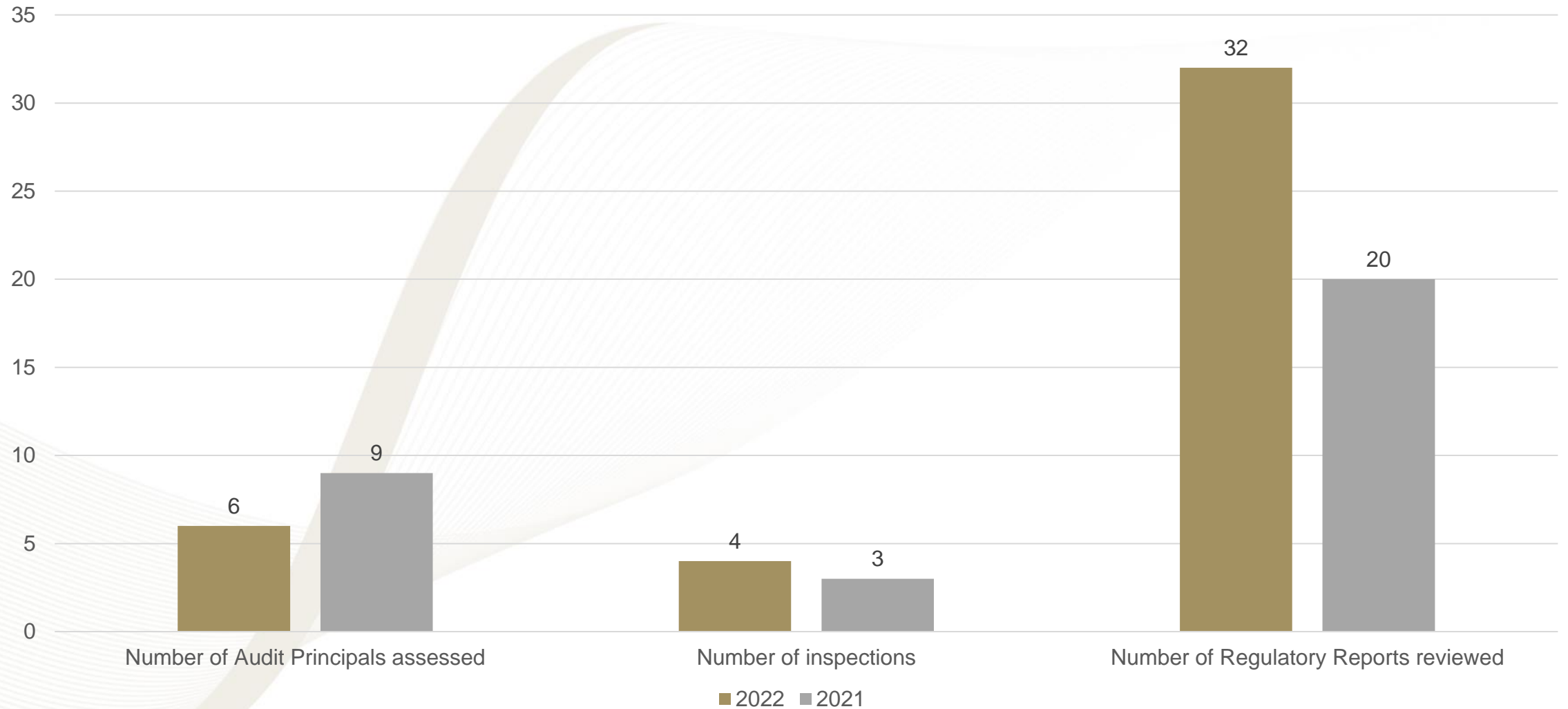
- Poor audit quality results by the Firm's partners and APs is not linked to the compensation / remuneration of Firm's partner/AP
- Whistle-blowing requirements are yet to be incorporated into the RA's policies and procedures
- Lack of DFSA-specific internal training
- No Partner workload evaluation
- No consultation register for ethics and independence as well as other technical consultations conducted
- Executive management – Lack of gender diversity



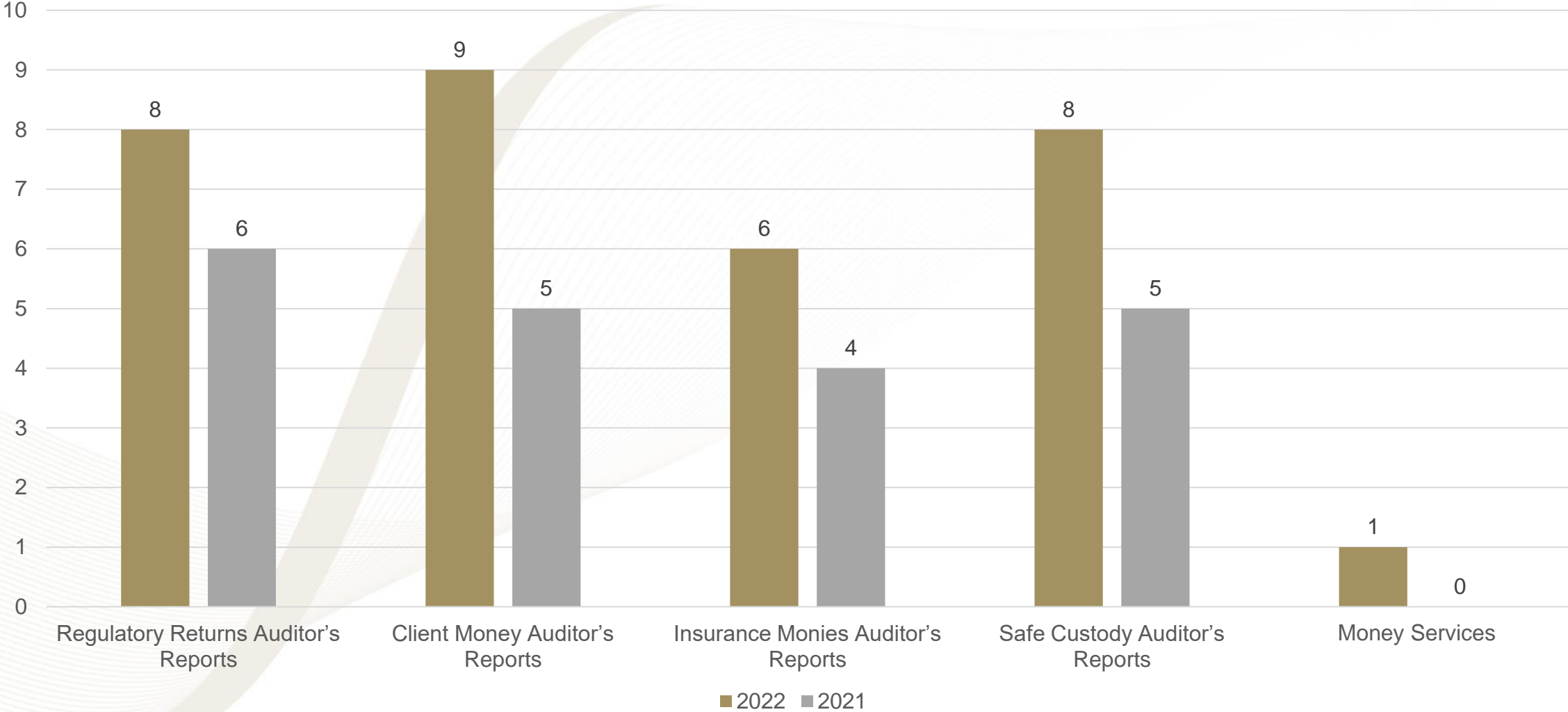


Regulatory Reports

Regulatory Reports Inspections



Types of Regulatory Reports reviewed



Regulatory Returns Auditor's Report

- Failure to corroborate DFSA notified EBCM - the engagement team only performed inquiries and relied on client confirmation via the representation letter to verify the notified EBCM. The amount of notified EBCM is different as compared to what DFSA had actually notified.
- Failure to perform reconciliation of quarterly regulatory returns with the appropriate annual returns.
- Failure to perform reconciliation of the annual regulatory returns to the appropriate audited financial statements. Engagement team only reconciled the quarterly profit totals to the audited FS.



Regulatory Returns Auditor's Report

- No evidence on the audit file in relation to the calculation of capital and financial resources.
- Name of the Audit Principal not included in the Regulatory Returns Auditor's Report.
- No testing done to ascertain whether proper books and records had been maintained by the AF.
- Engagement letter findings:
 - Signed engagement letter not documented on file
 - Engagement Letter – Engagement Standard – refers only to ISRS and not specifically to ISRS 4400
 - Terms of Business not updated.



Insurance Monies Auditor's Report

- Audit work program did not fully consider testing of all the requirements of COB 7.12 – Insurance Monies.
- No documented testing to support statement – that they received all the necessary information and explanation for the purpose of preparing the report to the DFSA.
- Bank confirmation used as support to confirm the requirements as per COB 7.12.5 (1) (c) had been met was only valid till the previous year.
- Engagement team tested COB 7.12.5 (1) (d) to COB 7.12.5 (1) (g), requirements by only “performing inquiry”. The inquiry performed is not sufficient to support the statement that the AF met these requirements.
- Engagement letter findings - refers only to ISRS and not specifically to ISRS 4400





Client Assets Auditor's Reports Annual Review

Claire Dance: Senior Manager – Supervision

Tim Younger: Associate Director – Supervision

Context

159 DFSA Authorised
Firms with the Client
Assets Endorsement

*\$1.9bn of
Client Money

*\$121.9bn of
Safe Custody
Investments

*Note: These figures are derived from the Client Money and Safe Custody Auditor's Reports.

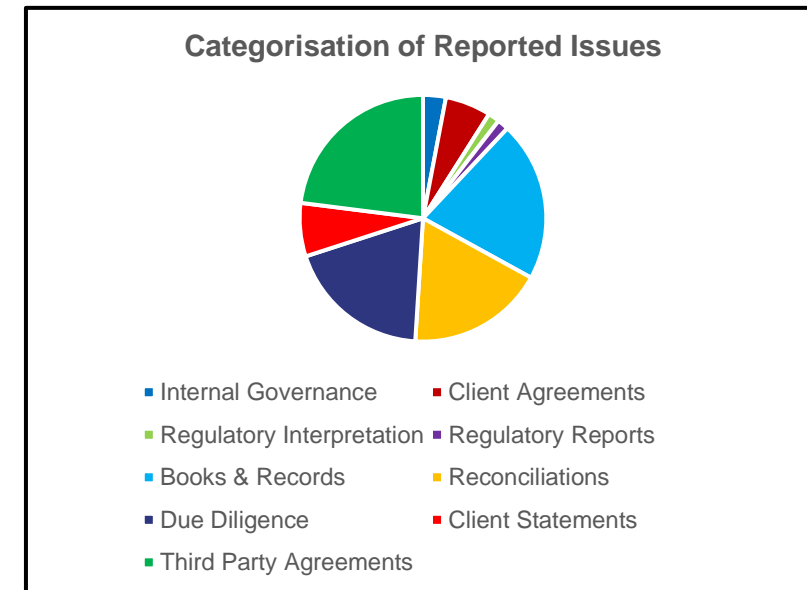
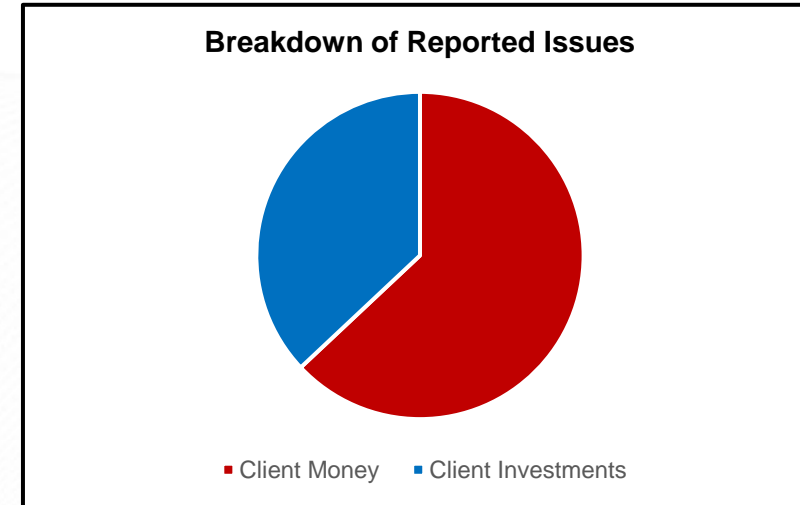
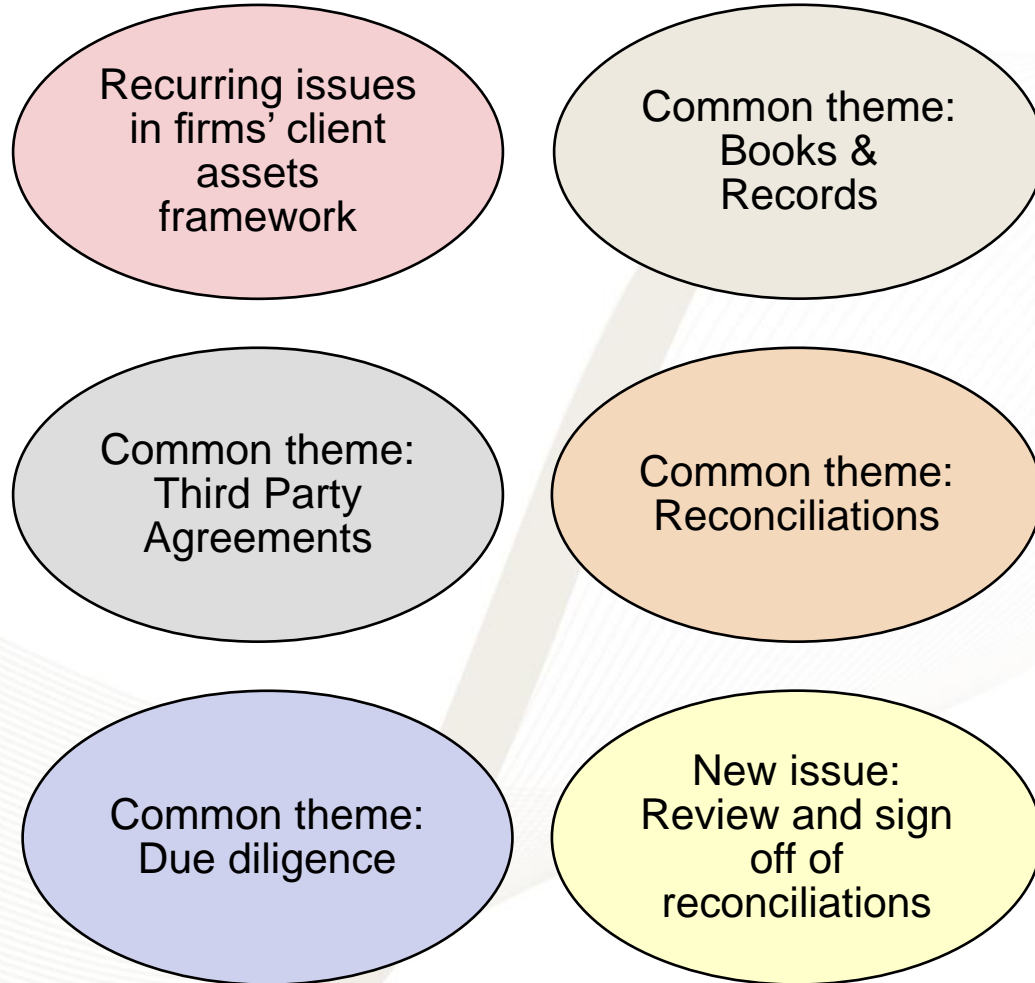
Supervisory Approach



- **Protection of client assets remains a regulatory priority for the DFSA.**
- Client Money and Safe Custody Auditor Reports are a **key source of intelligence** for us in our supervision of Authorised Firms' (AF) client assets arrangements.
- Last year, we reviewed a total of **219 Client Money and Safe Custody Auditor's Reports.**
- Response rates remained high at 97%. But we will continue to take a **tough stance on AFs who fail to submit client assets auditor reports in line with our requirements.**



Issues & Trends: Some Reminders for Authorised Firms



Issues & Trends: Some Reminders

- We saw an **increase in 'clean' Auditor's Reports** (66% compared with 55% the previous year).
- We also saw examples of the following issues:
 - Not reporting on **value of client assets** or providing inaccurate reporting;
 - Failing to report on **client assets controlled only** and AFs compliance with relevant client assets rules;
 - Failing to report on **full scope of client assets activity** carried out by AFs;
 - Falling short of providing an **opinion on compliance**;
 - **Not including client assets breaches** in auditor's report but in financial statements.



Upcoming Cyber Security Rules

Maciej Linke

**Senior Manager – Business Technology
& Cyber Risk**

DFSA Cyber Risk Management Guidelines

- DFSA Cyber Risk Management Guidelines provide information on good practices to assist Firms in:
 - establishing a sound and robust cyber risk management framework; and
 - strengthening system security, reliability, resiliency, and recoverability.

Governance

- Cyber risk management framework
- Cyber risk identification and assessment capabilities
- Board and senior management responsibilities
- Third-party cyber risk management
- IT asset identification and classification
- Cyber training and awareness campaigns

Hygiene

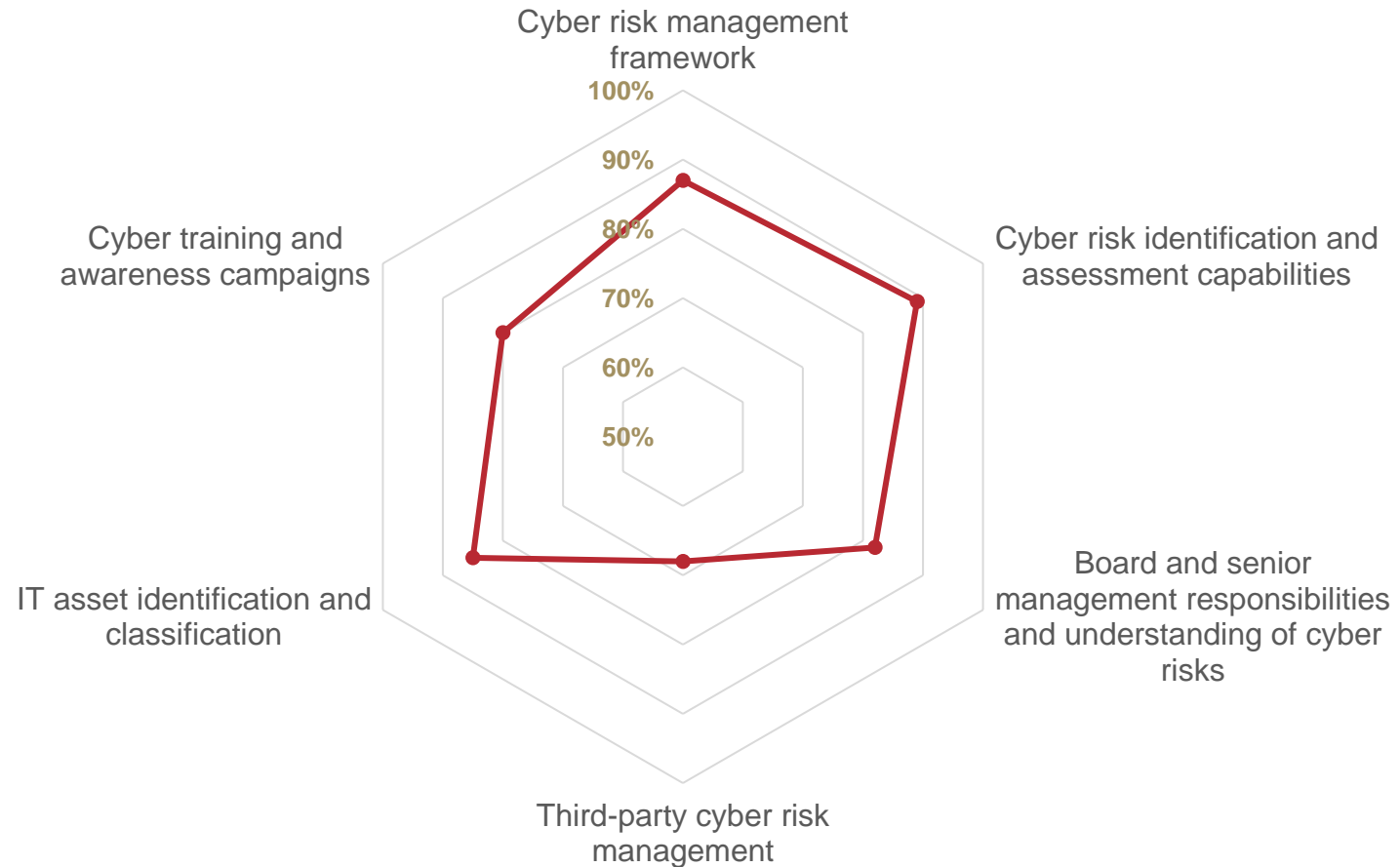
- Anti-malware protection
- Network security
- Access controls
- User access management
- Remote access and mobile devices
- Change management
- Patch management
- Backup management
- Encryption
- Physical security
- Cybersecurity testing

Resilience

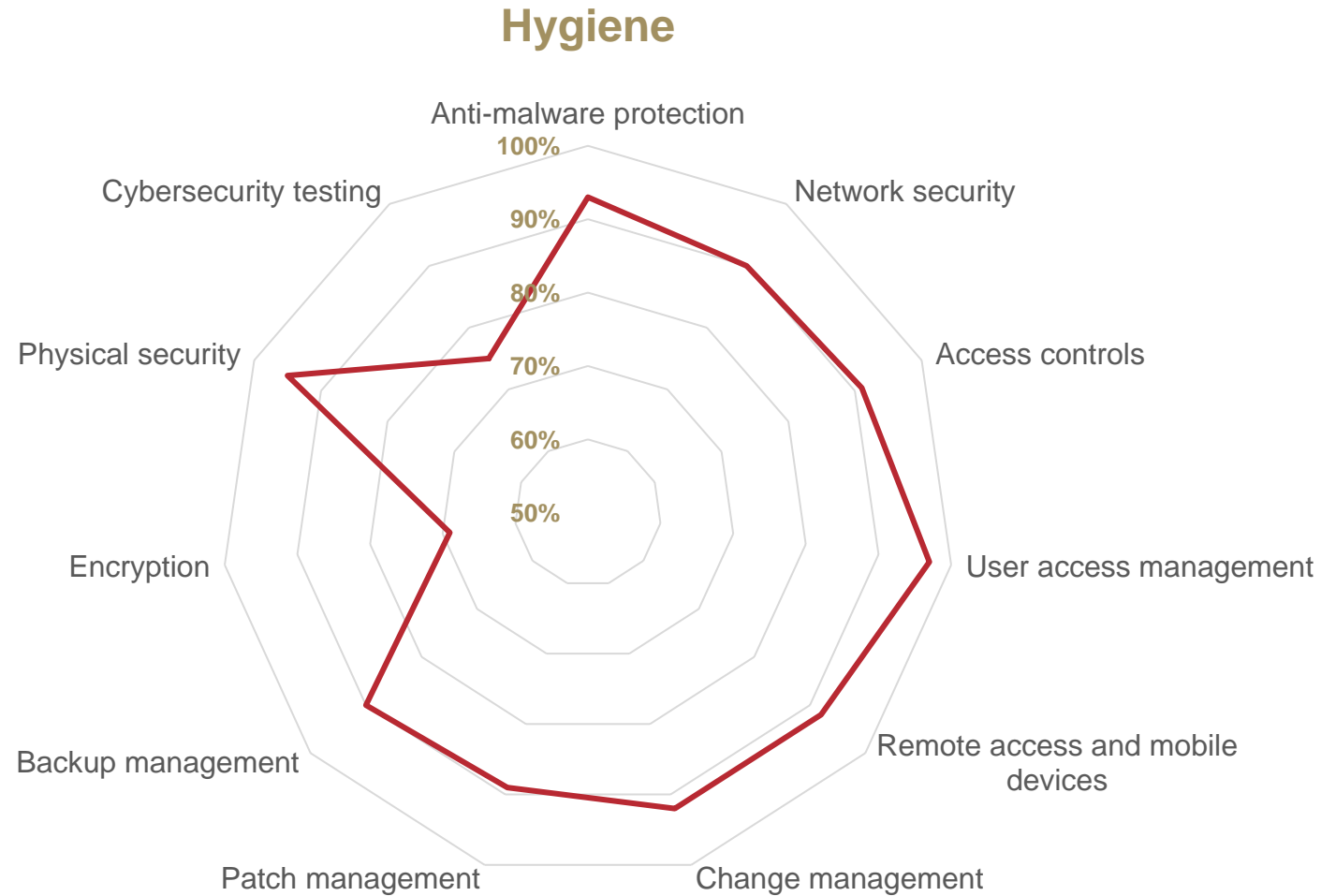
- Continuous monitoring and detection capabilities
- Cyber incident response planning and preparation
- Cyber incident response and recovery
- Cyber incident notification
- Information sharing

Implementation status of the DFSA Cyber Risk Management Guidelines

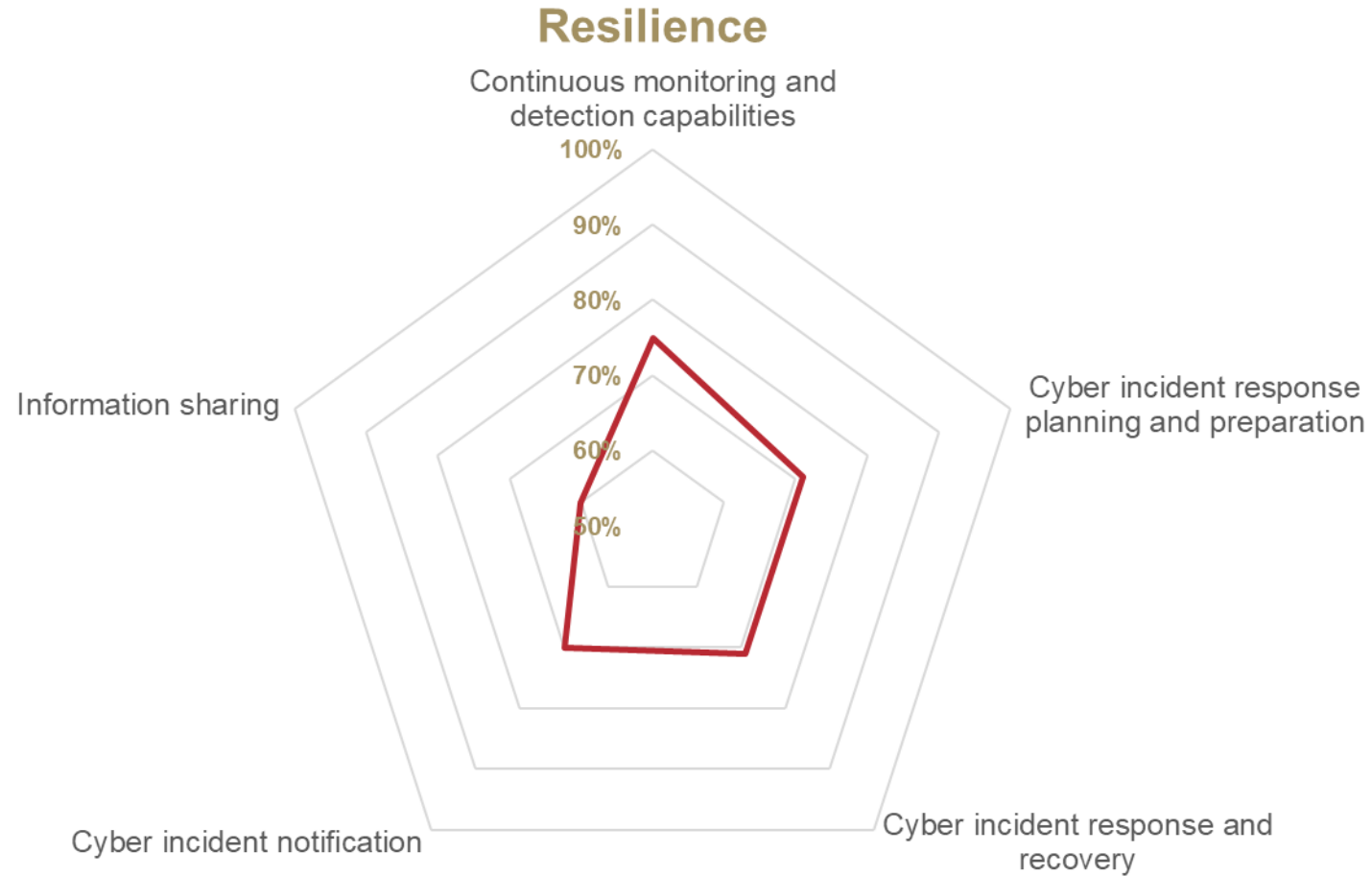
Governance



Implementation status of the DFSA Cyber Risk Management Guidelines



Implementation status of the DFSA Cyber Risk Management Guidelines



DFSA Cyber Risk Management Guidelines to be transposed into the Rulebook



- The DFSA will propose that the DFSA Cyber Risk Management Guidelines are transposed into the Rulebook, applicable from **1 January 2024**, with the aim of increasing the level of compliance among regulated firms.
- A Consultation Paper to be issued in February/March 2023.
- Registered Auditors are subject to the proposed rules on cyber risk management, in particular RAs:
 - must establish and maintain a Cyber Risk Management Framework to identify, assess and manage Cyber Risk effectively in an integrated and comprehensive manner;
 - must manage Third-Party Cyber Risk as an integral part of its Cyber Risk Management Framework;
 - must implement appropriate systems and controls that minimises the likelihood and impact of a successful Cyber Incident;
 - must draw up and maintain a robust Cyber Incident Response Plan providing for measures to be taken to respond to and limit consequences of a Cyber Incident; and
 - will be obliged to notify the DFSA as soon as reasonably practicable, and in any event no later than 72 hours, after it becomes aware that a material Cyber Incident has occurred.



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

Erica Rose Francisco
Associate Manager – Supervision

AML Inspections



In 2022 the DFSA:

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

AML Inspection Findings

AML 5.1 – Entity-wide Business AML Risk Assessment

AML 5.2.1 – AML Systems and Controls

AML 6.1.1 - AML Risk Rating

AML 7.3 – Missing CDD documentation

AML 7.3 - Politically Exposed Persons (PEPs)

AML 7.3 - Source of Funds / Origin of Wealth

AML 7.4 – Enhanced Due Diligence (EDD)

AML 10.2 - Ongoing sanctions screening

AML 11.4.1 Responsibilities of a MLRO

AML 12.1 – AML Training and Awareness

AML 13.3 – Suspicious Activities Report

AML 14.4 – Record keeping

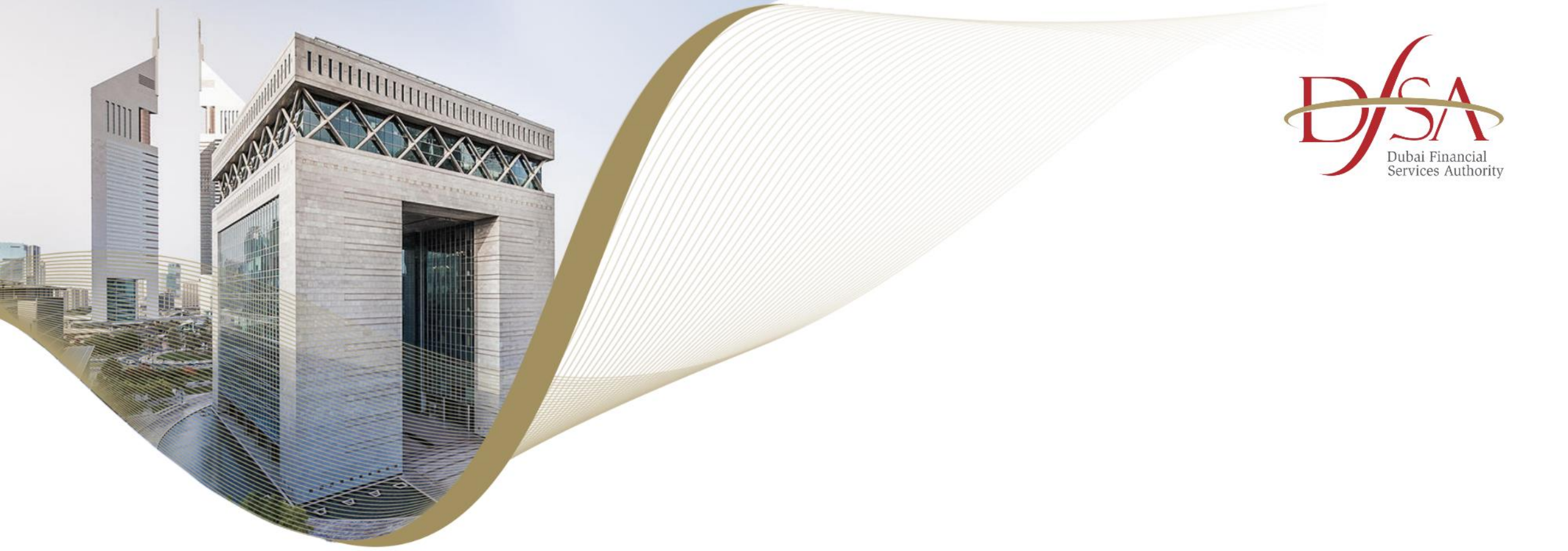
AML 14.5.1 – Annual AML Return - Guidance



AML 7.3 - UBO identification and screening

AML 7.6 - Ongoing CDD

AML 10.3.1 – Government regulatory and international findings



Audit Monitoring Focus for 2023

Audit Monitoring Focus for 2023

International Standard on Auditing (ISA) 315r,
Identifying and assessing the risks of material
misstatement

RA's use of affiliates and other group entities not
registered with the DFSA to provide Audit Services in
the DIFC

Audit considerations relating to an entity using a
service organisation

International Standard on Auditing (ISA) 315r, Identifying and assessing the risks of material misstatement



- The revised standard includes:
 - a) a greater focus on professional scepticism;
 - b) a separate assessment of inherent and control risk and the introduction of five new inherent risk factors.
 - c) a new stand-back provision; and
 - d) enhancements noting further matters that the auditor may consider in understanding an entities use of IT in its system of internal controls, including new and updated appendices for understanding IT and IT general controls.
- The changes are effective for audits of financial statements for periods beginning on or after 15 December 2021.
- The DFSA will look for evidence that RAs have considered the requirements of the revised standard.

RA's use of affiliates and other group entities not registered with the DFSA to provide Audit Services in the DIFC

- RAs registration status is **unique and limited** to the specific entity assessed and registered by the DFSA. The DFSA does not licence or register 'groups'.
- The DFSA expects RAs to operate independently from any third parties or affiliates. We expect all RAs to have:
 - a) audit infrastructure, systems, and controls, including but not limited to phone, system, computers, access to audit software etc.;
 - b) staff and Audit Principals employed by, and signing in the name of, the RA; and
 - c) all RAs books and records stored and maintained in its registered office.
- The DFSA's audit monitoring visits will continue to focus on ensuring that RAs operating models do not co-mingle as 'one entity', the operations of legal entities not registered by the DFSA.



Audit considerations relating to an entity using a Service Organization (ISA 402)



- Authorised Firms' reliance on services and products provided by third-parties has increased substantially.
- Outsourcing and third-party risk has become an area of increased regulatory scrutiny.
- The DFSA has launched a Thematic Review on Outsourcing and Third-Party Risk.
- ISA 402 establishes standards and provides guidance on the use service organisations. This ISA also describes the service organisation Auditors' reports which may be obtained by the client's Auditors.
- Our audit monitoring visits will include a consideration of how RA's have considered an AF's use of service organisations.

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.
- 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.



Questions & Answers



Closing Remarks

Naweed Lalani
Director, Supervision

The background features a solid olive-green color with a series of thin, light-colored wavy lines that create a sense of motion and depth, flowing across the frame.

Thank you!