



16th Annual Audit Outreach

06 February 2025

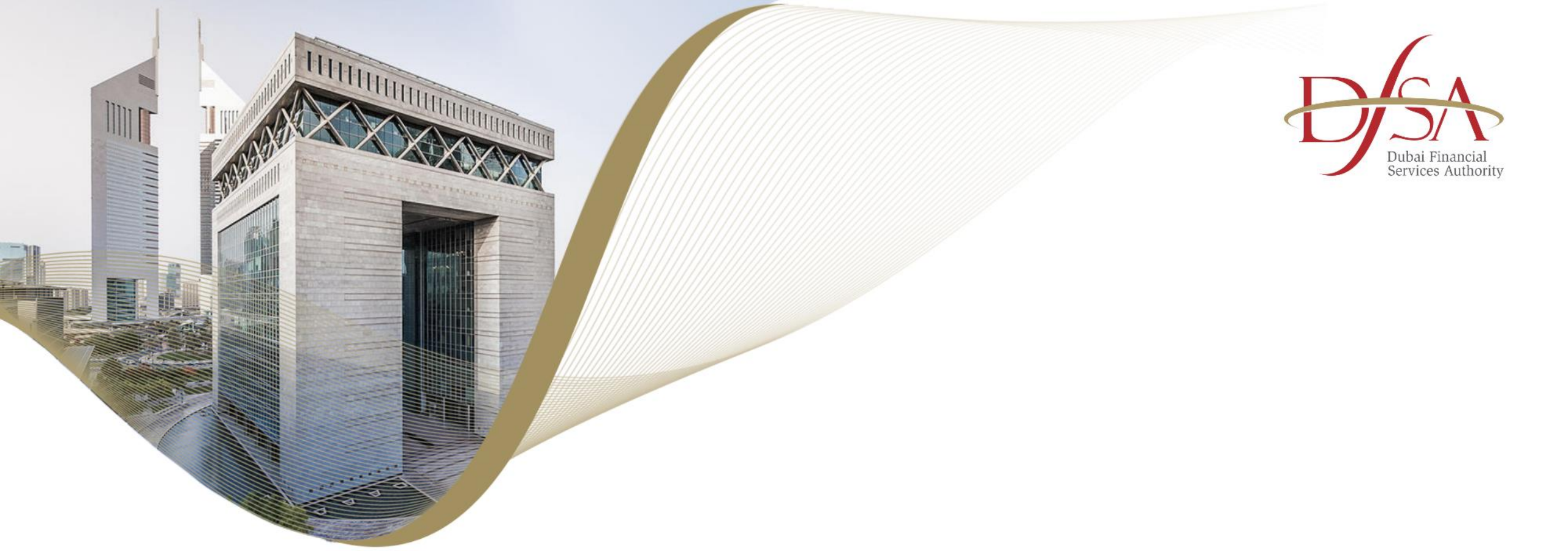
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Opening Remarks

Ian Johnston
Chief Executive



Supervision Overview

Justin Baldacchino
Managing Director, Supervision

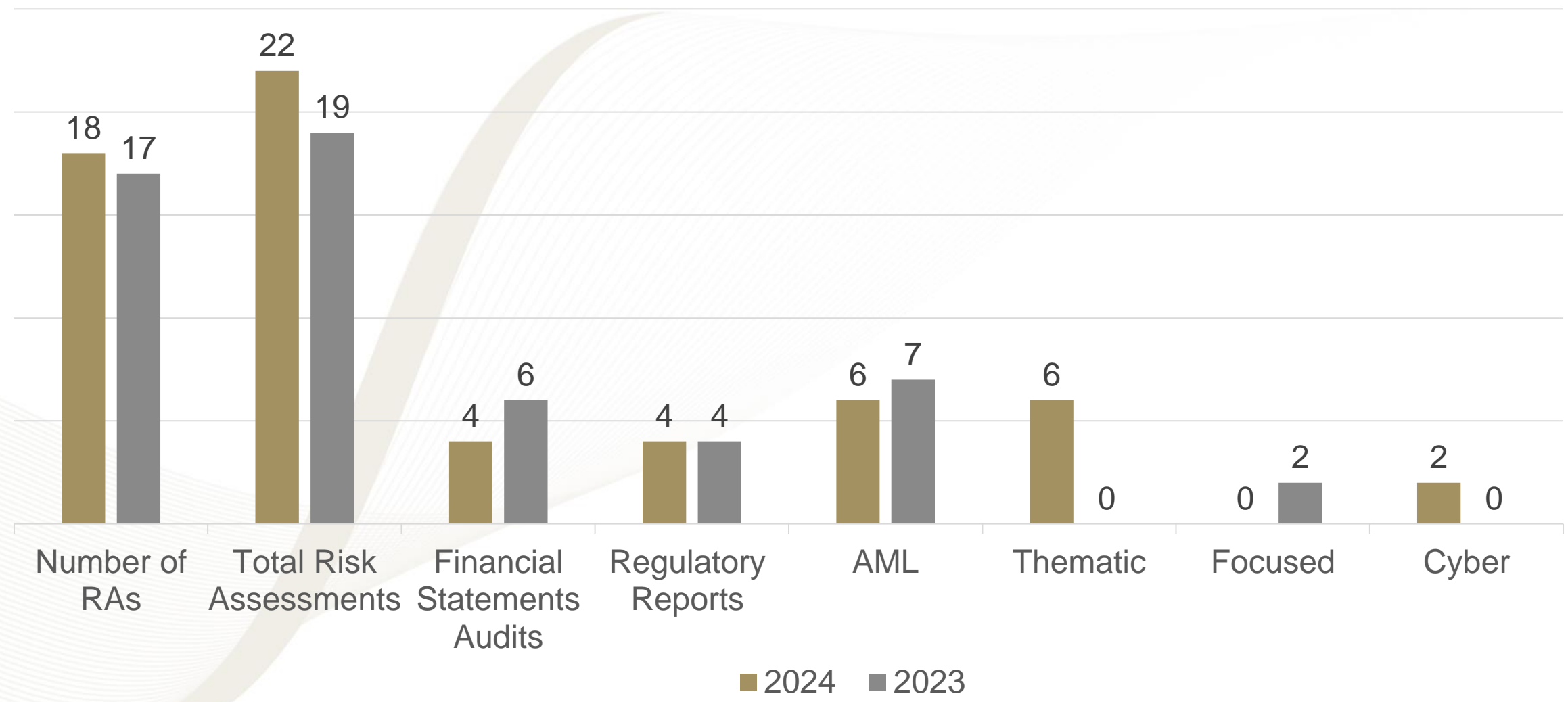


2024 Audit Monitoring Findings

Tom Crous
Senior Manager, Supervision

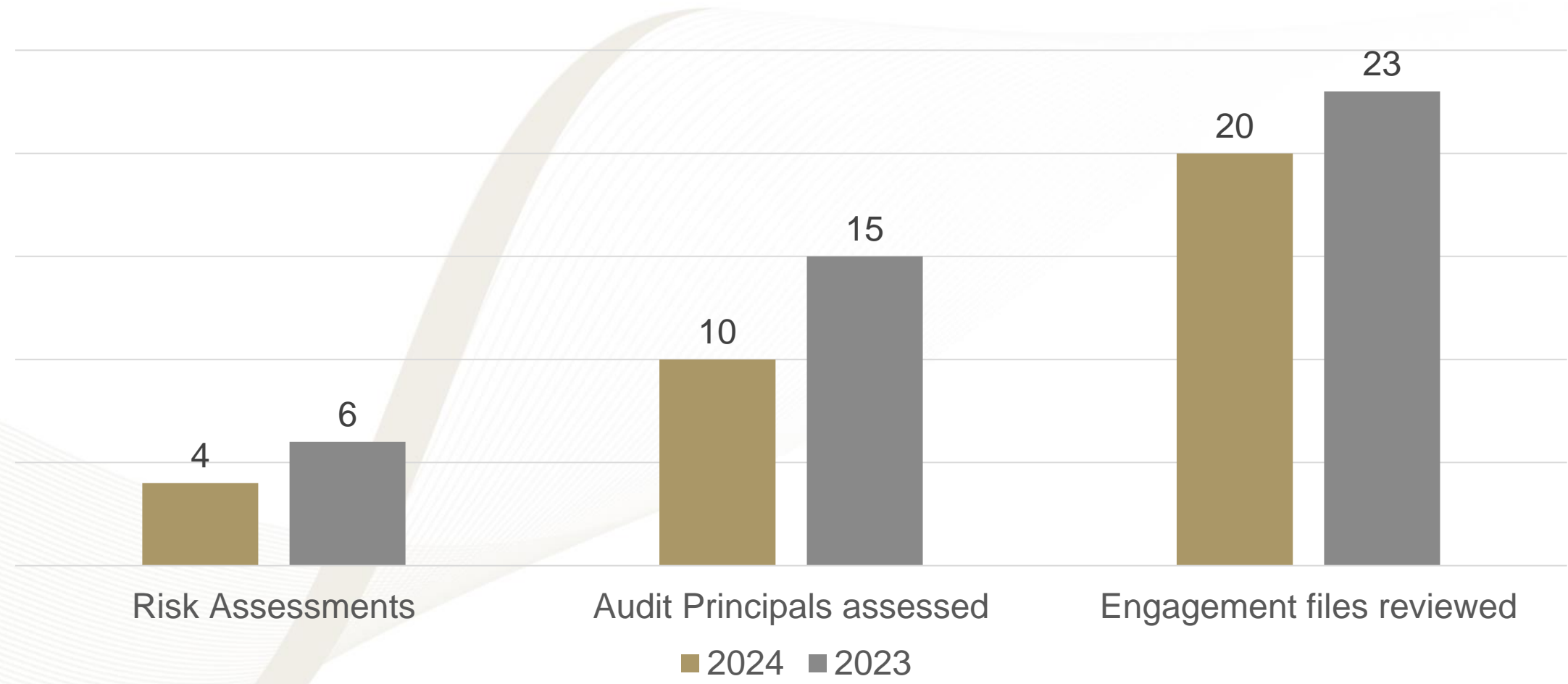


2024 Overview



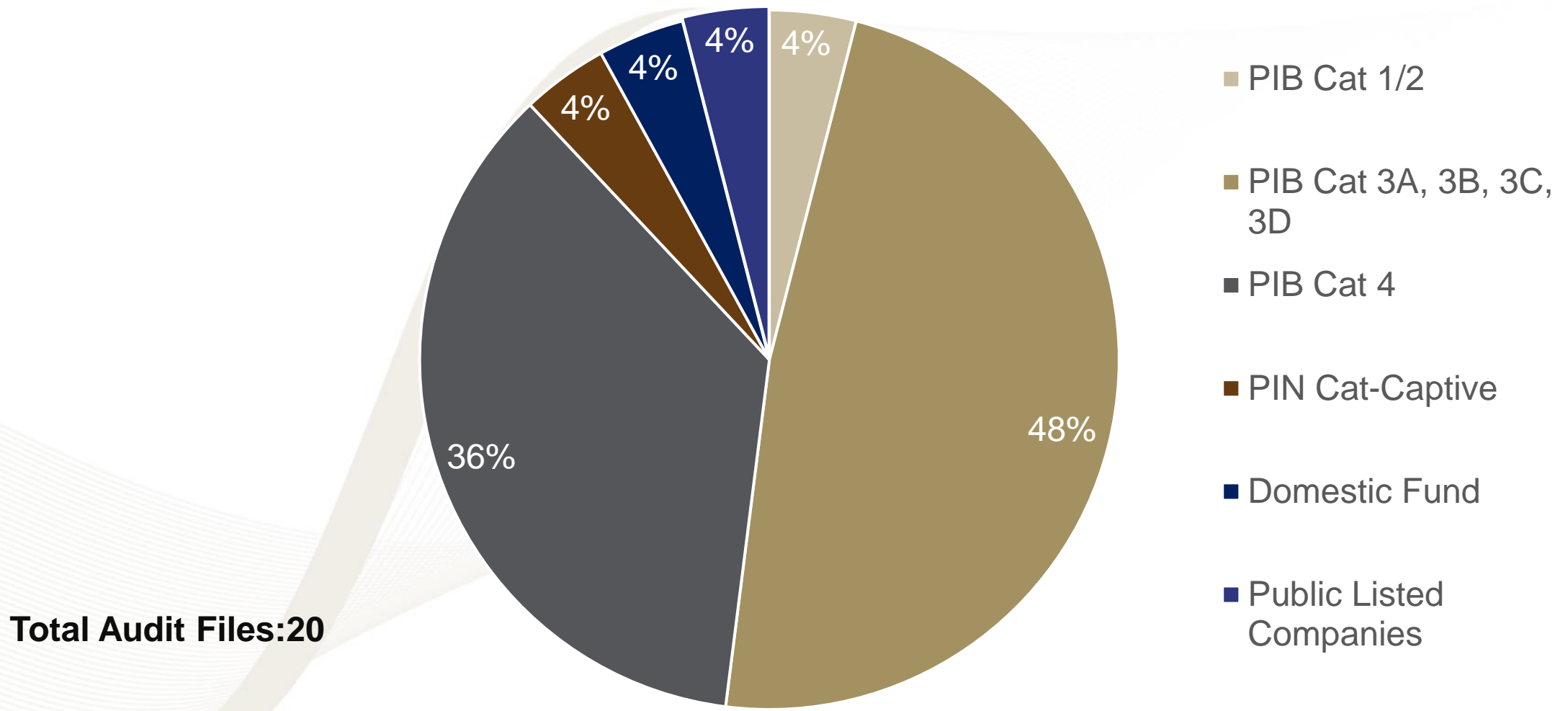


Financial Statements Auditor's Reports





Types of engagement files reviewed



Supervisory Actions



4 Enforceable Undertakings

1 Private Warning Letter

1 Article 73 Notice

Enforceable Undertakings:

- Continued concerns regarding an AP's workload.
- Failure to archive Working Papers on a timely basis (x2).
- Significant weaknesses and repeat breaches in Anti-Money Laundering, Counter-Terrorist Financing and Sanctions (AML) systems and controls.

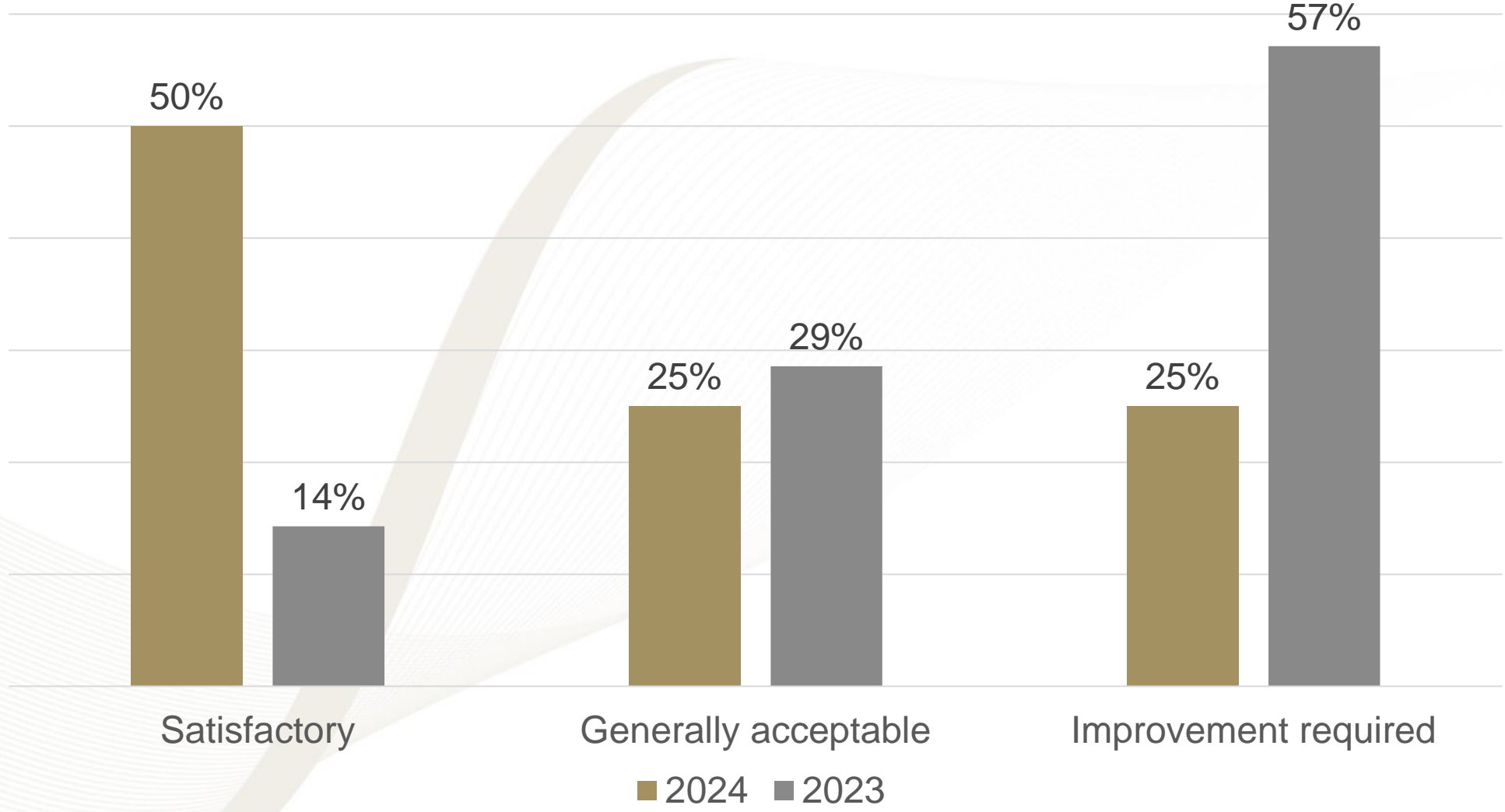
Private Warning Letter:

- Significant weaknesses and repeat breaches noted during an Anti-Money Laundering, Counter-Terrorist Financing and Sanctions (AML) systems and controls.

Article 73 Notice:

- Requiring production of books and records.

File Grading



Good Audit Work

Agile changes to audit approach during the audit, e.g. experts vs specialists

Detailed review of correspondences with the regulator

Robust and comprehensive review of ECL assessment

Value adding recommendations in the ISA 260 letter

Robust use of internal consultations

Audit software tracking the types of edits made to documents after audit work is completed

Good evidence of Engagement Quality Control Reviewer (EQCR) involvement

Timely completion of audit planning prior to financial statements year-end date

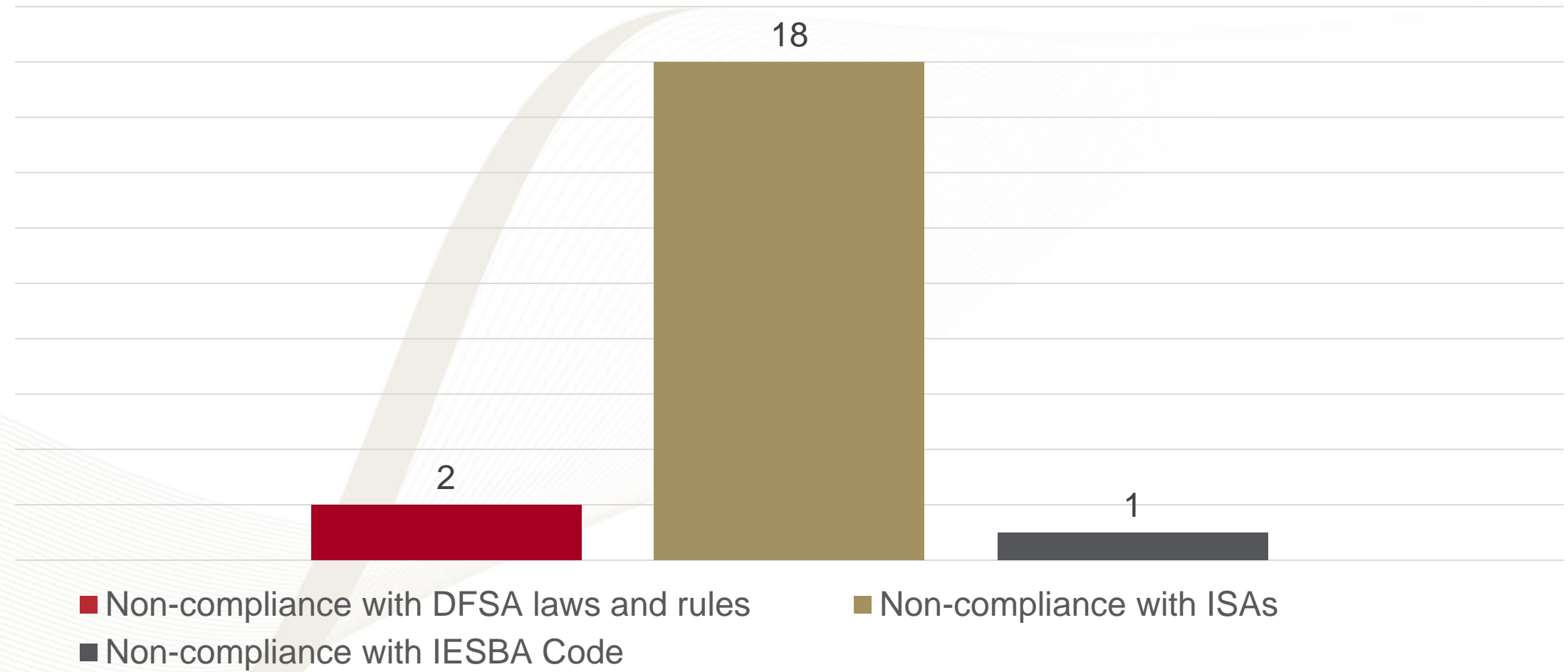
Starting Position



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



Principal Findings



Total Principal Findings: 21

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

Archiving

ISA 230 – Audit Documentation.

- Modifications to audit working papers after the Financial Statements Auditor's Report sign-off date.

Risk assessment

ISA 315 (revised) – Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and its Environment.

- Failure to appropriately assess and respond to external risks (e.g. geopolitical events and hyper inflation exposure) , compromising audit quality.



Principal Findings Theme 1: Non-compliance with ISAs

Investment valuation

ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures.

- Insufficient audit procedures conducted to test investment properties including valuation procedures.

Prior period adjustments

ISA 710 – Comparative Information – Corresponding Figures and Comparative Financial Statements.

- Failure to evaluate the resolution of matters that led to a qualified opinion in the prior period.

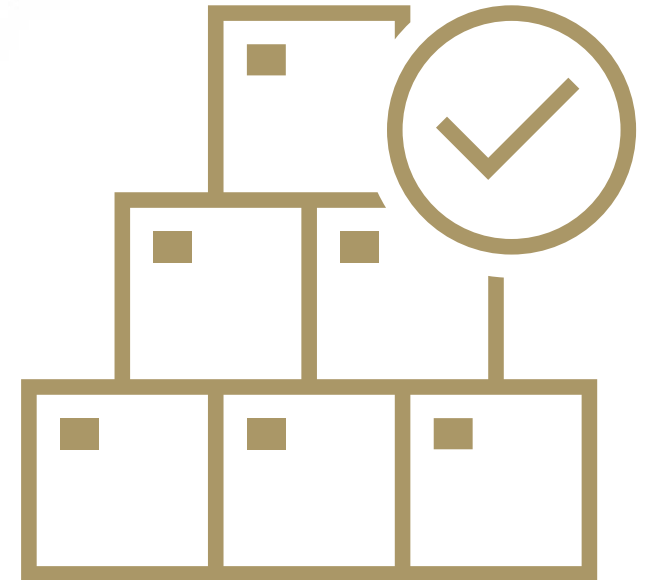


Principal Findings Theme 1: **Non-compliance with ISAs**

External Confirmations

ISA 505 – External Confirmations.

- Inadequate assessment of responses to related-party confirmations and test of related-party transactions.
- Not performing external bank confirmation procedures.
- Confirmation letters for investments not sent directly by the auditor.

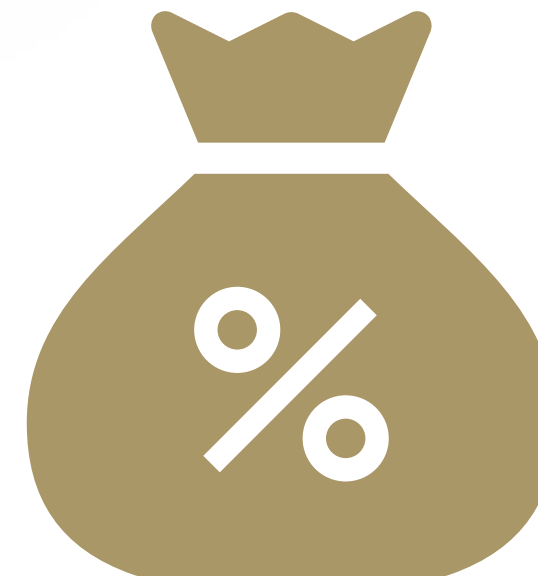


Principal Findings Theme 1: **Non-compliance with ISAs**

Revenue recognition

ISA 240 – The Auditor’s Responsibilities Relating to Fraud in Revenue Recognition and ISA 330 – The auditor’s responses to assessed risks.

- Inadequate audit procedures to address risk of fraud in revenue recognition.
- Failure to align audit approach with the documented understanding of revenue recognition process.



Principal Findings Theme 1: **Non-compliance with ISAs**

Group audits

ISA 600 – Special Considerations, Audits of Group Financial Statements (Including the Work of Component Auditors).

- Inappropriate component performance materiality assessment.
- Incomplete assessment and documentation of the nature, timing, extent, and results of audit procedures performed by other auditors.



Principal Findings Theme 1: **Non-compliance with ISAs**



Documentation and evidence

ISA 500 – Audit Evidence.

- Failure to conduct audit procedures on Right-of-Use asset.
- Lack of adequate assessment of a significant non-routine transactions.
- Incomplete assessment of variances identified and lack of verification of income commission rates.

Principal Findings Theme 1: Non-compliance with ISAs



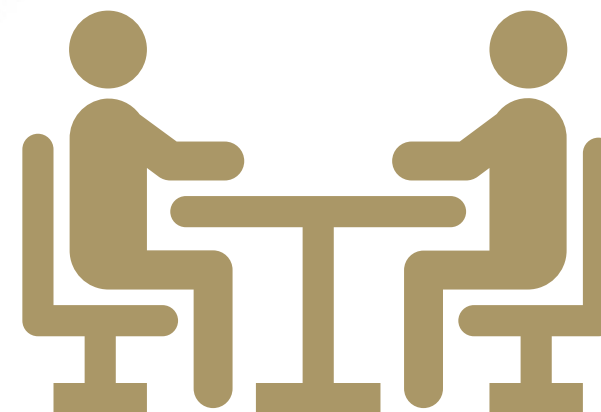
Effective review

ISA 220 (revised) – Quality Management for an Audit of Financial Statements.

- Concerns regarding the effectiveness of review of audit work conducted on significant risks.

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

Failure to identify and evaluate threats to
independence.



Principal Findings Theme 3: **Non-compliance with DFSA laws and rules**

- Failure to test compliance of DFSA's collective investment rules and regulations.
- Workload of the Audit Principals and certain related fitness and propriety concerns.



Other Matters

Classification of long- outstanding receivables as current assets	AP failure to complete annual Independence Confirmations	Submission of inaccurate AUD 7 data	Insufficient JE testing	Timing of professional clearance letter
Untimely client acceptance procedures	Firm level independence procedures	Understanding IT environment and General IT Controls	Insufficient unrecorded liabilities testing	Prior period error assessment
Revenue testing – Satisfaction of performance obligations under IFRS 15	ISA 240 – Auditor’s responsibilities relating to Fraud	Trade receivables existence testing.	Insufficient evidence of AP involvement	Going concern considerations
Basic clerical errors in the signed financial statements	No IFRS Disclosure Checklists (DC) / Incomplete DC	Bifurcation of current and non-current portion of borrowings	Incomplete disclosure on related-party transactions	Disclosure of non-cash financing activities

Other Matters

Objectivity and independence of the EQCR

IFRS 16 – Leases – Corroboration of Incremental Borrowing Rate

Insufficient documentation of basis of setting Materiality

Inconsistent documentation of significant risk areas

Undefined sampling thresholds

Inadequate planning and concluding analytical procedures

Insufficient referencing and cross-referencing

Sensitivity analysis of level 3 investments not disclosed

IFRS 17 – Cohort aggregation

Related parties Classification and Disclosure

Failure to confirm independence of secondee staff

Insufficient assessment of variances and adjustments to revenue

Inconsistent manual and automated JE identification criteria

Incomplete working papers on audit file

IFRS 10 – Consolidated Financial Statements

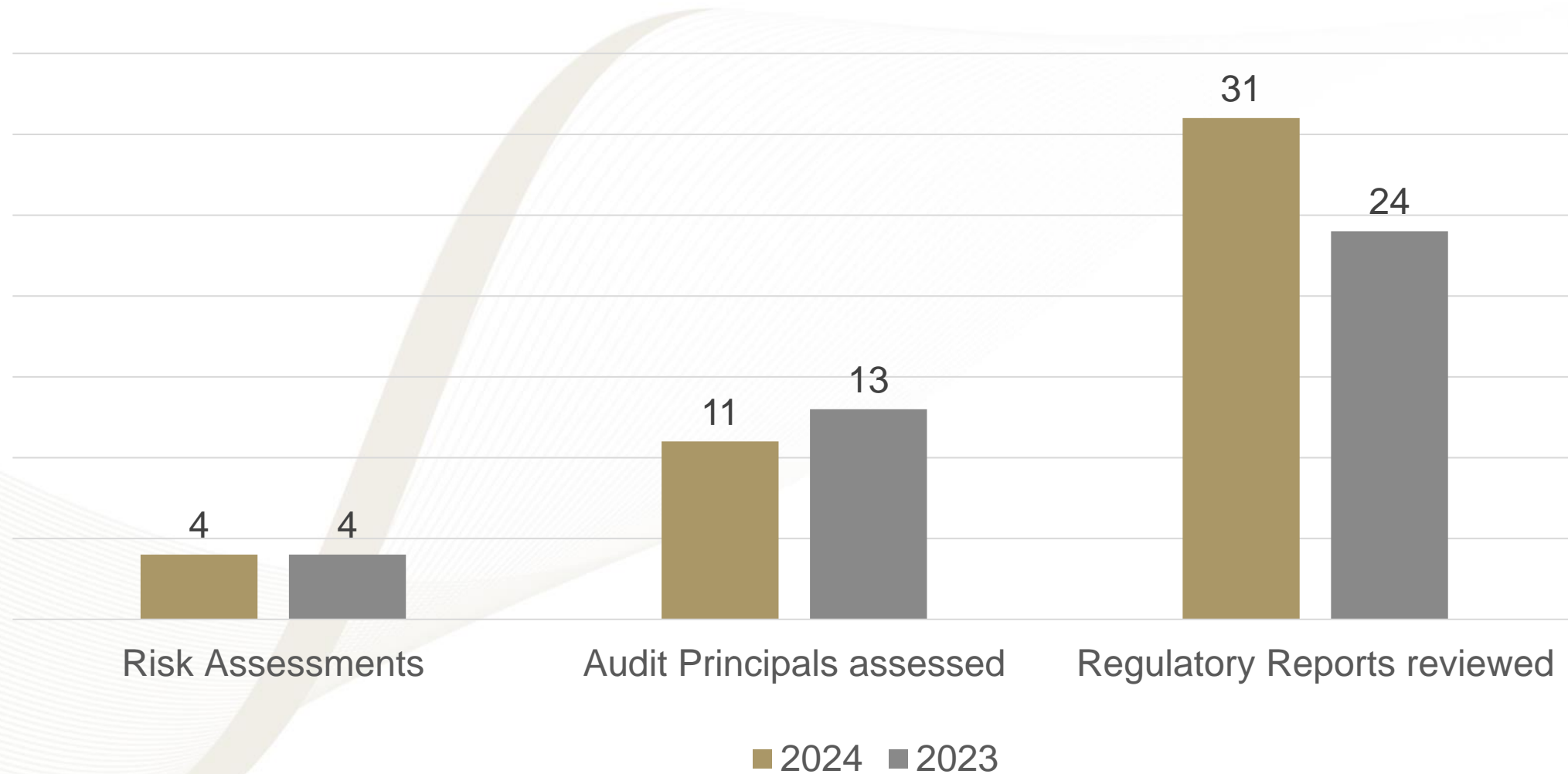


Regulatory Reports

Erica Francisco

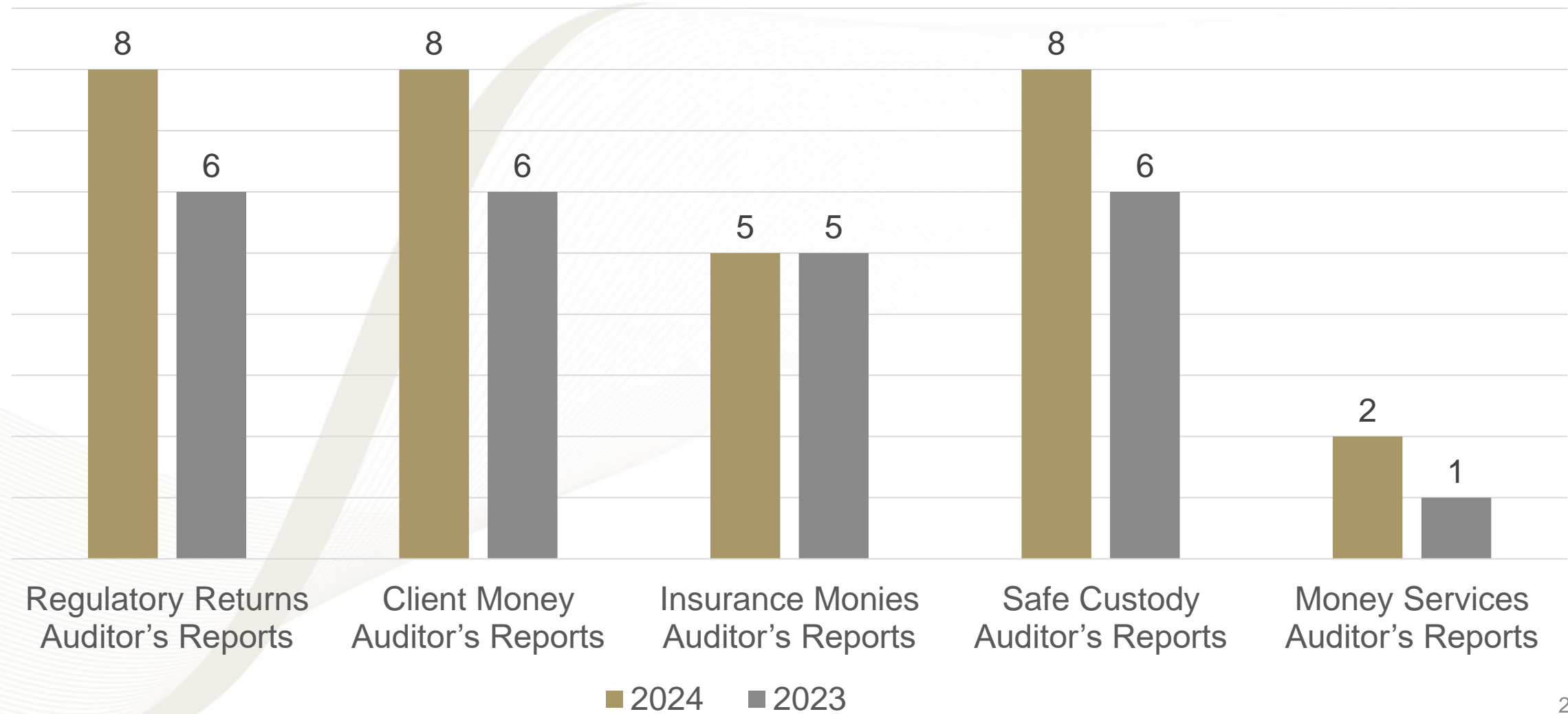
Associate Manager, Supervision

Regulatory Reports Inspections





Types of Regulatory Reports reviewed



Regulatory Returns Auditor's Report

Principal Findings

- Deficiencies in reconciliation procedures - AUD APP1 A1.1.1 including failure to:
 - report differences between the annual regulatory return and the audited financial statements.
 - reconcile all relevant sections of the annual regulatory return to the audited financial statements leading to misclassification of regulatory returns line items.
 - reconcile the quarterly regulatory returns with the appropriate annual returns.



Regulatory Returns Auditor's Report

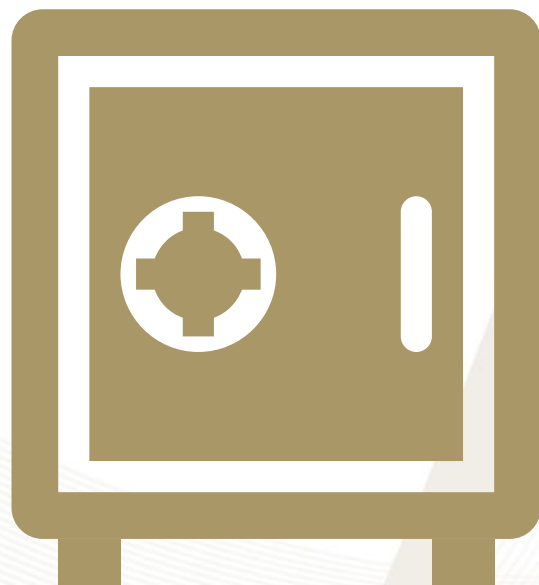
Principal Findings

- Failure to verify the accuracy of the below used in EBCM calculation:
 - notified EBCM
 - deductible items
 - fraction applied in the EBCM calculation
- No random testing conducted throughout the year to test if Capital Resources maintained always exceed the Capital Requirement during the year



Regulatory Returns Auditor's Report

Other Matters



- Failure to test compliance with proper Accounting Records rule including the DFSA's 6 years record retention requirements.
- Unregistered, repayable capital included in CET1 without assessing compliance with PIB 3.13.3 criteria.
- Failure to review other sections of the regulatory return such as B440 – Dealing & Arranging, B450 – Staffing & Conduct and B410 – Advisory.

Regulatory Returns Auditor's Report



Other Matters

- Failure to report a period when Capital Resources fell below Capital requirements.
- Failure to assess whether bank balance met the required credit rating of A1 or P1 and above.
- Failure to assess why Forms B410 and B440 showed zero balances despite the Authorised Firm holding relevant licenses.
- Copy of the annual regulatory return used for audit procedures not included on the audit file.

Thematic Findings – Client Money Auditor’s Report and Safe Custody Auditor’s Report

- Inadequate testing and documentation of the audit work done to confirm systems and controls adopted are as per provisions of COB.
- Failure to adequately test and corroborate whether Third-Party Agent (TPA) Suitability Assessments has been performed.
- Failure to report potential non-compliance regarding details of Master Lists.



Client Money Auditor's Report

Principal Findings



- Failure to state whether the Authorized Firm was holding and controlling the appropriate amount of Client Money in accordance with COB chapter 6 and Client Money Provisions.

Client Money Auditor's Report

Other Matters

- Reliance on enquiries only and failure to verify if material reconciling differences during the year had been appropriately rectified as per A2.1.1 (b) (vii).



Insurance Monies Auditor's Report

Principal Findings

- Failure to test and report on AUD APP3 A3.1.1 (b) (v) requirement.
 - An Auditor must state whether the regulatory form B510 (Insurance Intermediation or Management) has been properly prepared by the Authorized Firm in accordance with the applicable rules in PIB.



Money Services Auditor's Report

Principal Findings

- Lack of adequate testing and documentation of the audit work done to confirm compliance with:
 - relevant systems and controls and security and authentication for the carrying on of Money Services, Account Information Services or Payment Initiation Services.
 - the requirement to implement relevant technical standards set out in PIB chapter 6.



Money Services Auditor's Report

Other Matters

- Failure to state the type of Money Services an AF provided during the previous 12 months – as required by AUD APP 7.1.1 (a).
- Incorrect conclusion that the requirement to report Payment Transaction volumes for the year (AUD A7.1.1(c)(vii)) was not applicable.





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

Felix Maromo
Senior Manager, FCR Supervision

AML Risk Assessments

Business AML Risk Assessments

Customer AML Risk Assessments

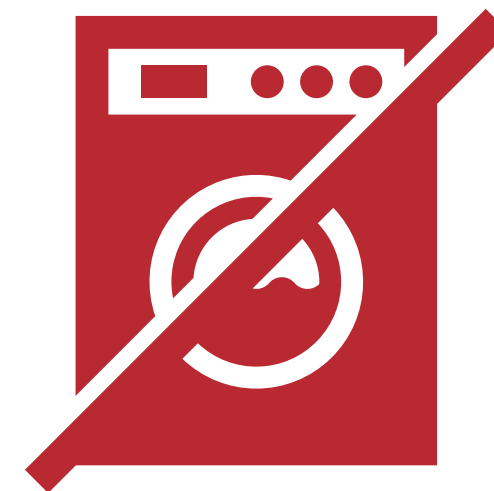
AML Systems and Controls

Customer Due Diligence

Enhanced Due Diligence

Sanctions Controls

AML Training and Awareness



AML Business Risk Assessment (BARA)

Lack of:

- clearly documented methodology for guidance.
- detailed assessment of Targeted Financial Sanctions (TFS)
- comprehensive assessment of Proliferation Financing (PF).
- consideration of the UAE NRA outcomes, as applicable to the firm's business model.
- quantitative rationales & tolerances (*i.e. weightings, likelihood, & impact*) to support qualitative review and risk rating conclusion.
- assessment of the AML risk posed by support functions.
- assessment of controls corresponding to inherent risk factors.
- overall inherent risk, control effectiveness, or residual risk ratings.
- review and, in some instances, approvals by senior management.
- coverage of all relevant AML 5.1.1 sub-risk factors, e.g. development of new products, business practices, use of new/developing technology.



Action: RAs must:

- Identify and assess ML, TF and PF risks, to which their businesses are exposed, considering the nature, size, and complexity of their activities, as mandated in Chapter 5 of the AML Module.
- Take note of the key themes and expectations on BARA explained by DFSA in the Oct 2024 Webinar.

Customer AML Risk Assessment (CRA)

Lack of:

- clearly documented methodology which explains CRA process and define key terms referred in the CRA.
- assessing Proliferation Financing (PF) risk factors.
- documented justification for the awarded customer risk rating. Particularly during instances of risk rating overrides/adjustments
- Complete assessment of relevant CRA factors per AML Module.
- testing of new CRA systems to assure it is appropriately calibrated and producing accurate risk outcomes.
- swift migration of client portfolio from old to new CRA methodology.
- review of CRA methodology changes by relevant stakeholder and senior management.



Action: RAs must establish an adequate customer risk assessment framework to meet applicable DFSA Rule requirements, including as set out in AML 6.1.1.

AML Systems and Controls

- Not customised / tailored to the RA's business models, considering its size and complexity and business activities.
- Generic TFS and PF policies and procedures that did not explain key UAE Federal and DFSA regulatory requirements.
- Being out of date and not been regularly reviewed.
- Lack of:
 - ❖ operational procedures, which explains how the documented policies should be implemented.
 - ❖ defined procedure for on-going sanctions screening and handling regulatory sanctions notifications. Also lack of alert management, investigation and closure procedures.
 - ❖ management information (MI)/metrics to enable senior management oversight on effectiveness of AML systems & controls.
 - ❖ reliance and outsourcing policies and procedures.



Action: RAs must ensure they establish and maintain effective AML policies, procedures, systems and controls, which are tailored to the nature, scale, and complexity of their business activities.

Customer Due Diligence

The majority of CDD findings for the reviewed RAs were in relation to client and/or beneficial owners (BOs), as follows:

- Missing or invalid (*i.e. expired and not reviewed*) identification documents for active customers.
- Instances where ID&V documents for customers and BO were not attested/certified as true copies of original identification.
- CDD forms for some RAs having incomplete or missing KYC information.
- RAs not taking reasonable steps to understand the legal persons/arrangements ownership and control structure.
- Use of unreliable public sources to verify beneficial owners (BO) and other parties' identities.
- Periodic reviews being performed in timing intervals not in line with the RA's standard procedures



Action: RAs must implement robust CDD procedures, including ID&V of customers and any BOs, to ensure compliance by relevant employees responsible for conducting CDD.

Enhanced Due Diligence

For high risk and PEP customers:

- No evidence of senior management approval for onboarding and/or maintaining the customer relationships;
- No reasonable measures to establish and adequately corroborate source of funds and source of wealth
- No regular periodic reviews to update CDD information for the customers and BOs.
- Insufficient measures taken to establish customers' nature business relationship.
- Ill-designed periodic review processes, causing backlogs for high-risk and PEP customer account reviews.



Action: RAs must implement robust EDD procedures, including appropriate corroboration steps, to ensure compliance by relevant employees responsible for conducting CDD and approving high risk client files.

Sanctions Controls

- Not conducting ongoing sanctions screening for customers, BOs and other associated entities and individuals.
- Ineffective screening systems and having incorrect screening outcomes. Others lacked effective screening for adverse media issues.
- Screening mostly customer names and overlooking other connected /associated parties. For example, screening corporate name only and not subsidiaries.
- Not maintaining list of customers rejected for financial crimes reasons in the RA's screening systems.
- RAs having large backlogs of unresolved sanctions screening hits.
- Alert matches being resolved with inadequate closure narratives.
- No regular reviews of sanctions screening system fuzzy logic calibration.
- RAs breaching the 24-hour timeline for resolving EOCN notifications.

Action: RAs must implement effective sanctions screening systems, that carry out ongoing screening of customers, BOs, and other relevant parties. There should be clear procedures for sanctions screening, alert management and investigation and resolving regulatory notifications. Alerts should be effectively managed in as per UAE and DFSA legislation.



AML Training and Awareness

- Instances where induction training material for new joiners lacked comprehensive coverage of AML.
- Certain RAs lacked appropriately tailored training for staff directly involved in AML/CDD roles, i.e. client facing staff and Senior Management.
- AML trainings for some RAs lacked knowledge assessments e.g. tests or relevant case studies, to evaluate and enhance staff understanding.
- Failure by some employees to complete mandatory annual AML trainings. Certain RAs lacked proper monitoring and follow up protocols for staff not completing mandatory AML training. Some also lacked disciplinary measures for those who fail to complete the training.
- Some training material lacked adequate coverage of UAE TFS and PF requirements.



Action: RAs must implement comprehensive AML training and awareness program for their staff which is appropriately tailored to the firm's activities including its customers, distribution channels, business partners, and complexity of its products, services, and transactions.

Supervisory Action

- The DFSA have taken serious actions on RAs found with repeat AML breaches.
- This includes accepting Enforceable Undertakings from concerned RAs, while taking further actions e.g.:
 - Instituting business restrictions for specified period, while the RAs remediate the AML findings;
 - Imposing supplementary fees for the substantial additional costs of additional Supervision required;
- We have also issued Private Warning Letters to some RAs, requesting they take immediate action to address the AML concerns and indicated options available to the DFSA in the event the RAs fails to complete the actions.



Action: We request the RAs to comprehensively address the DFSA findings raised in past and recent AML risk assessments to avoid repeating similar breaches in future.



2024 Firmwide Observations

Henry Gadagbui
Manager, Supervision

Firmwide – International Standard on Quality Management (ISQM 1) Findings

- Failure to conduct DFSA specific training
- Insufficient training on the use of audit platform software
- No monitoring of CPD hours
- Inadequate staff and AP workload/capacity monitoring
- Failure to design, implement, and evaluate the Firm's SoQM in compliance with ISQM 1 on a timely basis
- Misreporting information to the DFSA
- Failure to design and implement the DFSA's Whistleblowing requirements.



Audit Monitoring Focus for 2025

Henry Gadagbui
Manager, Supervision

Audit Monitoring Focus for 2025



- Audit firm governance and culture
 - Governance and evaluating the System of Quality Management
 - Culture and workload monitoring
- Investment valuations and accounting estimates

Audit Firm Governance and Culture



Governance and evaluating the System of Quality Management

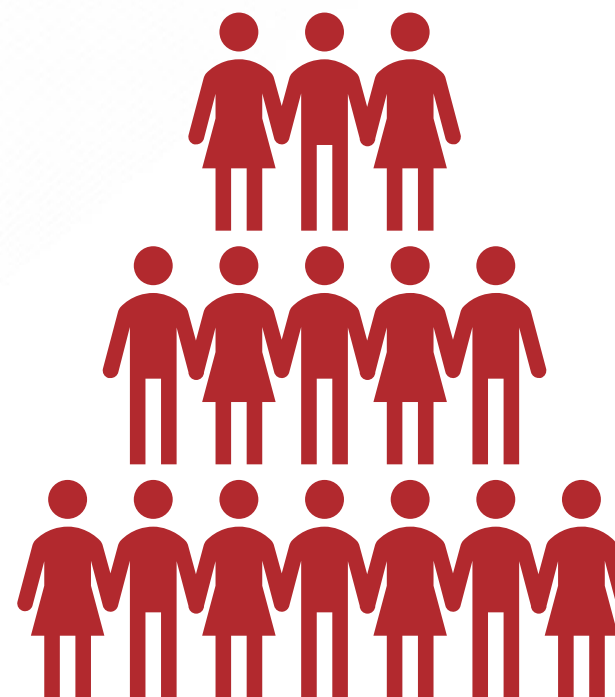
- Establish and maintain a robust System of Quality Management (SoQM) in compliance with ISQM 1.
- Adopt of a risk-based approach.
- Ensure ongoing evaluations of SoQM.
- Take appropriate action where required.
- Assess new regulatory requirements including Substantial Role registration requirements.



Audit Firm Governance and Culture

Culture and workload monitoring

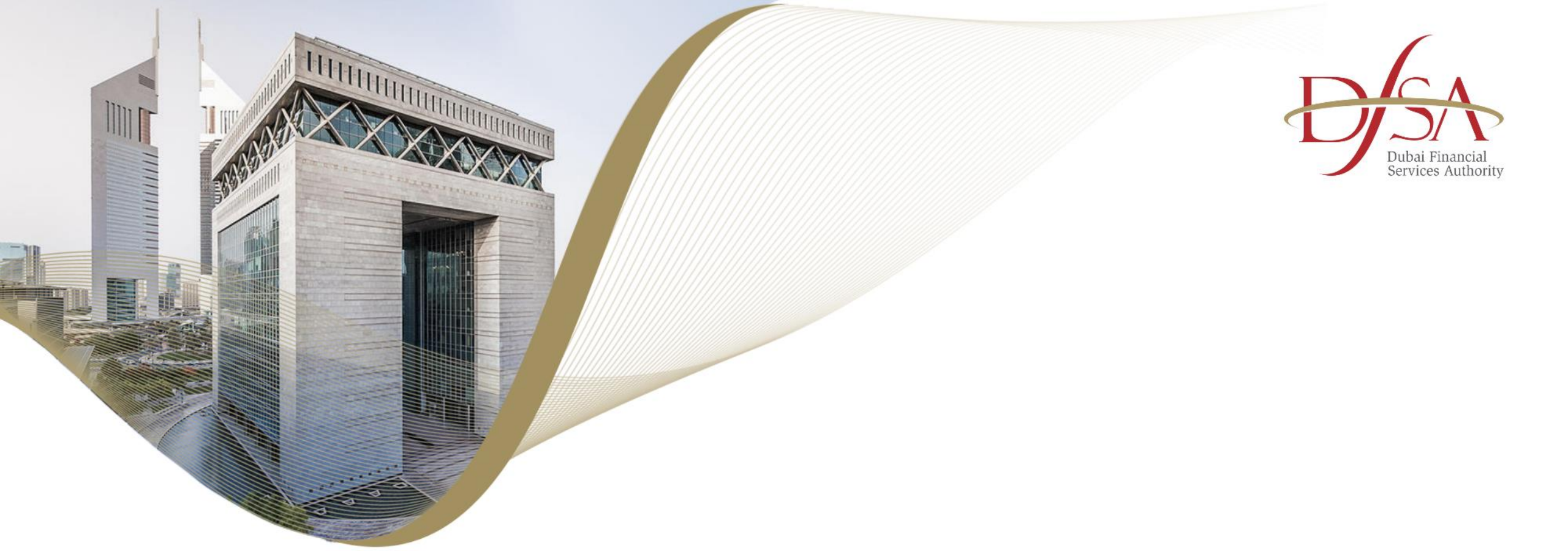
- Consider workload at both the firm and engagement level.
- Effective and efficient resource allocation.
- Supervision and review mechanism
- Appropriate audit planning.
- Monitoring and review.



Investment Valuations and Accounting Estimates

- Valuation of level 3 investments.
 - unobservable inputs.
 - complex models.
 - subjective management assumptions.
- Obtain sufficient appropriate audit evidence
 - Estimation process understanding.
 - Competence, capability and objectivity of experts used.
 - Test valuation models, assumptions and inputs.
 - Develop point or range estimate.
 - Appropriate disclosures.
- Appropriate professional scepticism when auditing estimates.





Questions & Answers



Closing Remarks

Naweed Lalani
Director, Audit & Infrastructure

Next event

Navigating the Future of Auditing, Assurance, Ethics,
and Sustainability - 24 February 2025.

Fireside Chat with International Standard Setters:



Tom Seidenstein



Gabriela Figueiredo Dias

Next development

Substantial role

On 7 October, His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the United Arab Emirates and Ruler of Dubai – approved amendments to the Regulatory Law DIFC Law No.1 of 2004

This enacts the new requirement for persons that play a substantial role in the provision of Audit Services by a Registered Auditor to register with the DFSA.

This will allow the DFSA to deliver on its audit supervision mandate in a consistent manner and strengthens the financial reporting environment in the DIFC.



**Effective date:
7 April 2025**

Next publications

Audit Bulletins



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Thank you!