

2023

Audit Quality Unit

**Report on 2022 quality
assurance review of
Grant Thornton**

6 March 2023



Vision

Public trust and confidence in quality auditing and accounting



Mission

Upholding quality corporate reporting and an accountable profession

Our Values



Excellence

Striving to be the best we can be



Independence

Regulating impartially and objectively



Integrity

Being trustworthy and respectful

Introduction

Overview of Grant Thornton (the Firm)



7

offices in Belfast, Dublin, Cork, Galway, Limerick, Longford and Newbridge



58

audits of public-interest entities in 2022



23

audit partners



4%

market share based on audit fees associated with public-interest entities in 2022

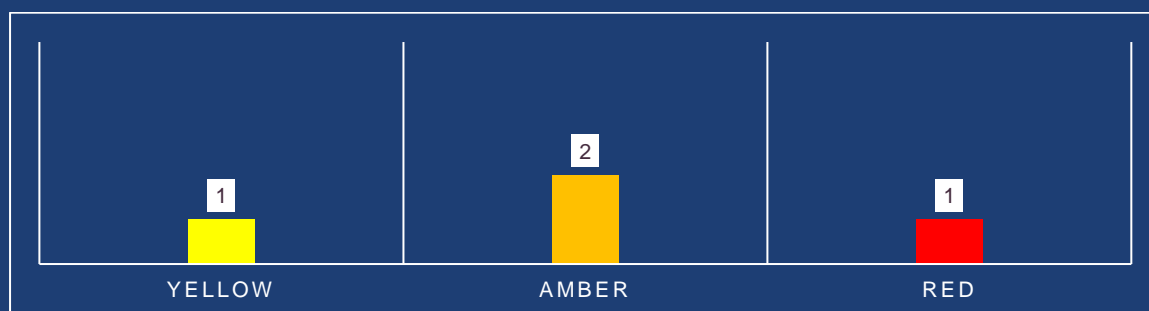


752

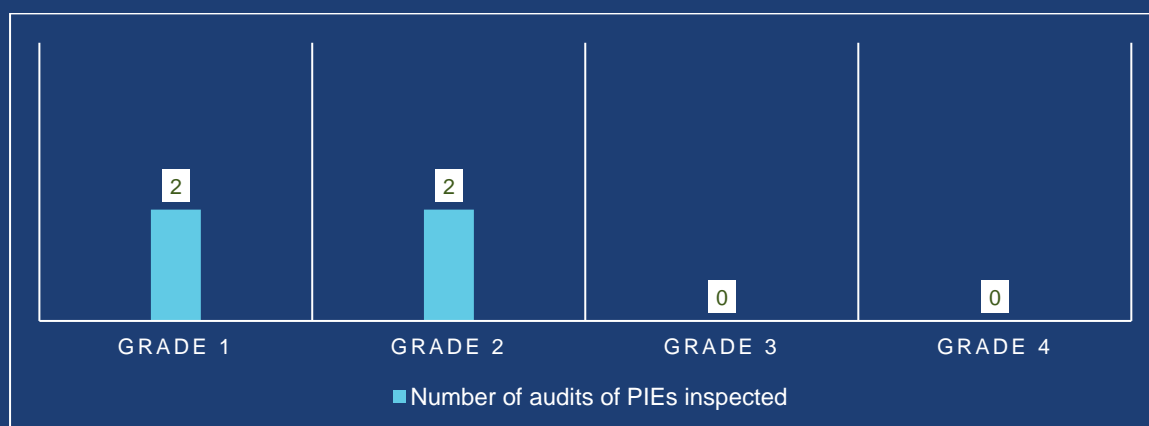
personnel working in the audit function

Outcome of the quality assurance review

Firm's system of quality control - findings with related recommendations¹



Audits of PIEs – grading¹



¹ See Appendix for detailed description of ratings and grades.

Guide to IAASA's reports on quality assurance reviews

A guide to assist readers in understanding IAASA's reports on quality assurance reviews of audit firms is available [here](#).

The guide sets out what users can expect from the quality assurance review report. It also explains how IAASA's quality assurance review process drives the form and content of these reports.

Quality assurance review explained

The purpose of a quality assurance review is to assess the effectiveness of the Firm's system of quality control.

A quality assurance review:

- assesses the design of the Firm's system of quality control
- performs compliance testing around the implementation of the Firm's procedures
- evaluates the quality of a sample of audits of public-interest entities (PIEs)

Note that a quality assurance review is not designed to identify all weaknesses that may exist in the Firm's system of quality control.

Assessing the design of the Firm's system of quality control involves a review of the Firm's policies and procedures and their impact, if any, on audit quality. Compliance testing involves a review of the Firm's implementation of its policies and procedures.

The Authority selects the sample of audits of PIEs using a risk based approach. A risk based approach allows for audits with particular complexities to be selected, as well as audits of varying sizes. As the sample of audits of PIEs is not a representative sample, results cannot be extrapolated to make inferences about audits that have not been selected. In evaluating the quality of an audit of a PIE, the Authority considers the sufficiency and quality of audit evidence across a number of selected audit areas.

Scope of the quality assurance review of the Firm

The Firm's policies and procedures

The assessment of the Firm's system of quality control is performed across 13 areas on a three-year cyclical basis. In 2022, the quality assurance review assessed the design of the system of quality control in four areas:

- ethics and independence
- acceptance and continuance
- partner evaluation and compensation
- staff evaluation and compensation

For each of the four areas assessed, the Authority evaluated the Firm's policies and procedures and obtained evidence of the implementation of the Firm's policies.

Audits of public-interest entities

In 2022, the Authority selected a sample of four audits of PIEs.

For each audit selected, the Authority evaluated the quality of the communications with those charged with governance, review of financial statements and the audit procedures performed in relation to related parties and analytical reviews. For each audit selected, the Authority also evaluated the quality of audit evidence across additional audit areas. The additional audit areas were selected at the discretion of the Authority, taking into consideration the specific risks pertaining to the audit as well as other areas of focus for the Authority.

Overview of findings

There were four findings with related recommendations identified in the areas reviewed in relation to the effectiveness of the design or implementation of the Firm's system of quality control.

The Authority assigned a grade of 1 (good audit) to two audits of PIEs and a grade of 2 (limited improvements required) to two audits of PIEs.

The results of the quality assurance review are set out in detail in the next section of this report.

A description of ratings and grades is set out in the appendix to this report.

The Firm must implement each recommendation raised by the Authority within 12 months of the date of the recommendation. The Authority follows up to ensure each recommendation is implemented. Where the Firm fails to satisfactorily implement the recommendation within the 12 month timeframe, the Authority will refer the matter to its Enforcement Unit.

Results of the quality assurance review

Overview of areas

Ethics and independence The Authority evaluated whether the Firm had adequate procedures to provide reasonable assurance that the Firm and its personnel comply with relevant ethical and independence requirements. The Authority performed a range of procedures to understand the Firm's policies around ethics and independence. These included examining policies regarding financial interests, conflicts of interest and the independence of partners and staff from the Firm's audit clients. The Authority obtained evidence of the Firm's implementation of its policies.

The Authority notes that the Firm's independence compliance audit detected that a number of the Firm's partners and professional staff failed to record, in a timely manner, all of their transactions relating to their financial interests in the Firm's independence tracking system. None of the late recorded financial interests caused the Firm to be in breach of external independence rules. The Authority further notes that improvements could be made on the assessment of familiarity and advocacy threats within audit files. Full details are set out below. (Findings 1 and 4)

Acceptance and continuance The Authority evaluated whether the Firm had adequate procedures to ensure appropriate acceptance and continuance of audit clients. The Authority performed procedures to understand the Firm's policies around the acceptance and continuance of audit clients, including whether the Firm's policies ensure an appropriate response to any issues identified. The Authority obtained evidence of the Firm's implementation of its policies.

The Authority notes that the Firm's domestic relationship checking process is not sufficiently designed to identify all potential conflicts of interest or independence threats. Furthermore, the Firm's systems do not maintain a domestic central database of family trees of clients with regards to domestic relationship checks. Full details of this finding and recommendation are set out below. (Finding 2).

Partner evaluation and compensation The Authority evaluated whether adequate remuneration policies were in place for audit partners to provide sufficient performance incentives to secure audit quality. The Authority performed procedures to understand the Firm's policies around the evaluation and compensation of audit partners. The Authority obtained evidence of a sample of partner appraisals, and the related remuneration, in order to ensure that audit quality was appropriately reflected.

The Authority notes that the Firm should improve the recording of assessments made around the allocation of bonuses to partners where monitoring results indicate improvements are required. Full details of this finding and recommendation are set out below. (Finding 3).

Staff evaluation and compensation	The Authority evaluated whether adequate remuneration policies were in place for audit staff to provide sufficient performance incentives to secure audit quality. The Authority performed procedures to understand the Firm's policies around the evaluation and compensation of audit staff. The Authority obtained evidence of a sample of staff appraisals, and the related remuneration, in order to ensure that audit quality was appropriately reflected.
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The Authority has no findings with related recommendations to report in this area.

Findings and recommendations on the Firm’s system of quality control

Area and significance rating	Background	Issue	Recommendation
<p>Ethics and independence</p> <p>Finding 1</p> <p>● Amber</p>	<p>The International Standard on Quality Control (Ireland) 1 (ISQC 1) requires the Firm to establish procedures to provide reasonable assurance that they are notified of breaches of independence requirements, and to enable appropriate actions to resolve such situations.</p> <p>The Firm’s policies require partners and professional staff to record all acquisitions or disposals of reportable financial interests in the Firm’s independence tracking system within 30 days of the transaction.</p> <p>On at least an annual basis, partners and professional staff are required to confirm the completeness and accuracy of their portfolio in the Firm’s independence tracking system.</p> <p>The Firm routinely conducts an independence compliance audit, which includes choosing a sample of partners and professional staff and assessing whether they had recorded all reportable financial interests in the Firm’s</p>	<p>The Firm’s independence compliance audit detected that a number of the Firm’s partners and professional staff failed to record, in a timely manner, all of their transactions relating to their financial interests in the Firm’s independence tracking system.</p> <p>The Firm concluded that none of the late reported transactions caused the Firm to be in breach of external independence rules.</p> <p>All the non-compliant individuals had stated in their latest available annual independence confirmation that they had complied with the Firm’s independence policies and procedures.</p> <p>As the Firm conducts its independence compliance audit on a sample basis, there is a risk that other partners and professional staff could also be failing to record their transactions in financial</p>	<p>The Authority notes that the Firm has taken a number of actions to improve compliance with the Firm’s policies in this area, including increasing the types and frequency of communications, training and guidance in this area.</p> <p>The Authority agrees with the Firm’s actions and recommends that the Firm continues with their implementation.</p> <p>Further to this, the Authority recommends that the Firm continues to monitor the effectiveness of these actions to ensure compliance with the Firm’s own policies in this area.</p>

independence tracking system, in accordance with the Firm's policy.

interests in the Firm's independence tracking system on a timely basis.

Ethics and independence

Finding 4

● **Amber**

The Ethical Standard (Ireland) states that a familiarity threat arises when the Firm or a covered person predisposed to accept, or is insufficiently questioning of, the point of view of an entity relevant to the engagement. Such threats may arise, where close personal relationships are developed with such an entity's personnel through long association with the entity.

An advocacy threat arises when the Firm undertakes work that involves acting as an advocate for an entity relevant to an engagement, and supporting a position taken by management in an adversarial or promotional context. In order to act in an advocacy role, the Firm has to adopt a position closely aligned to that of management. This creates both actual and perceived threats to the integrity, objectivity and independence of the Firm and covered persons.

The consideration of all threats on an individual and cumulative basis and the action taken should be documented.

The inspection team identified an audit client, consisting of 13 separate companies under

Given the nature of the assistance provided there is a perceived familiarity and advocacy threat. No safeguards were put in place to address these perceived threats and no evidence was included in the audit files on how these threats were assessed.

The Authority recommends that, going forward, the Firm performs an assessment of all perceived familiarity and advocacy threats and documents the assessment within the audit file. The Authority further recommends that training is provided on the identification of familiarity and advocacy threats.

family ownership, where the audit partner acted as a trusted advisor to the family. The trusted advisor role included assisting the family on personal matters.

Acceptance and continuance

Finding 2

● Red

ISQC 1 requires the Firm to establish policies and procedures for the acceptance and continuance of client relationships and specific engagements.

The standard further requires that before accepting or continuing an audit engagement, the Firm assess whether they comply with the relevant independence and objectivity requirements in IAASA's Ethical Standard.

In respect of new clients or new services to existing clients, the Firm's policies require that the engagement team perform a relationship check, either domestic and/or international depending on the nature of the operations of the client, to identify whether there are any conflicts of interest or independence issues.

An international relationship check involves the performance of a series of steps to build a full family tree for the purpose of the relationship check.

Where a domestic relationship check is being performed, the Firm's partner, director and

The domestic relationship checking process is not sufficiently designed to identify all potential conflicts of interest or independence threats. The information circulated to PDMs as part of the domestic relationship check is insufficient. The full corporate family tree is not included, only the name of the entity/individual that the relationship check relates to, the associated key individuals, as well as the nature of the service(s) that the Firm are providing. No information on parent undertakings, subsidiary undertakings, or controlled undertakings of the entity are included.

As part of an internal review carried out by the Firm, a domestic relationship check performed in relation to an audit client was examined. In the performance of this domestic relationship check the company name and the names of company's directors were included in the email circulated to the Firm's PDMs. There was no information included in relation to parent undertakings, subsidiary undertakings, or

The Authority notes that the Firm are implementing a number of enhancements to its processes, including:

- automated data checks against personnel independence data
- upgrading of family tree system
- System driven independence notifications through a controlled workflow

The Authority acknowledges the Firm's enhancements and recommends that the Firm continues with their implementation.

manager group (PDMs) are sent an email including a table of clients for which the relationship checks are being performed. PDMs who have relationships are required to respond to the email no later than close of business on the following day.

controlled undertakings of the entity. There were no responses to the relationship check.

The internal review carried out by the Firm identified breaches of IAASA's Ethical Standard in the categories 'personal independence – financial', and 'personal independence – business' related to a specific undertaking that the audited entity ultimately controlled, which was not included in the information circulated to the Firm's PDMs as part of the domestic relationship check. These data gaps contributed to the ethical breach identified.

Furthermore, the Firm's systems do not maintain a domestic central database of family trees of clients with regards to domestic relationship checks.

Partner evaluation and compensation

Finding 3

● **Yellow**

ISQC 1 requires the Firm to establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing engagements.

Legislation requires the Firm to have in place adequate remuneration policies, including profit-sharing policies, providing sufficient performance incentives to secure audit quality.

The extent to which the external monitoring results impacted the profit-allocation and bonuses awarded to the engagement partner or the EQC reviewer is unclear.

The Authority recommends that, going forward, the Firm improve the recording of assessments made around the allocation of bonuses to partners where monitoring results indicate improvements are required.

The Firm's remuneration committee recommends any movements in a partner's level of profit-share based on the criteria for assessing performance as set out in the Firm's partnership agreement. Further to this, the Firm has a bonus pool that may be allocated to reward exceptional performance by partners.

An external monitoring report issued to the Firm in 2021 noted that one audit engagement conducted by the Firm required improvements. The report raised issues relating to the review performed by the audit engagement partner and the audit engagement quality control (EQC) reviewer.

The Firm's Risk, Compliance and Professional Standards (RCPS) function recommended that the Firm's remuneration committee should consider this result when determining the compensation for the engagement partner and the EQC reviewer. The RCPS evaluated the nature of the external findings including the frequency of occurrence of the matters and concluded that a financial penalty was not considered necessary for the engagement partner or the EQC reviewer involved.

The Firm awarded a substantial bonus to the engagement partner and EQC reviewer in relation to 2020. These bonus awards were

approved by the Firm's remuneration committee.

**Staff
evaluation and
compensation**

The Authority has no findings with related recommendations to report in this area.

Summary of audits of PIEs inspected

	Assigned grade ²	Audit areas reviewed
Audit one	1	<ul style="list-style-type: none"> Analytical reviews Statement of cash flows Communications and auditor's report Going concern Management override of controls Related parties Valuation and existence of investments Valuation of insurance contract liabilities
Audit two	2	<ul style="list-style-type: none"> Analytical reviews Communications and auditor's report Financial statement review Management override of controls Statement of cash flows Related parties Valuation and existence of financial assets
Audit three	1	<ul style="list-style-type: none"> Analytical reviews Statement of cash flows Communications and auditor's report Financial statement review Management override of controls Related parties Valuation and existence of financial assets and liabilities at fair value through profit or loss
Audit four	2	<ul style="list-style-type: none"> Impairment provision on financial assets Financial instruments at fair value through profit or loss Analytical reviews IT audit Communications and auditor's report Financial statement review Management override of controls Related parties

² See Appendix for detailed description of ratings and grades

Key recommendations arising from the inspection of audits of PIEs

This table sets out the key recommendations for the Firm arising from the inspection of audits of PIEs. These are recommendations deemed by the Authority to be key to an individual inspection or which were recurring across inspections. Not all recommendations apply to all audits of PIEs inspected and not all recommendations issued are included in this table.

Audit area	Recommendation
Procedures performed in relation to financial assets and liabilities	The Authority recommends that, going forward, the engagement team clearly evidence the nature, timing and extent of the audit procedures and the results of the audit procedures performed.
External confirmation procedures – alternative procedures	<p>The Authority recommends that, going forward, the audit file sufficiently evidences external confirmation procedures, and in the case of a non-response, alternative audit procedures designed and performed to obtain relevant and reliable audit evidence.</p> <p>The Authority further recommends that, going forward, the audit file sufficiently evidences the engagement team’s evaluation of whether the results of the external confirmation procedure (and alternative procedures) provided relevant and reliable audit evidence.</p>

Results of follow up procedures

The Firm is required to implement the Authority’s recommendations within 12 months. The Authority is satisfied that all recommendations made to the Firm in 2021 were appropriately implemented in 2022.

Purpose and limitations of this report

The purpose of the quality assurance review is to assess the effectiveness of the Firm’s system of quality control. The purpose of this report is to communicate any deficiencies identified through the quality assurance review and the recommendations arising.

This report is not intended to serve as a balanced scorecard or as an overall rating tool. Although this report on the quality assurance review may comment positively on certain items, it is not designed to give a balanced analysis of all areas of the Firm.

Where an inspection of an audit of a PIE identifies an area where the Firm did not obtain sufficient audit evidence, this does not necessarily indicate that the audit opinion is inappropriate or that the financial statements are misstated. Furthermore, it would be inappropriate to infer that any issues identified in this quality assurance review report are replicated in audits that have not been inspected by the Authority.

Appendix – Detailed description of ratings and grades

Ratings

Findings arising in relation to the effectiveness of the design or implementation of a firm's system of quality control have their significance rated by way of a red-amber-yellow (RAY) system.

● **Red** indicates that a finding is a significant deficiency³. Failure to implement a recommendation and/or remediation set out in a prior finding in relation to a firm's system of quality control, or, in relation to a matter arising from a PIE inspection is also likely to be assigned a red grading.

● **Amber** indicates that an improvement is required. This is a less than significant failure to:

- meet the requirements of the ethical standards and ISQC 1; or
- apply a firm's processes or procedures.

● **Yellow** indicates that a finding is a minor deficiency. This is:

- a minor failure in the application of a firm's procedures or processes; or
- a low level deficiency that has the potential to develop into a significant or less than significant failure to meet the requirements of the ethical standards and ISQC 1.

Grades

Each of the audits of PIEs inspected as part of the quality assurance review is assigned a grade.

- 1** A **1** grade is a good audit with no concerns regarding the sufficiency and quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Any concerns are very limited in their implications (both individually and collectively).
- 2** A **2** grade is an audit that requires limited improvements. There are only limited concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be some concerns, their implications (both individually and collectively) are limited.
- 3** A **3** grade is an audit that requires improvements. There are some concerns, assessed as less than significant⁴, regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be concerns, their implications (both individually and collectively) are less than significant.
- 4** A **4** grade is an audit that requires significant improvements. There are significant concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit

³ A significant deficiency is a significant failure to meet the requirements of the ethical standards or ISQC 1; or, a pervasive failure to apply a firm's processes or procedures where there is more than a remote likelihood that the deficiency could affect the firm's independence or the quality of audits performed by the firm.

⁴ For audits of PIEs, four key factors will be considered in assessing 'significance' of findings, these are as follows: the materiality of the area or matter concerned; the extent of any concerns regarding the sufficiency or quality of audit evidence (e.g. whether they relate to specific elements of the audit evidence only or are more pervasive to the overall sufficiency or quality of audit evidence in the areas concerned); whether appropriate professional scepticism appears to have been exercised in forming audit judgements; and the extent of any non-compliance with standards or the firm's methodology identified.

judgements in the areas reviewed. There may be concerns in other areas, with implications that are individually or collectively significant.



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