PUBLIC NOTICE

Enforcement Action

IRISH AUDITING AND ACCOUNTING SUPERVISORY AUTHORITY (IAASA)

IN THE MATTER OF

Tony Kelly

Respondent

1. Following an investigation (in accordance with section 934(2)(b) of the Companies Act 2014) by the Irish Auditing and Accounting Supervisory Authority ('the Authority'), a Settlement Agreement has been agreed and the Authority has decided to impose a Severe Reprimand and the respondent is further fined €19,500 by way of sanction.

2. The contraventions were admitted by the Respondent.

Background

3. This matter concerned the audit of the financial statements of Wirecard UK and Ireland Limited (herein the entity) for the years ending 31 December 2016 and 2017.

4. Byrne Curtin Kelly audited these financial statements for years ended 31 December 2016 and 31 December 2017. Byrne Curtin Kelly have since ceased trading. The respondent was an audit partner in that firm. The audit report for each of the years was signed by the respondent. In respect of each year unmodified opinions were issued.

5. The entity is incorporated in the Republic of Ireland. The Parent undertaking is Wirecard Payment Solutions Holdings Limited, also incorporated in the Republic of Ireland. The ultimate parent undertaking is Wirecard AG, a PLC incorporated in Germany which was not audited by the respondent. Allegations of accounting malpractices followed Wirecard AG for a number of years. In 2019 the Financial Times published a series of investigations which considered whistle-blower complaints and internal documents concerning those allegations of malpractice at Wirecard AG. On 25 June 2020, Wirecard AG filed for insolvency.

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IAASA is a company limited by guarantee. **Registered Office** as shown at left. **Company No.** 412677

Is cuideachta faoi theorainn ráthaíochta é **ÚMICÉ. Oifig Chláraithe** mar a thaispeántar ar chlé. **Uimhir Cuideachta** 412677

6. Allegations of fraud of c.€400m prompted an investigation by the Garda National Economic Crime Bureau into the entity. The High Court appointed liquidators to the entity in October 2020.

7. The entity traded in the card payment processing industry. As a payment service provider, the entity charged its customers (merchants), mainly in the online travel, gaming and adult entertainment sectors, for the processing and reconciliation of payments made by their customers.

8. The business model of the entity was that it earned the majority of its revenue through its third-party acquiring relationship. In the third-party acquiring business, an external party called the third-party acquirer played the role of payment service provider, carrying out card processing for the entity. The third-party acquirer entered into, and managed contractual relationships with merchants and the acquiring bank selected by the third-party acquirer. Processing fees paid by customers were collected by the third-party acquirer and were passed through to the entity. The entity paid commissions for the processing and acquiring services provided.

The Relevant Standards of Conduct

9. As a result of the deficiencies identified in the two audit files reviewed the following relevant contraventions were identified and the relevant Regulations and Standards contravened:

CPA Ireland's Code of Ethics (in force at the relevant time):

130.1 The principle of professional competence and due care imposes the following obligations on members:

(a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and

(b) To act diligently in accordance with applicable technical and professional standards when providing professional services.

10. The standard of conduct reasonably to be expected of the respondent was set out in the Code of Ethics ("**the Code**") applicable at the relevant time, issued by CPA Ireland. Those standards contained in the Code are made in the public interest and are designed to maintain a high standard of professional conduct by all members of CPA Ireland.

11. In complying with the Code, to conduct an audit in accordance with applicable technical and professional standards, the relevant auditing standards, were the International Standards on Auditing (UK and Ireland) and International Standards on Auditing (Ireland) ("**ISAs**"). The purpose of ISAs is to establish standards and general principles with which auditors are required to comply. Together they form a body of standards that should be applied before an auditor can express an opinion that financial statements give a 'true and fair view' within the meaning of the Companies Act 2014.

12. Aspects of the following ISAs are referred to in this document:

International Standards on Auditing (UK and Ireland) (where relevant):

1. ISA (UK and Ireland) 200 - Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing (UK and Ireland)
2. ISA (UK and Ireland) 240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
3. ISA (UK and Ireland) 315 - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment
4. ISA (UK and Ireland) 330 - The auditor's responses to the assessed risks
5. ISA (UK and Ireland) 500 - Audit evidence
6. ISA (UK and Ireland) 505 - External Confirmations
7. ISA (UK and Ireland) 550 - Related parties

13. International Standards on Auditing (Ireland) (effective for the audits of financial statements commencing on or after 17 June 2016, for which opinions are issued on or after 1 February 2017):

1. ISA (Ireland) 200 - Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing (Ireland)
2. ISA (Ireland) 240 -The Auditor's responsibilities relating to fraud in an audit of financial statements

3. ISA (Ireland) 315 - Identifying and assessing the risks of material misstatement through understanding the entity and its environment

4. ISA (Ireland) 330 - The auditor's responses to the assessed risks

5. ISA (Ireland) 500 - Audit evidence

6. ISA (Ireland) 505 - External confirmations

7. ISA (Ireland) 550 - Related parties

14. The relevant contraventions identified in this case demonstrated that insufficient professional scepticism was applied in these audit engagements and the respondent's performance of the audit fell below the standards reasonably expected of a statutory auditor. Auditing standards require the auditor to plan and perform an audit with professional scepticism.

ISA 200 para 15 states:

> *The auditor shall plan and perform an audit with professional skepticism recognising that circumstances may exist that cause the financial statement to be materially misstated.*
>
> *The auditor shall maintain professional skepticism throughout the audit, recognising the possibility of a material misstatement due to facts or behaviour indicating irregularities, including fraud, or error, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and of those charged with governance.*

ISA 240 para 12 states:

> *The auditor shall maintain professional scepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.*

15. There was a lack of evidence that the respondent maintained professional scepticism throughout the two years he conducted the audits. In the audit file year end 2016 there were various examples of areas where the respondent designed and planned to perform certain audit procedures in response to assessed risks of material misstatement, to obtain certain items of audit evidence, and to perform walkthroughs and understand internal control in relation to key areas, of which there was no or no sufficient evidence of execution. The following examples highlight the issue:

In relation to Sales:

-The respondent set out that his response to the Revenue Recognition fraud risk included the performance of "walkthrough testing". There was no evidence on the audit file that walkthrough testing was performed in relation to sales / revenue.

-The respondent further set out that his response to the risk of material misstatement in relation to Sales included "reconciliation of sales to volume reports". There was no evidence on the audit file that this testing was performed.

In relation to Provider Balances: Collectability:

-The respondent set out that his response to the fraud risk included "post year-end receipts" and "assessment of contracts". There was no sufficient evidence on the audit file that the respondent designed and performed testing involving post year-end receipts. It was unclear on the audit file what contracts were assessed and there were no relevant contracts evidenced on the audit file.

16. In respect of the audit for the year end 2017, on the audit file, the following was noted:

"Professional Skepticism:

Professional Skepticism was maintained throughout the audit recognising the possibility that a material misstatement due to fraud could occur. The audit team held specific discussions at planning regarding the possibility of fraud. A team discussion was also held with the audit partner at the conclusion of the audit."

17. Whilst the respondent did bring issues to the attention of local management and the group auditor, there were a number of instances where the respondent did not maintain professional scepticism recognising the possibility that a material misstatement due to fraud could exist. For example:

> Balances with Citadelle and Al Alam:
>
> The respondent set out the following in the Audit Findings Letter:
>
> *There is no apparent policy or agreement for receiving money from Citadelle and Al Alam. The letter of credit / Escrow account has increased from €177,533,035 at 31/12/2016 to €327,533,035 at 31/12/2017. Turnover for the year processed through Al Alam was approximately €94 million, however only €14 million was received. In the same period €150 million was transferred from Al Alam to the Escrow account.*
>
> *No clear release agreement means that letter of credit / Escrow account continues to increase and creates significant exposure should a catastrophic failure occur in the letter of credit / Escrow provider which could result in a loss and non-recoverable amount of €327 million to WUKI.*
>
> *Recommendation:*
>
> *An agreement should be put in place for the release of funds from the letter of credit / Escrow account and this should occur on a monthly basis in line with current agreement with Al Alam and new funds being transferred from Al Alam to the Escrow account.*
>
> *Local management should receive a monthly statement from both Al Alam and Citadelle showing movements in and out of the specific accounts, the month end balance and these should be fully reconciled.*

18. The respondent was aware and acknowledged that there were issues in relation to the lack of a release agreement for funds in Escrow account and/or held by Al Alam, and identified that there was a risk that the amount(s) may not be recoverable. However, he did not consider this in the assessment of the recoverability of receivable balances from Al Alam, and the Escrow account balance. There was insufficient evidence on the file that he challenged management on the terms of the Escrow arrangement, the terms of the Al Alam third party acquiring arrangement, or the process' for receiving money from Citadelle and Al Alam. Further, there was no evidence or no sufficient evidence that the audit team performed audit procedures to verify material transactions through the Escrow account such as by the testing of 'lodgements' to the account, or 'payments' from the account. There was no evidence or no sufficient evidence that the auditor understood these transactions, or verified the transactions to flows of cash by agreeing to account statements or other account information.

19. The following was noted in the Audit Findings Report:

> *Audit Confirmation from Citadelle – Escrow Account Holder:*

We requested audit confirmations from Citadelle on the 26 Jan 2018 and received these on 22 March 2018. The closing balance on the confirmation letter received from Citadelle on 22 March 2018 was €327,533,035. A difference of €34,267,218 when compared to the amount on the TB of €293,265,817.

20. There was a significant difference identified between the balance as stated in the external confirmation and amount per the trial balance. There was no evidence that the respondent obtained bank account statements or other relevant account information to verify the actual balance in the account as at 31 December 2017. The respondent did not obtain management's reconciliation for this account. There was some evidence on the audit file that management did not reconcile the Escrow Account, and that management did not have access to relevant account statements or other relevant account information. There were no account statements or other account information on the audit file. The respondent should have challenged management on the availability of Escrow account statements. Where such statements were not available, the respondent should have considered this in his risk assessment, including assessment of fraud risk and the design of the response to the risk(s).

21. In the audit file year end 2017 there are various examples of areas where the respondent designed and planned to perform certain audit procedures in response to assessed risks of material misstatement, including in response to fraud risks, which included obtaining certain items of audit evidence, and performing walkthroughs, of which there was no or no sufficient evidence of execution. The following examples highlight the issue:

In relation to Sales:

- The respondent set out that his response to the Revenue Recognition fraud risk included the performance of "walkthrough testing". There was no evidence on the audit file that walkthrough testing was performed in relation to sales / revenue.

- The respondent further set out that his response to the risk of material misstatement in relation to Sales included "reconciliation of sales to volume reports". There was no evidence on the audit file that this testing was performed.

In relation to Cash and Bank:

- The respondent set out that his response to the fraud risk 'Misappropriation of Cash Amounts' included "bank reconciliations" and "transaction testing". There was no sufficient evidence of testing of bank reconciliations in relation to the Escrow Account. Further, there was no evidence of "transaction testing" in the Cash and Cash Equivalents section of the audit file. Finally, no transactions through the Escrow account in the year were vouched to flows of cash in bank statements or other account information.

1. Sales/Revenue:

1.1. The nature, timing and extent of the audit procedures designed and performed by the auditor in relation to Sales/Revenue were not responsive to the assessed risks of material misstatement at the assertion level for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017.

ISA 330 para 6 states:
The auditor shall design and perform further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

22. In respect of year end 2016, the financial statements report that the entity earned revenue of €200.2m. Approximately 93% of this revenue was earned through its third party acquiring business with Al Alam. The audit file does not evidence an understanding of the revenue process for sales through Al Alam.

23. A fraud risk was identified in relation to revenue recognition. The planned response to the assessed risk included 'walkthrough testing', and 'post year end receipts in respect of Wirecard Bank and Al Alam'. There was no evidence of walkthroughs being performed in relation to revenue recognition. There was no evidence or no sufficient evidence of audit procedures being performed regarding post year end receipts in respect of Wirecard Bank and Al Alam.

24. The planned response to the sales risk further included 'reconciliation of sales volume reports' There was no evidence or no sufficient evidence of audit procedures being performed regarding reconciliation of sales volume reports.

25. In performance of Sales Invoice Testing a sample of 14 transactions were selected for testing. 3 amounts related to the third party acquirer Al Alam, and 11 non-Al Alam related. There was no evidence as to how the sample size was determined and how the sample was selected. There was no detailed listing of sales included in the work papers and the audit file did not include detail from where the population was obtained. Further, the audit file did not include detail of the respondent's evaluation of the completeness and accuracy of the detailed listing. For each of the sales transactions in the sample the designed audit procedure included the following:

- i) Ensured invoice was addressed to customer
- ii) Ensured it was clerically correct
- iii) Ensured invoice was re the correct period
- iv) Checked that "Sales invoice paid"
- v) Vouched to Bank
- vi) Verified whether amount is included in year-end (debtors) (and appropriateness)

26. For the testing performed on all 14 transactions included in the sample, the following was noted:

a) *Invoice*: The respondent did not retain any of the invoices on the audit file to evidence performance of the audit procedure. For the 3 Al Alam transactions in the sample the respondent noted *'Report reviewed with Alan on site'*. It was unclear what this *'report'* was and why it was considered sufficient appropriate audit evidence. For the 11 non Al Alam transactions in the sample the respondent noted they were "*reviewed on site*".

b) *Vouch to Bank*: In respect of this matter there were no bank statements on the audit file to support the agreement of the invoiced amount to Bank. Specifically in relation to the Al Alam transactions in the sample, it was not evident what statements/account information local management had access to.

27. In respect of year end 2017, the financial statements report that the entity earned revenue of €177.7m. Approximately 70% of this revenue was earned through its third-party acquiring business with Al Alam. The audit file does not evidence an understanding of the revenue process for sales through Al Alam.

28. A fraud risk was identified in relation to revenue recognition. The planned response to the assessed risk included 'walkthrough testing', and 'post year end receipts in respect of Wirecard Bank and Al Alam'. There was no evidence of walkthroughs being performed in relation to revenue recognition. There was no evidence or no sufficient evidence of audit procedures being performed regarding post year end receipts in respect of Wirecard Bank and Al Alam.

29. The planned response to the sales risk further included 'reconciliation of sales volume reports'. However, there was no evidence or no sufficient evidence of audit procedures being performed regarding reconciliation of sales volume reports.

30. In performance of Sales Invoice Testing a sample of 15 transactions were selected for testing. There was no evidence as to how the sample size was determined. The sample did not cover any revenue earned through the third-party acquirer Al Alam, which accounted for approximately 70% of the revenue in 2017. The sample of 15 transactions selected represented 1.1% of the sales in the financial statements. For each of the sales transactions in the sample the designed audit procedure included the following:

i) Ensured invoice was addressed to customer
ii) Ensured it was clerically correct
iii) Ensured invoice was re the correct period
iv) Checked that "Sales invoice paid"
v) Vouched to Bank
vi) Verified whether amount is included in year-end (debtors) (and appropriateness)

31. For the testing performed on the sample selected it was noted that invoices were retained on the audit file for only 6 of the 15 transactions. There were no bank statements on the audit file to support the agreement of the invoiced amount to Bank. There were no audit procedures performed in relation to revenue from the Third-Party Acquiring business with Al Alam.

32. In the audit files for the year end 2016 and 2017, throughout audit procedures performed in relation to sales/revenue, particularly in relation to revenue earned through Al Alam, the respondent had not verified revenues earned to flows of cash. In relation to revenue through Al Alam, there was no evidence of amounts or transactions being agreed to invoice, other agreement, payment/receipt records, or bank statements or other relevant account information.

33. In respect of the audit files for the year end 2016 and 2017, the audit planning memorandum to the Group Auditor had the following set out concerning significant risk area on revenue recognition:

Merchant balances
We will check all year end reconciliations of merchant balances, ensuring that the company has recognised all proper revenue, and that this revenue has been recognised in agreement with that relevant contract and that 3rd party agreements have been received from the merchant. We will perform a full review on commission reports received from Munich.

34. There was no evidence of completion of the above procedures on the audit file in 2016 or 2017:

Acquirer balances
We will check all year end reconciliations of acquirer balances, ensuring that all revenue that is deemed to be due from the acquirer has been accounted for and confirmed with the acquirer. We will seek 3rd party confirmation as part of our audit testing. All payments will be checked via reconciliation files held by the Group.

35. Again, there was no evidence of completion of the above procedures on the audit file in 2016 or 2017.

1.2. The substantive procedures performed in response to the significant risks (and fraud risks) related to Sales/Revenue were insufficient and not specifically responsive to the risks for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017.

ISA 330 para 21 states:

If the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk.

36. In light of the examples set out in 1.1 above substantive procedures performed in response to the significant risks (and fraud risks) related to Sales/Revenue were insufficient and not specifically responsive to the risks.

1.3 The audit procedures designed and performed by the auditor were not appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence in relation to Sales/Revenue for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017.

ISA 500 para 6 states:

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

37. In light of the examples set out in 1.1 above the audit procedures were not appropriate for the purpose of obtaining sufficient appropriate audit evidence in relation to Sales/Revenue.

2. Debtors/Receivables (Debtors / Receivables / Financial Assets, and impairment of Debtors / Receivables / Financial Assets)

2.1. The nature, timing and extent of the audit procedures designed and performed by the auditor in relation to Debtors/Receivables for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017, were not responsive to the assessed risks of material misstatement at the assertion level.

In particular:

(i) audit procedures designed and performed on Debtors/Receivables balances with related parties, including the recoverability of these balances.

(ii) audit procedures designed and performed on Debtors/Receivables balances with Third Party Acquirer, including the recoverability of these balances.

ISA 330 para 6 states:

The auditor shall design and perform further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

38. The nature, timing and extent of the audit procedures designed and performed by the respondent in relation to debtors/receivables were not responsive to the assessed risks of material misstatement at the assertion level.

39. In the year end audit files for 2016 and 2017 the audit planning memo(s) note fraud risks were identified in relation to collectability, and status of security holdback, in relation to the provider balance. In both years the planned response to the fraud risks included “post year-end receipts”, “assessment of contracts”, and analysis of “backup documentation”. There was no or no sufficient evidence on the audit file that the respondent designed and performed testing involving post year-end receipts. It was unclear on the audit file what contracts were assessed, and what backup documentation was analysed. There were no relevant contracts evidenced on the audit file.

40. In respect of both the 2016 and 2017 year end audit files, the following was set out concerning significant risk area Trade Receivables – Provision for Bad Debts & Contingencies in the audit planning memorandum to the Group Auditor:

> *Bad Debt Provision*
> *We review all amounts due and ascertain if any potential provision is required or sufficient if already provided for.*

41. There was no evidence of completion of the above procedure on the audit file in 2016. On the 2017 audit file the only balance within the Debtors/Receivables financial statement line item that was reviewed for requirement/sufficiency of bad debt provision was the receivable balance from Al Alam. The audit procedures performed in relation to this provision were insufficient. The respondent did not consider the recoverability of, or the requirement for the provision for bad debt/impairment for any other balances, within Receivables/Debtors financial statement line item.

42. As set out in the 31 December 2017 financial statements the entity had Receivables of €11.4m. Schedules included on the audit file set out the accounts that comprised the €11.4m balance, included the following material balances:

i) Trade Debtors – Provider Bank - €545k:
ii) Trade Debtors Other - €2,816k
There was no evidence that these balances were subject to external confirmation procedures. There was no evidence that these balances were agreed to the counterparty's accounts, financial information, or other supporting evidence. There was no evidence of any audit procedures performed on the recoverability of these balances. There was no evidence or no sufficient evidence of any other relevant audit procedures performed on these material balances.

iii) Receivables from Al Alam (and Austek) – €7,787k
The gross receivable amount was €8,213k. The respondent included an opening to closing movement schedule for this account for the year ended 31 December 2017 on the audit file. There were a number of significant transactions included on the schedule for which the respondent did not perform procedures to validate, including verifying the transactions to flows of cash through bank statements or other relevant account information.

- Transfer to Escrow Account (Cr. €130m)
- Transfer from Al Alam (Cr. €14m)

43. The bad debt provision for this receivable above was a negative balance of €425k. The audit file evidences that the respondent understood management's policy and process for determination of provision for impairment, being *Provision = 1% of the balance*. There was no evidence or no sufficient evidence that the respondent assessed the appropriateness of the policy in accordance with the requirements of IAS 39 Financial Instruments: Recognition and Measurement. The audit file does not evidence procedures performed to assess the recoverability of the receivable and/or test the sufficiency of the bad debt provision. The respondent performed a recalculation of the bad debt provision based on the entity's methodology and identified a material difference of €343k. This misstatement was not included as an uncorrected misstatement in the 'Summary of unadjusted errors' in the audit file. This misstatement was not communicated to Those Charged with Governance in the audit results report.

44. As set out in the 31 December 2016 financial statements the entity had Receivables of €80.3m. Schedules included on the audit file set out the accounts that comprise the €80.3m balance, including the following material balances:

i) Trade Debtors – Provider Bank - €1,362k:
There was no evidence that the balance was subject to external confirmation procedures. There was no evidence that the balance was agreed to the counterparty's accounts, financial information, or other supporting evidence. There was no evidence of any audit procedures performed on the recoverability of the balance. There was no evidence or no sufficient evidence of any other relevant audit procedures performed on this material balance.

ii) Receivables from Al Alam (and Austek) – €77,203k
The gross receivable amount was €77,983k. The respondent included an opening to closing movement schedule for this account for the year ended 31 December 2016 on the audit file. There were a number of significant transactions included on the schedule for which the respondent did not perform procedures to validate, including verifying the transactions to flows of cash through bank statements or other relevant account information such as:
- Transfer to Escrow Account (Cr. €121.5m)
- Cash received (Cr. €27.5m)

45. The bad debt provision for this receivable above was (779.8k). The audit file does not evidence procedure performed to assess the recoverability of the receivable and/or test the sufficiency of the bad debt provision.

2.2. The substantive procedures performed in response to the significant risks (and fraud risks) related to Debtors/Receivables for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017 were insufficient and not specifically responsive to the risks.

In particular, there was no or no sufficient evidence that the auditor performed substantive procedures specifically responsive to the following:

(i) Fraud risks

(a) Provider balance – Collectability, and status of security holdback

(ii) Significant Risks

(a) Trade receivables - Provision for Bad Debts and Contingencies

(b) Merchant and Acquirer reconciliation

ISA 330 para 21 states:

If the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk.

46. In light of the examples set out in 2.1 above substantive procedures performed in response to the significant risks (and fraud risks) related to Debtors/Receivables were insufficient and not specifically responsive to the risks.

2.3. The audit procedures designed and performed by the auditor for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017 were not appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence in relation to Debtors/Receivables, including in relation to the following:

i) Intercompany receivables

ii) Third party Acquirer Al Alam

(a) Receivable balance

(b) Provision for impairment of receivable.

ISA 500 para 6 states:

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

47. In light of the examples set out in 2.1 above the audit procedures were not appropriate for the purpose of obtaining sufficient appropriate audit evidence in relation to Debtors/Receivables, including the Trade Debtors – Provider Bank amount of €545k in 2017, and €1,362k in 2016, receivable from the group company, as well as the intercompany balances included within the *Trade Debtors – Other account.*

3. Cash and Cash Equivalents

3.1. The nature, timing and extent of the audit procedures designed and performed by the auditor in relation to Cash and Cash Equivalents were not responsive to the assessed risks of material misstatement at the assertion level for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017.

In particular, in relation to the 'Escrow Account' in the financial statements for the year ended 31 December 2016:

(i) Testing of Escrow Account Reconciliations – There was no evidence or no sufficient evidence that the auditor performed testing of reconciliation of the 'Escrow Account'. Further, it was unclear from the audit file whether Management performed any reconciliations of this account.

(ii) Testing of lodgements to and payments from the account – There was no evidence or no sufficient evidence that the audit team performed audit procedures to verify material transactions through the account such as by the testing of 'lodgements' to the account, or 'payments' from the account. There was no evidence or no sufficient evidence that the auditor understood these transactions, or verified the transactions to flows of cash by agreeing to account statements or other account information.

(iii) Recoverability – There was no evidence or no sufficient evidence that the auditor designed and performed audit procedures to assess the recoverability of the balance in the 'Escrow Account'.

(iv) Accounting policy – There was no evidence or no sufficient evidence that the auditor understood the entity's accounting policies in relation to Cash and Cash Equivalents, specifically in relation to the 'Escrow Account' and its classification as Cash and Cash Equivalents.

In particular, in relation to the 'Escrow Account' in the financial statements for the year ended 31 December 2017:

(i) Testing of Escrow Account Reconciliations – There was no evidence or no sufficient evidence that the auditor performed testing of reconciliation of the 'Escrow Account'. Further, it was unclear from the audit file whether Management performed any reconciliations of this account.

(ii) Testing of lodgements to and payments from the account – There was no evidence or no sufficient evidence that the audit team performed audit procedures to verify material

transactions through the account such as by the testing of 'lodgements' to the account, or 'payments' from the account. There was no evidence or no sufficient evidence that the auditor understood these transactions, or verified the transactions to flows of cash by agreeing to account statements or other account information.

(iii) Recoverability – There was no evidence or no sufficient evidence that the auditor designed and performed audit procedures to assess the recoverability of the balance in the 'Escrow Account',

(iv) Accounting policy – There was no evidence or no sufficient evidence that the auditor understood the entity's accounting policies in relation to Cash and Cash Equivalents, specifically in relation to the 'Escrow Account' and its classification as Cash and Cash Equivalents.

ISA 330 para 6 states:

The auditor shall design and perform further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

48. The nature, timing and extent of the audit procedures designed and performed by the respondent in relation to cash and cash equivalents were not responsive to the assessed risks of material misstatement at the assertion level.

49. The financial statements set out that the entity had cash and cash equivalents of €347.2m at 31 December 2017 (2016: €180.9m). The financial information included on the audit file sets out that €327.5m of this balance was in an "Escrow account" at 31 December 2017 (2016: €177.5m). The 2016 and 2017 audit files do not evidence that the respondent sufficiently understood the terms of the Escrow account arrangement, the process and terms for release of funds from the Escrow account, or the specific bank where the account was held. External confirmation of the balance was not obtained from the bank in which the funds were held. Confirmation of funds held in the Escrow account was obtained from Escrow Agents (Citadelle Corporate Service Pte. Ltd.) and Al Alam only. The respondent did not obtain any account statements, or other account information to verify the account balance at year end, or to verify any transactions through the account in the financial years 2016 and 2017. There was no evidence or no sufficient evidence that the respondent performed testing of reconciliation of the 'Escrow Account'. Further, it was unclear from the audit file whether Management performed any reconciliations of this account. The was no evidence to demonstrate that the respondent performed any procedures to understand and verify transactions through the account during the years 2016 and 2017.

50. The respondent included an opening to closing movement schedule for Escrow account on the 2016 audit file. The schedule set out that the opening balance was €56m and there were lodgements of €121.5m to the account in 2016, and that the closing balance was €177.5m. The respondent did not perform procedures to verify the lodgement(s) totalling €121.5m. The transaction was not verified to flows of cash through bank statements or other relevant account information. Further, on the audit file there was a confirmation from the Escrow Agent to the entity stating that the balance was €41.5m in March 2016. This was indicative of withdrawals from the Escrow account in the period 1 January 2016 – 31 March 16. This was not reflected on the movement schedule on the audit file. No audit procedures were designed and performed to verify withdrawals from the Escrow account in the year.

51. For the 2017 audit the respondent identified a fraud risk in relation to cash and cash equivalents. He noted '*Misappropriation of Cash Amounts'*, and included "*bank reconciliations*" and "*transaction testing*" in his planned response to the assessed fraud risk. However, there was no or no sufficient evidence of performance of the procedures in response to the fraud risk.

3.2. The results of the external confirmation procedure performed by the auditor for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017 in relation to the 'Escrow Account' (i.e. confirmations received from a) Escrow Agent (Citadelle Corporate Service Pte. Ltd.), and b) 3rd Party Acquirer (Al Alam), rather than from the bank in which the funds were held) were not sufficient to draw the conclusion that the external confirmation procedure provided relevant and reliable audit evidence.

ISA 505 para 16 states:

The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether further audit evidence is necessary.

52. The 2016 and the 2017 audit files do not evidence that the respondent evaluated whether the results of the external confirmation procedures performed, provided relevant and reliable audit evidence, or whether further audit evidence was necessary. There was no evidence that the respondent sufficiently considered the following in the evaluation:

> In 2016 and 2017 the respondent did not obtain confirmation of funds held in the Escrow account from the bank in which the funds are held, only from the Escrow Agent (Citadelle Corporate Service Pte. Ltd.) and/or Al Alam.
>
> External confirmation of the Escrow account balance from the Escrow Agent is not included on the 2016 audit file.
>
> As set out in the 2017 Audit Findings Letter, there were a number of matters noted in relation to external confirmation procedures. The respondent set out the following in relation to the confirmation of the Escrow account:
>
>> *Audit Confirmation from Citadelle – Escrow Account Holder:*
>>
>> *We requested audit confirmations from Citadelle on the 26 Jan 2018 and received these on 22 March 2018. The closing balance on the confirmation letter received from Citadelle on 22 March 2018 was €327,533,035. A difference of €34,267,218 when compared to the amount on the TB of €293,265,817.*

53. Further, the examples set out in 3.1 above indicate that the nature, timing and extent of other audit procedures designed and performed by the respondent in relation to the Escrow account were not responsive to the assessed risks of material misstatement at the assertion level and did not provide relevant and reliable audit evidence.

3.3. The audit procedures designed and performed by the auditor for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017 were not appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence in relation to Cash and Cash equivalents, in particular in relation to the 'Escrow Account'.

ISA 500 para 6 states:

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

54. In light of the detail set out in 3.1 and 3.2 above the audit procedures designed and performed were not appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence in relation to cash and cash equivalents.

4. Related Party transactions

4.1. There was no evidence or no sufficient evidence that the auditor designed and performed audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions.

In particular, in relation to the audit of the financial statements for the year-end 2016, the Audit programme Section O concerning related parties was not completed in part or at all.

In particular, in relation to the audit of the financial statements for the year ended 2017, there was no evidence or no sufficient evidence that the auditor performed the audit procedures designed to address the below specific audit risks identified by the auditor.

Specific Audit Risks:

(i) There are related parties and there are related party transactions during the period. Ensure that these are accounted for correctly and disclosed appropriately.

- Impacted Assertions: Valuation, completeness, existence, accuracy, presentation & disclosure

- Testing - Assess the accuracy, cut-off and presentation and disclosure of related party transactions.

(ii) Are the intercompany loan balances fully repayable and should they be considered from a recoverability and repayability perspective.

- Impacted Assertions: Valuation, accuracy, presentation & disclosure

- Testing - Assess the status of the companies who have intercompany loans and their going concern status. If there is not repayment capacity this should be discussed with the directors in the first instance but the disclosures in the financial statements and the audit opinion should be considered.

ISA 550 para 20 states:

As part of the ISA (Ireland) 330 requirement that the auditor respond to assessed risks, the auditor designs and performs further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions.

55. In relation to the year end 2016 audit, the audit programme Section O Related Parties had not been completed. As a result, there was no evidence or no sufficient evidence of the respondent designing and performing further audit procedures to obtain sufficient appropriate audit evidence in relation to related party relationships and related party transactions, including the following intercompany balances at 31 December 2016:

> Receivables:
> Trade Debtors – Provider Bank - €1,361.2k
> Various intercompany receivables balances included within Trade Debtors - Other €1,470.5k
>
> Payables:
> Amounts Payable to Group Companies' (€43,474,361) – comprises a number of related party payable balances.

56. Audit procedures performed on these intercompany balances within other sections of the audit file, namely G Debtors, and I Trade Creditors and Accruals were not sufficient to obtain audit evidence in relation to the completeness, accuracy, valuation, or rights and obligations assertions. There was a lack of evidence to demonstrate a sufficient understanding of a number of the related party balances evidenced on the audit file. There was insufficient evidence that related party balances and transactions had been verified by agreeing to invoice, other supporting agreement of information, or to counterparty financial statements or financial information. Flows of cash related to related party transactions had not been verified against bank statements.

57. In relation to the year end 2017 audit, as set out in the Audit Completion Memorandum the respondent identified specific risks, and responses to the assessed risks, in relation to related party transactions.

i) Risk of material misstatement identified - There are related parties and there are related party transactions during the period. Ensure that these are accounted for correctly and disclosed appropriately.

Proposed audit response - Assess the accuracy, cut-off and presentation and disclosure of related party transactions.

ii) Risk of material misstatement identified - Are the intercompany loan balances fully repayable and should they be considered from a recoverability and repayability perspective.

Proposed audit response - Assess the status of the companies who have intercompany loans and their going concern status. If there is not repayment capacity this should be discussed with the directors in the first instance but the disclosures in the financial statements and the audit opinion should be considered.

58. The audit file does not evidence that the respondent performed the planned audit procedures in response to the assessed risks.

59. Related party balances included the following as at 31 December 2017:

Receivables:
Trade Debtors – Provider Bank - €545k
Various intercompany receivables balances included within Trade Debtors - Other €2,816k

Payables:
Amounts Payable to Group Companies' (€76,133k) – comprises a number of related party payable balances.

Audit procedures performed on these intercompany balances within audit file section O Related Parties, or within other sections of the audit file, namely G Debtors, and I Trade Creditors and Accruals were not sufficient to obtain audit evidence in relation to the completeness, accuracy, valuation, or rights and obligations assertions. There was an insufficient understanding of many related party balances evidenced on the audit file. There was insufficient evidence that related party balances and transactions had been verified by agreeing to invoice, other supporting agreement or information, or to counterparty financial statements or financial information. Flows of cash related to related party transactions had not been verified against bank statements.

4.2. The audit evidence obtained in relation to the assessed risks of material misstatement concerning related parties and related party balances and transactions was not sufficient and/or appropriate:

In particular, in relation to the audit of the financial statements for the year ended 31 December 2016 the Audit programme section O concerning related parties was not completed in part or at all.

In particular, in relation to the audit of the financial statements for the year ended 31 December 2017:

> **(i) those intercompany balances included within trade receivables**
>
> **(ii) those intercompany payables balances that comprise the Amounts Payable to Group Companies balance of €76.1m**

ISA 500 para 6 states:

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

60. The observations and examples are set out in 4.1 above. The audit procedures were not appropriate for the purpose of obtaining sufficient appropriate audit evidence in relation to related party balances and transactions.

4.3. There was no evidence or no sufficient evidence that the auditor understood the underlying circumstances of the entity's relationship with Al Alam to determine whether a related party relationship existed. In particular, in relation to the audit of the financial statements for the year ended 31 December 2016 and/or 2017:

> **(i) There was no evidence or no sufficient evidence of an understanding of Al Alam, its owners, its Directors, its organisation structure, its operations, and Wirecard UK and Irelands relationship with Al Alam, and lines of communication with Al Alam.**

ISA 550 para 21 states:

If the auditor identifies arrangements or information that suggests the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor, the auditor shall determine whether the underlying circumstances confirm the existence of those relationships or transactions.

61. In respect of both years the audit files did not evidence an understanding of Al Alam, the entity's relationship with Al Alam, the lines of communication or the organisational structure of Al Alam. It was unclear on the audit files what procedures the respondent performed to assess and understand whether Al Alam was a related party of the entity.

4.4. There was no evidence or no sufficient evidence for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017 that the auditor inquired of management and others within the entity, or performed other risk assessment procedures considered appropriate, to obtain an understanding of the controls, if any, that management had established to:

(i) authorise and approve significant transactions and arrangements with related parties, and

(ii) authorise and approve significant transactions and arrangements outside the normal course of business.

ISA 550 para 14 states:

The auditor shall inquire of management and others within the entity, and perform other risk assessment procedures considered appropriate, to obtain an understanding of the controls, if any, that management has established to:

(a)……

(b) Authorize and approve significant transactions and arrangements with related parties; and

(c) Authorize and approve significant transactions and arrangements outside the normal course of business.

62. The audit files did not evidence that the respondent had obtained an understanding of the controls, if any, that management had established in relation to related party transactions to:

(b) Authorise and approve significant transactions and arrangements with related parties,

(c) Authorise and approve significant transactions and arrangements outside the normal course of business.

63. There was no or no sufficient evidence on the files of relevant enquiries of management or others within the entity in this regard. There was no evidence of walkthroughs performed to obtain understanding of the controls and processes in place, and there were no controls set out on the audit files. There was no evidence of an understanding of the processes and controls that management used. From the evidence on the audit files, it was unclear what controls, if any, were in place in relation to the authorization and approval of significant transactions and arrangements with related parties, and transactions and arrangements outside the normal course of business.

5. Understanding the Entity

5.1. There was no evidence or no sufficient evidence on the audit file for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017 that the auditor obtained an understanding of the nature of the entity, including its operations, in particular:

> **(i) Al Alam, the Third Party Acquirer relationship, lines of communication with Al Alam, and reporting from Al Alam.**
>
> **(ii) The entity's client base – i.e. the clients from which the entity derives its material sales/revenue.**
>
> **(ii) Escrow Agent relationship (Citadelle Corporate Service Pte. Ltd)**
>
> **(iii) The 'Escrow Account' balance. The bank where this balance was held. The process and terms for release of funds from the 'Escrow Account'.**

64. ISA 315 para 11(b) states:

The auditor shall obtain an understanding of the following:

(b) The nature of the entity, including:

(i) its operations;

(ii) its ownership and governance structures;

(iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and

(iv) the way that the entity is structured and how it is financed to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.

5.2. There was no evidence or no sufficient evidence that the auditor obtained an understanding of the entity's selection and application of accounting policies. There was no evidence or no sufficient evidence that the auditor evaluated whether the entity's accounting policies were appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.

In particular, in relation to the financial statements for the year end 2016 and/or 2017

(i) Sales / Revenue

- There was no evidence or no sufficient evidence of an understanding of the entity's selection and application of accounting policies in relation to Sales / Revenue through its Third Party Acquiring business (Al Alam).

- There was no evidence or no sufficient evidence of the auditor's evaluation of the entity's accounting policies against the requirements of the applicable financial reporting framework (including IAS 18 - Revenue).

ii) Debtors / Receivables

- There was no evidence or no sufficient evidence of an understanding of the entity's selection and application of accounting policies in relation to Debtors / Receivables (including Financial Assets, and impairment of Debtors / Receivables / Financial Assets).

- There was no evidence or no sufficient evidence of the auditor's evaluation of the entity's policy for provision for impairment of financial assets against the requirements of the applicable financial reporting framework.

iii) Cash and cash equivalents

- There was no evidence or no sufficient evidence of an understanding of the entity's selection and application of accounting policies in relation Cash and Cash Equivalents, specifically the selection and application of accounting policies in relation to the 'Escrow Account', including its classification as Cash and Cash Equivalents.

- There was no evidence or no sufficient evidence of the auditor's evaluation of the entity's accounting policies in relation to Cash and Cash Equivalents, specifically in relation to the 'Escrow Account', against the requirements of the applicable financial reporting framework.

65. ISA 315 para 11 (c) states:

The auditor shall obtain an understanding of the following:

(c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.

5.3. There was no evidence or no sufficient evidence that the auditor obtained an understanding of internal control, or control activities, relevant to the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017, including in the following areas:

(i) Sales/Revenue, in particular as it relates to the Third Party Acquiring Business (Al Alam)

(ii) Debtors / Receivables / Financial Assets, and impairment of Debtors / Receivables / Financial Assets

(iii) Intercompany / Related Party transactions

(iv) Cash and Cash Equivalents, particularly as it relates to the 'Escrow Account'

(v) General ledger and journal entry process

66. ISA 315 para 12 states:

The auditor shall obtain an understanding of internal control relevant to the audit

ISA 315 para 20 states:

The auditor shall obtain an understanding of control activities relevant to the audit.

5.4. There was no evidence or no sufficient evidence that the auditor obtained an understanding of how the entity has responded to risks arising from IT, in understanding the entity's control activities for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017, including in the following areas:

(i) Sales/Revenue, in particular as it relates to the Third Party Acquiring Business (Al Alam)

(ii) Debtors / Receivables / Financial Assets, and impairment of Debtors / Receivables / Financial Assets

(iii) Intercompany / Related Party transactions

(v) General ledger and journal entry process

67. ISA 315 para 21 states:

In understanding the entity's control activities, the auditor shall obtain an understanding of how the entity has responded to risks arising from IT.

5.5. There was no evidence or no sufficient evidence that the auditor obtained an understanding of the information system(s), including the related business processes relevant to financial reporting for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017, including in the following areas:

(i) Sales/Revenue, in particular as it relates to the Third Party Acquiring Business (Al Alam)

(ii) Debtors / Receivables / Financial Assets, and impairment of Debtors / Receivables / Financial Assets

(iii) Intercompany / Related Party transactions

(v) General ledger and journal entry process

68. ISA 315 para 18 states:

The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas:

(a) The classes of transactions in the entity's operations that are significant to the financial statements;

(b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;

(c) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;

(d) How the information system captures events and conditions, other than transactions, that are significant to the financial statements;

(e) The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and

(f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.

This understanding of the information system relevant to financial reporting shall include relevant aspects of that system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers.

5.6. There was no evidence or no sufficient evidence that the auditor evaluated the design of controls that are relevant to the audit, or determined whether they had been implemented, by performing procedures in addition to inquiry of the entity's personnel for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017, including in the following areas:

(i) Sales/Revenue, in particular as it relates to the Third Party Acquiring Business (Al Alam)

(ii) Debtors / Receivables / Financial Assets, and impairment of Debtors / Receivables / Financial Assets

(iii) Intercompany / Related Party transactions

(iv) Cash and Cash Equivalents, particularly as it relates to the 'Escrow Account'

(v) General ledger and journal entry process

69. ISA 315 para 13 states:

When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel.

5.7. There was no evidence or no sufficient evidence that the auditor obtained an understanding of the entity's controls relevant to the significant risks (and fraud risks) for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017, including in the following areas:

(i) Sales/Revenue (including the related fraud and significant risks)

(ii) Debtors / Receivables / Financial Assets, and impairment of Debtors / Receivables / Financial Assets (including the related fraud and significant risk areas)

(iii) Intercompany / Related Party transactions (including the related fraud risk areas)

(iv) Cash and Cash Equivalents (including the related fraud risk areas)

70. ISA 315 para 29 states:

If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls, including control activities, relevant to that risk.

6. The Auditor's responsibilities relating to fraud in an audit of financial statements, including the requirement to maintain professional scepticism throughout the audit.

6.1. There was no evidence or no sufficient evidence that the auditor obtained an understanding of the entity's controls, or control activities, relevant to the assessed risks of material misstatement due to fraud for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017.

71. ISA 240 para 27 states:

The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks.

6.2. The nature, timing and extent of the audit procedures designed and performed were not responsive to the assessed risks of material misstatement due to fraud at the assertion level for the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017.

72. ISA 240 para 30 states:

In accordance with ISA (Ireland) 330, the auditor shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level.

73. The respondent identified a number of risks of material misstatement due to fraud in both the 2016 and 2017 audits, including the following:

2016 and 2017:
Sales – Revenue recognition
Provider balance – Collectability, and status of security holdback

2017:
Cash/Bank – Misappropriation of cash amounts

74. In respect of both years 2016 and 2017, in light of the detail set out in grounds 1.1, 2.1, and 3.1 above, the nature, timing and extent of the audit procedures designed and performed were not responsive to the assessed risks of material misstatement due to fraud.

6.3. For the audit of the Financial Statements of the entity for the year ended 31 December 2016 and/or 2017, there/or was no evidence or no sufficient evidence that the auditor designed and performed audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

75. ISA 240 para 32 states:

Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform audit procedures to:
(a) Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. In designing and performing audit procedures for such tests, the auditor shall:
(i) Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
(ii) Select journal entries and other adjustments made at the end of a reporting period; and
(iii) Consider the need to test journal entries and other adjustments throughout the period.

76. In respect of both years 2016 and 2017, the audit files do not evidence that the respondent understood the journal entry process, and any controls in place in relation to journal entries. There was no evidence on the audit file of audit procedures designed and performed to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

6.4. In relation to the audit of the financial statements for the year ended 31 December 2016 and/or 2017 the Auditor failed to demonstrate in part or at all that professional scepticism was exercised recognising the possibility that a material misstatement due to fraud could exist.

77. ISA 240 para 12 states:

In accordance with ISA 200, the auditor shall maintain professional scepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.

Sanction

78. The sanction imposed must be proportionate balancing the need to protect the public with the respondents' own interests.

79. The purpose of sanction is to declare and uphold proper standards of conduct amongst statutory auditors and statutory audit firms and to maintain public and market confidence in statutory auditors and statutory audit firms and their regulators. In addition, the purpose of sanction is to protect the public from statutory auditors and statutory audit firms whose standard of work falls short of the high-quality audit expected of statutory auditors and statutory audit firms.

80. In coming to the appropriate and proportionate sanction the Authority took into account the Authorities sanctions guidance (effective from 8 March 2021): The Authority also had regard to its published policy on settlement agreements. The Authority had regard to:
(a)The gravity and duration of the relevant contravention;
(b)The degree of responsibility of the specified person;
(c) The financial strength of the specified person;
(d)The amount of profits gained or losses avoided by the specified person in consequence of the contravention;
(e)The level of cooperation of the specified person with the Supervisory Authority;
(f) Previous relevant contraventions committed by the specified person.

81. The Authority considers that the conduct in question was a serious departure from the standards expected of a statutory auditor. There were numerous departures from the standards identified and there was a lack of professional scepticism applied when conducting this complex audit. The fact that this case relates to the audit of the entity over a two year period is an aggravating factor. However, in mitigation the respondent's engagement

with the Authority from the outset of the preliminary investigation has been exceptional. The respondent's timely admissions demonstrate his insight into the contraventions that were identified. This case relating to the respondent does not concern issues relating to dishonesty or a lack of integrity.

82. In considering the level of engagement of the respondent with the Authority, an early settlement discount was also applied.

83. The Authority considered the sanction options open to it in ascending order of seriousness.

84. The Authority took into account the timing of the admissions and it considered that it was appropriate to apply an early settlement discount of 30% to the level of the fine imposed.

85. The Authority concluded that the appropriate and proportionate sanction for the contraventions identified in respect of the audit for both years in this case is a **Severe Reprimand** and, that the respondent is further **fined €19,500** (the early settlement discount having been applied).

Date: 3 March 2023