

2020

Audit Quality Unit

**Report on 2019
quality assurance
review of
EisnerAmper Audit
Limited**

March 2020

Mission

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest.

About IAASA

The Irish Auditing and Accounting Supervisory Authority ('IAASA' or 'the Authority') is designated as the competent authority¹ in Ireland responsible for quality assurance reviews of statutory auditors and audit firms that carry out statutory audits of public-interest entities (audits of PIEs).

The Authority accepts no liability and disclaims all responsibility for the consequences of anyone acting or refraining from acting in reliance on the information contained in this report or for any decision based on it.

Guide to reports on quality assurance reviews

The Authority has published a guide to assist readers in understanding reports on quality assurance reviews of audit firms. The guide sets out what users can expect from the quality assurance review reports and explains how the quality assurance review process drives the form and content of these reports and can be accessed [here](#).

¹ Audit reform legislation requires the designation of a competent authority in each member state. Audit reform legislation comprises EU Regulation 537/2014 and Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 [OJ No. L 157, 9.6.2006, p.87] on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC, as amended by Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 [OJ No. L 158, 27.5.2014, p.196] amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts. The Directive is transposed into Irish law in the Companies Act 2014.

1. Introduction

Overview of EisnerAmper Audit Limited (the Firm) and the outcome of the quality assurance review

The Firm



1

Office in Dublin



36

Audits of public-interest entities in 2019



4

Audit partners



1.3%

Market share based on audit fees associated with public-interest entities in 2019

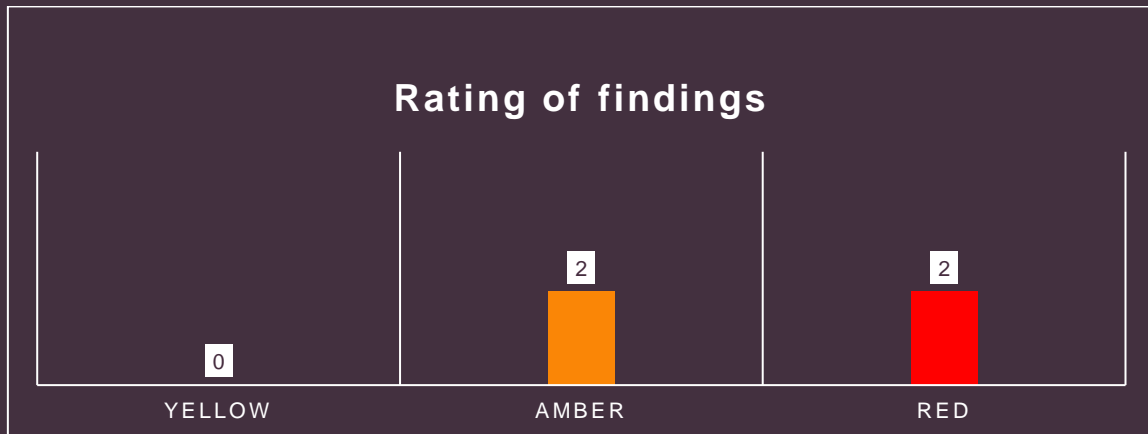


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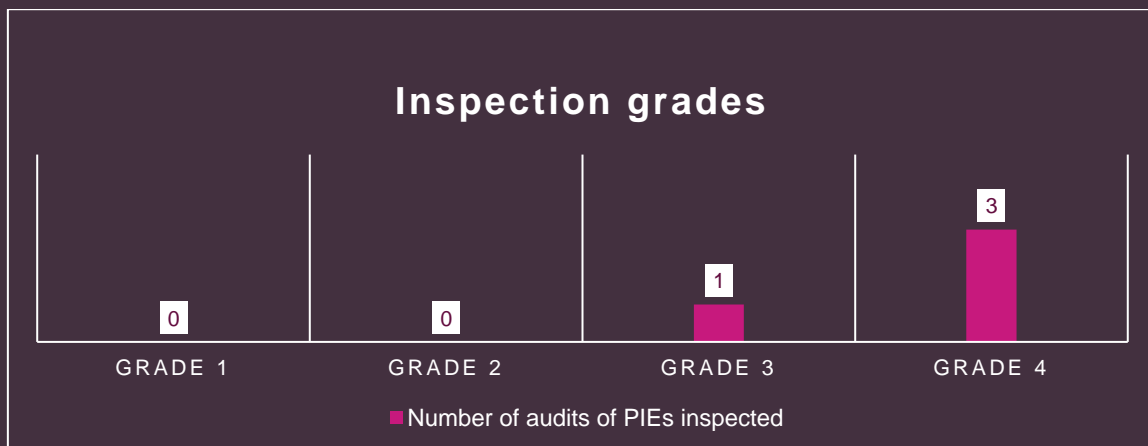
Personnel working in the audit function

The review

The Firm's system of quality control



Audits of PIEs



1.1. Contents of this report

This report documents the findings and recommendations from the Authority's quality assurance review of the Firm, which took place in 2019.

Where improvements are required in the design and/or implementation of the Firm's system of quality control, this report details those findings and sets out the Authority's recommendations for the Firm. This report also provides a summary of the four audits of PIEs inspected as part of the quality assurance review and discloses the grade that has been assigned to each of the audits inspected.

This report also sets out the Authority's conclusions on whether actions have been taken by the Firm to implement the recommendations made by the Authority in the first quality assurance review.

2. Quality assurance review explained

The purpose of a quality assurance review is to assess the effectiveness of the Firm's system of quality control. This involves an assessment of the design of the system of quality control, performance of compliance testing around the implementation of the Firm's processes and procedures, together with inspection of a sample of audits of PIEs. The quality assurance review is not designed to identify all weaknesses which may exist in the Firm's policies and procedures or in the implementation of those policies and procedures.

The assessment of the design of the Firm's system of quality control involves a review of the Firm's policies and procedures together with consideration of the impact of deficiencies identified, if any, on audit quality. Performance of compliance testing involves a review of evidence to corroborate the implementation of the Firm's policies and procedures.

The sample of audits of PIEs is selected on a risk basis, selecting audits which have particular complexities as well as ensuring that audits of varying sizes are selected. The sample is not a representative sample and therefore results cannot be extrapolated to make inferences about audits not inspected. An inspection of an audit involves review of the sufficiency and quality of audit evidence across a number of selected audit areas.

3. Scope of the quality assurance review of the Firm

The assessment of the Firm's system of quality control involves review of 13 areas over a three year period. The quality assurance review which took place in 2019 assessed the design of the system of quality control in the following areas:

- Tone at the top
- Partner and staff evaluation and compensation
- Engagement quality control
- Offshoring

For each of the four areas reviewed, the Authority assessed the Firm's policies and procedures and performed compliance testing.

Further to this, a sample of four audits of PIEs were selected for inspection. The following areas were selected as part of each audit inspection:

- Audit planning
- Communications with the audit committee, or equivalent
- Completion areas

Certain additional areas were selected at the discretion of the Authority, taking into consideration specific risks pertaining to the audit as well as other areas of focus for the Authority.

4. Overall view on the Firm's audit quality

There were two significant deficiencies and two matters requiring improvement identified in relation to the effectiveness of the design or implementation of the Firm's system of quality control arising from this review.

One audit of a PIE inspected was assigned a grade of 3 (improvements required). Three audits of PIEs inspected were assigned a grade of 4 (significant improvements required).

For each finding, the Authority follows up to ensure the recommendation is implemented within twelve months. Where the recommendation is not satisfactorily implemented, the Authority refers the matter to its enforcement team.

Further details on the results of the quality assurance review are set out in section 5. A description of ratings and grades is set out in the Appendix.

5. Results of the quality assurance review

Overview of areas reviewed

Tone at the top	<p>The purpose of testing in this area is to ensure that the senior leadership of the Firm communicates effectively that audit quality is of significant importance in the Firm. In order to assess this, the Authority interviews those holding key leadership positions in the Firm and review communications issued in relation to audit quality and strategy in general. This testing also includes a review of audit tender documentation and an assessment of whether the communications made at the audit tender phase are consistent with the audit work that is subsequently performed.</p> <p>The Firm was very open and co-operative and all information requested during the review was provided on a timely basis. While the Authority noted that audit quality was consistently communicated as being of vital importance, the Authority noted a high volume of findings in the individual audits of PIEs inspected, some of which were significant, which raises concerns about the effectiveness of those communications. The Authority also identified significant discrepancies between the communications made by the Firm in tender documents for audits of PIEs and the audit work subsequently performed.</p> <p>Full details of this finding and recommendation are contained below. (Finding 1)</p>
Partner and staff evaluation and compensation	<p>The testing in this area involves understanding the policies and procedures around the evaluation and compensation of partners and staff and assessing compliance with these policies and procedures by selecting samples of appraisals for both partners and staff and reviewing these against changes in compensation in order to ensure that audit quality is reflected in compensation.</p> <p>The Authority has no findings or recommendations in the area of partner evaluation and compensation.</p> <p>The Authority identified a number of issues regarding the evaluation of audit staff.</p> <p>Full details of these findings and recommendation are contained below. (Findings 3 and 4)</p>
Engagement quality control	<p>The testing in this area seeks to understand the policies regarding the Firm's engagement quality control (EQC) reviews, which form part of the Firm's overall quality programme. The testing involves selecting a sample of engagements to review for compliance with those policies.</p> <p>The Firm has a policy in place relating to EQC reviews, whereby a second partner performs an independent review of an audit in advance of the audit engagement partner signing the auditor's report, with the aim of ensuring that the engagement has been carried out to a high level of quality.</p> <p>On three of the four audits of PIEs inspected, the EQC review failed to detect the significant audit deficiencies relating to significant risk areas.</p> <p>Full details of this finding and recommendation are contained below. (Finding 2)</p>
Offshoring	<p>The Firm does not offshore any of its audit work and therefore no testing was performed in this area.</p>

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

Area	Significance rating	Background	Issue	Recommendation
1. Tone at the top	● Red	<p>Auditing standards require audit firms to establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing engagements.</p> <p>During the inspection period, the number of audits of PIEs carried out by the Firm increased significantly.</p> <p>The Authority reviewed the audit tender documentation issued by the Firm in relation to five audit engagements that were subsequently performed by the Firm.</p>	<p>There is insufficient evidence of the Firm establishing adequate policies and procedures to promote an internal culture recognizing that quality is essential in performing engagements. Of the four audits of PIEs inspected, the Authority identified significant issues with three of the audit engagements regarding the quality of the audit work performed.</p> <p>For three of the audits for which tender documentation was reviewed, the Authority noted discrepancies between either the audit procedures communicated and those subsequently performed or between the description of the experience level of the team and the experience level of the team eventually assigned.</p>	<p>The Authority recommends that the Firm establishes additional policies and procedures designed to promote an internal culture recognizing that quality is essential in performing engagements.</p> <p>These policies and procedures should include adequate consideration at the audit tender stage to ensure that due consideration is given to audit quality.</p>
2. Engagement quality control	● Red	<p>Auditing standards require audit firms to establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to:</p> <p>perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</p> <p>Auditing standards further require that, for audits of listed entities, the EQC reviewer shall perform an objective evaluation of the significant judgements made by the engagement team, and the conclusions reached in formulating the auditor's report.</p> <p>Auditing standards further require that, for PIEs, the EQC reviewer, on performing an engagement quality control review, shall consider certain prescribed elements.</p>	<p>There was insufficient evidence of the Firm assessing whether the EQC reviewer that the Firm assigned to perform all the EQC reviews for the audits of PIEs carried out by the Firm during the period had the capacity to do so.</p> <p>The Authority identified significant issues with the quality and sufficiency of the EQC review on three of the four audits of PIEs inspected, including:</p> <p>the failure of the EQC review to detect the significant audit deficiencies that the Authority identified that related to significant risk areas;</p> <p>insufficient evidence of the EQC reviewer's consideration of the nature and scope of the corrected and uncorrected misstatements in the financial statements that were identified during the audit;</p> <p>the failure of the EQC review to detect that procedures communicated to those charged with governance or in the auditor's report as having been performed to address a key audit matter</p>	<p>The Authority recommends that the Firm establishes policies and procedures to ensure that they have personnel with the capacity to perform EQC reviews for all of its audits of PIEs.</p>

		The Authority reviewed a sample of four EQC reviews.	were not sufficiently evidenced on the audit file; the failure of the EQC review to detect that the auditor's reports were not fully compliant with the disclosure requirements regarding key audit matters.	
3. Partner and staff evaluation, compensation and remuneration	● Amber	<p>Legislation requires audit firms to have in place adequate remuneration policies, providing sufficient performance incentives to secure audit quality. This includes making personnel aware of the firm's expectations regarding performance and ethical principles; and providing personnel with evaluation of, and counselling on, their performance, progress and career development.</p> <p>The Firm uses a framework, which sets out the format for documenting performance reviews taking into consideration the core responsibilities outlined in the Firm's internal guidance.</p> <p>The Authority reviewed a sample of five staff performance appraisals.</p> <p>Further, the Authority reviewed a sample of five staff bonus allocations.</p>	<p>Although the framework includes measures of audit quality in the competence 'Risk, Quality & Ethics', there is insufficient evidence that adequate emphasis is being placed on audit quality indicators when evaluating staff performance.</p> <p>For three of the performance evaluations reviewed, the comments in the evaluation forms were not sufficiently detailed to facilitate a meaningful evaluation.</p> <p>For all of the staff bonus sample reviewed, there was insufficient evidence that quality indicators were taken into consideration. There was no evidence that IPDF forms and scores were considered in determining the bonus.</p>	The Authority recommends that the Firm evidences how audit quality is taken into account when performing staff evaluations and determining staff remuneration.
4. Partner and staff evaluation and compensation - staff promotion	● Amber	<p>Legislation requires audit firms to have in place adequate remuneration policies, providing sufficient performance incentives to secure audit quality.</p> <p>The Firm's Internal Promotion Process ('IPP') includes the requirement for the preparation of the candidate's business case and for this to be discussed at a consensus workshop.</p> <p>The Firm's IPP guidelines further state that promotion is subject to completion of a satisfactory appraisal.</p> <p>The Authority reviewed the documentation for a sample of five staff promotions.</p>	<p>For four out of the five promotion samples selected, there was insufficient evidence that quality indicators were taken into consideration in the promotion decision in addition to the consideration of the candidate's business case. There is no requirement for candidates to prepare an audit quality case for promotion.</p> <p>For each of the five promotion samples selected, there was no appraisal completed for the period and the Firm was in breach of its own policy in this regard.</p>	The Authority recommends that the Firm evidences how audit quality is taken into account when deciding on staff promotions.

Summary of audits of PIEs inspected

	Grade assigned	Summary of inspection
Audit one	3	In addition to audit planning, communications with the Audit Committee, or equivalent, and completion areas, this review assessed the audit work in relation to accounting estimates, considerations relating to the entity's use of a service organisation, and journal entry testing. Improvements are required to the audit going forward.
Audit two	4	In addition to audit planning, communications with the Audit Committee, or equivalent, and completion areas, this review assessed the audit work in relation to accounting estimates, income, engagement quality control review and journal entry testing. Significant improvements are required to the audit going forward.
Audit three	4	In addition to audit planning, communications with the Audit Committee, or equivalent, and completion areas, this review assessed the audit work in relation to accounting estimates, interest income, engagement quality control review and journal entry testing. Significant improvements are required to the audit going forward.
Audit four	4	In addition to audit planning, communications with the Audit Committee, or equivalent, and completion areas, this review assessed the audit work in relation to accounting estimates, going concern, initial audit engagements and journal entry testing. Significant improvements are required to the audit going forward.

Key recommendations arising from the inspection of audits of PIEs

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

Engagement partner review	<p>The Authority recommends that the Firm performs a root cause analysis to determine how the engagement partners signed audit opinions without obtaining sufficient appropriate audit evidence to support the conclusions reached.</p> <p>The Authority further recommends that the Firm performs a root cause analysis to determine how, for one of the four audits of PIEs inspected, material corrected misstatements were communicated to those charged with governance when, in actual fact, there were no corrected misstatements arising from this audit.</p> <p>The Authority further recommends that the Firm evaluates what additional training the Firm's engagement partners require in order to sign the audit opinion on engagements of this nature.</p>
EQC review	<p>The Authority recommends that the Firm's EQC reviewers receive training on International Standard on Auditing (Ireland) 220 (Quality Control for an Audit of Financial Statements) (ISA 220) and the requirement of the EQC reviewer to perform an objective evaluation of the significant judgements made by the engagement team, and the conclusions reached in formulating the auditor's report, and what this evaluation should involve.</p>
Accounting estimates	<p>The Authority notes that the Firm has provided training on International Standard on Auditing (Ireland) 540 (Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures) (ISA 540). The Authority agrees with the above actions.</p> <p>The Authority further recommends that this training addresses the requirements of the standard in full.</p> <p>The Authority further recommends that, where applicable, the engagement team evidences on audit files the following:</p> <ul style="list-style-type: none">- their understanding of the relevant controls relating to accounting estimates;- whether management has used an expert;- the assumptions underlying the accounting estimates;- whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates, and if so, why; and- whether and, if so, how management has assessed the effect of estimation uncertainty;- the engagement team's evaluation of whether the significant assumptions used by management for accounting estimates that give rise to significant risks are reasonable;- the engagement team's evaluation of models used in determining accounting estimates;- the engagement team's evaluation of the sufficiency and appropriateness of the management's expert work to assess the accuracy of data used in the accounting estimate;- the engagement team's review of the judgements and decisions made by management in the making of accounting estimates to identify whether there are indicators of possible management bias.
Audit evidence	<p>The Authority recommends that the engagement partner, EQC reviewer and engagement team receive training on International Standard on Auditing (Ireland) 500 (Audit Evidence) (ISA 500) and the requirement to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.</p> <p>The Authority further recommends that the engagement team obtains sufficient audit evidence to support audit opinions regarding the valuation of accounting estimates that are based on management estimates.</p> <p>The Authority further recommends that, where applicable, the engagement team investigates material differences detected through their audit testing.</p>

Design and implementation of controls	<p>The Authority notes that the Firm has stated that it has provided training on International Standard on Auditing (Ireland) 315 (Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment) (ISA 315) to audit staff and has enhanced its audit methodology through the issuance of supplementary guidance on Internal Controls and Significant Risks. The Authority agrees with the above actions.</p> <p>The Authority further recommends that the engagement team evidences on audit files their evaluation of the design and implementation of controls relating to significant risks, and their understanding of the systems and related business processes relevant to the financial reporting of the Entity.</p> <p>The Authority further recommends that, where applicable, the engagement team evidences that they have sufficient understanding of the Entity and that audit procedures have been designed and performed with relevant information to be used as audit evidence.</p>
Management override of controls	<p>The Authority recommends that the engagement partner, EQC reviewer and engagement team receive training on International Standard on Auditing (Ireland) 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements) (ISA 240) and the requirement for auditors to identify and assess the risks of material misstatement due to fraud at the assertion level for classes of transactions, account balances, and disclosures as well as the requirement for auditors to perform audit procedures in response to the risk of management override of controls.</p> <p>The Authority further recommends that the engagement team ensures that the auditor's report discloses the procedures performed in response to the most significant assessed risks of material misstatement, including assessed risks of misstatement due to fraud and that, where applicable, the basis for not assigning fraud risk at the assertion level for classes of transactions, account balances, and disclosures is evidenced on the engagement file.</p> <p>The Authority further recommends that the engagement team ensures that the procedures stated in the auditor's report as having been performed in response to the risk of management override of controls are performed and evidenced on audit files.</p>
Analytical procedures	<p>The Authority notes that the Firm intends to provide training to audit staff regarding the completion of the Preliminary Analytical Review, having regard to the requirements of ISA 315.</p> <p>The Authority agrees with the above action and recommends that engagement teams evidence on audit files whether the analytical procedures performed identified the existence of unusual transactions or events, and amounts, ratios, and trends that might indicate matters that have audit implications.</p> <p>The Authority further recommends that the engagement partner, EQC reviewer and engagement team receive training on International Standard on Auditing (Ireland) 520 (Analytical Procedures) and the difference between the use of an analytical procedure as a substantive procedure as opposed to a risk assessment procedure.</p> <p>The Authority recommends that the engagement partner and engagement team receive training on International Standard on Auditing (Ireland) 520 (Analytical Procedures) and the requirement to design and perform analytical procedures near the end of the audit to assist in forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity and, where analytical procedures performed identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the requirement to investigate such differences.</p> <p>The Authority further recommends that the engagement team performs sufficient analytical procedures near the end of audits to enable them to form an overall conclusion as to whether the financial statements are consistent with their understanding of the entity.</p>
Auditor's report and Key audit matters (KAM)	<p>The Authority notes that the Firm has updated its report template for audits of PIEs to clarify the requirements of International Standard on Auditing (Ireland) 701 (Communicating Key Audit Matters in the Independent Auditor's Report) and intends to provide training to audit staff to reinforce the importance of clarity in the wording of the auditor's report, in particular regarding the explanation of how the concept of materiality was applied in the audit.</p>

The Authority agrees with the above action and recommends that the engagement partner and EQC reviewer receive training on the requirement for auditor's reports to provide an explanation of how the auditor applied the concept of materiality in planning and performing the audit, in line with the Firm's intended action.

The Authority further recommends that the engagement team evidences on audit files how KAMs are addressed and that the related auditor's report uses clear and unambiguous language.

The Authority further recommends that the engagement partner dates their auditor's reports on the actual date that they sign the reports.

The Authority further recommends that the engagement partner dates auditor's reports no earlier than the date on which sufficient appropriate audit evidence has been obtained regarding subsequent events.

Financial statement disclosures

The Authority notes that the Firm intends to provide training to audit staff regarding the enhancement of documentation on the audit file relating to evidence obtained, in accordance with ISA 540, about whether the disclosures in the financial statements related to accounting estimates are in accordance with the requirements of the applicable financial reporting framework.

The Authority agrees with the above action. The Authority further recommends that the engagement partner, EQC reviewer and engagement team receive training on the requirement for auditors to obtain sufficient appropriate audit evidence about whether the disclosures in the financial statements related to accounting estimates are in accordance with the requirements of the applicable financial reporting framework, in line with the Firm's intended action.

The Authority further recommends that the engagement team perform sufficient procedures to assess the appropriateness of the information presented in the financial statements.

The Authority further recommends that the engagement team performs substantive procedures for each material class of transactions, account balance and disclosure.

Service organisations

The Authority notes that the Firm has provided training to audit staff regarding the requirements, including enhancement of documentation on the audit file relating to the requirements of International Standard on Auditing (Ireland) 402 (Audit Considerations Relating to an Entity using a Service Organisation) (ISA 402).

The Authority agrees with the above action and recommends that the Firm's training addresses the requirement for auditors to obtain an understanding of the relevant contractual terms for the activities undertaken by entities' service organisations, the requirements where the auditor plans to use a type 1 or type 2 control report as audit evidence to support the auditor's understanding about the design and implementation of controls, and the requirement to evaluate the design and implementation of relevant controls of the Service Organisation.

The Authority recommends that the engagement partner, EQC reviewer and engagement team receive training on the requirement for auditors to consider controls at the subservice organisation in situations where one or more subservice organizations are used between the activities of the user entity and those of the service organisation.

Evaluation and communication of misstatements

The Authority recommends that the engagement partner and EQC reviewer receive training on International Standard on Auditing (Ireland) 260 (Communication with Those Charged with Governance) (ISA 260) and the requirement to communicate significant matters arising during the audit that in the auditor's professional judgement, are relevant to the oversight of the financial reporting process. The Authority further recommends that the engagement partner and EQC reviewer receive training on what constitutes a corrected misstatement.

The Authority further recommends that the engagement team evidences on audit files the corrected and uncorrected misstatements that are communicated to those charged with governance.

The Authority further recommends that the engagement team accumulate the misstatements identified during audits.

Journal entry testing

The Authority recommends that the engagement partner, EQC reviewer and engagement team receive training on ISA 240 and the requirement to test the

appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

The Authority further recommends that the engagement team performs sufficient testing of the journal entries and other adjustments made at the end of the reporting period and evidences this testing on audit files.

The Authority further recommends that the engagement team makes inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

The Authority further recommends that the engagement team obtains sufficient evidence regarding the completeness and accuracy of the journal entries population used to select the sample.

Information produced by the entity	The Authority recommends that, when designing procedures regarding the completeness and accuracy of information produced by the entity, the engagement team shall: evaluate whether the information is sufficiently precise and detailed for the auditor's purposes; and obtain sufficient evidence about the completeness and accuracy of the information.
Sampling	<p>The Authority notes that the Firm intends to provide training on International Standard on Auditing (Ireland) 530 (Audit Sampling) (ISA 530) to audit staff. The Authority agrees with the above action. The Authority recommends that the training should address the requirements of the standard in full.</p> <p>The Authority further recommends that the engagement team projects misstatements found in the sample to the population being tested.</p>
Professional skepticism	The Authority recommends that the engagement team maintains sufficient professional skepticism throughout audits.
Auditor's expert	<p>The Authority recommends that the engagement partner, EQC reviewer and engagement team receive training on International Standard on Auditing (Ireland) 620 (Using the work of an auditor's expert).</p> <p>The Authority further recommends that the engagement team evidences on audit files the following, when using an auditor's expert: evaluation of whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes; and understanding of the field of expertise of the auditor's expert.</p> <p>The Authority further recommends that, where applicable, the engagement team performs sufficient audit procedures to evaluate the relevance of the auditor's experts' work and evidences their evaluation of the work of the auditor's expert.</p> <p>The Authority further recommends that, where applicable, the engagement team evidences on engagement files their evaluation of the relevance, completeness, and accuracy of source data that is significant to the auditor's expert's work and their evaluation of any limitations in information available to the auditor's expert.</p>
Materiality	<p>The Authority notes that the Firm has stated that it has provided training to audit staff regarding the enhancement of documentation on the audit file relating to the requirements of International Standard on Auditing (Ireland) 320 (Materiality in Planning and Performing an Audit) (ISA 320) and has enhanced its audit methodology through the issuance of supplementary guidance on ISA 320.</p> <p>The Authority agrees with the above action and recommends that the engagement partner, EQC reviewer and engagement team receive training on the requirement for auditors to evidence on the audit file all factors considered in determining materiality and performance materiality.</p>
Independent confirmations	<p>The Authority recommends that the engagement team evidences on audit files the source of independent confirmations.</p> <p>The Authority further recommends that the engagement team ensures that appropriate procedures are performed to corroborate that the confirmation was sent from a reliable and independent source.</p>
Assessment of significant events	The Authority recommends that the engagement team ensure that sufficient evidence is included on the audit file regarding the engagement team's assessment of significant events that could affect the entity.

The Authority further recommends that the engagement team ensure that there is sufficient evidence on the audit file that all information that should have been included in the financial statements to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements has been included.

Communications to those charged with governance

The Authority notes that the Firm intends to provide training to audit staff regarding the completion and review of audit summary memos sent to those charged with governance, having regard to the requirements of ISA 260. The Authority agrees with the above action and recommends that the engagement partner, EQC reviewer and engagement team receive training on the required communications to those charged with governance for audits of PIEs, in line with the Firm's intended action.

The Authority further recommends that the engagement team ensure that all communications with those charged with governance are consistent with the audit file and financial statements.

Significant risks

The Authority recommends that the engagement team's assessment of significant risks is consistent throughout audit files.

6. Results of follow up procedures

The report on the first quality assurance review was issued to the Firm in April 2019. The reports on the first quality assurance reviews were not published. The Firm is required to provide a written submission to the Authority within twelve months of the date of the report. The Authority will review the submission to ensure that all recommendations are implemented. Where the Firm is in the course of implementing a recommendation, that recommendation is not restated in this report.

7. Purpose and limitations of this report

While 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 overall rating tool. Although this quality assurance review report may comment positively on certain items, this report 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 which 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 deficiency². 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 international standard on quality control (Ireland) 1 (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 with limited improvements required. There will be only limited concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. There may be some concerns but their implications (both individually and collectively) are limited.
- 3** A “3” grade is an audit with improvements required. There will be some concerns, assessed as less than significant³, regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. There may be concerns, the implications of which (both individually and collectively) are less than significant.
- 4** A “4” grade is an audit with significant improvements required. There will be significant concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. There may also be concerns in other areas, the implications of which are individually or collectively significant.

² 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.

³ For individual 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.



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