

2021

Audit Quality Unit

**Report on 2020
quality assurance
review of BDO**

15 March 2021

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 authority 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 document or for any decision based on it.

Introduction

Overview of BDO (the Firm)



3
offices in Dublin, Cork and Limerick



23
audits of public-interest entities in 2020



9
audit partners



1%
market share based on audit fees associated with public-interest entities in 2020



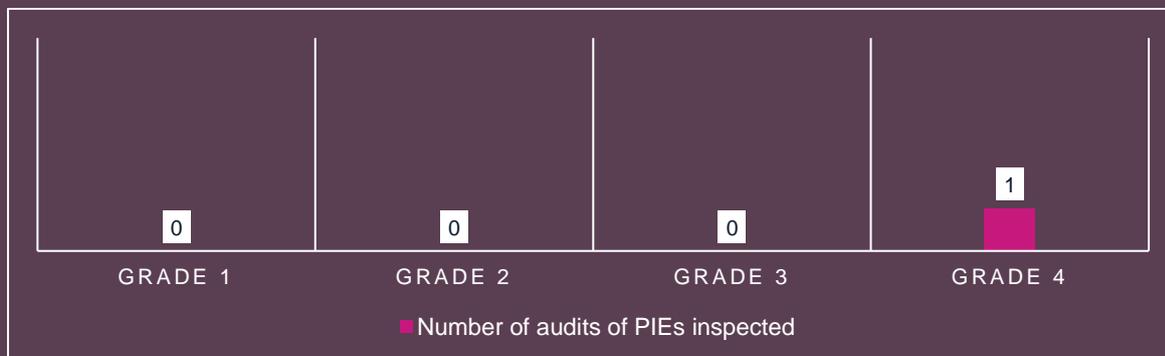
153
personnel working in the audit function

Outcome of the quality assurance review

Firm's system of quality control - recommendations¹



Audits of PIEs – grading¹



¹ See Appendix 1 for detailed description of ratings and grades

Guide to IAASA's reports on quality assurance reviews

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

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

Quality assurance review explained

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

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

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

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

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

Scope of the quality assurance review of the Firm

The Firm's policies and procedures

The assessment of the Firm's system of quality control is performed across 13 areas on a three year cyclical basis. In 2020, the quality assurance review assessed the design of the system of quality control in four areas:

- ethics and independence
- acceptance and continuance
- documentation
- complaints and allegations

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

Audits of public-interest entities

In 2020 the Authority selected a sample of one audit of a PIE. For the audit selected, the Authority evaluated the quality of evidence across the following audit areas:

- audit planning
- communications with those charged with governance
- completion areas

For the audit selected, the Authority also evaluated the quality of audit evidence across additional audit areas. The additional audit areas were selected at the discretion of the Authority, taking into consideration the specific risks pertaining to the audit as well as other areas of focus for the Authority.

Overview of findings

The quality assurance review identified one significant deficiency in the Firm's system of quality control. The quality assurance review also identified three matters requiring improvement and one minor deficiency in the Firm's system of quality control. These matters are discussed in the next section of this report.

The Authority assigned a grade of 4 (significant improvements required) to the audit of one PIE.

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

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

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

Results of the quality assurance review

Overview of areas

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

Full details of the finding and recommendation are set out in the table below.

In the cases of two of the sample of five audit clients, the Authority noted that the Firm did not comprehensively document its estimation of the effect of tax compliance services on the audited financial statements, nor did it adequately communicate this matter. (Finding 1)

In the case of one of the sample of five audit clients, the Firm communicated fees, threats, and safeguards to the client's audit committee in respect of tax compliance services and these services were disclosed in the notes to the clients audited financial statements. However, no tax compliance services were provided by the Firm to this client. (Finding 1)

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

The Authority noted that in the case of one of a sample of five audit clients, the Firm provided an engagement letter which had been signed prior to the approval of the acceptance and continuance procedures. In the case of another audit client in the sample, there was no evidence of the approval of the acceptance and continuance process. Full details of this finding and recommendation are set out below. (Finding 2)

Documentation The Authority evaluated the Firm's policies around audit documentation and data security. The Authority performed procedures to understand the Firm's policies on audit documentation, including the assembly of final engagement files and their confidentiality, retention, accessibility and retrievability. The Authority also evaluated the Firm's policies to ensure the security of data. The Authority obtained evidence of the Firm's implementation of its policies.

Full details of the findings and recommendations are set out in the table below.

The Authority noted that, for the period under inspection, audit files that were catalogued for destruction were not destroyed in line with the Firm's stated policy. (Finding 3)

The Authority further noted that it is difficult to ascertain how the Firm were able to make a definite determination of when and by whom engagement documentation was created, changed or reviewed. It is also unclear how the system of storage prevented unauthorised changes or additions to the engagement documentation. (Finding 4)

The Authority also noted that four audits were archived outside of the 60 day archive period. (Finding 5)

Complaints and allegations The Authority evaluated the Firm's process for identifying and dealing with complaints and allegations. The Authority interviewed senior personnel to determine if any significant complaints existed. The Authority performed procedures to understand the Firm's processes for dealing with audit-related complaints or allegations, which originated internally or externally. The Authority also evaluated the Firm's arrangements for 'whistle-blowing' and how these arrangements have been communicated. The Authority obtained evidence of the Firm's implementation of its policies.

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

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

Area and significance rating	Background	Issue	Recommendation
<p>Ethics and independence</p> <p>Finding 1</p> <p>● Red</p>	<p>The Ethical Standard for Auditors (Ireland) requires that, in instances where a firm provides non-audit services to audit clients, the estimation of the effect on the audited financial statements is comprehensively documented and explained in the additional report to the audit committee.</p> <p>The Authority examined the Firm's independence documentation in respect of a sample of five audit clients.</p>	<p>In the cases of two of the sample of five audit clients, the Firm provided tax compliance services and communicated the threats and safeguards in place to those charged with governance. However, the Firm did not comprehensively document its estimation of the effect on the audited financial statements nor has it explained this estimation in the additional report to the audit committee.</p> <p>In the case of one of the sample of five audit clients, the Firm communicated fees, threats, and safeguards to the audit committee in respect of tax compliance services. The client also disclosed an amount for auditor's remuneration – tax in their financial statements. However, no tax compliance services were provided by the Firm to this client.</p>	<p>The Authority recommends that, going forward, where the Firm provides non-audit services to audit clients, the estimation of the effect on the audited financial statements is comprehensively documented and explained in the additional report to the audit committee.</p> <p>The Authority further recommends that, going forward, the Firm only communicates fees threats and safeguards in respect of non-audit services that were provided, and only discloses remuneration in respect of non-audit services that were provided</p>
<p>Acceptance and continuance</p>	<p>The International Standard on Quality Control (Ireland) 1 (ISQC 1) requires that audit firms obtain information considered necessary in the circumstances before</p>	<p>In the case of one of the sample of five audit clients, the Firm provided an engagement letter</p>	<p>The Authority recommends that, going forward, all engagement letters should be signed after the Firm's approval of the acceptance and continuance</p>

Area and significance rating	Background	Issue	Recommendation
Finding 2  Amber	accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.	which had been signed prior to the approval of the acceptance and continuance procedures. For another audit client in the sample of five audit clients, there was no evidence of the approval of the acceptance and continuance process.	procedures. Evidence of the approval of the acceptance and continuance process should be retained on the relevant audit file.
Documentation Finding 3  Yellow	ISQC 1 (Ireland) requires the Firm to establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the Firm or as required by law or regulation. The Firm's policy requires that documents and records should be destroyed by confidential shredding after the expiry of the retention period specified.	For the period under inspection, audit files that were catalogued for destruction were not destroyed in line with the Firm's stated policy.	The Authority recommends, going forward, that all audit files catalogued for destruction are destroyed in line with the Firm's stated policy. The Authority further recommends that procedures are put in place to monitor the destruction of files to ensure destruction occurs in a timely manner.
Documentation Finding 4  Amber	ISQC 1 (Ireland) requires the Firm to establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and	It was difficult to ascertain how the Firm was able to make a definite determination of when and by whom engagement documentation was created, changed or reviewed. It was also unclear how the system of storage prevented	The Authority recommends that the current system of engagement documentation management is enhanced to ensure there are adequate

Area and significance rating	Background	Issue	Recommendation
	<p>retrievability of engagement documentation.</p> <p>For one of the audit files inspected, a hard copy file was retained as the main audit file. Additional workpapers relevant to the audit file were stored in electronic form.</p>	<p>unauthorised changes or additions to the engagement documentation.</p>	<p>controls around the integrity of engagement documentation</p>
<p>Documentation</p> <p>Finding 5</p> <p>● Amber</p>	<p>Auditing standards require the assembly of the final audit file no later than 60 days from the date of the auditor's report.</p> <p>The Authority reviewed the Firm's listing of late archives to determine the cause for audit files archived after the 60 day deadline.</p>	<p>Within the Firm's listing of late archives, a number of companies relating to the same group were identified. For this group, four audits were archived outside of the 60 day archive period. This occurred because all of the related companies were archived within the one audit file despite having different financial year end dates.</p>	<p>The Authority recommends that additional training is provided to staff and partners in relation to archiving requirements.</p> <p>The Authority further recommends that the Firm should review the process surrounding the monitoring of archiving and consider whether sufficient 'early warnings' are issued with regard to files due for archive in order to avoid further breaches.</p>
<p>Complaints and allegations</p>	<p>The Authority has no findings or recommendations to report in this area.</p>		

Summary of audits of PIEs inspected

	Assigned grade ²	Audit areas reviewed
Audit one	4	<ul style="list-style-type: none">• accounting estimates• audit planning• communications with those charged with governance• completion• journal entry testing• revenue recognition

² See Appendix 1 for detailed description of ratings and grades

Key recommendations arising from the inspection of audits of PIEs

This table sets out the key recommendations for the Firm arising from the inspection of audits of PIEs. These are recommendations that were deemed by the Authority to be key to an individual inspection. Not all recommendations issued are included in this table.

Audit area	Recommendation
Engagement partner review	<p>The Authority recommends that the Firm performs a root cause analysis to determine how an engagement partner signed an audit opinion without obtaining sufficient appropriate audit evidence to support the conclusions reached.</p> <p>The Authority further recommends that the Firm evaluates what additional training the engagement partner requires in order to sign the audit opinion on engagements of this nature.</p>
Engagement quality control review	<p>The Authority recommends that the Firm evaluates what additional training the engagement quality control reviewer requires in order to perform a review on engagements of this nature.</p>
Conduct of the audit	<p>The Authority recommends that the engagement team more clearly evidences the steps taken to ensure that the audit work was performed in accordance with the requirements of ISAs (Ireland).</p> <p>If the engagement team wishes to assert that there are no material differences between US GAAS and ISAs (Ireland), then this should be assessed in respect of each relevant ISA and a workpaper produced to this effect.</p>
Auditor's expert	<p>The Authority recommends that the engagement team assesses the competence and capabilities of the auditor's expert to perform the audit work in accordance with Irish requirements.</p>
Audit sampling	<p>The Authority recommends that the sampling rationale is considered and documented.</p> <p>The Authority further recommends that material account balances are tested for compliance with the requirements of accounting framework of the Entity.</p>
Assembly of the audit file	<p>The Authority recommends that the engagement team completes and archives the audit using the archive tool.</p>

Communications with those charged with governance	<p>The Authority recommends that the communications with those charged with governance reflect the audit approach taken.</p> <p>The Authority further recommends that evidence of assessment of internal control deficiencies identified by the network firm for their relevance and significance to the local audit is retained on the audit file.</p>
Financial statements – auditor’s report	<p>The Authority recommends that the engagement team documents the rationale for its determination as to whether certain matters that required significant attention are key audit matters.</p>
Financial statements – disclosures	<p>The Authority recommends that the engagement team evidences its assessment of whether the financial statements are prepared in accordance with the accounting framework in a clear manner.</p> <p>The Authority also recommends that the auditor’s remuneration is correctly disclosed in accordance with the requirements of the Companies Act 2014.</p> <p>The Authority also recommends that the notes of the financial statements are audited in full.</p>
Fraud inquiries	<p>The Authority recommends that the engagement team clearly evidences its fraud inquiries of those charged with governance of the entity. If the engagement team is relying on inquiries performed by a firm within the network, the Authority recommends that it clearly documents how these relate to the Entity.</p>
Quality control – supervision of audit work	<p>The Authority recommends that the engagement partner clearly evidences its direction and supervision of the conduct of the audit work which is performed by other firms in the network.</p> <p>This includes communicating risks and materiality levels identified by the engagement team.</p>
Significant risks	<p>The Authority recommends that the engagement team identifies and assesses significant risks at an assertion level.</p>
Substantive audit procedures	<p>The Authority recommends that audit work is performed with reference to materiality thresholds relevant to the audit of the entity.</p>
Understanding the entity and its environment	<p>The Authority recommends that the engagement team obtains and documents its understanding of the entity and its environment, consistent with the requirements of the auditing standards.</p>
Understanding the entity and its environment – internal controls	<p>The Authority recommends that the engagement team obtains and documents their understanding of the internal controls relevant to the</p>

audit. This includes documenting their understanding of the financial reporting process.

Results of follow up procedures

The Firm is required to implement the Authority's recommendations within 12 months. The Authority is satisfied that all recommendations made to the Firm in 2019 were appropriately implemented in 2020.

Purpose and limitations of this report

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

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

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

Appendix – Detailed description of ratings and grades

Ratings

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

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

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

- meet the requirements of the ethical standards and 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 that requires limited improvements. There are only limited concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be some concerns, their implications (both individually and collectively) are limited.
- 3** A 3 grade is an audit that requires improvements. There are some concerns, assessed as less than significant⁴, regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be concerns, their implications (both individually and collectively) are less than significant.
- 4** A 4 grade is an audit that requires significant improvements. There are significant concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. There may be concerns in other areas, with implications that are individually or collectively significant.

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

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



IAASA

Irish Auditing & Accounting
Supervisory Authority

**Irish Auditing & Accounting
Supervisory Authority**

Willow House
Millennium Park
Naas, Co. Kildare
W91 C6KT
Ireland

Phone: +353 (0) 45 983 600
Email: info@iaasa.ie

www.iaasa.ie