

2021

Audit Quality Unit

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

15 March 2021

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## 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.

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## 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.

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## Introduction

### Overview of EY (the Firm)



**5**  
offices in Dublin, Cork, Galway,  
Limerick and Waterford



**115**  
audits of public-interest  
entities in 2020



**28**  
audit partners



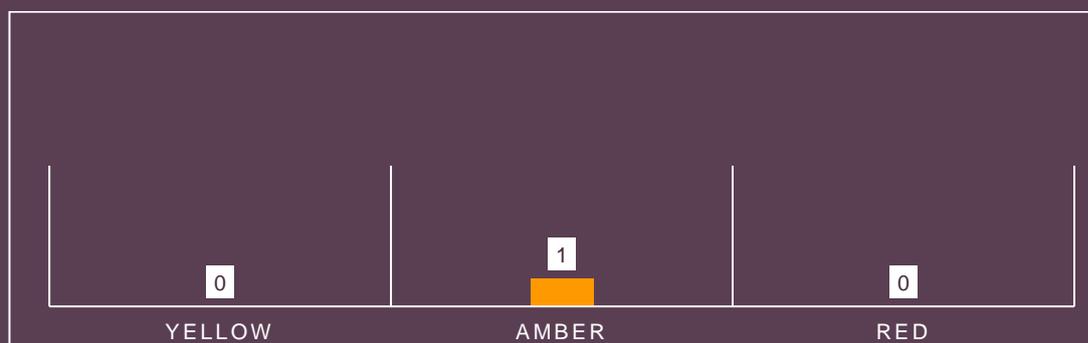
**22%**  
market share based on audit  
fees associated with public-  
interest entities in 2020



**899**  
personnel working in the audit  
function

### Outcome of the quality assurance review

#### Firm's system of quality control - recommendations<sup>1</sup>



#### Audits of PIEs – grading<sup>1</sup>



<sup>1</sup> 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 five audits of PIEs. For each 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 each audit selected, the Authority also evaluated the quality of audit evidence across additional audit areas. The additional audit areas were selected at the discretion of the Authority, taking into consideration the specific risks pertaining to the audit as well as other areas of focus for the Authority.

## **Overview of findings**

The quality assurance review identified one matter requiring improvement in the Firm's system of quality control. This matter is discussed in the next section of this report.

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

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

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

The Firm must implement each recommendation raised by the Authority 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

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

**The Authority noted that the Firm's independence compliance audit detected that some of the Firm's partners and professional staff failed to record all of their financial interests in the Firm's independence tracking system in a timely manner. None of the late recorded financial interests caused the Firm to be in breach of external independence rules. Full details of this finding and recommendation are set out below. (Finding 1)**

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**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 has no findings or recommendations to report in this area.**

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**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.

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

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**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.**

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

Area and significance rating	Background	Issue	Recommendation
<p><b>Ethics and independence</b></p> <p><b>Finding 1</b></p> <p>● <b>Amber</b></p>	<p>The International Standard on Quality Control (Ireland) 1 requires firms to establish procedures to provide reasonable assurance that they are notified of breaches of independence requirements, and to enable appropriate actions to resolve such situations.</p> <p>The Firm's policies require partners and professional staff to record all acquisitions or disposals of reportable financial interests in the Firm's independence tracking system within 10 working days of the transaction.</p> <p>On at least an annual basis, partners and professional staff are required to confirm the completeness and accuracy of their portfolio in the Firm's independence tracking system.</p> <p>The Firm routinely conducts an independence compliance audit, which includes choosing a sample of partners and client facing professionals and assessing whether they had recorded all reportable</p>	<p>The Firm's independence compliance audit detected that a number of the Firm's partners and professional staff failed to record, in a timely manner, all of their transactions relating to their financial interests in the Firm's independence tracking system.</p> <p>The Firm concluded that none of the late reported transactions caused the Firm to be in breach of external independence rules.</p> <p>All of the non-compliant individuals had stated in their latest available annual independence confirmation that they had complied with the Firm's independence policies and procedures.</p> <p>As the Firm conducts its independence compliance audit on a sample basis, there is a risk that other partners and professional staff could also be failing to record their transactions in financial</p>	<p>The Authority notes that the Firm has taken a number of actions to improve compliance with the Firm's policies in this area, including:</p> <ul style="list-style-type: none"> <li>• application of an accountability framework, which includes inter alia, financial penalties for breaches of the firm's independence policies;</li> <li>• increasing the types and frequency of communications, training and guidance;</li> <li>• implementing a real time review of the completion of annual compliance confirmations, with follow-up where necessary.</li> </ul> <p>The Firm has stated that it has observed improved results for subsequent independence compliance audits.</p> <p>The Authority agrees with the above</p>

Area and significance rating	Background	Issue	Recommendation
	financial interests in the Firm's independence tracking system, in accordance with the Firm's policy.	interests in the Firm's independence tracking system on a timely basis.	actions and recommends that the Firm continues with their implementation.  Further to this, the Authority recommends that the Firm continues to monitor the effectiveness of these actions to ensure compliance with the Firm's own policies in this area.
<b>Documentation</b>	The Authority has no findings or recommendations to report in this area.		
<b>Acceptance and continuance</b>	The Authority has no findings or recommendations to report in this area.		
<b>Complaints and allegations</b>	The Authority has no findings or recommendations to report in this area.		

## Summary of audits of PIEs inspected

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	Assigned grade <sup>2</sup>	Summary of audit areas reviewed
Audit one	1	<ul style="list-style-type: none"><li>• accounting estimates</li><li>• audit planning</li><li>• communications with those charged with governance</li><li>• completion</li><li>• deferred tax</li><li>• journal entry testing</li><li>• revenue recognition</li></ul>
Audit two	1	<ul style="list-style-type: none"><li>• accounting estimates</li><li>• audit planning</li><li>• communications with those charged with governance</li><li>• completion</li><li>• journal entry testing</li></ul>
Audit three	2	<ul style="list-style-type: none"><li>• accounting estimates</li><li>• audit planning</li><li>• communications with those charged with governance</li><li>• completion</li><li>• journal entry testing</li><li>• revenue recognition</li></ul>
Audit four	2	<ul style="list-style-type: none"><li>• accounting estimates</li><li>• audit planning</li><li>• communications with those charged with governance</li><li>• completion</li><li>• going concern</li><li>• implementation of new accounting standards</li><li>• journal entry testing</li><li>• revenue recognition</li></ul>
Audit five	1	<ul style="list-style-type: none"><li>• accounting estimates</li><li>• audit planning</li><li>• communications with those charged with governance</li><li>• completion</li><li>• journal entry testing</li><li>• revenue recognition</li></ul>

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<sup>2</sup> 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 or which were recurring across inspections. Not all recommendations apply to all audits of PIEs inspected and not all recommendations issued are included in this table.

Audit area	Recommendation
Communication with those charged with governance	The Authority recommends that communications with those charged with governance accurately reflect the work performed and evidenced on the audit file.
Journal entry testing	<p>The Authority recommends that the audit results report to those charged with governance accurately reflects the work performed and evidenced on the audit file with regard to the journal entry testing procedures to address the risk of management override of controls.</p> <p>The Authority further recommends that the engagement team's conclusions are correctly worded in the audit documentation to reflect the results of the journal entry tests.</p> <p>The Authority also recommends that the work performed to test journal entries is reviewed by a sufficiently experienced member of the engagement team.</p>
Revenue recognition	<p>The Authority recommends that the engagement team includes more detailed evidence of their review of the significant component auditor's work papers in the area of revenue recognition. The Authority recommends that the group audit file clearly evidences, in respect of component auditor audit work papers that were retained or specifically listed as reviewed, what review procedures were performed by the group engagement team. The group audit file should document the follow up actions (if any) that were undertaken following the review. Where certain of the component auditor's working papers are retained on the group audit file, a rationale for their retention should be included.</p> <p>The Authority recommends that the group audit file includes sufficient detail on the procedures performed in evaluating the design and implementation of key controls over revenue recognition.</p>

## **Results of follow up procedures**

The Firm is required to implement the Authority's recommendations within 12 months. The Authority is satisfied that all recommendations made to the Firm in 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 deficiency<sup>3</sup>. 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 significant<sup>4</sup>, 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.

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<sup>3</sup> 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.

<sup>4</sup> 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.



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