
AUDIT MONITORING PROGRAMME



Public Report | 2016 - 2017



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CHIEF EXECUTIVE STATEMENT

Welcome to the fifth Public Report on the Dubai Financial Services Authority's Audit Monitoring Programme, a programme which we started in 2008.

2016-17 were busy years for our audit inspection team. It is worthy of note that the majority of the Registered Auditors examined were able to maintain sound quality in the audits we reviewed. The number of "satisfactory" files has increased. Overall, I am pleased with the results, the details of which you will find in this Report.

In 2016, the European Commission announced its recognition of the adequacy of the DFSA's Oversight of audit firms. The Commission had previously similarly recognised the DFSA's audit Regulation, allowing DFSA Registered Auditors to conduct audit activity in European Union Member States without going through a full registration process. With this new announcement, the Commission has concluded that the DFSA has competence in oversight, external quality assurance and investigation of auditors and audit firms.

The year 2016 also marked the 10 year anniversary of the International Forum of Independent Audit Regulators (IFIAR), an organisation which began in 2006 with 18 independent audit regulators as its members and now boasts a membership of more than 50. Since joining IFIAR, the DFSA has played an active role through our work in the International Cooperation Working Group and in the Investor and Other Stakeholders Working Group. Currently, the DFSA chairs the Smaller Regulators Task Force and we make a healthy contribution at IFIAR's annual Inspection Workshops. Just recently, the DFSA joined 21 of the world's leading audit regulators in an agreement to increase co-operation with the oversight of audit professionals. I signed the IFIAR's Multilateral Memorandum of Understanding, during the IFIAR Plenary Meeting in Tokyo in April 2017. The MMoU, which aims to encourage and strengthen information sharing and cooperation among IFIAR Members, was first approved by the IFIAR Membership in June 2015, following a rigorous verification process.



Finally, for 2018, I have asked our audit inspection team to track the technological developments in the area of audit. Technological change is occurring at a rapid pace. This has resulted in an increasing focus on data, whether structured or unstructured. Companies are rapidly changing their business models in innovative ways. Significant changes in the overall audit approach are needed to take advantage of this new environment. Auditors can use data analytics techniques in audit planning and in procedures to identify and assess audit risks. Although our assessment indicates that audit firms are still at an early stage with big data, we do note the use of technology on audit procedures such as bank confirmations, analytical procedures and journal-entry testing.

You may recall that we made a number of changes in the design of our last report which included quantitative results of our file reviews, in addition to providing more information on Audit Principals, their involvement in an audit and their relevant training. Following these changes, we surveyed the relevant stakeholders on the content of our reports. I am pleased to see that well over 90% of those who responded found the report either "useful and highly relevant to their role" or "partially useful and some relevance to their role". We have made further changes to our Report based on the feedback received. I hope you will find it beneficial.

IAN JOHNSTON

Chief Executive

DUBAI FINANCIAL SERVICES AUTHORITY

The DFSA is the independent regulator of financial services conducted in or from the Dubai International Financial Centre (DIFC), a purpose-built financial free-zone in Dubai, United Arab Emirates.

The DFSA's regulatory mandate includes asset management, banking and credit services, securities, collective investment funds, custody and trust services, commodities futures trading, Islamic finance, insurance, an international equities exchange and an international commodities derivatives exchange together with credit rating agencies, Registered Auditors (RAs) and designated non-financial businesses and professions.

WITH RESPECT TO RAs, THE DFSA IS RESPONSIBLE FOR THE REGISTRATION, OVERSIGHT AND SUSPENSION / REMOVAL OF RAs AND AUDIT PRINCIPALS IN THE DIFC IN RESPECT OF THEIR AUDIT OF PUBLIC LISTED COMPANIES (PLCs), AUTHORISED FIRMS (AFs), AUTHORISED MARKET INSTITUTIONS (AMIs) AND DOMESTIC FUNDS (DFs).

In addition to regulating financial and ancillary services, the DFSA is responsible for supervising and enforcing Anti Money Laundering (AML) and Counter Terrorist Financing (CTF) requirements applicable in the DIFC. The DFSA also exercises delegated enforcement powers under the DIFC Companies Law. These include powers to investigate the affairs of DIFC companies and partnerships where a material breach of DIFC Companies Law is suspected and to pursue enforcement remedies available to the Registrar of Companies.



ABOUT THIS REPORT

This Report summarises the results of the DFSA's oversight visits to RAs of PLCs, AFs, AMIs and DFs conducted over a 2 year period and sets out key issues identified during 2016-2017.

This Report complies with the IFIAR's¹ Core Principles for Independent Audit Regulators, in particular, Principle 3 relating to the transparency and accountability of audit regulators.

IFIAR CORE PRINCIPLES SEEK TO PROMOTE EFFECTIVE INDEPENDENT AUDIT OVERSIGHT GLOBALLY, THEREBY, CONTRIBUTING TO MEMBERS' OVERRIDING OBJECTIVE OF SERVING THE PUBLIC INTEREST AND ENCHANTING INVESTOR PROTECTION BY IMPROVING AUDIT QUALITY.

Over the course of the review of selected audit files, an audit monitoring visit may identify ways in which a particular audit file is deficient. It is not the purpose of an audit monitoring visit, however, to review all of a RAs' audits or to identify every deficiency which may exist in an audit. Accordingly, this Report does not provide any assurance that RAs' audits of the financial statements are free of deficiencies not specifically described in this Report. Unless stated otherwise, not all matters in this Report apply to every RA.

Unlike 2015, this Report also includes the findings from our inspections which focused on a RAs' AML obligations and a RAs' compliance with the DFSA's Auditor (AUD) Module for the purposes of issuing Regulatory Returns Auditor's Reports, Client Money Auditor's Reports, Insurance Monies Auditor's Reports, and Safe Custody Auditor's Reports (collectively referred to as "Regulatory Reports"). However, this Report does not cover any enforcement actions taken by the DFSA on RAs. All outcomes of enforcement actions are reported on the DFSA's website (www.dfsa.ae) and through separate media releases.

Reference to "instances", "occasions", "audit files" and "audit teams" in the findings should be considered in relation to a finding on a particular audit while reference to "RA" should be considered in relation to firm-wide related issues. In "Other Findings", certain comparative information has been reclassified to conform to the current year's presentation.

¹ IFIAR is composed of 52 independent audit regulators from jurisdictions in Africa, the Americas, Asia, Europe, the Middle East and Oceania. It was formed in 2006 to provide a forum for regulators to share knowledge of the audit market environment and the practical experience gained from their independent audit regulatory activity. IFIAR's official observer organisations are the Basel Committee on Banking Supervision, the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors, the International Organisation of Securities Commissions, the Public Interest Oversight Board and the World Bank. For further information about IFIAR and its activities, please visit www.ifiar.org.

DFSA's AUDIT MONITORING PROGRAMME

The purpose of our audit monitoring programme is to assess whether RAs operating in the DIFC are conducting audits in accordance with the International Standards on Auditing (ISAs), the International Standard on Quality Control (ISQC1) and the Code of Ethics for Professional Accountants (Code) issued by the International Ethics Standards Board for Accountants (IESBA).

The role and duty of RA is intended to enhance investor confidence, ensuring the financial statements in the DIFC comply with the required financial reporting standards and give a true and fair view of the financial position of the entity being audited.

There are currently 16 RAs registered with the DFSA to provide Audit Services to DFSA regulated entities in the DIFC. The DFSA also registers Audit Principals, and has registered 63 Audit Principals during the relevant period.



The DFSA, in line with its risk-based approach, performs periodic risk-assessments of RAs based on a risk cycle. These risk cycles are determined based on the level of activities a RA undertakes in the DIFC and their individual significance to the DFSA's risk tolerance. The following are the standard risk cycles for RAs:

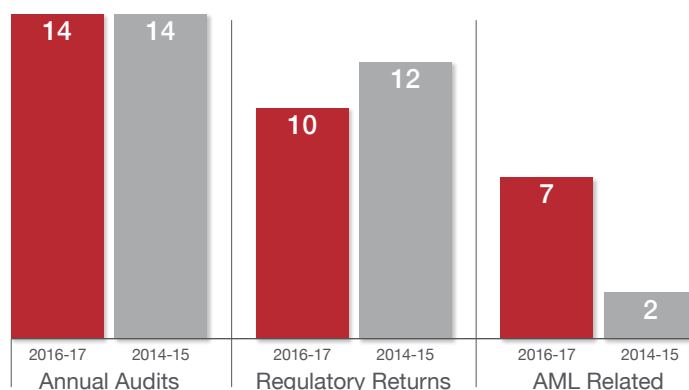
TYPE OF RAS	RISK ASSESSMENT CYCLE
RAs of PLCs	Once every year
Big4 RAs	Once every two years
All Other RAs	Once every four years

In order to further align our periodic risk-assessments cycle with leading practices, going forward, our risk-assessment cycles will be:

TYPE OF RAS	RISK ASSESSMENT CYCLE
Big4 RAs (including RAs of PLCs)	Once every two years
All Other RAs	Once every five years

Throughout the year, the DFSA performs various types of reviews of RAs. In 2016-2017, the DFSA performed a total of 31 on-site assessments covering conduct on annual audits, regulatory returns and AML related compliance.

DFSA RISK-ASSESSMENTS OF RAs DURING 2014 - 2017

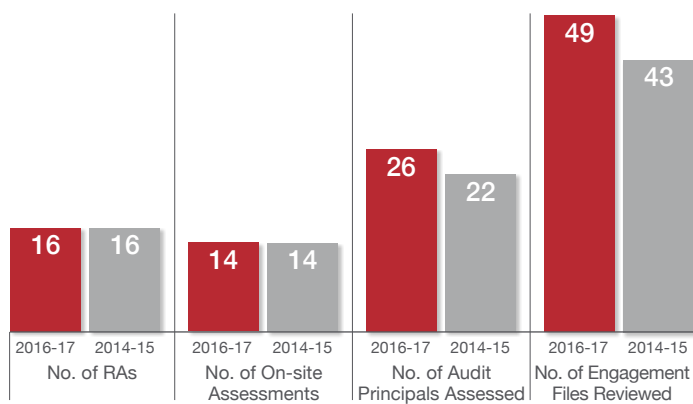


Detailed findings from all the above inspections are presented in pages 6-15 of this Report.

INSPECTIONS RESULTS OF RAs OF PLCs, AFs AND DFs

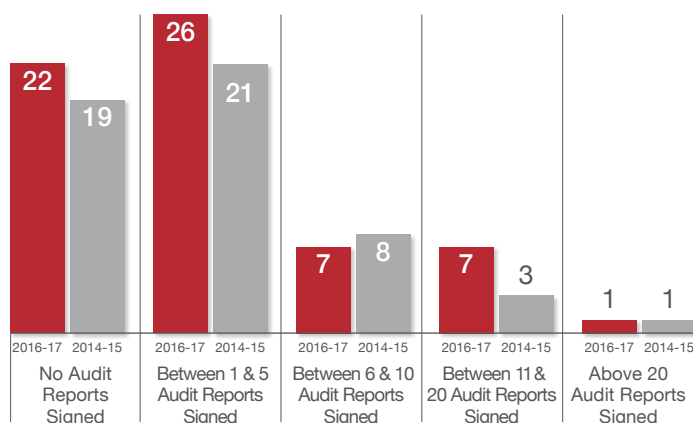
During 2016-2017, the DFSA carried out 14 assessments to ensure RA's compliance with ISAs, ISQC1 and the IESBA Code. We reviewed 49 audit files and assessed 26 Audit Principals, focusing on the substance of the RAs' work and whether the RAs obtain and document sufficient and appropriate evidence to support the conclusions reached in relation to key audit judgements.

SUMMARISED RESULTS OF AUDIT MONITORING FOR THE PERIOD



Although there are currently 63 Audit Principals registered with the DFSA, 22 Audit Principals did not sign any audit reports during 2016-17, thus reducing the active population of Audit Principals subject to review to 41. The following chart illustrates the average number of audit reports per year signed by Audit Principals in the relevant Period:

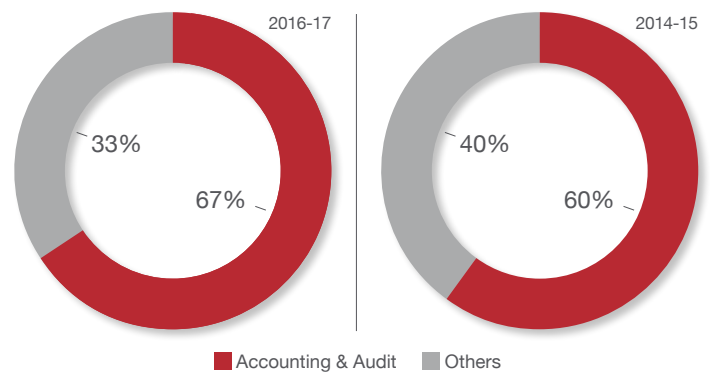
NUMBER OF AUDIT REPORTS SIGNED BY AUDIT PRINCIPALS IN THE RELEVANT PERIOD



The DFSA closely monitors the number of audit reports signed by an individual Audit Principal. RAs must ensure that all Audit Principals remain fit and proper to carry out the function of an Audit Principal, as fitness and propriety requirements for each Audit Principal apply at all times, whether or not the Audit Principal signs any audit report during the relevant period.

The DFSA also monitors the time spent by Audit Principals on relevant training and professional development. During 2016-17, Audit Principals spent over 5,500 hours on training with an average of 44 hours per year per Audit Principal. Accounting and audit related training accounted for 67% of the total training. This is in line with the requirements imposed² by major recognised professional accounting bodies.

TIME SPENT BY AUDIT PRINCIPALS ON TRAINING (%)



In accordance with AUD Rules, a RA must ensure that all its relevant employees, including Audit Principals undertake continued professional development. We pay specific attention to assessment of engagement teams with respect to their competencies and the level of training provided by the RAs to perform work on the Regulatory Reports.

² Professional accounting bodies such as American Institute of Certified Public Accountants, Institute of Chartered Accountants of India and Institute of Chartered Accountants of Pakistan requires their respective members to complete 120 hours for each three-year reporting period.

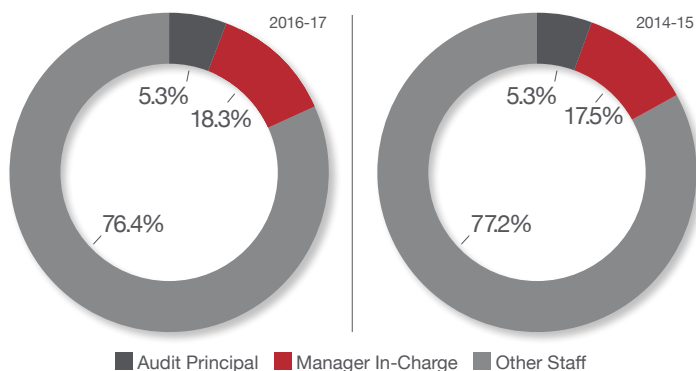
INSPECTIONS RESULTS OF RAs OF PLCs, AFs AND DFs - CONTINUED

The DFSA closely monitors the engagement hours distribution and is pleased to see that Audit Principals are spending sufficient hours to supervise and direct audit teams.



During 2016-17, over 100,000 audit hours were spent on audits of the DFSA regulated entities. On average, Audit Principals spent approximately 5.3% of the total engagement hours to supervise and direct engagement teams. On complex audits, this percentage was as high as 7%. The hour distribution by staff category is illustrated below:

AUDIT TIME SPENT - DISTRIBUTION BY STAFF CATEGORY (%)



Where relevant, we also monitored the time spent by Engagement Quality Control Reviewer (EQCR). As per the ISQC1, an EQCR is mandatory for all listed entity audits. During 2016-17, EQCRs spent less than 1% of total engagement hours. Although this percentage has dropped from 2% in 2014-15, in the absence of any issues identified during these reviews, the DFSA has no reason to believe that this is not sufficient.

REPORT ON 2016/2017 KEY FOCUS AREA

In 2016, we announced our audit monitoring focus for the year would be on “Identifying and assessing the risks of material misstatement through understanding the audited entity and its environment” and “the RAs’ response to assessed risks”.

What was expected?

Risk assessment procedures provide a basis for the identification and assessment of risks of material misstatement at the financial statement and the assertion levels. Identifying and assessing the risks of material misstatement at the financial statement level and the assertion level for classes of transactions, account balances, and disclosures is very important for engagement teams to prepare an appropriate response to the assessed risks. In accordance with the ISAs, the engagement teams should design and implement overall responses to address the assessed risks of material misstatement at the financial statement level. The engagement teams should also 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.

What work we performed?

Our audit monitoring visits focused on how engagement teams led by a DFSA registered Audit Principal identify and assess the risk of material misstatements at the financial statement and assertion levels. We also focused on how engagement teams address these assessed risks. Where applicable, we challenged Audit Principals on whether the overall response to assessed risks and nature, timing and extent of other procedures performed were appropriate and effective.

Our conclusion

Overall, we are satisfied with the Audit Principals and engagement teams on compliance with the 2016 focus area. Audit Principals and the engagement teams appropriately identified and assessed the risks of material misstatement through understanding the audited entity and formulated an appropriate response to the assessed risks.

In 2017, we announced our audit monitoring focus for the year would be on “Audit Documentation” and “Forming an Opinion and reporting on financial statements”.

What was expected?

Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor’s report is finalised.

The Audit Principal should form an Opinion on whether the financial statements are prepared, in all material respects, in accordance with the IFRS. In order to form that Opinion, the Audit Principal should conclude whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

What work we performed?

Our audit monitoring visits focused on whether the documentation prepared by engagement teams is timely, appropriate and sufficient and the reporting requirements under the ISAs are met.

Our conclusion

Overall, we are satisfied with the Audit Principals and engagement teams on compliance with the 2017 focus area. There was adequate documentation on the engagement files and the audit reports complied with the applicable reporting requirements under the ISAs.

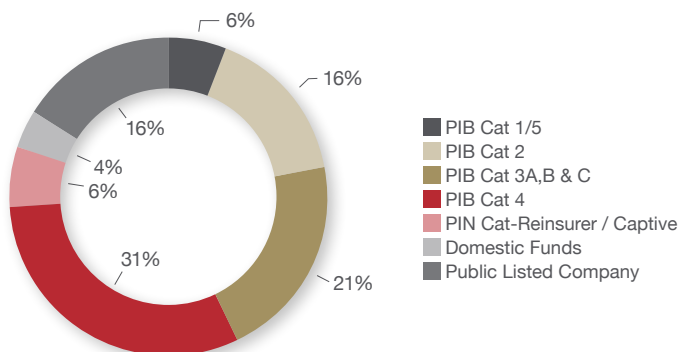
PRINCIPAL FINDINGS

Overall the DFSA observed improvements compared to 2014-15. Reviews of audit files across RAs inspected raised a small number of issues about the sufficiency and appropriateness of evidence obtained by RAs to support their conclusions on significant areas of audit.

The DFSA continued to conduct follow-up inspections of RAs of PLCs, AFs, AMLs and DFs. Where significant issues were identified in previous inspections, we escalated follow-up inspections to ensure RAs were taking prompt and appropriate action to address our observations and findings.

Our file reviews covered selected compliance criteria under the relevant ISAs, International Financial Reporting Standards (IFRS), and the DFSA AUD Rules. These files were selected after consideration of a number of risk factors and covered a wide spectrum of regulated entities as illustrated below:

DISTRIBUTION OF REVIEWED AUDIT ENGAGEMENT FILES BY FINANCIAL SERVICES CATEGORY



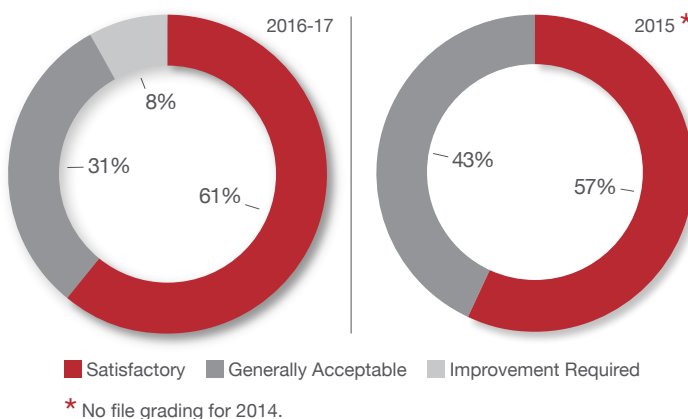
Our audit file reviews involved detailed discussion with Audit Principals and the auditor in-charge on the critical aspects of the audit. The DFSA's staff discussed their observations with audit teams and also provided detailed written review notes detailing his/her queries arising from the review. Based on the level of findings and associated response, the DFSA assigns a grade³ to an audit file.

The DFSA follows a four- point grading structure, which is as follows:

GRADE	DESCRIPTION
1	Satisfactory
2	Generally acceptable
3	Improvement required
4	Significant improvement required

We reviewed 49 audit files in 2016-17 and the majority were either "satisfactory" or "generally acceptable". We identified 4 engagement files which required improvements. We did identify certain documentation weaknesses on other audit files; however we did not consider them as significant given the nature of the underlying issues.

FILE GRADING



Some of the principal findings are as follows:

No review of detailed audit work conducted by another office

One engagement file did not demonstrate sufficient audit evidence where another office of the same RA conducted the detailed audit work and the RA signed the audit report based on an inter-office opinion from the other office. The engagement team appeared to be involved in the audit planning, but it decided that it was not necessary to review the detailed working papers of the other office, based on the inter-office opinion and its review of other deliverables. The deliverables on the file we reviewed did not include details of the audit evidence obtained. The RA was of the view that this approach is compliant with its procedures. However, the audit documentation presented to us for review did not contain sufficient documentation of the evidence obtained to support the audit opinion.

On another engagement file there was no evidence of the Audit Principal managing the conduct of the Audit work performed by another office of the same RA. The file also did not include inter-office instructions of the audit work to be undertaken.

³ In the course of the review of a sample of selected audit files we may identify ways in which a particular audit file is deficient. It is not the purpose, however, to identify every deficiency which may exist in an audit. Accordingly, the DFSA file grading is based on the review of certain areas of audit files and is indicative only.

PRINCIPAL FINDINGS - CONTINUED

Signing audit partner not registered as an Audit Principal with the DFSA

The signing audit partner on one engagement file was not registered with the DFSA as an Audit Principal. This is a breach of Article 97C (2) of the DIFC Law No 1 of 2004 (Regulatory Law) which prohibits any person to undertake any of the responsibilities of an Audit Principal unless that person is registered with the DFSA as an Audit Principal.

Audit Principal is defined under Article 97 (c) as an individual appointed by a RA who is responsible for:

- Managing the conduct of audit work taken by the RA; or
- Signing audit reports, or any other reports as may be required under the Rules, on behalf of the RA.

The RA rectified the breach by lodging appropriate application forms.

Timeliness of documentation, review and file assembly

An engagement team did not accurately record the timing of the performance and review of work. Audit Principal's review of planning, audit testing and completion were dated after the audit report date. The team did not complete the assembly of the file within the RA's prescribed archiving policy.

On another engagement file, the team did not accurately record the timing of the review of work. Audit Principal's review was not dated and therefore, we were unable to ascertain if the work was reviewed on a timely basis or not.

Inadequate oversight of audit work

One engagement file did not demonstrated sufficient oversight of audit work by the registered Audit Principal. A senior staff of RA, who was not a DFSA registered Audit Principal, was responsible for managing the conduct of the audit work. There was insufficient evidence of the signing partner, the DFSA Registered Audit Principal, being involved in the planning, execution and review of the audit. This is a breach of Article 97 C (2) of the Regulatory Law which requires the Audit Principal to be responsible, both for the managing of the conduct of the audit work and signing the audit report.

Bank confirmation procedures

One engagement team did not take full control of the process for obtaining bank confirmations, as required by ISA 505 - External Confirmations. The client, rather than the team, completed certain information on the confirmation requests.

Unsatisfactory alternate procedures on major bank balances

On one engagement file, the team did not receive timely response to its bank confirmation request for a major bank balance which comprised of approximately 75% of the total assets. The engagement team did verify the existence of the bank balances through the year-end bank statement however, no work was performed to ensure that these balances are free of any encumbrance.

Considerations relating to service organisation

On one engagement file the audit team did not give adequate consideration to the requirements of ISA 402 - Audit considerations relating to an entity using a Service Organisation, in respect of the client's use of a custodian. The engagement team placed reliance on the custodian's reputation and did not give adequate consideration to the internal controls at the custodian or consider obtaining a controls report.

Disclosure requirements – fair values

On one engagement file the disclosure relating to investments carried at fair value through profit or loss, using 'Level 3' valuation techniques, was insufficient. The financial statements included some disclosure about the valuation approach and sensitivities, but needs to include detail of the significant 'unobservable inputs', for example the range of growth rates, and discount rates used.

Improvement needed in documenting the auditor's involvement in component auditors' risk assessments

One engagement file did not clearly demonstrated how the team was involved in the component auditors' risk assessments. The team told the DFSA that they had discussed this during calls with the component auditors as part of their half-year work, but the details of this work was not included on the year-end audit file.

Documentation to fully close potential issues on accounting estimate

On two engagement files, the documentation did not fully close down potential issues that were apparent from narrative in respect of significant accounting estimates. We were satisfied, based on discussion with the team, that sufficient evidence was obtained in this area, but more care needs to be taken to ensure such issues are fully closed down on the file.

With respect to the above findings of this Report, the DFSA has taken a range of actions, from written observations, to specific requirements for RAs to implement actions and to placing Audit Principals under close supervision.

AML RELATED FINDINGS

The DFSA's AML Module applies to all RAs and the responsibility for compliance with the AML Rules lies with every member of its senior management. RAs have an important role to play in AML and CTF as gatekeepers for the financial sector.

Unlike our last Report, the current Report also includes our findings from the AML related inspections carried out during 2016-17. We performed 7 AML risk assessments of RAs in which we identified a number of improvement opportunities in their AML systems and controls. We have taken a number of steps including holding a dedicated workshop for Money Laundering Reporting Officers (MLROs) and issuing specific risk-mitigation plans. We expect that these findings will reduce over time.

AML systems and controls

RAs are required to establish and maintain effective policies, procedures, systems and controls to prevent opportunities for money laundering in relation to its activities. For 4 RAs, AML policies and procedures were either not updated to reflect the actual processes and procedures or not in accordance with the AML Rules.

The Risk-Based Approach

RAs should assess and address their AML risks by adopting an approach that is proportionate to the risks to which they are exposed to. In doing so RAs are expected to have in place appropriate processes to identify, assess, monitor, manage and mitigate money laundering risks.

2 RAs did not have appropriate procedures in place to monitor the money laundering risks to which it was exposed while all other RAs could improve the procedures they follow.

Assessing business AML risks

RAs are required to take appropriate steps to identify and assess money laundering risks to which their businesses are exposed. The outcome of this assessment should be objective and proportionate to the risks, based on reasonable grounds, properly documented, reviewed and updated at appropriate intervals, and approved by senior management of the RA.

During the course of our inspections, 3 RAs did not have a formal business AML risk assessment while 2 RAs needed significant improvements.

Assessing customer AML risks

RAs are required to undertake a risk-based assessment of every customer and assign a risk rating proportionate to the customer's money laundering risks. This should be done prior to undertaking Customer Due Diligence (CDD) for new customers, and whenever it is otherwise appropriate for existing customers. They should also ensure that the methodology used in assessing customer risk is appropriate, taking account of all the relevant requirements and guidance provided under the rules.

We identified the following issues with regards to customer AML risk assessment:

- 2 RAs did not have an AML related customer risk assessment linked to the assigned risk score on its client files, while 2 others did not assess its customer AML risk for all of its business lines; and
- For 4 RAs, we did not find appropriate guidance for its staff with regards to the RA's risk rating methodology which resulted in the following:
 - Risk ratings were not consistent across clients with the same type of business activities;
 - Information about clients with Politically Exposed Persons (PEPs) as its controllers was not captured or considered for the risk rating; and
 - Information about clients with beneficial owners from a high-risk jurisdiction was not captured or considered for the risk rating.

AML RELATED FINDINGS - CONTINUED

CDD requirements including on-going CDD

RAs should undertake CDD for each of its customers. In undertaking CDD, the RA must verify the identity of the customer and any beneficial owner in accordance with the applicable AML Rules. Additionally, RAs should also understand the customer's sources of funds and wealth and verify the same when undertaking Enhanced CDD.

We identified the following issues:

- All RAs failed to gain an understanding about the customers' source of fund and wealth for clients; and
- 5 RAs did not identify Ultimate Beneficial Owners (UBOs). Where the shareholder was a legal entity, the identity of the UBO was neither identified nor verified.

The AML Rules also require RAs to undertake on-going due diligence for each of its clients, using a risk-based approach to periodically review the adequacy of the CDD information of customers and UBOs to ensure that it is kept up-to-date. This also includes a periodic review of each client to ensure that the risk rating assigned to it remains appropriate.

RAs performed client re-acceptance procedures as part of their annual audit work; however, the on-going CDD requirements were often neglected. We identified on-going monitoring issues with 3 RAs. Instances include lack of consideration for the adequacy of UBO's information and weak linkages to sanction screening or AML related risk rating assessment.

In many instances, there was no evidence of MLRO's, review of client files. MLROs have an important role to play in the on-going CDD process, to ensure that the information held on client files remains accurate.

Sanctions related obligations

Where most of the RAs reviewed during the Period had a mechanism to comply with the sanctions related obligations, we identified a common issue that they had unclear policies and procedures and inconsistent approach in relation to what should be screened. We noted that the screening was not extended to UBOs which is a requirement under the AML Rules. For 2 RAs, we also identified that the screening was not performed on an on-going basis. For 1 RA, there was no evidence of sanctions screening on client files.

Responsibilities of a MLRO

The MLRO is responsible for the implementation and oversight of the RA's day-to-day operations for compliance with its AML policies, procedures, systems and controls.

It is common for RAs that a client facing staff collects the relevant Know Your Customer information, and in many cases conducts the customer AML risk-assessment of the client. We understand that it is not always possible for the MLROs to personally conduct all customer AML risk-assessments. RAs should establish an appropriate mechanism through which the MLRO is able to comply with his/her obligations under the DFSA Rules

As mentioned above, in many instances we found no evidence of MLRO's review/involvement in client files.

Training and Awareness

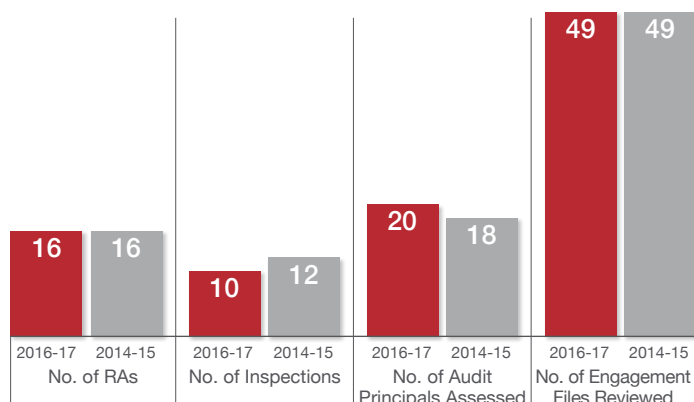
RAs must provide AML training to all relevant employees at appropriate and regular intervals. We expect that such training is provided to each relevant employee at least annually. RAs should be able to demonstrate that it has complied with the training and awareness requirements through appropriate measures, including the maintenance of relevant training records. For 1 RA, we noted that the training was not provided on an annual basis and the RA did not maintain appropriate training records. For 1 RA, training was not provided to new employees soon after commencing employment.

While the trainings covered the general topics, it could include more details in relation to red flags and the prevailing techniques, methods and trends in money laundering relevant to the RAs business model.

FINDINGS FROM OUR INSPECTIONS OF REGULATORY REPORTS

The DFSA performs a number of inspections to assess RAs' compliance with AUD Rules for the purposes of issuing Regulatory Reports. This is the first year where we have included findings from these inspections in the Report.

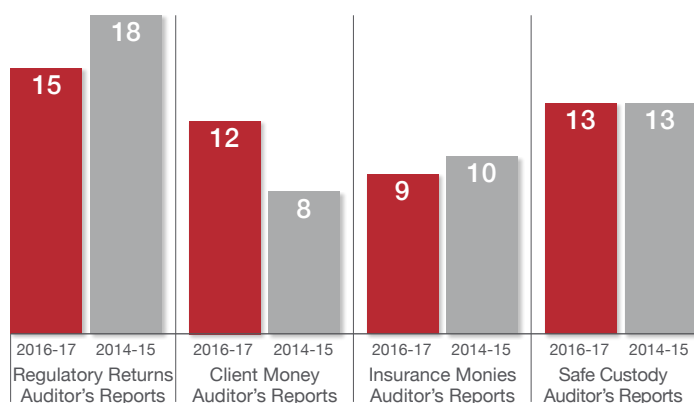
SUMMARISED RESULTS OF REGULATORY REPORTING INSPECTIONS FOR THE PERIOD



During 2016-17, we carried out 10 assessments to ensure RA's compliance with AUD Rules. We reviewed 49 regulatory reports and assessed 20 Audit Principals.

The break-up of these regulatory reports is as follows:

DISTRIBUTION OF REVIEWED AUDIT ENGAGEMENT FILES BY REPORT TYPE



Regulatory Returns Auditor's Report

The work on Regulatory Returns Auditor's Reports was of good standard except for the following minor matters which we noted on 4 engagement files:

- The quarterly returns were not appropriately reconciled with the annual return; and
- There was no documentation verifying the capital resources.

Client Money Auditor's Report

Client Money Auditor's Reports require some improvements, as we identified a number of issues:

- *Lack of comprehensive approach*
On 2 files, the engagement team lacked a comprehensive approach. We identified various gaps in the work programme which were not in accordance with the DFSA Rules. Where the work programme was in accordance with the applicable DFSA Rule, the work performed was of unsatisfactory standard.
- *Master List*
2 engagement teams performed inadequate work to ensure the contents of the client accounts master list were in accordance with the DFSA Rules. We understand that it may not be practical to obtain and attach the entire master list as part of the working papers, however, the engagement teams failed to make appropriate observations/notes from the same.
- *Client Accounts*
On 2 occasions, the engagement team did not obtain the complete list of bank accounts designated as "Client Accounts". Where the title of the bank accounts did not contain the word "Client Account", this finding was not included in the Regulatory Report.
- *Amount of Client Money*
3 Regulatory Reports did not include the amount of "Client Money" being held and controlled by the AF.
- *Acknowledgment from the banks*
2 engagement teams failed to report non-receipt of the acknowledgment from the banks regarding segregating client money accounts.
- *Suitability assessment of third party agents*
3 engagement teams failed to identify and report non-compliance of Conduct of Business Rules with respect to the suitability assessment of third party agents.

FINDINGS FROM OUR INSPECTIONS OF REGULATORY REPORTS - CONTINUED

Insurance Monies Auditor's Report

The work on Insurance Monies Auditor's Reports was of a reasonable standard, subject to the following issues which we identified:

- *Insurance Bank Accounts (IBA)*

On 1 occasion, the engagement team obtained the complete list of bank accounts designated as "IBA", however, there was no documentation on the working paper file demonstrating that the title of the bank account was confirmed.

On another occasion, the engagement team obtained the list of bank accounts designated as "IBA"; however, the title of the bank accounts did not contain the word "IBA" and the same was not included in the report issued by the RA.

- *Acknowledgment from the banks*

There was no acknowledgment from 1 bank while the acknowledgment from another bank did not include confirmation for all the bank accounts held with that bank. Further, the matter was not included in the Regulatory Report.

- *Lack of comprehensive approach*

On 1 file, the engagement lacked a comprehensive approach. We identified various gaps in the work programme which were not in accordance with the DFSA Rules. Where the work programme was in accordance with the applicable DFSA Rule, the work performed was of unsatisfactory standard.

Safe Custody Auditor's Report

The work on Safe Custody Auditor's Reports was of a reasonable standard subject to the following issues which we identified:

- *Lack of comprehensive approach*

On 1 file, the engagement lacked a comprehensive approach. We identified various gaps in the work programme which were not in accordance with the DFSA Rules. Where the work programme was in accordance with the applicable DFSA Rule, the work performed was of unsatisfactory standard.

- *Broker Accounts*

In 1 instance, the engagement team did not obtain the complete list of broker accounts used by the AF for safe custody purposes.

- *Master List*

An engagement team performed inadequate work to ensure the contents of the master list were in accordance with the DFSA Rules. We understand that it may not be practical to obtain and attach the entire master list as part of the working papers, however, the engagement teams failed to make appropriate observations/notes from the same.

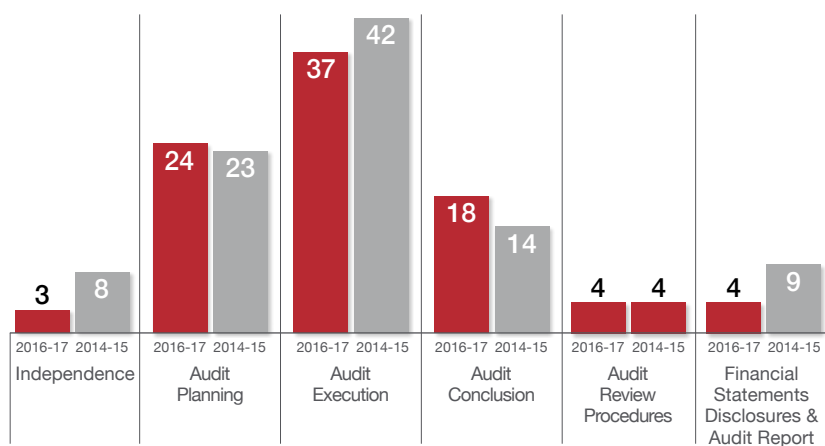
- *Documentation*

In 1 instance, the documentation was of poor standard and was not supported by appropriate evidence.

OTHER FINDINGS

The DFSA has classified other findings into the following categories:

Number of engagement files that had these findings



These findings were communicated to respective RAs in a detailed form. A full summary of all findings is provided in Appendix 1. Although the DFSA identified minor documentation issues in 51% (2014-15: 63%) of the audit files inspected, we did not consider this significant given the nature of the underlying issues.

FOCUS FOR 2018

The DFSA's audit inspection cycle runs from January to December each year. The DFSA will conduct follow-up inspections of RAs of PLCs, AFs, AMLs and DFs. In the event we have identified significant issues in our previous audit inspections we will escalate follow-up inspections to ensure the relevant RAs are taking appropriate action to address our observations and findings.

The DFSA's audit monitoring focus for 2018 includes but is not limited to:

- Use of "Service Organisations"⁴; and
- External confirmations.

These focus areas are carefully selected based on our 2017 inspections findings.

Use of Service Organisations

The services provided to an entity by a Service Organisation are relevant to the audit of that entity's financial statements when those services, and the controls over them, are part of that entity's information system relevant to financial reporting.

Accordingly, the nature and extent of the work performed by the auditor regarding the services provided by a Service Organisation depend on the nature and significance of those services to the particular entity and the relevance of those services to the audit. When obtaining an understanding of an entity, the auditor should obtain an understanding of how the particular entity uses the services of a Service Organisation, including the design and implementations control.

The DFSA's audit monitoring visits will continue to focus on whether auditors have appropriately identified the relevant Service Organisations and evaluated the design and implementations control.

External confirmations

Audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity being audited. When using external confirmation procedures, the auditor shall maintain control over external confirmation requests including:

- Determining the information to be confirmed or requested;
- Selecting the appropriate confirming party;
- Designing the confirmation requests, including ensuring requests are properly addressed and contain return information for responses to be sent directly to the auditor; and
- Sending the requests, including follow-up requests when applicable, to the confirming party.

The DFSA's audit monitoring visits will continue to focus on whether the confirmation process is adhered to and documented.

Other focus areas

The DFSA will continue to undertake monitoring visits of selected RAs in relation to their reporting of DFSA regulated entities in accordance with AUD Rule 6.2.1. The DFSA will continue to assess the engagement teams with respect to their competencies and the level of training provided by the RAs in order for them to perform work on all relevant regulatory reports such as:

- The Regulatory Returns Auditor's Report;
- Client Money Auditor's Report;
- Insurance Monies Auditor's Report; and
- Safe Custody Auditor's Report.

Where relevant, the DFSA will evaluate the work of group engagement partners on the Group Audits and the work of engagement partners on audits where the work is performed by another entity of a DFSA RA.

The DFSA will also continue to focus on the key areas announced for 2017, namely:

- Audit documentation; and
- Forming an opinion and reporting on financial statements.

⁴ Service Organisation is defined under ISA 402 as "a third-party organisation (or segment of a third-party organisation) that provides services to user entities that are part of those entities' information systems relevant to financial reporting".

APPENDIX 1 – OTHER FINDINGS

DESCRIPTION OF THE KEY FINDINGS REPORTED IN SECTION 5 OF THIS REPORT:	Number of files that had these findings		Number of RAs that had these findings	
	2016-17	2014-15	2016-17	2014-15
INDEPENDENCE				
Failure to obtain independence confirmation from staff including Audit Principals	2	6	1	3
Failure to obtain timely professional clearance in writing from the predecessor auditor	1	2	1	1
AUDIT PLANNING				
Engagement letter did not contain the expected form and contents of the audit report as required by ISA 210 – Agreeing the terms of audit engagements	7	7	3	4
Failure to document an understanding of internal controls of the entity relevant to the audit in accordance with ISA 315 – Identifying and assessing the risks of material misstatement through understanding the entity and its environment	7	8	4	5
Failure to consider implication of various DIFC Laws	4	3	1	2
Failure to organise planning meeting with the regulator and no consideration of DFSA findings letter	3	Nil	2	Nil
Failure to evaluate considerations for service organisations	2	2	2	1
Failure to show sufficient evidence that the procedures required to address the risk of fraud had been conducted, as stated in ISA 240 – The auditor’s responsibilities relating to fraud in an audit of financial statements	Nil	1	Nil	1
Failure to document the matters discussed at the team planning meeting	1	2	1	1
AUDIT EXECUTION				
The audit engagement files had minor documentation issues	25	31	8	9
Failure to keep proper control over the external confirmation process as required by ISA 505 – External confirmations	9	8	3	4
Insufficient documentation on work performed by another firm	2	2	2	1
Failure to perform proper cut-off testing	1	Nil	1	Nil
No external confirmations but alternate procedures performed	Nil	1	Nil	1
AUDIT CONCLUSION				
Contents of the representation letter not in accordance with the standards	8	Nil	3	Nil
Failure to evidence communication to those charged with governance in accordance with ISA 260 – Communication with those charged with governance and ISA 265 – Communicating deficiencies in internal control to those charged with governance	8	7	4	5
Insufficient documentation of work done on subsequent events	2	3	2	2
Insufficient documentation of work carried out on material journal entries	Nil	4	Nil	2
AUDIT REVIEW PROCEDURES				
Audit Principal not involved throughout the audit	2	4	2	2
Work performed by a non-registered Audit Principal	1	Nil	1	Nil
Signing of audit file beyond the period allowed by ISQC1	1	Nil	1	Nil
FINANCIAL STATEMENTS DISCLOSURES AND AUDIT REPORT				
Minor disclosure issues where the financial statements disclosures were not in accordance with IFRS	4	9	4	7
WHOLE FIRM-WIDE				
Failure to maintain adequate training records			Nil	1
Absence of a formal and documented process for partner/staff appraisal and evaluation			Nil	1
Failure to implement internal monitoring of engagement files			Nil	1

APPENDIX 2 – ACTIVITY OVERVIEW

PUBLICATIONS

DFSA published 2015 Audit Monitoring Report in English (02 August 2016)

DFSA published 2015 Audit Monitoring Report in Arabic (02 August 2016)

DEAR AUDIT PRINCIPAL LETTERS

DFSA issued its Audit Monitoring Focus for 2016 (12 January 2016)

DFSA issued its Audit Monitoring Focus for 2017 (14 February 2017)

PRACTICE NOTES

DFSA issued Auditing Practice Note No 1 – Understanding the audited person’s regulatory environment (31 January 2017)

EVENTS AND OUTREACH

On 3 February 2016 the DFSA hosted its first AML Workshop for MLROs of RAs.

From 22 to 24 February 2016, DFSA staff attended IFIAR Inspection Workshop in Abu Dhabi.

On 29 February 2016, DFSA hosted its seventh Annual Audit outreach session for its RAs. Over 75 Audit Principals, MLROs and key audit staff participated. The DFSA presented key findings of audit inspections conducted by the DFSA in 2015.

In April 2016, DFSA staff attended IFIAR’s 10th Plenary Meeting in London. The meeting approved Tokyo as the location for IFIAR’s Permanent Secretariat.

On 26 May 2016, the DFSA and the ICAEW jointly hosted a breakfast briefing on Extended Audit Reports.

On 14 September 2016, DFSA staff attended PIOB’s 2nd Public Interest Workshop in New York.

From 11 to 13 December 2016, the DFSA staff attended 10th International Institute on Audit Regulation hosted by US PCAOB in Washington D.C.

The DFSA staff presented at PwC’s annual training event on 12 January 2017.

From 8 to 10 February 2017, DFSA staff presented at the IFIAR Inspection Workshop in Athens.

On 20 February 2017, the DFSA and the ICAEW jointly hosted a breakfast briefing on IFRS 9.

On 6 March 2017, DFSA hosted its 8th Annual Audit outreach session for its RAs. Over 75 Audit Principals, MLROs and key audit staff participated. The DFSA presented key findings of audit inspections conducted by the DFSA in 2016.

In April 2017, DFSA Chief Executive and staff attended IFIAR’s 11th Plenary Meeting in Tokyo and signed the Multilateral Memorandum of Understanding with 21 audit regulators.

On 23 September 2017, Managing Director Supervision presented at Moore Stephens MENA Partners meeting in Dubai.

From 6 to 8 December 2017, the DFSA staff presented at the 11th International Institute on Audit Regulation hosted by US PCAOB in Washington D.C.

On 11 and 12 December 2017, the DFSA Chief Executive and Managing Director Supervision presented at BDO Global Financial Services Partners meeting in Dubai.

On 13 December 2017, the DFSA and the ICAEW jointly hosted a breakfast briefing on impact of technology in audit and finance.

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