

# **DFSA'S AUDIT MONITORING PROGRAMME**

**Public Report 2008 - 2012**



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## I. Foreword

This is the first public report (Report) on the Dubai Financial Services Authority (DFSA)'s audit monitoring programme.

This Report covers audit inspections conducted by the DFSA in the period 1 January 2008 to 31 December 2012 (Period).

The DFSA's audit monitoring programme aims to promote high-quality external audits of financial reports issued in accordance with Chapter 8 of the GEN Module (DFSA Rulebook).

The purpose of our audit monitoring programme is to assess whether Registered Auditors (RAs) in the Dubai International Financial Centre (DIFC) meet the appropriate international standards. The DFSA Rulebook sets out these standards which include: the International Standards on Auditing (ISAs), the International Standard on Quality Control (ISQCI) and the Code of Ethics for Professional Accountants (Code of Ethics) issued by International Federation of Accountants (IFAC). Where relevant, the Islamic Accounting and Auditing Standards and the Code of Ethics for Accountants and Audit Firms of Islamic Financial Institutions as issued by Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) are applied.

The DFSA's supervisory regime for RAs involves off-site and on-site supervision. We employ a risk-based approach, incorporating both planned and event driven activities. Our audit monitoring programme is discussed in more detail in Appendix I.

The DFSA's audit monitoring team comprises members of staff who are experienced in statutory audit and financial reporting. Staff members are trained in the DFSA audit monitoring methodology.

During the period covered by this report, the DFSA conducted thirty three (33) on-site assessments, assessed fifty six (56) Audit Principals and reviewed one hundred and six (106) audit engagement

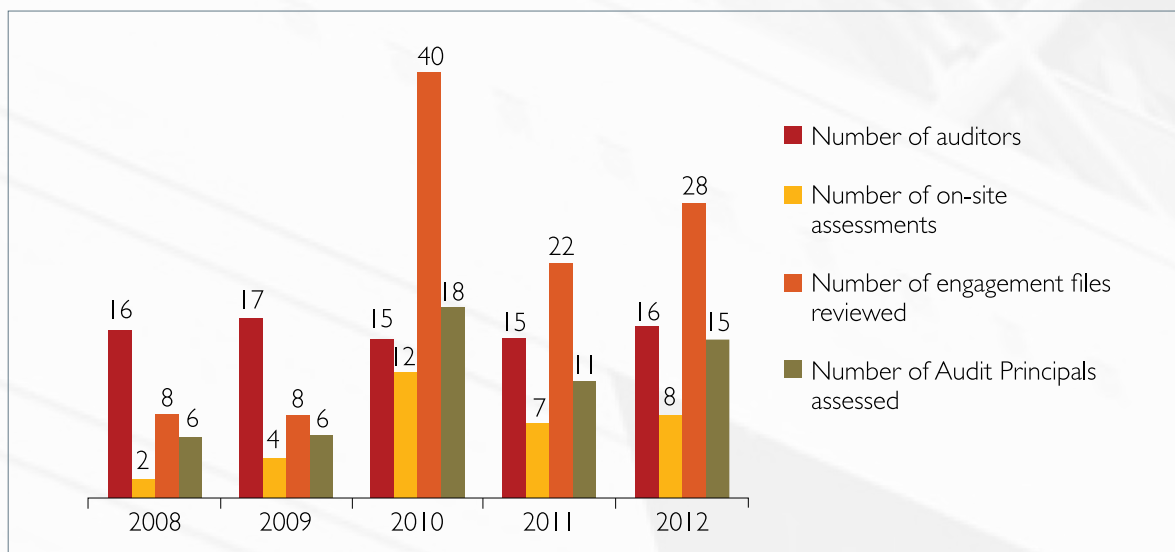


Chart 1: Summarised results of audit monitoring for the Period.

files focusing on the substance of a RA's work and assessing whether sufficient and appropriate evidence was obtained and documented to support the conclusions reached in relation to key audit judgements.

The Institute of Chartered Accountants in England and Wales and / or the Association of Chartered Certified Accountants provided technical assistance on thirteen (13) on-site assessments. However, at all times, DFSA staff members directed and retained the responsibility for all assessments.

## Key issues

The DFSA has identified three (3) key issues requiring improvement by RAs in the area of audit evidence namely:

- (1) RAs should exercise greater professional scepticism, particularly when reviewing management's judgments;
- (2) RAs should not only seek to obtain evidence that corroborates balances and management judgements, but also seek evidence that may challenge those balances and judgments; and
- (3) RAs should improve the sufficiency and appropriateness of evidence obtained to support their conclusions on significant areas of the audit.

There are some other important areas where RAs need to focus their attention and make improvements to ensure audit quality.

The DFSA communicates its findings with RAs on an individual basis and also through its annual outreach sessions, detailing aggregate findings from the previous year's inspections and raising areas of interest for the coming year's inspection programme.

During the period covered by this Report, the DFSA has taken a number of actions including giving written observations to RAs with a requirement that they implement recommended action, placing Audit Principals under close supervision and enforcement action in the more serious cases.

The DFSA has organised two (2) Regional Audit Conferences to provide a platform to discuss matters pertaining to audit in the region. These conferences were attended by a high number of audit professionals from across the region. We also organised various "Breakfast Briefings" on topics of interest to the audit community at large.

The DFSA is currently undertaking a full review of its legislative framework relating to RAs in the DIFC. It is expected that this review will be completed in 2014.

In 2012, the Regulatory Law 2004 was amended to provide the DFSA regulatory oversight of RAs of Public Listed Companies (PLCs). The DFSA will initiate inspections of these RAs from 2013 onwards.



For 2013, the DFSA will continue to inspect RAs of Authorised Firms (AFs) and Authorised Market Institutions (AMIs). Areas of future focus will include:

- 1) Audit evidence and professional scepticism;
- 2) Involvement of Audit Principals; and
- 3) Independence.

I am confident that you will find reading the observations in this Report useful.

A handwritten signature in black ink, appearing to read 'Ian Johnston', with a stylized flourish at the end.

**Ian Johnston**  
Chief Executive

## 2. About this Report

This Report summarises the results of the DFSA's monitoring visits of AFs and AMIs conducted over a period of five (5) years and sets out key issues identified during 2008 - 2012. This Report does not cover RAs of PLCs.

This Report complies with the International Forum of Independent Audit Regulators (IFIAR)<sup>1</sup> Core Principles<sup>2</sup> for Independent Audit Regulators, in particular, Principle 3 relating to the transparency and accountability of audit regulators.

In the course of the DFSA reviewing a sample of selected audit engagement files of a RA, an audit monitoring visit may identify ways in which a particular audit engagement file is deficient. It is not the purpose of an audit monitoring visit, however, to review all of the RA's audit engagements or to identify every deficiency which may exist in an audit engagement. Accordingly, this Report does not provide any assurance that the RA's 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.

During this Period, the DFSA also carried out inspections focused on RA's Anti-Money Laundering (AML) obligations. The findings of those inspections are not included in this Report.

This Report does not cover any enforcement actions taken by the DFSA on the RAs. The outcomes of all enforcement actions are reported on DFSA's website ([www.dfsa.ae](http://www.dfsa.ae)) and through separate media releases.

Reference to "instances" / "occasions" / "audit engagement files" and "engagement 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 whole firm-wide related issue.

We hope this Report is beneficial to RAs, other audit firms, AFs, AMIs, audit committees and other interested stakeholders.

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1 - IFIAR is an organisation of independent audit regulators. The organisation's primary aim is to enable its members to share information regarding the audit market environment and practical experiences of independent audit regulatory activity, with a focus on inspections of auditors and audit firms. The DFSA is a member of IFIAR.

2 - The Core Principles seek to promote effective independent audit oversight globally, thereby contributing to members' overriding objective of serving the public interest and enhancing investor protection by improving audit quality.



### **3. Dubai Financial Services Authority**

The DFSA is the independent regulator of financial and ancillary services conducted in or from the DIFC, a purpose-built financial free-zone in Dubai.

The DFSA regulates a broad range of Firms based in the DIFC, including banks, insurers, fund managers, advisory firms and brokers, exchanges and clearing houses, together with credit rating agencies, RAs and other ancillary service providers. These Firms provide a wide range of services to their clients, including Islamic finance.

In addition to regulating financial and ancillary services, the DFSA is responsible for supervising and enforcing AML and Combating the Financing of Terrorism requirements applicable in the DIFC. The DFSA has also accepted a delegation of powers from the DIFC Registrar of Companies to investigate the affairs of DIFC companies and partnerships where a material breach of DIFC Companies Law is suspected and to pursue enforcement remedies that are available to the Registrar.

With respect to RAs, the DFSA is responsible for the registration, oversight and suspension / removal of RAs in the DIFC in respect of AFs, AMIs and PLCs.

## 4. Key findings

Reviews of engagement files across RAs inspected raised a number of issues about the sufficiency and appropriateness of evidence obtained by RAs to support their conclusions on significant areas of the audit. Key findings were mainly in the areas outlined below:

### 4.1 Professional scepticism

Professional scepticism must be maintained and exercised throughout the planning and performance of an audit.

Audit Principals and staff should have questioning minds, obtain a full understanding of all relevant facts, not be over reliant on management's explanations and representations, and not just seek to obtain audit evidence that corroborates rather than challenges management's judgement. It is the duty of the Audit Principal to maintain an appropriate level of professional scepticism.

It is essential for Audit Principals and relevant staff to have a sound knowledge of International Financial Reporting Standards (IFRS) and other relevant accounting standards and frameworks to conduct an effective audit.

### 4.2 Going concern

ISA 570 - Going concern requires an auditor to evaluate management's assessment of an entity's ability to continue as a going concern. It also requires an auditor to undertake specific procedures when events or conditions that may cast significant doubt on an entity's ability to continue as a going concern have been identified.

In five (5) audit engagement files, there was a lack of evidence that the Audit Principals challenged evidence provided by the management of the AF to support their assumption that the entity was a going concern. The Audit Principals often accepted management's estimates of future cash flows without critically assessing the assumptions underlying those estimates.

### 4.3 Independence of employees

The DFSA noted that six (6) RAs retained the passports of their employees. The argument put forward by those RAs was for security purposes, however, evidence suggested that this might not be the reason.

The DFSA is of the view that the retention of an employee's passport may affect the independence of those employees in terms of raising their concerns (if any) on a particular audit.

Subsequent to our on-site assessments, these RAs confirmed that they had returned the passports of their employees.

The DFSA will continue close monitoring of issues relating to the independence of employees.

## 4.4 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. It is a generally accepted audit practice that independent confirmations should be obtained for material and / or significant balances (such as cash at bank, investments, and loans with financial institutions and debtors) to support the accuracy, existence and / or completeness of the audit assertions.

Where external confirmations are not obtained, the auditor is required to perform alternative procedures that will provide sufficient appropriate audit evidence about the audit assertions that the confirmation was intended to cover.

On eight (8) audit engagement files, the audit teams failed to receive external confirmations from independent third parties. They did perform alternate procedures on one (1) occasion to satisfy themselves while on the remaining seven (7) audit engagement files, no alternate procedures were carried out. Where no alternate procedures were carried out, the audit engagement files did not contain an adequate explanation as to why any alternate procedures were not carried out by the engagement team.

On eighteen (18) audit engagement files, there was no trail of the confirmation process, while fifteen (15) engagement teams failed to keep proper control over the external confirmation process as required by ISA 505 – External confirmations. These RAs prepared the confirmation letters, provided the same to their clients in soft copy and allowed the client to send the confirmation to the relevant banks.

## 4.5 Implementation of Clarity ISAs

In 2009, the International Auditing and Assurance Standards Board (IAASB) issued Clarity ISAs.

The final set of Clarity ISAs comprises thirty six (36) ISAs and ISQC1, including:

- one (1) new standard, addressing communication of deficiencies in internal control;
- sixteen (16) standards containing new and revised requirements; and
- twenty (20) standards that have been redrafted to apply the new conventions and reflect matters of general clarity.

All Clarity ISAs were effective for audits of financial statements for periods beginning on or after 15 December 2009.

In relation to a number of the DFSA's inspections during the Period, the Clarity ISAs were not yet effective. Moreover, the DFSA reminded the RAs to make adequate arrangements to implement Clarity ISAs for audits of financial statements for periods beginning on or after 15 December 2009.

## 4.6 Preparation of financial statements for audit clients - self-review threat

As per the IFAC Code of Ethics, providing services such as preparation of financial statements for an audit client creates a self-review threat when the auditor subsequently audits these financial statements.

An auditor may provide services related to the preparation of financial statements based on information in the trial balance to an audit client which is not a public interest entity so long as any self-review threat created is reduced to an acceptable level.

In any case, the significance of any such threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards include arranging for such services to be performed by an individual who is not a member of the audit team.

The DFSA noted that five (5) audit teams prepared / provided assistance with preparation of financial statements to their audit clients. Based on our discussions with the managers in-charge on these audits, the financial statements were prepared by the members of the audit team who subsequently performed the audit of the financial statement.

Although the audit teams correctly identified the self-review threat, the Audit Principals failed to appropriately evaluate and mitigate the same to an acceptable level.

#### **4.7 Insufficient evidence of review due to the audit work being conducted by another office of the same firm**

Under the DFSA rules, audits of Domestic AFs must be conducted by RAs registered with the DFSA. Often audit work is carried out by another office of the same network of the RA. Regardless where the work was carried out, a RA must appoint an Audit Principal who is responsible for the direction, supervision and performance of the audit engagement.

##### **Findings from particular files:**

- The audit work was conducted by another office of the same network to which the RA belonged. The audit report was signed by the RA based on an inter-office opinion signed off by a partner from another office. The engagement letter was issued by the other office and not by the RA as required under the DFSA rules. The RA recorded its work containing reporting documents prepared by the other office. However, review work conducted by the RA was not evident on this file nor was there any evidence of Audit Principal's review, with only the audit manager sign-off evident. The DFSA could not determine from the file what review work had been conducted by the RA in order to satisfy itself that audit evidence was sufficient.
- The underlying audit work was undertaken at the office of an affiliate of the RA with the RA signing-off on the audit report based on the work done by the affiliate office. The audit engagement file included information submitted by the affiliate office but did not reflect the work done by the RA over directing the scope of the audit or contain sufficient evidence of review procedures done. There was insufficient evidence on the file of Audit Principal's involvement on the audit with inter-office arrangements.



## 4.8 Quality of audit work

RAs are responsible for the quality of individual audits, and should aim to ensure that quality audits are consistently performed. A quality audit is likely to be achieved when the auditor's opinion on the financial statements can be relied upon as it was based on sufficient appropriate audit evidence obtained by an engagement team.

In respect of two (2) RAs, the DFSA noted issues with the quality of audit work conducted relating to both documentation and underlying audit approach.

The engagement files did not display a thorough understanding of the requirements of auditing standards. It was concluded that the audit staff did not have prior knowledge of audit requirements and had not received sufficient training.

## 4.9 Involvement of Audit Principal

Under the DFSA rules, a RA must appoint an Audit Principal who is responsible for the direction, supervision and performance of the audit engagement.

### **Findings from particular files:**

- The Audit Principal, who retained responsibility for signing the audit report, was not sufficiently involved in the audit. The 'engagement partner' role was delegated to a recently promoted partner, who had not as yet been registered as an Audit Principal with the DFSA. The Audit Principal that signs the audit report must fulfill the 'engagement partner' role as defined in ISA 220 – Quality control for an audit of financial statements.
- A director who was not an Audit Principal, as defined by the DFSA Rulebook, managed the conduct of the RA's audit work. However, a different partner who was an Audit Principal signed the audit report. There was no evidence that the signing partner had been sufficiently involved in the audit process, or that he had performed any review tasks before signing the audit report. This did not meet the requirements of GEN Module 8.9.2 which requires the Audit Principal to manage the conduct of the audit work and sign the audit report.
- The signing Audit Principal was only involved at the final stage of completion and was not responsible throughout the audit for its direction, supervision and performance.

## 4.10 Insufficient audit work

The RA should design and perform audit procedures that are appropriate in the circumstances for the purposes of obtaining sufficient appropriate audit evidence. Sufficiency is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatements.

### **Findings from particular files:**

- No audit work was conducted on a significant revenue transaction other than obtaining a representation letter from management. There was no other evidence on the audit engagement file. The Audit Principal had discussed this matter with the

AF and was satisfied with the outcome. There was no documentary evidence to substantiate this discussion.

- Considering the AF's reliance on large transactions to generate income and coupled with the fact that at the financial year end outstanding debtors constituted 82% of the client's balance sheet total, it is the DFSA's view that additional audit work should have been conducted in relation to the recognition of revenue in particular those relating to large transactions.
- Unsatisfactory audit work had been done on the revenue component. Random invoices were filed in the working paper file. Invoices were not cross-referred to the agreements to ensure that the entity has legal right over these invoices. Some of the invoices filed pertained to the next financial year.
- The senior-in-charge of this particular audit stated to the DFSA that he had sighted documents (placement memorandum and other relevant contracts details) and obtained net asset valuations but there was no documentary evidence to substantiate this statement on the file.
- Unsatisfactory audit work had been done on the receivables balance. The RA failed to obtain independent confirmations from the debtors and also did not perform alternative tests. The RA claimed that it performed the subsequent receipt test but the same was not documented.
- There was a significant investment in a Special Purpose Vehicle (SPV) which had been purchased from a related entity. This SPV represented a material amount on the balance sheet. The SPV held an underlying asset and the RA's approach was to test the value of the underlying asset and not the SPV. Insufficient audit work had been done on the SPV as a whole.

#### **4.1 | Disclosure of an asset placed with a related entity as a cash equivalent**

Cash equivalents are defined in International Accounting Standards (IAS) 7 – Statement of cash flows as 'short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value'.

##### **Findings from a particular file:**

- A significant balance was classified as cash and cash equivalents which represented an amount transferred to a related entity that itself placed it with a third party bank in its own name and not that of the AF. Although the amount was held in a bank, it was not held in a ring-fenced bank account in the name of the AF. The audit work conducted by the RA extended to seeking confirmation from the related entity only and did not go as far as seeking confirmation from the third party bank. As the amount was controlled by a related entity there is a risk that the amount is not readily convertible into cash. This had not been adequately considered and documented by the RA.



## 5. Other findings

The DFSA has classified other findings into the following categories:

1. Independence;
2. Audit planning;
3. Audit execution;
4. Audit conclusion;
5. Audit review procedures;
6. Financial statement disclosures and audit report; and
7. Whole firm-wide.

These findings were communicated to respective RAs in a detailed form.

Below is a summary of the other findings. A full summary of all findings is provided in Appendix 2.

### Key issues

#### Audit planning

- 26% of the audit engagement files inspected failed to show sufficient evidence that the procedures required to address the risk of fraud, as stated in ISA 240 – The auditor’s responsibilities relating to fraud in an audit of financial statements, had been conducted; and
- 26% of the audit engagement files inspected did not consider an auditor’s right and duty to report to the DFSA under Article 104(3) of DIFC Law No. 1 of 2004.

#### Audit execution

- 27% of the audit engagement files inspected did not adequately document matters which were important to support the audit opinion.

#### Audit conclusion

- 18% of the audit engagement files inspected failed to evaluate and document the aggregated uncorrected misstatements arising out of the audits; and
- There was insufficient documentation of work done on subsequent events on 17% of the audit engagement files inspected.

#### Financial statements disclosures and audit report

- 31% of the audit reports contained references to laws that do not apply to AFs and / or AMLs; and
- 28% of the audit opinions did not comply with the requirements of DFSA Rulebook.

## Appendix I - The DFSA's audit monitoring programme

### Objective

The DFSA's audit monitoring programme aims to promote high-quality external audits of financial reports issued under the DFSA Rulebook.

The purpose of an audit monitoring programme is to ensure that RAs in the DIFC meet the requirements of ISAs, ISQCI and the IFAC Code of Ethics.

### The DFSA's supervisory approach

The DFSA adopts a risk-based approach with respect to RAs which includes both event-driven supervision and on-going supervision activities.

RAs are subject to an on-site assessment at least once in a three (3) year period. However, this can be varied depending on any other risk factors identified. These assessments are conducted by the DFSA staff and can involve assistance from an international professional body which provides monitoring assistance and technical advice to the DFSA.

The DFSA's supervisory tools include registration, on-site assessments, desk-based reviews, event driven reviews and theme reviews. These are discussed in detail below:

#### A. Registration

As part of the registration process, the DFSA assesses the fitness and propriety of RAs and their Audit Principals. The assessment is similar to an on-site assessment, but is restricted to the review of whole firm-wide procedures.

#### B. On-site assessments

##### Purpose

The on-site assessment involves the DFSA undertaking an analysis of the RA's operations and business and how it conducts an audit of an AF, AMI or PLC.

##### Frequency

A RA is subject to at least one (1) on-site assessment every three (3) years. The on-site assessment results in the RAs being assigned a risk rating. The frequency of on-site assessments can be varied depending on the risk rating that has been assigned to the RA.

##### RA selection

Selection for an on-site assessment is based on a number of factors including risk rating of the RA, the risk rating and activity type of the AF, AMI or PLC that the RA audits, results of any previous on-site assessments and any other relevant information.

## Notification to the RA

The DFSA informs the RA when it has been selected for an on-site assessment, at least four (4) weeks before the visit (unless this visit has already been postponed or rescheduled). The visit notification letter provides the following details:

- The proposed date for the visit,
- The time the visit is estimated to take; and
- Any resource requirements.

## Rescheduling

A visit is only rescheduled in very limited circumstances. If the RA wishes to request a reschedule, it should do so immediately upon notification, in writing, advising of the reasons for the requested rescheduling and proposed alternative dates (preferably earlier than initially proposed).

## Pre-visit questionnaire

The notification letter includes a pre-visit questionnaire. This questionnaire includes a list of additional documents, records and other information that were not included in the Annual Information Document (AID) submitted by each RA at the start of every calendar year.

## Pre-selection of audit engagement files

The DFSA pre-selects the audit engagement files for review. The pre-selection list is communicated to the RA at least one (1) week before the visit.

## Pre-visit phone call

Approximately one (1) week before the visit date, the DFSA contacts the RA by telephone in order to:

- Confirm the final arrangements;
- Deal with any queries that the RA may have;
- Clarify any matters arising from the documentation in hand; and
- Confirm the availability of files and/or the relevant partners.

## Opening meeting

The DFSA holds initial discussions with the RA's Audit Principals to obtain information on the RA's business profile and obtain an understanding of how the RA runs its practice. These discussions cover:

- RA's procedures to ensure compliance with the DFSA's laws and rules;
- The extent and scope of the RA's own internal quality controls;
- Details of compliance reviews conducted;
- Client profile;
- Nature and extent of activities; and
- Staff profile including individual roles and responsibilities.

## Engagement files review

Having assembled the required data, the DFSA commences the detailed file reviews. The DFSA decides on the engagement files that it wishes to review from the pre-selected list. The DFSA also holds discussions with the relevant Audit Principal / engagement audit manager before the start of an engagement file review.

## File review queries

Once the audit engagement file review is completed, the DFSA staff summarises the matters arising from an individual engagement file and prepares query notes documenting his / her observations.

The query notes are handed over to the respective Audit Principal / engagement audit manager to prepare a response. Once the response is prepared, each observation along with its response is discussed.

## Other aspects of firm-wide review

The following firm-wide documents are also examined:

- Correspondence with other regulators;
- Correspondence with clients pertaining to disputes;
- Documentation relating to the RA's professional indemnity insurance;
- Partner and staff appraisal records; and
- Continuous Professional Development (CPD) records of the Audit Principals and audit staff.

Any findings arising in the course of this work are discussed with the RA and/or the individuals concerned so that any minor matters can be cleared at this time.

## Closing meeting

There should be no matters included in the closing meeting that have not been discussed during the course of the visit.

The purpose of the closing meeting is to:

- Confirm the factual accuracy of the matters reported;
- Present the preliminary overall visit findings; and
- Discuss the implications of the findings.

## Preliminary on-site assessment report

Depending on the RA's closing meeting response, the DFSA adds its conclusion to the report together with any recommendations for improvements. This preliminary on-site assessment report is then sent to the RA with an opportunity to make final comments within fourteen (14) days.



### **Final on-site assessment letter**

On receipt of the RA's comments on the preliminary on-site assessment report, the DFSA analyses the response and concludes the on-site assessment with a final letter.

### **C. Desk-based reviews**

A desk-based review (Review) is a yearly activity triggered by the receipt of the AID and the Anti-Money Laundering Officer (AMLO)'s report. These are the primary input documents for the audit monitoring plan. These assist the DFSA in prioritising monitoring visits. The Review will be based on any matters arising from these two documents together with matters arising from previous on-site assessments (if any) and information obtained.

### **D. Event-driven reviews**

An event-driven supervisory activity may be triggered by a notification, surveillance or complaint (internally or externally). The DFSA utilises a combination of the supervisory tools when conducting event-based supervision.

### **E. Theme reviews**

Theme reviews are generally undertaken on discrete areas of the RA's operations. These may be either desk-based, on-site or a combination of both. Generally these are used to ensure that each RA continues to maintain the level of competence displayed at the time of registration.

## Appendix 2 - Other findings

Below is a full summary of the key findings reported in Section 5 of this Report.

### Independence

Independence is defined under IFAC Code of Ethics as Independence of mind<sup>3</sup> and appearance<sup>4</sup>.

Description of other findings	Number of engagement files that had these findings	Number of RAs that had these findings
Failure to obtain independence confirmation from audit staff in accordance with ISQCI	N/A	5
Failure to complete client acceptance procedures before signing of engagement letter	3	3
No independence threat evaluated for performing non-assurance services	2	2
Failure to obtain professional clearance in writing from the predecessor auditor	1	1

<sup>3</sup> - Independence of mind: the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby, allowing an individual to act with integrity and exercise objectivity and professional scepticism.

<sup>4</sup> - Independence in appearance: the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or assurance team's, integrity, objectivity or professional scepticism has been compromised.



## Audit planning

Audit planning involves establishing the overall audit strategy and developing an audit plan. Adequate planning benefits the audit of financial statements.

The DFSA identified issues in audit planning in the following areas:

Description of other findings	Number of engagement files that had these findings	Number of RAs that had these findings
Failure to show sufficient evidence that the procedures required to address the risk of fraud, as stated in ISA 240 – The auditor’s responsibilities relating to fraud in an audit of financial statements, had been conducted	28	11
No consideration for the auditor’s right and duty to report to regulators under Article 104(3) of DIFC Law No. 1 of 2004	28	10
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	11	6
Insufficient documentation of audit planning in order to comply with the requirements of ISA 315 – Identifying and assessing the risks of material misstatement through understanding the entity and its environment	10	5
No evidence to substantiate appropriate analytical procedures as required by ISA 520 – Analytical procedures	5	3
Failure to include relevant working papers in the engagement file when relying on work conducted at the group level	5	5
Failure to document the matters discussed at the team planning meeting	9	4
Failure to revise materiality despite significant adjustments being made to the management accounts	3	3
Failure to document the matters discussed with the meeting	2	1
Failure to evaluate considerations for service organisations	1	1

## Audit execution

The DFSA noted the issues in terms of audit execution in the following broad categories:

Description of other findings	Number of engagement files that had these findings	Number of RAs that had these findings
The audit engagement files did not adequately document matters which were important to support the audit opinion	29	12
Audit evidence on revenue appeared to be insufficient and the quality of audit documentation was poor	8	6
No standard procedure for selection of sample size	4	2
Failure to document rationale for conclusion	3	2
Failure to conduct / document any work to confirm the AF's compliance with Shari'a rules and principles	2	2
Failure to document work on opening balances	1	1
No evidence of review of final actuarial report confirming the final insurance balances	1	1
Failure to demonstrate cut-off testing to ensure cash transactions were initiated in the same period	1	1
Failure to document the detailed understanding of relevant estimates	1	1
Failure to document consultation	1	1

## Audit conclusion

The DFSA identified issues in audit conclusion in the following areas:

Description of other findings	Number of engagement files that had these findings	Number of RAs that had these findings
Failure to evaluate and document the aggregated uncorrected misstatements arising out of the audits	19	6
Insufficient documentation of work done on subsequent events	18	5
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	16	4
The contents of the representation letter did not comply with the requirements of ISA 580 – Written representation	10	3
Insufficient documentation of work carried out on material journal entries	9	1

## Audit review procedures

The DFSA noted the issues in terms of audit review procedures in the following broad categories:

Description of other findings	Number of engagement files that had these findings	Number of RAs that had these findings
Audit Principal not involved throughout the audit	4	3
Failure to demonstrate gathering of sufficient audit evidence before the issuance of audit report	2	2
Failure to appoint mandatory Engagement Quality Control Reviewer	2	1
Failure to complete Engagement Quality Control Review before issuance of audit report	1	1
Failure to notify the DFSA on appointment of an Audit Principal	1	1

## Financial statements disclosures and audit report

Findings in the area of financial statements disclosures and audit report are as follows:

Description of other findings	Number of engagement files that had these findings	Number of RAs that had these findings
References in the audit report to non-applicable laws	33	12
Audit opinion did not comply with the requirements of the DFSA Rulebook	30	11
Minor disclosure issues where the financial statements disclosures were not in accordance with IFRS	9	7
Incorrect or no reference to the applicable employment law for calculation of end of service benefits	7	6
Audit report failed to comply with the requirements of ISA 700 – Forming an opinion and reporting on financial statements	6	4
The financial statements did not contain adequate related party disclosures as required by IAS 24 – Related party disclosures	4	4
Failure to prepare financial statements under appropriate basis of preparation	2	2
Failure to prepare consolidated financial statements	1	1
Insufficient audit trail over a qualified audit opinion	1	1

## Whole firm-wide

Whole firm-wide findings are as follows:

Description of other findings	Number of RAs that had these findings
Absence of a formal and documented process for partner / staff appraisal and evaluation	6
Failure to maintain adequate CPD records	5
Failure to follow an appropriate mechanism to ascertain the limits for professional indemnity insurance	4

## Appendix 3 - Auditors registered for the Period

The following RAs were registered during the period and subject to an on-site assessment by the DFSA, the results of which are presented in the Report below:

Firm Number	Name	Date of Registration
F001428	Ashok Kapur & Associates Limited	28 January 2007
F001571	BDO Chartered Accountants & Advisors	04 June 2008
F000241	Deloitte and Touche (M.E.)	03 January 2005
F001429	Deloitte LLP	28 November 2006
F000031	Ernst & Young	03 January 2006
F001430	Grant Thornton LLP	15 January 2007
F001431	Horwath MAK Limited	15 January 2007
F001432	KPMG LLP	19 April 2009
F000641	Mazars Chartered Accountants	10 May 2011
F001792	Meralis Chartered Accountants & Registered Auditors*	02 April 2012
F000383	Moore Stephens, Chartered Accountants	06 February 2007
F001434	PriceWaterhouseCoopers Limited	07 January 2008
F001435	Russell Bedford (Dubai) Limited	05 February 2007
F001436	Sajjad Haider Chartered Accountants LLP	03 March 2008
F001265	Sangani & Company*	16 July 2012
F001054	Usamah Tabbarah & Co - Nexia International	26 March 2009

\* RAs registered in 2012 are not subject to a full on-site assessment.

## Appendix 4 - Auditors withdrawn during the Period

The following RAs withdrew their registration during the period and were subject to an on-site assessment by the DFSA, the results of which are presented in the Report below:

Firm Number	Name	Date of Registration	Date of Withdrawal
F000691	Farahat & Co LLP **	03 March 2008	13 June 2010
F000020	KPMG	03 January 2005	19 April 2009
F001433	Mazars Middle East LLP	12 February 2008	10 May 2011
F000599	Morison Menon Chartered Accountants	07 January 2008	22 January 2012
F000025	PriceWaterhouseCoopers	03 January 2005	28 December 2010

\*\* Not subject to a full on-site assessment.







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