

2021

Audit Quality Unit

**Report on 2020
quality assurance
review of Grant
Thornton**

15 March 2021

Mission

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

About IAASA

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

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

Introduction

Overview of Grant Thornton (the Firm)



7
offices in Dublin, Belfast, Cork, Galway, Limerick, Longford and Newbridge



77
audits of public-interest entities in 2020



19
audit partners



4%
market share based on audit fees associated with public-interest entities in 2020



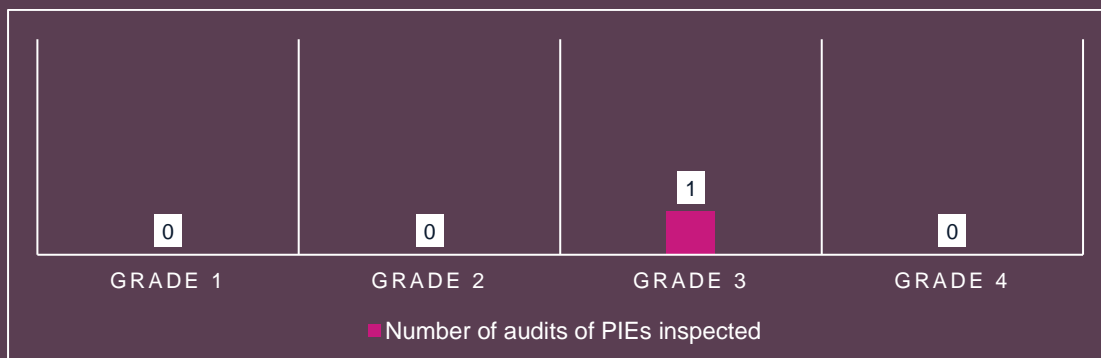
432
personnel working in the audit function

Outcome of the quality assurance review

Firm's system of quality control - recommendations¹



Audits of PIEs – grading¹



¹ See Appendix 1 for detailed description of ratings and grades

Guide to IAASA's reports on quality assurance reviews

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

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

Quality assurance review explained

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

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

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

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

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

Scope of the quality assurance review of the Firm

The Firm's policies and procedures

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

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

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

Audits of public-interest entities

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

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

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

Overview of findings

The quality assurance review identified two matters requiring improvement in the Firm's system of quality control. These matters are discussed in the next section of this report.

The Authority assigned a grade of 3 (improvements required) to the audit of a PIE.

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

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

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

Results of the quality assurance review

Overview of areas


Ethics and independence	<p>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.</p> <p>Full details of the finding and recommendation are set out in the table below.</p> <p>The Authority noted that, in a sample of five independence communications to those charged with governance, three of the independence communications made incorrect reference to the Firm's compliance with the Auditing Practices Board's Ethical Standards instead of IAASA's Ethical Standards. (Finding 1)</p> <p>Also, in the case of one of the five reports inspected, the engagement team did not communicate non-audit services that were provided to an affiliate of the audit client tested. (Finding 1)</p>
Acceptance and continuance	<p>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.</p> <p>The Authority noted that in the case of three of a sample of five audit clients, the Firm provided an engagement letter which had been signed prior to the approval of the Firm's acceptance and continuance procedures. Full details of this finding and recommendation are set out below. (Finding 2)</p>
Documentation	<p>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.</p> <p>The Authority has no findings or recommendations to report in this area.</p>
Complaints and allegations	<p>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</p>

arrangements for 'whistle-blowing' and how these arrangements have been communicated. The Authority obtained evidence of the Firm's implementation of its policies.

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

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

Area and significance rating	Background	Issue	Recommendation
<p>Ethics and independence</p> <p>Finding 1</p> <p>● Amber</p>	<p>The Ethical Standard for Auditors (Ireland) requires the engagement partner to communicate to those charged with governance all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm.</p> <p>This includes disclosure in writing of all services provided by the firm and its network to the entity, its directors and senior management and its affiliates.</p>	<p>To test the effectiveness of the communications required by the Ethical Standard, the Authority inspected a sample of five reports to those charged with governance.</p> <p>In the case of three of these reports, it was said that the auditors 'complied with Auditing Practices Board's Ethical Standards'. However, it is the Authority that adopts auditing standards for use in Ireland, not the Auditing Practices Board.</p> <p>Also, in the case of one of the five reports inspected, the engagement team did not communicate non-audit services that were provided to an affiliate of the audit client tested. These non-audit services were permissible under the Ethical Standard for Auditors (Ireland).</p>	<p>The Authority notes that, prior to the quality assurance review performed by the Authority, the Firm had updated its template audit planning reports to correct the reference to the Auditing Practices Board. The Authority recommends that the Firm ensures that the new template is used on all relevant engagements.</p> <p>The Authority also recommends that, going forward, the Firm correctly communicates non-audit services to those charged with governance, where relevant.</p>
<p>Acceptance and continuance</p>	<p>The International Standard on Quality Control (Ireland) 1 requires that audit firms establish policies and procedures for the</p>	<p>In the case of three of the sample of five audit clients, the Firm provided an engagement letter which had been signed prior to the approval of</p>	<p>The Authority notes that the Firm is working on a project to build more efficiencies into the engagement letter</p>

Area and significance rating	Background	Issue	Recommendation
Finding 2  Amber	<p>acceptance and continuance of audit clients.</p> <p>The Authority examined the acceptance and continuance documentation in respect of a sample of five audit clients.</p>	<p>the acceptance and continuance procedures.</p>	<p>process. The Authority recommends that going forward, all engagement letters should be signed after the Firm's approval of the acceptance and continuance procedures.</p>
Documentation	<p>The Authority has no findings or recommendations to report in this area.</p>		
Complaints and allegations	<p>The Authority has no findings or recommendations to report in this area.</p>		

Summary of audits of PIEs inspected

	Assigned grade ²	Audit areas reviewed
Audit one	3	<ul style="list-style-type: none"> • accounting estimates • audit planning • communications with those charged with governance • completion areas • journal entry testing • technical provisions

Key recommendations arising from the inspection of audits of PIEs

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

Audit area	Recommendation
Engagement partner review	The Authority recommends that the engagement team ensures that all prepared work papers are included on the audit file prior to the signing of the auditor's report. Where required, the Firm's guidance should be updated to reflect this.
Engagement quality control (EQC) review	The Authority recommends that, as part of their EQC review, the EQC reviewer ensures that all work papers reviewed by them are included on the audit file prior to the signing of the auditor's report. Where required, Firm guidance should be updated to reflect this.
Audit planning	<p>The Authority recommends that sufficient evidence is retained to demonstrate performance of all relevant pre-audit activities and risk assessment procedures.</p> <p>The Authority further recommends that sufficient documentation is retained of planning meetings involving the engagement partner and other key members of the audit team.</p>

² See Appendix 1 for detailed description of ratings and grades

Completion	The Authority recommends that enquiries are made with management, up to and including the date of signing of the auditor's report, as to whether any subsequent events have occurred that might affect the financial statements.
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Journal entries	The Authority recommends that sufficient evidence is obtained and retained on the audit file in respect of journal entry testing. This should include evidence of the enquiries made with third parties, or extraction of the relevant journals to confirm that the explanation provided by the third party was appropriate in the circumstance.
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Results of follow up procedures

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

Purpose and limitations of this report

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

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

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

Appendix – Detailed description of ratings and grades

Ratings

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

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

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

- meet the requirements of the ethical standards and International Standard on Quality Control (Ireland) 1 (ISQC 1); or
- apply a firm's processes or procedures.

● **Yellow** indicates that a finding is a minor deficiency. This is:

- a minor failure in the application of a firm's procedures or processes; or
- a low level deficiency that has the potential to develop into a significant or less than significant failure to meet the requirements of the ethical standards and ISQC 1.

Grades

Each of the audits of PIEs inspected as part of the quality assurance review is assigned a grade.

- 1** A 1 grade is a good audit with no concerns regarding the sufficiency and quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Any concerns are very limited in their implications (both individually and collectively).
- 2** A 2 grade is an audit that requires limited improvements. There are only limited concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be some concerns, their implications (both individually and collectively) are limited.
- 3** A 3 grade is an audit that requires improvements. There are some concerns, assessed as less than significant⁴, regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be concerns, their implications (both individually and collectively) are less than significant.
- 4** A 4 grade is an audit that requires significant improvements. There are significant concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. There may be concerns in other areas, with implications that are individually or collectively significant.

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

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



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