

PUBLIC NOTICE

Enforcement Action

IRISH AUDITING AND ACCOUNTING SUPERVISORY AUTHORITY (IAASA)

IN THE MATTER OF

John Kavanagh

First Respondent

And

Howlett Kavanagh Chartered Accountants

Second Respondent

1. Following an investigation by the Irish Auditing and Accounting Supervisory Authority ('the Authority'), a Settlement Agreement has been agreed and the Authority has decided to impose in respect of the first respondent a direction that he be prohibited for a period of 12 months from signing statutory audit reports and he is fined €10,500. In respect of the second respondent a direction that the firm be prohibited for a period of 12 months from conducting statutory audits.
2. The contraventions were admitted by the respondents.

Background

3. This matter concerns the audit of the financial statements of Glenfinnian Bond DAC (herein the entity) for the year ending 31 December 2019. Howlett Kavanagh Chartered Accountants (herein the firm) audited the financial statements. The firm has since ceased trading. As the firm engaged in the statutory audit of a public interest entity (PIE), the firm was subject to the Authority's review of its systems of internal quality control.
4. In respect of the audit of the entity which is a PIE, a number of contraventions and non-compliance with legislation/regulation were identified and form the subject matter of this document. In addition, the firm's non-compliance with the relevant requirements for a firm's systems of internal quality control, forms the basis of the grounds in relation to the firm and are dealt with later in this document.
5. The first respondent was the audit partner in the firm. The audit report was signed by the first respondent.

6. Glenfinnian Bond DAC is a special purpose vehicle which was established for the purposes of raising secured note finance. A secured note is a type of loan or corporate bond that is backed by the borrower's assets as a form of collateral. These notes were listed by the entity on the Cyprus Stock Exchange and therefore this entity was a Public Interest Entity (PIE). Of the finance amount raised, £2,220,000 had been loaned to Ingard Alternative Funding Limited, a subsidiary of the company's parent, Ingard Limited, which used the funds to provide short term bridging finance, secured by it on property in the United Kingdom.

7. As at 31 December 2019, Glenfinnian Bond DAC had loans receivable of £2,220,000 from Ingard Alternative Funding Limited that accounted for 95% of Glenfinnian Bond DAC's total assets.

The relevant standards of Conduct (relevant to the first respondent)

8. Legislation requires statutory auditors in Ireland to carry out statutory audits in accordance with the auditing standards adopted by the Authority namely, the International Standards on Auditing (Ireland)(herein **ISA's**). The purpose of ISAs is to establish standards and general principles with which auditors are required to comply. Together they form a body of standards that should be applied before an auditor can express an opinion that financial statements give a 'true and fair view' within the meaning of the Companies Act 2014. Significant failures to comply with the requirements of the International Standards on Auditing (Ireland) were identified. In addition, there was significant non-compliance with the EU directive and Company law legislation.

9. In respect of the first respondent there were breaches of legislation and a number of contraventions of aspects of the following identified:

ISA 240 (Ireland) - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

ISA 260 (Ireland) - Communication with Those Charged with Governance

ISA315 (Ireland) - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment

ISA 330 (Ireland) - The Auditor's Responses to Assessed Risks

ISA 500 (Ireland) - Audit Evidence

ISA 505 (Ireland) - External Confirmations

ISA 570 (Ireland) - Going Concern

ISA 701 (Ireland) - Communicating Key Audit Matters in the Independent Auditor's Report

ISQC 1- Quality control for firms that perform audits and reviews of financial statements, and other assurance and related services engagements

Ethical standards for Auditors (Ireland)

The relevant standards of Conduct (relevant to the second respondent)

10. Legislation requires statutory auditors in Ireland to carry out statutory audits in accordance with the auditing standards adopted by the Authority namely, the International Standards on Auditing (Ireland). Significant failures to comply with the requirements of the International Standards on Auditing (Ireland) were identified. In addition, there was significant non-compliance with the EU directive and Company law legislation.

11. In respect of the firm the following breaches of legislation and contraventions were identified:

- (i) Article 13 of Regulation (EU) 537/2014 and a relevant contravention as defined in the Companies Act 2014

- (ii) Article 5 of EU regulation No. 537/2014 and a relevant contravention as defined in the Companies Act 2014
- (iii) Ethical standards for Auditors (Ireland).
- (iv) ISQC 1- Quality control for firms that perform audits and reviews of financial statements, and other assurance and related services engagements
- (v) ISA 220- Quality Control for an Audit of Financial Statement
- (vi) ISA 260- Communication with Those Charged with Governance

The auditor (the first respondent)

1. Contrary to section 1514 of the Companies Act 2014 the auditor failed to inform IAASA of his appointment as statutory auditor to a public-interest entity namely, Glenfinnian Bond, Designated Activity Company ('the entity').

12. Section 1514 of the companies Act states:

where a statutory auditor or audit firm is first appointed by a public-interest entity on or after 17 June 2016, the statutory auditor or audit firm shall inform the Supervisory Authority within one month after the date of such appointment that the statutory auditor or audit firm has been appointed to hold office and...

13. The first respondent did not notify the Authority of the appointment as statutory auditor to the entity.

2. Contrary to Article 8 of EU Regulation No. 537/2014, and ISQC 1, no engagement quality control review was performed on the audit of the entity for the year ended 31 December 2019.

14. Article 8 states:

Before the reports referred to in Articles 10 and 11 are issued, an engagement quality control review (in this Article hereinafter referred to as: review) shall be performed to assess whether the statutory auditor or the key audit partner could reasonably have come to the opinion and conclusions expressed in the draft of these reports.

15. ISQC1, paragraph 36 states:

Auditing standards require that, for audits of financial statements of public interest entities (PIEs), before the auditor's report and the additional report to those charged with governance are issued, the firm shall require that an EQC review shall be performed to assess whether the key audit partner could reasonably have come to the opinion and conclusions expressed in the draft of those reports. Where the audit is carried out by a firm and all the statutory auditors of that firm were involved in the carrying out of the audit, the firm shall arrange for another firm to perform an EQC review.

16. For the purposes of the Companies Act 2014 a relevant contravention is defined as:

- (a) a breach of the standards of a prescribed accountancy body by a member of that body or
- (b) a contravention by a statutory auditor of a provision of
 - (a) section 336 or 337

- (ii) Part 27, or
- (iii) Regulation (EU) No 537/2014.

There was no evidence that an Engagement Quality Control review (EQC review) was performed. The EQC review is a process, required by ISQC1 and by law. It is designed to provide an objective evaluation, on or before the date of the auditor's report, of the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report.

3. Contrary to Article 5 of EU regulation No. 537/2014, the auditor engaged in providing prohibited non-audit services to the entity.

17. The relevant details are set out in paragraph 83 below. The first respondent as the auditor on behalf of the firm provided those services contrary to Article 5 and as such is a relevant contravention for the purposes of the Companies Act.

4. The audit of the financial statements of Glenfinnian Bond, Designated Activity Company for the year ended 31 December 2019 was deficient in that:

(i)There was insufficient evidence on the audit file to show that appropriate audit evidence was obtained in relation to the valuation of loans receivable of £2,220,000.

18. ISA 500.6 states:

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

19. As at 31 December 2019, the entity had loans receivable of £2,220,000 from Ingard Alternative Funding Limited ('IAF'). IAF is controlled by the entity's parent company, Ingard Limited ('Ingard'). The loans receivable accounted for 95% of the entity's total assets as at 31 December 2019.

20. Included on the audit file were the unaudited financial statements of IAF which showed a net deficit of £770,846 as at 31 March 2019 (prior year 2018: net deficit of £284,382). This net deficit casts doubt on the recoverability of the loan by the entity. There was nothing in the audit file to demonstrate that the first respondent had addressed the fact that the financial statements were unaudited. Further, there was insufficient evidence of the first respondent designing and performing audit procedures to test the uncertainty around re-financing options and the impact on the carrying value of the entity's loan receivable.

(ii)There was no or no sufficient evidence on the audit file of the auditor 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.

21. The relevant information concerning ground 4(ii) and 4(iii) are dealt with below at paragraph 23.

(iii)There was no or no sufficient evidence on the audit file of the auditor determining whether there were any significant risks applicable to the audit and what if any additional audit procedures needed to be performed.

22. ISA 315 paragraph 11 states:

The auditor shall obtain an understanding of the following:

(a) Relevant industry, regulatory, and other external factors including the

applicable financial reporting framework.

(b) The nature of the entity, including:

(i) its operations;

(ii) its ownership and governance structures;

(iii) the types of investments that the entity is making and plans to make,

including investments in special-purpose entities; and

(iv) the way that the entity is structured and how it is financed

to enable the auditor to understand the classes of transactions, account

balances, and disclosures to be expected in the financial statements

(c) The entity's selection and application of accounting policies, including the

reasons for changes thereto. The auditor shall evaluate whether the entity's

accounting policies are appropriate for its business and consistent with the

applicable financial reporting framework and accounting policies used in the

relevant industry.

(d) The entity's objectives and strategies, and those related business risks that

may result in risks of material misstatement.

(e) The measurement and review of the entity's financial performance.

paragraph 25

The auditor shall identify and assess the risks of material misstatement at:

(a) the financial statement level; and

(b) the assertion level for classes of transactions, account balances, and disclosures.

paragraph 27

As part of the risk assessment the auditor shall determine whether any of the risks identified are, in the auditor's judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk.

23. There was no evidence on the audit file of the first respondent 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. Further there was no evidence on the audit file of the first respondent determining whether there were any significant risks applicable to the audit. Significant risks, given their nature, require the performance of additional audit procedures over and above what would be performed for non-significant risks. There was no evidence of these additional procedures being performed.

(iv) There was no or no sufficient evidence on the audit file of the auditor designing and performing audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

24. ISA 330 paragraph 6 states:

The auditor shall 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.

25. There was no evidence on the audit file of the first respondent designing and performing audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

(v) There was no or no sufficient evidence that the related financial statements complied with the disclosure requirements of the applicable financial reporting framework in particular disclosure omissions were not identified by the auditor in that:

(a) There were no disclosures in the financial statements under International Financial Reporting Standard ('IFRS') 9 ('Financial Instruments: Disclosures') which requires disclosures relating to the amounts, timing and uncertainty of an entity's future cash flows regarding that entity's financial instruments.

The Entity held a financial instrument (the loan receivable) of £2,220,000 as at 31 December 2019.

(b)There were no disclosures in the financial statements under IFRS 7 ('Financial Instruments: Disclosures') which requires disclosures regarding the significance of financial instruments for the entity's financial position and performance, the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

(c)There were no disclosures in the financial statements under IFRS 13 ('Fair Value Measurement') which requires disclosures regarding the fair value measurements applied by an entity.

26. ISA 330 paragraph 24 states:

The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework. In making this evaluation, the auditor shall consider whether the financial statements are presented in a manner that reflects the appropriate:

- *Classification and description of financial information and the underlying transactions, events and conditions; and*
- *Presentation, structure and content of the financial statements.*

27. There was insufficient evidence on the audit file of the first respondent evaluating whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework. Significant disclosure omissions were not identified by the first respondent. The entity held a financial instrument (the loan receivable) of £2,220,000 as at 31 December 2019. International Financial Reporting Standard ('IFRS') 9 ('Financial Instruments') requires disclosures relating to the amounts, timing and uncertainty of an entity's future cash flows regarding that entity's financial instruments. There were no disclosures in the financial statements under International Financial Reporting Standard ('IFRS') 9 ('Financial Instruments').

28. IFRS 7 ('Financial Instruments: Disclosures') requires disclosures regarding the significance of financial instruments for the entity's financial position and performance, the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of

the reporting period, and how the entity manages those risks. Again, there were no such disclosures in the financial statements under IFRS 7.

29. IFRS 13 ('Fair Value Measurement') requires disclosures regarding the fair value measurements applied by an entity. There were no disclosures in the financial statements under IFRS 13.

(vi)There was insufficient evidence of communications with those charged with governance in relation to planned scope and timing of the audit and/or significant findings from the audit and/or auditor independence.

30. The relevant information concerning 4(vi) is dealt with at para 32.

(vii)In respect of the requirements of the additional report to be sent to those charged with governance, there was no or no sufficient evidence of compliance with some or all of the requirements of Article 11 of EU Regulation No. 537/2014 and ISA 260 16 R-2.

31. ISA 260 (Ireland) the following paragraphs are relevant:

15. The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor.

When the auditor is required or decides to communicate key audit matters in accordance with ISA (Ireland) 701, 1c the overview of the planned scope and timing of the audit shall also include communicating about the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

16R-2. For audits of financial statements of public interest entities, the auditor shall submit an additional report to the audit committee of the entity explaining the results of the audit carried out and shall at least:

(a) Include the declaration of independence required by paragraph 17R-1(a);

...

(e) Include a description of the scope and timing of the audit;

...

(g) Describe the methodology used, including which categories of the balance sheet have been directly verified and which categories have been verified based on system and compliance testing, including an explanation of any substantial variation in the weighting of system and compliance testing when compared to the previous year, even if the previous year's audit was carried out by another firm;

(h) Disclose the quantitative level of materiality applied to perform the audit for the financial statements as a whole and where applicable the materiality level or levels for particular classes of transactions, account balances or disclosures, and disclose the qualitative factors which were considered when setting the level of materiality;

(i) Report and explain judgements about events or conditions identified in the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty, and provide a summary of all guarantees, comfort letters, undertakings of public intervention and

other support measures that have been taken into account when making a going concern assessment;

(j) Report on any significant deficiencies the entity's or, in the case of consolidated financial statements, the parent undertaking's internal financial control system, and/or in the accounting system. For each such significant deficiency, the additional report shall state whether or not the deficiency in question has been resolved by management;

(k) Report any significant matters involving actual or suspected non-compliance with laws and regulations or articles of association which were identified in the course of the audit, in so far as they are considered to be relevant in order to enable the audit committee to fulfil its tasks;

(l) Report the valuation methods^{1g} applied to the various items in the annual or consolidated financial statements including any impact of changes of such methods;

...

(o) Indicate whether all requested explanations and documents were provided by the entity;

(p) Report:

(i) Any significant difficulties encountered in the course of the audit;

(ii) Any significant matters arising from the audit that were discussed or were the subject of correspondence with management; and

(iii) Any other matters arising from the audit that in the auditor's professional judgement, are significant to the oversight of the financial reporting process. Where more than one auditor has been engaged simultaneously, and any disagreement has arisen between them on auditing procedures, accounting rules or any other issue regarding the conduct of the audit, the reasons for such disagreement shall be explained in the additional report to the audit committee.

17R-1. For audits of financial statements of public interest entities, the auditor shall:

(a) Confirm annually in writing to the audit committee that the firm and partners, senior managers and managers, conducting the audit are independent from the audited entity; and

(b) Discuss with the audit committee the threats to the auditor's independence and the safeguards applied to mitigate those threats.

22. The auditor shall evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action.

32. There was insufficient evidence of communications with those charged with governance on planned scope and timing of the audit, auditor independence and significant findings from the audit, as is required by the ISA's.

33. There is a legal requirement to provide an additional report to be sent to those charged with governance, in accordance with the Article 11 of EU Regulation No. 537/2014.

34. There was a lack of evidence of compliance with numerous elements of the above requirements. For example, the first respondent's communications failed to include, in writing, as required by ISA260

16R-2, the following matters which are required in the additional report to those charged with governance:

- The declaration of independence
- A description of the scope and timing of the audit
- Description of the methodology used
- Disclosure of the quantitative level of materiality applied to perform the audit for the financial statements and the qualitative factors which were considered when setting the level of materiality
- Reporting and explanation of judgements about events or conditions identified in the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty
- A summary of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been taken into account when making a going concern assessment
- Reporting on any significant deficiencies with the entity's internal financial control system or in the accounting system
- Reporting on any significant matters involving actual or suspected non-compliance with laws and regulations or articles of association which were identified in the course of the audit, in so far as they are considered to be relevant in order to enable the audit committee to fulfil its tasks
- Reporting the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods.
- Indication of whether all requested explanations and documents were provided by the entity
- Reporting on:
 - (i) any significant difficulties encountered in the course of the audit
 - (ii) any significant matters arising from the audit that were discussed or were the subject of correspondence with management
 - (iii) any other matters arising from the audit that in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

(viii)There was no or no sufficient evidence that the audit report included all required disclosures relating to Key Audit Matters (KAM) in particular:

- (a)The audit report did not include a reference to the related KAM disclosure in the financial statements.**
- (b)The audit report did not address why the valuation and recoverability of loans receivable was considered to be a matter of most significance to the audit and was determined to be a KAM.**
- (c)The audit report did not provide a description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud, arising from the KAM.**
- (d)The audit report did not include an explanation of how the auditor applied the concept of materiality in planning and performing the audit or an overview of the scope of the audit, including an explanation of how such scope addressed each KAM relating to one of the most significant risks of material misstatement; and was influenced by the auditor's application of materiality.**

35. ISA 701 the following paragraphs are relevant:

13. The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address:

- (a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and
- (b) How the matter was addressed in the audit.

13R-1. In describing each of the key audit matters in accordance with paragraph 13, the auditor's report shall provide, in support of the audit opinion:

- (a) A description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud;
- (b) A summary of the auditor's response to those risks; and
- (c) Where relevant, key observations arising with respect to those risks. Where relevant to the above information provided in the audit report concerning each significant assessed risk of material misstatement, the audit report shall include a clear reference to the relevant disclosures in the financial statements.

13-2. In describing why the matter was determined to be a key audit matter in accordance with paragraph 13(a), the description shall indicate that the matter was one of the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor.

36. The audit report did not include a reference to the related KAM disclosure in the financial statements. The report did not address why the valuation and recoverability of loans receivable was considered to be a matter of significance to the audit and why it was determined to be a KAM. It did not provide a description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud, arising from the KAM. Further, the audit report did not include an explanation of how the first respondent applied the concept of materiality in planning and performing the audit or an overview of the scope of the audit, including an explanation of how such scope addressed each KAM relating to one of the most significant risks of material misstatement; and how it was influenced by the first respondent's application of materiality.

(ix)There was insufficient evidence on the audit file of the procedure described in the audit report to make an assessment of the systems and controls put in place by management to assess and control the lending risks.

37. The following audit standards are relevant:

ISA 701 paragraph 13 states:

The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address:

- (a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and
- (b) How the matter was addressed in the audit.

ISA 500 paragraph 6 states:

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

38. The valuation and recoverability of loans receivable was the only KAM included in the audit report which included the following as one of the procedures performed to address that KAM:

"We addressed this matter in our audit by making an assessment of the systems and controls put in place by management to assess and control the lending risk".

39. There was insufficient evidence on the audit file of the procedure described in the audit report to make an assessment of the systems and controls put in place by management to assess and control the lending risk.

(x)Contrary to Section 1526 of the Companies Act 2014 (which requires statutory auditors in Ireland to carry out statutory audits in accordance with the auditing standards adopted by Ireland's Supervisory Authority- the International Standards on Auditing (Ireland)),

- (a)the engagement letter dated 19 June 2020 stated that the audit was conducted in accordance with International Standards on Auditing (UK and Ireland) issued by the Financial Reporting Council and**
- (b)the audit working papers refer to the requirements of the International Standards on Auditing (UK and Ireland).**

40. The first respondent's report sets out that the audit was conducted in accordance with International Standards on Auditing (Ireland). However, there was limited if any evidence that the audit was conducted in accordance with those standards. The engagement letter dated 19 June 2020 notes that the audit will be conducted in accordance with International Standards on Auditing (UK and Ireland) issued by the Financial Reporting Council. The audit working papers also refer only to the requirements of the International Standards on Auditing (UK and Ireland), which have been superseded.

(xi) There was no or no sufficient evidence that the auditor designed and implemented procedures to respond to matters which were identified at the planning stage in particular the long-term position and the repayability of a loan receivable that was due in 2023.

41. ISA 330 paragraph 5

The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level.

42. The planning memorandum on the audit file summarises inquiries with a director of the entity. The director had noted that whilst there were no concerns with regard to the ongoing trading position of the company in the short term, the Board and the Ingard group were paying attention to the long-term position and the repayability of a loan receivable that was due in 2023. The planning memorandum on the audit file notes that this area was to be considered closely in the context of the audit work. However, there was no evidence that the first respondent designed or implemented procedures to respond to this matter.

(xii) In identifying and assessing the risks of material misstatement the auditor did not evidence or sufficiently evidence:

- (a) adequate consideration of the relevant industry, regulatory and other external factors in obtaining an understanding of the entity**
- (b) procedures in addition to inquiry to evaluate the design and implementation of the controls that are relevant to the audit.**

(c) obtain an understanding of the information system relevant to financial reporting.

(d) that the audit file evidenced the performance of analytical risk assessment procedures.

43. ISA 315 paragraphs 5,6,11,13 and 18

5. The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion.

6. The risk assessment procedures shall include the following:

(a) Inquiries of management, of appropriate individuals within the internal audit function (if the function exists), and of others within the entity who in the auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error.

(b) Analytical procedures.

(c) Observation and inspection.

11. The auditor shall obtain an understanding of the following:

(a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework.

(b) The nature of the entity, including:

(i) its operations;

(ii) its ownership and governance structures;

(iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and

(iv) the way that the entity is structured and how it is financed

to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.

(c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.

(d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.

(e) The measurement and review of the entity's financial performance.

13. When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel.

18. The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas:

(a) The classes of transactions in the entity's operations that are significant to the financial statements;

(b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;

(c) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;

(d) How the information system captures events and conditions, other than transactions, that are significant to the financial statements;

(e) The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and

(f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.

This understanding of the information system relevant to financial reporting shall include relevant aspects of that system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers.

44. There was insufficient evidence on the audit file that adequate consideration was given to the relevant industry, regulatory and other external factors. For example, there was no evidence that the first respondent considered specific risks of misstatement arising from the special purpose vehicle business, industry specific accounting practices, or the impact of the delisting on the entity's operations.

45. The audit file notes that the entity's internal control system is "very basic" but adjudged sufficient to meet the Company's accounting needs. The audit file further notes that the company's internal control and accounting system is considered to be adequate for its needs. There was no evidence of the first respondent having performed procedures to evaluate the design and implementation of the controls that are relevant to the audit.

46. There was no evidence that the first respondent performed the procedures required by auditing standards to understand the information system relevant to the entity's financial reporting.

47. The audit file did not describe the procedures by which transactions such as interest income and expense, are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements. It did not identify the related accounting records or supporting information used by the entity to identify and record transactions in the financial statements.

48. The audit file notes that the entity does not have the resources internally to prepare the financial statements under IFRS so assistance is to be provided by the firm. There was no explanation of the process used to prepare the Entity's financial statements, including significant accounting estimates and disclosures. Finally, there was no evidence of analytical risk assessment procedures having been performed, a mandatory requirement of ISA 315.

(xiii) There was no or no sufficient evidence that the auditor identified a significant risk and performed procedures to address the risk of management override of controls.

49. ISA 240 the following paragraphs are relevant:

31. Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

32. Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform audit procedures to:

(a) Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. In designing and performing audit procedures for such tests, the auditor shall:

(i) Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;

(ii) Select journal entries and other adjustments made at the end of a reporting period; and

(iii) Consider the need to test journal entries and other adjustments throughout the period.

(b) Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, the auditor shall:

(i) Evaluate whether the judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. If so, the auditor shall re-evaluate the accounting estimates taken as a whole; and

(ii) Perform a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year.

(c) For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

50. There was no evidence on the audit file that a significant risk was identified in relation to the risk of management override of controls. This is a mandatory requirement of ISA 240. Further, there was no evidence that procedures were performed to address the risk of management override of controls.

(xiv) There was no or no sufficient evidence that the auditor considered how and where the Entity's financial statements may be susceptible to material misstatement due to fraud.

(xv) There was no or no sufficient evidence of what if any enquiries were made of the entity's management and/or of all of those charged with governance to determine whether they had knowledge of any actual, suspected or alleged fraud affecting the Entity.

(xvi) There was no or no sufficient evidence on the audit file to support the existence of loans and borrowings, including the related financial statement disclosures.

(xvii) There was no or no sufficient evidence of an evaluation of management's assessment of the entity's ability to continue as a going concern and that the auditor remained alert throughout the audit for audit evidence of events or conditions that may have cast significant doubt on the entity's ability to continue as a going concern.

51. The relevant information concerning 4(xiv) and 4(xvii) is dealt with here.

ISA (Ireland) 315 requires a discussion among the engagement team members and a determination by the engagement partner of which matters are to be communicated to those team members not involved in the discussion. This discussion shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur. The discussion shall occur setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity.

ISA 315.paragraph 10

The engagement partner and other key engagement team members shall discuss the susceptibility of the entity's financial statements to material misstatement, and the application of the applicable financial reporting framework to the entity's facts and circumstances. The engagement partner shall determine which matters are to be communicated to engagement team members not involved in the discussion.

ISA 240 paragraph 17

The auditor shall make inquiries of management regarding:

(a) Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments; (Ref: Para. A12-A13)

(b) Management's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist; (Ref: Para. A14)

(c) Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity; and

(d) Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.

ISA 500 paragraph 6

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

ISA 570. paragraph 12

The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern.

52. There was no evidence that the first respondent considered how and where the entity's financial statements may be susceptible to material misstatement due to fraud. Further there was insufficient evidence that inquiries of the entity's management were made regarding its assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments. There was a lack of evidence on the audit file as to the firm's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management had identified or that had been brought to its attention.

53. There was no evidence that inquiries were made of those charged with governance to determine whether they had knowledge of any actual, suspected or alleged fraud affecting the entity.

54. The first respondent did not ensure that there was sufficient evidence on the audit file to support the existence of loans and borrowings, including the related financial statement disclosures.

55. As at 31 December 2019, the entity had a loan liability of £2,329,782. This was comprised of:

- Capital sum repayable: £2,625,000
- Unamortised issue costs: £295,218

56. There was insufficient evidence on the audit file of the procedures performed to obtain sufficient appropriate audit evidence of the existence of the loan liability of £2,329,782 as at 31 December 2019 or of the amounts disclosed in the financial statements regarding the capital sum repayable and the unamortised issue costs.

57. There was insufficient evidence of an evaluation of the management's assessment of the entity's ability to continue as a going concern. The audit file stated that "there are no material uncertainties casting doubt over company's ability to continue for at least 12 months." The entity had a net deficit of £656 (in 2018: the deficit was £35,431) as at 31 December 2019. The loan receivable of £2,220,000 accounted for 95% of the entity's total assets and was due from IAF. IAF was a related party, whose unaudited financial statements showed a net deficit of £770,846 as at 31 March 2019. Furthermore, a director of the entity stated in a letter to the first respondent that (in reference to a potential equity injection into IAF or to Ingard repaying the loans):

'However, it is not a guaranteed solution and we will need to see clear progress over the next 12 months in terms of the amount of capital raised and the amount of capital being deployed on a regular basis. A year from now as we will be just 30 months from repaying the Glenfinnian bond and the closer that dates becomes, the more that we need hard evidence that repayment will be made.'(sic)

58. In light of the above, there was insufficient evidence on the audit file of how the first respondent remained alert throughout the audit for audit evidence of events or conditions that may have cast significant doubt on the entity's ability to continue as a going concern. There was also insufficient evidence of the first respondent maintaining professional skepticism in relation to the directors' representations that the entity could continue as a going concern.

(xviii)There was no or no sufficient evidence on the audit file of

- (a) the design and performance of audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements**
- (b)inquiries made by the auditor of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments**

(c)the selecting of journal entries and other adjustments made at the end of a reporting period for testing and the considering the need to test journal entries and other adjustments throughout the period.

(xix) The auditor failed to adequately evidence alternative audit procedures to obtain relevant audit evidence where there was a non-response to a requested external confirmation.

59. ISA 505 paragraph 12 states:

In the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence.

60. The audit programme for cash included a step to obtain standard bank confirmations for all bank accounts and check these against reconciliations. The planned step included a check that all bank accounts are in the name of the company and a review of additional information to ensure that disclosures in the financial statements are complete. The audit file noted that there was no response received from the bank and that the first respondent vouched all transactions from both books to statements and vice versa for both accounts. This alternative audit procedure did not provide relevant and reliable audit evidence. For example:

61. The bank statements on the audit file are in the name of "INGARD PROPERTY" and "INGARD PROP BOND D". This does not match the entity's current name or its former name which was "Ingard Property Bond Designated Activity Company";

62. There was no evidence of procedures performed to ensure that bank statements were reviewed for all accounts held in the entity's name;

63. Although the audit file noted that the first respondent vouched all transactions from both books to statements and vice versa for both accounts, the bank statements on the file do not cover the entire period. Further there was no mark-up on the bank statements that were included on the audit file to evidence that they have been vouched to the cash book.

(xx)The auditor did not ensure that the procedures to audit cash were designed and performed and were appropriate in the circumstances for obtaining sufficient appropriate audit evidence in particular, the reconciliation prepared by the auditor was not appropriate to obtain sufficient appropriate audit evidence.

64. ISA 500 paragraph 6 states:

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

65. The audit programme for cash included a step to "obtain or prepare reconciliations of all accounts held". The planned step included procedures to review bank reconciliations, check calculations and to check outstanding items to post period end bank statements.

66. An overall reconciliation was prepared by the first respondent, along with a reconciliation for each of the two bank accounts. Within the reconciliation, the first respondent compared the balance per bank statements to the cash balance recorded in the general ledger.

67. The first respondent identified that there was a difference between the overall cash balance recorded in the general ledger and the sum of the balances per the two bank statements. The audit file noted that this was a "difference on exchange not booked by client", and it was posted to the summary of errors in the completion section of the audit file.

68. The audit file documentation identified a difference between the balance per the bank statement for one account and the balance recorded in the general ledger for this account. The audit file noted

that this was an "overstatement" and it was posted to the summary of errors in the completion section of the audit file.

69. The audit programme for cash also included a step to consider whether "window dressing" has taken place. The planned step included procedures to check that; all payments recorded prior to the period end were dispatched before that date, review the cash book and statements for significant movements around the year end and verify any significant reconciling items reversed in the subsequent period. The audit file noted that this was "done - ok".

70. The reconciliation prepared by the first respondent was not appropriate to obtain sufficient appropriate audit evidence. There was no evidence that the reconciliation procedure performed identified whether, or not, there were any outstanding items to be taken into account. Insufficient procedures were performed to understand the reason for each of the differences identified between the balances per the bank statements and the cash balance per the general ledger. Further it appeared that the difference between the bank statement and the general ledger had been double counted.

71. The audit file does not evidence the procedures performed in relation to the planned step relating to "window dressing". There was no evidence that the cash book and bank statements were reviewed for significant movements around the year end or that post year end reversals were reviewed.

(xxi)The Ethical Standards for Auditors (Ireland) were not adhered to in that:

- (a)there was no or no sufficient evidence that the auditor informed those charged with governance of the prohibition of the provision of certain non-audit services to the audited Entity and**
- (b)the auditor failed to ensure that the prohibited non-audit services were not provided to the audited entity and**
- (c) the auditor failed to ensure that the audit file evidenced an evaluation of the threats and safeguards associated with non-audit services provided to the audited entity.**

72. The Ethical Standard for Auditors (Ireland), paragraphs 1.55 and 1.59

1.55 The engagement partner shall ensure that those charged with governance of each entity relevant to an engagement, and, any other persons or entities the firm is instructed to advise, are appropriately informed on a timely basis of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons.

1.59 In the case of public interest entities, and listed entities, relevant to an engagement the engagement partner shall ensure that the audit committee is provided with:

- (a) a written disclosure of relationships (including the provision of non-audit / additional services) that may bear on the integrity, objectivity or independence of the firm or covered persons. This shall have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties, and the threats to integrity or objectivity, including those that could compromise independence, that these create. It shall also detail any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable the integrity, objectivity and independence of the firm and each covered person to be assessed;*
- (b) details of non-audit / additional services provided and the fees charged in relation thereto;*
- (c) written confirmation that the firm and each covered person is independent;*
- (d) details of any inconsistencies between this Ethical Standard and the policy of the entity for the provision of non-audit / additional services by the firm and any apparent breach of that policy.*
- (e) an opportunity to discuss independence issues.*

The Ethical Standard for Auditors (Ireland), paragraph 5.155R

A statutory auditor or an audit firm carrying out the statutory audit of a public interest entity, or any member of the network to which the audit firm belongs, shall not directly or indirectly provide to the audited entity, to its parent undertaking or to its controlled undertakings within the Union any prohibited non-audit services in:

- (a) the period between the beginning of the period audited and the issuing of the audit report; and*
- (b) the financial year immediately preceding the period referred to in point (a) in relation to the services listed in point (e) of the second subparagraph.*

For these purposes of this Article, prohibited non-audit services shall mean:

- (a) tax services relating to:*
 - (i) preparation of tax forms;*
...
 - (b) services that involve playing any part in the management or decision-making of the audited entity;*
 - (c) bookkeeping and preparing accounting records and financial statements;*
 - (d) payroll services;*
 - (e) designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems;*
...

The Ethical Standard for Auditors (Ireland), paragraph 5.12

Before the firm accepts to provide a non-audit / additional service to an entity relevant to the engagement, the engagement partner shall:

- (a) identify and assess the significance of any related threats to the integrity or objectivity of the firm and covered persons, including whether independence would be compromised; and*
- (b) identify and assess the effectiveness of the available safeguards to eliminate the threats or reduce them to a level where independence would not be compromised; and*
- (c) consider whether it is probable that an objective, reasonable and informed third party, having regard to the threats and safeguards, would conclude that that the proposed non-audit / additional service would not impair integrity or objectivity and compromise the independence of the firm or covered persons.*

73. The firm provided the following non-audit services to the audited entity: (i) preparation of the financial statements (ii) payroll services (iii) tax services. Those services provided were prohibited by the Ethical Standard for Auditors (Ireland). There was no evidence that the first respondent informed the entity or its Board of directors of the prohibitions with regard to the provision of certain non-audit services to the audited entity.

74. In particular, there was no evidence of the following information having been made available to the Board of Directors:

- (a) a written disclosure of relationships (including the provision of non-audit / additional services) that may bear on the integrity, objectivity or independence of the firm or covered persons.
- (b) details of the fees charged in relation to non-audit services provided;
- (c) written confirmation that the firm and each covered person is independent;
- (d) details of any inconsistencies between the Ethical Standard and the policy of the entity for the provision of non-audit / additional services by the firm and any apparent breach of that policy; and
- (e) an opportunity to discuss independence issues

75. The first respondent's report noted: "*We have fulfilled our ethical responsibilities under, and we remained independent of the company in accordance with ethical requirements applicable in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA) as applied to public interest entities.*"

76. The first respondent allowed the firm to provide non-audit services to the audited entity that are only permitted if certain criteria are met and there was no assessment of whether the derogation criteria was met. These services were:

- Tax services relating to preparation of tax forms

77. Notwithstanding that these non-audit services were provided to the entity, the audit file did not identify the threats relating to these non-audit services or the associated safeguards.

(xxii)There was no or no sufficient evidence that the auditor evidenced adequate consideration of any constraints around the resources and time available to perform the audit.

ISQC 1, paragraph 36 R-1

Auditing standards require the engagement partner to be satisfied that the engagement team have the capability to perform the audit engagement in accordance with professional standards and to enable the auditor's report to be appropriate in the circumstances.

78. The first respondent's conclusion that the firm has the capabilities, including time and resources to perform the engagement does not adequately consider the constraints that were present around the resources and time available to undertake the audit.

79. The letter of engagement was signed on 19 June 2020 and the audit planning memorandum is dated 22 June 2020. The audit planning memorandum notes that there was a filing date of 30 June with the Cyprus Stock Exchange and the first respondent's report was signed on 29 June 2020. As previously observed, there was no EQC reviewer assigned to the engagement as is required by law and finally it was unclear from the audit file how a period of 11 days was sufficient to perform an audit engagement of this nature.

THE FIRM (The second respondent)

- 1. The audit firm provided prohibited non-audit services to Glenfinnian Bond, Designated Activity Company ('the entity'), contrary to Article 5 of EU regulation No. 537/2014 and the Ethical standards for Auditors (Ireland).**

80. Article 5 of EU regulation No. 537/2014 states:

A statutory auditor or an audit firm carrying out the statutory audit of a public-interest entity, or any member of the network to which the statutory auditor or the audit firm belongs, shall not directly or indirectly provide to the audited entity, to its parent undertaking or to its controlled undertakings within the Union any prohibited non-audit services in:

- (a)the period between the beginning of the period audited and the issuing of the audit report; and*
- (b)the financial year immediately preceding the period referred to in point (a) in relation to the services listed in point (e) of the second subparagraph.*

For the purposes of this Article, prohibited non-audit services shall mean:

- (a)tax services relating to:*
 - (i)preparation of tax forms;*
 - (ii)payroll tax;*
 - (iii)customs duties;*
 - (iv)identification of public subsidies and tax incentives unless support from the statutory auditor or the audit firm in respect of such services is required by law;*
 - (v)support regarding tax inspections by tax authorities unless support from the statutory auditor or the audit firm in respect of such inspections is required by law;*
 - (vi)calculation of direct and indirect tax and deferred tax;*
 - (vii)provision of tax advice;*
- (b)services that involve playing any part in the management or decision-making of the audited entity;*
- (c)bookkeeping and preparing accounting records and financial statements;*
- (d)payroll services;*
- (e)designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems;*

.....

81. For the purposes of the Companies Act 2014 a relevant contravention is defined as:

- (a) a breach of the standards of a prescribed accountancy body by a member of that body or
- (b) a contravention by a statutory auditor of a provision of
 - (i) section 336 or 337
 - (ii) Part 27, or
 - (iii) Regulation (EU) No537/2014.

82. The Ethical Standard for Auditors (Ireland) 5.155R states:

A statutory auditor or an audit firm carrying out the statutory audit of a public interest entity, or any member of the network to which the audit firm belongs, shall not directly or indirectly provide to the audited entity, to its parent undertaking or to its controlled undertakings within the Union any prohibited non-audit services in:

- (a) the period between the beginning of the period audited and the issuing of the audit report; and
- (b) the financial year immediately preceding the period referred to in point (a) in relation to the services listed in point (e) of the second subparagraph.

For these purposes of this Article, prohibited non-audit services shall mean:

- (a) tax services relating to:
 - (i) preparation of tax forms;
 - ...
- (b) services that involve playing any part in the management or decision-making of the audited entity;
- (c) bookkeeping and preparing accounting records and financial statements;
- (d) payroll services;
- (e) designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems;
- ...

83. In breach of the above the firm provided the following non-audit services to the entity.

- Payroll services
- Preparation of tax forms
- Preparation of financial statements

2. In providing non audited services to entities the first respondent as the engagement partner at the firm failed to identify and assess the significance of any related threats to the integrity or objectivity of the audit firm and covered persons, including whether independence would be compromised and in failing to do so he did not identify available safeguards to eliminate threats or reduce them to a level where independence would not be compromised.

The Ethical Standard for Auditors (Ireland) 5.12 states:

Before the firm accepts to provide a non-audit / additional service to an entity relevant to the engagement, the engagement partner shall:

- (a) *identify and assess the significance of any related threats to the integrity or objectivity of the firm and covered persons, including whether independence would be compromised; and*
- (b) *identify and assess the effectiveness of the available safeguards to eliminate the threats or reduce them to a level where independence would not be compromised; and*
- (c) *consider whether it is probable that an objective, reasonable and informed third party, having regard to the threats and safeguards, would conclude that that the proposed non-audit / additional service would not impair integrity or objectivity and compromise the independence of the firm or covered persons.*

84. In respect of client continuance documentation on the audit file for the entity and three other audit files, there was no evidence to demonstrate that the first respondent identified and assessed the significance of any related threats to the integrity or objectivity of the firm or covered persons. Further

he had not identified and assessed the effectiveness of the available safeguards to eliminate those threats or reduce them to a level where independence would not be compromised.

3.The audit firm did not have sufficient policies and procedures in place to ensure that the auditor had the appropriate competence and capabilities to perform the role.

ISQC (Ireland)1.30 states:

The firm shall assign responsibility for each engagement to an engagement partner and shall establish policies and procedures requiring that:

....

(b) The engagement partner has the appropriate competence, capabilities, and authority to perform the role;

85. The policies and procedures in place requiring that the engagement partner had the appropriate competence and capabilities to perform the role were not sufficient in particular the training records for the first respondent noted that there was only one hour of audit training undertaken in the last year. Further the level of deficiencies and contraventions identified in the audit of the entity, would demonstrate that the first respondent did not have the relevant competence and experience to perform the audit of a PIE.

4. The audit firm failed to ensure that engagement quality control reviews were carried out for audits that met the criteria outlined in ISQC1 to assess whether the key audit partner could reasonably have come to the opinion and conclusions expressed in the draft reports.

ISQC1.35 states:

The firm shall establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures shall:

- (a) Require an engagement quality control review for all audits of financial statements of listed entities;*
- (b) Set out criteria against which all other audits and reviews of historical financial information and other assurance and related services engagements shall be evaluated to determine whether an engagement quality control review should be performed; and*
- (c) Require an engagement quality control review for all engagements, if any, meeting the criteria established in compliance with subparagraph (b).*

86. The firm failed to ensure that engagement quality control reviews were carried out for all audits that met the criteria set out above in ISQC 1 and as set out in the firm's policies and procedures.

87. There was no evidence of an engagement quality control review having been performed on any of the firm's audit engagements. In particular there was no evidence of an engagement quality control review having been performed for the entity. The performance of an engagement quality control review on a PIE audit is a legal requirement a requirement of ISQC1 and a breach of the firm's own policies.

88. For the purpose of the Companies Act a 'relevant contravention' has been set out earlier at paragraph 16 above.

5. The audit firm failed to comply with their monitoring policies and procedures, ensuring that on a cyclical basis, inspection of at least one completed engagement for each engagement partner was performed.

ISQC(Ireland)1.48 states:

The firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process shall:

- (a) *Include an ongoing consideration and evaluation of the firm's system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner;*

...

89. The firm failed to inspect at least one completed engagement for each engagement partner as part of their monitoring process in order to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.

6.The audit firm failed to ensure that there was sufficient evidence on the audit file of Glenfinnian Bond, Designated Activity Company for the year ended 31 December 2019 that the required communication to Those Charged with Governance (TCWG) had been completed in line with the auditing standards.

ISA(Ireland) 260, paragraph 17 states:

In the case of listed entities, the auditor shall communicate with those charged with governance:

(a) *A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and*

(b) (i) *All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and*

(ii) *The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.*

Paragraph 17R-1 states:

For audits of financial statements of public interest entities, the auditor shall:

(a) *Confirm annually in writing to the audit committee that the firm and partners, senior managers and managers, conducting the audit are independent from the audited entity; and*

(b) *Discuss with the audit committee the threats to the auditor's independence and the safeguards applied to mitigate those threats.*

90. There was no evidence that Those Charged with Governance (TCWG) were provided with the ethical requirement information required by the auditing standards. Further, there was no evidence that the engagement partner or the firm discussed with TCWG, the threats to the auditor's independence and the safeguards applied to mitigate those threats. Finally, although annual independence confirmations were completed, these were not provided to TCWG.

7. The audit firm failed to publish a Transparency Report in accordance with the requirements of Article 13 of Regulation (EU) 537/2014

Article 13 states:

1. *A statutory auditor or an audit firm that carries out statutory audits of public-interest entities shall make public an annual transparency report at the latest four months after the*

end of each financial year. That transparency report shall be published on the website of the statutory auditor or the audit firm and shall remain available on that website for at least five years from the day of its publication on the website. If the statutory auditor is employed by an audit firm, the obligations under this Article shall be incumbent on the audit firm.

91. The entity in this case as previously stated was a PIE. Contrary to Article 13 of Regulation (EU) 537/2014, the audit firm has not produced a Transparency Report.

Sanction

92. The sanction imposed must be proportionate balancing the need to protect the public with the respondents' own interests.

93. The purpose of sanction is to declare and uphold proper standards of conduct amongst statutory auditors and statutory audit firms and to maintain public and market confidence in statutory auditors and statutory audit firms and their regulators. In addition, the purpose of sanction is to protect the public from statutory auditors and statutory audit firms whose standard of work falls short of the high-quality audit expected of statutory auditors and statutory audit firms.

94. In coming to the appropriate and proportionate sanction the Authority took into account the Authorities sanctions guidance (effective from 8 March 2021) : The Authority also had regard to its published policy on settlement agreements. The Authority had regard to:

- (a)The gravity and duration of the relevant contravention;
- (b)The degree of responsibility of the specified person;
- (c) The financial strength of the specified person;
- (d)The amount of profits gained or losses avoided by the specified person in consequence of the contravention;
- (e)The level of cooperation of the specified person with the Supervisory Authority;
- (f) Previous relevant contraventions committed by the specified person.

95. The Authority considers that the respondents acted in a manner that was a serious departure from the standards expected of a statutory auditor and audit firm. There were numerous breaches of EU law and domestic legislation. In addition, there were numerous and significant departures from the International Standards on Auditing (Ireland) identified. These are considered by the Authority to be aggravating factors.

96. However, in mitigation the first respondent on his own behalf and that of the firm has engaged from the outset of the preliminary investigation with the Authority. The respondents' timely admissions demonstrate his insight into the contraventions that were identified. The Authority has also taken into account that the respondents have no previous disciplinary history.

97. Further the Authority took into account that the firm is no longer trading.

98. In considering the level of engagement of the respondents with the Authority, an early settlement discount was also applied to any fine imposed. The Authority took into account the timing of the admissions and it considered that it was appropriate to apply an early settlement discount of 30% to the level of the fine imposed.

99. The Authority considered the sanction options open to it in ascending order of seriousness.

100. The Authority concluded that the appropriate and proportionate sanction in respect of the first respondent is a direction that he be **prohibited for a period of 12 months** (from the date on which this agreement is signed by the parties) from signing statutory audit reports and he is **fined €10,500**.

101. The Authority concluded that the appropriate and proportionate sanction in respect of the second respondent is a direction that the firm be **prohibited for a period of 12 months** (from the date on which this agreement is signed by the parties) from conducting statutory audits.

DATED: 2 March 2023