2024

Audit Quality Unit

Report on 2023 quality assurance review of Deloitte

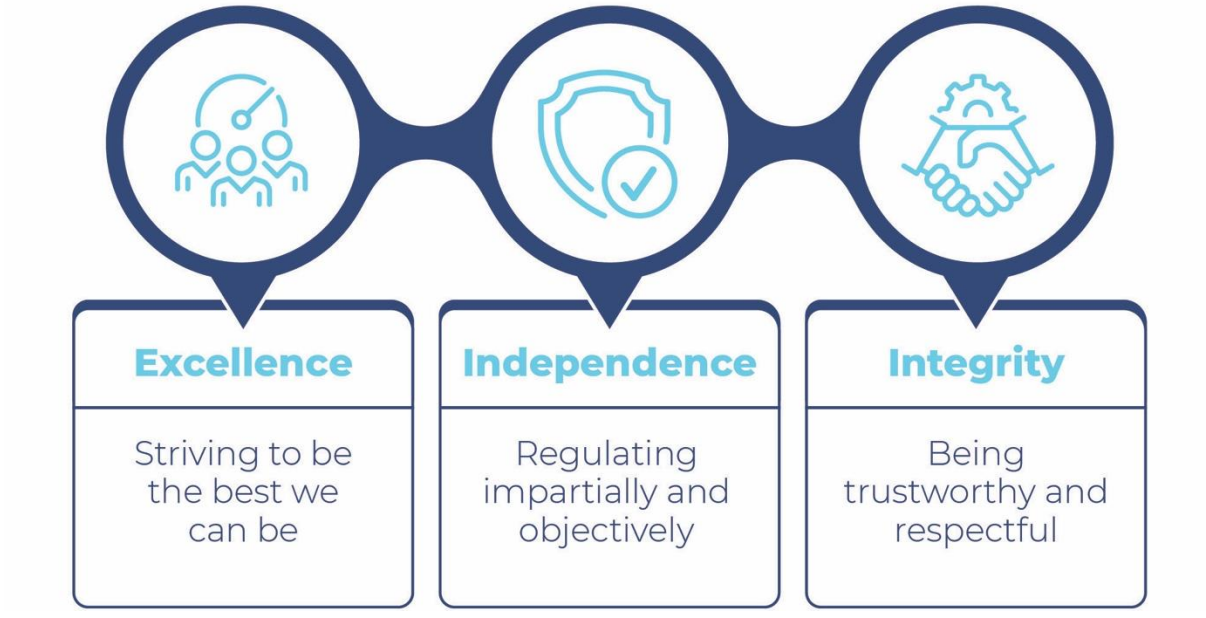
11 March 2024

IAASA
Irish Auditing & Accounting Supervisory Authority


Vision
Public trust and confidence in quality auditing and accounting


Mission
Upholding quality corporate reporting and an accountable profession

Our Values


Excellence
Striving to be the best we can be
Independence
Regulating impartially and objectively
Integrity
Being trustworthy and respectful

Introduction

Overview of Deloitte (the Firm)

4
offices in Dublin, Cork, Galway, and Limerick

107
audits of public-interest entities in 2023

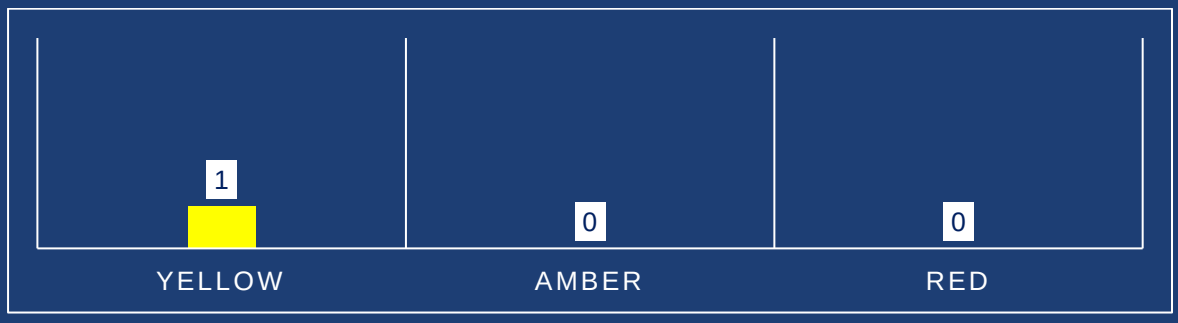
38
audit partners

25%
market share based on audit fees associated with public-interest entities in 2023

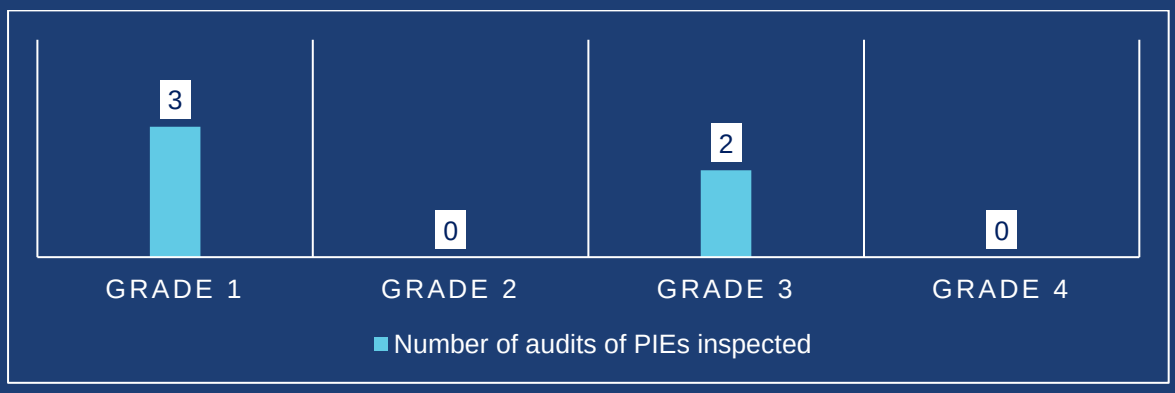
834
personnel working in the audit function

Outcome of the quality assurance review

Firm's system of quality management - findings with related recommendations[1]



Audits of PIEs – grading[1]



[1] See Appendix 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 management.

A quality assurance review:

- assesses the design of the Firm's system of quality management
- 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 management.

In 2023, IAASA inspected the implementation of the International Standard on Quality Management (Ireland) 1 (ISQM 1) which was effective for the first time during this inspection period. ISQM 1 requires audit firms to design a system of quality management that is tailored to the nature and circumstances of the firm and engagements it performs. Firms are also required to monitor their own quality management system in order to ensure timely and effective remediation takes place, if and when required.

Assessing the design of the Firm's system of quality management involves evaluating the quality objectives, quality risks and related responses identified by the Firm and reviewing the Firm's policies and procedures and their impact, if any, on audit quality. Compliance testing involves testing of the operating effectiveness of selected responses and assessing the Firm's monitoring of the responses across component areas.

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 management is performed across eight component areas, as defined in ISQM 1, on a three year cyclical basis. In 2023, the quality assurance review assessed the design of the system of quality management in four component areas:

- risk assessment process
- governance and leadership
- resources – technological resources, intellectual resources and service providers
- information and communication

For the resources component, the Authority assessed the Firm's system of quality management across the areas of technological resources, intellectual resources and service providers. For the remaining components, the Authority assessed the full component areas. The Authority evaluated the quality objectives, quality risks and related responses designed by the Firm, including the implementation of related policies and procedures.

Audits of public-interest entities

In 2023, the Authority selected a sample of five audits of PIEs.

For each audit selected, the Authority evaluated the quality of the communications with those charged with governance, the review of financial statements, the engagement quality control review and the audit procedures performed in relation to related parties and subsequent events.

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

Overview of findings

There was one finding with a related recommendation identified in the areas reviewed in relation to the effectiveness of the design or implementation of the Firm's system of quality management.

The Authority assigned a grade of 1 (good audit) to three audits of PIEs and a grade of 3 (improvements required) to two audits of PIEs.

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

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

The Firm must implement each recommendation raised by the Authority 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

Resources – technological resources, intellectual resources and service providers	The Authority evaluated whether the Firm had established quality objectives, and appropriate responses to the risks of not meeting these quality objectives, that address appropriately obtaining, developing, using, maintaining, allocating and assigning technological and intellectual resources in a timely manner to enable the design, implementation and operation of the system of quality management and whether human, technological or intellectual resources from service providers are appropriate for use in the Firm's system of quality management and in the performance of engagements. **The Authority noted that the Firm identified quality risks at the local firm level relating to obtaining, developing, and implementing the use of technological resources. The Firm's quality management platform noted the responses operate at a local firm level, however the detailed description of how the response is expected to be performed was documented at a regional level thereby showing an inconsistency at the level at which some of the responses operate and how they were documented on the quality management platform. (Finding 1)**
Risk assessment process	The Authority evaluated whether the Firm had designed and implemented a risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks. The Authority performed procedures to understand the Firm's risk assessment process, including whether the Firm had identified quality risks to provide a basis for the design and implementation of responses. **The Authority has no findings with related recommendations to report in this area.**
Governance and leadership	The Authority assessed whether the Firm had established quality objectives that address the Firm's governance and leadership and that demonstrated a commitment to quality through the culture that exists throughout the Firm. The Authority evaluated the quality risks identified and assessed by the Firm for each of the quality objectives relating to governance and leadership and the responses designed and implemented to address the quality risks, including the specified responses of ISQM1. The Authority performed procedures to understand how the Firm's leadership is held accountable for quality and how they demonstrate a commitment to quality through their actions and behaviours. **The Authority has no findings with related recommendations to report in this area.**

Information and communication	The Authority evaluated whether the Firm had established quality objectives, and appropriate responses to the risks of not meeting these quality objectives, that address obtaining, generating or using information regarding the system of quality management, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation and operation of the system of quality management. **The Authority has no findings with related recommendations to report in this area.**

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

Area and significance rating	Background	Issue	Recommendation
Resources – technological resources, intellectual resources and service providers **Finding 1** **Yellow**	ISQM 1 requires the Firm to establish quality objectives that appropriately address obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the system of quality management. Specifically, ISQM 1 requires that appropriate technological resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the performance of engagements. ISQM 1 requires the Firm to identify and assess quality risks to provide a basis for the design and implementation of responses. ISQM 1 requires the Firm to design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. The Firm maintains and manages quality risks and controls in the Firm's quality management	For a number of the controls, the 'level at which the response operates' is recorded in the Firm's quality management platform as at the local firm level. For each of these controls, the response details recorded in the quality management platform, including 'response activity', 'detailed description', 'output', and 'support maintained to evidence operation of the response', reflect controls that operate at a regional level, rather than at the local firm level. The controls as recorded are not responsive to the identified quality risks in the case of technological resources obtained or developed, and implemented, at the local firm level. The Firm has a process in place for the request and approval of local business relationships, including vendor business relationships. This process and the related controls are not incorporated into the	The Authority notes that the Firm has reviewed and updated the response details in the Firm's quality management platform to reflect the specifics of how the controls operate at the local firm level. The Authority notes that the Firm has documented the local control in the Firm's quality management platform related to the Irish business relationship process, in response to the referenced identified quality risks. The Authority agrees with the above actions and recommends that the Firm continues with their implementation.

platform.

The Firm identified the following quality risks:

- appropriate technological resources, including those from service providers, are not obtained or developed to enable the performance of engagements.

- appropriate technological resources, including those from service providers, are not obtained or developed to enable the operation of the firm's system of quality management.

- appropriate technological resources, including those from service providers, are not implemented to enable the performance of engagements.

- appropriate technological resources, including those from service providers, are not implemented to enable the operation of the firm's system of quality management.

The Firm's response to address the quality risks included a number of controls.

Firm's responses to the identified quality risks in the Firm's quality management platform.

Risk assessment process	The Authority has no findings with related recommendations to report in this area.
Governance and leadership	The Authority has no findings with related recommendations to report in this area.
Information and communication	The Authority has no findings with related recommendations to report in this area.

Summary of audits of PIEs inspected

	Assigned grade[2]	Audit areas reviewed
Audit one	3	• Valuation of insurance contract liabilities and accuracy of investment contract liabilities • Existence and valuation of investments • Management override of controls • Communications with those charged with governance • Review of financial statements • Review of the engagement quality control review • Related parties • Subsequent events
Audit two	3	• Initial engagement • Existence and valuation of financial assets • Management override of controls • Communications with those charged with governance • Review of financial statements • Review of the engagement quality control review • Related parties • Subsequent events
Audit three	1	• Initial engagement • Provision for losses • Management override of controls • Communications with those charged with governance • Review of financial statements • Review of the engagement quality control review • Related parties • Subsequent events
Audit four	1	• Expected credit losses • Management override of controls • Communications with those charged with governance • Review of financial statements • Review of the engagement quality control review • Related parties • Subsequent events

[2] See Appendix for detailed description of ratings and grades

Audit five	1	• Existence and valuation of deemed loan • Initial engagement • Management override of controls • Communications with those charged with governance • Review of financial statements • Review of the engagement quality control review • Related parties • Subsequent events

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 deemed by the Authority to be key to an individual inspection or which were recurring across inspections. Not all recommendations apply to all audits of PIEs inspected and not all recommendations issued are included in this table.

Audit area	Recommendation
Related parties	The Authority recommends that, going forward, the engagement team make the appropriate inquiries of management in relation to related parties and related party transactions.
	The Authority recommends that, going forward, the audit file sufficiently evidences the design and performance of substantive procedures for each material disclosure in the financial statements, including evaluating whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework.
	The Authority recommends that, going forward, the audit file sufficiently evidences the engagement team's conclusion regarding the appropriateness of the arm's length assertion made by management in relation to the related party transactions disclosed in the financial statements.
Review of financial statements	The Authority recommends that, going forward, the audit file sufficiently evidences the design and performance of substantive procedures for each material disclosure in the financial statements.
	The Authority recommends that, going forward, the audit file sufficiently evidences the engagement team's evaluation as to whether the information presented in the financial statements, in relation to financial investments, is relevant, reliable, comparable, and

	understandable and provides adequate disclosures to enable the intended users to understand the effect of material transactions.

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 2022 were appropriately implemented in 2023.

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 management. 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 management have their significance rated by way of a red-amber-yellow (RAY) system.

🔴 **Red** indicates that a finding is a significant deficiency[3]. Failure to implement a recommendation and/or remediation set out in a prior finding in relation to a firm's system of quality management, 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 (ISQM 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 ISQM 1.

Grades

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

1 A **1** grade is a good audit with no concerns regarding the sufficiency and quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Any concerns are very limited in their implications (both individually and collectively).

2 A **2** grade is an audit that requires limited improvements. There are only limited concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be some concerns, their implications (both individually and collectively) are limited.

3 A **3** grade is an audit that requires improvements. There are some concerns, assessed as less than significant[4], 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 ISQM 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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