

2022

Audit Quality Unit

**Report on 2021 quality  
assurance review of  
Deloitte**

1 March 2022

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## Mission

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

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## About IAASA

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

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

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# Introduction

## Overview of Deloitte (the Firm)



**4**

offices in Dublin, Cork, Galway, and Limerick



**147**

audits of public-interest entities in 2021



**30**

audit partners



**27%**

market share based on audit fees associated with public-interest entities in 2021



**811**

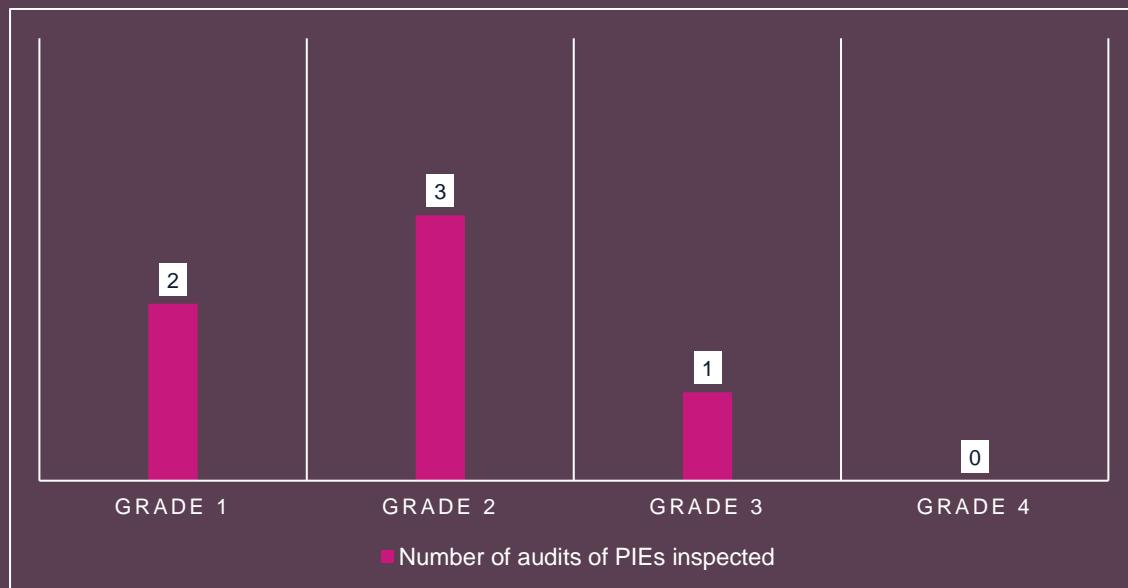
personnel working in the audit function

## Outcome of the quality assurance review

### Firm's system of quality control - recommendations<sup>1</sup>

There were no findings or recommendations on the Firm's system of quality control.

### Audits of PIEs – grading<sup>1</sup>



<sup>1</sup> See Appendix 1 for detailed description of ratings and grades

## Guide to IAASA's reports on quality assurance reviews

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

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

## Quality assurance review explained

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

A quality assurance review:

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

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

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

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

## Scope of the quality assurance review of the Firm

### The Firm's policies and procedures

The assessment of the Firm's system of quality control is performed across 13 areas on a three year cyclical basis. In 2021, the quality assurance review assessed the design of the system of quality control in five areas:

- consultations
- internal monitoring
- methodology
- other quality control reviews
- training

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

## **Audits of public-interest entities**

In 2021, the Authority selected a sample of six audits of PIEs.

For each audit selected, the Authority evaluated the quality of the audit planning and the communications with those charged with governance. 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 were no findings or recommendations identified in the areas reviewed in relation to the effectiveness of the design or implementation of the Firm's system of quality control.

The Authority assigned a grade of 1 (good audit) to two audits of PIEs, a grade of 2 (limited improvements required) to three audits of PIEs and a grade of 3 (improvements required) to one audit of a PIE.

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

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

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

# Results of the quality assurance review

## Overview of areas

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**Consultations** The Authority evaluated whether the Firm had adequate policies and procedures for consultations and differences of opinion.

The Authority performed procedures to understand the Firm's policies related to consultations and differences of opinion and obtained evidence of the Firm's implementation of its policies.

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

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**Internal monitoring** The Authority evaluated whether the Firm had adequate procedures to monitor its system of quality control and to respond appropriately to issues identified by the monitoring process.

The Authority performed procedures to understand the Firm's internal monitoring, including reviews of audit files and the Firm's system of internal quality control. The Authority performed procedures to understand the Firm's arrangements for reporting on the outcome of the internal monitoring process. The Authority obtained evidence of the Firm's implementation of its policies.

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

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**Methodology** The Authority evaluated whether the Firm had adequate procedures to ensure that audits are performed effectively and in accordance with both professional and auditing standards.

The Authority evaluated whether the Firm's audit methodology reflects the requirements of the auditing standards applicable in Ireland. The Authority performed procedures to understand how the Firm has developed its audit methodology and its policies for change management. The Authority also performed procedures to understand the Firm's policies around review and approval of audit work, the Firm's policies on the use of specialists and the IT system used within the Firm's audit practice. The Authority obtained evidence of the Firm's implementation of its policies.

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

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Other quality control reviews	<p>The Authority evaluated the Firm's policies and procedures for other quality control reviews on audit engagements.</p> <p>Other quality control reviews supplement the review procedures performed by the engagement team and through internal monitoring programs. These include reviews such as pre-issuance financial statement reviews, key performance indicator reviews, in-flight or hot file reviews and cold file reviews. The Authority performed procedures to understand the other quality control reviews in place at the Firm and obtained evidence of the Firm's implementation of its policies.</p>
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**The Authority has no findings or recommendations to report in this area.**

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Training	<p>The Authority evaluated whether the Firm's partners and staff receive the necessary training to ensure that audits are performed effectively and in accordance with both professional and auditing standards.</p> <p>The Authority performed procedures to understand the Firm's policies in relation to training their partners and staff. The Authority evaluated whether the Firm had adequate procedures to ensure that audit partners and staff undertake appropriate training to maintain their theoretical knowledge, professional skills and values at a sufficiently high level. The Authority obtained evidence of the Firm's implementation of its policies.</p>
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**The Authority has no findings or recommendations to report in this area.**

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## Summary of audits of PIEs inspected

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	Assigned grade <sup>2</sup>	Audit areas reviewed
Audit one	1	<ul style="list-style-type: none"> <li>• Accounting estimates</li> <li>• Auditor's report</li> <li>• Audit planning</li> <li>• Cash and cash equivalents</li> <li>• Communications with those charged with governance</li> <li>• Going concern</li> <li>• Group audit</li> <li>• Impairment</li> </ul>
Audit two	1	<ul style="list-style-type: none"> <li>• Accounting estimates</li> <li>• Auditor's report</li> <li>• Audit planning</li> <li>• Cash and cash equivalents</li> <li>• Communications with those charged with governance</li> </ul>

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<sup>2</sup> See Appendix 1 for detailed description of ratings and grades

Assigned grade <sup>2</sup>		Audit areas reviewed
		<ul style="list-style-type: none"> <li>• Consultations</li> <li>• Going concern</li> <li>• Revenue recognition</li> </ul>
Audit three	2	<ul style="list-style-type: none"> <li>• Accounting estimates</li> <li>• Auditor's report</li> <li>• Audit planning</li> <li>• Cash and cash equivalents</li> <li>• Consultations</li> <li>• Communications with those charged with governance</li> <li>• Going concern</li> <li>• Group audit</li> </ul>
Audit four	2	<ul style="list-style-type: none"> <li>• Accounting estimates</li> <li>• Auditor's report</li> <li>• Audit planning</li> <li>• Cash and cash equivalents</li> <li>• Communications with those charged with governance</li> <li>• Consultations</li> <li>• Expenses</li> </ul>
Audit five	2	<ul style="list-style-type: none"> <li>• Accounting estimates</li> <li>• Auditor's report</li> <li>• Audit planning</li> <li>• Cash and cash equivalents</li> <li>• Communications with those charged with governance</li> <li>• Going concern</li> <li>• Revenue recognition</li> </ul>
Audit six	3	<ul style="list-style-type: none"> <li>• Accounting estimates</li> <li>• Auditor's report</li> <li>• Audit planning</li> <li>• Cash and cash equivalents</li> <li>• Communications with those charged with governance</li> <li>• Consultations</li> <li>• Going concern</li> <li>• IT audit</li> </ul>

## Key recommendations arising from the inspection of audits of PIEs

This table sets out the key recommendations for the Firm arising from the inspection of audits of PIEs. These are recommendations that were deemed by the Authority to be key to an individual inspection 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
Accounting estimates	<p>The Authority recommends that, going forward, the engagement team evidences the procedures performed to assess the appropriateness of the methodology and judgements applied by the Entity's management in determining accounting estimates.</p>
Cash and cash equivalents	<p>The Authority recommends that, going forward, the engagement team designs and evidences procedures to evaluate the completeness and reliability of cash confirmations.</p> <p>The Authority further recommends that, going forward, if obtaining confirmation of a material cash balance, the engagement team includes the confirmation on the audit file and ensures that the audit file evidences the source of confirmation and the date of receipt of the confirmation.</p>
Control deficiencies	<p>The Authority recommends that, going forward, the engagement team ensures that there is appropriate evaluation of any identified control deficiencies, including an evaluation of the potential impact on the planned audit procedures.</p>
Accounting estimates – disclosures in the financial statements	<p>The Authority recommends that, going forward, the engagement team obtains sufficient appropriate audit evidence about whether the disclosures in the financial statements related to accounting estimates are in accordance with the requirements of the applicable financial reporting framework.</p> <p>The Authority further recommends that, going forward, the engagement team evaluates the adequacy of the disclosure of estimation uncertainty in the financial statements in the context of the applicable financial reporting framework.</p>

Audit area	Recommendation
Financial instruments	<p>The Authority recommends that, going forward, the engagement team fully evidences the audit procedures performed to address the existence of the Entity's financial instruments.</p>
	<p>The Authority further recommends that, going forward, the engagement team evidences the substantive procedures performed in relation to the fair value hierarchy classification of financial instruments held by the Entity.</p>
Financial statement disclosures	<p>The Authority recommends that, going forward, the engagement team designs and evidences substantive procedures to evaluate the accuracy of material disclosures in the financial statements.</p>
Key audit matters	<p>The Authority recommends that, going forward, the engagement team evidences the rationale applied in determining which significant risks were key audit matters.</p>
Substantive procedures	<p>The Authority recommends that, going forward, if substantive procedures are performed at an interim date, the engagement team covers the remaining period by performing:</p> <ul style="list-style-type: none"> <li data-bbox="616 1170 1337 1237">a) substantive procedures, combined with tests of controls for the intervening period; or</li> <li data-bbox="616 1244 1337 1388">b) if the engagement team determine that it is sufficient, further substantive procedures only that provide a reasonable basis for extending the audit conclusions from the interim date to the period end.</li> </ul>
Written representations	<p>The Authority recommends that, going forward, the engagement team retains the written representations provided by management as part of the audit documentation.</p>

## 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 2020 were appropriately implemented in 2021.

## Purpose and limitations of this report

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

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

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

# Appendix – Detailed description of ratings and grades

## Ratings

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

● **Red** indicates that a finding is a significant deficiency<sup>3</sup>. Failure to implement a recommendation and/or remediation set out in a prior finding in relation to a firm's system of quality control, or, in relation to a matter arising from a PIE inspection is also likely to be assigned a red grading.

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

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

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

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

## Grades

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

1

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

2

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

3

A **3** grade is an audit that requires improvements. There are some concerns, assessed as less than significant<sup>4</sup>, 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.

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

<sup>4</sup> 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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