

2022

Audit Quality Unit

**Report on 2021 quality
assurance review of
Grant Thornton**

1 March 2022

Mission

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

About IAASA

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

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

Introduction

Overview of Grant Thornton (the Firm)



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



76
audits of public-interest entities in 2021



21
audit partners



4%
market share based on audit fees associated with public-interest entities in 2021



485
personnel working in the audit function

Outcome of the quality assurance review

Firm's system of quality control - recommendations¹



Audits of PIEs – grading¹



¹ See Appendix 1 for detailed description of ratings and grades

Guide to IAASA's reports on quality assurance reviews

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

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

Quality assurance review explained

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

A quality assurance review:

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

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

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

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

Scope of the quality assurance review of the Firm

The Firm's policies and procedures

The assessment of the Firm's system of quality control is performed across 13 areas on a three year cyclical basis. In 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 two 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

The quality assurance review identified three matters requiring improvement and one minor deficiency in the Firm's system of quality control.

The Authority assigned a grade of 1 (good audit) to one audit of a PIE and a grade of 2 (limited 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

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 noted one instance where the documentation on the audit file was not sufficiently detailed to explain the results of the consultation. Furthermore, the Authority noted one instance where, following consultation with the Firm's professional standards team, the engagement team did not complete the professional standards team's recommended action. Full details of this finding and recommendation are set out below. (Finding 3)

The Authority noted one instance where the evidence included on the audit file is not sufficiently detailed to understand the nature of the consultation undertaken or whether there was final approval by the Firm's professional standards team. Full details of this finding and recommendation are set out below. (Finding 4)

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 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 noted that, in a number of the Firm's reviews, the finding category did not align with the severity of the findings described in the review documentation. Full details of this finding and recommendation are set out below. (Finding 1)

The Authority further noted that it is not clear how the sample selected by the Firm for its monitoring process is sufficient to provide reasonable assurance that the policies and procedures relating to the Firm's system of quality control are relevant, adequate, and operating effectively. Full details of this finding and recommendation are set out below. (Finding 2)

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.

Other quality control reviews The Authority evaluated the Firm's policies and procedures for other quality control reviews on audit engagements.

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.

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

Training 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.

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.

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

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

Area and significance rating	Background	Issue	Recommendation
Internal Monitoring Finding 1 ● Amber	<p>The International Standard on Quality Control (Ireland) 1 (ISQC 1) requires the Firm to evaluate the effect of deficiencies noted as a result of its monitoring process.</p>	<p>Six of the findings categorised by the Firm as <i>deficiencies</i> represented clear breaches of the requirements of auditing standards, and thus met the Firm's definition of <i>significant deficiencies</i>.</p>	<p>The Authority recommends that the Firm updates its guidance to ensure that any findings that demonstrate a material breach of auditing standards, or the Ethical Standard for Auditors, such as those noted in the <i>Issue</i> column, are classified as 'significant deficiencies'.</p>

The Firm's policies set out that a finding occurs where the inspection team answers 'No' in response to a question.

The Firm applies the following categories to findings:

- Material weakness
- Significant deficiency
- Deficiency

Area and significance rating	Background	Issue	Recommendation
Internal Monitoring Finding 2 ● Amber	<p>ISQC1 requires the Firm to 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.</p>	<p>As part of the monitoring process, the Firm inspected two audits of PIEs in 2020, out of a population of 71.</p> <p>This sample is not sufficient to provide the Firm with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.</p>	<p>The Authority recommends that the Firm increases the number of PIE audits inspected as part of its monitoring process to a level that would provide the Firm with reasonable assurance that its system of quality control is operating effectively. The rationale for the selection of audits for inspection should be clearly documented.</p>
Consultations Finding 3 ● Amber	<p>ISQC 1 requires that firms establish policies and procedures designed to provide reasonable assurance that appropriate consultation takes place on difficult or contentious matters.</p> <p>Auditing standards further require that audit documentation includes the nature and scope of, and conclusions resulting from, consultations undertaken during the course of an audit engagement. The auditing standards state that documentation that is sufficiently complete and detailed contributes to an understanding of the results of the consultation, including any</p>	<p>The Authority notes the following:</p> <p>For one of the financial statement reviews inspected, there was insufficient evidence of a required conclusion where both sides agree on the actions required arising from a question raised over disclosure requirements. There was a discussion between both the audit team and the professional standards team, however no clear conclusion and agreement was documented as part of the review. As it was a disagreement on interpretation of a regulation, there should have been a clear decision or agreement of the steps to be taken or a</p>	<p>The Authority notes that the Firm has implemented a new hot file review process for the period after the samples were selected.</p> <p>The Authority recommends that, going forward, sufficient evidence is retained on the file of final approval from the consulted party and/ or reviewing party, and all consultations and/ or review points are brought to a clear conclusion and evidenced on the file.</p>

Area and significance rating	Background	Issue	Recommendation
	<p>decisions taken, the basis for those decisions and how they were implemented.</p> <p>The Firm's policy states that documented evidence of all consultations undertaken, conclusions agreed and actions undertaken should be kept on audit files to support the relevant report issued. The Firm's policy sets out that where there is a difference of opinion that affects a report, conclusions reached are required to be documented and implemented. The Firm's policies require that a report is not dated until the matter is resolved.</p>	<p>difference of opinion resolution sought as per the Firm's policies.</p> <p>For a separate sample consultation, the audit engagement team did not complete the recommended action as required by the Firm's professional standards team. The Firm's professional standards team had set out a required action to place a memorandum on the audit file in relation to the application of certain accounting standards. The memorandum was not included on the audit file and the point was not addressed elsewhere on the audit file.</p>	

Area and significance rating	Background	Issue	Recommendation
Consultations Finding 4 ● Yellow	<p>Auditing standards require that audit documentation includes the nature and scope of, and conclusions resulting from, consultations undertaken during the course of an audit engagement. Documentation that is sufficiently complete and detailed contributes to an understanding of the results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.</p> <p>The Authority inspected a sample of 10 audit clients for compliance with the Firm's consultation policies.</p> <p>In the case of one of these 10 audit clients, the Firm's professional standards team were consulted in relation to the appropriate measurement of inventories, following which a memorandum was drafted by the audit team and included on the audit file.</p>	<p>The Authority notes that the accounting memorandum on the audit file was not signed off by the Firm's professional standards team. The email trail between the Firm's professional standards team and the audit team, showing confirmation for the proposed accounting treatment, was also not included on the file. The evidence included on the audit file was not sufficiently detailed to understand the nature of the consultation undertaken or whether there was final sign-off by the Firm's professional standards team.</p>	<p>The Authority recommends that going forward, sufficient evidence is retained on the file of final approval from the consulted party on the conclusions reached for the consultation(s) sought.</p>
Methodology	The Authority has no findings or recommendations to report in this area.		
Training	The Authority has no findings or recommendations to report in this area.		

Summary of audits of PIEs inspected

	Assigned grade ²	Audit areas reviewed
Audit one	1	<ul style="list-style-type: none"> • Accounting estimates • Audit planning • Auditor's report • Cash and cash equivalents • Communications with those charged with governance • Consultations • Going concern • Revenue recognition
Audit two	2	<ul style="list-style-type: none"> • Accounting estimates • Audit planning • Auditor's report • Cash and cash equivalents • Communications with those charged with governance • Going concern • Engagement quality control review

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
Key audit matters	The Authority recommends that, going forward, when relevant, the engagement team evidences the rationale in determining which significant risks were key audit matters and communicates the key audit matters to those charged with governance.

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.

² See Appendix 1 for detailed description of ratings and grades

Purpose and limitations of this report

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

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

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

Appendix – Detailed description of ratings and grades

Ratings

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

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

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

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

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

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

Grades

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

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

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

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



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