DECISION NOTICE ISSUED UNDER RULE 42 OF THE COMPANIES REGULATIONS (AUDITORS) RULES 2023

To: Baker Tilly Middle East Limited
Unit 21, 12 Floor,
Al Sila Tower, ADGM Square,
Al Maryah Island, Abu Dhabi,
United Arab Emirates

Attention: Mr. Neil Andrew Sturgeon

Email: [redacted]

Date: 9 January 2024

1. DECISION

1.1 This Decision Notice ("Notice") is issued under Rule 42 of Part 11 of the Companies Regulations (Auditors) Rules 2023 (the "Auditors Rules 2023").

1.2 Having taken into account the facts, matters and circumstances of the contraventions, including the representations of Baker Tilly Middle East Limited with ADGM Registration No. 000005284 ("Baker Tilly"), the Registrar of Abu Dhabi Global Market ("ADGM") has decided to impose financial penalties on Baker Tilly in the **total amount of USD 50,000** (reduced from the proposed total amount of USD 75,000 in the Warning Notice) as follows:

i. **USD 35,000** (reduced from the proposed USD 45,000 in the Warning Notice) for contravention of Rule 31 of the Auditors Rules 2023 – an Auditor must conduct an audit and prepare the audit report in accordance with the International Standards on Auditing ("ISA") – TNH audit; and

ii. **USD 15,000** (reduced from the proposed USD 20,000 in the Warning Notice) for contravention of Rule 31 of the Auditors Rules 2023 – an Auditor must conduct an audit and prepare the audit report in accordance with the ISA – HC audit.

iii. [redacted]

1.3 This Notice is issued to Baker Tilly only. Other persons may be referred to in this Notice due to their factual connection to the matter under the Notice. This Notice does not construct a determination by the Registrar or ADGM that any person other than Baker Tilly has committed a contravention of ADGM's enactments or subordinate legislation, nor is it a reflection upon any other person or entity.

2. EXECUTIVE SUMMARY

2.1 The Registration Authority ("RA") has decided to take the action set out in this Notice as it considers that Baker Tilly:

i. Breached numerous ISA provisions when performing an audit for T.N.H. Limited[1] ("TNH"), an ADGM registered entity, for the financial year ending 31 December 2021; and

ii. Breached numerous ISA provisions when performing an audit for H.C.[2] ("HC"), an ADGM registered entity, for the financial year ending 31 December 2021.

2.2 Given the nature of the contraventions, the Registrar considers it appropriate in the circumstances to impose financial penalties on Baker Tilly.

3. DEFINED TERMS AND RELEVANT REGULATIONS

3.1 Defined terms are identified in the Notice in parentheses, using the capitalisation of the initial letter of a word or of each word in a phrase, and are either defined in the Regulations, or in the body of this Notice at the first instance the term is used. Unless the context otherwise requires, where capitalisation of the initial word is not used, an expression has its natural meaning.

3.2 Extracts of Regulations and Rules referred to in this Notice are attached in **Annexure A.** Complete copies of the Regulations and Rules are accessible on the ADGM website www.adgm.com /legal-framework/rules-and-regulations.

4. SUMMARY OF EVIDENCE SUPPORTING THE ACTION

Baker Tilly and Sturgeon - Registration

4.1 On 11 February 2022, Baker Tilly was registered as an ADGM Registered Auditor. Neil Andrew Sturgeon ("Sturgeon") is the only Registered Audit Principal ("RAP") at Baker Tilly.

4.2 Baker Tilly's registration was limited to conducting audits of ADGM entities other than public listed entities and financial institutions ("FIs").

[1] Abbreviated form of the name is used throughout this Notice.
[2] Abbreviated form of the name is used throughout this Notice.

Relevant Requirements under Auditors Rules 2023

4.3 Rule 31(1) of the Auditors Rules 2023 requires ADGM Registered Auditor to conduct audits and prepare audit reports in accordance with ISA.

4.4 Rule 17 of the Auditors Rules 2023 includes a list of principles that Registered Auditors and RAPs must comply with, including but not limited to, due skill, care and diligence in:

a. only undertaking work that they are competent and qualified to perform;
b. ensuring that all work carried out by them is performed diligently, competently and in accordance with all relevant technical and professional standards; and
c. ensuring that they behave and act in a way that is fully compliant with all applicable or relevant laws and regulations professionally.

4.5 The relevant ISAs referred to in this Notice are the following:

a. **ISA 200** - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing;

b. **ISA 210** - Agreeing the Terms of Audit Engagements;

c. **ISA 220 -** Quality Control for an Audit of Financial Statements;

d. **ISA 230** - Audit Documentation;

e. **ISA 240** - the Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements;

f. **ISA 250** - Consideration of Laws and Regulations in an Audit of Financial Statements;

g. **ISA 315 -** Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment;

h. **ISA 500 -** Audit Evidence;

i. **ISA 510** - Initial Audit Engagements—Opening Balances;

j. **ISA 550 -** Related Parties;

k. **ISA 570 -** Going Concern;

l. **ISA 600 -** Special Considerations—Audits of Group Financial Statements (Including The Work Of Component Auditors); and

m. **ISA 705 -** Modifications to the Opinion in the Independent Auditor's Report.

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4.6 The extracts of the ISAs which are of particular relevance to the Adverse Findings sections under this Notice are set out in **Annexure B**.

M&E Audit Inspection

4.7 From 6 to 9 March 2023, RA Monitoring & Enforcement ("M&E") Staff conducted an on-site inspection visit to Baker Tilly ("M&E Inspection") mainly to assess compliance with relevant ADGM commercial legislation and assess the quality of the audit work carried out by Baker Tilly.

4.8 During the M&E Inspection a review was carried out of two (2) audit client files and significant deficiencies and breaches were identified in both files.

Adverse Findings

Client File 1: TNH – Non-Compliance with ISA and Auditors Rule 2023

4.9 Review of the client file relating to TNH for the audit carried out by Baker Tilly for the financial year ended 31 December 2021 identified breaches of ISA in multiple areas of the audit process from audit planning, documentation and audit evidence.

4.10 As such, there was a contravention of Rule 31 of the Auditors Rules 2023 by failing to conduct the TNH audit for the financial year ended 31 December 2021 in accordance with ISA.

4.11 The audited TNH financial statement for the year ended 31 December 2021 was signed by Sturgeon on 28 January 2023 ("TNH 2021 Annual Accounts").

A. Adverse Finding 1 – Acceptance of Limited Audit

4.12 Baker Tilly included the following 'Disclaimer of Opinion' under its TNH audit report for the financial year ended 31 December 2019 ("TNH2019 Annual Accounts"):

"We do not express an opinion on the accompanying consolidated financial statements of the Group as at 31 December 2019. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements".

Basis for Disclaimer of Opinion

"Based on our review of the information received from the management and correspondence with the component auditors, we believe that sufficient and appropriate audit evidence was not available regarding various areas including inventory, investment, in inventory, trade and other receivables, cash and bank balances, amounts due from and due to related parties, trade and other payables, and direct cost etc. Consequently, we were unable to determine whether any adjustments to these amounts were necessary".

4.13 Despite Baker Tilly's disclaimer of opinion and inability to draw reasonable conclusion on which to base the auditor's opinion, Baker Tilly continued its audit engagement for TNH for the financial years 2020 and 2021.

4.14 Baker Tilly included similar 'Disclaimer of Opinion' under its TNH audit report for the financial year ended 31 December 2020 ("TNH 2020 Annual Accounts") and 2021 Annual Accounts. Below are the relevant extracts:

a. TNH 2020 Annual Accounts – Basis for Disclaimer of Opinion

"Based on our review of the information received from the management and correspondence with component auditors, we believe that sufficient and appropriate audit evidence was not available regarding primarily existence, completeness and accuracy of all major balances and transactions/results. Consequently, we were unbale to determine whether any adjustments to these amounts were necessary".

b. TNH 2021 Annual Accounts – Basis for Disclaimer of Opinion

"Based on our review of the information received from management and correspondence with component auditors, we believe that sufficient and appropriate audit evidence was not available regarding primarily existence, completeness and accuracy of all major balances and transactions/results. Consequently, we were unable to determine whether any adjustments to these amounts were necessary".

4.15 Given the inability to obtain sufficient appropriate audit evidence in 2019 which prevented Baker Tilly from achieving the overall objectives of the auditor, such a limited audit engagement should not have been accepted for the financial years 2020 and 2021.

4.16 Following the M&E Inspection, a closing record ("Inspection Closing Record") was issued on 9 March 2023 where Baker Tilly was given the opportunity to respond to the RA's findings. On audit engagement discontinuance consideration finding, Baker Tilly stated:

"We did not anticipate similar issues for 2020, nor for 2021, we believed that 2019 was a one-off. We had committed to a 3 year assignment and were wary of possible action being taken against us if we did not fulfil this obligation".

4.17 In accordance with ISA 210, if limitations on the scope of the auditor's work are imposed such that the auditor believes they will result in the auditor disclaiming an opinion on financial statements, the auditor shall not accept such a limited audit engagement.

4.18 Further, once the audit engagement commenced and Baker Tilly realised that there was limited information available on the audit engagement and lack of audit evidence, it failed to maintain documentation to demonstrate its consideration on whether to withdraw from the audit and/or its rationale to disclaim the audit opinion.

4.19 Baker Tilly further under the Inspection Closing Record stated:

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"Whilst there were numerous meetings held between the Engagement Partner and the engagement team wherein the issues were discussed, these were not formally documented, and this is perhaps due to an oversight by the team assigned to the engagement".

4.20 Accordingly, by failing to maintain documentation on its failure to achieve the objectives of the auditor and its failure to document consideration of withdrawal from the audit Baker Tilly breached ISA 200 and ISA 705.

B. Adverse Finding 2 – Audit Evidence

4.21 Significant gaps were identified due to insufficient audit evidence to support the following figures in breach of ISA 230 and ISA 500 and ISA 600:

a. Inventories (USD 202 million): TNH 2021 Annual Accounts suggest that inventories are made up of polished diamonds, jewellery mounts and rough diamonds. The audit file did not provide any evidence to show how the audit team concluded the valuation and existence of these inventories, nor did it provide any documentation to show what steps or attempts the audit team made to resolve the lack of information available.

b. Cash and cash equivalents (USD 20.1 million): A bank confirmation letter was not obtained to independently verify the year-end balance held by the entity. The audit file documentation did not show any attempt by the audit team to obtain this letter either.

c. Related parties and transactions (USD 209.5 million due to related parties): Sufficient audit work was not carried out to confirm the completeness, valuation, and existence of related parties and transactions. The audit work performed did not confirm if the relationship is at arm's length.

d. Revenue (USD 8.7 million): The audit file indicated insufficient audit evidence to show how the audit team satisfied themselves over the completeness and existence of revenue recorded in the fiscal year.

4.22 In response to the M&E Inspection findings, Baker Tilly under the Inspection Closing Record stated:

"There was an over-dependence on the disclaimer opinion, inappropriately resulting in a lack of documenting necessary evidence. This included assessing the below par quality of the component audit files, and the fact that component audit reports were only qualified (and not disclaimed)".

4.23 Accordingly, ISA 230, ISA 500 and ISA 600 were breached due to insufficient audit evidence and poor documentation.

C. Adverse Finding 3 – Suspected Fraud

4.24 Lack of documentation to support consideration of the risk of fraud and consideration to file suspicious activity report with relevant UAE authorities in breach of ISA 240.

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4.25 During the relevant audit period for the financial year ended 31 December 2021, TNH was the 100% shareholder of two UAE free zone companies. The two subsidiaries are involved in trading precious stones, pearls and jewellery. Lack of audit evidence to justify the significant amounts in assets, inventories and revenue under TNH's 2021 Annual Accounts coupled with the type of business in which TNH and its subsidiaries are involved in, which are vulnerable to money laundering and the financing of terrorism, raise concerns about the source of such assets, legitimacy of the business activities and potential fraud risk. Further, the ultimate beneficial owner ("UBO") of TNH is subject to a number of actions in other jurisdictions including a warrant of arrest and asset seizure orders for serious alleged offences such as mismanagement, embezzlement of public funds and money laundering.

4.26 No documentation exists under TNH's client file to indicate how fraud risk was incorporated in the audit procedures, the steps taken to address risk of management override and the risk of material fraud. Further, no documentation exists to support if filing a suspicious activity report was considered.

4.27 Baker Tilly under the Inspection Closing Record stated:

"The team involved took an inappropriate approach that as a disclaimer would be issued, minimal documentation was required, as this would simply repeat time and time again the same facts, namely that no appropriate analysis or explanations could be obtained from management we spoke to, nor from a very limited review of component audit files, which were simply well below an appropriate standard".

4.28 Baker Tilly further stated:

"No suspicion activity reports were made as we had no conclusive evidence that a suspicious activity had taken place, as we simply had insufficient information, and just assumptions".

4.29 Further, during the M&E Inspection, Baker Tilly advised:

"We simply could not get appropriate details from anyone as to why the figures were what they were, we would have discussed various types of potential fraud during such discussions: 1. Theft or misappropriation of diamonds 2. Purchasing of sub-standard diamonds, 3. Inappropriate stock-counts, resulting in quantities being wrong 4. Inappropriate valuations of diamonds".

4.30 Accordingly, by failing to document its consideration to fraud risk and consideration to file suspicious activity report, the audit performed by Baker Tilly breached ISA 240.

D. Adverse Finding 3 – Limited Involvement of the Engagement Partner

4.31 M&E Inspection found limited to no involvement from the RAP in breach of ISA 220 and ISA 230.

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4.32 M&E's client file review found that apart from the RAP's review of the financial statements before signing the 2021 Annual Accounts, there was no clear evidence of the RAP's involvement. Had there been involvement from the start, it is possible that a number of ISA breaches would not have been as severe. The ISAs are clear when it comes to the involvement of the engagement partner (i.e., RAP).

4.33 ISA 220 requires the engagement partner (i.e., RAP) to take responsibility for the direction, supervision and performance of the audit engagement. ISA 230 requires recording "*who reviewed the audit work performed and the date and extent of such review*".

4.34 Rule 17(1)(b) requires RAPs to ensure that "*all work carried out by them is performed diligently, competently and in accordance with all relevant technical and professional standards*" and "*ensure that they behave and act in a way that is fully compliant with all applicable or relevant laws and regulations professionally*".

4.35 Further, Rule 31(2) of the Auditors Rules 2023, requires a Registered Auditor to "*ensure that every audit report produced by it includes the name of its Registered Audit Principal with primary responsibility for the Audit Service provided with respect to the relevant audit report and for signing such report*". Based on the client file reviewed, it appears that Sturgeon (RAP) was not the one with the primary responsibility for the audit performed.

4.36 Baker Tilly under the Inspection Closing Record stated:

"*We also confirm our awareness about insufficient evidence being available to confirm* [Sturgeon's] *involvement as the audit principal on the assignment and we believe this to be an inadvertent oversight on our part*", "*There was an inappropriate lack of knowledge of ADGM Regulations*", "as [RAP], [Sturgeon] *will now ensure (and have instructed all Partners and Managers), that he must sign off all appropriate Partner review documents*" and "*Procedures are being put in place to get other Partners licenced for MOE audits so they can sign off such audit reports and thus alleviate* [Sturgeon] *of that role and so give him the appropriate time to deal with ADGM clients and ensure files are in appropriate order*".

4.37 Accordingly, the audit performed breached ISA 220 and ISA 230.

<u>Client File 2: HC – Non-Compliance with ISA and Auditors Rules 2023</u>

4.38 Review of the client file relating to HC for the audit carried out by Baker Tilly for the financial year ended 31 December 2021 identified breaches of Auditors Rules 2023 and ISA. The audited financial statement for HC for the financial year ended 31 December 2021 was signed by Sturgeon on 7 December 2022 ("HC 2021 Annual Accounts").

4.39 HC was incorporated in ADGM on 10 January 2018 as a RegLab Participant to carry out the Financial (Category A) business activity of *6701 Developing Financial Technology Services within the RegLab*.

A. Adverse Finding 1 – Lack of Audit Evidence and Documentation

4.40 M&E Inspection found lack of documentation regarding the audit planning work and understanding the entity and its environment in breach of ISA 230, ISA 250, ISA 315, and ISA 500 and due to the following:

a. lack of documentation to support that enquiries were made with respect to understanding the loans granted to related parties;

b. no documentary evidence of consideration of applicable laws and regulations to the entity as part of audit planning procedures and risk assessment;

c. no documentary evidence to support consideration of going concern at the planning stage or followed through sufficiently and appropriately in the fieldwork and completion sections;

d. lack of documentation on the detailed activities of the entity and its environment; and

e. lack of documentation on the audit work performed on journals to address the risk of management override.

B. Adverse Finding 2 – No Documentation of Opening Balances Review

4.41 M&E Inspection found that the audit work performed in relation to opening balances was deficient and breached ISA 510 and ISA 230 due to the following:

a. Baker Tilly's audit of HC for the financial year ended 31 December 2021 is a first-year audit and there is lack of documentation of the review carried out of the predecessor auditor's working papers to obtain evidence regarding the opening balances including a request for professional clearance from the previous auditor. Further, there is no mention of a request for professional clearance on the client file; and

b. lack of documentation of work planned and performed over opening balances.

C. Adverse Finding 3 – Limited Involvement of the Engagement Partner

4.42 M&E's client file review found lack of documentation to evidence the involvement of RAP in the audit carried out in breach of ISA 220 and ISA 230.

4.43 M&E's client file review found no evidence of the RAP's involvement in the planning of the audit including review of significant risks and fraud risk.

4.44 Baker Tilly under the Notes and Queries document issued during M&E Inspection on 7 March 2023 ("HC Notes and Queries") stated:

"the primary involvement in the audit was of Mr. [P.B.[3]] however Mr. Neil was also fully involved from the planning to the conclusion stage of audit".

4.45 ISA 220 requires the RAP (i.e., engagement partner) to take responsibility for the direction, supervision and performance of the audit engagement. Further, ISA 230 requires recording *"who reviewed the audit work performed and the date and extent of such review"*.

4.46 Rule 17(1)(b) requires Registered Auditors to ensure that *"all work carried out by them is performed diligently, competently and in accordance with all relevant technical and professional standards"* and *"ensure that they behave and act in a way that is fully compliant with all applicable or relevant laws and regulations professionally"*.

4.47 Accordingly, the audit performed breached ISA 220 and ISA 230.

D. Adverse Finding 5 – Lack of Evidence on Related Parties Transactions

4.48 M&E's client file review found lack of documentary evidence to support the particulars of a loan of USD 14.3 million from HC to H.C.H.L.[4] ("HCHL") or to confirm the nature of this related party transaction.

4.49 In response to this finding Baker Tilly under HC Notes and Queries stated:

"The loan is granted to [HCHL] a related party for further investment in [HTC][5] based out at Saudi Arabia", *"we verified the transactions with the bank statement and also confirmed the amount from the financials of [H.Cap.[6]] for the year ended 31 December 2021"* and *"The substance over form is of fund transfer for the purpose of investment in Saudi entity by [H.Cap.] hence considered to be at arms length"*.

4.50 M&E Inspection concluded that accepting the financials of HCHL does not provide adequate comfort over whether the transaction is an arm's length transaction or the purpose of the transaction.

4.51 The audit performed of HC accordingly breached ISA 550, ISA 500, ISA 230 and ISA 240 due to the lack of evidence to support the following:

a. flow of funds;

b. purpose and rational of the transaction; and

c. business activities and shareholding structure of HTC.

[3] Abbreviated form of the name.
[4] Abbreviated form of the name is used throughout this Notice (the name was later changed to H.G.H. Ltd).
[5] Abbreviated form of the name is used throughout this Notice.
[6] Abbreviated form of the name is used throughout this Notice.

5. CONTRAVENTIONS

5.1 Based on the facts and matters noted above, the Registrar considers that Baker Tilly committed contraventions of the following:

a. Rule 31 of the Auditors Rules 2023 by breaching ISAs when performing an audit of TNH; and

b. Rule 31 of the Auditors Rules 2023 by breaching ISAs when performing an audit of HC.

6. SANCTIONS

Financial Penalties

6.1 In reaching its decision to impose financial penalties, the Registrar has considered the below factors and considerations to be of relevance:

a. To promote compliance with the Regulations and achieve the Registrar's objectives by:

i. penalising persons who have committed contraventions;

ii. deterring persons that have committed or may commit similar contraventions; and

iii. depriving persons of any benefit that they may have gained as a result of their contraventions.

6.2 The Registrar has decided to impose financial penalties given the seriousness of the contravention and the circumstances.

Determination of the level of financial penalty

6.3 The Registrar has considered the factors and considerations for determining the appropriate level of the financial penalties that it has decided to impose, which are set out as follows:

The seriousness of the contraventions

6.4 As a result of ISA breaches, Baker Tilly failed in its principal objective, namely, to obtain reasonable assurance about whether the financial statements are free from material misstatement.

6.5 TNH is considered a high-risk entity due to the type of business its subsidiaries are involved in and the actions against the UBO in different jurisdictions. Baker Tilly continued with its audit engagements with TNH for three financial years despite the lack of audit evidence and its inability to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement.

6.6 Further, as per Rule 17(1)(b), Registered Auditors are expected to:

- Only undertake work that they are competent and qualified to perform.
- Exercise due skill, care in carrying out any audit work.
- Ensure that all work carried out by them is performed diligently, competently and in accordance with all relevant technical and professional standards.

Deliberate or reckless

6.7 Baker Tilly's breaches of ISA in connection with the audit of HC appear to be at least careless.

6.8 Baker Tilly, despite its 'Disclaimer of Opinion' under the TNH 2019 Annual Accounts and TNH 2020 Annual Accounts, continued its audit engagement for TNH for the financial year ending 31 December 2021 and despite the entity being high risk and susceptible to money laundering and fraud. Accordingly, it can be reasonably concluded that Baker Tilly's breaches were if not negligent then at least careless, as they should have expected facing the same issue regarding its inability to obtain reasonable assurance on whether the financial statements are free from material misstatement.

Whether the person is an individual

6.9 Baker Tilly is not an individual. Therefore, this factor was not considered.

Effect on third parties

6.10 The legitimacy and quality of the TNH 2021 Annual Accounts and HC 2021 Annual Accounts have been compromised. This could impact any person(s) who relied on these Annual Accounts as the audits have not been carried out in accordance with applicable standards and regulations.

Deterrence

6.11 Deterrence is one of the main purposes of taking enforcement action. That is, deterring persons who have committed contraventions from committing further contraventions, and deterring other licensed persons from committing similar contraventions.

6.12 The penalties imposed must deter other Registered Auditors from breaching ISAs when performing audits.

Financial gain or loss avoided

6.13 Baker Tilly received audit fees for the engagements.

Disciplinary record and compliance history

6.14 At the time of the contravention and to the knowledge of the Registrar, Baker Tilly has no disciplinary record nor is the Registrar aware of any other concerns in relation to Baker Tilly.

Maximum Penalty

6.15 As per Rule 33(3) of the Auditors Rules 2023, the maximum penalty for a contravention is level 8, which is an amount up to USD 50,000.

6.16 The Registrar considers the financial penalties of:

i. USD 35,000 for contravention of Rule 31 of the Auditors Rules 2023 for breaching ISAs when performing the TNH audit; and

ii. USD 15,000 for contravention of Rule 31 of the Auditors Rules 2023 for breaching ISAs when performing the HC audit,

would be wholly appropriate in order to reflect the seriousness of the contraventions.

7. PROCEDURAL MATTERS

Representations

7.1 On 2 November 2023, the Registrar issued Baker Tilly with a Warning Notice pursuant to Rule 41 of the Auditors Rules 2023 in which it stated that it proposed to impose three financial penalties on Baker Tilly.

7.2 Baker Tilly was provided with an opportunity to make representations in response to the Warning Notice and the actions proposed.

7.3 On 22 November 2023, the Registrar received written representations from Baker Tilly. It is understood that Baker Tilly's response to the Warning Notice consists of the following 'key' representations (along with the Registrar's response to each):

<u>Client File 1: TNH – Non-Compliance with ISA and Auditors Rules 2023</u>

(a) The decision not to withdraw from the TNH audit engagement had been carefully discussed between Baker Tilly Partners and Managers and was due to the fact that (i) Baker Tilly had entered into a 3 year engagement with TNH; (ii) the audit reports for 2019, 2020 and 2021 were issued within a period of 7 months; (iii) no limitation was imposed on the engagement by TNH's management and the disclaimers on the audit reports were a result of lack of available information, rather than an imposed limitation; and (iv) Baker Tilly hoped that ADGM would take against TNH based on the disclaimers.

i. The Registrar has considered Baker Tilly's representations in this regard and note that there was five months' gap between the signing of the 2019 audit report and the 2020 audit report, in which period it should have been clear that Baker Tilly would face similar issues with the subsequent audits.

Further, no documentation exists on the client file to demonstrate compliance with paragraph 13 of ISA 210 concerning recurring audits (see further below in this respect). Having a commercial contract in place is no excuse for continuing with an audit in contravention of ISA. Further, each audit report should be considered a separate audit engagement.

ii. With regards to ADGM acting upon the disclaimers, the Registrar is of the view that regardless of what the relevant regulatory authority may or may not do, the appointed auditor and audit principal have an obligation to comply with applicable requirements when performing the audit. As it happens, the RA has taken enforcement action against TNH in January 2023 for failure to submit annual accounts by the statutory timeline and again in September 2023 where the commercial licence of TNH was cancelled.

iii. The Registrar acknowledges that Baker Tilly has declined to act any further for TNH. However, the relevant period of the contraventions is stipulated in the Notice and the financial penalties relates to that specific period only.

(b) With respect to the lack of appropriate audit evidence and documentation to support considerations in the audit file, Baker Tilly acknowledges and agree that their audit files should have been much more detailed and states that they now have procedures in place to ensure this is addressed appropriately in their audit files.

i. The Registrar has considered Baker Tilly's representations in this regard and note that appropriate procedures allegedly have been put in place to address these issues. However, as acknowledged by Baker Tilly, these procedures were lacking at the time of the contraventions.

(c) The paragraph in the audit report concerning 'Material Uncertainty Regarding Going Concern' was included in expectation that ADGM would take action against TNH.

i. The Registrar has considered Baker Tilly's representations in this regard but considers them to be irrelevant to the matter at hand as the Registrar is not imposing a fine on Baker Tilly for contravention of ISA 570, which covers an auditor's responsibility in connection with 'going concern' statements. Rather, the mentioning of ISA 570 is with respect to lack of audit evidence and documentation.

<u>Client File 2: HC – Non-Compliance with ISA and Auditors Rules 2023</u>

[redacted]

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(b) With regards to the contravention of Rule 31 of the Auditors Rules 2023 for breaching ISAs in the HC audit, Baker Tilly acknowledges and accept the comments raised in the Warning Notice about lack of appropriate audit evidence on the audit file, the involvement of the RAP in the audit and the related party loan to HCHL; but notes that the proposed fine appears to outweigh the issues noted. Baker Tilly's representations further state the procedures have been put in place to ensure key areas of an audit are documented and appropriately included in the audit file.

i. The Registrar has considered Baker Tilly's representations carefully and have decided to reduce the fine imposed for a contravention of Rule 31 of the Auditors Rules 2023 for breaching ISAs in the HC audit.

Recklessness

(a) Baker Tilly refers to the definition of 'reckless' in the Cambridge Dictionary and provides representations as to why the contraventions were not reckless.

i. The Registrar notes that the interpretation of 'reckless' is based on the general case law in English civil matters, rather than the Cambridge Dictionary. However, having considered Baker Tilly's representations, the Registrar considers Baker Tilly's actions to be at least careless, although not reckless.

7.4 Having taken into account the facts, matters and circumstances of the contraventions and Baker Tilly's representations, the Registrar has decided to impose on Baker Tilly financial penalties in the total amount of USD 50,000 (reduced from the proposed total amount of USD 75,000 in the Warning Notice).

Opportunity to have the matter referred to the ADGM Courts

7.5 Under Rule 43 of the Auditors Rules 2023, the decision contained in this Notice may be referred by Baker Tilly to the ADGM Courts within one month of Baker Tilly's receipt of this Notice.

7.6 In the event that a referral is not made to the ADGM Courts for a review of this Notice within one month, then this Notice will be considered a final and conclusive decision by the Registrar and the fine must be paid by Baker Tilly on or before the date stated on the invoice attached with this Notice.

7.7 In the event that any part of the financial penalty remains outstanding on the date by which it must be paid, the obligation to make the payment is enforceable as a debt by the Registrar.

7.8 Payment of the financial penalty can be made by electronic funds transfer. The account details are listed in the invoice attached with this Notice.

Confidentiality and publicity

7.9 As this Notice has now been issued, pursuant to Rule 46(2) of the Auditors Rules 2023, the Registrar may publish the details about the matter to which the Notice relates as it considers appropriate.

[redacted]

Mohammad Akmol Ali
Office of CEO, Registration Authority
Delegate of the Registrar, Registration Authority

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ANNEXURE A

EXTRACTS OF THE REGULATIONS AND RULES REFERRED TO IN THIS NOTICE

EXTRACT OF THE COMPANIES REGULATIONS (AUDITORS) RULES 2023

17. Principles for Registered Auditors and Registered Audit Principals

(1) These principles apply to every Registered Auditor and Registered Audit Principal:

(a) **Integrity** – a Registered Auditor and a Registered Audit Principal must be straightforward and honest in all professional and business relationships, behaving with integrity and fairness in all their dealings, maintain high standards of ethical behavior and professional practice and take care to avoid any behavior or actions that might reasonably be expected to risk bringing discredit to their profession.

(b) **Due skill, care and diligence** – a Registered Auditor and Registered Audit Principal must always:

(i) be objective in all professional and business judgments reached when carrying out any audit work;

(ii) only undertake work that they are competent and qualified to perform; ensure that they maintain and regularly update their professional knowledge and skill, by providing or attending appropriate training and development or accessing appropriate professional and technical knowledge resources;

(iii) ensure that all work carried out by them is performed diligently, competently and in accordance with all relevant technical and professional standards; and

(iv) ensure that they behave and act in a way that is fully compliant with all applicable or relevant laws and regulations professionally.

(c) **Confidentiality** - a Registered Auditor and Registered Audit Principal must respect the confidentiality of information acquired as a result of professional and business relationships and not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor must they use the information for the personal advantage of the Registered Auditor, Registered Audit Principal or third parties.

(d) **Conflicts of Interest** – a Registered Auditor and a Registered Audit Principal must not accept any appointment or engagement with respect to any Audit Service or otherwise perform any audit work if they have, or may reasonably be perceived to have, any interest that is likely to conflict with, or prevent them, providing any Audit Service or conducting any audit in accordance with the Code of Ethics and otherwise in accordance with the requirements of these Rules and all other applicable legal requirements.

(e) **Relations with the Registrar** - Registered Auditors and Registered Audit Principals must deal with the Registrar in an open and co-operative manner and must promptly disclose to the Registrar any information which the Registrar requires or which the Registrar would otherwise reasonably expect to be notified.

31. Conduct of Audits and Contents of Audit Reports

(1) An Auditor must conduct an audit, and prepare the contents of any relevant audit report, referred to in these Rules, in accordance with the standards in the following tables:

(d) Registered Auditors:

Type of Company	Relevant Standards	Report Contents
All non-exempt companies	International Standards on Auditing	International Standards on Auditing 700
	Companies Regulations 2020, Part 15	Companies Regulations 2020, Part 15, Chapter 3, sections 467 to 469

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(2) A Registered Auditor must ensure that every audit report produced by it includes the name of its Registered Audit Principal with primary responsibility for the Audit Service provided with respect to the relevant audit report and for signing such report.

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32. Registration, Licensing and Supervision

(1) The Registrar is responsible for:

(a) the public oversight of Registered Auditors and Registered Audit Principals under these Rules;

(b) assessing, and making decisions with respect to, any application under these Rules;

(c) determining how the continuing obligations for Registered Auditors and Registered Audit Principals are to be applied in practice (including provision for securing compliance with those standards);

(d) determining whether Registered Auditors and Registered Audit Principals have complied with their ongoing obligations under these Rules;

(e) registration and licensing of Registered Auditors and Registered Audit Principals, including any Additional Permits held;

(f) keeping the Register and making them available for inspection;

(g) monitoring (including by means of inspections) Registered Auditors and Registered Audit Principals;

(h) investigating any apparent breaches of these Rules or terms of any Additional Permit; and

(i) imposing and enforcing sanctions.

(2) The Registrar will publish an annual report on the monitoring activities it undertakes of Registered Auditors and Registered Audit Principals.

33. Sanctions

(1) If the Registrar considers that a Registered Auditor or Registered Audit Principal (a "Relevant Entity") has contravened a relevant requirement, it may take any or all of the following courses of action in relation to the Relevant Entity—

(a) issue a private or public censure in relation to such contravention; or
(b) impose a financial penalty; or
(c) issue a prohibition order; or
(d) enter into an enforceable undertaking; or
(e) suspend or withdraw the Relevant Entity's registration or Additional Permit or Permits in accordance with Rule 34(1)(a).

(2) Censure statements

(a) A censure statement must describe in such detail as the Registrar may determine the nature of the contravention and may include such guidance as to any remedial action that the Relevant Entity should consider taking to avoid any repetition of such contravention or any other contravention taking place, as the Registrar may see fit to specify.
(b) A public censure statement must be published in such manner as the Registrar determines and a copy of the censure statement must be sent by the Registrar to the Relevant Entity.

(3) Financial penalties

Any financial penalty imposed by the Registrar may be in such amount and may be payable on such terms, as it considers appropriate, provided that the financial penalty not exceed the amount specified for level 8 on the standard fines scale.

(4) Prohibition orders

(a) The Registrar may issue an order prohibiting or restricting a Relevant Entity from providing or otherwise being involved in the provision of, in the Abu Dhabi Global Market, any Audit Service of such type as may be specified in the order and subject to such conditions as may be specified in the order.
(b) The Registrar may, if it considers it appropriate or desirable, publish details of any such order in such manner as it determines.

(5) Enforceable undertakings

(a) If the Registrar considers that this would be an appropriate way in which to address any contravention of a relevant requirement or any other concern that it may have with respect to a Registered Auditor or Registered Audit Principal, it may accept a written undertaking from a Relevant Entity on such terms as may be agreed.
(b) The Registrar may, if it considers it appropriate or desirable, publish details of any such order in such manner as it determines.
(c) If the Registrar considers that any person who has given such an undertaking has breached any of its terms, the Registrar may take such further action as it considers appropriate, including without limitation, imposing another sanction and taking any other action available to him under these Rules and applying to the ADGM Courts for an order or other relief to enforce or provide a remedy in respect of any breach.

(6) In this Rule a "relevant requirement" means a requirement with which a Registered Auditor or Registered Audit Principal must comply under—

(a) these Rules or the Companies Regulations; and
(b) any Additional Permit.

34. Right of the Registrar to Suspend or Withdraw Registration or Additional Permits

(1) The Registrar may withdraw or suspend the registration or any Additional Permits of a Registered Auditor or Registered Audit Principal on:
  (a) its own initiative; or
  (b) at the request of the Registered Auditor or Registered Audit Principal.

(2) Where the Registrar decides to suspend the registration or any Additional Permit of a Registered Auditor or Registered Audit Principal, it may direct that such suspension:
  (a) be for a specific period of time (which may be extended for such further periods and from time to time as the Registrar may consider desirable); or
  (b) continue until such time as such conditions as the Registrar may consider appropriate have been met to his satisfaction.

38. Suspension or Withdrawal of Registration or Additional Permits of a Registered Auditor at the Request of the Registered Auditor

(1) A request for suspension or withdrawal of registration or one or both Additional Permits by a Registered Auditor must be made in writing to the Registrar in the form specified by the Registrar from time to time in accordance with the requirements of these Rules.

(2) Acceptance of such request remains at the discretion of the Registrar and before granting a request for suspension or withdrawal the Registrar must first be satisfied that:
  (a) the Registered Auditor has made appropriate arrangements with respect to its existing audit clients; and
  (b) any other matter which the Registrar reasonably expects to be resolved before such suspension or withdrawal takes effect has been resolved.

(3) Once a Registered Auditor has made a request for its registration, or one or both of its Additional Permits, to be suspended or withdrawn, it must not:

  (a) In the case of the suspension or withdrawal of the Registered Auditor's registration,
    (i) accept any appointment or re-appointment as a Registered Auditor;
    (ii) provide any Audit Service;
    (iii) issue any audit reports; or

  (b) in the case of the suspension or withdrawal of an Additional Permit, carry out work for which such Additional Permit is required,

in each case without obtaining the prior written consent of the Registrar.

40. The Registrar's Procedures

(1) The Registrar will exercise its powers and discharge its responsibilities as set out in these Rules in each case accordance with established principles of natural justice, ensuring that its actions are fair and transparent.

(2) Without prejudice to the generality of Rule 34(1), the Registrar must comply with the following principles in relation to the issuance of Warning Notices and Decision Notices under this Rule:
  (a) a decision to issue a Warning Notice or a Decision Notice must be taken only by:
    i. a person not directly involved in establishing the evidence on which the decision is based; or
    ii. 2 or more persons who include a majority of persons not directly involved in establishing that evidence.

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(b) the procedural formalities and protections afforded to a Recipient must be commensurate with the gravity or seriousness of the proposed action.

(3) The ADGM Courts may take into account any failure of the Registrar in complying with these requirements in considering a matter referred to them.

41. Warning Notices

(1) If the Registrar proposes to -

(a) refuse to grant registration to an Auditor Applicant under Rule 8, or grant such registration only subject to restrictions or conditions;

(b) refuse to grant registration to an Audit Principal Applicant under Rule 11, or grant such registration only subject to restrictions or conditions;

(c) refuse to grant an Additional Permit under Rule 12, or grant such Additional Permit only subject to restrictions or conditions; or

(d) impose any sanction pursuant to its powers under Rule 33, it must provide a warning notice (a "Warning Notice") to the relevant Auditor Applicant, Auditor Principal Applicant, Permit Applicant, or direct subject of the sanction, as appropriate (the " Recipient").

(2) A Warning Notice must –

(a) state the action(s) which the Registrar proposes to take;

(b) be in writing;

(c) give reasons for the proposed action(s);

(d) specify a reasonable period (which may not be less than 14 days) within which the person to whom it is given may make representations to the Registrar;

(e) state whether Rule 38 applies; and

(f) if that Rule applies, describe its effect and state whether any material exists to which the person concerned must be allowed access under it.

(3) Following the receipt of a Warning Notice, the Recipient must have the amount of time specified in the Warning Notice, or such longer time as the Registrar may agree with the Recipient, to make representations to the Registrar in respect of the Warning Notice.

(4) The Registrar must consider relevant materials, documentation or information relating to the matter, and consider the representations made by the Recipient within the permitted time (if any), and must, within two months starting on the date on which the period for making representations under Rule 41(3) ends, take one or more of the following actions:

(a) abandon all actions proposed by the Warning Notice, in which case it will notify the Recipient of that fact in writing as soon as practicable;

(b) issue a subsequent Warning Notice, proposing different or further actions; or

(c) take one or more actions specified in the Warning Notice by issuing a Decision Notice.

If the Registrar has not taken any of the above actions within the prescribed period, the Registrar will be deemed to have abandoned all actions proposed by the Warning Notice.

42. Decision Notices

(1) If the Registrar decides to take an action referred to in a Warning Notice, it must provide a Decision Notice (a "Decision Notice") to the relevant Auditor Applicant,

Auditor Principal Applicant, Permit Applicant, or direct subject of the sanction, as appropriate (the "Decision Notice Recipient").

(2) A Decision Notice must –

(a) be in writing;

(b) give the reasons of the Registrar for the decision to take the action to which the notice relates; and

(c) give an indication of any right to refer the matter to the ADGM Courts which is given by these Rules.

43. Right to refer matters to the ADGM Courts

(1) A Decision Notice Recipient may refer the matter to the ADGM Courts within one month of receipt of the Decision Notice, which will review the matter in accordance with their own procedures.

(2) A Decision Notice that has been referred to the ADGM Courts continues in effect until the matter has been resolved by the ADGM Courts, unless the ADGM Courts determine otherwise.

44. Access to Material

(1) If the Registrar gives a person ("A") a Warning Notice notifying a recipient that it intends to, on its own-initiative, withdraw or suspend any registration or Additional Permit under Rule 34(1)(a), it must –

(a) allow the person access to the material on which it relied in taking the decision which gave rise to the obligation to give the notice;

(b) allow the person access to any other material which was considered or obtained by the Registrar in connection with determining and reaching its decision which, in the Registrar's opinion, might undermine that decision.

(2) The Registrar may refuse A access to particular material which it would otherwise have to allow A access to if, in its opinion, allowing A access to the material -

(a) would not be in the public interest;

(b) would breach confidentiality requirements; or

(c) would not be fair, having regard to -

(i) the likely significance of the material to A in relation to the matter giving rise to the Warning Notice; and

(ii) the potential prejudice to the commercial interests of a person other than A which would be caused by the material's disclosure.

(3) If the Registrar refuses under Rule 44(2) to allow access to material, it must give A written notice of -

(a) the refusal; and

(b) the reasons for it.

(4) The Registrar may refuse A access to particular material on the basis that it consists of a protected item, in which case, it must give A written notice of -

(a) the existence of the protected item; and

(b) the Registrar's decision not to allow him access to it.

46. Publication

(1) A Warning Notice, the existence of a Warning Notice and the contents of a Warning Notice must not be published or disclosed by the Registrar, the Recipient or any other person.

(2) The Registrar may publish, in such manner as it considers appropriate, a Decision Notice, part of a Decision Notice, or such information about the matter to which a Decision Notice relates as it considers appropriate, taking into account the fairness of such publication and the effect on the Decision Notice Recipient, the interests of participants in the Abu Dhabi Global Market or the interests of the Abu Dhabi Global Market as a whole.

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ANNEXURE B

EXTRACTS OF RELEVANT INTERNATIONAL STANDARDS ON AUDITING (ISA)

ISA 200 Overall Objectives of The Independent Auditor and The Conduct of an Audit in Accordance With International Standards on Auditing	*Effective for audits of financial statements for period beginning on or after December 15, 2009*
Paragraph 11	In conducting an audit of financial statements, the overall objectives of the auditor are: (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and (b) To report on the financial statements, and communicate as required by the ISAs, in accordance with the auditor's findings.
Paragraph 12	In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, the ISAs require that the auditor disclaim an opinion or withdraw (or resign) from the engagement, where withdrawal is possible under applicable law or regulation.
Paragraph 17	**Sufficient Appropriate Audit Evidence and Audit Risk** To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. (Ref: Para. A28–A52)
Paragraph 24	*Failure to Achieve an Objective* If an objective in a relevant ISA cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs, to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA 230. 4 (Ref: Para. A75–A76)
Paragraph A75	Whether an objective has been achieved is a matter for the auditor's professional judgment. That judgment takes account of the results of audit procedures performed in complying with the requirements of the ISAs, and the auditor's evaluation of whether sufficient

	appropriate audit evidence has been obtained and whether more needs to be done in the particular circumstances of the audit to achieve the objectives stated in the ISAs. Accordingly, circumstances that may give rise to a failure to achieve an objective include those that: • Prevent the auditor from complying with the relevant requirements of an ISA. • Result in its not being practicable or possible for the auditor to carry out the additional audit procedures or obtain further audit evidence as determined necessary from the use of the objectives in accordance with paragraph 21, for example, due to a limitation in the available audit evidence.
Paragraph A76	Audit documentation that meets the requirements of ISA 230 and the specific documentation requirements of other relevant ISAs provides evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor. While it is unnecessary for the auditor to document separately (as in a checklist, for example) that individual objectives have been achieved, the documentation of a failure to achieve an objective assists the auditor's evaluation of whether such a failure has prevented the auditor from achieving the overall objectives of the auditor.
ISA 210 Agreeing the Terms of Audit Engagements	*Effective for audits of financial statements for periods beginning on or after December 15, 2009*
Paragraph 7	*Limitation on Scope Prior to Audit Engagement Acceptance* If management or those charged with governance impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.
ISA 220 Quality Control for An Audit of Financial Statements	*Effective for audits of financial statements for periods beginning on or after December 15, 2009*
Paragraph 7(a)	Engagement partner – The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Paragraph 15	**Engagement Performance** *Direction, Supervision and Performance* The engagement partner shall take responsibility for:

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	(a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and (Ref: Para. A13–A15, A20) (b) The auditor's report being appropriate in the circumstances.
Paragraph 16	*Reviews* The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. (Ref: Para. A16–A17, A20)
Paragraph A18	*The Engagement Partner's Review of Work Performed* Timely reviews of the following by the engagement partner at appropriate stages during the engagement allow significant matters to be resolved on a timely basis to the engagement partner's satisfaction on or before the date of the auditor's report: • Critical areas of judgment, especially those relating to difficult or contentious matters identified during the course of the engagement; • Significant risks; and • Other areas the engagement partner considers important. The engagement partner need not review all audit documentation, but may do so. However, as required by ISA 230, the partner documents the extent and timing of the reviews.
ISA 230 Audit Documentation	*Effective for audits of financial statements for periods beginning on or after December 15, 2009*
Paragraph 5	The objective of the auditor is to prepare documentation that provides: (a) A sufficient and appropriate record of the basis for the auditor's report; and (b) Evidence that the audit was planned and performed in accordance with ISAs and applicable legal and regulatory requirements.
Paragraph 7	The auditor shall prepare audit documentation on a timely basis. (Ref: Para. A1)
Paragraph 8	The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2–A5, A16–A17) (b) The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements; (Ref: Para. A6–A7) (c) The results of the audit procedures performed, and the audit evidence obtained; and

	(d) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A8–A11)
Paragraph 9	In documenting the nature, timing and extent of audit procedures performed, the auditor shall record: (a) The identifying characteristics of the specific items or matters tested; (Ref: Para. A12) (b) Who performed the audit work and the date such work was completed; and (c) Who reviewed the audit work performed and the date and extent of such review. (Ref: Para. A13)
Paragraph 10	The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place. (Ref: Para. A14)
ISA 240 **The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements**	*Effective for audits of financial statements for periods beginning on or after December 15, 2009*
Paragraph 5	An auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs.
Paragraph 12	In accordance with ISA 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance. (Ref: Para. A7–A8)
Paragraph 34	The auditor shall evaluate whether analytical procedures that are performed near the end of the audit, when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, indicate a previously unrecognized risk of material misstatement due to fraud. (Ref: Para. A50)
Paragraph 35	If the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor shall evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence. (Ref: Para. A51)
Paragraph 36	If the auditor identifies a misstatement, whether material or not, and the auditor has reason to believe that it is or may be the result of

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	fraud and that management (in particular, senior management) is involved, the auditor shall reevaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures to respond to the assessed risks. The auditor shall also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained. (Ref: Para. A52)
Paragraph 37	If the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud the auditor shall evaluate the implications for the audit. (Ref: Para. A53)
Paragraph 38	**Auditor Unable to Continue the Engagement** If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall: (a) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities; (b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal is possible under applicable law or regulation; and (c) If the auditor withdraws: (i) Discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and (ii) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal. (Ref: Para. A54–A57)
ISA 250 (Revised) Consideration of Laws and Regulations in an Audit of Financial Statements	*Effective for audits of financial statements for periods beginning on or after December 15, 2017*
Paragraph 1	This International Standard on Auditing (ISA) deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements. This ISA does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.
Paragraph 13	As part of obtaining an understanding of the entity and its environment in accordance with ISA 315 (Revised), 4 the auditor shall obtain a general understanding of:

	(c) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and (d) How the entity is complying with that framework. (Ref: Para. A11)
ISA 315 (Revised) Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment	*Effective for audits of financial statements for periods ending on or after December 15, 2013*
Paragraph 11	The auditor shall obtain an understanding of the following: (a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework. (Ref: Para. A25–A30) (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. (Ref: Para. A31–A35) (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. (Ref: Para. A36) (d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement. (Ref: Para. A37– A43) (e) The measurement and review of the entity's financial performance. (Ref: Para. A44–A49)
Paragraph 32	The auditor shall include in the audit documentation: (a) The discussion among the engagement team where required by paragraph 10, and the significant decisions reached; (b) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment specified in paragraph 11 and of each of the internal control components specified in paragraphs 14–24; the sources of information from which the understanding was obtained; and the risk assessment procedures performed;

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	(c) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level as required by paragraph 25; and (d) The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 27–30. (Ref: Para. A153-A156)
ISA 500 **Audit Evidence**	*Effective for audits of financial statements for periods beginning on or after December 15, 2009*
Paragraph 4	The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.
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. (Ref: Para. A5–A29)
ISA 510 **Initial Audit Engagements—Opening Balances**	*Effective for audits of financial statements for periods beginning on or after December 15, 2009*
Paragraph 3	In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether: (a) Opening balances contain misstatements that materially affect the current period's financial statements; and (b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.
Paragraph 5	The auditor shall read the most recent financial statements, if any, and the predecessor auditor's report thereon, if any, for information relevant to opening balances, including disclosures.
Paragraph 6	The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by: (Ref: Para. A1–A2) (a) Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated; (b) Determining whether the opening balances reflect the application of appropriate accounting policies; and (c) Performing one or more of the following: (Ref: Para. A3–A7) (i) Where the prior year financial statements were audited, reviewing the predecessor auditor's working

	papers to obtain evidence regarding the opening balances; (ii) Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or (iii) Performing specific audit procedures to obtain evidence regarding the opening balances.
Paragraph 10	If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements, as appropriate, in accordance with ISA 705 (Revised) (Ref: Para. A8)
ISA 550 **Related Parties**	*Effective for audits of financial statements for periods beginning on or after December 15, 2009*
Paragraph 4	Even if the applicable financial reporting framework establishes minimal or no related party requirements, the auditor nevertheless needs to obtain an understanding of the entity's related party relationships and transactions sufficient to be able to conclude whether the financial statements, insofar as they are affected by those relationships and transactions: (Ref: Para. A1) (a) Achieve fair presentation (for fair presentation frameworks); or (Ref: Para. A2) (b) Are not misleading (for compliance frameworks). (Ref: Para. A3)
Paragraph 5	In addition, an understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA 240, because fraud may be more easily committed through related parties.
ISA 570 (Revised) **Going Concern**	*Effective for audits of financial statements for periods ending on or after December 15, 2016*
Paragraph 6	The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.
Paragraph 10	When performing risk assessment procedures as required by ISA 315 (Revised), the auditor shall consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a

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	preliminary assessment of the entity's ability to continue as a going concern, and: (Ref: Para. A2–A5) (c) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them; or (d) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern assumption, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.
ISA 600 Special Considerations—Audits Of Group Financial Statements (Including The Work Of Component Auditors)	*Effective for audits of group financial statements for periods beginning on or after December 15, 2009*
Paragraph 12	**Acceptance and Continuance** In applying ISA 220, the group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion. For this purpose, the group engagement team shall obtain an understanding of the group, its components, and their environments that is sufficient to identify components that are likely to be significant components. Where component auditors will perform work on the financial information of such components, the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of those component auditors to the extent necessary to obtain sufficient appropriate audit evidence. (Ref: Para. A10–A12)
Paragraph 13	If the group engagement partner concludes that: (a) it will not be possible for the group engagement team to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and (b) the possible effect of this inability will result in a disclaimer of opinion on the group financial statements, the group engagement partner shall either: (a) in the case of a new engagement, not accept the engagement, or, in the case of a continuing engagement,

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	withdraw from the engagement, where withdrawal is possible under applicable law or regulation; or (b) where law or regulation prohibits an auditor from declining an engagement or where withdrawal from an engagement is not otherwise possible, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements. (Ref: Para. A13–A19)
Paragraph 44	*Sufficiency and Appropriateness of Audit Evidence* The auditor is required to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. The group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation process and the work performed by the group engagement team and the component auditors on the financial information of the components, on which to base the group audit opinion. (Ref: Para. A62)
ISA 705 (Revised) Modifications to the Opinion in the Independent Auditor's Report	*Effective for audits of financial statements for periods ending on or after December 15, 2016*
Paragraph 9	*Disclaimer of Opinion* The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
Paragraph 10	The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.
Paragraph 13	If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows: (a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or (b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of

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	the opinion would be inadequate to communicate the gravity of the situation, the auditor shall: (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or (Ref: Para. A13) (ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements. (Ref. Para. A14)

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