



International Standards on Auditing with a focus on Cayman Funds

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Agenda



1. Audit Planning Considerations
2. Internal Controls & Risk Assessment Considerations
3. Auditing Specific Accounting Cycles
4. Audit Completion, New & Revised Auditor Reporting Standards



1. Audit Planning Considerations

Audit Planning Considerations



**Engagement
(Re-)
Acceptance**

**Requirements
& Deliverables**

**Audit Planning
&
Documentation**

Audit Planning Considerations



- Fraud/Non-Compliance Risk Assessments
- Accounting Cycles Risk Assessments
- Materiality
- Expected Modification of the Audit Opinion



Audit Planning Considerations



- Prior year audit issues
- Changes in the Fund's operations
- Estimated values and assumptions
- Errors and restatements
- Going concern assessment
- Communication with *Those Charged with Governance*

Audit Planning Considerations



Laws & Regulations (ISA 250)

Risk Assessment

- Legal & regulatory framework for funds
- How entity is complying?
- Inquire about compliance
- Review regulatory correspondence

Risk Response

- Identify any non-compliance
- Discuss with management, if appropriate
- Evaluate impact

Reporting

- Is material non-compliance disclosed/reported if required?
- Report to *Those Charged with Governance*
- Obtain management representations

Audit Planning Considerations



Laws & Regulations

- IAASB Handbook of International Quality Control...
- Companies Law
- Mutual Funds Law & Annual Returns Regulations
- Proceeds of Crime Law
- Anti-Money Laundering Regulations
- Confidential Information Disclosure Law
- www.cima.ky/investment-funds-regulatory-measures
- <https://www.ciipa.ky/page-18225>

Audit Planning Considerations



Related Parties

Risk Assessment

- Identify related parties, including and any changes
- Understand nature, extent, & purpose of transactions
- Consider potential for fraud
- Remain alert for undisclosed related-party transactions

Risk Response

- Any indication of undisclosed related parties?
- Obtain support for management's assertions about the nature, extent, and purpose of transactions
- If consider significance, measurement and recognition of transactions, as well as any fraud risk

Reporting

- Has sufficient appropriate evidence been obtained?
- Does a material misstatement exist?
- Is financial statement disclosure adequate?
- Obtain management representations. Report on any findings

Audit Planning Considerations



Working with other Auditors

- Involves different Audit Practitioners at different locations:
 - Cayman “Principal Auditor” signs audit report, where the Fund is domiciled;
 - “Other Auditor” in different jurisdiction where management or records based.
- Cayman Practitioner:
 - Sign the Engagement Letter
 - Supervises Other Auditor
 - Review Other Auditor’s work
- Cayman auditor involvement in audit planning, risk assessment and review:
 - Which auditor is responsible for communication to the Directors?
 - Can the auditors effectively collaborate to meet the client deadline?
 - Does the “Other auditor” have adequate funds audit experience?



1. Audit Planning Considerations

Questions?



2. Internal Controls & Risk Assessment Considerations

Internal Control & Risk Assessment



If placing reliance on an internal controls assurance report:

- What is the nature of the report?
- Consider the report's findings
- Are the critical controls being relied upon by the auditor sufficiently tested and are these free from findings?
- Document the audit risk assessment and resultant audit approach

AND/OR: Perform controls reliance testing.

REMEMBER: Consider prior year audit adjustments and any other significant deficiencies.

Internal Control & Risk Assessment



Only rely on documented controls that are evidenced to work

- May we rely on controls?
- Service auditor's report?
- Risks of fraud?
- Risks of errors?
- Substantive analytical review

- Walkthroughs
- Tests of control
- Substantive procedures

- Confirmations
- Proof-in-total roll-forward calculations
- Substantive analytical review procedures
- Tests of detail

Internal Control & Risk Assessment



Management Override

Management override and fraudulent revenue recognition are presumed to be significant risks and as a result, there are certain audit procedures that would be performed in every audit.

Procedures to Address Management Override Risk

Examine:

Journal Entries

Estimates

Significant Transactions

Revenue Recognition



2. Internal Controls & Risk Assessment Considerations

Questions?



3. Auditing Specific Accounting Cycles

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Auditing Specific Accounting Cycles



Opening Balances

Agree

Review

Evaluate

Auditing Specific Accounting Cycles

Cash and Cash Equivalents Due from/ to Brokers



Document an understanding
of controls

Recalculate cash flow
statement workings

Justify any reliance on controls

Review post year end
statements

Reconcile balances to Lead
schedules, Audit Confirmations and
Financial Statements

**DOCUMENT
WHETHER
ADDITIONAL
WORK IS
REQUIRED**

Review any offsetting
disclosures for validity
and transparency

Investigate reconciling or unusual
items

Evidence any charges
over assets, restricted
balances, collateral &
related Financial
Statement Disclosures

Verify FX rates

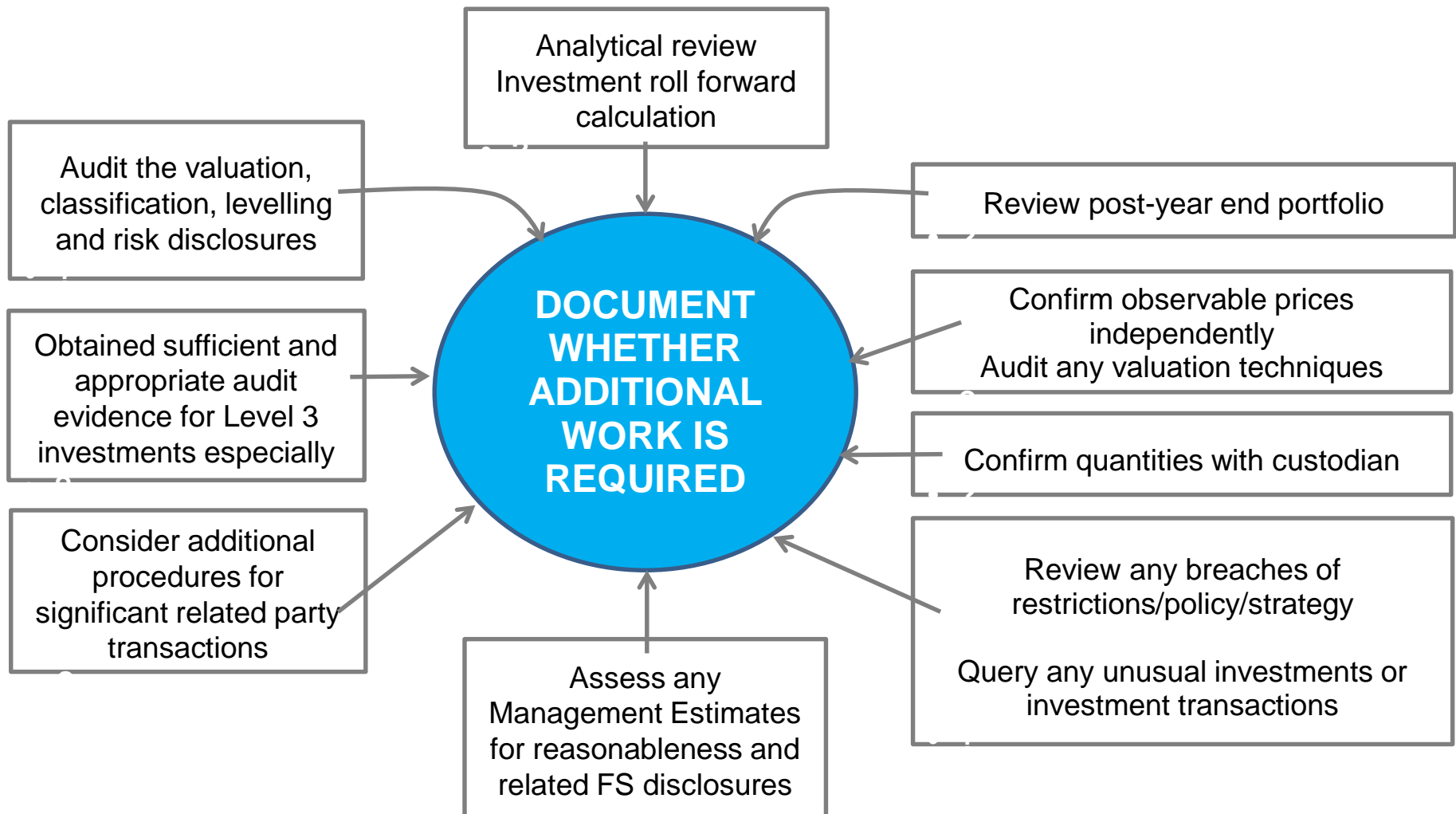
Verify credit facility limits

Are there any breaches

Look at renewal dates

Auditing Specific Accounting Cycles

Investments



Auditing Specific Accounting Cycles

Investments



Document, justify any reliance on controls

Reconcile balances to lead schedules, FS and audit confirmations

Investigate reconciling or unusual items and FX rates

Auditing the Statement of comprehensive income

- Interest & dividend income
- Other net changes in FV on financial assets and liabilities at FVTPL

Auditing the Statement of comprehensive income

- Qualitative & quantitative risk disclosures
- Management's methods to monitor & mitigate risk
- Offsetting disclosure requirements

Side pockets or other designated investments

Auditing Specific Accounting Cycles



Share Capital

Document & test allocation of income/expenses between share classes.
Only rely on documented controls that are evidenced to work.
Review any gates, suspensions, or investor lock-in agreements.

Sample:

- Subs, Reds & Transfers
- Signed investor instructions
- Transaction authorisation
- Recalculate using NAV/share at transaction date
- Agree bank receipt/payment/in-kind transfer
- Verification of investors

**DOCUMENT
WHETHER
ADDITIONAL
WORK IS
REQUIRED**

Recalculate where applicable:

- NAV/share at Y/E
- Analytical review of NAV/share per class
- Financial Highlights

Share capital roll-forward recalculation:

- Agree opening to prior year
- Agree movement and closing amounts to an audit confirmation
- Agree FS disclosures

Auditing Specific Accounting Cycles



Expenses & Other Receivables/Payables

NAV-Based Fees

- Recalculate a sample or total based on the service-agreement or prospectus
- Fees payable at year-end might be verified to after date settlement
- Review breakdown of payments during the year and consider analytical techniques

Other Expenses

- Review any significant legal fee invoices
- Directors' fees to be compared with FS disclosures, OM, directors' service agreements
- Consider whether any expenses are contrary to the offering document

Other Payables/Receivables

For significant balances, obtain adequate support, e.g.:

- Any post year end settlement
- Outstanding invoices
- Settlement terms and consider documenting reasons for any undue delay

Disclosure of Related Party Transactions

Auditing Specific Accounting Cycles



Going Concern – ISA 570 (Revised)

Going concern basis of accounting

The auditor report's now includes:

- Description of management's responsibility and whether the use of the going concern basis of accounting is appropriate
- The auditor's responsibilities are to conclude on the appropriateness of management's use of the going concern basis of accounting, **based on the audit evidence obtained**, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Auditing Specific Accounting Cycles



Going Concern

Risk Assessment

Consider management's assessment of issues that may cast doubt on the *going concern basis of accounting*:

- Review management's assessment
- Remain alert for possible conditions or events

Risk Response

For any issues identified:

- Review management's assessment
- Remain alert for possible conditions or events

Reporting

Determine:

- Does a material uncertainty exist in relation to the identified issue?
- Is the going concern basis of accounting appropriate?
- Are the FS disclosures sufficient?

Obtain management representations

Auditing Specific Accounting Cycles



Going Concern

Any events that may cast significant doubt on entity's ability to continue as a going concern?

ASK

Ask management for a preliminary assessment of the entity's ability to continue as a going concern

ASK

Identify any events/conditions and obtain management's action plans in response

NO

Discuss any issues with management and obtain their response

Evaluate management's plan of action and supporting documentation

Conclude if a material uncertainty exists or if the going concern basis of accounting is inappropriate

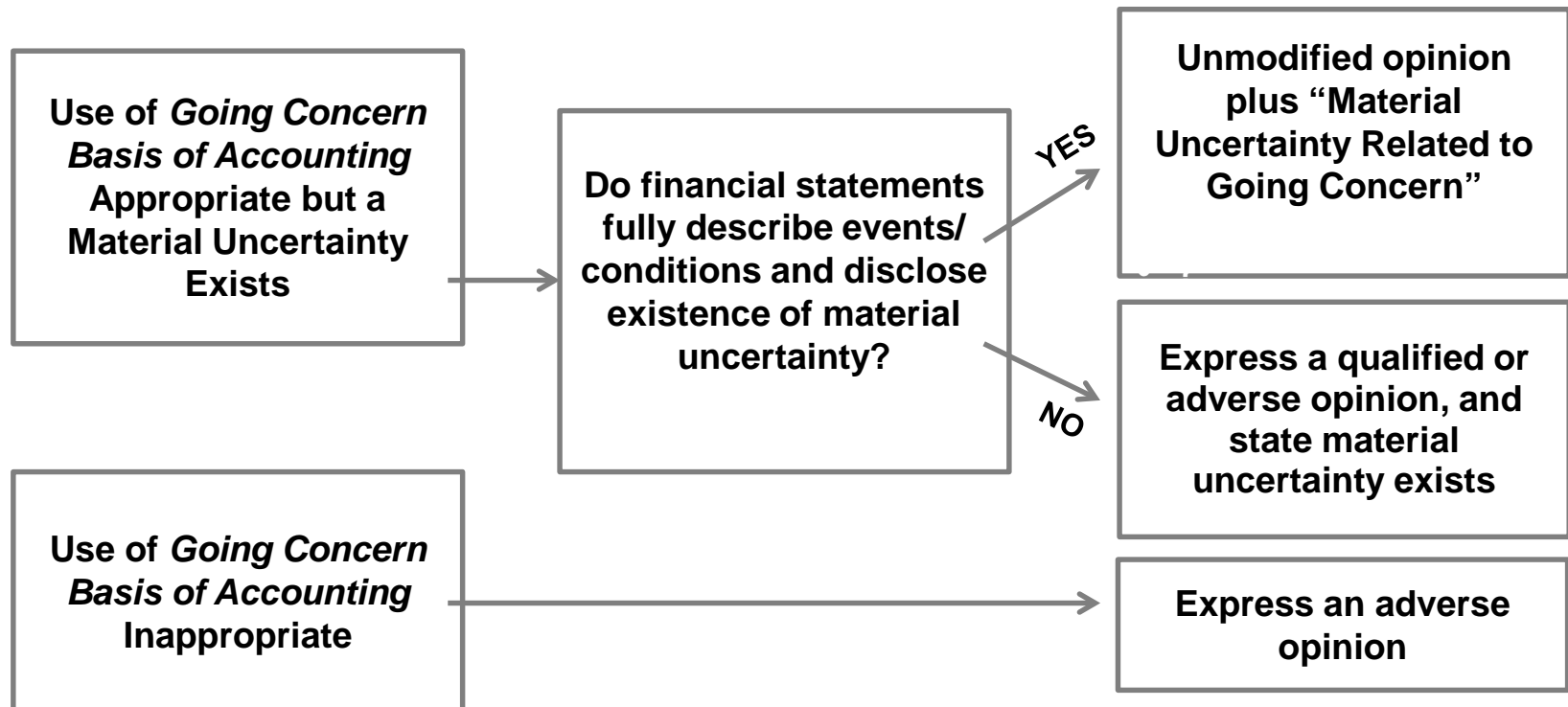
Remain alert throughout audit for evidence of events/conditions that may cast significant doubt on entity's ability to continue as a going concern.

Auditing Specific Accounting Cycles



Going Concern

Determine the impact of identified events/conditions on the audit report and communicate the decision to management and those charged with governance, where applicable:



Auditing Specific Accounting Cycles



Subsequent Events - Overview

Risks:

- Erroneous disclosure or missing financial statement disclosures
- Incorrect valuations at year-end

Procedures to include:

- Document the date to which we have identified all material subsequent events
- Review post year end activities
- Obtain Management confirmation of no undisclosed subsequent events

Auditing Specific Accounting Cycles



Subsequent Events - Timeline

Timeline

**Date of
Financial
Statements**

**Date of Management
Approval of Financial
Statements**

**Date of Auditor's
Report on Financial
Statements**

**Date Financial
Statements Are
Issued**

Obtain evidence about subsequent events

**Respond to new facts that
become known**

Auditing Specific Accounting Cycles



Financial Statements Review Process

Document a review of the FS

Test material journal entries, including “top-side” journals
(ISA 330.20)

Perform a final analytical review
(ISA 520.6)

Address any additional risks identified

Discuss findings



3. Auditing Specific Accounting Cycles

Questions?



4. Audit Completion, New & Revised Auditor Reporting Standards

Audit Finalisation Considerations



The Directors Should Review and When Satisfied, Approve the Audited Financial Statements (SoG 6.16) & Representation Letter

Seek General Representations of:

- Responsibilities
- Appropriate books & records, minutes & resolutions made available
- Material transactions properly recorded
- Responsibility for establishing and maintaining adequate internal controls
- Responsibility for assessing fraud risk

Seek FS Representations that:

- FS presented fairly
- Reflect ownership
- Investments, other assets & liabilities, valued per prospectus, FS disclosures and accounting policies complete and correct
- Subsequent events are disclosed / adjusted for
- All related party transactions disclosed

Seek Management Representations of any:

- Breaches of law, regulation, investment restriction or prospectus
- Investor complaints
- Contingent events and or assets / liabilities
- Significant deficiencies identified
- Internal control weaknesses
- Adjusted & unadjusted audit differences
- “Other Information” to be appended to the FS

New & Revised Auditor Reporting Standards



ISA effective for periods ending on/after 15 December 2016

- ISA 260 (Revised) Communication with Those Charged with Governance
- ISA 570 (Revised) Going Concern
- ISA 700 (Revised) Forming an Opinion and Reporting on Financial Statements
- **ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report**
- ISA 705 (Revised) Modifications to the Opinion in the Independent Auditor's Report
- ISA 706 (Revised) Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
- ISA 720 (Revised) The Auditor's Responsibilities Relating to Other Information
- ISA 810 (Revised) Engagements to Report on Summary FS
- Conforming amendments to other ISA

New & Revised Auditor Reporting Standards



ISA 260 (Revised) Communication with Those Charged With Governance

- The Auditor's Responsibilities
- Overview of the planned scope, timing and significant risks identified
- Qualitative Aspects of Accounting Practices
- Significant Difficulties Encountered
- Significant Matters Arising Relevant to Financial Reporting
- Written Representations
- Circumstances Affecting the Audit Report
- Key Audit Matters, if any
- Auditor Independence

New & Revised Auditor Reporting Standards



ISA 700 (Revised) Forming an Opinion and Reporting on Financial Statements

- Audit opinion is now at the start of the report.
- More explicit statement on independence, other ethical responsibilities, and which standards or code were followed by the auditor.
- New section in the audit report when a material uncertainty over going concern exists which refers to adequate disclosure in the FS.
- New section to cover the auditor's work in relation to other information in the annual report (ISA 720 (Revised))
- Going concern explanation wording clarified, referencing the going concern "basis of accounting" concept (as separate from a "solvency" definition).
- Enhanced description of the responsibilities of management and the auditor, (with an option to move text on certain responsibilities to an appendix or website).

New & Revised Auditor Reporting Standards



ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report

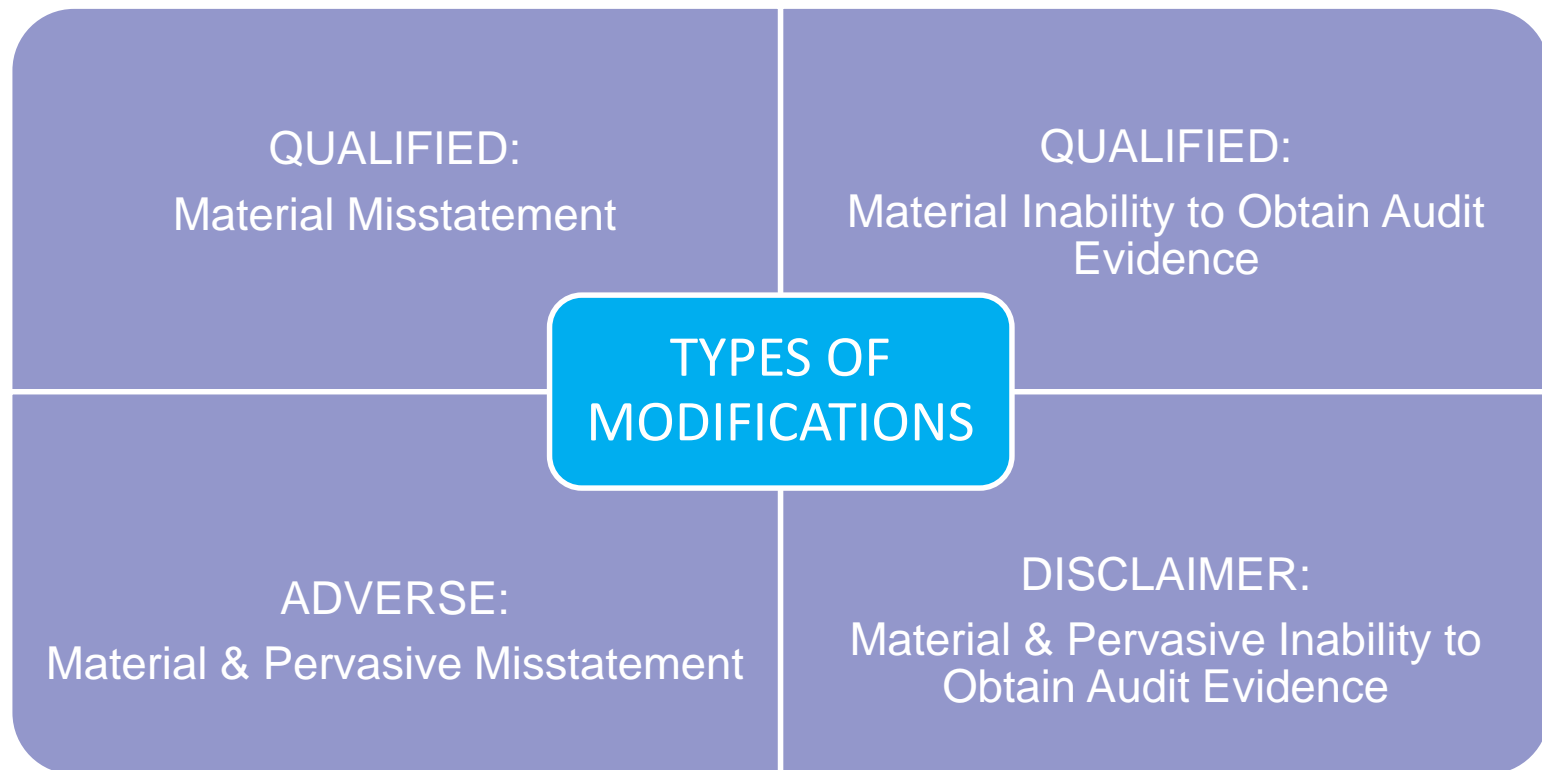
Applies to Listed Entities or Voluntary Adopters

- A new section in the audit report to explain key audit matters (KAM).
- A succinct description of the matter being included as a KAM, and a meaningful summary of the audit procedures undertaken to address the matter.
- KAM are those of most significance in the audit, which are a subset of matters communicated to TCWG:
 - With a higher risk of material misstatement
 - Requiring significant judgement, including accounting estimates
 - Where there was a significant event or transaction in the year
 - Required for any reason to have modified the Opinion
 - Replaces any Emphasis of Matter / Other Matter paragraph except the new "Material Uncertainty Related to Going Concern" paragraph, if applicable
- Wording must not imply discrete opinions on separate elements of the FS.

Audit Finalisation Considerations



ISA 705 (Rev) Modifications to the Opinion in the Independent Auditor's Report



New & Revised Auditor Reporting Standards



ISA 705 (Revised) & ISA 570 (Revised)

Qualified Opinion [Illustrative Extract as an Example]

We have audited the financial statements...

In our opinion, except for the **incomplete disclosure** of the information referred to in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly (or *do give a true and fair view* of), the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

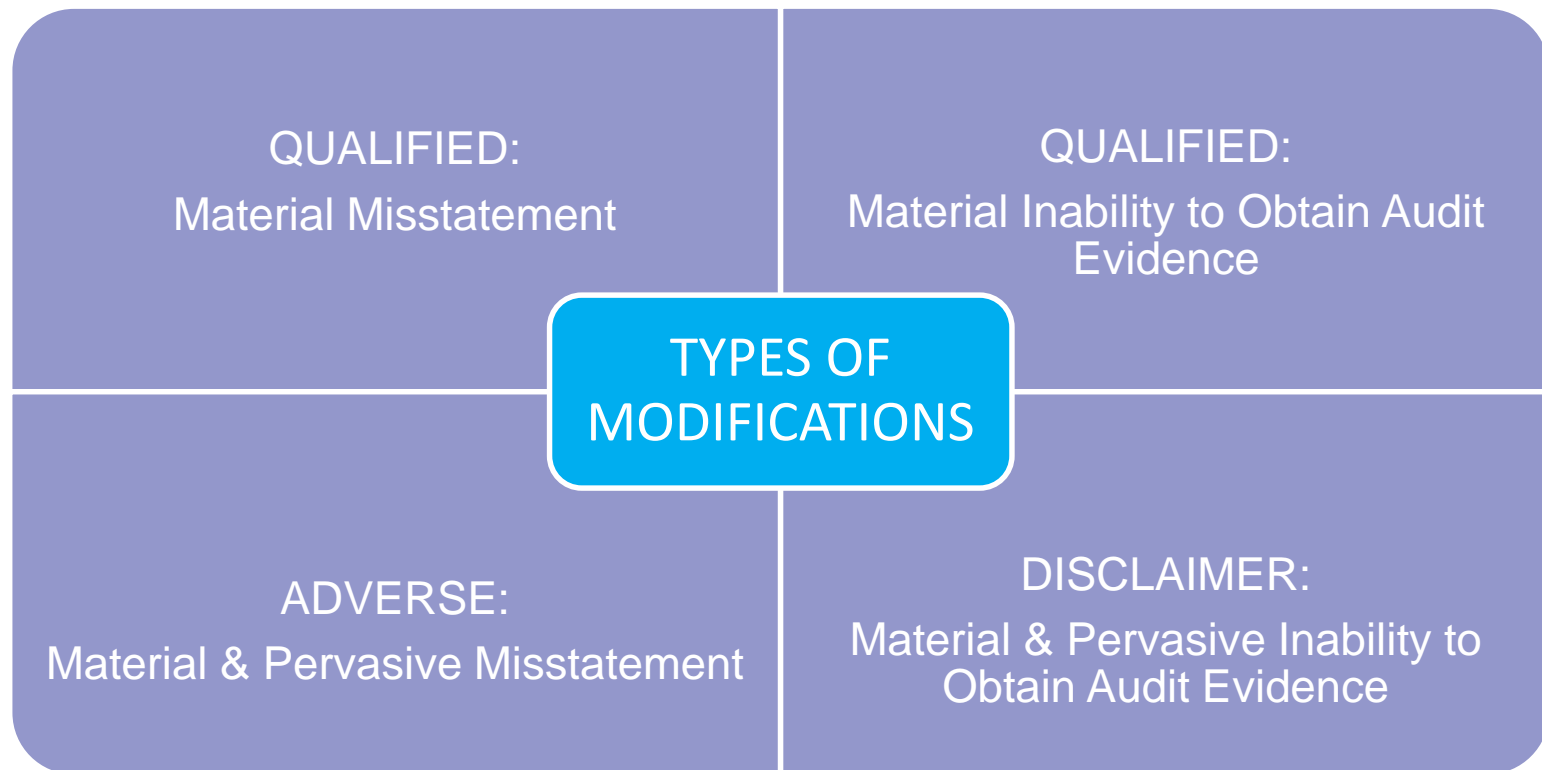
Basis for Qualified Opinion

As discussed in Note YY, the Company's financing arrangements **expire** and the amounts outstanding **are** payable on December 31, 2017. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. **The financial statements do not adequately disclose this matter.**

Audit Finalisation Considerations



ISA 705 (Rev) Modifications to the Opinion in the Independent Auditor's Report



New & Revised Auditor Reporting Standards



ISA 705 (Revised) & ISA 570 (Revised)

Adverse Opinion [Illustrative Extract as an Example]

We have audited the financial statements...

In our opinion, because of the **omission** of the information mentioned in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do **not** present fairly (or *do not give a true and fair view of*), the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

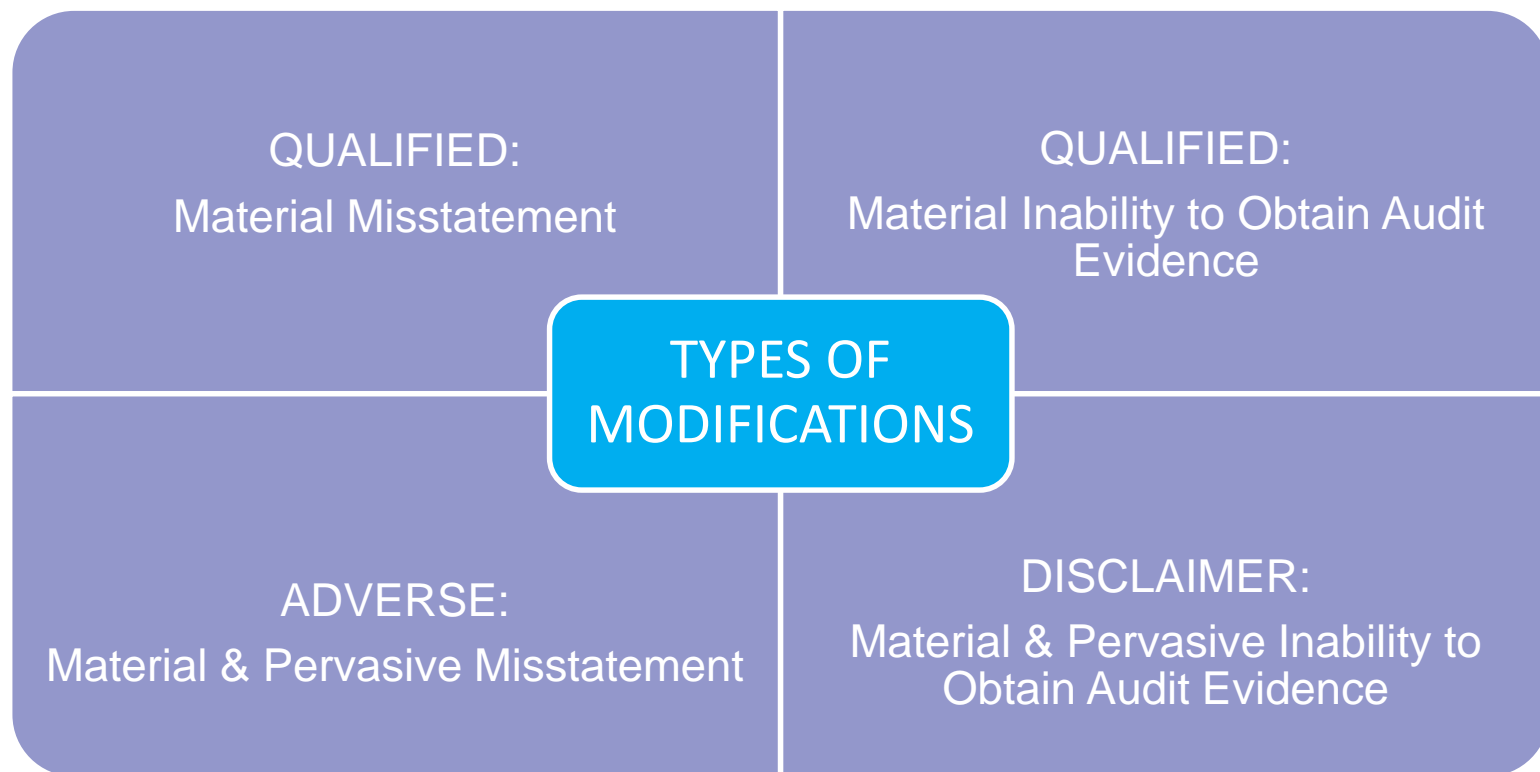
Basis for Adverse Opinion

The Company's financing arrangements **expired** and the amount outstanding **was** payable on December 31, 2017. The Company has been unable to conclude re-negotiations or obtain replacement financing **and is considering filing for bankruptcy**. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. **The financial statements do not adequately disclose this fact.**

Audit Finalisation Considerations



ISA 705 (Rev) Modifications to the Opinion in the Independent Auditor's Report



New & Revised Auditor Reporting Standards



ISA 705 (Rev) Modifications to the Opinion in the Independent Auditor's Report

Disclaimer of Opinion [Illustrative Extract as an Example]

We were engaged to audit the financial statements of ABC Fund...

We do not express an opinion on the accompanying financial statements of the Fund. Because of the significance of the matter 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 financial statements.

Basis for Disclaimer of Opinion...

Responsibilities of Management and TCWG for the FS...

Auditor's Responsibilities for the Audit of the Financial Statements

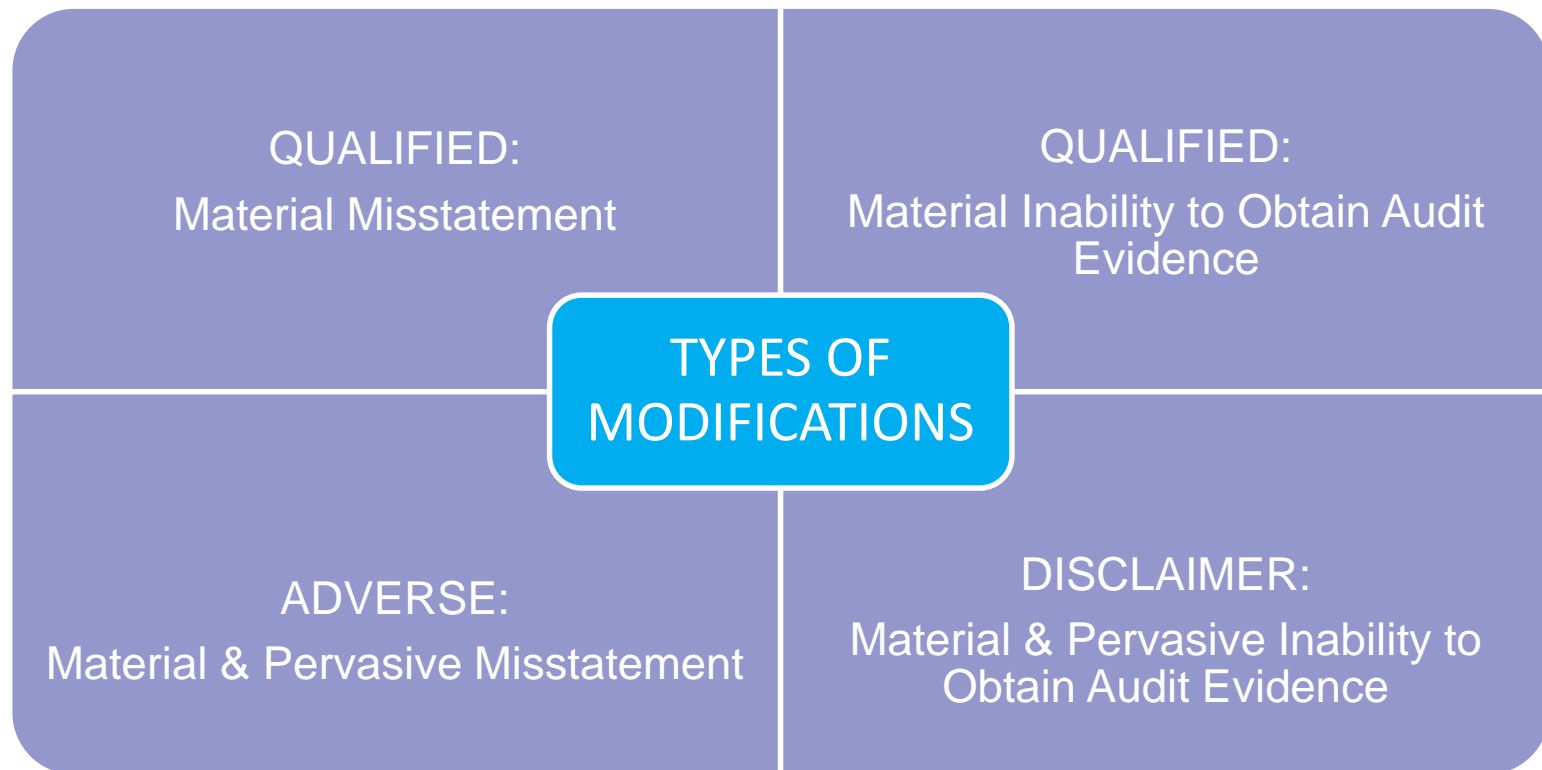
Our responsibility is to conduct an audit of the Fund's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent...

Audit Finalisation Considerations



ISA 705 (Rev) Modifications to the Opinion in the Independent Auditor's Report



New & Revised Auditor Reporting Standards



ISA 706 (Revised) Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

EoM can also be required by:

- ISA 210, Agreeing the Terms of Audit Engagements – paragraph 19(b)
- ISA 560, Subsequent Events – paragraph 12 (b) and 16
- ISA 800, Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks – paragraph 14

Other Matter paragraph can also be required by:

- ISA 560, Subsequent Events – paragraphs 12 (b) and 16
- ISA 710, Comparative Information – Corresponding Figures and Comparative Financial Statements – paragraphs 13-14, 16-17 and 19
- ISA 720, The Auditor's Responsibilities Related to Other Information in Documents Containing Audited Financial Statements – paragraph 10 (a)

New & Revised Auditor Reporting Standards



ISA 250 (Revised) Consideration of Laws and Regulations in an Audit of FS

- Updated to reflect IESBA's Code of Ethics for Professional Accountants addressing **Non-Compliance with Laws and Regulations (NOCLAR)**
- Effective for audit periods **beginning on/after 15 December 2017**
- Pathway for auditors/professional accountants to disclose potential non-compliance situations to appropriate public authorities without constraints of the ethical duty of confidentiality.
- Promoting compliance, preventing of non-compliance



4. Audit Completion, New & Revised Auditor Reporting Standards

Questions?



Thank you.