



# **MKO Partners, Chartered Accountants**

## **Audit Transparency Report**

### **2016**



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## 1. Introduction

Legislation enacted in 2014 by the European Commission, which was introduced into Irish statute in June 2016, has changed the audit for public interest entities within the European Union. This legislation has also widened the remit of the Irish Auditing and Accounting Supervisory Authority (“IAASA”) to include direct responsibility for the inspection of the audits of public interest entities in Ireland.

The European Union (Statutory Audits) (Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation (EU) No 537/2014) Regulations 2016 ( S I N o . 3 1 2 o f 2 0 1 6 ) (“the regulations”), which came into operation on 17 June 2016, requires the preparation of a transparency report by audit firms that undertake the statutory audit of one or more public interest entities, as defined in the regulations. MKO Partners (“MKO”) undertook such audits during the year ended 31 December 2016 and is, therefore, required to prepare a transparency report for that year. The information to be included in the transparency report is set out in the regulations.

The Regulations specifies information which should be included in a transparency report.

The information specified is:

- A description of the legal structure and ownership of the firm;
- If the firm belongs to a network, a description of the network and the legal and structural arrangements of the network;
- A description of the governance structure of the firm;
- A description of the internal quality control system of the firm and a statement by the administrative or managerial body on the effectiveness of its functioning;
- An indication of when the last quality assurance review took place;
- A list of public interest entities, of which the firm carried out statutory audits during the preceding financial year;
- A statement concerning the firm’s independence practices, which also confirms that an internal review of independence compliance has been conducted;
- A statement on the policy followed by the firm concerning the continuing education of statutory auditors;
- Financial information showing the significance, from the perspective of the market, of the firm, such as the total turnover divided into fees from the statutory audit of annual and group accounts and fees charged for other assurance services, tax advisory services and other non-audit services;
- Information concerning the basis for the remuneration of the firm’s principals or partners;
- a description of the statutory auditor’s or the audit firm’s policy concerning the rotation of key audit partners and staff in accordance with Article 17(7);

The Irish Audit Firm Governance Code (“the Code”) was issued by the Chartered Accountants Regulatory Board (“CARB”) in June 2012 and is effective for financial years commencing on or after 1 January 2013.

Responsibility for the inspection and promotion of improvements in the quality of auditing of public interest entities has recently transferred from CARB to IAASA. A review of the implementation and operation of the Code by IAASA is expected soon.

We support the Irish Audit Governance Code which is to provide a benchmark of good governance practice for the audit of public interest entities.

We note that three of the Codes principles relate to the creation of a governance body to which independent non-executives would be appointed, and go on to set out the characteristics and rights of such independent non-executives. As stated in the Code the purpose of these principles is to enhance shareholder confidence in the public interest aspects of the firm’s decision making, stakeholder



dialogue and management of reputational risks including those in the firm's businesses that are not otherwise effectively addressed by regulation.

We have assessed our current position and having regard to; the makeup of our clients; our membership of applicable industry, technical and learning & development committees; our current arrangements regarding both internal and external quality reviews; and our reporting obligations as a Institute of Chartered Accountants Ireland ("ICAI") registered audit firm, we have not at this time adopted the principle of 'Involvement of independent non-executives'. We are keeping our position in this regard under review and management will formally report to the Partners by 30 September 2017.

## 2. Description of Legal Structure and Ownership of MKO Partners

The professional service activity relating to audit services is conducted via an Irish general partnership formed under the Partnership Act 1890 called MKO Partners, Chartered Accountants. Professional services activity conducted by related firms is primarily delivered via an Irish resident limited company called EisnerAmperMKO Limited. MKO Partners primarily provides audit and incidental investment business services. Both entities are regulated by the Institute of Chartered Accountants Ireland ("ICAI"). The firm operates from its offices in Dublin. Further details on MKO is available at [www.carb.ie](http://www.carb.ie) and on <https://www.charteredaccountants.ie/>.

EisnerAmperMKO Limited is controlled by EisnerAmperMKO. EisnerAmperMKO is an Irish general partnership formed under the Partnership Act 1890 and regulated by ICAI. EisnerAmperMKO is an independent member of EisnerAmper Global Limited ("EisnerAmper Global").

EisnerAmperMKO Limited also undertakes Tax, Advisory and Outsourcing and operates using a common set of policies and procedures, where this is possible and appropriate. All services areas have developed additional specific policies and guidance.

We have arrangements in place for the staff that we use to conduct audit work to have the requisite and appropriate skills and experience. This includes processes for the recruitment, development, promotion and retention of our professionals and robust capacity and resource management processes.

## 3. Governance Structure

The firm is led by a managing partner, who is responsible to the partners for the management and operation of all aspects of the firm's affairs.

### Executive committee

The executive committee is responsible for, and has general authority over and supervision of, the management of the firm.

The managing partner is a member of the executive committee. The committee, in addition to the managing partner, includes two members. The managing partner and the committee members serve four-year terms. The executive committee meets monthly, under the chairmanship of the managing partner.

The current managing partner is Alastair Mac Donald and the current executive committee includes, in addition to the managing partner, the following:

Frank Keane  
Diarmaid O'Keeffe



Other Principals regularly attend Executive committee meetings.

## 4. Network legal and structural arrangements

We are members EisnerAmper Global (see [www.eisneramperglobal.com](http://www.eisneramperglobal.com) for further details).

EisnerAmper Global is a company limited by guarantee incorporated in the U.K. Each member firm of the EisnerAmper Global network of independent member firms is a separate and independent legal entity. EisnerAmper refers to EisnerAmper Global and/or one or more of its member firms. EisnerAmper Global does not provide services to clients and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Further information on EisnerAmper Ireland is available at [www.eisneramper.ie](http://www.eisneramper.ie).

EisnerAmper Global does not practice accountancy or provide services to clients. Rather its purpose is to act as a coordinating entity for member firms in the EisnerAmper Global network. Focusing on key areas such as global strategy and quality, the Network Leadership Team and Board of EisnerAmper Global develop and implement protocols and standards to achieve common standards and coordinated approach among individual firms where appropriate. Member firms of EisnerAmper Global can use the EisnerAmper Global name and draw on the resources and methodologies of the EisnerAmper Global network. In addition, member firms may draw upon the resources of other member firms and/or secure the provision of professional services by other member firms and/or other entities. In return, member firms are bound to abide by certain common policies and to maintain the standards of the EisnerAmper Global network as put forward by the Board and Leadership Team.

The EisnerAmper Global network is not one international partnership and EisnerAmper Global member firms are not otherwise legal partners with each other. Many of the member firms have legally registered names which contain "EisnerAmper", however there is no ownership by EisnerAmper Global. A member firm cannot act as agent of EisnerAmper Global or any other member firm, cannot obligate EisnerAmper Global or any other member firm, and is liable only for its own acts or omissions and not those of EisnerAmper Global or any other member firm. Similarly, EisnerAmper Global cannot act as an agent of any member firm, cannot obligate any member firm, and is liable only for its own acts or omissions. Further detail on EisnerAmper Global is available at [www.eisneramperglobal.com](http://www.eisneramperglobal.com).

## 5. Quality

We have arrangements in place regarding internal quality control systems which meet regulation and auditing standards. We are committed to quality and continuous improvement, through the internal quality control systems and annual reviews of a selection of completed engagements.

### Practice review

A practice review is carried out annually, covering the firm's implementation of its policies in both audit and firm wide procedures such as risk management, HR, independence, and ethics. The review also includes an inspection of a sample of MKO's audit engagement files. Each of our audit partners is subject to review over a three-year cycle. The review is subject to oversight by the managing partner. Engagements for review are selected from across our audit practice. The files are subject to independent inspection by other members of our professional staff. The practice review determines whether we have complied, in all material respects, with the professional standards and policies, applicable professional standards, and applicable regulatory and legal requirements.

We are also externally reviewed by Mercia on annual basis. The report arising from this review is issued by Mercia annually to the firm's Principals and is available for inspection by the ICAI.

The results of the practice review are communicated to all of the partners.



## **Statement on the effectiveness of the internal quality control systems**

We are satisfied that our internal quality control systems are robust, operating effectively and allow us to readily identify any areas of potential improvement or enhancement.

### **ISO 9001:2008 Certification**

We received certification to ISO 9001:2008 in January 2015 from the National Standards Authority of Ireland (NSAI). ISO 9001:2008 is the world's foremost Quality Management System used by organisations in over 170 countries. Our Quality Management System is assisting us in how we differentiate by focusing on, and being committed to, the delivery of an exceptional quality of client service. ISO 9001:2008 involves:

- Establishing the firms' Quality Management System;
- Documenting the Quality Management System;
- Implementing the Quality Management System;
- Monitoring the Quality Management System;
- Reviewing the performance of the Quality Management System; and
- Maintaining and improving the Quality Management System.

We have a dedicated ISO 9001:2008 manager in the firm who is responsible for supporting the efficient running of the Firm's operations by managing specified internal functions such as our Quality Management System. The Quality Management System:

- Assists the firm in differentiating itself by focusing on, and being committed to, the delivery of an exceptional quality of client service;
- Helps to reduce inefficiencies;
- Helps to ensure consistency of approach in relation to service delivery across our business lines;
- Serves as a training tool for new employees; and
- Promotes and encourages a culture of continuous improvement

The Quality Management System is underpinned by the Quality Policy Statement which describes how the firm's quality and service delivery is achieved to a consistently high standard through the implementation and on-going management and maintenance of the Quality Management System.

### **Quality and risk management**

Our focus on quality and risk management is embedded in all parts of our practice. It brings a rigorous approach across all of our service offerings in areas such as client and engagement acceptance, partner portfolios, engagement risk and assessment of existing and new service offerings. Its primary purpose is to underpin our commitment to quality, integrity and ethical behaviour throughout the firm, whilst establishing that the responsibility for quality rests with those who deliver services to our clients.

### **Audit process**

Our audit process encourages professional scepticism and a robust challenge, recognising this as a valuable component of the audit process for our clients. Our audit technology and tools, CaseWare incorporating the Mercia audit approach ("CaseWare"), provides a comprehensive framework for the planning, performance, documentation, and review of our work, in accordance with auditing standards and applicable professional, regulatory, and legal obligations. CaseWare is used to audit the financial statements and it reflects the requirements of the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, which in turn reflect the standards issued by the International Auditing and Assurance Standards Board (IAASB) and published by the International Federation of Accountants (IFAC). CaseWare requires the active involvement of audit partners in audit planning, as well as providing a framework and procedures to obtain sufficient appropriate audit evidence. This is



the basis for compliance with auditing, ethical and other applicable standards and a structure that facilitates an effective and properly evidenced comprehensive review of the audit work. This approach and our overarching quality framework support us in our objectives of integrity, objectivity, and independence.

### **Partner-led approach**

Engagement partners remain fully responsible for the services they provide and for understanding our clients' businesses. Their involvement is required from the very outset of any client relationship and engagement, with partner-led audit planning key to our audit approach.

Where the professional services we provide are subject to external regulation, they are led by persons who are individually authorised by the appropriate regulatory body. For example, all partners who act as audit engagement partners for statutory audits have been granted Responsible Individual status by the ICAI.

### **Reporting**

We recognise that there is value to our clients and to our wider stakeholders in providing clear and unambiguous reports of the highest quality, in the context of applicable laws and regulations. Our audit reports comply with auditing standards and legislation and within that prescribed format, convey clearly our opinion on the truth and fairness of financial statements.

Our communications with audit committees and our clients' boards of directors cover the scope of the audit, a consideration of any threats to independence or objectivity, risk assessment and the judgements made, as well as providing value-added commentary around more qualitative aspects of financial reporting and management of clients' businesses.

### **Risk management**

Supporting our client-serving professionals is the Firm's risk management Principal, who is responsible for the oversight of the Firm's ethics, compliance, anti-money laundering, information security and risk management processes.

### **Information security**

The importance of maintaining confidentiality around client and other confidential information is continually emphasised and our approach to encryption, ethical walls and secure storage devices underpins this commitment.

## **6. Most recent quality assurance reviews**

### **Internal reviews**

Recent internal practice reviews include the Annual Compliance Review ("ACR"), which was completed in March 2017, and the firm's Quality Review Inspection ("QRI") completed during April / May 2016.

### **External reviews**

We were externally reviewed by Mercia during March 2017. The report arising from this review was issued by Mercia to the firm's Principals and is available for inspection by the ICAI. We are regulated by the regulatory department of the ICAI. We were subject to a review visit by ICAI officials during 2015. ICAI is regulated by the Irish Auditing and Accounting Supervisory Authority.

The Irish Auditing and Accounting Supervisory Authority has taken over the direct responsibility for the inspection of the audits of public interest entities in Ireland, under the legislation enacted in 2014 by the European Commission, which was introduced into Irish statute in June 2016.



## 7. Quality and ethics

We seek to create an environment in which high quality is valued, invested in, and rewarded. Our appraisal and reward systems for partners and our people promote the characteristics essential to quality auditing. Quality and ethics form the cornerstone of our appraisal criteria; audit partners and staff are not evaluated or remunerated by reference to the selling of non-audit services to audit clients.

### **Ethics and Objectivity**

We have systems and procedures to help safeguard the objectivity of our people and the firm, to avoid conflicts of interest and to comply with ethical and other applicable standards.

Our “Code of Ethics and Professional Conduct” forms part of all joiners’ induction and is maintained on our intranet.

### **Ethical principles**

Our ethical principles set out in the firm’s “Code of Ethics and Professional Conduct” are as follows:

- **Objectivity** - “We are objective in forming professional opinions and the advice we give.”
- **Confidentiality** - “We respect the confidentiality of information.”
- **Honesty and integrity** - “We act with honesty and integrity.”
- **Professional behaviour** - “We operate within the letter and the spirit of applicable laws.”
- **Competence** - “We bring appropriate skills and capabilities to every client assignment.”

### **Shared values**

Our shared values are:

- Candid;
- Can do;
- Commercial;
- Caring;
- Commercial;
- Innovative;
- Quality driven;
- Passionate; and
- Positive

### **Engagement acceptance**

We have internally developed systems to facilitate timely compliance reporting and monitoring of engagement acceptance, risk classification and engagement continuance, including discharging our statutory anti money laundering obligations.

We assess whether any potential engagements are consistent with maintaining our independence, identifying, and managing any potential conflicts of interest. We monitor partner and staff investments so as to ensure that we safeguard the independence and objectivity of both the firm, audit engagement teams and all of our people.

### **Leadership**

Our commitment to ethics and objectivity is very much a “tone at the top” approach. We see “doing the right thing” as being a principle that is fundamental, not just to the public interest and the interests of our clients, but also to the reputation of our firm, Principals and people.

## 8. Independence Practices



We have developed systems to enable us to safeguard our independence and integrity and to avoid conflicts of interest in client assignments.

### **Independence policies**

We comply with the independence requirements of CAI and the Auditing Practices Board. Reviews of independence, including a confirmation from each partner and member of staff, are undertaken annually.

### **Audit partner rotation**

We apply audit partner rotation policies such that audit engagement partners involved in listed public interest clients are rotated after periods of five years.

## **9. Continuing education of statutory auditors**

Our approach to continuing education is based on industry representation and learning programmes, including regular audit and industry specific training that keeps our people at the forefront of new developments and regulations.

### **Industry representation**

Partners sit on the following committees and work groups including:

- ICAI's Audit and Assurance Committee which is responsible for providing guidance to ICAI members on auditing and assurance matters;
- Irish Debt Securities Association Audit Committee;
- CAI's Regulatory Policy Board;
- Irish Funds Industry Association Technical and Alternative Committees;
- Quality Assurance Committee of the CARB Board; and
- ICAI's Working Group to re-write the auditing regulations for credit unions in Ireland.

### **Learning programmes**

All of our partners and people are supported in their quality, compliance, risk management and anti-money laundering obligations by appropriate technical and other learning programmes as well as supervision by more senior team members and our partner-led audit process. We hold regular technical briefings and updates. We provide mandatory annual accounting and auditing technical training, as well as specific learning modules where new developments require additional understanding. These initiatives support our people in complying with the continuing professional development objectives set by the various professional bodies. Our approach allows us to develop our people not only through structured learning but also by appropriate mentoring, on-the-job training, appraisal and other support activities. Partner leadership of these programs is an important aspect of their value and success.

## **10. Remuneration of Partners**

### **Profits and capital**

Partners share in the profits of the firm and subscribe its entire capital. Each partner's capital is linked to his/her share of profits and is repaid in full on ceasing to be a partner. The rate of capital contribution is determined from time to time, depending on the financial requirements of the firm.

A partner's share of the firm's profits is determined by a fixed allocation. In addition, a portion of the annual profits is set aside to be allocated to partners who perform to an exceptional level during the



year in question, based on criteria set out in partnership policy.

### Criteria

The criteria are centered around contribution to the firm in the following areas:

- **Quality** - a role model for quality in professional work
- **HR** - contribution to mentoring, leading, recruitment, development and training of our people
- **Clients** - client portfolio managed and roles performed
- **Marketing** - market related activity, including stakeholder relations, thought leadership, innovation, and brand protection roles
- **Revenue generation, growth, business building** - contribution to business development and relationship building
- **Financial success** - overall contribution to the financial success of the firm
- **Leadership and management** - contribution to the firm's broad success through leadership and management roles

A strong contribution in the areas of Quality and Talent is an absolute expectation of all partners at all levels. Audit partners are not rewarded for selling non-audit services to audit clients.



## 11. Financial information

The following turnover information has been extracted from MKO's financial records for the year ended 31 December 2016:

Services	€000's
Statutory audit services – Public Interest Entities	786
Statutory audit services – Other Entities	65
Other non-audit services	-
<b>Total turnover</b>	<b>851</b>

## 12. Public Interest Entities

A list of the public interest entities, as defined in the European Union (Statutory Audits) (Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation (EU) No 537/2014) Regulations 2016 (SI No. 312 of 2016), for which we carried out a statutory audit during the year ended 31 December 2016 can be found in Appendix A.

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<sup>1</sup> "Transferable securities" means those classes of securities which are negotiable on the capital market, with the exception of instruments of payment, such as: (a) shares in companies and other securities equivalent to shares in companies, partnerships or other entities, and depositary receipts in respect of shares; (b) bonds or other forms of securitised debt, including depositary receipts in respect of such securities; (c) any other securities giving the right to acquire or sell any such transferable securities or giving rise to a cash settlement determined by reference to transferable securities, currencies, interest rates or yields, commodities or other indices or measures.

<sup>2</sup> "Regulated market" means a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments - in the system and in accordance with its nondiscretionary rules - in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions of Title III.



## 13. Approval

A handwritten signature in blue ink, appearing to read 'Alastair MacDonald', with a horizontal line extending to the right.

Alastair MacDonald  
Managing Partner  
MKO Partners  
March 2017



## **Appendix A**

During the year ended 31 December 2016, the firm issued statutory audit reports on the financial statements of the following public interest entities.

1. Novatek Finance Ltd
2. PULS CDO 2007-1 Limited
3. Strawinsky 1 PLC
4. Taurus CMBS (Germany) 2006-1 Public Limited Company
5. Taurus CMBS (UK) 2006-2 plc
6. Taurus CMBS (Pan-Europe) 2007-DAC
7. TCS Finance DAC