



## AUDIT FIRM CLIENT ACCEPTANCE TESTING (CAT) SUPPORT SERVICE

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### Objective of the Service

- Increase the number of qualified new clients
- Identify changes in a client's risk profile that may increase pricing
- Enhance Audit Firm brand quality
- Enhance the quality of the CAT and Risk Management process
- Enhance training on CAT and Risk Management

### Description of Service

- Convergence works with the Audit Firm's CAT, Quality, Risk and Client teams to identify, prioritize, calibrate and report initial baseline CAT risk to ensure that Audit Firms meet the PCAOB's Quality Control 20.14. This includes ensuring that the Audit Firm is independent of its audit client as per the SEC's Independence Regulation under S-X 2-01.
- Convergence monitors and reports "CAT risk transactions" that the Audit Firm can take swift action to manage.

### Description of our Methods

- Risks that Matter - We customize, model and monitor four types of CAT risks daily using RPA<sup>1</sup> and data science techniques to crawl our sources to identify and evaluate changes in particular subjects:
  - High risk business activities within the business models of an Audit Firm's clients and prospects
  - Individual "risk signals" detected in key employees of their clients
  - Unauthorized use of the Audit Firm's brand
  - Potential SEC Independence issues
    - Identification of entities that create an Investment Company Complex (ICC)
    - Identification of "Non-Diversified" Mutual Funds and ETFs

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<sup>1</sup> RPA – Robotic process automation (RPA), also known as software robotics, uses automation technologies to mimic back-office tasks of human workers, such as extracting data, filling in forms, moving files, et cetera.

### Success Measures

- Identification and timely reporting of CAT risk signals triggered.
- Reduction of time spent on gathering CAT-related data.
- Reduction of instances where the Audit Firm may be exposed to regulatory or litigation matters created by their clients.
- Using risk profiles to price risk into audit services.



## AUDIT FIRM CAT Services Model

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### Our Approach to Risk Management

- We identify Audit Firm clients with high-risk business conditions that may expose them to financial and reputational damage.
- We created 65+ risk factors (business conditions) to define 40,000+ Advisers.
- High risk factors become “high risk business conditions” when they explain breakdowns/failures observed in SEC Enforcement actions.
- We customize and prioritize risks based on client risk policies. We then monitor and report risk increases based on thresholds agreed with the client.

### Risk Factor Categories and Scores

- Risk scores are categorized into 6 risk groups including Operations, Compliance, Service Provider, Regulatory Event, Country and Human Capital Risk.
- Risk groups are comprised of up to 65+ risk factors that are monitored and updated each day.
- Risk alerts are designed to keep Audit Firms abreast of high-risk business conditions that have a high correlation with SEC and other Enforcement Actions taken against asset managers.

### Client SEC Enforcement Action Risk Scores

- We create a customized SEC Risk Score based on the type of enforcement action taken so that the Audit Firm is aware of the exact type of potential risk their client’s business may be exposed to.

### Client BASEL AML/KYC Country Risk scores

- We create a customized BASEL AML/KYC Risk Score to identify the countries in which Audit Firm clients are conducting business and the exact type of risk their clients are exposed to using the BASEL Risk scores.

### Client ICC Independence Risk Identification

- We identify affiliated entities and map those entities to a Unique Manager Group (UMG), a Convergence-created proxy for an ICC, to help you identify and monitor potential SEC Independence issues.

### **Client ICC Independence Risk Identification**

- We identify and validate the “Diversification” disclosures made by Mutual Funds and ETFs in their N-CEN filings.