

GSCCA Update Audit Regulation*

May 2010

*connectedthinking

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Section 1

Which audit clients are affected?

Which audit clients are affected?

- Scope initially covers auditors of companies with securities that are “admitted to trade” on a regulated EU/EEA market
- Applies to all firms auditing such Guernsey companies
- Brings into Guernsey the EU Statutory Audit Directive (2006/43/EC)
- Applies only to the audits of these “market traded companies” ...not partnerships per Guernsey application
- Auditors of market traded companies will be known as “Recognised Auditors”
- May extend the scope to all listed companies later



What is a “market traded company”?

- A “market traded company” is a company incorporated outside the EU/EEA (ie, in Guernsey) whose transferable securities are admitted to trade on a regulated market of any Member State of the EU/EEA.
- Except the following which are excluded from the definition:
 - A company whose transferable securities admitted to trade on an EU regulated market are debt instruments which have a minimum denomination of €50,000 (or equivalent) per unit.
 - An open-ended investment company.
- AIM traded companies and CISX listed companies excluded for the present
- Only relevant listings on EU/EEA regulated markets caught

Section 2

EU transitional provisions for third countries

EU transitional provisions for third countries

- EU Audit Directive transposed into each EU member state's national law by June 2008
- Once transitional provisions expire then the directive will subject auditors of “third country” (non EU) companies with securities admitted to trade on an EU regulated market (e.g. a Guernsey market traded company) to the auditor registration and oversight provisions in that EU member state where the Guernsey company's securities are admitted to trade.
- EU member state may derogate from that requirement where the third country auditor (Guernsey audit firm) is subject to an EU equivalent system of public oversight and audit regulation.
- No option but to set up a Guernsey auditor oversight regime.

EU transitional provisions for third countries

- Guernsey audit firms affected are presently operating under the transitional period allowed by the EU until 1 July 2010
- Presently not operating under full registration and oversight by those EU member states audit supervisory bodies
- Guernsey firms affected have been required to register/provide certain information
- Guernsey is not yet equivalent but our promises to implement an auditor oversight regime allows the firms to operate at present under the third country transitional provisions
- “Registrations” in Holland, Ireland, Germany, Luxembourg etc

EU transitional provisions for third countries

- Transitional provisions apply for audit reports for financial years starting during the period from 29 June 2008 to 1 July 2010
- The Guernsey auditor oversight regime is expected to meet the equivalence requirements of the Audit Directive
- EU equivalence assessment expected in Q1/2 2011
- Member states will each decide on equivalence of the Guernsey regime
- Equivalence should mean that the Guernsey audit firm will not need to be registered in each EU member state where its affected clients have securities listed and therefore avoid multiple regulatory bodies overseeing its operations

Section 3

Registration process

Registration process

- Guernsey Registrar of Companies is the registrar for applications and the keeping in Guernsey of the Register of Recognised Auditors
- Applications on standard form for the audit firm to file by 4 July 2010
- Details of the audit firm, the audit compliance principal, the principals resident in Guernsey, indicate those principals and employees allowed to be “Responsible Individuals” to sign the opinions for these “market traded companies”, list of the firm’s Guernsey clients who are “market traded companies” etc
- Complete “Notification of the Appointment of a Responsible Individual” forms as well and submit for each person selected as a Responsible Individual
- Application fee of £1,000

Registration process

- Guernsey Co Law amended to deal with audit registration, supervision and oversight of “Recognised Auditors”
- The Companies (Recognition of Auditors) Ordinance, 2010 inserted into Guernsey law
- Guernsey “market traded companies” must be audited by “Recognised Auditors”...those registered with the Company Registry in Guernsey
- Detailed criteria to be satisfied before becoming a “Recognised Auditor”
- Audit firms must be controlled by majority ICAEW, ICAI, ICAS & ACCA members
- Audit firms must be members of ICAEW

Ongoing requirements

- Oversight from ICAEW and bound by Crown Dependency Audit Rules
- Audit Rules based on UK Statutory Audit Rules and apply across IoM, Jersey and Guernsey
- Audit Rules approved by Commerce & Employment Dept in Guernsey
- Periodic inspections by ICAEW to assess compliance with Audit Rules
- AIU inspections also for FTSE100 clients
- Professional Oversight Board oversees work of ICAEW in monitoring the compliance by Guernsey Recognised Auditors with the Audit Rules
- Separate fees levied here as well in due course

Ongoing requirements

- Annual renewal of registration required (31 Jan)
- Audit opinions signed and dated by the “Responsible Individual” in their own name (usual signature)

Manuscript signature of the RI
[Printed Name of RI]
For and on behalf of ABC Auditors LLP
Chartered Accountants and Recognised Auditors

- Printed name should be the name on the Register in Guernsey
- Agreed to apply and be bound by the Crown Dependencies Audit Rules

Section 4

Main provisions of the Audit Rules

Main provisions of Audit Rules

- Provide for ICAEW to take disciplinary action for Rules breaches
- Rules on appointment as auditors of Market Traded Companies Rule 2.01
- Notification requirements to ICAEW re clients affected, fit and proper status etc...ramp up notification procedures to ICAEW and also Registrar in Guernsey
- Careful if use parts of your network as “Performing Offices” on the audits...formal engagement letters, review and access procedures and ultimately the Guernsey file must justify the audit opinion provided Rule 3.10
- Non Guernsey individuals involved need to be assessed as fit and proper, competent etc by the Guernsey firm Rule 3.06

Main provisions of Audit Rules

- Rule 3.09 provides for granting access to audit work papers to the successor auditor for a Guernsey Market Traded Company...detailed guidance in Rules
- Rule 3.12 requires copies of or unrestricted access to audit work papers when arrangements made for audit work to be carried out by another firm (subcontract arrangements)...practical problems if access denied!!
- Many rules require firm to have robust competence and training/assessment procedures for the people involved in these audits
- Rule 3.20 requires an annual compliance review (use ISQC1) and annual cold file reviews (each audit reviewed once every three years)
- Chapter 6 of Rules...ICAEW Committees delegated various key tasks including suspensions and proposing penalties on firms

In summary....

- ❑ Only impacts audit of Guernsey Market Traded Companies
- ❑ Audit rules apply and firms are bound by them
- ❑ Registration and annual renewal of registration
- ❑ Largely delegated to ICAEW to conduct the inspections and overseen by POB
- ❑ Internal firm quality control procedures required as well as annual firm and cold file reviews
- ❑ Careful your audit file stacks up, supports the opinion and is not a filing cabinet (ISA compliant when using your network)
- ❑ Suspect will be extended to all listed companies in due course