Guernsey Registry

Consultation Response Paper

On proposals regarding changes to the Crown Dependencies' Audit Rules and Guidance

9th December 2019

Glossary of Terms

Defined terms are indicated throughout this document as follows:

2015 Rules	Crown Dependencies' Audit Rules and Guidance currently in issue
AAC	Audit & Assurance Council
APB	Auditing Practices Board
CAIM	Companies Act 1982 (Isle of Man)
CGL	Companies (Guernsey) Law, 2008
CJL	Companies (Jersey) Law 1991
Commission Law	Financial Services Commission (Jersey) Law 1998, as amended
Committee	Committee *for* Economic Development
Competent Authorities	Guernsey Registry, Isle of Man Financial Services Authority, and Jersey Financial Services Commission
Consultation	Joint Consultation on the Proposed Rules issued 1 October 2018
Crown Dependencies	Guernsey, the Isle of Man and Jersey
Directive	Directive 2006/43/EC (also known as the Statutory Audit Directive)
Ethical Standard	Revised Ethical Standard 2016
FRC	Financial Reporting Council Limited
GR	Guernsey Registry
ICAEW	Institute of Chartered Accountants in England and Wales
IESBA	International Ethics Standards Board for Accountants
IoMFSA	Isle of Man Financial Services Authority
JFSC	Jersey Financial Services Commission
MTC/MTCs	Market Traded Company/Market Traded Companies
PIE	Public Interest Entity
Proposed Rules	*Rules* proposed to supersede the current "Crown Dependencies' Audit Rules and Guidance"[1]. (The *Proposed Rules*[2] were initially intended to become effective for audits of financial periods commencing on or after 6 April 2019)
Recognised Auditors	"Recognised Auditor" in Guernsey and the Isle of Man, "Recognized Auditor" in Jersey. An auditor who has been authorised to conduct audits of *MTCs* under the *CAIM*, *CGL* or *CJL*
Rules	Crown Dependencies' Audit Rules and Guidance

[1] Current Rules: https://www.icaew.com/~/media/corporate/files/technical/audit%20and%20assurance/audit/working%20in%20the%20regulated%20area%20of%20audit/cd%20audit%20rules%20v3%200%20feb%202015.ashx

[2] Proposed Rules: https://www.icaew.com/-/media/corporate/files/technical/audit-and-assurance/working-in-the-regulated-area-of-audit/proposed-master-cd-audit-rules-effective-6-april-2019.ashx?la=en

1. Executive Summary

1.1 Overview

1.1.1 On 1 October 2018 the Competent Authorities issued the Consultation seeking views on proposed amendments to the Rules (the "**Proposed Rules**").

1.1.2 The purpose of this paper is to provide feedback on responses received and to explain the next steps.

1.1.3 Although the original intention was to implement the Proposed Rules with effect from 1 September 2019, the Competent Authorities noted Recognised Auditors' concerns, notably about transitional provisions, and agreed to defer the implementation.

1.1.4 As a result of further consideration, the Competent Authorities will implement the Proposed Rules in March 2020. The new CD Audit Rules will be the Proposed Rules as they were consulted on.

1.2 Feedback received

1.2.1 A total of nine respondents provided comments on the Consultation, including individual audit firms and representative bodies. Some multi-jurisdictional respondents replied to each Crown Dependency.

1.2.2 Section 2 of this paper presents a summary of the substantive comments received and the Competent Authorities' response.

1.2.3 The Competent Authorities are grateful to respondents for their contributions, especially those that provided explanations of the anticipated impact of the Proposed Rules on their businesses.

1.3 Next Steps

1.3.1 The Competent Authorities in each of the three Crown Dependencies will implement the Proposed Rules with effect for audits of financial periods beginning on or after 15 March 2020.

1.3.2 The fee cap requirements will apply on a prospective basis (i.e. from 15/03/20 onwards), but other requirements will come into effect on 15/03/20.

2. Consultation feedback

2.1 Feedback received

2.1.1 This section summarises the substantive comments received in response to the Consultation along with the Competent Authorities' response.

2.1.2 The Proposed Rules included:

2.1.2.1 minor amendments in respect of terminology detailed at Appendix A of the Consultation (excluding item 5 – Ethical Standards); and

2.1.2.2 a change to the definition of a PIE such that a MTC incorporated within the CDs would meet the definition of a PIE and be subject to the Ethical Standard (item 5 of Appendix A of the Consultation).

2.2 Consultation question: do you agree with the Proposed Rules?

2.2.1 None of the respondents expressed concern regarding the minor amendments in respect of terminology detailed at Appendix A of the Consultation.

Office of the Registrar Response

2.2.2 The Committee has agreed that minor amendments in respect of terminology will be approved.

2.2.3 Several respondents noted that extending the definition of PIE to include MTCs went beyond the requirements of the Directive. It was felt that this was an exercise in "gold plating" the Rules and had the effect of:

2.2.3.1 Negatively affecting the competitive position of the CDs. For example, a MTC might re-domicile to a competitor jurisdiction outside of the EU and CDs (and UK post-Brexit) in order to avoid meeting the PIE definition;

2.2.3.2 Requiring compliance with UK Ethical Standards in respect of PIEs, which were considered to be more onerous than the IESBA ethical standard, for example, in respect of audit firm rotation;

2.2.3.3 Causing firms to be in breach at the implementation date, because short notice would mean that firms would have insufficient time to restructure their businesses. This timing issue would apply, for example, to exiting prohibited services and managing partner rotation. Additionally, managing service provision would become more onerous and complex; and

2.2.3.4 Going beyond the requirements of the Memorandum of Understanding (**MOU**) between the ICAEW, FRC and CDs which states that "[t]he Parties acknowledge that, to the extent relevant, it is important that the Crown Dependencies' Audit Rules remain consistent with the ICAEW audit regulations that apply to statutory auditors in the UK registered by the ICAEW". In particular, certain respondents felt that the Proposed Rules were beyond the "extent relevant".

Office of the Registrar Response

2.2.4 The CDs acknowledge the concerns raised by respondents, however, consider that the adoption of the Proposed Rules would achieve the intent specified in the Consultation to "protect the European Commission's decision of equivalence of the oversight of Recognised Auditors that audit MTCs incorporated in the Crown Dependencies. Equivalence is critical to enabling Recognised Auditors to perform the audits of MTCs."

2.2.5 The Competent Authorities have appointed the FRC to provide oversight of Recognised Auditors and of the ICAEW's monitoring of such firms, which includes responsibility for ensuring compliance with the Rules. Through the MOU between the CDs, the FRC and ICAEW, the process by which compliance and enforcement is achieved is specified and anticipates equivalent standards for the audits of equivalent entities. The CDs do not consider the Proposed Rules to be beyond the "extent relevant" and would stress the importance of not only achieving technical compliance, but also ensuring that the Rules are effective.

2.2.6 The CDs recognise that there could be an impetus for MTCs to re-domicile to other jurisdictions on the basis of their lower ethical standards for audit. However, a jurisdiction with lower standards would likely be less attractive for investors and so this is not a compelling reason to avoid introducing the Ethical Standard required by the Proposed Rules.

2.2.7 The purpose of the Audit Rules is to ensure that audits are conducted in line with standards which are sufficient to provide adequate protection to investors in MTCs. This in turn provides public assurance about the quality of CD MTCs, which is likely to benefit CD Recognised Auditors and other providers of professional services in the CDs. Additionally, ensuring that CD audit standards remain equivalent to the EU's provides greater clarity and transparency for investors comparing shares on recognised exchanges.

2.2.8 In light of the above, the definition of a PIE will be implemented as consulted on.

2.3 Consultation question: do you agree with the proposed effective date for the Proposed Rules?

2.3.1 Some respondents expressed concern that the implementation of the Proposed Rules with immediate effect could cause audit firms to be in breach as they would not have the opportunity to take necessary steps in respect of compliance:

2.3.1.1 The lack of a suitable transition period would provide insufficient time for firms to comply with Ethical Standards such as partner rotation and withdrawal from provision of certain services;

2.3.1.2 Where the Ethical Standard sets thresholds in respect of fees or services for a period in advance of its implementation these would be impossible to meet retrospectively; and

2.3.1.3 Where the Ethical Standard sets thresholds in respect of fees or services over a rolling period these would only be possible to comply with on a prospective basis.

Office of the Registrar Response

2.3.2 The CDs acknowledge these timing concerns, but believe that firms will have had adequate time to adjust.

2.3.3 The Proposed Rules will apply to audits of financial periods beginning on or after 15th March 2020.

2.3.4 The Competent Authorities will be liaising with the ICAEW and FRC regarding other proposed changes, on which a further consultation will be published later in 2020.

3. Conclusion and next steps

3.1 The Office of the Registrar would like to thank all respondents for taking the time to respond to the Consultation.

3.2 Finance Sector Development and the Guernsey Registry will work together to effect a program for implementation of the Proposed Rules during 2020, including such Regulations as may be necessary to give effect to the same.