



Joint Consultation:

- › **Guernsey Registry**
- › **Isle of Man Financial Services Authority**
- › **Jersey Financial Services Commission**

Companies (Jersey) Law 1991

A consultation on proposals regarding changes to the Crown Dependencies' Audit Rules and Guidance

Issued: October 2018

Consultation Paper

Guernsey Registry (**GR**), the Isle of Man Financial Services Authority (**IoMFSA**) and the Jersey Financial Services Commission (**JFSC**) (together, the **Competent Authorities**) invite comments on their joint consultation by **14 December 2018**. Respondents based in Jersey are requested to respond to the *JFSC* or Jersey Finance Limited (**JFL**). Links to the *GR* and *IoMFSA* consultation papers are provided at Appendix B.

If you require any assistance, clarification or wish to discuss any aspect of the proposal prior to formulating a response, it is of course appropriate to contact the *Competent Authorities*:

The JFSC contact is:

Jon Stevens

Senior Adviser – Policy
Jersey Financial Services Commission
PO Box 267
14-18 Castle Street
St Helier
Jersey
JE4 8TP
T: +44 (0) 1534 822 085
E: j.stevens@jerseyfsc.org

Alternatively, David Postlethwaite at *JFL* is coordinating an Industry response that will incorporate any matters raised by local businesses. Comments should be submitted to JFL by **14 December 2018**.

The JFL contacts are:

David Postlethwaite

Technical Manager
Jersey Finance
4th Floor, Sir Walter Raleigh House
48-50 Esplanade
St Helier
Jersey
JE2 3QB
T: +44 (0)1534 836024
E: david.postlethwaite@jerseyfinance.je

Lisa Springate

Head of Technical
Jersey Finance
4th Floor, Sir Walter Raleigh House
48-50 Esplanade
St Helier
Jersey
JE2 3QB
T: +44 (0)1534 836029
E: lisa.springate@jerseyfinance.je

It is the policy of the *JFSC* to make the content of all responses available for public inspection (unless specifically requested otherwise by the respondent).

It is the policy of *JFL* (unless otherwise requested or agreed) to collate all responses and share them verbatim with the *JFSC* on an anonymised basis (with reference made only to the type of respondent, e.g. individual, law firm, trust company etc.). This collated, anonymised response will, typically, be placed in *JFL*'s permanent electronic archive which is currently open to all *JFL* members.

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
CGL	Companies (Guernsey) Law 2008
CJL	Companies (Jersey) Law 1991
Commission Law	Financial Services Commission (Jersey) Law 1998, as amended
Crown Dependencies	Guernsey, the Isle of Man and Jersey
Directive	Directive 2006/43/EC (also known as the Statutory Audit Directive)
Ethical Standards	Revised Ethical Standard 2016
FRC	Financial Reporting Council
IoMFSA	Isle of Man Financial Services Authority
GR	Guernsey Registry
ICAEW	Institute of Chartered Accountants in England and Wales
JFSC	Jersey Financial Services Commission
MTC/MTCs	Market Traded Company/Market Traded Companies
PIE	Public Interest Entity
Proposed Rules	<i>Rules</i> proposed 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 <i>MTCs</i> under the <i>CAIM</i> , <i>CGL</i> or <i>CJL</i>
Competent Authorities	<i>GR</i> , <i>IoMFSA</i> , and <i>JFSC</i>
Rules	Crown Dependencies' Audit Rules and Guidance

Content

- 1 Executive Summary.....5**
 - 1.1 Overview..... 5
 - 1.2 What is proposed and why?..... 5
 - 1.3 Who would be affected? 6
- 2 Consultation.....6**
 - 2.1 Basis for consultation 6
 - 2.2 Responding to the consultation 6
 - 2.3 Next steps..... 6
- 3 Proposals6**
 - 3.1 Amendment to definition of *Ethical Standards* 6
 - 3.2 Timing of effective date for *Proposed Rules* 7
- 4 List of Appendices7**
- Appendix A: Summary of proposed changes.8**
- Appendix B: Links and external resources9**
- Appendix C: List of bodies who have been sent this Consultation Paper.....10**

1 Executive Summary

1.1 Overview

- 1.1.1 This consultation paper seeks feedback on proposed amendments to the Crown Dependencies' Audit Rules and Guidance (**Rules**).
- 1.1.2 The *Rules* were first issued with effect from 5 April 2010, last updated on 31 January 2015 (**2015 Rules**) and apply to all *Recognised Auditors* in respect of audits of Market Traded Companies (**MTC**) incorporated in the *Crown Dependencies*.
- 1.1.3 The *Rules* ensure, inter alia, equivalence between the audits of Market Traded Companies (**MTC**) whether *MTCs* are incorporated in the *Crown Dependencies* or the European Union.
- 1.1.4 This equivalence includes:
 - 1.1.4.1 The conduct of audits
 - 1.1.4.2 The regulation of auditors.
- 1.1.5 The Proposals are intended to ensure that the *Rules* continue to robustly protect the equivalent status of audits and auditors of *MTCs* incorporated in the *Crown Dependencies*.
- 1.1.6 The *Competent Authorities* are alert to ongoing developments between the UK and European Union: Brexit. Specifically, the *Competent Authorities* are aware that post-Brexit:
 - 1.1.6.1 *MTCs* incorporated in the UK and listed on European Union regulated markets may cease to meet the definition of a *MTC*
 - 1.1.6.2 The London Stock Exchange may itself cease to be a regulated market.
- 1.1.7 While there is uncertainty regarding Brexit, the *Competent Authorities* understand that implementing the proposals in this consultation paper will preserve equivalence for *Recognised Auditors*. When the effects of Brexit and specific timings are known the *Competent Authorities* will revisit the *Rules* to ensure ongoing equivalence.

1.2 What is proposed and why?

- 1.2.1 It is proposed to issue updated *Rules* with effect for audits of financial periods commencing on or after 6 April 2019 (**Proposed Rules**).
- 1.2.2 It is proposed to vary the definition of Ethical Standards such that all *MTCs* are to be treated as Public Interest Entities (**PIE**) within the *Rules*. Previously only *MTCs* meeting the definition of a *PIE* under Directive 2006/43/EC (**Directive**) would be treated as such.
- 1.2.3 The revised definition of Ethical Standards will 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*.
- 1.2.4 *Recognised Auditors* will be protected by the revised definition which addresses the following difference:
 - 1.2.4.1 For the audit of a *MTC* incorporated within the EU, the *MTC* would meet the definition of a *PIE* and be subject to the *Ethical Standards* in respect of *PIEs*.

- 1.2.4.2 For the audit of a *MTC* incorporated in the *Crown Dependencies*, the *MTC* would not meet the definition of a *PIE* and not be subject to the *Ethical Standards* in respect of *PIEs*.
- 1.2.5 Various other minor amendments in respect of terminology and ensuring compliance with generally accepted auditing standards are included in the *Proposed Rules*. These are summarised at Appendix 1 for information.

1.3 Who would be affected?

- 1.3.1 All *Recognised Auditors* that audit *MTCs* incorporated in the *Crown Dependencies* will be affected in respect of their audits of those *MTCs*.

2 Consultation

2.1 Basis for consultation

- 2.1.1 The *Rules* are issued by the *ICAEW* and:
 - 2.1.1.1 Required by the *IoMFSA* under Section 14G of the Companies Act 1982, in the Isle of Man
 - 2.1.1.2 Approved by *GR* under Section 274I of the Companies (Guernsey) Law, 2008, in Guernsey
 - 2.1.1.3 Approved by the *JFSC* under Article 112(1) of the Companies (Jersey) Law 1991, as amended, in Jersey.
- 2.1.2 The *JFSC* has issued this consultation paper in accordance with Article 8(3) of the *Commission Law* under which the *JFSC* “may, in connection with the carrying out of its functions [...] consult and seek the advice of such persons or bodies whether inside or outside Jersey as it considers appropriate”.
- 2.1.3 *GR* and the *IoMFSA* have issued equivalent consultations for *Recognised Auditors* in Guernsey and the Isle of Man respectively: links are provided at Appendix B.

2.2 Responding to the consultation

- 2.2.1 The *Competent Authorities* invite comments in writing from interested parties on the proposals included in this consultation paper. Where comments are made by an industry body or association, that body or association should provide a summary of the type of individuals and/or institutions that it represents.
- 2.2.2 Comments should be received by the *Competent Authorities* no later than **14 December 2018**.

2.3 Next steps

- 2.3.1 Following this consultation, the *Competent Authorities* will publish feedback to this consultation paper and the final version of the *Rules* in Quarter 1 of 2019.

3 Proposals

3.1 Amendment to definition of *Ethical Standards*

- 3.1.1 In the *2015 Rules* the definition of “*Ethical Standards*” is as follows:

- 3.1.1.1 “The basic principles and essential procedures (shown in bold type) in the Ethical Standards issued by the Auditing Practices Board which are to be construed and applied having regard to the explanatory text and other material in those standards.”
- 3.1.2 In the *Proposed Rules* the definition of “Ethical Standards” is as follows:
- 3.1.2.1 “The basic principles and essential procedures (shown in bold type) in the Ethical Standards issued by the Financial Reporting Council which are to be construed and applied having regard to the explanatory text and other material in those standards, and where references in those standards to a ‘public interest entity’ should be read to include a market traded company.”
- 3.1.3 Under the 2010 *Rules*, audits of *MTCs* by *Recognised Auditors* are exempt from the *PIE* requirements because *MTCs* incorporated in the *Crown Dependencies* do not meet the definition of a *PIE* at Article 2(13) of the *Directive*.
- 3.1.4 Specifically, *MTCs* incorporated in the *Crown Dependencies* are not “[...] entities governed by the law of a Member State [...]” therefore the *Ethical Standards* in respect of *PIEs* do not apply.
- 3.1.5 In the *Proposed Rules*, the extension of the definition of *PIEs* to be read to include *MTCs* means that all audits of *MTCs* would need to apply the *Ethical Standards* in respect of *PIEs*.
- 3.1.6 The effect of this adjustment would be to enhance the equivalence of audits of *MTCs* incorporated in the *Crown Dependencies* and those of *MTCs* incorporated in EU Member States.

3.1.7 **Question 1**

Do you agree with the Proposed Rules?

If you do not agree, please provide reasons and alternative suggestions.

3.2 Timing of effective date for *Proposed Rules*

- 3.2.1 It is proposed to introduce the *Proposed Rules* with effect for audits of financial periods starting on or after 6 April 2019.
- 3.2.2 It is anticipated that this would provide *Recognised Auditors* with sufficient time to implement changes in their internal systems, controls and in respect of their engagement arrangements with *MTCs*.
- 3.2.3 Early adoption would be acceptable, but not compulsory.

3.2.4 **Question 2**

Do you agree with the proposed effective date for the *Proposed Rules*?

If you do not agree, please provide reasons and alternative suggestions.

4 List of Appendices

- Appendix A: Summary of proposed changes.
- Appendix B: Links and external resources (including draft of the *Proposed Rules* effective for audits of financial periods beginning on or after 6 April 2019).
- Appendix C: List of bodies who have been sent this consultation paper.

Appendix A: Summary of proposed changes.

Item	Description	Section
1	Name changes: Changes in UK Standard setters	Various
2	Standard setting in the UK and Ireland: Renaming of standards to UK only	Various
3	EU Audit Regulation: Cross-referencing to UK 2016 regulations	Various
4	Transitional arrangements: Removing arrangements relating to 2010	1.04
5	Definition – <i>Ethical Standards</i> : Determining definition of <i>PIE</i> for the <i>Crown Dependencies</i>	Definitions
6	Interpretation: Introducing gender neutral terms	Definitions
7	Annual Returns and inspection visits: Makes these a regulatory requirement	2.09A & 2.10A
8	ISA's: Recognition of changes in title	3.04
9	Technical Standards - opinion: Nature of opinion expressed differently	3.08
10	Working papers: Definition widened to include audit committee and competent authority papers	3.09
11	Maintaining Competence: Changes in references to source material	3.17
12	Monitoring – ISQC1: Removal of effective date and removal of a resource option	3.20

Appendix B: Links and external resources

- 1.1 [Proposed Rules on ICEAW website](#)
- 1.2 [ICAEW Website: Audit Requirements in the Crown Dependencies](#)
- 1.3 [FRC Website: Ethical and Auditing Standards](#)
- 1.4 [GR Website: Recognised Auditors](#)
- 1.5 [IoMFSA Website: Consultation Papers](#)

Appendix C: List of bodies who have been sent this consultation paper

- 1.1 All firms of *Recognised Auditors* in the *Crown Dependencies*
- 1.2 Guernsey Finance Limited
- 1.3 Jersey Finance Limited
- 1.4 The Financial Reporting Council
- 1.5 The Institute of Chartered Accountants in England and Wales
- 1.6 The Jersey Society of Chartered and Certified Accountants