



Jersey Financial  
Services Commission

# **A consultation on proposals regarding changes to the Crown Dependencies' Audit Rules and Guidance in relation to Companies (Jersey) Law 1991**

A joint consultation with: Guernsey Registry, Isle of Man Financial Services Authority and Jersey Financial Services Commission

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:

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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**.

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**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

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# 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 also 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