New Auditors Law and the responsibilities of the Audit Committee

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Nicosia
Agenda:

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1. Legal background
Auditors’ Law of 2017
[art.67 of L.53(I)/2017]

All statutory auditors perform the statutory audit in accordance with the International Standards on Auditing, as adopted by the European Commission as per article 26, paragraphs 1 of the Directive 2006/43/EU.
Companies’ Law

- **Annual & Consolidated financial statements (art. 142):**
  Directors shall cause to be made, for every company, a full set of financial statements as this set is prescribed on the basis of **International Accounting Standards**.

- **Keeping of accounting records (art. 141):**
  Directors of the companies shall cause proper books of accounts to be kept which are deemed necessary for the preparation of financial statements in accordance with the Law.
2. EU Audit Directive & Regulation
Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities Effective on 17 June 2016

Directive 2014/56/EU on statutory audits of annual accounts and consolidated accounts

Auditors Law of 2017 (enacted on 2/6/2017)
Public Interest Entities (PIE’s)

• entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State;

• Licensed credit institutions;

• insurance and re-insurance undertakings;

• entities designated by the Council of Minister as public-interest entities.
3. Audit Committee
Audit committees have a decisive role to play in contributing to high-quality statutory audit. It is particularly important to reinforce the independence and technical competence of the audit committee by requiring that a majority of its members be independent and that at least one of its members have competence in auditing and/or accounting.
**Audit Committee: Governance**

**Mandatory for every public-interest entity.**

Could either be a stand-alone committee or a **committee of the Board**.

Composed of **non-executive** members of the administrative body.

The majority of the members must be **independent** of the audited entity.

The committee members as a whole shall have **competence relevant to the sector** in which the audited entity is operating.

At least, the Chairman of the audit committee shall have **competence in accounting and/or auditing** and must be **independent from the entity**.
Audit Committee: **Primary Responsibilities (1/2)**

Inform the Board of the outcome of the statutory audit and explain AC’s contribution to the integrity of financial reporting.

Monitor the financial reporting process and submit recommendations or proposals to ensure its integrity.

Monitor the effectiveness of the internal quality control and risk management systems and, where applicable, its internal audit, regarding the financial reporting of the audited entity, without breaching its independence.
Monitor the statutory audit procedure, in particular, its performance, taking into account any findings and conclusions by the competent authority

Review and monitor the independence of the statutory auditors, in particular the appropriateness of the provision of non-audit services

Responsible for the procedure for the selection of statutory auditor(s) and recommend the statutory auditor(s) or the audit firm(s) to be appointed
**Audit Committee: Specific Sectoral Responsibilities**

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4. Additional Responsibilities for the Audit Committee (AC)
Selection & Appointment of statutory auditor

• AC is responsible for the selection process for the auditor.

• Must submit a recommendation to the Board for the appointment of the statutory auditors:
  - Justified
  - Contain at least two choices for the audit engagement
  - Express a duly justified preference for one of them.
  - State that its recommendation is free from influence by a third party.
**Auditor’s Independence**

• AC to discuss with statutory auditors any threats there may be to their independence, together with applicable safeguards.

• Expect to receive an annual confirmation in writing by the statutory auditors that the firm and partners, senior managers and managers, conducting the statutory audit are independent from the audited entity.

• AC should be alert whether the fees paid to the statutory auditors exceed 15% of the latter’s total fees. Discuss threats to independence with auditors and consider safeguards (eg “hot review”).
Duration of the audit engagement

A PIE shall appoint a statutory auditor for an initial engagement of at least one year.

The engagement may be renewed for PIEs, other than Banks:

• Maximum consecutive engagement duration: 10 years.
• Where a public tendering process for the statutory audit is conducted, maximum duration extends to 20 years.
• Where there is a joint audit engagement, maximum duration extends to 24 years.
• Additional 2 years extension following the approval of CyPAOA
Duration of the audit engagement for Banks

- Maximum consecutive engagement duration: **9 years**.

- **No extension** after the initial 9 year period, unless there is a **cooling off of 4 years**.

- The appointment of the statutory auditor as well as the above points for banks, **is subject to the approval of the Central Bank of Cyprus**.
AC must make a recommendation to the Board, in order to authorize the granting of any extension in excess of the cap of 10 years.

In addition, must follow up on the rotation of:

- the statutory auditor (as above)
- the key audit partner (max 7 years)
Transitional provisions for audit engagements

If auditors is:

- more than 20 and more consecutive years at the date of entry into force of this Regulation, deadline for mandatory rotation: **16 June 2020**
- between 11 and more but less than 20 consecutive years at the date of entry into force of this Regulation, deadline for mandatory rotation: **16 June 2023**
- If the audit engagements that were entered into before 16 June 2014 are still in place as at 17 June 2016, may remain applicable until the end of the maximum duration of 10 years.
Non-Audit Services

A statutory auditor of a PIE, or any member of the network to which the statutory auditor or the audit firm belongs,

shall NOT directly or indirectly provide
to the audited entity, to its parent undertaking or to its controlled undertakings within the Union,

any prohibited non-audit services.
**Prohibited**

- Tax
- Management and decision making
- Payroll
- Bookkeeping & preparation of Financial Statements
- Legal
- Human Resource
- Internal control, risk management & internal audit
- Valuations
- Financing, Investment strategy
- Promotion and dealings in shares of the client

**Non-audit services to PIE’s**

**Allowed**

- **Tax services relating to:**
  - Preparation of tax forms;
  - Identification of public subsidies and tax incentives;
  - Support regarding tax inspections by tax authorities;
  - Calculation of direct and indirect tax and deferred tax;
  - Provision of tax advice.

- **Valuation services**
Audit fees

• Fees for the provision of statutory audits to PIE’s shall not be contingent fees.

• Fees from the provision of Non-Audit Services are limited to 70% of the average of the fees paid in the last three consecutive financial years for the statutory audit.
Reporting

For FS with y/e 31 Dec 2016 onwards:

Management Report
(under Co’s Law)

Auditor’s Report
• Key Audit Matters
• Responsibilities of Directors and Auditor

Additional Report
by statutory auditor to AC
Reporting (cont’d)

PIEs which are large undertakings exceeding 500 employees, as from financial years commencing on 1/1/2017 and onwards:

Statement on non-financial and diversity information

[i.e., environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters]

with the Management Report

or

in a Separate Report

within 6 months from the B/S date
AC members are subject to oversight by:

- **CyPAO Authority** or any other authority, provided such powers are duly delegated (i.e. CBC for banks)
- National Competition Authorities
- System of investigations and sanctions
5. Regulating Auditors
Ultimate Competent Authority: CyPAOA

Cyprus Public Audit Oversight Authority (CyPAOA) is the ultimate competent authority of the audit profession responsible for the supervision of the:

- Approval and registration of auditors in the official register
- Adoption of ethical standards, quality control standards and auditing standards
- Continual professional development of auditors
- Quality control systems of the auditors and audit firms
- Disciplinary procedures (investigation, referral for disciplinary action, imposition of penalties)
Delegation of tasks to Recognised Bodies of Auditors

CyPAOA may delegate to Recognised Bodies of Auditors some or all of its duties mentioned before, with the exception of:

• Monitoring of the quality control systems of the auditors and audit firms with PIE clients

• Investigations relating to auditors and audit firms with PIE clients for matters arising from the monitoring of quality control systems

• Disciplinary proceedings and imposition of penalties to auditors and audit firms with PIE clients for matters arising from the monitoring of quality control systems.
Recognised Bodies of Auditors

• The Law explicitly recognizes ICPAC by name as a Recognised Body of Auditors (art.113).

• On 12 September 2017, CyPAOB and ICPAC signed a Delegation Agreement, whereby ICPAC undertakes to carry out the “delegated tasks” as stipulated in the agreement and allowed by the Law.
### What is envisaged with the new developments?

**Enhanced:**
- Governance
- Transparency
- Accountability
- Ethics
- Servicing of the Public Interest

### What should be ensured?

- Careful selection of the members of the Board of Directors
- Careful appointment of the Audit Committee members
- Proper corporate reporting mechanisms within the firms
- Competent and professional staff at the accounts and finance dpts
- Properly functioning dpts
- Culture and attitude adaptation.
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