



Reserve Bank of Fiji

Capital Markets Supervision Policy Statement No. 01

Role of External Auditors in the Supervision of Licensed Persons

**NOTICE TO CAPITAL MARKETS LICENSED PERSONS UNDER
THE CAPITAL MARKETS DECREE 2009**

1.0 Introduction

- 1.1 This guideline is issued under Sections 5(d) and 5(r), of the Capital Markets Decree 2009 (“Decree”) as part of the Reserve Bank of Fiji (“Reserve Bank”) rules for the prudential supervision of licensed persons. The purpose of this statement is to outline minimum requirements and clarify the role to be played by external auditors (“auditors”) in the supervision of licensed persons.
- 1.2 The term “licensed persons” includes licensed brokers/dealers, securities exchange, unit trusts funds and investment advisers as defined in the Capital Markets Decree 2009.

2.0 Objectives of this Guideline

- 2.1 Auditors play an important part in the Reserve Bank’s process as a regulator. A number of jurisdictions impose requirements on auditors and company management to supply certain information to the Regulator. In addition, there are often statutory obligations imposed on auditors, e.g. a duty to report breaches of legislation or where licensed persons may be insolvent or acting in a manner detrimental to the interests of investors.
- 2.2 In Fiji, there is currently a lacuna in the law generally on the additional role external auditors should play in as far as the prudential supervision of licensed persons are concerned.
- 2.3 The basic responsibility for providing complete and accurate information to the Reserve Bank remains with the management of the licensed persons. In that regard, the auditor’s role is to report on that information or the application of particular procedures to enable the Reserve Bank to effectively make judgements about the stability and efficiency of the licensed persons. At no time does the auditor assume any of the responsibilities of the regulator but is simply assisting the regulator in the Reserve Bank process.
- 2.4 It is important to note that in carrying out its responsibilities, the Reserve Bank of Fiji, does not guarantee that a licensed persons will continue to be sound. The Reserve Bank and auditors have complementary concerns regarding matters such as the continuity of a licensed person, the adequacy of internal controls and the maintenance of reliable accounting systems.
- 2.5 From the Reserve Bank’s point of view, supervision can be made more effective by also relying on the results of the auditor’s work when appropriate and requesting auditors to undertake additional tasks which can enhance discharge of the Reserve Bank’s responsibilities. At the same time, auditors may be able to discharge their functions more effectively with assistance from Reserve Bank. In this regard, licensed persons should ensure that their auditors have access to all examination reports of the Reserve Bank and all minutes of meetings and correspondence between the Reserve Bank and the licensed persons.
- 2.6 Under this policy guideline, the auditor-client relationship of the licensed persons and the auditor will be safeguarded under normal circumstances. Information privileged to clients that are not available to the public will be protected as permitted under existing laws and practices. Licensed persons should note, however that the Reserve Bank has powers under the Decree to inquire into the affairs of any licensed persons and to require that information be provided in a prescribed form and to conduct inspections and

investigations into the affairs of a licensed persons. It is an offence to withhold any information requested by the Reserve Bank.

- 2.7 The Policy allows bilateral consultations between the Reserve Bank of Fiji and the auditor's of licensed persons under paragraphs 4.1.1 and 4.1.4.
- 2.8 The supervision function of the Reserve Bank of Fiji relies on off-site supervision in carrying out its responsibilities. At present, the role carried out by auditors concentrates on providing an audit report. The auditor's attestation opinion provides the Reserve Bank with an independent verification of the information examined and lends credibility to such statements.
- 2.9 All requests for information are to be channelled through the licensed persons, to the auditor. Licensed persons will need to ensure that their auditor is aware of and satisfactorily complies with the requirements set out in this Policy. The approval of auditors to be appointed to carry out the audit responsibilities of a licensed persons will be conditional on the auditor being able to comply with the requirements set out in this Policy and in any other relevant supervision notices, rules, regulations, orders or directives by the Reserve Bank.

3.0 Minimum Requirements under this Guideline

- 3.1 External Auditors are required to audit the financial statements of licensed persons.
- 3.2 A licensed person is required to appoint an auditor to carry out the auditing functions. No person may act as an auditor for a licensed persons in relation to any accounts, statements or other returns required unless that person, whether an individual or as a member of a firm, is approved in writing by the Reserve Bank.
- 3.3 If the Reserve Bank of Fiji is satisfied that an auditor has failed to fulfil his obligations, the Reserve Bank, may by written notice to the licensed persons, revoke the appointment of the auditor. If the Reserve Bank refuses to approve an appointment of an external auditor under 3.2 above or revokes an appointment, it must record the reasons for the decision and provide a copy of it to the licensed persons.
- 3.4 The information audited under paragraph 3.1 above are to be submitted by licensed persons within 3 months of the close of the financial year to the Reserve Bank of Fiji.
- 3.5 The auditor must state in the audit report the following:
 - (i) Whether the accounts and statements to which the report relates are in the opinion of the auditor, in accordance with the International Standards on Auditing, and the relevant laws and give particulars to any matter that is not, in the opinion of the auditor, in accordance with it;
 - (ii) Whether the accounting records of the licensed persons in respect of the relevant period have been, in the opinion of the auditor properly kept and whether they record and explain correctly the transactions and financial position of the licensed persons during that period and give particulars of –
 - Any accounting records that in the opinion of the auditor have not been kept; and

- Any transactions that, in the opinion of the auditor, are not correctly recorded and explained.

4.0 Additional Requirements

4.1 Meetings

- 4.1.1 There should be cooperation between the Reserve Bank, the auditor and the licensed persons and which may include periodic meetings between these parties. Under normal circumstances, meetings will be trilateral (between all three parties). It is encouraged that the internal auditor of the licensed person be present at these meetings. Bilateral Meetings (involving just the Reserve Bank and the auditor or licensed persons) may be held in exceptional circumstances.
- 4.1.2 Meetings are to be held no later than 1 month before an external audit commences. During these meetings, each party will provide information about areas of mutual interest. Specific attention will be given to areas that should be examined by the auditor, the timing of the auditor's work, and any additional work that may be required by the Reserve Bank. The Reserve Bank's recommendations from its on-site examinations or off-site supervision are also to be discussed. Reports of and correspondence relating to on-site examinations and other Reserve Bank issues should be made available by the licensed persons to the auditors.
- 4.1.3 One month before an external audit, the licensed persons must inform the Reserve Bank of the scheduled commencement date of the audit, together with the date and time of the trilateral meeting.
- 4.1.4 Meetings are also to be held no later than 2 months after an audit to discuss the auditor's reports and any matters arising from the auditor's review. The licensed person is expected to submit any management letters relating to work undertaken by the auditor.
- 4.1.5 As indicated in paragraph 4.1.1, bilateral meetings between the Reserve Bank and the auditor or licensed persons may also be held, in exceptional circumstances. These meetings may be necessary where circumstances are of a serious or urgent nature where it is assessed that a serious matter to be communicated would require the exclusion of the other party, In such meetings between the Reserve Bank and the auditor, the auditor may invite the licensed persons to attend if they so wish. Where bilateral meetings between the Reserve Bank and the auditor are held (where the licensed persons is not present), the auditor will inform the licensed persons of the concerns raised at the meeting.
- 4.1.5 Meetings or discussions can also be called at any time considered necessary by one of the parties. Such meetings or discussions should be focussed with a view to containing costs.
- 4.1.6 All meetings must be minuted and all other communication between the licensed persons and the Reserve Bank or auditor should be in writing and form part of the licensed persons' records to which the other parties should have access. All meetings, trilateral or bilateral should be focussed with a view to containing costs.

4.2 Problem Licensed persons

- 4.2.1 The Reserve Bank may, where the licensed persons is facing financial or other problems, require the auditor to do the following:
- (a) in addition to the normal scope of audit, focus on other areas which are of concern to the Reserve Bank;
 - (b) change the timing and/or frequency of an audit where it has requested through the licensed persons for the auditor to look at other areas of concern;
 - (c) conduct special targeted reviews and opinions of selected areas of the licensed persons or, broader overall reviews.
- 4.2.2 In the event where the Reserve Bank requires a special audit to be carried out, the licensed persons bears the cost of the additional work.
- 4.2.3 The Bank may also require that the prudential returns, information and data supplied by the problem capital markets licensed persons to the Reserve Bank of Fiji be audited.

5.0 Implementation Arrangements

- 5.1 This policy applies to all licensed persons under the Capital Markets Decree 2009 and every person who holds or at any time has held (where applicable) office as an auditor of such a licensed persons, for financial years ending on or after 31 March 2011.