



**Auditors Oversight  
Authority**

CAYMAN ISLANDS

# **RULES**

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Made Pursuant to Section 29 of the Auditors Oversight Law, 2011

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**Effective from 1 December 2014**

Website: [aoa.ky](http://aoa.ky)

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## **Abbreviations**

The following abbreviations are used in these rules:

AICPA	American Institute of Certified Public Accountants
AOL	The Auditors Oversight Law, 2011 (including any related regulations) and any revisions thereof
CPAC	Chartered Professional Accountants of Canada
CIMA	The Cayman Islands Monetary Authority
CISPA	The Cayman Islands Society of Professional Accountants
ICAEW	Institute of Chartered Accountants in England and Wales
PAL	The Public Accountants Law, 2009 (including any related regulations) and any revisions thereof



# Auditors Oversight Authority

CAYMAN ISLANDS

## Auditors Oversight Authority Rules

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## INTRODUCTION

These Rules are made pursuant to Section 29 of the Auditors Oversight Law, 2011 for the purpose of ensuring that a recognized auditor, when auditing the financial statements of a market traded entity, whether or not incorporated or established in the Cayman Islands, is subject in the Cayman Islands to a system of oversight, quality assurance, investigation and penalties. These Rules apply to recognized auditors that audit the financial statements of market traded companies from or within the Cayman Islands. A “market traded company” is defined in the AOL and includes entities incorporated or established both in and without the Cayman Islands.

The Rules set standards that such auditors must follow and are a key part of the Authority’s system of oversight and quality assurance. Recognized auditors must comply with the Rules. The Authority will monitor the compliance of auditors with the Rules and may take disciplinary action against an auditor when a breach of the Rules occurs. In addition, the AOL empowers the Authority to apply sanctions against auditors in specified circumstances (including when a breach of the Rules occurs). Ultimately (subject to an appeal to the courts), the Authority has the power, in appropriate cases, to revoke a recognized auditor’s registration to audit market traded companies.

The Rules also govern certain aspects of the interaction between the Authority and those under its regulation and supervision, including establishing appeals and dispute resolution procedures.

In certain instances the Rules continue to apply notwithstanding that registration has ceased.

The Rules should be read in conjunction with The Auditors Oversight Law. Nothing in these Rules is intended to nor shall it limit the powers of the Authority under the AOL.

Section 100 contains definitions and interpretation of the Rules which apply both to the Rules and any related guidance. A word or phrase which is defined in Section 100 is printed in italics when used in the Rules.

The AOL imposes certain obligations on recognized auditors, as do these Rules. In certain circumstances, these include notifications that must be given to the Authority. Recognized auditors should ensure that they make themselves aware of these obligations, some of which continue after an auditor’s status as a recognized auditor ceases, and should also be aware that they may have obligations under other laws such as the PAL.

### **Help and advice**

Help and advice is available on the Authority’s website or from its staff.

## Section 100 – General

### Purpose of the Authority

- 101 The purpose of the *Authority* is to regulate and supervise auditors who audit financial statements of *market traded companies* from or within the Cayman Islands and includes subjecting *recognized auditors* to the *Authority's* system of oversight, quality assurance, investigation and penalties by:
- a. establishing and maintaining requirements for the participation of *public accounting firms* that audit *market traded companies* in the *Authority's oversight programme*;
  - b. maintaining and publishing on its website a register of *public accounting firms* that are *recognized auditors* and of *responsible individuals*;
  - c. conducting inspections of *recognized auditors* directly or through or in cooperation with *overseas auditor oversight* and *professional accountancy bodies* in order to assess the compliance of each *recognized auditor* with the *Rules*, professional standards and the firm's own quality control policies, in connection with the issuance of *audit reports* on the financial statements of *market traded companies*;
  - d. receiving and evaluating reports and recommendations resulting from inspections of *recognized auditors* by *overseas auditor oversight* and *professional accountancy bodies*;
  - e. requiring remedial action by *recognized auditors* when necessary or appropriate;
  - f. conducting investigations and *review proceedings* and imposing, when appropriate, requirements, restrictions or sanctions on *recognized auditors*;
  - g. working in close conjunction with *overseas auditor oversight* and *professional accountancy bodies*;
  - h. cooperating with *securities regulators* when to do so would be consistent with the *Authority's* remit under the AOL; and
  - i. reporting to the public at least annually on the results of its activities.

### Scope and status of the Rules

- 102 The *Rules* apply to *public accounting firms* included in the *Register* as *recognized auditors* under the AOL and, as the context requires, to *responsible individuals*. In certain instances the *Rules* continue to apply notwithstanding that registration has ceased

### Rule making procedures

- 103 The *Authority* shall create *Rules* or amend existing *Rules* as it considers appropriate. A draft of any proposed new or amended *Rule* will be exposed on the *Authority's* website for not less than 20 *business days* to allow for public comments. The *Authority*

shall notify *recognized auditors*, and other interested parties who have communicated to the *Authority* their wish to be notified, when a draft of a proposed new or amended *Rule* has been placed on the *Authority*'s website. The communication will be in the form of electronic mail and will be made within 3 *business days* of the draft being placed on the website. Following the allowed comment period, the *Authority* shall be entitled to create new *Rules* or amend existing *Rules* in accordance with the exposed proposal with whatever revisions thereto the *Authority* considers to be appropriate, including in response to comments received thereon.

### **Definitions and Interpretations**

104 Where used in these *Rules*, unless the context otherwise requires, the following terms have the meaning set forth below:

- a. “*audit*” means a *public accounting firm*'s examination, intended to be in accordance with *auditing standards*, of a *market traded company*'s financial statements.
- b. “*audit client*” means any person whose financial statements are being audited under the *Rules* by a *recognized auditor*.
- c. “*audit report*” means a *document* prepared following an *audit* of the financial statements of a *market traded company* that (i) sets forth the opinion of the *public accounting firm* regarding the financial statements or (ii) asserts that no such opinion can be expressed.
- d. “*audit work*” means any work done by or on behalf of the *recognized auditor* in respect of an *audit*.
- e. “*auditing standards*” means those auditing standards referred to in an *audit report* and shall include any related, relevant quality control standards applicable to such auditing standards.
- f. “*Authority*” means the Auditors Oversight Authority established under the AOL.
- g. “*Authority demand*” means a requirement to produce *documents* and/or to appear at a certain place and time to give testimony.
- h. “*Authority request*” means a request to produce *documents* and/or to appear at a certain place and time to give testimony.
- i. “*business day*” means any day except Saturday, Sunday or a day that is a statutory holiday in the Cayman Islands.
- j. “*counsel*” means a lawyer admitted to practice and in good standing before the highest court of the Cayman Islands.

- k. “*designated professional*” means anyone who carries out or is responsible for *audit work* for a *recognized auditor*, including any partner, officer, director, employee, sub-contractor or consultant
- l. “*disciplinary action*” means any requirement, restriction or sanction imposed under Section 600.
- m. “*document*” means any physical embodiment of information or ideas and includes written documents, electronic or computerized data compilations and any disc, tape, film or other device in which sound, visual images or other data is embodied. A draft or non-identical copy is a separate document within the meaning of this term. In no event shall the term document be construed to be limited to *audit* working papers.
- n. “*overseas auditor oversight body*” means an entity, other than a *securities regulator*, which is an equivalent, competent authority to the *Authority* in a jurisdiction other than the Cayman Islands.
- o. “*hearing officer*” means an individual who is a member of the roster referred to in *Rule 705*, provided that such individual shall not be a director or a member of the staff of the *Authority*, a person who is authorized by the *Authority* to participate in or conduct inspections or investigations on behalf of the *Authority* or a person who is regularly retained to act on behalf of the *Authority* other than as a *hearing officer* or as the Chair of the roster of *hearing officers*.
- p. “*Inspection*” means any inspection, whether regular or special, performed pursuant to Section 400.
- q. “*Investigation*” means any investigation performed pursuant to Section 500.
- r. “*market traded company*” has the meaning set out in Section 2 of the AOL.
- s. “*oversight programme*” means all of the activities undertaken by the *Authority* to accomplish its *Purpose*.
- t. “*prescribed*” with reference to forms or amounts means such forms or amounts as may from time to time be prescribed by the *Authority* on its web site, whether or not such forms or amounts are set forth in the *Regulations*.
- u. “*principal*” means an individual in sole practice, (where the *public accounting firm* is a sole practice), a person who is a partner (including both salaried and equity partners) (where the *public accounting firm* is a partnership), a member of a limited liability partnership (where the *public accounting firm* is a limited liability partnership) a *director* (where the *public accounting firm* is a body corporate) or any individual who is held out as being a company director, partner or member.

- v. “*professional accountancy body*” means an entity having regulatory, oversight, investigatory or disciplinary responsibility for a *recognized auditor*, a practice office of such firm, or a *responsible individual* of such firm. The term includes such professional bodies as the ICAEW, the AICPA and CPAC but excludes *securities regulators* and *overseas auditor oversight bodies*.
- w. “*professional standards*” means the standards referred to in Section 300 and means the relevant *auditing standards* and any related quality control standards.
- x. “*public accounting firm*” has the same meaning as “auditor” in Section 2 of the AOL.
- y. “*purpose*” means the purpose of the *Authority* as set forth in *Rule 101*.
- z. “*recognized auditor*” has the meaning set out in Section 2 of the AOL
- aa. “*Register*” means the register of *recognized auditors* and *responsible individuals* maintained by the *Authority* in accordance with Section 18 of the AOL
- bb. “*registration fees*” means those application and annual fees provided for by the AOL.
- cc. “*Regulations*” means the regulations to the AOL made in accordance therewith.
- dd. “*responsible individual*” has the meaning set out in Section 2 of the AOL
- ee. “*review panel*” means a panel of three *hearing officers* selected to preside over a *review proceeding* contemplated by Section 700.
- ff. “*review proceeding*” means a proceeding carried out in accordance with Section 700.
- gg. “*Rules*” means these rules as modified or amended.
- hh. “*securities regulator*” means a commission, registrar or other entity or agency that provides oversight over a regulated securities market.
- ii. “*Violation Event*” means (i) an act or practice, or omission to act, in violation of the *Rules* or *professional standards* that may have an adverse effect on the provision of *audit* services, (ii) a failure to supervise appropriately a person with a view to preventing violations of the *Rules* or *professional standards*, and such person has committed an act or omitted to act in violation of the *Rules* or *professional standards* that may have an adverse effect on the provision of *audit* services, (iii) a failure to cooperate with the terms of an *Inspection* or *Investigation*; or (iv) a failure to comply with the terms of any requirement, restriction or sanction imposed by the *Authority*.

- 105 The following interpretations shall apply to these *Rules*:
- a. Words importing the singular number include the plural number and vice versa.
  - b. Words importing the masculine gender include the feminine. Headings do not affect the interpretation of the rules.
  - c. The words “including” and “include” shall be deemed to be followed by the statement “without limitation” and neither of such terms shall limit any word or statement which it follows to the specific or similar items or matters immediately following it.
  - d. The *Rules* will be governed by, and interpreted according to, the law of the Cayman Islands.
  - e. Any references to legislation, regulations, bye-laws, *Rules* or standards will apply to any reenactment, re-issue or amendment.
  - f. When the *Authority* has delegated any of its functions to any person or body under Section 16(1) of the AOL, then unless the context indicates otherwise, in these *Rules* the “*Authority*” means any such person or body.

### **Dispensation**

106 The *Authority* may waive compliance with a requirement imposed by the *Rules* when in the opinion of the *Authority*, a waiver is warranted by the circumstances. The *Authority* will not grant any such waiver unless it is satisfied that doing so would not adversely affect the conduct of any *audit*.

107 A *public accounting firm* applying for entry on the *Register* as a *recognized auditor*, or a *recognized auditor*, may apply to the *Authority* for such a waiver on the grounds that it considers that:

- a. it is impossible or impractical to comply with the *Rules*; or
- b. compliance would create a conflict with a law to which such firm is subject.

A *recognized auditor* making an application for a waiver must do so within 20 *business days* of it becoming aware of the circumstances in respect of which such waiver is requested and:

- a. in the case of an application under *Rule* 107a, shall identify the circumstances and any related proposed actions; or
- b. in the case of an application under *Rule* 107b, shall follow *Rule* 108.

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A public accounting firm applying for entry on the *Register* as a *recognized auditor*, or a *recognized auditor*, may decline to comply with an *Authority* requirement on the basis that compliance would create a conflict with a law to which such firm is subject. When declining to comply with an *Authority* requirement on this basis, the firm must:

- a. identify the specific *Authority* requirement that creates the conflict; and
- b. provide to the *Authority*:
  - i. a copy of the relevant portion of the conflicting law and, if not in English, a certified English translation;
  - ii. a legal opinion (and, if not in English, a certified English translation) stating that compliance would cause the firm to violate the applicable law and identifying the consents or waivers, if any, that if obtained, would permit such firm to comply with the *Authority*'s requirement; and
  - iii. if applicable, an explanation in English of the firm's efforts to seek consents or waivers, if any, that if obtained, would permit the firm to comply with the *Authority*'s requirement, and a representation that the firm has been diligent in making such efforts but has been unable to obtain such consents or waivers.

If the *Authority* accepts that a conflict of laws would be created and, if applicable, that the firm providing such material has used reasonable efforts but has been unable to obtain required consents or waivers, the *Authority* will notify the firm of an appropriately adjusted requirement with which the firm must comply. If the *Authority* does not accept that a conflict of laws would be created or that the firm has used reasonable efforts to obtain required consents or waivers, the *Authority* will notify the firm accordingly and any resulting disagreement in such regard between the *Authority* and the firm may be settled in accordance with the dispute resolution procedures provided for in the *Rules*.

## **Notifications**

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Any notice or *document* may be served on the *Authority* by sending it to:

The Auditors Oversight Authority  
Government Administration Building  
P.O. Box 133  
133 Elgin Avenue  
Grand Cayman KY1-9000  
Cayman Islands

or as otherwise notified by the *Authority* to *recognized auditors*, or on its website.

Any notice, decision, order or other *document* which the *Authority* wishes to serve on a *public accounting firm* or other person will be sent to the most recent address on file with the *Authority*.

110 Unless specified otherwise in the *Rules*, delivery to the *Authority* and by the *Authority* may be by:

- a. regular mail;
- b. electronic transmission;
- c. telephone transmission of a facsimile; or
- d. hand;

If sent by regular mail, service will take effect on the third *business day* after posting. If sent by electronic transmission, telephone transmission of a facsimile, or by hand, service will take effect on the next *business day* after it was sent. Notice by electronic transmission shall be confirmed by regular mail or hand delivery.

#### **Cooperation with overseas auditor oversight bodies**

111 The Authority will co-operate with *overseas auditor oversight bodies*:

- a. by entering in to memoranda of understanding setting out general principles of cooperation;
- b. in respect of *Inspections*, as more fully described in Rule 419; and
- c. in respect of *Investigations*, as more fully described in Rule 522.

## Section 200 – Registration, Withdrawal and Suspension of Registration

### Registration

- 201 The AOL requires that a *public accounting firm* shall engage in or hold themselves out to be qualified to engage in the audit of financial statements of *market traded companies* only if they are a *recognized auditor*. A *public accounting firm* becomes “recognized” by entry in the *Register* maintained by the *Authority*. Applications for recognition and entry in the *Register* shall be made to the *Authority* in accordance with this Section 200. The provisions of this section are subject to the transitional provisions of the AOL and to any other transitional provisions which the *Authority* shall issue and publish on its website from time to time.
- 202 Unless the *Authority* directs otherwise, an applicant shall apply for registration electronically using the *Authority*’s web-based registration system.
- 203 Unless the *Authority* directs otherwise, the date of receipt of an application to be registered will be the later of (a) the date on which the application fee has been received by the *Authority*, or (b) the date on which the application form is submitted to the *Authority* through its web-based registration system.
- 204 An applicant may withdraw its application for registration by written notice to the *Authority* at any time prior to an entry in the *Register* being made pursuant to the application.
- 205 Unless the applicant consents otherwise, the *Authority* will review an application for registration not later than 20 *business days* after the date of receipt. After reviewing the application, the *Authority* may:
- a. accept the application and enter the applicant’s name on the *Register* as a *recognized auditor*;
  - b. accept the application and enter the applicant’s name on the *Register* as a *recognized auditor* subject to such conditions as the *Authority* at its absolute discretion may elect to impose on the applicant;
  - c. request more information from the applicant; or
  - d. refuse to accept the application.
- 206 If the *Authority* requests more information from the applicant it will review any additional information provided by the applicant as soon as practicable, and not later than 15 *business days* after its receipt. Until the applicant provides all requested information to the satisfaction of the *Authority*, the *Authority* will not be under any obligation to accept or refuse the application. If the applicant declines to provide the information requested by the *Authority* or fails to do so within 20 *business days* of receipt of the request from the *Authority*, the *Authority* may refuse the application.

207 If the *Authority* refuses an application, the *Authority* will provide the applicant with written notice, in reasonable detail, of the proposed grounds for such decision. The applicant may then elect to accept the *Authority*'s refusal or, within 20 *business days* of receiving notification of the *Authority*'s decision, may file with the *Authority* a petition for a *review proceeding* under Section 700, including a statement describing with specificity why it believes the *Authority* should permit it to become a *recognized auditor*. As part of its petition, the applicant must agree to be bound by the *Rules* for *review proceedings*. Pending the outcome of that review proceeding, the applicant will be covered by any transitional provisions of the AOL or of the *Authority* which are then in force but shall not otherwise engage in or hold themselves out to be qualified to engage in the audit of financial statements of *market traded companies*.

208 If the *Authority* proposes to place conditions upon an applicant's entry on the *Register*, or imposes further conditions or varies existing conditions imposed upon a *recognized auditor's* entry on the *Register*, the *Authority* will provide the applicant or *recognized auditor* with written notice, in reasonable detail, of the conditions and the proposed grounds for such decision. The applicant or *recognized auditor* may then elect to accept the *Authority*'s decision or, within 20 *business days* of receiving notification of the *Authority*'s intention, may file with the *Authority* a petition for a *review proceeding* under Section 700, including a statement describing with specificity why it believes the *Authority* should desist from imposing the proposed conditions, or should vary such conditions. As part of its petition, the applicant or *recognized auditor* must agree to be bound by the *Rules* for review proceedings. Pending the outcome of that *review proceeding*:

- a. an applicant will be covered by any transitional provisions of the AOL or of the *Authority* which are then in force but shall not otherwise engage in or hold themselves out to be qualified to engage in the audit of financial statements of *market traded companies*, and shall comply with any conditions imposed by the *Authority*; and
- b. a *recognized auditor* shall comply with any existing, further or varied conditions imposed by the *Authority*.

Provided the conditions are not the subject of a current *review proceeding*, a *recognized auditor* may apply to the *Authority* at any time to have conditions on its entry on the *Register* removed or varied. The *Authority* shall advise the *recognized auditor* of its decision not later than 15 *business days* after receipt of such application and, if the application is not successful, shall provide reasonable details of the proposed grounds for such decision.

The *Authority* shall have discretion as to whether conditions it has imposed on the entry of a *recognized auditor* in the *Register* are disclosed in such *Register*, subject to the requirements of the AOL that any relevant appeals shall have been determined before such disclosure may be made.

As a condition of entry on the *Register*, each *recognized auditor* shall secure and retain on behalf of the *Authority* a written agreement and consent (in the *prescribed* form) from each of its *responsible individuals* agreeing that:

- a. the *Authority* may inspect and when necessary collect such *responsible individual's* personal information to the extent relevant to his or her professional activities (for example, his or her educational, employment, compensation and performance records):
  - i. from such *responsible individual* and the *recognized auditor* in connection with the conduct of *Inspections* and *Investigations* of such firm by the *Authority*; and
  - ii. from *overseas auditor oversight* and *professional accountancy bodies* to the extent included in reports, evaluations, recommendations and similar materials created or received by such authorities resulting from inspections of such *responsible individual's* professional activities or those of the *recognized auditor* or any other public accounting firms with which such *responsible individual* has been associated, in the course of supervising, regulating or reviewing his or her or their professional conduct;

and use such information as the *Authority* might reasonably determine necessary to achieve its purpose;

- b. the *Authority* may disclose the personal information referred to above:
  - i. to any *overseas auditor oversight body* or *professional accountancy body* having jurisdiction over such *responsible individual* in connection with the exercise of their statutory duties;
  - ii. to the *recognized auditor* in connection with the *Authority* conducting any *Inspections*, *Investigations* or *review proceedings* concerning, or imposing when appropriate requirements, restrictions or sanctions on the *recognized auditor*;

provided that disclosure shall not be made of any specific information relating to the business, affairs or financial condition of any client of the *recognized auditor*;

and

- c. such *responsible individual* will deliver to the *Authority*, if requested by it, complete copies of any reports, evaluations and similar materials provided to such individual by any *overseas auditor oversight body* or *professional accountancy body*, subject to such deletions as may be required in order to comply with restrictions at law or pursuant to the confidentiality provisions of applicable professional conduct rules.

Such written agreement and consent shall be deemed to constitute any consents required under Cayman Islands law to permit the *Authority* to legally disclose information as discussed in 209(b) above.

210 As a condition of entry on the *Register*, each *recognized auditor* shall:

- a. forthwith establish as a condition of the employment, retention or partnership of each of its *responsible individuals* that such persons will cooperate with *Inspections* and *Investigations*, including by complying with *Authority demands* and *requests*;
- b. use its best efforts to cause its *responsible individuals*, and other partners and employees, to cooperate with *Inspections*, *Investigations* and *review proceedings*, including by complying with *Authority demands* and *requests*;
- c. file annual information returns in a form and at such times as the *Authority* shall prescribe;
- d. pay *registration fees* and any other fees in such amounts and at such times as the *Authority* shall prescribe pursuant to Section 800; and
- e. provide the *Authority* with a written consent (in the *prescribed* form) under Section 26(2)(c) of the AOL permitting the *Authority* to make, at its discretion, the disclosures set out in such consent.

### **Changes in circumstances**

211 A *recognized auditor* shall notify the *Authority* within 20 *business days* if it considers that there has been a material change to the information provided in its latest filing with the *Authority*. Without limitation, the following events are deemed to constitute a material change:

- a. a merger between the *recognized auditor* and another *public accounting firm*;
- b. the acquisition by the *recognized auditor* of all or part of the audit practice of another *public accounting firm*;
- c. the sale or other disposition by the *recognized auditor* of all or part of its audit practice involving 10% or more of its base of *market traded company* audit clients, as measured by the number of such clients;
- d. the bankruptcy or insolvency of the *recognized auditor*;
- e. the dissolution of the *recognized auditor*; or
- f. any other matters notified by the *Authority* to *recognized auditors*.

## **Withdrawal from the Register**

- 212      *A recognized auditor may withdraw from the Register by filing a Notice of Withdrawal through the Authority's web-based registration system or by otherwise serving notice on the Authority using the prescribed form, paying the prescribed fee and shall as part of such Notice:*
- a.    provide the *Authority* with a written explanation for the withdrawal from registration;
  - b.    confirm that as of the date of such Notice the *public accounting firm* has resigned as auditor to all its *market traded company* clients and has given written notice to such clients of such resignation; and
  - c.    undertake that from the date of such Notice the *public accounting firm* will not describe themselves as engaged in the audit of *market traded companies* or hold themselves out to be qualified to do so without having first been reinstated as a *recognized auditor*.
- 213      The contents of the Notice of Withdrawal shall be non-public, but the *Authority* shall publicly disclose on its website the identity of any firm that has filed a Notice of Withdrawal.
- 214      Unless the *Authority* directs otherwise, the date of receipt of a Notice of Withdrawal will be the later of (a) the date on which the Notice of Withdrawal was served on the *Authority* through its web-based registration system or otherwise as determined in accordance with Rule 110 and (b) the date on which the *Authority* determines that all other conditions of withdrawal specified in *Rule 212* have been complied with.
- 215      Following the *Authority's* receipt of the Notice of Withdrawal, the *public accounting firm* shall not be obliged to pay any further *registration fees* to the *Authority* in respect of any period after the date of such receipt, unless it applies for reinstatement pursuant to *Rule 217*. However, there shall be no refund of previously paid *registration fees* or any other fees charged by the *Authority*, or any portion thereof, and the *Authority* retains the right to recover any unpaid fees, including but not limited to the costs of the *Authority's* oversight.

## **Cessation of registration – continuing obligations**

- 216      If a *public accounting firm* is no longer a *recognized auditor*:
- a.    it must still respond to enquiries made by the *Authority* under the *Rules* in connection with any circumstance that relates to the *Rules* during the time the *public accounting firm* was registered; and
  - b.    *disciplinary action* (including the imposition of a regulatory penalty) may still be taken for:

- i. any failure to comply with the *Rules* during the time it was registered; and
- ii. any failure to comply with any *Rule* continuing to have effect notwithstanding that registration has ceased.

### **Reinstatement on the Register**

217 A *public accounting firm* that has withdrawn from registration or has otherwise had its status as a *recognized auditor* terminated may subsequently apply for reinstatement as a *recognized auditor*. The procedure for reinstatement shall be the registration procedure set out in this Section.

### **Suspension of registration**

218 The *Authority* may suspend a *recognized auditor's* registration for a period if it considers that any of the following conditions exist or may exist:

- a. the *recognized auditor* no longer meets the eligibility requirements for registration, or is no longer fit and proper to be a *recognized auditor*; or
- b. the *recognized auditor* is not complying with the AOL or the *Rules* or any *disciplinary action* imposed by the *Authority*.

219 During a period of suspension a *recognized auditor*:

- a. need not resign from any appointment as auditor unless specifically required to do so by the *Authority*;
- b. may accept re-appointment as auditor unless specifically required not to do so by the *Authority*;
- c. shall not accept any new *audit* appointments;
- d. may only sign *audit reports* with the permission of the *Authority*; and
- e. shall continue to pay any fees due to the *Authority*, including *registration fees*.

220 The *Authority* may vary or end the suspension of a *recognized auditor* if it considers it appropriate to do so.

221 Suspensions of registration imposed by the *Authority* shall be subject to the provisions of Section 600 and 700 of the *Rules*.

## Section 300 – Professional Standards and Conduct of Audit Work

### Technical standards

- 301 *A recognized auditor, responsible individual and any designated professional* carrying out *audit work* shall comply with the *auditing standards* referred to in the *public accounting firm`s audit report* and any related quality control standards.
- 302 An *audit* shall only be conducted in accordance with auditing standards approved by the *Authority*. Such standards comprise:
- a. International Standards on Auditing (issued by the International Auditing and Assurance Standards Board);
  - b. International Standards on Auditing (UK and Ireland) (issued by the Auditing Practices Board);
  - c. Generally Accepted Auditing Standards (issued by the Auditing Standards Board of the American Institute of Certified Public Accountants);
  - d. Auditing Standards (issued by the United States Public Company Accounting Oversight Board);
  - e. Canadian Auditing Standards (issued by the Auditing and Assurance Standards Board);
  - f. Hong Kong Standards on Auditing (issued by the Hong Kong Institute of Certified Public Accountants);
  - g. Singapore Standards on Auditing (issued by the Institute of Singapore Chartered Accountants);
  - h. Generally accepted auditing standards in Japan (comprising The Auditing Standards codified by the Business Accounting Council together with the implementation guidance issued by JICPA (Japanese Institute of Certified Public Accountants); and
  - i. any other such standards as the *Authority* may approve from time to time.

### Independence and integrity

- 303 *A recognized auditor, responsible individual and any designated professional* carrying out *audit work* shall comply with the ethics and independence standards established by the International Ethics Standards Board for Accountants and by the relevant *professional accountancy body*.
- 304 *A recognized auditor* shall:
- a. always conduct *audit work* properly and with integrity;
  - b. be satisfied that each *designated professional* involved in its *audit work* is, and continues to be, a fit and proper person;
  - c. consider its independence and ability to perform the *audit* properly and record this before it accepts appointment or reappointment as auditor; and
  - d. not accept an appointment or continue as an auditor if the firm has any interest likely to conflict with the proper conduct of the *audit*.

### **Responsible individuals**

- 305 A person may only be designated as a *responsible individual* if they:
- a. hold a valid licence issued under the PAL;
  - b. have confirmed to the *Authority*, either directly or indirectly through confirmation to the *recognized auditor*, and the *recognized auditor* that they agree to abide by the *Rules*;
  - c. are competent to conduct *audit work*;
  - d. are permitted to sign *audit reports* for the *recognized auditor*; and
  - e. are not currently prohibited from being a *responsible individual* by virtue of a *disciplinary action*.
- 306 Only a *responsible individual* can be responsible for an *audit* and sign an *audit report*.

### **Audit reports**

- 307 Any *audit report* issued by a *recognized auditor* must state the name of the *recognized auditor* as it appears in the *Register*.

## Section 400 - Inspections

### Timing and proceedings

- 401 Every *recognized auditor* shall be subject to regular and special *Inspections* as the *Authority* may from time to time conduct, either directly by the staff of the *Authority*, or through or in cooperation with overseas *auditor oversight* or *professional accountancy bodies*, in order to assess the compliance of each *recognized auditor* with the *Rules* in connection with the issuance of *audit reports*. When the *Authority* is planning to conduct a regular or special *Inspection* of a *recognized auditor*, it will advise the *recognized auditor* whether the *Inspection* is a regular or special *Inspection*.
- 402 In performing a regular *Inspection*, the staff of the *Authority* and any other person or entity authorized by the *Authority* to participate in or conduct the *Inspection* shall take such steps, and perform such procedures, as the *Authority* determines are necessary or appropriate.
- 403 A *recognized auditor* shall be subject to a regular *Inspection* at least once in every three calendar-year period. The first three-year period will begin with the year during which the firm becomes a *recognized auditor*.
- 404 The *Authority* may undertake a special *Inspection* when it considers that circumstances warrant such an *Inspection*. In performing a special *Inspection*, the staff of the *Authority* and any other person or entity authorized by the *Authority* to participate in or conduct the special *Inspection* shall take such steps, and perform such procedures, as the *Authority* determines are necessary or appropriate.
- 405 Every *recognized auditor* shall cooperate, and every *recognized auditor* shall use its best efforts to cause each of its *responsible individuals* and other partners and employees to cooperate, with the *Authority* in the performance of an *Inspection*. Cooperation shall include cooperating and complying with any request made by the *Authority* for the purpose of performing the *Inspection* to:
- a. provide access to, and the ability to copy, any relevant *document* in the possession, custody or control of such firm or person;
  - b. use reasonable endeavours to obtain and make available to the *Authority* those relevant *documents* which are not in the possession, custody or control of such firm or person; and
  - c. provide relevant information by oral interview, written response, or otherwise.
- 406 Persons permitted to be present at an oral interview being conducted as part of an *Inspection* are limited to:
- a. the person or persons being interviewed;
  - b. members of the staff of the *Authority*;

- c. any other person authorized by the *Authority* to conduct the *Inspection*; and
- d. such other persons as the members of the *Authority*'s staff determine are appropriate to permit to be present.

407

When a claim of privilege is asserted by a *recognized auditor* or an individual in objecting to any *Authority request* for information, including an interview, and an answer or *document* is not provided on the basis of such assertion, the person asserting the privilege, or its, his or her *counsel*, shall:

- a. identify the nature of the privilege that is being claimed and indicate the relevant jurisdiction's privilege rule being invoked; and
- b. provide in the objection, unless divulgence of such information would cause disclosure of the allegedly privileged information:
  - i. for *documents*, the type of *document*, the general subject matter of the *document*, the date of the *document* and such other information as is sufficient to identify the *document*; and
  - ii. for oral communications, the name of the person making the communication, the names of persons present while the communication was made and when not apparent the relationship of the persons present to the person making the communication, the date and place of the communication and the general subject matter of the communication.

After considering the objection, the *Authority* may, at its discretion:

- i. sustain the objection;
- ii. issue an amended *Authority request*; or
- iii. reject the objection.

Nothing in this Rule 407 is intended to nor shall it limit the powers of the *Authority* under Section 26 (5) of the AOL.

### **Inspection reports**

408

The *Authority* shall make a draft *Inspection* report available for review by the *recognized auditor* that is the subject of the *Inspection*. The report shall include note of any significant identified weaknesses in the firm's system of quality control, any significant deficiencies in any specific *audit* engagements reviewed and recommendations for improvement in the firm's system of quality control. Recommendations may include the need for additional professional education for some or all of the *designated professionals* of the firm, or the need to design, adopt or implement effective policies and procedures to ensure compliance with the *Rules* or *professional standards*. The report shall state whether as a consequence of the findings of the *Inspection*, the *Authority* intends to propose the imposition of any requirements,

restrictions or sanctions on the firm, although any such statement of intention will not constitute notice under *Rules* 602 or 603. The firm shall, within 20 *business days* after receipt of the draft *Inspection* report, or such shorter period as the *Authority* may require, submit to the *Authority* a response to each recommendation in the draft report, indicating whether it accepts the recommendation, or if not, why not. The response shall be in the form of a letter signed on behalf of the firm by a person able to bind the firm.

409 After receiving and reviewing the response letter from the *recognized auditor*, the *Authority* may take such action with respect to the draft *Inspection* report as it considers appropriate, including adopting the draft report as the final report, preparing a revised draft report, or continuing or supplementing the *Inspection* before issuing a final report. In the event that the *Authority* prepares a revised draft *Inspection* report or continues or supplements the *Inspection*, the *Authority* will afford the firm 15 *business days*, or such longer period as the *Authority* shall permit, to review and respond in writing to, and may require the firm to respond in writing to, any draft *Inspection* report that includes significant revisions from the previous draft.

410 The *Authority* shall attach to, and make part of the final *Inspection* report, the responses submitted by the *recognized auditor* to the initial and any revised draft *Inspection* report. However, the *Authority* shall remove from the attached response any comments pertaining to recommendations or observations in a draft report, where such recommendations or observations were deleted from the final report.

411 Promptly following the *Authority*'s issuance of a final *Inspection* report, the *Authority* shall make a copy of such report available to the *recognized auditor* that is the subject of the report. The *Authority* may also provide a copy of such report to any *overseas auditor oversight body* or *professional accountancy body* having jurisdiction over the firm or its *responsible individuals*.

412 A draft or final *Inspection* report is intended as a private communication from the *Authority* to the *recognized auditor*. Accordingly, a *recognized auditor* may not provide to any third party a copy of the report or any portion thereof without the consent of the *Authority*. However, following the issuance by the *Authority* of its final *Inspection* report to a *recognized auditor*, such firm may inform the audit committee of an *audit client* whether it has implemented, or intends to implement within the period established by the *Authority*, all of the *Authority*'s recommendations, if any, included in the *Authority*'s final *Inspection* report. Furthermore, the firm may provide to the audit committee of an *audit client* a copy of any recommendations it does not intend to implement and its reasons for non-implementation.

For the purposes of this Rule 412, the term "audit committee" shall include any body charged with governance of an *audit client* whether or not constituted as a formal committee and whether or not designated as an "audit committee".

## **Identified weaknesses and deficiencies**

- 413 With respect to any final *Inspection* report that identifies significant potential weaknesses in the system of quality control or significant deficiencies in specific engagements or makes recommendations for improvement in the system of quality control of the *recognized auditor* under *Inspection*, the firm must submit evidence or otherwise demonstrate to the *Authority* that it has remedied such weaknesses and deficiencies and implemented such recommendations no later than 130 *business days* after the issuance of such final *Inspection* report, or by such earlier date as the *Authority* may require. After reviewing any such evidence, the *Authority* shall notify the firm whether, in the opinion of the *Authority*, the firm has satisfactorily addressed the weaknesses, deficiencies and recommendations identified in the final *Inspection* report and, if not, why not.
- 414 If the *Authority* determines that the *recognized auditor* has satisfactorily addressed the weaknesses, deficiencies and recommendations identified in the final *Inspection* report, the *Authority* shall provide notice of that determination to the *overseas auditor oversight* or *professional accountancy bodies*, if any, that received from the *Authority* a copy of the final *Inspection* report.
- 415 If the *recognized auditor* has not addressed the weaknesses, deficiencies or recommendations to the satisfaction of the *Authority*, or has not made a submission to the *Authority* in accordance with *Rule 413*, the *Authority* may make public on its website the relevant portion or portions of the final *Inspection* report that deal with such weaknesses, deficiencies or recommendations and the fact that they have not been addressed to the *Authority*'s satisfaction. If the *Authority* intends to make such public disclosure, it shall notify the firm. The firm may, within 20 *business days* of receiving notification of the *Authority*'s intention, file with the *Authority* a petition for a *review proceeding* under *Section 700*. If the decision of the *review panel* determines that the weaknesses, deficiencies or recommendations have not been satisfactorily addressed, or if the firm does not submit a petition for a review proceeding during the 20 *business day* period allowed, the *Authority* may make public on its website the relevant portion or portions of the final *Inspection* report and that information shall remain on its website until such time as the firm has demonstrated to the complete satisfaction of the *Authority* it has addressed the weaknesses, deficiencies or recommendations or the firm's status as a *recognized auditor* has been terminated. In any public disclosure made by the *Authority* under this *Rule*, the *Authority* will not identify any individual or *market traded company* unless the *Authority* considers that it is in the public interest to do so, provided that the foregoing shall not preclude the naming of a *recognized auditor* even if the names of one or more individuals are included in the firm's name.

## **Violation Events**

- 416 If, based on the information obtained during any *Inspection*, the *Authority* considers that:

- a. a *Violation Event* may have occurred, the *Authority* may, if it deems appropriate, issue an order for an *Investigation* of such event pursuant to *Rule 501*; or
- b. a *Violation Event* has occurred, the *Authority* may, if it deems appropriate, propose the imposition of requirements, restrictions or sanctions pursuant to Section 600.

### **Reliance on inspections made by others**

417 A *recognized auditor* may request the *Authority* to rely on inspections carried out by an *overseas auditor oversight body*. Such a request shall:

- a. be in writing;
- b. be signed on behalf of the *recognized auditor* by a person able to bind the firm;
- c. identify whether the reliance is to be for all *Authority Inspections* or only in respect of certain *audit clients*, which shall be specified; and
- d. identify the *overseas auditor oversight body* on which the *recognized auditor* wishes the *Authority* to rely.

418 If a *recognized auditor* has submitted a request pursuant to *Rule 417*, the *Authority* will, at an appropriate time, determine the degree, if any, to which the *Authority* may rely on the inspections carried out by the *overseas auditor oversight body* (in this section “the oversight body”). In making that determination, the *Authority* will make an evaluation of such oversight body that may include, but not be limited to, consideration of whether:

- a. the oversight body is authorized to do all of the following without the approval of, or consultation with, any person affiliated or otherwise connected with a *public accounting firm* or a *professional accountancy body* to which such persons or firms may belong:
  - i. inspect a *public accounting firm’s audits*, evaluate the sufficiency of such firm’s quality control systems, and perform such other testing as deemed necessary;
  - ii. conduct investigations and disciplinary proceedings of a *public accounting firm* that may have violated the laws and standards relating to the issuance of *audit reports*;
  - iii. impose appropriate requirements, restrictions and sanctions for violations of the foreign jurisdiction’s laws and standards relating to the issuance of *audit reports*; and

- iv. establish and enforce ethics rules and standards of conduct for the individual or group of individuals who govern the oversight body and for the staff of the oversight body;
- b. appointment of the person or persons governing the oversight body did not require the approval of, or consultation with, any person affiliated or otherwise connected with a *public accounting firm* or an institute, association or other professional body to which such persons or firms may belong; and may not be removed by any person affiliated or otherwise connected with a *public accounting firm* or an institute, association or other professional body to which such persons or firms may belong;
- c. a majority of the individuals with whom the oversight body's decision-making authority resides, including the individual who functions as the entity's chief executive or equivalent thereof, are not practicing public accountants;
- d. the oversight body conducts its day-to-day operations without the approval of any person affiliated or otherwise connected with a *public accounting firm* or an institute, association or other professional body to which such persons or firms may belong;
- e. the staff of the oversight body have adequate qualifications and expertise;
- f. the oversight body has an appropriate source of funding that is not subject to change, approval or influence by any person affiliated or otherwise connected with a *public accounting firm* or an institute, association or other professional body to which such persons or firms may belong;
- g. the oversight body's rulemaking procedures and periodic reporting to the public are openly visible and accessible; and
- h. if the oversight body has existed for a reasonable period of time, whether the oversight body has a record of disciplinary proceedings and appropriate requirements, restrictions and sanctions.

### **Cooperation with overseas auditor oversight bodies**

419 The *Authority* may, as it deems appropriate, provide assistance to an *overseas auditor oversight body* by including in its *Inspection* of a *recognized auditor* consideration of any matters which the *overseas auditor oversight body* requests be included and which the *Authority* deems it appropriate to include, provided that the *Authority* shall first:

- a. notify the *recognized auditor* in writing that the *Authority* intends to provide such assistance; and
- b. obtain from the *overseas auditor oversight body* any confidentiality undertakings which the *Authority* considers appropriate.

## Section 500 – Investigations

### Investigation orders

501 The *Authority* may issue an order for an *Investigation* if the *Authority* considers a *Violation Event* may have occurred. In an *Investigation* order, members of the *Authority*'s staff may be designated to issue demands and requests to, and otherwise request the cooperation of, any person to the extent that the information sought is relevant to the matters described in the *Investigation* order. The *Authority* shall provide to the *recognized auditor* a copy of the *Authority*'s *Investigation* order, subject to such limits on dissemination as the *Authority* may require and shall at the same time, in the *Investigation* order or otherwise in writing, advise the *recognized auditor* of its reasons for issuing the order.

502 Within 20 *business days* of receiving a copy of the *Investigation* order, the *recognized auditor* may:

- a. admit that a *Violation Event* has occurred;
- b. advise the *Authority* in writing that it wishes to make representations to the *Authority* in connection with the *Investigation* order, and shall make such representations within 15 *business days* of receiving a copy of the *Investigation* order, or such longer period as the *Authority* shall permit; or
- c. petition for a review of the *Authority*'s decision to order an *Investigation* under *Rule 503*.

After considering any admission or representations made under this *Rule*, the *Authority* may, at its discretion:

- a. withdraw the *Investigation* order;
- b. issue an amended *Investigation* order; or
- c. proceed with the *Investigation* under the original order.

### Petition for review

503 Within 20 *business days* of receiving a copy of an *Investigation* order, or such longer period as the *Authority* shall permit when representations are made under *Rule 502b*, the *recognized auditor* may file with the *Authority* a petition for a *review proceeding* under Section 700. Such a petition may only be made on the grounds that the *recognized auditor* asserts that *prima facie* the *Authority* has no reasonable basis for considering that a *Violation Event* may have occurred and shall include a statement describing with specificity the basis for such assertion.

## Conduct of Investigations

- 504 Every *recognized auditor* shall, and shall use its best efforts to cause each of its *responsible individuals* and other partners and employees to, cooperate and comply with any *Authority demand* or *request* to:
- a. provide access to, and the ability to copy, any *document* in the possession, custody or control of such firm or person;
  - b. use reasonable endeavours to obtain and make available to the *Authority* those *documents* which are not in the possession, custody or control of such firm or person; and
  - c. provide information by oral interview, written response, or otherwise.
- 505 The *Authority* may require the testimony of any *recognized auditor* or any *responsible individual* or other partner or employee of such firm, with respect to any matter the *Authority* considers relevant or material to an *Investigation*. The *Authority* shall require testimony by serving a demand that:
- a. gives reasonable notice of the time and place for the taking of testimony;
  - b. states the method or methods by which the testimony shall be taken, which may be audio or audio and video, but shall include a recording and transcription of the testimony by a verbatim reporting service; and
  - c. if the testimony is being required from a *recognized auditor*, includes a description with reasonable particularity of the matters on which testimony is required.
- 506 A *recognized auditor* subject to an *Authority demand* to provide testimony shall designate one or more individuals to testify on its behalf, and may set forth, in writing, for each individual designated, the matters on which the individual will testify.
- 507 Persons permitted to be present at the taking of testimony pursuant to an *Authority demand* are limited to:
- a. the person giving testimony, and his or her *counsel*, who shall be permitted to advise the person giving testimony of his or her rights but shall take no other part in the taking of testimony;
  - b. any member of the staff of the *Authority*;
  - c. the reporter from the verbatim reporting service; and
  - d. *counsel* to the *Authority* and such other persons as the *Authority* deems appropriate to permit to be present, provided however, that no other person who has been or is reasonably likely to be required or requested to give testimony in the *Investigation* shall be present.

- 508 A witness who has given oral testimony, after being notified that the transcript of such testimony is available, shall have 20 *business days* in which to review but not copy the transcript, and if there are explanations or additions to the information contained therein, to sign and deliver to the *Authority* a statement reciting such explanations or additions and the reasons given by the witness for making them.
- 509 A person who has given oral testimony in an *Investigation* may request a copy of the transcript of such testimony. When the *Investigation* is complete, the *Authority's* staff, at its discretion, may provide such copy.
- 510 The *Authority* may issue a demand for the production of *audit* working papers or any other *document* or information in the possession of a *recognized auditor* or *responsible individual* of such firm, wherever domiciled, the *Authority* considers relevant or material to the *Investigation*. An *Authority demand* shall set forth a reasonable time and place for production. Unless an *Authority demand* expressly requires the production of original *documents*, certified copies of requested *documents* may be produced. If the originals are not produced, they shall be maintained in a reasonably accessible manner, shall be readily available for inspection by the *Authority* and shall not be destroyed without the *Authority's* consent. Unless an *Authority demand* expressly requests or permits printed copies of electronic *documents*, *documents* that exist in electronic form shall be produced in that form.
- 511 The *Authority* may in connection with an *Investigation* examine the records of any *recognized auditor* or of a *responsible individual* of such firm provided that the *Authority* considers such records to be relevant or material to the *Investigation*.
- 512 When a claim of privilege is asserted by a *recognized auditor* or an individual in objecting to any *Authority demand* for information, including testimony, and an answer or *document* is not provided on the basis of such assertion, the person asserting the privilege, or its, his or her *counsel*, shall:
- a. identify the nature of the privilege that is being claimed and indicate the relevant jurisdiction's privilege rule being invoked; and
  - b. provide in the objection, unless divulgence of such information would cause disclosure of the allegedly privileged information:
    - i. for *documents*, the type of *document*, the general subject matter of the *document*, the date of the *document* and such other information as is sufficient to identify the *document*; and
    - ii. for oral communications, the name of the person making the communication, the names of persons present while the communication was made and when not apparent the relationship of the persons present to the person making the communication, the date and place of the communication and the general subject matter of the communication.

After considering the objection, the *Authority* may, at its discretion:

- a. sustain the objection;
- b. issue an amended *Authority request*; or
- c. reject the objection.

Nothing in this Rule 512 is intended to nor shall it limit the powers of the *Authority* under Section 26 (5) of the AOL.

- 513 The *Authority* may issue a request for the testimony of any person, including any client of a *recognized auditor*, with respect to any matter that the *Authority* considers relevant or material to an *Investigation*. A request for testimony shall:
- a. give reasonable notice of the time and place for the taking of testimony;
  - b. state the method or methods by which the testimony shall be taken, which may be audio or audio and video, but shall include a recording and transcription of the testimony by a verbatim reporting service; and
  - c. if the testimony is being requested from an *audit client* or other organized entity, give a description with reasonable particularity of the matters on which testimony is required.
- 514 The provisions of *Rules 507, 508 and 509* shall also apply to the taking of testimony pursuant to an *Authority request* made under Rule 513.
- 515 The *Authority* may issue a request to any person, including any *market traded company*, for the production of any *document* the *Authority* or its staff considers relevant or material to the *Investigation*, with appropriate notice, subject to the needs of the *Investigation*. A request issued pursuant to this *Rule* shall set forth a reasonable time and place for production.
- 516 A *recognized auditor* shall provide its consent to disclosure to the *Authority* by any person that is the subject of an *Authority request*.
- 517 Any person who testifies or produces *documents* pursuant to an *Authority demand* or *request* shall, upon request, be shown the *Authority's Investigation* order. At the discretion of the *Authority*, a copy of the order may be furnished to such person for his or her retention, subject to such limits on dissemination as the *Authority* may require.

#### **Discretionary submissions to the Authority in connection with an Investigation**

- 518 *Recognized auditors* and *designated professionals* of such firms, who become involved in an *Investigation* may, on their own initiative, submit a written statement to the *Authority* setting forth their interests and positions in regard to the subject matter of the *Investigation*. When requested in writing by such person to do so, the *Authority* shall,

within 10 *business days* of receiving such request, advise such persons of the general nature of the *Investigation*, including the indicated violations as they pertain to those persons and the amount of time that is available for preparing and submitting a statement.

### **Investigation findings**

519 If, based on the information obtained during any *Investigation*, the *Authority* considers that a *Violation Event* has occurred, the *Authority* may, if it deems appropriate, take *disciplinary action*, pursuant to Section 600.

520 If, based on the information obtained during any *Investigation*, the *Authority* decides to take no further action, the *Authority* will so advise the *recognized auditor*.

### **Reliance on Investigations made by others**

521 The *Authority* may, as it deems appropriate, rely upon an *Investigation* conducted by an *overseas auditor oversight body* (which has been satisfactorily evaluated by the *Authority* on the basis of the considerations laid out in *Rule 418*) in lieu of carrying out its own *Investigation*. The *Authority* shall notify the *recognized auditor* that the *Authority* intends to rely on such investigation.

### **Cooperation with overseas auditor oversight bodies**

522 The *Authority* may, as it deems appropriate, provide assistance to an *overseas auditor oversight body* in an *Investigation* of a *recognized auditor* conducted pursuant to the laws or regulations of a foreign jurisdiction, provided that the *Authority* shall first:

- a. notify the *recognized auditor* in writing that the *Authority* intends to provide such assistance; and
- b. obtain from the *overseas auditor oversight body* any confidentiality undertakings which the *Authority* considers appropriate.

## Section 600 – Disciplinary Actions

### Requirements, restrictions and sanctions

- 601 The issue of whether a *recognized auditor* should be subject to *disciplinary action* will be determined in accordance with the *Rules* in force at the time that the matter now the subject of *disciplinary action* occurred, but the disciplinary proceedings shall be conducted in accordance with the *Rules* in force at the time such proceedings are invoked.
- 602 If as a consequence of an *Inspection* or *Investigation*, or otherwise, the *Authority* considers that a *Violation Event* has occurred, the *Authority* may give notice to a *recognized auditor* that it proposes to impose requirements, restrictions or sanctions, which may include one or more of the following:
- a. additional professional education for some or all of the *designated professionals* of the *recognized auditor*;
  - b. the design, adoption or implementation of policies by the *recognized auditor* to ensure its compliance with the *Rules*, any other applicable pronouncements of the *Authority*, the AOL and any related *Regulations*, or *professional standards*;
  - c. assignment of a reviewer or supervisor to oversee the work of one or more *responsible individuals* of the *recognized auditor*;
  - d. termination of one or more *audit* engagements of the *recognized auditor*;
  - e. appointment of an independent monitor, subject to the approval of the *Authority*, to observe and report to the *Authority* on the *recognized auditor's* compliance with the *Rules*, any other applicable pronouncements of the *Authority*, the AOL and any related *Regulations*, or *professional standards*;
  - f. prohibition of the *recognized auditor* from accepting new *market traded company* clients for a period of time;
  - g. prohibition of the *recognized auditor* from assigning one or more *responsible individual* to *audits* of financial statements of *market traded companies*, for a period of time or permanently;
  - h. public censure;
  - i. monetary assessment intended to recoup the *Authority's* anticipated cost of monitoring the *recognized auditor's* compliance with the terms of any requirement, restriction or sanction;
  - j. termination or suspension of the firm's status as a *recognized auditor* and entry on the *Register*; or
  - k. other remedial actions.

### **Notification of proposed disciplinary action**

603 If the *Authority* proposes any *disciplinary action* be imposed on the firm, the *Authority* shall send a notice of such proposal to the firm and to any individual specifically identified in such proposed *disciplinary action*, and shall indicate in such notice whether any proposed *disciplinary action* is intended to constitute a condition or variation of a condition on the *recognized auditor's* entry on the *Register* under the AOL.

### **Petition for review**

604 Within 20 *business days* of receiving from the *Authority* a notice referred to in *Rule* 603, the firm or any individual specifically identified in the proposed *disciplinary action* may file with the *Authority* a petition for a *review proceeding* under Section 700, which petition shall include a statement describing with specificity its basis of objection to the proposed *disciplinary action*, and, in the case of an individual, an agreement to be bound by the *Rules* relating to *review proceedings*.

### **Notification that disciplinary action is in effect**

605 If, following the issuance to the firm of a notice pursuant to *Rule* 603, (i) the *Authority* does not receive a petition for a *review proceeding* in accordance with *Rule* 604 or (ii) the decision of a *review panel* in a proceeding held in response to such petition determines that the *disciplinary action* should be imposed, then the *Authority* shall send to the firm a notice stating that the relevant *disciplinary action* is in effect, in which case the firm shall comply immediately therewith.

### **Termination of a disciplinary action by the Authority**

606 A *disciplinary action* may be terminated at any time by the *Authority* provided the *Authority* is satisfied it is appropriate to do so. If the *Authority* terminates a *disciplinary action*, it shall, within 10 *business days* of its decision, provide written notice of its decision to the *recognized auditor* and any *responsible individuals* that were the subject of such action.

### **Application for termination of disciplinary action**

607 Any firm or *responsible individual* subject to any continuing *disciplinary action* may file an application for termination of the *disciplinary action* at any time. The *Authority* shall respond to the application within a reasonable time and may, at its discretion, afford the firm or *responsible individual* a hearing. The *disciplinary action* shall continue, however, unless and until it has been terminated by an order of the *Authority*.

After considering the application, the *Authority* may, at its discretion:

- a. terminate any or all of the *disciplinary actions*;
- b. vary any or all of the *disciplinary actions*; or

- c. decline the application.

The *Authority* shall notify the firm or *responsible individual* of its decision and, in the case of (b) or (c) shall provide reasonable details of the proposed grounds for such decision.

#### **Failure to comply with disciplinary actions**

608 The *Authority* may terminate a *public accounting firm's* status as a *recognized auditor* if the firm:

- a. has failed to pay a monetary assessment within 20 *business days* of it being assessed, and such assessment remains unpaid after 5 *business days* notice to the *public accounting firm* in writing of such fact; or
- b. has, in the opinion of the *Authority*, failed to comply with any requirement, restriction or sanction which the *Authority* has notified the *public accounting firm* is in effect.

#### **Disclosure of continuing restrictions or sanctions**

609 The *Authority* may disclose publicly to anyone who inquires and on its website the name of the firm subject to any continuing restriction or sanction. In making disclosure under this *Rule*, the *Authority* shall not disclose the identity of any individual specifically identified in a continuing restriction or sanction, provided that the foregoing shall not preclude the naming of the firm even if the names of one or more individuals are included in the firm's name.

#### **Reliance on disciplinary action taken by others**

610 The *Authority* may, as it deems appropriate, rely upon a requirement, restriction or sanction imposed on a firm or *responsible individual* by a *overseas auditor oversight body* (which has been satisfactorily evaluated by the *Authority* on the basis of the considerations laid out in *Rule 418*) in lieu of imposing its own *disciplinary action*.

#### **Urgent orders**

611 The *Authority* may take any *disciplinary actions* permitted by the AOL or these *Rules* by means of an Urgent Order if it is satisfied that:

- a. a *recognized auditor* or a *responsible individual* is not or is no longer competent or fit and proper to act as *recognized auditor* or *responsible individual*; or
- b. the *recognized auditor* or any *responsible individual* is not or is no longer eligible to be entered on the *Register*.

612 The *Authority* shall advise the *recognized auditor* that a *disciplinary action* has been designated as an Urgent Order and such order shall come into effect when it is served on the *recognized auditor*, subject to the *Authority* allowing the *recognized auditor* an

opportunity to make oral or written representations within 10 *business days* of the Urgent Order being made. Having considered any representations the *Authority* may:

- a. end the Urgent Order; or
- b. continue the Urgent Order, or
- c. vary the Urgent Order.

613 As well as making immediate representations under *Rule 612*, a *recognized auditor* can petition for a review proceeding in accordance with *Rule 604*. However, an Urgent Order is not lifted by virtue of a petition for a review proceeding being filed.

## Section 700 - Review Proceedings

### Orders for review proceedings

- 701 Upon receipt of a petition for a *review proceeding* (i) from a *public accounting firm* that is an applicant to become a *recognized auditor* pursuant to *Rule 207* or *Rule 208*, or (ii) from a *recognized auditor* pursuant to *Rule 208*, *Rule 415* or *Rule 503*, or (iii) from a *recognized auditor* or an individual pursuant to *Rule 604*, the *Authority* shall issue an order for a *review proceeding*. The order shall include a brief and plain statement of the issues to be considered and determined with respect to the firm or individual that is the subject of such *review proceeding*. The *Authority* shall have the right to identify the issues to be considered in the *review proceeding* and the petitioning party or parties shall have the right to raise in the proceeding such issues and arguments as they consider appropriate in responding to the issues included in the notice for a *review proceeding*. In any *review proceeding*, the parties shall be the *Authority*, any *public accounting firm* or *recognized auditor* that is the subject of the *review proceeding* and, in the case of a *review proceeding* that is the result of a petition under *Rule 604*, any individuals who are specifically identified in a proposed requirement, restriction or sanction. *Review proceedings* shall be held in camera.
- 702 The *Authority* may make an order that consolidates proceedings that have been instituted in respect of the same firm or individual.
- 703 If the parties to a *review proceeding* consent, a *review proceeding* may be disposed of by a decision of the *Authority* without a hearing.
- 704 The *Authority* shall give to the parties to the review proceeding a copy of the order for the review proceeding, and, if the order sets a hearing date, each party shall be given 20 business days notice of the hearing. A notice of hearing shall include:
- a. a statement of the date, place and purpose of the hearing; and
  - b. a statement that if the party notified does not attend at the hearing, the hearing may proceed in the party's absence and the party will not be entitled to any further notice in the proceedings.

### Composition of review panels

- 705 The *Authority* will maintain a roster of *hearing officers* who will be appointed by the *Authority* and may preside over review proceedings, provided that the *Authority* shall satisfy itself that any person it appoints to be a *hearing officer* is fit and proper for that purpose. The *Authority* shall appoint one *hearing officer* to serve as the Chair of the roster of *hearing officers*. For a particular *review proceeding*, the Chair of the roster of *hearing officers* shall select from the roster three persons who will form a *review panel* to preside over the *review proceeding* and will provide to the parties to the *review proceeding* the names of the three persons.

Within 5 *business days* of being notified of the names of the members of the proposed *review panel*, the parties to the *review proceeding* shall have the right to submit to the Chair of the roster of *hearing officers* on a confidential basis any objections to the assignment of one or more *hearing officers* to the panel. The Chair of the roster of *hearing officers*, will consider carefully the basis of any objection before finalizing the composition of the *review panel*, and will remove from any proposed panel an individual whose presence on the panel would raise a reasonable apprehension of bias.

### **Proceedings of review panels**

706 A *review panel* shall have the authority to do all things necessary and appropriate to discharge its duties. The quorum for *review panel* proceedings shall be three. All decisions of a *review panel* shall be made by majority vote. The powers of a *review panel* include the following:

- a. receiving relevant evidence and ruling upon the admission of evidence;
- b. regulating the course of a proceeding and the conduct of the parties and their *counsel*;
- c. holding prehearing and other conferences for purposes other than discussing the merits of the issues in controversy, and requiring the attendance at any such conference of at least one representative of each party;
- d. determining motions on procedural issues brought before or during hearings, including the making of directions on the process to be followed on motions; and
- e. receiving statements of facts agreed upon by the parties, in place of all or some of the evidence.

707 When considering any matter before it, a *review panel* shall, for the purposes of the *Rules*, accept any relevant previous disciplinary finding, conviction, decision, sentence or judgement (including final criminal and civil court decisions) as conclusive evidence of that prior matter.

708 A *review panel* shall, at any stage of the review proceeding, make orders for any of the following:

- a. the provision of particulars;
- b. the production and exchange of *documents* and other information in the possession of the parties relevant to the issues in the proceeding, including witness statements, transcripts of testimony taken during the course of any relevant *Investigation*, and reports of expert witnesses; and
- c. written submissions setting out the skeleton arguments of the parties that are subjected to *review proceedings*.

This *Rule* does not authorize the making of an order requiring disclosure of privileged information, other than as provided for under the AOL.

709 A *review panel* shall have the power to determine its own procedures and practices, in keeping with the rules of natural justice, and may for that purpose make orders with respect to the procedures and practices that apply in any particular proceeding, and to make such orders or give such directions in *review proceedings* before it as it considers proper to prevent an abuse of process.

710 A *review panel* has the right to receive independent legal, accounting and auditing advice, which shall be communicated to the parties. The parties shall have a right to provide comment to the *review panel* on that advice.

711 A hearing may be adjourned from time to time by the *review panel* on its own Motion or when it is shown to the satisfaction of the *review panel* that the adjournment is required to permit an adequate hearing to be held.

712 The *Authority* may, at any time before a *review panel* files with the *Authority* its initial decision, propose an order instituting a *review proceeding* be amended to include new issues that are within the scope of the initial order – for example, to correct an error, to conform the order to the evidence or to take into account subsequent developments which should be considered in disposing of the proceeding. However, an amendment to an order instituting a *review proceeding* may be made only with the approval of the *review panel*.

713 A *review panel* may receive as evidence at a hearing, whether or not given or proven under oath or affirmed or admissible as evidence in a court, any oral or previously transcribed testimony, and any *document* or other thing relevant to the subject matter of the review proceeding and may act on such evidence, but the *review panel* may exclude anything unduly repetitious.

714 A party to a review proceeding may be represented by *counsel*, and may call and examine witnesses and present evidence and submissions and conduct cross-examinations of witnesses at the hearing as determined by the *review panel* to be reasonably required for a full and fair disclosure of all matters relevant to the issues in the proceeding.

715 A witness at a hearing is entitled to be advised by *counsel* as to his or her rights but such *counsel* may take no other part in the hearing without leave of the *review panel*.

716 A *review panel* may:

- a. in the case of a *review proceeding* pursuant to *Rule 207*, determine whether an applicant firm should be allowed to become a *recognized auditor*;
- b. in the case of a *review proceeding* pursuant to *Rule 208*, determine whether to accept, reject or vary a condition or conditions proposed, imposed or varied with respect to the entry of a *recognized auditor* on the *Register*;

- c. in the case of a *review proceeding* pursuant to *Rule 415*, determine whether a *recognized auditor* has satisfactorily addressed weaknesses, deficiencies or recommendations in an inspection report;
- d. in the case of a *review proceeding* pursuant to *Rule 503*, determine whether prima facie the *Authority* has a reasonable basis for considering that a *Violation Event* may have occurred and for issuing an *Investigation* order; and
- e. in the case of a *review proceeding* pursuant to *Rule 604*, determine whether an alleged *Violation Event* has occurred and whether to accept, reject or vary a proposed requirement, restriction or sanction.

A *review panel* shall deliver its initial decision to the *Authority* within 20 *business days* of the conclusion of the hearing including receipt of any post-hearing briefs or other submissions required by the panel. The *Authority* shall send each party who participated in the proceeding, and the parties' *counsel*, a copy of the *review panel's* initial decision with reasons in writing.

717 A party to a review proceeding may, within 15 *business days* from its receipt of the *review panel's* initial decision, provide to the *review panel* its comments on the initial decision. If (i) the *review panel* receives no comments from any party during the time allowed for comment, or (ii) the *review panel* receives comments from one or more parties during the time allowed for comment but does not amend its initial decision during the time allowed for amendment, the initial decision shall become the panel's final decision. If the *review panel* receives comments from one or more parties to the proceeding, the *review panel* may, within 15 *business days* of receiving such comments, amend its initial decision, whereupon the amended decision shall become the panel's final decision. The *review panel* shall either inform the *Authority* that its initial decision has become its final decision or deliver a copy of its final decision to the *Authority*.

718 A *review panel* shall compile a hearing record of any *review proceeding* in which a hearing has been held, which shall include:

- a. the order initiating the *review proceeding*;
- b. the notice of hearing;
- c. any orders made by the *review panel*, including orders made on motions heard;
- d. all documentary evidence filed with the *review panel*;
- e. the transcript, if any, of the oral testimony given or received at the hearing;  
and
- f. the decision and reasons for decision of the *review panel*.

### **Review panel costs**

719 If a *review proceeding* resulted from a petition filed by a *recognized auditor* or *responsible individual* pursuant to *Rules* 415, 503 or 604, and the decision of the *review panel* determines that the *Authority's* position with respect to such firm or individual is appropriate, the firm shall pay the *Authority's* reasonable costs related to the *review proceeding* and any *Investigation* that preceded the *review proceeding*, including an appropriate recovery of the time of the *Authority's* staff members involved.

Otherwise, each party will bear its own costs.

### **Appeals against review panel decisions**

720 Decisions of a *review panel* dealing with those matters specified in Section 20(6) of the AOL are subject to the right of appeal to the Grand Court set out in that Section, except that when a firm has elected to use the dispute resolution procedures provided for in these *Rules*, Rule 721 shall apply.

721 Otherwise, all parties to a *review proceeding* shall be bound by the final decision of a *review panel* subject only to dispute resolution procedures provided for in these *Rules* and such dispute resolution procedures shall be the sole and exclusive procedures for the resolution of any disputes relating to the *review proceeding* and the decision of the *review panel* resulting there from.

## Section 800 – Fees

- 801 All amounts billed by the *Authority* will be in Cayman Islands dollars and all payments are to be made in Cayman Islands dollars unless the *Authority* determines otherwise.
- 802 A *public accounting firm* applying for entry on the *Register* as a *recognized auditor*, or a *recognized auditor* shall pay such fees and costs of oversight as the *Authority* determines, at the times and at the rates set by it. Such fees will include not only those fees set out in the *Regulations* to the AOL but also any other fees which the *Authority* may require be paid to it. No refunds of fees will be given except that the *Authority* may, at its discretion, refund all or part of any registration fee in the event an applicant withdraws an application, in accordance with *Rule 204*.
- 803 The *Authority* will determine the timing of billings to firms for all fees. Such fees may, at the option of the Board, be billed in quarterly or semi-annual installments and, in the case of fees for *Inspections* or *Investigations*, may be billed in installments before completion of such *Inspections* or *Investigations*.
- 804 *Recognized auditors* shall pay all fees within 20 *business days* of the date of the billing from the *Authority*. The *Authority* reserves the right to charge interest at 12% per annum on unpaid billings, commencing with the 21<sup>st</sup> *business day* following the date of the billing.
- 805 If a billing by the *Authority* to a *recognized auditor* remains unpaid 60 *business days* after the date of such billing, the *Authority* may, if such billing remains unpaid after 5 *business days*' notice to the firm, suspend or terminate the firm's status as a *recognized auditor*.
- 806 If the *Authority* establishes any of its fees on the basis of information submitted to it by a *recognized auditor*, the *Authority* reserves the right to test the accuracy of such information as part of its *Inspection* activity.