

Companies (Jersey) Law 1991: Recognized Auditors

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The information on this webpage provides a summary of Jersey's recognized auditor regime, inclusive of general information, how to apply and ongoing obligations. Recognized auditors (and applicants to be entered on the Register of Recognized Auditors) should consult the detail of the relevant legislation to ensure that they understand how it applies to their circumstances.

1 General Information

Regulation 4 of the Companies (Amendment No.4) (Jersey) Regulations 2009 came into force on 5 April 2010 and inserted a revised Part 16 (relating to Accounts and Audits) into the Companies (Jersey) Law 1991 (the **Companies Law**) [Companies \(Jersey\) Law 1991 \(jerseylaw.je\)](http://jerseylaw.je). Unless stated otherwise, all references on this page to "Articles" are references to Articles in that revised Part 16 of the Companies Law.

2 Requirement for a 'market traded company' (MTC) to appoint a 'recognized auditor'

Article 113(1) requires a company to appoint an auditor to examine and report in accordance with the Companies Law upon its accounts if: it is a public company; its articles so require; or a resolution of the company in general meeting so requires.

If the company is a 'market traded company' (**MTC**) (see below), Article 113(2) requires the auditor that is appointed to be a 'recognized auditor'. Article 102 defines a 'recognized auditor' as a firm or an individual whose name appears on the Register of Recognized Auditors, which is maintained by us, the JFSC.

A 'market traded company' (or MTC) is defined in Article 102 and, in summary, means:

- (a) a company whose transferable securities have been admitted to trading on a regulated market (meaning either a UK regulated market, within the meaning given, in the United Kingdom¹, or a regulated market within the meaning given by Article 4.1.(21) of the Directive²); or
- (b) a company in respect of which transferable securities (for example, depository receipts) have been admitted to trading on a regulated market,

¹ By Article 2.1 (13A) of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 as substituted by regulation 26(2)(a) of the Markets in Financial Instruments (Amendment) (EU Exit) Regulations 2018 of the United Kingdom (S.I. 2018/1403).

² Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 (OJ L 173, 12.6.2014. P.349) on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, as amended from time to time.

but does not include an exempt company³.

The two types of 'exempt company' that are excluded from the definition of MTC include:

- (a) a company that is an issuer exclusively of debt securities admitted to trading on a regulated market –
 - (i) prior to 31st December 2010, the denomination per unit of which is at least € 50,000 or, in the case of debt securities denominated in another currency, equivalent, at the date of issue, to at least €50,000, or
 - (ii) on or after 31st 2010, the denomination per unit of which is at least €100,000 or, in the case of debt securities denominated in another currency equivalent, at the date of issue, to at least €100,000,
 or
- (b) an open-ended investment company which is either regulated under the Collective Investment Funds (Jersey) Law 1988 or is an unregulated fund within the meaning of the Collective Investment Funds (Unregulated Funds) (Jersey) Order 2008.

3 The criteria to become a recognized auditor

As referenced above, Article 102 defines a 'recognized auditor' as a firm or an individual whose name appears on the Register of Recognized Auditors, which is maintained by us.

In summary, for a firm or an individual to have its name entered on the Register of Recognized Auditors, three key criteria must firstly be met:

- › they must satisfy the definition of 'auditor' in Article 102;
- › the auditor must be bound by rules that govern the conduct of the audit of MTCs (Article 112(1)); and
- › the auditor must have made a successful application to us to have its name entered on the Register of Recognized Auditors (Article 111(1)).

More information on each of the above criterion is set out below.

3.1 Criterion 1: Satisfy the definition of 'auditor' in Article 102

To satisfy the definition of 'auditor' in Article 102 a firm (in the form of a partnership or a body corporate) or an individual, must meet certain qualification criteria.

Partnerships

The partnership must be a 'qualified partnership', within the meaning of Article 102⁴, where each of the persons who is responsible to it for examining or reporting on the accounts of a (Jersey) company (i.e. the individuals who sign audit reports pursuant to Article 113A) must be

³ Within the meaning of Article 102.

⁴ 'qualified partnership' means a partnership-

- (a) in which more than half of its partners are any of, or any combination of, the following –
 - (i) individuals who are members of recognized professional bodies
 - (ii) partnerships that are themselves auditors as defined in paragraph (b) of the definition 'auditor',
 - (iii) bodies corporate that are themselves auditors as defined in paragraph (c) of the definition 'auditor',
 - (iv) individuals who hold a qualification to audit accounts under the law of a European Economic Area member state other than the United Kingdom or the Republic of Ireland; and
- (b) in which more than half of the voting rights in the partnership and, if it has a management body, in that body are held by persons specified in sub-paragraph (a).

an individual who is a member of a recognized professional body and is permitted by that body to engage in public practice.

Bodies corporate

The body corporate must be 'controlled by auditors', within the meaning of Article 102⁵, and each of the persons who is responsible to it for examining or reporting on the accounts of a (Jersey) company (i.e. the individuals who sign audit reports pursuant to Article 113A) must be an individual who is a member of a 'recognized professional body', within the meaning of Article 102⁶, and is permitted by that body to engage in public practice.

Individuals

Where the auditor is an individual, he or she must be a member of a recognized professional body and permitted by that body to engage in public practice.

3.2 Criterion 2: Bound by rules that govern the conduct of the audit of MTCs

Article 112(1) states that an auditor is qualified to be a recognized auditor if the auditor is bound by rules governing the conduct of the audit of MTCs issued by a recognized professional body and approved by us.

We have approved rules which have been issued by the Institute of Chartered Accountants in England and Wales (the **ICAEW**) and are based on similar rules that apply to statutory auditors in the UK. The rules are common to auditors of MTCs in Jersey, Guernsey and the Isle of Man and, accordingly, are titled the Crown Dependencies Audit Rules (the **CDAR**)

<https://www.icaew.com/regulation/working-in-the-regulated-area-of-audit/audit-requirements-in-the-crown-dependencies>

When making an application to be entered on the Register of Recognized Auditors an auditor must firstly agree to be bound by, and comply with, the CDAR. Once an auditor is registered as a recognised auditor, rule 2.06 of the CDAR places a continuing obligation on the auditor to meet the

⁵ 'controlled by auditors' in respect of a body corporate, means a body corporate where -

(a) individuals who are members of a recognized professional body, or auditors that fall within paragraph (b) or (c) of the definition 'auditor'

(b) partnerships accepted by a recognized professional body as being qualified for appointment as auditors of companies incorporated in the United Kingdom;

(c) bodies corporate accepted by a recognized professional body as being qualified for appointment as auditors of companies incorporated in the United Kingdom;

(d) individuals who hold a qualification to audit accounts under the law of a European Economic Area Member State other than the United Kingdom or the Republic of Ireland,

or any combination of persons mentioned in sub-paragraphs (a), (b), (c) and (d) -

(e) constitute more than half the number of members of the body corporate;

(f) hold more than half of the voting rights of each class of members of the body corporate;

(g) who are individuals, make up more than half of the number of directors of the body corporate; or

(h) hold more than half of the voting rights in the board of directors, committee, or other management body of the body corporate.

⁶ 'recognized professional body' means any of the following bodies:

(a) the Institute of Chartered Accountants in England and Wales;

(b) the Institute of Chartered Accountants of Scotland;

(c) the Association of Chartered Certified Accountants;

(d) the Institute of Chartered Accountants in Ireland.

requirements of the CDAR. A breach of the CDAR may result in the recognized auditor being subject to regulatory or disciplinary action by the ICAEW/the UK's Financial Reporting Council (**FRC**), under Chapters 7 or 9 of the CDAR (relating to regulatory action and disciplinary arrangements). In addition, a breach of the CDAR is one of the grounds on which we may suspend or revoke the registration of a recognized auditor (Article 111(5)).

3.3 Criterion 3: Make a successful application to us

Article 111(1) provides that auditors who, under Article 112, are qualified to be recognized auditors may apply to have their name entered on the Register of Recognized Auditors by applying to us in the manner published by ourselves and by paying to us the published fee.

We may refuse, pursuant to Article 111(2), to enter the name of an auditor on the Register of Recognized Auditors if we are satisfied that the auditor is not competent to act as a recognized auditor.

Article 111(3) provides that when entering the name of an auditor on the Register of Recognized Auditors (or at any subsequent time) we may make the auditor's registration subject to such conditions and limitations as we consider appropriate.

A copy of the application form can be downloaded [by clicking here](#). Details of the application fee payable by an auditor (and the annual registration fee payable by auditors entered on the Register of Recognized Auditors) can be viewed by [clicking here](#).

If an application is successful, the auditor's name will be entered on the Register of Recognized Auditors that is published on our website.

All applications should be sent to authorisations@jerseyfsc.org.

4 Ongoing statutory obligations

The Companies Law places several obligations on auditors of Jersey companies and auditors should ensure that they are familiar with them.

Having said that, we draw to the attention of applicants to be recognized auditors, and, to auditors who have been entered on the Register of Recognized Auditors, two specific statutory obligations on them.

The first obligation is set out in Article 111(16). This requires an auditor to inform us of any material change to any information supplied by the auditor to us:

- › at the time the auditor applied to become a recognized auditor; or
- › at any subsequent time in compliance with Article 111(16).

If the auditor fails to do so as soon as practicable, but in any event within one month of the material change, the auditor and each officer of the auditor in default commits a criminal offence.

To comply with Article 111(16), a recognized auditor must notify us of, amongst other things, any changes to the list of MTCs that it audits. Rule 2.09.1 of the CDAR similarly requires a Recognized Auditor to notify the ICAEW of any changes to the list of MTCs audited.

Recognized auditors should send notifications of changes to the list of MTCs audited to:

The Institute of Chartered Accountants of England and Wales
Professional Conduct Department
Metropolitan House
321 Avebury Boulevard
Milton Keynes
United Kingdom,
MK9 2FZ

The second statutory obligation is set out in Article 4 of the [Companies \(Audit\) \(Jersey\) Order 2010](#). This requires a recognized auditor to provide us with written confirmation that the entry remains correct. Failure to do so constitutes a criminal offence.

5 Regulatory responsibilities

5.1 Relevant Authorities

- 5.1.1 Whilst we do not have responsibility for maintaining a general oversight regime for the audit profession in Jersey, we along with the other Crown Dependencies introduced a statutory regime for the regulation of recognized auditors in April 2010 which, established a mandatory audit requirement for Jersey MTCs by an auditor who has been granted permission by us to audit a Jersey MTC, (a recognized auditor). The regime was put in place to following the introduction of EU requirements for the regulation of 'third country' auditors.
- 5.1.2 In practice, this means that we are responsible for registering a recognized auditor to enable them to carry out an audit of a Jersey MTC. We are also responsible for ensuring entries on the Register of Recognized Auditors including their responsible individuals who are permitted to sign off on an audit of a Jersey MTC.
- 5.1.3 In appropriate circumstances, the Chief Minister of the Government of Jersey (as Jersey's 'Relevant Authority' may exercise certain disciplinary powers in relation to recognized auditors.
- 5.1.4 To be granted equivalence in respect of the EU's Statutory Audit Directive, as well as ensuring a consistent supervisory approach across the Crown Dependencies, the Crown Dependencies agreed with the relevant authorities in England and Wales, that they would be responsible for the oversight and supervision of Crown Dependency Recognized Auditors.
- 5.1.5 The oversight, inspection, and monitoring of Recognized Auditors, in relation to Jersey MTC clients are undertaken by the ICAEW and the FRC.

5.2 ICAEW

- 5.2.1 The ICAEW is the monitoring unit for Jersey MTCs.
- 5.2.2 It is responsible for maintaining and enforcing the CDAR (i) as to the eligibility for the appointment as a recognized auditor, and (ii) for the conduct of the relevant audit work. In appropriate circumstances, the ICAEW may discipline recognized auditors.
- 5.2.3 The ICAEW and, in certain cases, the Audit Quality Review (**AQR**) team (part of the Supervision Division at the FRC), carry out periodic inspections of recognized auditors to monitor their compliance with the CDAR.
- 5.2.4 Recognized auditors are requested to note that, in addition [to the fees payable](#) by them to us, the ICAEW levies an annual fee on Recognized Auditors to cover the cost of its periodic inspection work. The fee also includes an amount (as does the similar type of fee payable to the ICAEW by statutory auditors in the UK) to cover the inspection work of the AQR team and the oversight work of the FRC. Details are available from the [ICAEW](#).

5.3 FRC

- 5.3.1 As it does in the UK, the FRC acts as the independent body responsible for overseeing the work of the ICAEW in monitoring the compliance of recognized auditors with the CDAR. It is the monitoring unit for the FTSE 250 companies.
- 5.3.2 The FRC has statutory powers and responsibilities delegated by each Crown Dependency:
 - 5.3.2.1 for exercising oversight over the regulation of recognized auditors by the ICAEW, and notifying the Relevant Authority if it is not satisfied that the ICAEW is meeting its regulatory responsibilities effectively; and
 - 5.3.2.2 through its AQR team, for monitoring directly the performance of audits of major MTCs by recognized auditors.
- 5.3.3 In Jersey, the FRC has been granted statutory power to carry out this role by virtue of the Companies (Designated Body) (Jersey) Order 2012 (the **Designation Order**) [Companies \(Designated Body\) \(Jersey\) Order 2012 \(jerseylaw.je\)](#).
- 5.3.4 Article 2 of the Designated Order provides that 'The FRC is designated for the purposes of Articles 113K (Matters to be notified to us), 113L (we may require recognized auditors to give information) and 113M of the Companies Law (us to ensure compliance).
- 5.3.5 Article 4(1) of the Designation Order requires the FRC to provide the Chief Minister with an annual report on its oversight activities. Article 4(2) of the Designation Order further requires the FRC to copy its report to us.

5.4 Memorandum of Understanding (MoU)

- 5.4.1 The framework for the relationship between the Crown Dependencies, the ICAEW and the FRC is set out in an MoU agreed in June 2015.

5.5 Discretionary authorisation of auditors

- 5.5.1 In certain circumstances, we will grant discretionary authorisation to audit firms who wish to audit a Jersey company which is not a Jersey MTC. A criteria was developed to enable the assessment of such audit firms which is [available on the JFSC website](#). Oftentimes, this audit firm engages the expert advice of a recognized auditor or other Jersey auditor to ensure that any audited accounts submitted to the Registry meet the requirements of the Law.
- 5.5.2 These firms do not have an oversight, monitoring or inspections regime arranged or facilitated by us but may be subject to some level of oversight by the competent authority in their home jurisdiction.

EU Equivalence

As noted above, the Crown Dependencies' statutory regime for the regulation of recognised auditors, the 'recognised auditor regime', is aligned with the system of audit regulation in the UK and was put in place following the introduction of EU requirements for the regulation of "third country" auditors. This includes auditors of Crown Dependency incorporated companies with securities admitted to trading on an EU regulated market. Although the UK is no longer a member of the EU, by agreement of the Crown Dependency competent authorities, which includes the JFSC, the audits of LSE-traded Crown Dependency companies remain within the scope of the Crown Dependencies, recognised auditor regime.

The European Commission declared that the system of regulating the audits of MTCs in the Crown Dependencies' is equivalent to that required within the EU⁷ and we, the JFSC, together with the Isle of Man Financial Services Authority and the Registrar of Companies in Guernsey, together the Relevant Authorities, were declared competent authorities by the European Commission on 21 June 2016, when the European Commission adopted Decision (EU) 2016/1010 on the adequacy of the competent authorities of certain third countries and territories pursuant to Directive 2006/43/EC.

This decision means that the European Commission considers that the regime of oversight of auditors of MTCs in Jersey, the Isle of Man and Guernsey is equivalent in standard to that required by the EU of auditor oversight bodies in its Member States.

6 Further information

To make an application or to submit information on an ongoing basis please contact:

Authorisations Division

Email: authorisations@jerseyfsc.org

For further information in relation to the oversight regime for Recognized Auditors please contact:

Policy Division

Email: policy@jerseyfsc.org

⁷ Commission Decision 2013/288/EU of 13 June 2013