



ABU DHABI GLOBAL MARKET
سوق أبوظبي العالمي

CONSULTATION PAPER
NO. 9 OF 2020

**PROPOSED AMENDMENTS TO THE
ADGM AUDITORS' FRAMEWORK**

17 December 2020



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Introduction

Why are we issuing this paper?

1. The Registration Authority of Abu Dhabi Global Market (**ADGM**) has issued this Consultation Paper to invite public comment on its proposals to enhance its current Auditors' Framework. In order to determine the most effective changes needed we have undertaken an extensive review of our current framework against international standards in auditing. Accordingly, the changes we are proposing in this consultation paper will ensure ADGM's Auditors framework and regulatory oversight of Auditors continues to evolve to meet the ongoing changes in international standards, and are best in class.

Who should read this paper?

2. The proposals in this Consultation Paper will be of interest to all auditors practicing or proposing to practice in ADGM, to individuals and organisations operating within the ADGM, as well as their legal advisors.

How to provide comments

3. All comments should be in writing and sent to the address or email specified below. If sending your comments by email, please use the Consultation Paper number in the subject line. ADGM reserves the right to publish, including on its website, any comments you provide, unless you expressly request otherwise at the time of making comments. Comments supported by reasoning and evidence will be given more weight by ADGM.

What happens next?

4. The deadline for providing comments on this proposal is **Thursday, 28 January 2021**. Once we receive your comments, we will consider whether any modifications are required to this proposal. We will then proceed to enact the proposed amendments. You should not act on these proposals until the relevant regulations are issued. We will issue a notice on our website when this happens.

Comments to be addressed to:

Consultation Paper No. 9 of 2020
Abu Dhabi Global Market
ADGM Square
Al Maryah Island
PO Box 111999
Abu Dhabi, UAE

Email: consultation@adgm.com

Background

1. A strong and innovative auditor framework with effective oversight promotes high standards of financial audits. High quality financial audit underpins business confidence, investor protection and contributes to market and financial system integrity. Strong auditor oversight also enhances the integrity and reputation of ADGM and its participants.
2. The current ADGM legal framework governing auditors was based on the UK Companies Act 2006. It provides a straightforward approach to auditor registration eligibility and oversight. However, since the framework was initially implemented, international standards have progressed, including the enactment of new EU legislation covering audit regulation.
3. Given these international developments and ADGM's growth, we propose to enhance ADGM's auditor framework.

Key Policy Considerations

Single Registration Framework with Tiered Requirements

4. We propose that all auditors must apply for registration in ADGM in order to be eligible for appointment by ADGM entities that are required to be audited pursuant to ADGM regulations and rules. This will ensure that the relevant ADGM regulatory authorities have access to high quality audits of the firms they regulate as well as the necessary and adequate oversight to ensure high quality financial audits continue to be undertaken and completed in ADGM. Just as importantly it will provide company shareholders and other relevant stakeholders of ADGM entities access to high quality audit reports to evaluate and make informed decisions regarding those entities.
5. Once registered, we propose that auditors should only perform audits on companies that are appropriate for the auditor's capacity and experience.
6. To achieve this, we propose the introduction of a three tiered requirements structure, whereby:
 - first tier auditors must satisfy a base level of requirements, including systems and controls complying with the International Standards on Auditing (ISAs), adequate professional indemnity insurance being in place, adequate resources available to conduct the audits in a timely and effective manner, registration of audit principals and reporting obligations to the Registrar;
 - second tier auditors, including auditors of Public Interest Entities (PIEs)(such as public companies and investment funds), must satisfy additional requirements in relation to, among other things, independence, performance and rotation;
 - third tier auditors, being auditors of all FSRA regulated licensed persons (that is, financial institutions) must satisfy further requirements regarding resourcing, experience in auditing financial institutions and additional audit reporting.
7. This approach will ensure there are minimum standards imposed on all auditors, through the first tier requirements, with second and third tier auditors having to satisfy additional requirements in order to be eligible to audit more complex and systemically important entities.

Q1. DO YOU HAVE ANY COMMENTS ABOUT THE PROPOSAL TO INTRODUCE A THREE-TIERED REGISTRATION FRAMEWORK?

Audit Quality Requirements

8. The proposed enhanced framework contains requirements to ensure that auditors comply with international auditing standards, such as audit quality requirements, as well as ethical and independence considerations.
9. We propose introducing specific independence-related requirements, including prescribing prohibited non-audit services and rotation timeframes for auditors and audit principals. These requirements are in keeping with the benchmarked international standards for governance and independence. For instance, auditors and audit principals must not accept any appointment or perform any audit work if they have, or may reasonably be perceived to have, any interest that is likely to conflict with the Code of Ethics, the Rules or any other applicable legal requirements.
10. Audit principals are responsible for managing the conduct of audit work and signing audit reports on behalf of the auditor. Therefore, we have proposed obligations on principals including the need for professional qualifications, the completion of continuous professional development and at least 5 years' of relevant post qualification audit experience in the preceding 7 years, including at least 2 years' of experience in a managerial role supervising and finalising audits. The principles on auditors of integrity, professional competence and cooperation with the Registrar will also be applied to audit principals.

Q2. DO YOU HAVE ANY COMMENTS ABOUT THE PROPOSALS REGARDING THE INTRODUCTION OF SPECIFIC AUDIT QUALITY REQUIREMENTS?

Role and Powers of the Registrar

11. The Registrar will continue as the competent authority for auditors and audit principals. The proposed enhanced framework sets out the Registrar's further responsibilities and powers in this regard.
12. These responsibilities and powers include, among other matters, registration and licensing of audit firms, registration of audit principals, conducting quality control inspections and having the power to access working documents supporting the auditors' opinion and reports. In addition, the Registrar will have the power to sanction audit firms and, where appropriate, audit principals.
13. We have also proposed the inclusion of clearly defined discretionary powers for the Registrar, including with respect to the granting of waivers and modifications, to allow for practical and timely responses to circumstances such as auditors not fully meeting registration requirements but have demonstrated sufficient capability and a commitment to doing so.

Q3. DO YOU HAVE ANY COMMENTS ON THE REGISTRAR'S ROLE AND RESPONSIBILITIES AND DISCRETIONARY POWERS, AS SET OUT IN THE PROPOSED ENHANCED FRAMEWORK?

Monitoring and Enforcement

14. The enhanced framework includes comprehensive monitoring and enforcement provisions, with investigation and sanctioning powers which accord with international standards as well as IOSCO's Enhanced Multilateral Memorandum of Understanding requirements.

15. Consistent with good regulatory practice, the Registrar's approach to audit quality monitoring will be transparent, with the Registrar being required to issue reports on auditor monitoring activities undertaken.

Transition period for existing auditors

16. The proposed framework provides for transitional arrangements for audit firms currently registered in ADGM. This will ensure that there is continuity of audit services following the introduction of the new requirements.
17. We propose a transition period for presently registered auditors before the new requirements take effect of the earlier of 12 months from the commencement of the amendments or auditor's re-registration.
18. Provisions regarding the role and powers of the Registrar would take effect immediately from the date of enactment.

Revised fee structure

19. As part of the review, the working group considered auditor registration and renewal fees. Benchmarking was carried out involving various comparable jurisdictions. Based on consideration of the benchmarking of other jurisdictions, we propose a revised auditor fee structure as set out in Schedule 3 of the proposed Companies Regulations (Auditors) Rules 2020.
20. This will apply to (a) existing auditors at the time of renewal of registration and (b) new auditor registration applications on the date of enactment of the enhancements.

Q4 DO YOU HAVE ANY COMMENTS ON THE REVISED FEE STRUCTURE?
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Other

21. The proposed framework will principally be effected by the enactment of the Companies Regulations (Amendment No. 2) Regulations 2020 and the Companies Regulations 2020 (Auditors) Rules 2020. Similar changes are also made to the Limited Liability Partnership Rules 2020, in so far as they mirror the Companies Regulations 2020 (Auditors) Rules 2020. Finally, some consequential changes have been made to the Commercial Licensing Regulations 2015, through the enactment of the Commercial Licensing Regulations (Amendment No. 1) 2020 and the Commercial Licensing Regulations 2015 (Controlled Activities) Rules 2018.
22. We have also taken the opportunity to make some amendments to reflect the ADGM policy position that only audit firms may be registered as auditors in ADGM.

PROPOSED AMENDMENTS

- Annex A:** Companies Regulations (Amendment No. 2) 2020
- Annex B** Companies Regulations 2020 showing effect of proposed amendments
- Annex C:** Commercial Licensing Regulations (Amendment No. 1) 2020
- Annex D:** Commercial Licensing Regulations 2015 showing effect of proposed amendments
- Appendix 1:** Companies Regulations 2020 (Auditors) Rules 2020
- Appendix 2:** Commercial Licensing Regulations 2015 (Controlled Activities Rules) 2018
- Appendix 3:** Limited Liability Partnership Rules 2020