

# FINANCIAL REPORTING COUNCIL

## GUIDELINES ON SANCTIONS ON AUDITORS

Pursuant to sections 6(2)(f) of the Financial Reporting Act, the Financial Reporting Council has issued Guidelines on Sanctions on Auditors . These are for the guidance of auditors licensed under the Act.

### 1. Short title

These guidelines may be cited as the Financial Reporting Council (Guidelines on Sanctions on Auditors) 2014.

### 2. Interpretation

In these guidelines –

“Act” means the Financial Reporting Act;

“auditor” means a licensed auditor;

“audit report” means the report to be issued by the auditor in compliance with International Auditing Standards Series 700;

“Council” means the Financial Reporting Council;

“Enforcement Panel” means the panel established pursuant to section 17(1)(d) of the Act;

“IAASB” means the International Assurance Auditing Standards Board;

“ISA” means International Standards on Auditing issued by the IAASB;

“licence” means a licence issued under section 33 of the Act.

### 3. Purpose of sanction

3.1 The purpose of imposing sanctions on auditors is to -

(a) protect the public interest;

- (b) maintain and promote confidence in the performance of Registered Auditors and compliance with the Act.

3.2 Sanctions shall be commensurate with the gravity and impact of the breach of the Act.

3.3 The sanctions which may be imposed on an auditor are as follows -

- (a) warning;
- (b) suspension of licence;
- (c) a cancellation of licence.

3.4 These guidelines may be reviewed from time to time by the Council

#### **4. Approach for determining sanction**

4.1 In determining the sanction to be imposed, the Council may consider the following –

- (a) the nature and seriousness of the breach of the Act or rules;
- (b) the potential impact of the breach of the Act or rules;
- (c) any relevant aggravating or mitigating circumstances;
- (d) any undertaking by the auditor to take appropriate corrective and preventive measures to mitigate the effect of any breach of the Act or rules issued under the Act; and
- (e) the extent to which public interest is affected.

4.2 A breach of the Act or rules may be –

- (a) intentional, deliberate or reckless;
- (b) professional or technical;
- (c) detrimental to the public and to the public interest, that is, have a negative impact on other stakeholders.

4.3 The Council shall consider the full circumstances of each case before determining which sanction shall be imposed. The factors at paragraphs 4.1 and 4.2 are not exhaustive. The Council may decide that an audit practice review be carried out to assess whether -

(a) relevant policies and procedures in compliance with ISAs have been established by the auditor ;

(b) the auditor has implemented recommendations of the Council with a view to avoiding repetition of breach of the Act or rules.

4.4 The Council may also consider the factors at paragraphs 4.1 and 4.2 when determining the type and duration of sanction.

## **5. Warning**

5.1 Where the licensed auditor has breached the Act, the Council may give a private or a public warning.

5.2 The Council may impose –

(a) a private warning for a first breach of the Act where –

(i) the matter of concern is minor in nature or seriousness; and

(ii) the auditor has taken full and remedial action.

(b) a public warning where –

(i) the breach of the Act is of a professional nature and has been detrimental to the public interest; or

(ii) the auditor has committed a breach for a second time.

5.3 Where the Council imposes a public warning, it shall give notice of the breach committed by the auditor and the decision of the Enforcement Panel on its website as per the template set out at Annex 1.

## 6. Suspension

### 6.1 Where –

- (a) the Council has expressed concerns about –
  - (i) an auditor's competence or inability to comply with regulatory requirements; or
  - (ii) repeated breaches of the Act; or
- (b) a public warning has been given to the auditor,

the Council may suspend his licence.

### 6.2 During the period of suspension, the auditor shall –

- (a) not be permitted to undertake any audit engagement; and
- (b) be required to rectify the shortcoming identified.

### 6.3 In determining whether a suspension would be appropriate, the Council shall, *inter alia*, consider –

- (a) whether the auditor has received a warning and there is lack of willingness on the part of the auditor to take remedial action;
- (b) whether the auditor has failed to comply with –
  - (i) a warning previously issued; and
  - (ii) recommendations of the Council;
- (c) the degree of the failure which is indicative of the lack of competence of the auditor;
- (d) the significance of the shortcoming on the audit work and any adverse impact on public confidence in the quality of audit services;
- (e) whether any shortcoming has been identified in previous engagement files reviews, and the auditor has rectified the shortcoming ;

(f) whether the shortcoming was intentional or not.

6.4 The suspension may be lifted by the Council if, on a subsequent audit practice review, the auditor demonstrates that the shortcoming and/or concern has been remedied.

## **7. Cancellation**

7.1 Cancellation of licence is the ultimate sanction.

7.2 The sanction is reserved for the most fundamental breaches of the Act or rules.

7.3 The Council may cancel an auditor's licence where –

(a) continued practice by the auditor will be detrimental to and will further undermine public interest and market confidence;

(b) the auditor has not acted in a professional manner and has acted against the public interest;

(c) the auditor does not, in the Council's view, have the capability or willingness to take remedial action in relation to a breach of the Act or rules; and

(d) the previous sanction in relation to the shortcoming has been imposed but no remedial action has been undertaken or the remedial action undertaken is not to the satisfaction of the Council.

## **8. Breaches of the Act**

The table set out at Annex 2 categorises breaches of the Act or rules according to the following 2 main criteria –

(a) breaches impacting on the audit profession; and

(b) breaches of a public interest nature.

## **9. Commencement**

These guidelines shall come into operation on 15 May 2014.

Made by the Council on 15 May 2014.

**THE FINANCIAL REPORTING ACT AND RULES MADE BY THE COUNCIL**

<b>SECTION OF THE ACT</b>	<b>BREACH</b>	<b>POTENTIAL IMPACT</b>
35	Practising in name of firm of which the name has not been approved by the Council	Professional
36	Failing to notify the Council of change in particulars	Professional
37	Involvement in unauthorised audit practice	Professional
40	Failing to report without delay a material irregularity	Professional/public interest
41	Not carrying out his functions in full independence and –  (a) acting contrary to the Code of professional conduct and ethics; or  (b) engaging in any activity which is likely to impair auditor's independence	Professional
43(1)(a)	Obtaining a licence by fraud or misrepresentation	Professional/public interest

**THE FINANCIAL REPORTING ACT AND RULES MADE BY THE COUNCIL  
QUALITY CONTROL SYSTEM**

Financial Reporting (Licensing of Auditors) Rules 2005  (Government Notice No 204/05)	No documented quality control system with effect on quality	Professional
--	---	--------------

Financial Reporting (Licensing of Auditors) Rules 2005  (Government Notice No 204/05)	Documented quality control system, but not implemented	Professional/Public Interest
Financial Reporting (Licensing of Auditors) Rules 2005  (Government Notice No 204/05)	Making false declaration in either the licence renewal form or the off-site review questionnaire, that the auditor has a quality control system and/or audit methodology	Professional/Public Interest

### FINDINGS OF AUDIT PRACTICE REVIEWS

39(2)	No audit methodology and audit not conducted in accordance with ISAs	Public interest
39(2)	Partly complied with the relevant requirements of ISAs, but with technical issues not complied with thereby having a significant effect on auditor's report	Public interest
39(2)	Partly complied with the relevant requirements of ISAs, but with technical/procedures not complied with, but which would not have an impact on the auditor's opinion	Professional
39(2)	No documentation on compliance with quality assurance procedures and with all technical standards and guidelines applicable to the auditor's work	Professional/public interest
39(3)	Failing to report on –  (i) the extent of compliance with the Code of Corporate Governance disclosed in the annual report of the public interest entity; and	Professional/public interest

- (ii) whether the disclosure is consistent with the requirements of the Code

#### OTHER REQUIREMENTS

Financial Reporting Council (Licensing of Auditors) Rules 2005  (Government Notice No 204/05)	Failing to renew the professional insurance indemnity on time as determined by the Mauritius Institute of Professional Accountants	Public Interest
Financial Reporting Council (Licensing of Auditors) Rules 2005  (Government Notice No 204/05)	Failing to maintain professional competence through Continuing Professional Development	Professional/Public Interest
Financial Reporting Council (Licensing of Auditors) Rules 2005  (Government Notice No 204/05)	Failing to make arrangements for the continuity of his practice in the event of death or incapacity	Public Interest
Financial Reporting Council (Audit Practice Review) Rules 2008	Failing to pay the audit practice review fees	Professional



**PUBLIC WARNING ISSUED BY THE FINANCIAL REPORTING COUNCIL**

Name of licensed auditor .....

.....

Name of audit firm where licensed auditor practises .....

.....

Address of licensed auditor .....

.....

Nature of breach .....

.....

Decision of Enforcement Panel .....

.....

Date of imposition of sanction .....

.....

---