

AUDITING PRACTICE NOTE NO 1

UNDERSTANDING THE AUDITED PERSON'S

REGULATORY ENVIRONMENT



An Auditing Practice Note highlights new, emerging, or otherwise noteworthy circumstances that may affect how a Registered Auditor conducts an audit under the requirements of the DFSA Rules. A Registered Auditor should determine whether and how to respond to these circumstances based on the specific facts presented. A Practice Note is non-binding and does not have the status of a DFSA Rule or Guidance.

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Introduction

1. This Practice Note is developed to assist a DFSA Registered Auditor (RA) in understanding the regulatory environment for Audited Persons in the DIFC. In accordance with International Standards on Auditing (ISA) 315, an RA should obtain an understanding of the legal and regulatory framework applicable to the Audited Person, along with its regulatory compliance.
2. In this Practice Note, unless otherwise defined, an acronym or term with the first letter capitalised has the meaning given in the Glossary Module ([GLO](#)).
3. A RA may be the Auditor of a Domestic Authorised Firm (Firm), a Public Listed Company (PLC), or a Domestic Fund, which are together referred to in this Practice Note, as Audited Persons.

Understanding Regulatory Compliance

4. The chart below and the descriptions that follow should help a RA understand the regulatory compliance environment for an Audited Person.



A. Check DFSA's Public Register

In accordance with Article 62 of the Regulatory Law 2004, the DFSA maintains a [Public Register \(Public Register\)](#) which contains up-to-date information about an Audited Person (excluding PLCs) and related Authorised Individuals (AIs). A RA should use the Public Register to identify the type of Financial Services they are licensed to conduct in or from the DIFC and to identify the relevant AIs, including those charged with governance.

B. Make enquiries of the DFSA

The DFSA encourages open and constructive two-way dialogue. Communication could be both through formal channels, such as scheduled bi-lateral and trilateral meetings with relevant individuals, and through informal channels, such as telephone calls and meetings. The nature and frequency of communications should be proportionate to the size and complexity of the Audited Person.

A RA of a Firm with a significant balance sheet may wish to contact the DFSA to discuss the Firm's activities. This contact should ideally be made during the audit planning stage. These enquiries are not intended to influence the independent role the auditor plays in forming judgements and opinions on an Audited Person's financial statements.

C. Review communications between the DFSA and the Audited Person

A RA should obtain and review all communications between the DFSA and the Audited Person, as part of the audit planning process. Review of these communications will help the RA understand the issues being discussed between the DFSA and the Audited Person.

D. Obtain the DFSA risk assessment findings letters

The DFSA performs periodic risk assessments of Firms based on a risk cycle. Upon completion of a risk assessment, the DFSA issues a risk assessment findings letter along with a risk mitigation plan where required. A RA should obtain the risk assessment findings letter in order to plan their audit work around internal controls specific to financial statements preparation.

E. Inspect breaches register

In accordance with the DFSA Rulebook, General Module (**GEN**) Rule 5.3.12, an Authorised Person must keep records of breaches of any legislation applicable in the DIFC. An RA should inspect the breach register to understand the regulatory compliance of the Authorised Person.

F. Review reports by Compliance Officer

In accordance with GEN Rule 7.5.1, a Firm is required to appoint a Compliance Officer who has the responsibility for compliance matters in relation to the Firm's Financial Services. The Compliance Officer generally provides compliance related reports to the Governing Body of the Firm. A RA should review such compliance reports to understand the regulatory compliance of the Firm.

G. Review internal audit report

In accordance with GEN Rule 5.3.13, an Authorised Person must establish and maintain an internal audit function with responsibility for monitoring the appropriateness and effectiveness of its systems and controls. A RA, as part of their planning process, should obtain and review the latest internal audit report. A RA should also consider making enquiries of the internal auditor.

5. The above steps are not an alternative to the mandatory work required in accordance with the ISAs. A RA should appropriately document the results of the above mentioned steps.