

# *FSC* Newsletter

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## Guidance Notes On Communications Between Auditors And The Commission

These guidance notes refer to auditors, audits and reports on annual financial statements. They also refer to communications between auditors and the Commission under Regulations 21A of the Accounting and Financial Regulations and Regulation 78 of the Collective Investment schemes Regulations. ("Regulations 21A and 78") and between the Commission and auditors under Section 58(2) of the Financial Services Ordinance as well as between auditors and the Banking Supervisor under section 46 of the Banking Ordinance 1992.

### Introduction

The manner in which a licensee under the Financial Services Ordinance and Banking Ordinance must conduct its financial services business are governed by the Ordinances themselves and the detailed regulations made thereunder. The Financial Services Ordinance and regulations also govern the operation of collective investment schemes. Compliance with statutory requirements is monitored in four principal ways -

- through internal monitoring by the licensee of compliance with the financial and other regulations and by the licensee informing the Commission when it becomes aware that it or a scheme has breached certain of the rules and regulations;
- through the requirement that a licensee submits its financial statements and regular returns or a scheme's annual report to the Commission;
- through powers given to the Commission to monitor and inspect the businesses and schemes being regulated; and
- by requiring the auditors to make certain reports.

The regulations require the auditor to confirm to the Commission that he has obtained such information and explanations and carried out such work as is necessary to enable him to report annually to the Commission on a licensee's and a scheme's compliance with certain financial rules and regulations.

In the course of performing the work necessary to discharge these routine reporting responsibilities or in carrying out his other auditing functions, the auditor may become aware of matters which he considers need to be brought to the Commission's attention, other than through the medium of the routine formal report (an 'ad hoc report').

This guideline is concerned only with ad hoc communications between auditors and the Commission. It does not cover the auditor's approach to the audit of a licensee or a scheme or his routine reporting responsibilities.

### Communications By The Auditor

Regulation 21A of the Accounting and Financial Regulations provides that:

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"No duty to which an auditor of a licensee may be subject shall be regarded as contravened by reason of his communicating in good faith to the Commission whether or not in response to a request from the Commissioner, any information or opinion on a matter of which the auditor has become aware in his capacity as auditor of that licensee and which is relevant to any functions of the Commission under the Ordinance".

Regulation 78 of the Collective Investment Schemes Regulations provides that:

"No duty to which an auditor of a collective investment scheme is subject shall be regarded as contravened by reason of this communicating in good faith to the Commission, whether or not in response to a request from that Commission, any information or opinion on a matter of which the auditor has become aware in his capacity as auditor of the scheme and which is relevant to any function of the Commission under the Ordinance."

Section 46 of the Banking Ordinance provides that:

"No duty to which an auditor of a licensee may be subject shall be regarded as contravened by reason of his communicating in good faith to the Commissioner of Banking Supervisor, whether or not in response to a request made by the Commissioner of Banking or Banking Supervisor, any information of which he becomes aware or opinion that he may form in his capacity as an auditor and which relates to the business or affairs of the licensee".

Regulations 21A and 78 do not lay down any rules nor do they specify the circumstances in which the auditor is to communicate any matter to the Commission.

Section 47 of the Banking Ordinance states under which conditions the auditor has to communicate:

- "(1) An auditor of a licensee shall advise the Banking Supervisor at the first possible opportunity in writing if -
- (a) there has been and adverse occurrence or adverse change in the auditor's perception of the licensee, and
  - (b) the occurrence in (a) has given rise to a material loss or indicates that a reasonable probability exists that a material loss may arise.
- (2) Circumstances amounting to "an adverse occurrence", "adverse change" or "material loss" may be prescribed from time to time".

These notes contain guidance on the circumstances in which matters should be brought to the attention of the Commission. In interpreting this guidance, the auditor should bear in mind the fundamental objectives of the legislation. These are to ensure that the Commission is able to fulfil his function of determining whether a person carrying on investment business or a controlled activity is a 'fit and proper' person to do so, and that he is complying with the regulations applicable to his conduct of that business or activity and whether a scheme is being properly operated in accordance with applicable regulations.

Confidentiality is an implied term of an auditor's contract with his client, but in certain circumstances such as under regulations 21A and 78 or section 46 it does not prevail, since he is entitled to communicate information or opinions on a matter relating to the business or affairs of the licensee or the scheme relevant to the Commission's functions under the Ordinance without the duty of confidentiality owed to the client being regarded as having been contravened.

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Matters which may be reported are not restricted to problems of solvency, or other financial requirements, but include evidence of dishonesty or serious incompetence (which would preclude the licensee from satisfying the 'fit and proper' test).

Clearly the potential scope of matters which may be reported is wide, but does not require the auditor to extend the scope of his work in order to discover matters that may be reportable.

The auditor is able to communicate with the Commission by way of:

- a formal report;
- a meeting; or
- by any other means,

on any matters of which he becomes aware in his capacity as the licensee's or the scheme's auditor and which are relevant to the Commission's function under the Ordinance. Full notes or minutes of any conversations or meetings with the Commission on the subject should be made.

This communication can be made either on the auditor's initiative or in response to a request from the Commission for information. The auditor should co-operate with the Commission and respond to any requests from the Commission for information, provided he has no reason to doubt that the request is relevant to the Commission's function under the Ordinance. The auditor may communicate a matter to the Commission with the protection of regulations 21A and 78 or section 46 regardless of the source of that information, provided he became aware of the matter in his capacity as auditor of the licensee or the scheme and he does so in good faith.

The auditor cannot be expected to be aware of all circumstances which, had he known of them, would have led him to exercise his right to report to the Commission. Regulations 21A, 78 and section 46 do not require the auditor to change the scope of his audit or other work nor the frequency or timing of his visits. The auditor has no obligation to seek out grounds for making a report under either regulation. They do not place an obligation on the auditor to conduct his work in such a way that there is reasonable certainty that he will discover a notifiable matter. It is only when the auditor does become aware in the ordinary course of this work of such a matter, or of circumstances which suggest the existence of such a matter, that he should make detailed enquiries with those regulations specifically in mind.

The auditor should ensure that:

- all staff responsible for the audit of licensees or of schemes are aware of the provisions of regulations 21A, 78 and section 46 and the contents of this guideline, and are able to identify situations in which they might apply; and
- satisfactory procedures exist to ensure that any information, which may be the subject of an ad hoc report, obtained by staff in the course of their work, is passed on to the partner responsible without delay.

The auditor should realise that regulations 21A, 78 and section 46 will not provide protection where he could be held to have acted maliciously or in bad faith or if the information reported is outside the scope of those regulations. The Ordinance does not, therefore, provide complete immunity from all types of legal action by all parties affected, or subsequently affected, by those regulations in reporting to the Commission.

An auditor is protected, however, even if the information which he communicates falls short of proof, or the opinion which he communicates cannot be verified. An auditor who can demonstrate that he has acted reasonably and in good faith in informing the Commission of a reportable matter which he thinks has occurred would not be held in breach of duty to his client even if, after an investigation, it were found there was not a

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matter which needed to be reported. These are areas where the auditor may wish to consider taking legal advice before making a report.

Whilst no breach of statutory duty might arise, it should be appreciated that there is no protection given by the Ordinance if the auditor, after becoming aware of an occurrence, fails to report, promptly, or at all, to the Commission. Furthermore, auditors should recognise that speed of reporting is likely to be important in order to protect the interests of the public.

## **Ad Hoc Reports Under The Financial Services Ordinance**

Investments in financial markets carry inherent risks. It is not the purpose of the Ordinance, nor the duty of the auditor, to protect the investor from the normal risks of investments which are appropriate for him. The auditor should, however, take the initiative and ensure that an ad hoc report under regulation 21A or 78 is made to the Commission by either the licensee, or himself if he considers investors have incurred, or are at significant risk of incurring, a material loss as a result of persons licensed under the Ordinance carrying on business in a manner that is not 'fit and proper' or that is in breach of the Ordinance or its regulations.

This can be more fully explained as follows:

- there must be a significant adverse occurrence of a change in the auditor's perception of an existing situation, that may include an adverse change in the circumstances of the business or the scheme; and
- the situation described above has:
  - given rise to or has indicated that a reasonable probability exists that it may give rise to:
    - a material financial loss to the business or the scheme; or
    - loss of control over the assets or records of the business or scheme; or
- indicated that there is evidence of:
  - dishonesty or serious incompetence; or
  - serious failure to observe rules or regulations for the conduct of the investment business or controlled activity or the management of the scheme; and
- the position is such that because of a significant risk which is material to the collective interests of investors, the investors' interests would be better safeguarded if the Commission were aware of the position, even if only to organise protective action.

One measure by which materiality of a loss or potential loss may be judged is by reference to the relevant financial resources rules. The licensee's ability to continue trading will depend on its ability to make good any losses which might have been incurred and still meet the financial resources requirements.

The auditor should bear in mind that his decision may have to stand up to examination at a future date on the basis of the following considerations:

- what he knew at the time;
- what he should have known in the course of his audit;
- what he should have concluded; and
- what he should have done.

## **Reporting Via The Licensee**

Where the auditor becomes aware of a matter which, in his professional judgement, he considers ought to be reported to the Commission, he should consider the facts and, unless inappropriate in the circumstances, discuss the matter with the management of the licensee or the scheme.

It is important for the auditor to act in a manner that will respect his professional relationship with his client. Normally, therefore, the auditor should ask the licensee to draw matters about which he is concerned to the attention of the Commission. It is pertinent to note that Regulation 13 of the Conduct of Business Regulations requires a licensee to deal with the Commission in an open and co-operative manner and to keep the Commission promptly informed of anything concerning the licensee that might reasonably be expected to be disclosed to it.

Examples of the circumstances encountered in which the situation set out in the paragraphs dealing with ad hoc reports may be met are:

- the auditor discovers a failure by the licensee or the scheme to comply with the relevant rules or regulations which may have material consequences (e.g. accounting records not kept in accordance with the customers' money regulations);
- it has come to the attention of the auditor that the procedures, records or systems fail significantly to comply with, or to demonstrate compliance with the requirements of the relevant regulations;
- the auditor forms the opinion that there has been breakdown or a failure of the accounting or the internal control systems which may have material consequences;
- the auditor forms the opinion that management has reported financial information to the Commission which is misleading in a material respect, or becomes aware that management has failed or does not intend to report something required to be reported by the regulations and the failure to report is, or would be, materially misleading;
- there is an extreme situation, such as evidence of imminent financial collapse, and it is obvious that the Commission must be informed.

Where the licensee will not itself inform the Commission of a matter, having been advised to do so by the auditor, or where it has not been done within the period of time specified, or where there is not adequate evidence that the client has properly reported the matter in question, the auditor should make such a report direct to the Commission.

## Reporting Direct To The Commission

In exceptional circumstances, where the auditor doubts whether management are fit and proper persons to carry on investment business or a controlled activity and it would be in the interests of the public that the management of the investment business or controlled activity should not be informed in advance, the auditor should report direct to the Commission. Examples of these circumstances are:

- where there has been an occurrence which causes the auditor no longer to have confidence in the integrity of the directors or senior management, e.g. where he believes that a fraud or other irregularity has been committed by the directors or senior management of the investment business or controlled activity, or he has evidence of the intention of directors or senior management to commit such a fraud or other irregularity;
- where there has been an occurrence which causes the auditor no longer to have confidence that the directors or senior management will conduct the investment business or controlled activity in a prudent manner so as to protect the interests of investors or clients, e.g. where he has discovered that the directors or senior management are acting in an irresponsible or reckless manner with respect to the affairs of the business or its clients or he has evidence of their inclination so to act.

The auditor should also report direct to the Commission when speed is of the essence and there may not be time to follow the reporting procedures outlined below. For example, when he becomes aware that the licensee may be about to cease being licensed or the scheme authorised, whether as a result of its own action or that of the

Commission, the auditor should consider the need to disclose to the Commission any information in his possession relevant to the functions of the Commission without delay. The fact of such impending cessation of authorisation may bring forward the desirability of disclosing matters to the Commission, in order that it may take appropriate action while the investment business or controlled activity is still licensed, particularly where such matters bear on the security of third party interests. It is also in the auditor's own interest to act before authorisation ceases whilst he has the benefit of the protection given by regulations 21A, 78 and section 46.

## Reporting Procedures

In normal circumstances, where an auditor concludes that an ad hoc report to the Commission is necessary, he should adopt the following procedures, bearing in mind that speed may be of the essence:

- He should establish whether the matter has already been reported by the licensee through the usual channels, and, if so, obtain from the licensee a copy of the notification to the Commission and a copy of the Commission's written acknowledgement sufficient to establish that the matter has been properly reported.
- If the matter has not been reported to the Commission, the auditor should consider whether it may be possible and sufficient to submit or accelerate his routine report.
- If the auditor decides that an ad hoc report is necessary, he should immediately discuss the matter with the directors or management and request them to inform the Commission. He should follow this with a written request setting out his views and requesting the directors or management to inform the Commission of the matter within a specified period of time sufficient for the licensee to obtain advice but short enough to ensure that the risk of damage is limited. The auditor should then seek from the licensee evidence of prompt notification to and acknowledgement from the Commission sufficient to establish that the matter has been properly reported.
- If the directors or management of the licensee have not informed the Commission, and continue to refuse to inform the Commission within the specified period of time, the auditor should discuss the matter with any non-executive directors or the audit committee. Alternatively, the auditor could inform the non-executive directors or audit committee in writing when he brings the matter to the attention of the executive directors. If the directors or management do not take necessary action, the auditor should report direct to the Commission.

In exceptional circumstances it is not appropriate or practical for the auditor to inform, or discuss the matter with anyone connected with the licensee, including non-executive directors or the audit committee. In these circumstances, the auditor should make an appropriate written or other report direct to the Commission.

The auditor should note that making an ad hoc report alone may not discharge all his responsibilities. For example, he should consider the implications of the matter giving rise to the ad hoc report for his opinion on the financial statements.

## Communications By The Commission (Financial Services Ordinance)

The Financial Services Ordinance also deals with communications by the Commission to auditors of licensees and of schemes. Section 58(2) permits the communication of information which is otherwise restricted under section 58(1) for the purpose of enabling the Commission to carry out any of its statutory functions under the Ordinance without the consent of the person from whom it is received or to whom it relates. Restricted information is defined in section 58(1) as information acquired by the Commission in the course of carrying out its functions.

The Commission would take the initiative in bringing a matter to the attention of an auditor of a licensee or of a scheme where it believes that it is of such importance that

the auditor's knowledge of it could significantly affect the form of his audit report or the way in which he carries out his reporting responsibilities. The Commission would inform the auditor whether the licensee's or scheme's management has been informed of the matter and, if so, who has been advised.

If the auditor is not informed by the Commission of any matter, he is entitled to assume that the Commission has no such information. Accordingly there is no need for the auditor to request the Commission to confirm this. The Commission would not normally respond to general enquiries from auditors seeking confirmation that there is no relevant information in connection with annual audits.

## **Communications By The Commissioner Of Banking Or The Banking Supervisor**

Information which is confidential and has been obtained under, or for the purposes of, the Ordinance can only be disclosed in given circumstances under sections 82(10)(a) to (c) of such a disclosure will enable the carrying of the Ordinance into effect.

It should be noted that although the Commission can disclose confidential information to auditors, they are not generally free to pass that information to others such as their client institution.

## GUIDANCE NOTE ON THE CONTENTS AND FORMAT OF THE AUDITORS REPORT REQUIRED UNDER REGULATION 20 OF THE FINANCIAL SERVICES (ACCOUNTING & FINANCIAL) REGULATIONS

This section of the Newsletter is intended to provide a common approach to reporting by auditors to the Commission and to establish clear unequivocal wording of auditors' reports such that, whenever possible, a standard form of wording may be used by auditors when reporting to the Commission. One benefit of establishing a standard form of report is that it removes any ambiguity as to the assurance obtained from auditors about compliance

### The Auditors' Reporting Responsibilities

The responsibility of auditors reporting to the Commission is primarily to provide assurance to the Commission on the financial information provided by the licensee, on the accounting records and control system operated by the business during the period covered by the report and, very importantly, on the licensee's stewardship of client assets.

The report by auditors is made as a confirmation of matters for which the primary responsibility lies with the management of the business. The relevant responsibilities of management are, broadly:

- to prepare annual financial statements which give a true and fair view of the business's state of affairs and of its profit or loss;
- to establish and maintain adequate accounting and other records and control systems; and
- to ensure that client assets are safeguarded and that the Regulations of the Commission concerning customer assets are observed.

The auditors' report is required to cover the following matters:

- the annual financial statements of the licensee have been properly prepared in accordance with these regulations;
- in the case of the balance sheet, a true and fair view is given of the state of affairs of the licensee as at the end of the financial year;
- in the case of the profit and loss account, a true and fair view is given of the profit or loss of the licensee for the financial year;
- the licensee has, throughout the financial year, kept proper accounting records in accordance with the requirements of these regulations;
- the balance sheet and the profit and loss account are in agreement with the licensee's accounting records;
- he has obtained all the information and explanations which, to the best of his knowledge and belief, are necessary for the purposes of his audit;
- the licensee has maintained throughout the financial year systems adequate to enable it to identify documents of title, or documents evidencing title, to investments held in safekeeping for the licensee's customers in accordance with regulation 39 of the Financial Services (Conduct of Business) Regulations 1991; and
- the licensee was in compliance with the requirements of regulation 39 of the Financial Services (Conduct of Business) Regulations 1991 as at the date on which the balance sheet was prepared.

The objective of accounting systems and controls is to provide a high level of assurance that assets are safeguarded against loss from unauthorised use or disposition, that risks are properly monitored and evaluated and that transactions are executed in accordance with established procedures and are recorded properly. Accounting systems and

controls also assist management in conducting the business in a prudent manner. In considering the adequacy of control system required by the client assets and accounting records rules, auditors and the Commission must recognise the inherent limitations of such systems. These limitations mean that errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or the risk that the degree of compliance with those procedures may deteriorate.

In discharging their reporting responsibilities regarding a licensee, auditors should have particular regard to any changes in the requirements of the Commission in force during the year to which the report relates.

The contents of the auditors' report to the Commission is considered under the following headings:

- the addressee
- the financial statements and other information audited
- the auditing standards followed
- the audit opinion on the financial statements
- any other information or opinions prescribed
- the identity of the auditors
- the date of the report
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- **The addressee**

The audit report required by the Commissioner should be addressed to the Commission. The Commissioner may validly disclose the report to others for regulatory or legal purposes but, it is not for the use of third parties, including customers or shareholders of the licensee. Auditors should require the management of the licensee (for example, in the letter of engagement or a covering letter with which the report is transmitted to the client) to ensure that the report is not provided to anyone other than the Commission.

- **The financial statements and other information audited**

Auditors should identify clearly the financial statements and other information which is the subject of their report. Auditors should ensure that sufficient information is included with the prescribed formats (for example, by appending the statutory financial statements) for a true and fair view to be given.

- **The auditing standards followed**

Auditors should state that they have conducted the audit of the financial statements in accordance with Auditing Standards.

- **The audit opinion on the financial statements**

The auditors' report on the financial statements should be expressed in true and fair terms. The Commission also requires the audit report to state whether certain financial information (which may include the financial statements) has been properly prepared in

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accordance with the relevant financial statements rules and whether the balance sheet and profit and loss account are in agreement with the accounting records.

- **Other information or opinions**

The Commission requires auditors to state explicitly whether they have received all the information and explanations considered necessary for the purposes of the audit.

- **Accounting records and systems**

The regulations require auditors to report whether proper accounting records appropriate for the business have been kept in accordance with the applicable regulations during the period covered by their report.

Both management and auditors will need to refer to the detailed regulations in discharging their respective responsibilities regarding accounting records and control system.

It is the responsibility of the licensee's management to design, establish and maintain adequate records and control systems. All control systems have inherent limitations and cannot guarantee the totally effective operation of systems, nor the completeness and accuracy of the records. Also they cannot be proof against fraudulent collusion, especially on the part of those holding positions of authority or trust. Authorisation controls can be abused by the person or persons in whom authority is vested and management is frequently in a position to override controls. Whilst the competence and integrity of the personnel operating the controls may be aided by careful selection and training, pressures can be exerted from both within and outside the business. Furthermore, human error due to errors of judgement, to misunderstanding, carelessness, fatigue or distraction will undermine the effective operation of systems and controls.

What is proper or adequate in terms of accounting records and systems can vary considerably from one licensee to another, depending on the size and nature of the business.

- **Customer Investments**

Auditors are required to report whether the licensee was in compliance with the customer investment regulation at specific dates. A report is required as to whether the licensee had adequate systems throughout the year to enable it to comply with Regulation 39 of the Conduct of Business and the regulations concerning the identification and safekeeping of clients' investments.

In certain cases, licensees do not handle client assets. The Commission still wish to receive assurances that client assets have not been handled, whether inadvertently or deliberately. Auditors should perform review procedures which will enable them to give a statement of negative assurance.

- **The identity of the auditors**

The audit report should indicate clearly the name and address of the auditors.

- **The date of the report**

The auditors should indicate the date as at which their report is given.

Auditors of a licensee will normally conduct any statutory audit required under the Companies Ordinance and the audit for the purpose of reporting to the Commission at the same time. It is more efficient and effective to do so and would enable auditors ideally to sign their report to shareholders and their report to the Commission on the same day. Should auditors make their report to the Commission at a later date than the statutory report to the members (or other appropriate persons) on the financial statements, they should undertake procedures to obtain assurance that any material events occurring after the date of the first report are identified and appropriate action is taken.

The nature of investment business is such that timely reporting, particularly where shortcomings are involved, is important. Auditors should take all reasonable steps for their reports to be received by the Commission by the specified date.

- **Qualified Reports**

If auditors are unable to express an unqualified opinion on the financial statements they should qualify their report following the requirements of Auditing Standards.

Auditors may also need to qualify their reports on grounds other than those which arise in reporting on whether the financial statements give a true and fair view. Where the requirements of the regulation upon which auditors must report have not been met, their report must include a statement specifying the relevant requirements and the respect in which they have not been met, in sufficient detail for the breach or shortcoming to be clearly understood and evaluated by the Commission.

Should the licensee fail to notify appropriate matters to the Commission, the auditors should consider whether to report the matter directly, in the form of an "ad hoc" report to the Commission under section 21A of the Accounting and Financial Regulation.

In considering any matter indicating a possible breach of the regulations, auditors should analyse the circumstances in order to identify its cause, and should establish the action management has taken or intends to take to correct the matter. If the matter leads to a qualification and appropriate effective action to correct the matter has been taken (and the auditors are satisfied that this is so), they may choose to report this fact to the Commission so as to ensure the Commission is fully informed about the likelihood of any repetition of the breach in question. However, the prime responsibility for reporting corrective action rests with management.

Auditors should exercise care in forming a judgement as to whether a particular breach is trivial, bearing in mind the overriding objective of safeguarding client assets. Steps should be taken to ensure that all staff involved in the audit are aware that the judgement of whether a particular matter is trivial depends on different criteria from any quantitative measure of materiality which may be applied to the audit of the investment business's financial statements: for example, a failure to establish trust accounts for client money should not be regarded as trivial, even if the amounts involved are small. In cases of doubt, it may be appropriate to consult with the Commission, with the technical advisory service of one of the accountancy bodies or with another practitioner experienced in financial services business as to whether a particular matter is deemed to be trivial. Auditors should have due regard to their clients' confidentiality when consulting with a person outside the auditing firm.

Auditors should also bear in mind, at all stages of the audit, their responsibilities to report to the Commission breaches of rules and regulations which indicate that investors have incurred, or are at significant risk of incurring, a material loss.

## THE AUDITOR'S REPORT TO THE FINANCIAL SERVICES COMMISSION

standard format of unqualified reports

### **Auditors' report to the Financial Services Commission ('FSC') in respect of XYZ**

We report on the annual financial statements of XYZ ('the licensee') and on the further matters set out below. Our report is provided to the FSC under regulation 20 of the Financial Services (Accounting and Financial) Regulations, 1991.

We have audited the annual financial statements in accordance with Auditing Standards, and have carried out such other procedures as we considered necessary for the purposes of this report having regard to the Guidance Note in FSC Newsletter 4/1992. We have obtained all the information and explanations which we consider necessary.

#### **Financial statements**

In our opinion:

- (1) the annual financial statements give a true and fair view of the licensee's state of affairs at (year end date) and of its profit/loss for the year then ended and have been properly prepared in accordance with FSC's Regulations.
- (2) the balance sheet and profit and loss account are in agreement with the licensee's accounting records.

#### **Accounting records**

In our opinion the licensee has, throughout the year, kept proper accounting records in accordance with FSC's Regulations.

#### **Customer Investments**

Either:

In our opinion

- (1) the licensee maintained throughout the year systems adequate to enable it to comply with Regulation 39 of the Financial Services (Conduct of Business) Regulations 1991 concerning customer investments.
- (2) the licensee was in compliance with the FSC's Regulations concerning customer investments at (year end date)

Or: where the licensee did not hold customer investments, the following statement should be substituted for the opinion on client investments.

The directors have stated that the licensee did not hold customer investments during the year. Based on review procedures performed, nothing has come to our attention that causes us to believe that the licensee held customer investments during the year.

Auditor  
Date

Office