



# **REGULATORY POLICY**

## **Local Audit Sign-off for Mutual Funds and Mutual Fund Administrators**

**February 2021**





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### List of Acronyms

|             |                                   |
|-------------|-----------------------------------|
| <b>CIMA</b> | Cayman Islands Monetary Authority |
| <b>MF</b>   | Mutual Fund                       |
| <b>MFA</b>  | Mutual Fund Act                   |



## **Regulatory Policy Local Audit Sign-off for Mutual Funds and Mutual Fund Administrators**

### **1. Introduction**

- 1.1. This document establishes the Cayman Islands Monetary Authority's (the "Authority" or "CIMA") Regulatory Policy on Local Audit Sign-Off for Mutual Funds and Mutual Funds Administrators ("the Policy"). The Policy is being issued further to sections 8(1) and 20(1) of the Mutual Funds Act (as amended) ("the MFA") which requires all regulated mutual funds ("MFs) and licensed Mutual Fund Administrators to have their accounts audited annually by an auditor approved by the Authority. Further to this requirement, this Policy outlines the requirement for local audit sign-off and documents an auditor's obligations to the Authority.
- 1.2. The Policy should be read in conjunction with the following:
  - a) the Mutual Funds Act (as amended);
  - b) the Regulatory Policy: The Approval of an Auditor for a Regulated Institution;
  - c) the Regulatory Policy: Exemption from Audit Requirement - Regulated Mutual Funds;
  - d) The Authority's List of Approved Auditors; and
  - e) any other relevant acts and regulatory instruments issued by the Authority from time to time.

### **2. Statement of Objectives**

- 2.1. The objective of this Policy is to ensure that MFs and Mutual Fund Administrators are aware of the Authority's requirements on local audit sign-off and that auditors are aware of their obligations to the Authority under the MFA.
- 2.2. The measure is consistent with the Authority's statutory objectives as prescribed in the Monetary Authority Act, including:
  - a) promoting and maintaining a sound financial system in the Cayman Islands;
  - b) having regard to generally accepted principles of good corporate governance;
  - c) endeavouring to promote and enhance market confidence, consumer protection and the reputation of the Islands as a financial centre;
  - d) facilitating innovation in financial services business;
  - e) recognising the need for transparency and fairness on the part of the Authority; and
  - f) recognising the international character of financial services and markets and the necessity of maintaining the competitive position of the Islands, from the point of view of both consumers and suppliers of financial services, while conforming to internationally applied standards insofar as they are relevant and appropriate to the circumstances of the Cayman Islands.



### 3. Scope of Application

- 3.1 This Policy is applicable to MFs and Mutual Fund Administrators pursuant to the MFA and will be applied by the Authority primarily in cases where an:
- a) auditor is being appointed by a MF or Mutual Fund Administrator; and
  - b) assessment of the accounts of a MF or Mutual Fund Administrator is being conducted by the Authority.
- 3.2 The Policy does not extend to foreign domiciled funds that are administered in the Cayman Islands, but not otherwise registered as foreign companies doing business in the Islands.

### 4. Definitions

- 4.1. For the purpose of this Rule, the following definitions are provided:
- 4.1.1. **“Mutual Funds”** has the same meaning ascribed to it in the MFA.
  - 4.1.2. **“Mutual Funds Administrators”** has the same meaning ascribed to it in the MFA.
  - 4.1.3. **“Auditor”** has the same meaning ascribed to it in the MFA.

### 5. Statutory Audit Requirements

- 5.1. Pursuant to section 8(2) and 20(2) of the MFA, all MFs and Mutual Fund Administrators, respectively, must submit their audited accounts in respect of each financial year of the fund and the administrator to the Authority within six months of the end of that financial year, or within such extension of that period as the Authority may allow.
- 5.2. The auditor must prepare the accounts in accordance with the International Financial Reporting Standards or the Generally Accepted Accounting Principles of the United States of America, Japan, Switzerland or a non-high-risk jurisdiction.

### 6. Statutory Audit Exemptions

- 6.1. The Authority may, in relation to the whole or part of any financial year of a MF, exempt a MF from the requirements of conducting an audit either absolutely or subject to such conditions as the Authority may deem appropriate.
- 6.2. The Authority has issued a Regulatory Policy on the Exemption from Audit Requirements for MFs further to section 8 (4) of the MFA as additional guidance to MFs. The Authority encourages MFs to be acquainted with this Policy.

## 7. The Policy

- 7.1. It is the policy of the Authority that all MFs and Mutual Fund Administrators have their accounts audited and signed-off by an approved local auditor. All auditors are approved by the Authority further to sections 8(1) and 20(1) of the MFA and in accordance with the Regulatory Policy - the Approval of an Auditor for a Regulated Institution.
- 7.2. Only auditors with a physical presence in the Cayman Islands will be approved as auditors of record for MFs and Mutual Fund Administrators. Physical presence for the purposes of this Policy means, having such resources (including staff and facilities) and such books and records as the Authority considers appropriate having regard to the nature and scale of the business.
- 7.3. All MFs and Mutual Fund Administrators when applying to be registered or licensed by the Authority must appoint a local auditor from the Authority's list of Approved Auditors. The application should include:
- a) the name and address of the auditor that the MF or Mutual Fund Administrator is proposing to appoint; and
  - b) a letter of consent from the auditor that is being appointed, agreeing to the appointment and confirming that it is aware of its responsibilities and obligations under the MFA.
- 7.4. The Authority does not require that all the audit work of a MF or a Mutual Fund Administrator be carried locally or solely by the approved local auditor.

## 8. Auditors' Obligations

- 8.1. If an auditor, in the course of carrying out an audit of the accounts of a MF or Mutual Fund Administrator obtains information or suspects that the MF or Mutual Fund Administrator is:
- a) unable or likely to become unable to meet its obligations as they fall due;
  - b) carrying on or attempting to carry on business or winding-up the mutual fund or mutual fund administration business voluntarily in a manner that is prejudicial to investors in any mutual fund it is administering or to its creditors or the creditors of any such mutual fund; or
  - c) carrying on or attempting to carry on business without keeping any or sufficient accounting records to allow its accounts to be properly audited;
  - d) carrying on or attempting to carry on business in a fraudulent or criminal manner; or
  - e) carrying on or attempting to carry on business otherwise than in compliance with –
    - (i) this Act or any regulations made under this Act;
    - (ii) the Monetary Authority Act (2020 Revision);
    - (iii) the Anti-Money Laundering Regulations (2020 Revision); or
    - (iv) a condition of its registration imposed under this Act,



the auditor shall immediately give the Authority written notice of the information or suspicion and, in the case of suspicion, the reason for that suspicion. If it appears to the Authority that an auditor has failed to comply with its obligation, the Authority may instruct the MF or the Mutual Fund Administrator to remove and replace its auditor.

## **9. Revocation or Removal of Local Auditor**

- 9.1. Where the Authority has granted approval of an auditor under the MFA, the approval may be revoked by the Authority if the Authority is of the opinion that the auditor is not sufficiently competent to carry out an audit of the accounts of the MF or the Mutual Fund Administrator or that, in all the circumstances, the auditor is incapable of carrying out the audit objectively.
- 9.2. Where the auditor appointed has been removed, the MF or Mutual Fund Administrator should outline in writing to the Authority the reason(s) for removing the current auditor along with the name of the proposed new auditor. The Authority will confirm that the proposed new auditor is on the Authority's list of local approved auditors and request confirmation of consent from the new auditor of their willingness to act for the entity. The Authority may also check with the current auditor for confirmation of the reason(s) for the change.





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