



FREQUENTLY-ASKED QUESTIONS CLARIFICATION NOTE AND GUIDELINES ON EXTERNAL AUDITOR OF LABUAN FINANCIAL INSTITUTIONS

A. OVERVIEW

1. Who are subjected to the requirements under the Guidelines?

The Guidelines is only applicable to the relevant LFIs as prescribed under paragraph 2.0(i) of the Clarification Note, until such time that the review exercise has been completed by Labuan FSA.

2. When is the effective date of the Guidelines?

The effective date of the Guidelines under paragraphs 4.1 and 4.2 for the scoped-in relevant LFIs would remain unchanged. Notwithstanding this, the requirement to submit the application for Labuan FSA's prior approval on the appointment of their external auditors under paragraph 8.1 of the Guidelines will come into effect on 1 January 2019.

B. OPERATIONAL AND REGULATORY REQUIREMENTS

3. Is the Board of Directors (Board) required to conduct the assessments on whether the external auditor is in compliance with the criteria as specified in the Guidelines?

The Board is expected to provide an effective oversight over risks arising from the LFI's activities including the appointment of a competent external auditor. In this regard, the Board is primarily responsible for conducting the assessments on the external auditor and should ensure that only qualified external auditor is appointed by the LFI. Notwithstanding this, the Board may delegate the assessment of the external auditor's criteria compliance to its Audit Committee as stated under Footnote 2 of the Guidelines.

- 4. Is the Guidelines applicable to branches as most of the branches do not have their own Board? In most cases, the principal officer, EXCO committee or other relevant person of the LFI's head office will be given the authority to make such appointment.**

Yes, the Guidelines is applicable to the branches where the Board refers to the LFI's regional/head office or an equivalent person, whichever is relevant. If the principal officer or EXCO committee is authorised by the Board to appoint the external auditor for the branch, the arrangement is allowed.

- 5. Paragraph 5.3(vii) stated that 'he must not have served as an engagement partner for a continuous period of more than five years with the same relevant LFI.' Does this mean that the LFI is prohibited from engaging the same external auditor or partner that have signed-off the audited financial report after five years?**

The LFI may engage the same audit firm provided that the engagement partner has been rotated off after five (5) years.

- 6. Would Labuan FSA allows the swapping of roles between the engagement partner(s) and concurring partner(s) after the end of the mandatory five (5) years rotation?**

The swapping of roles between the engagement partner(s) and concurring partner(s) is allowed. Notwithstanding this, where applicable, Labuan FSA may exercise its discretion to disapprove such swapping of roles, if there is a presence of 'familiarity threat' issue.

C. REGULATORY PROCESS

- 7. For an LFI operating as a branch, the appointment of external auditor will be approved by the head office of which the approved resolution will be sent to the home jurisdiction's central bank for approval at a later stage after the Annual General Meeting. What is Labuan FSA's stance on this?**

In relation to an LFI operating as a branch, the appointment of an external auditor shall be submitted for Labuan FSA's approval no later than two (2) months before the Annual General Meeting or within thirty (30) calendar days upon receipt of its Board's approval (at Head Office level) on the said appointment, whichever is deemed reasonably practicable.

8. If the same external auditor is to be appointed, must the LFI submit the application to Labuan FSA on the reappointment?

Upon effective date of the Guidelines, all appointment of external auditor is considered a “fresh application” regardless of whether the same external auditor is being appointed. Hence, prior approval from Labuan FSA to appoint external auditor for each financial year is required.

Notwithstanding this, Labuan FSA reserves the right to exercise its discretion to approve the external auditor’s appointment beyond the one (1) year engagement, depending on Labuan FSA’s satisfactory supervisory assessment against the relevant LFIs, on a case-to-case basis. Notwithstanding this, the said appointment would also be subjected to a yearly review if there is no change to the already approved external auditor.