

## BERMUDA PUBLIC ACCOUNTABILITY BOARD

19 Queen Street  
Hamilton HM11  
Web-site: BPAB.bm

### Report to the Minister of Finance

This is the third report of the Bermuda Public Accountability Board (BPAB) and covers the period from January 1, 2018 to November 30, 2018.

The Bermuda Public Accountability Act 2011 (The Act) provides for a comprehensive, independent and transparent system of oversight of Public Accountants that audit Public Interest Entities (PIE) by establishing the BPAB and granting it powers to carry out the independent supervision of PIE Public Accountants. The oversight of PIE Public Accountants provided under The Act is in accordance with Articles 29, 30 and 32 of the Directive 2006/43/EC of the European Parliament and Council as amended from time to time. The objective of the establishment and implementation of the oversight framework is to promote quality auditing and protect the public investing in Bermuda PIE'S and for Bermuda to achieve equivalency with the audit requirements demanded by the 2006 Directive.

The auditing profession is overseen by the Chartered Professional Accountants of Bermuda ("CPA Bermuda"). CPA Bermuda has been affiliated with the Chartered Professional Accountants of Canada ("CPA Canada") since 1973 and, with effect from 10<sup>th</sup> June, 2014, CPA Bermuda became a full member of CPA Canada.

There are a total of nine public accounting firms in Bermuda, all of whom are members of CPA Bermuda. In accordance with the Rules, five PIE Public Accountants are currently registered with BPAB.

The Bermuda Public Accountability Amendment Act 2017 provides the definition of a PIE which complies with the EU Directive 2014/56/EU. There are currently 67 PIE's in Bermuda.

The Board entered into an Agency Agreement with the Canadian Public Accountability Board (CPAB), which provides for BPAB to appoint CPAB as its agent to conduct inspections, as agreed with BPAB, of Bermuda audit firms. Under the terms of the Agreement, CPAB will assist with the inspection process, under the oversight of BPAB, for the purposes of reporting findings and making recommendations to BPAB. Such inspections are carried out by CPAB in accordance with the same standards CPAB would apply if such firms were CPAB participating audit firms. CPAB and BPAB agree to maintain the confidentiality of all documents and information obtained from the other party or obtained during the course of any inspection or other work performed, except as required by law. This Agreement was signed November 3, 2017.

As part of the inspection process and cycle, BPAB selected one PIE Public Accountant and one PIE to be inspected under the Agency Agreement with CPAB. The inspection was performed in November 2017 by a team of inspectors at the PIE Public Accountant firm and BPAB issued its Final Inspection Report and Engagement Findings Report on January 9, 2018. The full scope review indicated that there were no significant findings in the review of the audit of the PIE nor were there any reportable findings related to the policies and procedures implemented by the PIE Public Accountant.

The Board has again entered into an Agency Agreement with CPAB for inspections being carried out in November and December 2018 on the same basis as described for 2017. This Agreement was signed on November 22, 2018. As part of the current inspection process and cycle, BPAB has selected two PIE Public Accountants and one PIE from each firm to be inspected under the Agency Agreement.

During the period 2016 to 2018 inspections will have been carried out on all the PIE Public Accountants that provide services to PIE's.

The equivalence assessment of the Bermudian audit oversight system is continuing. Bermuda is one of the countries under the transitional equivalence regime (Equivalence Decision 2016/1223/EU), with the transitional period ending on July 31, 2019. The new audit regulatory framework entered into force in the European Union (EU) on June 17, 2016. The aim of this new framework was to improve statutory audits in the EU by, among others, reinforcing auditors' independence and their professional scepticism towards the management of the audited company, enhance the informational value to investors of audit reporting, contribute to a more dynamic audit market in the EU and enhance audit supervision.

In this context, the Committee of European Auditing Oversight Bodies (CEAOB) was established to improve cooperation between EU national audit authorities and contribute to the effective and consistent application of EU audit legislation. The CEOB carries out the technical assessments of public oversight systems of third countries and contributes to the international cooperation between EU Member States and third countries in this area.


In order to fulfil this specific task, the CEOB established a sub-group on international equivalence and adequacy (the subgroup). This subgroup is chaired by the European Securities Market Authority (ESMA) and composed of national audit oversight authorities in the EU

At the direction of ESMA, BPAB were required to respond to an "Equivalence Assessment Framework" questionnaire in September 2018. BPAB is currently awaiting a response to the completed questionnaire.

The financial results of BPAB for the fiscal year April 1, 2017 to March 31, 2018 resulted in an operating surplus of \$6,147. The revenues consisted of inspection fees, registration fees and donated audit services aggregating \$57,919 while expenses consisted of general administration expenses and professional fees aggregating \$51,772. The financial statements have been prepared by BPAB and audited by the Auditor General and are submitted with a clean audit opinion under separate cover.

The Board of Directors consists of a Chairman, Peter F. Watson FCPA, FCA and four non-executive members: Robert D. Steinhoff, FCPA, FCA, Nathan Kowalski, CPA, CA, CFA, Andrew Marsh, BSc, and Scott Hunter FCPA, FCA, all of whom are independent to the auditing profession.

Respectfully submitted

  
Peter F. Watson FCPA FCA

December 14, 2018

Robert N. Steinhoff FCPA FCA  
Nathan Kowalski CPA CA  
Andrew Marsh BSc  
Scott Hunter FCPA FCA

**BERMUDA PUBLIC ACCOUNTABILITY BOARD**

**FINANCIAL STATEMENTS**

**MARCH 31, 2018**



## ***Office of the Auditor General***

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### **INDEPENDENT AUDITOR'S REPORT**

To the Minister of Finance

I have audited the accompanying financial statements of the Bermuda Public Accountability Board, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with public sector accounting standards generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.


BERMUDA PUBLIC ACCOUNTABILITY BOARD

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2018

	2018	2017
	\$	\$
<b>FINANCIAL ASSETS</b>		
Cash	24,905	11,800
Accounts receivable	5,000	10,000
	<u>29,905</u>	<u>21,800</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	4,708	2,750
<b>NET FINANCIAL ASSETS AND ACCUMULATED SURPLUS</b>	<u>25,197</u>	<u>19,050</u>

SIGNED ON BEHALF OF THE BOARD:

  
Chairman

  
Treasurer

The accompanying notes are an integral part of these financial statements

**BERMUDA PUBLIC ACCOUNTABILITY BOARD**  
**STATEMENT OF CHANGE IN NET FINANCIAL ASSETS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	2018	2017
	\$	\$
NET FINANCIAL ASSETS, BEGINNING OF YEAR	19,050	19,042
Operating surplus	<u>6,147</u>	<u>8</u>
NET FINANCIAL ASSETS, END OF YEAR	<u>25,197</u>	<u>19,050</u>

The accompanying notes are an integral part of these financial statements

# BERMUDA PUBLIC ACCOUNTABILITY BOARD

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 1. AUTHORITY

The Bermuda Public Accountability Board (“BPAB”) was established under the Bermuda Public Accountability Act 2011 (the “Act”) as a body corporate, having perpetual succession and a common seal. BPAB commenced operations on August 1, 2012.

Under the Act, BPAB was granted powers to carry out independent supervision of public accountants who perform audits of Public Interest Entities (“PIE”). This regulatory oversight of Bermuda public accountants that audit PIEs is undertaken in Bermuda to achieve equivalency with the audit requirements demanded by the EU Directive 2006/43/EC.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pursuant to standards established by the Public Sector Accounting Board (“PSAB”) of the Chartered Professional Accountants of Canada, BPAB is classified as an other government organization. These financial statements are prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada and the accounting policies considered particularly significant are as follows:

#### (a) Cash

Cash includes all cash on deposit with financial institutions that can be withdrawn without prior notice or penalty.

#### (b) Revenue recognition

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

BPAB derives its revenue from fees received upon registration of PIE Public Accountants. In addition, revenues are derived from the PIE Public Accountants to offset the expenditures incurred under the agency arrangements with the Canadian Public Accountability Board (“CPAB”) in carrying out the inspections of such firms.

BERMUDA PUBLIC ACCOUNTABILITY BOARD

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Transaction costs related to financial instruments in the cost or amortized cost category are added to the carrying value of the instrument when initially recognized.

Write-downs on financial assets are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the write-down being recognized in the statement of operations and accumulated surplus.

It is management's opinion that BPAB is not exposed to significant interest rate, currency or credit risks arising from these financial instruments.

(g) Management uncertainty

These financial statements are prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada. These standards require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from these estimates. BPAB does not have any significant areas requiring the use of estimates.

(h) Leases

The lease is for office space at 19 Queen Street, Hamilton HM11 and is classified as an operating lease.

(i) Adoption of Public Sector Accounting Standards

On April 1, 2017, BPAB adopted the Public Sector Accounting Standards PS2200 Related Party Disclosures, PS 3210 Assets and the amendments to the Introduction to Public Sector Accounting Standards.

Adoption of these standards has not resulted in any disclosure changes to the financial statements.



BERMUDA PUBLIC ACCOUNTABILITY BOARD

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

5. FINANCIAL RISK MANAGEMENT

BPAB is exposed to various risks through its financial instruments. The Board of Directors has overall responsibility for the establishment and oversight of its risk management framework. BPAB manages its risks and risk exposures through sound business practices. The following analysis provides a measure of the risks at the reporting date, March 31, 2018.

(a) Credit risk

Credit risk arises from cash held with a bank and accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. BPAB determines, on a continuous basis, amounts receivable on the basis of amounts it is virtually certain to receive based on their estimated realizable value. It is the Board's opinion that BPAB is not exposed to significant credit risk.

The amounts outstanding as at year-end under accounts receivable are current.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure credit risk.

(b) Liquidity risk

Liquidity risk is the risk that BPAB will not be able to meet its financial obligations as they fall due. BPAB's objective in managing liquidity risk is to ensure that it will always have sufficient funds to meet its commitments when due, without incurring unacceptable losses or risking damage to BPAB's reputation. BPAB manages exposure to liquidity risk by closely monitoring supplier and other liabilities, focusing on generating positive cash flows from operations and establishing and maintaining good relationships with various financial institutions.

The expected cash flows of financial liabilities for accounts payable and accrued liabilities are current.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure liquidity risk.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the carrying value of recognized assets and liabilities or future cash flows of BPAB's results of operations. BPAB has minimal exposure to market risk.