



AUDIT
OFFICE



REPUBLIC
OF CYPRUS

AUDIT OF THE CYPRUS SECURITIES AND EXCHANGE COMMISSION

Executive Summary



**AUDIT OFFICE OF THE REPUBLIC
SPECIAL REPORT no. EKK/01/2022**

2 September 2022



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AUDITED ENTITY

Cyprus Securities and Exchange Commission

Executive Summary

The audit of the financial statements of the Cyprus Securities and Exchange Committee (CySEC) for the year ended 31 December 2019 was assigned by our Office to private auditors, after a tender process, on the basis of article 8 of the Law on the Submission of Data and Information to the Auditor General of the Republic (Law 113(I)/2002).

Additionally, the Audit Office investigated various complaints that were submitted to us on the basis of article 116 of the Constitution of the Republic of Cyprus and article 109 of The Fiscal Responsibility and Fiscal Framework Law of 2014 (Law 20(I)/2014).

1.1 Letter to Management

The main findings of the private auditors from the audit of the financial statements of CySEC for the year ended 31 December 2019, are summarised below:

- There are difficulties in the collection of both administrative fines imposed by CySEC as well as revenues due from contracts with supervised entities.

The private auditors suggested that formal procedures are implemented on receivables monitoring and doubtful receivables monitoring that are more rigorous, and the information from this monitoring is used for debt classification purposes.

- CySEC does not recognize Expected Credit Losses (ECL) on administrative fines due as per the requirements of IFRS 9.

The private auditors suggested that the provisions of IFRS 9 are properly applied and that the relevant amounts are reflected in the financial statements for expected credit losses.

- CySEC does not distinguish between receivables from fines and non-fine related receivables in its accounting system; accordingly any statement extracted from the accounting system depicts total balances per debtor, including both fine-related and non-fine-related amounts. Accordingly, different calculations and statements need to be performed to isolate non-fine related debtors, which increases the likelihood of errors.

The private auditors suggested that fine-related amounts are distinguished from non-fine related amounts within the accounting system, so that relevant statements are extracted from the accounting system with no additional effort from the accounting officers.

- CySEC's accounting system does not allow for the extraction of ageing analysis based on user-defined criteria.

The private auditors suggested that the accounting software supplier is requested to perform certain enhancements to the system to enable users to extract days ageing analysis based on user-defined specifications.

- A number of legal cases relating to appeals for imposition of administrative sanctions and/or fines and other cases were outstanding, for which CySEC's legal counsels could not evaluate the possibility of an adverse scenario nor CySEC had estimated any contingent liabilities and/or provisions which might have arisen or will arise in case of an adverse outcome of the cases, so as to include appropriate disclosures or/and recognize a provision in the financial statements.

The private auditors suggested that CySEC requests appropriate update from its legal counsels and updates the legal cases record with all developments of each case, as well as the contingent liabilities and provisions that are estimated regarding each case based on available information at hand. This estimate should be treated accordingly in the financial statements.

1.2 Findings and recommendations of the Audit Office

1.2.1 Complaints investigation

1.2.1.1 According to a complaint filed to our Office, none of CySEC's staff worked on 3 January 2022 despite this date not being included in CySEC's official holidays. This understanding was corroborated and confirmed in a telephone conversation with an officer from CySEC. Accordingly, our Office requested to be informed on the legal basis on which the 3rd of January 2022 was granted as a holiday.

1.2.1.2 According to the complaint referred to in paragraph 1.2.1.1 above, CySEC personnel which were reported as positive cases or close contacts for COVID-19 did not submit the necessary supporting documentation to CySEC. Our Office asked to be informed on the documentation submitted in each case and on the way that CySEC is handling both positive cases and close contacts (for example, granting medical leave with a doctor's certificate, remote working with full emoluments, granting special leave at reduced emoluments).

1.2.1.3 Following investigation of a complaint regarding CySEC's Board decision to cover the cost of the farewell party on the occasion of CySEC's President departure from CySEC Board, due to the expiration of her second and final term in the amount of €10.000 from CySEC's budget, we outlined that it was profound and unacceptable for CySEC, and accordingly the taxpayer, to bear the cost and that our view was that the Board's decision for CySEC to cover the cost of a private party was unlawful.

We suggested to CySEC that the decision for the expense is revoked and CySEC disengages from whatever commitment it had undertaken in the most suitable manner.