CENTRALE BANK VAN CURAÇAO EN SINT MAARTEN

(CENTRAL BANK)

Policy on the issuance of a Declaration of no Objection to Auditors of supervised institutions

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1. Policy Objective

Auditors and audit firms play an important societal role by providing customers, investors and shareholders with an opinion on the completeness and accuracy of company accounts[1]. The assurance of a properly conducted audit serves to provide an independent view of the financial statement's reliability, which becomes more important in light of the increasing scope of management's judgment permitted under the financial reporting standards adopted in Curaçao and Sint Maarten.

Auditors have been identified as being able to play a key role in strengthening the risk management oversight of financial institutions. A high-quality audit system is an integral part of a sound corporate governance framework. The Centrale Bank van Curaçao en Sint Maarten (hereafter the Bank or CBCS) as the supervisor of financial institutions in Curaçao and Sint Maarten should be confident about the quality of the audit performed by the external auditor (assurance services) to complement its prudential supervision of financial institutions.

The objective of this Policy is to provide guidance in the assessment of auditors engaged by financial institutions across Curaçao and Sint Maarten.

2. Abbreviations & Definitions

2.1 Abbreviations
This Policy is issued pursuant to the following supervision ordinances[2]:

a. **NOSII**: National Ordinance Supervision on the Insurance Industry (N.G. 1990, No. 77 and O.P. 2013, CT No. 688)
b. **NOIBB**: National Ordinance Insurance Brokerage Business (N.G. 2013, No. 13 and O.P. 2013, CT No. 708)
c. **NOSBCI**: National Ordinance on the Supervision of Banking and Credit Institutions 1994 (N.G. 1994, No. 4 and O.P. 2013, CT No. 691)
d. **NOST**: National Ordinance on the supervision of Trust service providers (N.G. 2003, No.114 and O.P. 2013, CT No.709)
e. **NOSIIA**: National Ordinance on the supervision of Investment Institutions and Administrators (N.G. 2002, No.137 and O.P. 2013, CT No. 707)
f. **NOSSE**: National Ordinance on the supervision of Securities Exchanges (N.G. 1998, No. 252)

[1] Reference is made to the EU Parliament resolution of 13 Sept 2011 on audit policy. See link below. http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P7-TA-2011-359
[2] All as amended by the National ordinance actualization and harmonization of the supervision ordinances of the Centrale Bank van Curaçao en Sint Maarten (N.G. 2015, No. 67 and A.B. 2018, No. 5)

2.2 Definitions

For the purpose of this Policy:

a. **Auditor:** The **expert**[3] mentioned in article 2:121 paragraph 6 of the 'Burgerlijk Wetboek' being a chartered accountant (register accountant, RA) pursuant to Dutch regulations, an accounting consultant (accountant-administratieconsulent, AA) as referred to in art. 2:393, first paragraph of the Dutch 'BW', a certified public accountant (CPA) according to US regulations, as well as a person who is allowed to act as an expert by means of a revocable license provided by the Minister of Economic Affairs, which proves that the respective person complies with the professional competence requirements. These requirements must be equivalent to that of a RA, AA or CPA.

b. **External expert**: An auditor, who is not employed by a financial institution, and who is registered at the Royal Netherlands Institute of Chartered Accountants (NBA) or the organization of which the auditor has obtained his/her degree is associated to the International Federation of Accountants (IFAC)[4], as contained in article 26 of the NOSII, article 17a of the NOIBB, article 15 of the NOSBCI, article 16 of the NOST, article 17 of the NOSIIA and article 4a, of the NOSSE.

c. **Financial institution**: An entity which falls under one of the below categories.

1 an insurance company as defined in article 1, paragraph 1g, of the NOSII
2 an insurance intermediary as defined in article 1, paragraph 1a of the NOIBB
3 a credit institution as defined in article 1, paragraph 1c of the NOSBCI
4 an international credit institution as defined in article 1, paragraph 1d of the NOSBCI
5 a trust service provider as defined in article 1, paragraph 1 of the NOST
6 an investment institution and administrator as defined in article 1, paragraph 1 of the NOSIIA
7 A securities exchange as defined in article 1, paragraph 1 of the NOSSE

d. **Small supervised entity**: An entity with supervised related revenues of less than NAf 2 million a year as well as less than 10 employees including directors.

e. **International supervised entity**: An entity whose business for a substantial part is international and which its supervision is governed by NOST, NOSIIA or NOSSE.

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[3] Term as used in the supervision ordinances ("externe deskundige")
[4] IFAC is the global organization for the accountancy profession. The organization supports the development, adoption and implementation of international standards for accounting education, ethics, and the public sector as well as audit and assurance.

3. Legal Basis

The Bank maintains an interest in the quality with which an external auditor performs the audit of a financial institution. In order to ensure mentioned quality the Bank was given statutory powers over the appointment of the external auditor of financial institutions.

This Policy is issued by the Bank pursuant to the following legal provisions:

- Article 26, paragraph 1 in conjunction with article 27, paragraph 1 and article 27c paragraph 2 of NOSII
- Article 17a, paragraph 1 in conjunction with article 17d paragraph 2 of the NOIBB
- Article 24, paragraph 2 in conjunction with article 24, paragraph 4 of NOSBCI
- Article 16, paragraph 1 in conjunction with article 17, paragraph 1 and article 17b, paragraph 2 of the NOST
- Article 17, paragraph 1 in conjunction with article 18b, paragraph 2 of the NOSIIA
- Article 4a, paragraph 1 in conjunction with article 4b, paragraph 1 and article 4c, paragraph 2 of the NOSSE

According to the abovementioned articles, any appointment or intended change in external auditor should be reported to the Bank and can only be effectuated after approval of the proposed auditor by the Bank.

4. Scope of the Policy

The different supervisory laws require that the Bank issues a declaration of no objection to auditors[5] of supervised institutions. This Policy should be applied when a financial institution wants to change from external auditor e.g. appoint a new external auditor[7] and files a request for the CBCS's approval[6] of the proposed external auditor[7].

This Policy document sets out:

a. the Bank's minimum requirements[8] regarding the qualifications of an external auditor to be appointed by a financial institution,
b. the terms of an audit engagement,
c. the application procedures to be observed by a financial institution when seeking the Bank's approval, and
d. the reporting requirements of the external auditor pursuant to the different supervisory laws.

It is expected that approved auditors will continue complying with the conditions set in this Policy on an ongoing basis.

[5] See definition in Chapter 2.
[6] Where the word approval is used in this Policy it is meant the issuance of a declaration of no objection by the Bank.
[7] Engaging firm or auditor
[8] The criteria that the CBCS will use for determining whether to recognize or approve the auditor.

5. Qualifications: Criteria for the Assessment of an Auditor

5.1. Assessing the Acceptability of an Auditor[9] to Audit a Supervised Institution

The following criteria will be used when evaluating a proposed auditor:

a. Sufficient Expertise and Resources (chapter 5.2)
b. Good standing of the Auditor (chapter 5.3)
c. Quality Assurance Reviews (chapter 5.4)
d. Independence (chapter 5.5)
e. Professional Indemnity Insurance (chapter 5.6)

The external auditor should be prepared to submit proof of compliance with abovementioned criteria to the Bank.

During the assessment process, the Bank will also make use of her experience with the auditor concerned in the latter's capacity as auditor of other financial institutions supervised by the Bank. Specific attention will be paid to the auditor's compliance with the requirements as contained in the following supervision ordinances:

a. article 27a, paragraph 1 of the NOSII
b. article 17b paragraph 1 of the NOIBB
c. article 15, paragraph 2 of the NOSBCI
d. article 17a, paragraph 1 of the NOST
e. article 18a, paragraph 1 of the NOSIIA
f. article 4a, paragraph 2 of the NOSSE

The abovementioned articles stipulate that the external auditor is required to directly and immediately notify the Bank in writing about each and any circumstantial fact of which he/she became aware or encountered during his/her audit activities and which:

a. are in conflict with the license requirements;
b. are in conflict with the stipulations of the NOSII, NOIBB, NOSBCI, NOST, NOSIIA and the NOSSE;
c. jeopardize the continuity of the financial institution; or
d. would inhibit the issuance of an unqualified opinion.

The external auditor should, in case of a notification as mentioned above, provide to the Bank a copy of the auditor's report, the management letter, as well as all correspondence[10] with regard to the auditor's opinion on the annual reports and financial statements of the financial institution. If deemed necessary by the Bank, the external auditor will be required to elaborate in a meeting on the aforementioned documents.

The abovementioned notification requirement is also applicable in case the external auditor is responsible for the audit of a subsidiary or parent company of the financial

[9] Shall mean the audit firm and the signing partner.

[10] In so far these contain information that is considered necessary for the proper fulfillment of the Bank's supervisory tasks.

institution[11]. Such information should be provided to the Bank without the need of prior consent of the supervised institution to the external auditor.

5.2. Sufficient Expertise and Resources

5.2.1. The firm should have relevant expertise in auditing financial institutions of comparable size and complexity. As part of the assessment of the firm's expertise, the following factors will also be considered:

a. whether the local firm is an extension of an international firm or a separate legal entity;
b. whether the firm will be undertaking local sign off or 'full audits; and
c. the industry sectors which it will audit.

5.2.2. Audit partners signing off on audit engagements, or any member of the firm with authority to sign off the audit, are expected to possess an internationally recognized audit qualification. As a general rule, the Bank would expect partners to have a minimum of five years auditing experience of financial institutions at a management level, in the respective industry sectors. If a firm does not have audit partners with the necessary experience, the Bank may at its discretion limit the industries which the firm may be approved to audit.

5.2.3. In addition, the signing partner should ensure that the engagement team includes staff members with sufficient specialized skills that are appropriate to the industry of the supervised institution that should be audited.

5.2.4. All professional audit personnel are expected to perform relevant continuing professional education (including specialized training in the respective financial industry).

5.3. Good Standing of the Auditor

The audit partner, the lead client service partner, the quality and concurring review partners and the audit managers that will be involved with the audit of the financial institution should have "good standing" in the sense that they should not be involved in any professional or other ethical misconduct that has led to a disciplinary or other sanction of the auditor's institution at which they are registered as certified public accountants.

5.4. Quality Assurance Reviews

5.4.1. The Bank expects that the audit firm has a competent quality assurance process in place that ensures that the firm's internal and any externally imposed standards are being complied with.

5.4.2. It is expected that the quality control process would include:

a. Pre-established guidelines requiring concurring partner review of the audit procedures and audit reports, and;
b. Internal quality control reviews of the firm's processes and methodology by experts of that firm or by an independent party on a regular basis.

[11] Article 27a, paragraph 3 of the NOSII, article 17b of the NOIBB, article 15, paragraph 4 of the NOSBCI, article 17a, paragraph 1 of the NOST, article 18a, paragraph 1 of the NOSIIA, article 4a, paragraph 2 of the NOSSE.

5.5. Independence

5.5.1. Independence plays a fundamental part in the quality of auditing. Independence is important in order to maintain an objective frame of mind in accomplishing the audit. A lack of independence means that the auditor might fail to address audit problems, which lowers the credibility and assurance of an external audit. Reference is in this respect made to the IFAC independence requirements, the Code of Ethics and IESBA standards.

All staff must sign off the internal firm independence declarations annually, and the firm must have clear and comprehensive procedures for ensuring independence in relation to new engagements.
The audit should be carried out by an external auditor who is independent in fact and in appearance and is objective and impartial. With regard to the independence[12] in fact and in appearance of the external auditor, there may not be any material business interest between:

a. The financial institution, its management or a member thereof, its Supervisory Board or a member thereof, its direct or indirect shareholder, the management or a member thereof; and
b. The external auditor, the auditing firm or a member/partner/employee thereof. Audit firm partners should ensure that none of their auditors have joint ventures or significant investments in the client before accepting an audit engagement.

5.5.2. If the firm supplies other services (non-assurance) to a financial institution in addition to audit services - for example: internal audit services, agreed-upon procedures, compilations engagements, preparation of income tax returns where no conclusion conveying assurance is expressed, management advisory services and consulting - the nature and extent of these services should be kept under review by the firm, in order to ensure that the auditors' objectivity is not affected. It should be emphasized that conflicts of interests are likely to exist when auditing firms offer different services to the same financial institution. Therefore, there should be clear demarcation between the audit services and non-audit services that an audit firm provides to a financial institution.

5.5.3. In addition, audit firms are not permitted to audit financial statements of financial institutions where they (or a closely related entity, for example, a corporate services company with common owners to the audit firm) are responsible for the compilation of the financial statements.

5.5.4. Notwithstanding the examples mentioned above, there may be other circumstances that could affect an audit firm's independence or objectiveness. An audit firm must be vigilant to this possibility and take appropriate steps to ensure the independence and objectiveness of the audit firm and that it has no conflict of interest with respect to the financial institution.

The financial institution should maintain a strict Policy of avoiding any conflict of interest, both in fact and in appearance, when using the services of the external audit firm. The external audit firm should not be involved in the decision-making process at the financial institution. The external audit firm assures that no direct or indirect financial, business, employment or other relationship exists which would cause an

[12] Reference is made to the independency requirements of the IFAC the Code of Ethics and IESBA standards.

objective, reasonable and informed third party to conclude that the external audit firm's independence has been compromised.

5.6. Professional Indemnity Insurance
The Bank expects audit firms to have adequate professional indemnity insurance in place. The reasonableness/adequacy of the amount of the coverage should be related to the size of the audit firm and the maximum compensation amount that according to case law[13] could be demanded in such cases.

6. Audit Engagement Letter: Assessment

The Supervisory Board of Directors shall review the terms of an audit engagement prior to approving the engagement. The agreed terms shall be documented in an engagement letter.

The engagement letter delineates the scope of the agreements made between the financial institution and the audit firm in respect to the audit work. In the process of approving a proposed external auditor, it is important that the Bank obtains information on the agreements made between parties, hence the requirement to submit the Audit Engagement Letter.

The terms of an audit engagement shall at the minimum address the following:

a. Objective of the audit;
b. Scope of an audit engagement;
c. A brief description of the audit plan;
d. Responsibilities of the audit firms;
e. Responsibilities of the financial institution to be audited;
f. Reports to be prepared by the auditor, including the Auditor's Report and recommendations for improving internal controls;
g. Timing of the audit and audit fees;
h. Audit of the institutions IT system and a declaration in respect to the properness of the system;
i. Use of experts in certain aspects of the audit; and
j. Other significant arrangements in relation to the audit.

Where the auditor expects or intends to use the work of an external expert to obtain sufficient audit evidence to support the audit, the terms of the audit engagement shall provide that the use of experts does not diminish the auditor's responsibility for the audit reports issued and opinions expressed.

[13] "Jurisprudentie"

7. Application Procedures[14]

The following procedures are of importance from a supervisory point of view when appointing an external auditor.

7.1. Appointment of External Auditor
The financial institution is required to submit an application to the Bank for approval prior to appointing an auditor. An application to the Bank must contain the reason for choosing a particular audit firm. An application shall not be submitted to the Bank unless the Board of Directors of the financial institution is reasonably satisfied that the requirements specified in this document have been, or will be, met. Reference is furthermore made to the chapters 5 and 6 of this Policy.

7.2. Change of External Auditor
The following procedures are of importance from a supervisory point of view when changing an external auditor.

7. 2.1. Notice of Change
Any intended change in external auditor should be reported to the Bank, and can only be effectuated upon approval of the proposed auditor by the Bank. The Board of Managing Directors and the Board of Supervisory Directors should investigate the circumstances relating to the resignation or removal of an external auditor, and ensure prompt actions are taken to mitigate any identified risks to the integrity of the financial reporting process.

The financial institution should in this respect submit a written request for approval of the auditor which contains the reason for the intended change. Reference is made to the chapters 5 and 6 of this Policy.

7.2.2. Transfer of audit responsibility
In accordance with the international standards on auditing regarding the acceptance of an audit engagement, the Bank expects that the newly proposed external auditor should seek to obtain information about the institution from the former auditor, prior to accepting the engagement. Minutes of meetings in this regard should be kept by the engaging auditor, containing all important points of discussion, in order to avoid any misunderstandings in the transfer of audit responsibilities. If deemed necessary, the Bank may request to have insight in these minutes.

7.2.3. Change of external auditor during audit process
In case of a change of audit firm and / or signing partner during the audit process, the financial institution should inform the Bank about this proposed change in writing.

The request for the proposed change should be well motivated by the financial institution. The Bank will, if deemed necessary meet with the former auditor to learn the reasons for the change and will request copies of the minutes of the transfer of the audit responsibilities before approval of the latter.

[14] Provide information on the process of appointing and changing external auditors by financial institutions with the aim to ensure an orderly course of action during this process.

In case the financial institution, in the opinion of the Bank, fails to properly motivate the proposed change of external auditor during the audit process, the Bank will not approve the change.

If the reason for the proposed change of audit seems reasonable for the Bank, the proposed auditor will be submitted to an assessment as mentioned in chapter 5 of this Policy. The financial institution is required to inform the Bank how it will compensate additional costs as a result of this change.

7.2.4. Exit meeting
If on the basis of the information received, in combination with the known facts, an exit meeting is deemed necessary for supervisory purposes, the resigning auditor will be invited by the Bank for an exit meeting. The respective financial institution will be informed of the exit meeting and could be invited by the Bank to be present at the meeting.

In this meeting the external auditor will be inquired about the reasons for termination of the engagement and whether there are other issues of relevance for the Bank's supervision.

8. Declaration of No Objection

The Bank will issue a declaration of no objection if the external auditor in the opinion of the Bank complies with the requirements mentioned in this Policy and if there are no circumstances that, in the opinion of the Bank, would make the external auditor unfit for the assignment.

There may be circumstances whereby an external auditor abroad is hired to provide services to financial institutions that resort under supervision of the Bank. In those instances, said auditor may be allowed to conduct the audit activities but only under the responsibility of an auditor who complies with the definition of Auditor as contained in paragraph 2.2. of this Policy. The financial institution is required to submit an application to the Bank for the approval of the auditor before appointing the auditor. Both the foreign as well as the auditor established locally will be submitted to the assessment as mentioned in paragraph 5 of this Policy.

The Bank maintains at all times the right to revoke its approval if there are circumstances that in the opinion of the Bank justify such an action.

9. Change of Signing Auditor within Approved Audit Firm

It can occur that an already approved audit firm decides to change the signing auditor [15] on the audit engagement of a financial institution. In those instances the audit firm will have to notify the Bank of the proposed change and the reason thereof. Furthermore, the audit firm will have to provide the Bank with the credentials of the proposed new signing partner, which information the Bank will, among others, use to submit the new

[15] In consultation with the financial institution

proposed signing auditor to the relevant sections of the assessment mentioned in chapter 5 of this Policy.

10. Exceptions

The Policy will not be a perfect fit for all sizes and types of entities. The Bank has made 2 exceptions.

10.1. Small supervised entities
All supervised entities should comply with this Policy. However, small supervised entities can apply for dispensation of specific small size related requirements by means of a substantiated written request.

10.2. International supervised entities
All supervised entities should comply with this Policy. However, supervised entities of which their core business is with international (not local) clientele can apply for dispensation of specific international related requirements by means of a substantiated written request.

In cases where this Policy does not provide for, the Bank reserves the right to decide on the matter.

11. Policy Review and Effective Date

This Policy will be subject to a periodic review and will be updated to reflect changes to legislation, auditing practice and other relevant developments as necessary.

This Policy document is effective as of the date of its publication on the website of the Bank.