



TURKS & CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Guideline for the Appointment of External Auditors & Conduct of External Audits

1. INTRODUCTION

Purpose

The purpose of this document is to provide guidance to certain licensees under the purview of the Turks and Caicos Islands Financial Services Commission (the Commission) concerning the appointment of external auditors and the external audit function. In this document, the word licensee is as defined in Section 2(1) of the Financial Services Commission Ordinance Chap 16.01 (FSCO) meaning a person holding a licence; where 'licence' means a licence or an authorisation, by whatever name called issued or granted under a regulatory ordinance for financial services.

Through their independence and the audit process, external auditors can provide credibility and confidence to the financial statements of licensees. Accordingly, this guideline seeks to provide clarity as to the Commission's approval process, its minimum requirements for the appointment of external auditors and guidance to the Board of Directors of licensees with regard to the external audit function.

Authority

This Guideline is issued by the Commission pursuant to Section 43 of the FSCO and in furtherance of its responsibility to regulate and supervise licensees.

2. SCOPE OF GUIDELINE

This Guideline applies specifically to licensed banks, trust companies, money transmitters, insurers¹, mutual funds, investment dealers and to external auditors approved by the Commission to conduct audits of such regulated institutions within the Islands.

3. APPOINTMENT AND APPROVAL OF EXTERNAL AUDITORS

- I. The Ordinances of licensees referred to in Section 2 above, require that an independent auditor be appointed to conduct an audit of the financial statements of the entity and give an opinion as to whether they give a true and fair view of the entity as at the end of the particular financial year.
- II. Once the Board of Directors of a licensee has engaged an auditor, the licensee is then required to submit this appointment to the Commission for approval using the form attached as **Appendix I** of this Guideline. The application form is to be addressed to the attention of the Managing Director, Financial Services Commission, Turks and Caicos Islands.
- III. External auditors should be approved by the Commission prior to exercising the office of an auditor.

Within thirty (30) days after the receipt of an application from a licensee, the Commission will seek to respond in writing advising of one of the following:

- a. Approval of the appointment;
- b. Approval of the appointment subject to such conditions as shall be specified in writing; or
- c. Refusal of the appointment in which case a licensee shall engage another auditor and shall apply to the Commission for approval of the new appointment.

4. MINIMUM REQUIREMENTS

In assessing an application for approval the Commission will consider, among other things, the fitness and propriety² of auditors. In determining their fitness and propriety regard will be given to the following:

¹ In the context of this guideline insurers do not include PORCS, captives, agents or brokers

² <http://tcifsc.tc/phocadownload/policies-guidelines/Turks%20&%20Caicos%20Islands%20Fit%20and%20Proper%20Guidelines.pdf>

- I. Whether the auditor holds a valid practising certificate from a recognized professional accountancy body and is a member of the TCI Society of Professional Accountants or an equivalent professional society from another jurisdiction;
- II. The auditor's knowledge of a licensee's industry sector and experience in auditing such institutions;
- III. The auditor's independence from the licensee, the licensee's parent or financial holding company in keeping with the standards of the International Ethics Standards Board for Accountants on independence and at a minimum the auditor:
 - a) is not a connected or related party of the licensee, licensee's parent or the financial holding company;
 - b) has no other business relationship with any licensee (other than as a depositor), or its parent, financial holding company or with any of their affiliates, other than in the capacity as the auditor thereof;
 - c) does not own or control directly or indirectly, any shares or other securities of the licensee or of its parent, financial holding company or of any of their affiliates;
 - d) is not indebted to the licensee or any of its affiliates; and
 - e) does not provide the licensee, its parent or financial holding company with the following:
 - i. book-keeping or other services related to its accounting records or financial statements;
 - ii. financial information systems design and implementation services;
 - iii. actuarial services;
 - iv. internal audit services; or
 - v. such other non-audit related services as the Commission may specify
- IV. The adequacy of the auditor's professional indemnity insurance. Extension of the professional indemnity insurance policy of the parent firm may be accepted by the Commission as adequate; and
- V. Any other relevant information that has come to the attention of the Commission.

5. CHANGE IN APPROVED EXTERNAL AUDITOR

- I. A licensee shall inform the Commission in writing of its intention to terminate the appointment of its external auditor, or not to re-appoint its existing external auditor for a new term.

- II. A licensee shall notify the Commission in writing of a change in external auditor (giving reasons) within 14 days of making the change.
- III. Where a licensee fails to appoint or obtain approval of an external auditor within two (2) months after the lapse of the term of its previous external auditor, or fails to fill a vacancy for an external auditor, the Commission may appoint a qualified firm of auditors whose remuneration shall be paid by the licensee
- IV. The approval of an external auditor shall remain in force unless withdrawn by the Commission or the engagement is terminated by the licensee.

6. DISQUALIFICATION OF EXTERNAL AUDITORS

- I. Where an external auditor is no longer considered to be fit and proper, the Commission may direct the licensee to replace that external auditor with an auditor approved by the Commission.
- II. In circumstances where the Commission withdraws its approval, the external auditor concerned shall immediately vacate office and Part 5 of these guidelines shall apply.

7. ROLE AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors of a licensee is ultimately responsible for the appointment of its external auditor(s) and for instituting an appropriate and effective external audit function. The Board of Directors therefore must consider all potential conflicts of interest that can challenge an external auditor's fitness and propriety. In addition to the circumstances outlined in Section 4, other possible situations include where the external auditor:

- I. has a record of disciplinary actions taken against him or the audit firm for unprofessional conduct by the TCI Society of Professional Accountants or other applicable professional society of accountants;
- II. has not rectified the reason(s) for the disciplinary action referred to above; and
- III. has failed to perform adequately and properly the functions and duties of an appointment as external auditor.

The Board of Directors should seek to ensure as far as practicable that audits are conducted in accordance with International Standards on Auditing and standards issued by the relevant society of professional accountants to which the external auditor belongs. The Board must also review the proposed audit program for appropriateness in relation to the nature and scope of the institution's operations, and risk profile. Accordingly, the Board of Directors should review

in detail with its external auditor matters which include, inter alia, the engagement letter, scope of the audit and management letter.

7.1 Audit Engagement Letter

The Board of Directors should require the external auditor to submit a written engagement letter prior to commencing audit work. The engagement letter is the contract between the external auditor and the institution and should include the following:

- I. The objective of the audit;
- II. Scope of the audit;
- III. Reports to be prepared by the auditor;
- IV. Timing and fees;
- V. Other significant arrangements in relation to the audit, such as a post audit management letter; and
- VI. For recurring audits, the existing terms of the audit engagement should be confirmed for each reporting period and appropriate modifications made as necessary to reflect any material changes in the licensee or existing audit arrangements.

7.2 Scope of the Audit

The Board of Directors should engage its external auditor on the proposed scope of the audit, in order to be satisfied that it was determined in relation to an analysis of risks associated with the products and services offered by the licensee. Such an analysis should consider the effectiveness of management, established policies and procedures, information systems, internal controls, and other relevant factors. Accordingly, in assessing the scope, the Board of Directors should seek to ensure that it covers as appropriate the following:

- I. A review of the accuracy and reliability of accounting records and financial reports;
- II. An examination and evaluation of the adequacy and effectiveness of internal controls as they relate to the financial reporting function;
- III. A review and validation of management's processes for determining the adequacy of provisions for asset impairment and values ascribed to financial instruments;
- IV. A review of the system for assessing the adequacy of capital and statutory funds ;
- V. A review of the management information systems, including electronic services;
- VI. A review of the means of safeguarding assets;
- VII. An assessment of compliance with relevant legislation, directives, internal policies and procedures and guidelines; and

- VIII. Any other area identified by the Board of Directors which represents significant financial risk to the licensee.

7.3 Management Letter

At the conclusion of an audit engagement, the Board of Directors should require that a management letter be issued by the auditor to the institution. Such a letter provides an opportunity for the auditor to review matters that are not otherwise specifically appearing in the audited financial statements but which merit discussion with management. Among other matters, the management letter should address internal control weaknesses, recommendations for corrective action and the responses of the licensee. When there are no significant concerns, a management letter should provide a comment to that effect.

A licensee is required to submit its management letter to the Commission, no later than thirty (30) days after the expiration of the deadline for the submission of financial statements.

8. DUTIES OF EXTERNAL AUDITORS

It is the responsibility of the approved auditor to become familiar with the requirements of this Guideline. The Board of Directors of a licensee as part of its proactive governance role should also direct the attention of its approved auditor to duties of auditors listed hereunder.

External auditors of licensees have a duty to:

- I. notify the Commission of their resignation or termination from the office of external auditor disclosing the circumstances which gave rise to the resignation or termination;
- II. formally advise the Board of Directors and the Commission, once a breach of an Ordinance has been determined; and
- III. promptly report to the Commission any irregular transactions or conditions which meets one or more of the following:
 - a) any change in accounting basis or disclosure note, which in the opinion of the auditor has the effect of misrepresenting the financial position of the licensee;
 - b) Transactions or conditions which contravenes the assumption of management's good faith; and
 - c) Transactions or conditions which affect the financial institution's ability to continue as a going concern.

9. COMMUNICATION WITH EXTERNAL AUDITORS

The Commission may arrange where it deems advisable a meeting with the external auditors of a licensee, to discuss matters such as:

- I. material issues arising out of the audit of a licensee;
- II. issues affecting the preparation or presentation of the financial statements, including material changes in accounting treatment or practice;
- III. the effectiveness of internal controls within the licensee and its affiliates;
- IV. the effectiveness of the internal audit and compliance functions within the licensee, including the role and work of the Audit Committee; and
- V. the effectiveness of the licensee's arrangements for the monitoring, management and control of all material risks in its business.

Access to Working Papers of External Auditors

As a condition of the approval of an external auditor, all parties voluntarily agree that the Commission shall, in relation to the audit of a licensee, have access to the audit-related working papers of the auditor upon request.

October 31, 2014

APPENDIX I



Application for Approval of External Auditor³

1. Name of licensee
2. Appointment for financial year ending
3. Particulars of the auditor

Name	
Address	
Name of Parent Firm (where applicable)	
Address of Parent Firm	

4. Particulars of engagement

	Engagement partner	Principal
Name		
Accounting Professional Designation		

³ An application is not required for reappointments of a previously approved external auditor, only notification to the Commission

Year Designation Acquired		
Telephone Number		
Fax Number		
E-mail		
Date of appointment to position		

5. Please confirm that the designation identified above permits signing audit opinions

6. New appointment

7. If new appointment, please state reason(s) for change of auditor

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8. Particulars of fees and non-audit services provided by the auditor for the last two financial years

Type	USD		Nature of non-audit services
	Year:	Year:	
Non-audit fee			
Audit fee			
Total			

9. Additional information to be enclosed by licensees with their application:

- Extract of Board of Directors' minutes endorsing the proposed appointment/reappointment of the auditor; and
- Confirmation that the Board of Directors is satisfied that the auditor has met the criteria for appointment as specified by the Commission;

10. Information to be provided by external auditors directly to the Commission

- Copy of business permit/license of the audit firm;
- Certificate of membership in good standing with TCI SPA or other equivalent professional society;

- A letter of undertaking from the audit firm, stating that it will perform its function in accordance with relevant legislation, guidelines and standards issued by ISA, TCI SPA or other equivalent professional society; and
- Copy of cover note for professional indemnity insurance.

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Name and Signature
Chief Executive Officer/Company Secretary

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Date