

***THE BANK
OF
GUYANA***



**EXTERNAL AUDITORS
GUIDELINE
ISSUED UNDER THE
AUTHORITY OF
PART 1, SECTION 7(D) OF THE
INSURANCE ACT 2016
(ACT NO. 17 OF 2016)**

July 2019

BANK OF GUYANA
INSURANCE SUPERVISION DEPARTMENT
EXTERNAL AUDITORS GUIDELINE

1.0 Authorisation

IN EXERCISE of the powers conferred by section 7(d) of the Insurance Act 2016, the Bank of Guyana (herein referred to as the Bank) issues the Guideline set out here below, for observance by all registered insurers in respect of the engagement of external auditors.

2.0 Introduction

The Bank requires all insurers to have their financial statements prepared on an annual basis in accordance with International Financial Reporting Standards (IFRS) and audited in accordance with the International Standards on Auditing (ISA). A qualified, independent external auditor is essential for accurate financial reporting of insurers and intermediaries.

3.0 Objectives

The objectives of this guideline are to ensure:

- 3.1** There is a reliable financial reporting process for both public and supervisory purposes;
- 3.2** There are clearly defined roles and responsibilities of the Board, Management and the External Auditor with regard to the financial reporting process; and
- 3.3** With reasonable assurance, the financial statements of insurers and intermediaries are free from material misstatement, whether due to fraud or error.

4.0 General Principles

- 4.1** An individual is qualified as an external auditor of an Insurer where he/she is a holder of a practice certificate issued by the Institute of Chartered Accountants of Guyana.
- 4.2** An audit partner is regarded as being qualified to be assigned responsibility for an audit in circumstances where he or she:
 - 4.2.1** Is a member of the Institute of Chartered Accountants of Guyana;
 - 4.2.2** Has been authorised by the Institute of Chartered Accountants of Guyana to practice auditing for the relevant period;

- 4.2.3** Has at least five years' experience in insurance accounting at partner level;
- 4.2.4** Has at least four years' experience in insurance accounting at manager level; and
- 4.2.5** Is not disqualified from acting as an auditor under any legislation.
- 4.3** An insurer shall ensure that the appointed auditor and its partners are independent and have no conflict of interest with respect to the insurer. Reference can be taken from the Code of Ethics for Professional Accountants as issued by the International Ethics Standards Board for Accountants which has been adopted by Institute of Chartered Accountants of Guyana.
- 4.4** On an annual basis, audit partners shall be required to complete a formal independence and "fit and proper" declaration which shall be submitted to the Bank by the insurer when seeking approval for the appointment of the auditor. (See Appendices for the declaration forms)
- 4.5** The insurer shall notify the Bank in writing if, at any time, it forms the opinion that its auditor is not independent.
- 4.6** The Audit Committee shall be required to carry out the following oversight functions:
 - 4.6.1** Monitor whether accounting policies and practices of the insurer are operating as intended;
 - 4.6.2** Review the material findings of the auditor;
 - 4.6.3** Oversee the processes for hiring, removing and assessing the performance and independence of the external auditor and to ensure that the appointed auditor has the necessary knowledge, skills, expertise, integrity and resources to conduct the audit; and
 - 4.6.4** 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.
- 4.7** The Board shall be required to safeguard and promote an effective relationship with the external auditor by ensuring that:
 - 4.7.1** The terms of engagement of the external auditor are clear and appropriate to the scope of the audit and resources required to conduct the audit;
 - 4.7.2** There are adequate policies and processes in place to ensure the independence of the external auditor, including:

- 4.7.2.1** Policies and procedures that address the auditor’s compliance with applicable ethical and professional standards;
- 4.7.2.2** Restrictions and conditions for the provision of non-audit services that are subject to approval by the Board;
- 4.7.2.3** Periodic rotation of partners as appropriate; and
- 4.7.2.4** Safeguards to eliminate or reduce to an acceptable level identified threats to the independence of the external auditor.
- 4.7.3** There is unrestricted access by the external auditor to information and persons within the insurer as necessary to conduct the audit; and
- 4.7.4** There is an evaluation of the effectiveness of the external audit process at the end of the audit cycle.
- 4.8** The auditor of an insurer is obliged to:
 - 4.8.1** Audit the insurer’s financial statements and report to the insurer in accordance with International Standards on Auditing (ISA);
 - 4.8.2** Report to the insurer’s Board in accordance with all ISA requirements, including but not limited to ISA 260, “Communication With Those Charged with Governance” and ISA 265, “Communicating Deficiencies in Internal Control to Those Charged with Governance and Management;”
 - 4.8.3** Certify and report to the Bank on the insurer’s compliance with such obligations and matters as may be specified in the Insurance Act, Regulations and Guidelines;
 - 4.8.4** Provide such certifications, confirmations or any other information specified by the Bank in a written notice sent to the insurer and the auditor; and
 - 4.8.5** Carry out such other duties as may be required of the auditor by the Insurance Act, Regulations and Guidelines.

5.0 Specific Requirements

- 5.1** An insurer shall be required to disclose any information required by the Bank with regard to the auditor that they intend to engage.
- 5.2** If an auditor resigns or is replaced, the insurer shall notify the Bank and give the reasons for the resignation or replacement. Such a notification needs to include a statement from the insurer on whether there were any disagreements with the former auditor over the content of the auditor’s opinion.

- 5.3** In relying on the audit evidence generated by the insurer’s actuarial function, the auditor shall be required to:
- 5.3.1** Evaluate the competence, capabilities and objectivity of the actuarial function;
 - 5.3.2** Obtain an understanding of the work of the actuarial function; and
 - 5.3.3** Evaluate the appropriateness of the work as evidence for the assertion.
- 5.4** The auditor may consider incorporating an actuary who is a member of the Caribbean Actuarial Association or equivalent in the engagement team to provide him/her with reasonable assurance that actuarial work performed by the management’s actuary has been performed in accordance with the generally accepted actuarial principles and forms a suitable basis for deriving audit conclusions.
- 5.5** The scope of consultation shall, at a minimum, include:
- 5.6.1** Verifying the quantum of policyholder reserves and benefits using generally accepted actuarial principles; and
 - 5.6.2** Verifying the liability adequacy test as required by the International Financial Reporting Standards.
- 5.6** Auditors’ tenure with an insurance company shall be determined on the following basis:
- 5.6.1** Audit partners are permitted to be responsible for the audit of a specific insurer for a period of not more than seven (7) consecutive years;
 - 5.6.2** Audit managers are permitted to support a partner for the audit of a specific insurer for a period of not more than seven (7) consecutive years;
 - 5.6.3** Audit staff other than the audit manager are permitted to support the audit manager and the audit partner on the audit of specific insurer for a period of not more than seven (7) consecutive years, thereafter at least 50% of the audit staff working on an audit of a specific insurer shall be required to be replaced;
 - 5.6.4** Audit partners are required to rotate off an audit after seven years, following which there should be a five year “cooling off” period before the engagement partner can be reassigned to the audit; and
 - 5.6.5** A single partner audit firm would be required to rotate off an audit after seven years, following which there should be a five year “cooling off” period before the firm can be reassigned to the audit.

6.0 Reporting Requirements

- 6.1** The external auditor shall submit copies of the long form report and the management report to the Bank within three (3) months of the end of the financial year.
- 6.2** The auditor shall report to the Bank directly and immediately in circumstances where the insurer has breached, or is likely to breach, solvency requirements.
- 6.3** The auditor shall report to the Bank directly where an insurer or its directors may have contravened the Act or any other law and the contravention may prejudice the interests of policyholders.

7.0 Effective Date

The effective date for this Guideline is 22 July 2019.

APPENDIX I:

**FIT AND PROPER DECLARATION FORM
(FOR INDIVIDUALS)**

Name: _____

Position: _____

Audit Firm: _____

The fit and proper form must be completed **in block letters**.

Please answer all the questions below by ticking (✓) the appropriate box.

Where there is insufficient space to provide a response, please provide and attach the information on additional paper(s) and ensure that sheet(s) clearly refer(s) to the appropriate question(s).

The fit and proper form must be signed and delivered to the Bank of Guyana.

Specific tests to assess fitness and propriety

1. Have you ever been subject to any proceeding of a disciplinary or criminal nature, or have you been notified of any impending proceedings or of any investigation, which might lead to such proceedings? **Yes** **No**

If Yes please provide details: _____

2. Have you, or any business in which you have had controlling interest or have exercised significant influence, been investigated, disciplined, suspended or criticised by a regulatory or professional body, a court or tribunal, whether publicly or privately? **Yes** **No**

*If **Yes** please provide details:* _____

3. Have you ever been associated, in ownership or management capacity, with a company, partnership or other business association that has been refused registration, authorisation, membership or a license to conduct trade, business or profession, or has had that registration, authorisation, membership or license revoked, withdrawn or terminated? **Yes** **No**

*If **Yes** please provide details:* _____

4. As a result of the removal of the relevant license, registration or other business mentioned in question 3 above, have you ever been refused the right to carry on a trade, business or profession requiring a license, registration or other authorisation? **Yes** **No**

*If **Yes** please provide details:* _____

5. Have you ever been subject of any justified complaint relating to regulated activities? **Yes** **No**

*If **Yes** please provide details:* _____

6. Have you ever been charged or convicted of any criminal offence, particularly an offence relating to dishonesty, fraud, financial crime or other criminal acts or been involved in acts of misfeasance or serious misconduct? **Yes** **No**

*If **Yes** please provide details:* _____

7. Have you ever contravened any of the requirements and standards of a regulatory body, professional body, government or its agencies? **Yes** **No**

*If **Yes** please provide details:* _____

8. Have you ever been a director, partner, or otherwise involved in the management, of a business that has gone into receivership, insolvency or liquidation while you had been connected with that business or within one year after that connection? **Yes** **No**

*If **Yes** please provide details:* _____

9. Have you ever been dismissed, asked to resign or resigned, from employment or from a position of trust, fiduciary appointment or similar because of questions about your honesty and integrity? **Yes** **No**

*If **Yes** please provide details:* _____

10. Have you ever been disqualified, under the Companies Act Cap. 89:01 or any other legislation or regulation from acting as director or serving in a managerial capacity? **Yes** **No**

*If **Yes** please provide details:* _____

11. Have you ever been diagnosed as mentally ill or unstable? **Yes** **No**

*If **Yes** please provide details:* _____

12. Have you ever been disciplined by a professional, trade or regulatory body; or dismissed or requested to resign from any position or office for negligence, incompetence or mismanagement? **Yes** **No**

*If **Yes** please provide details:* _____

13. Have you ever been the subject of any adverse judgment or award, in Guyana, the Caribbean or elsewhere that remains outstanding or was not satisfied within a reasonable period? **Yes** **No**

*If **Yes** please provide details:* _____

14. Have you ever made any arrangements or composition with your creditors, filed for bankruptcy, been adjudged bankrupt, had your assets sequestrated, or been involved in proceedings relating to any of these? **Yes** **No**

*If **Yes** please provide details:* _____

15. Have you ever been a senior officer of a company or a shareholder in a position to exercise significant influence in the company that:

a) Has been the subject of any adverse judgment or award, in Guyana or elsewhere, that remains outstanding or was not satisfied within a reasonable period;

Yes **No**

*If **Yes** please provide details:* _____

- b) Has, in Guyana or elsewhere, made any arrangements or composition with its creditors, filed for bankruptcy, been adjudged bankrupt, had assets sequestrated, or been involved in proceedings relating to any of the foregoing?
Yes **No**

*If **Yes** please provide details:* _____

16. Do you have reasons to believe that any of your close relatives or business associates, if subject to the above tests, would have responded by “Yes” to any of the above questions?
Yes **No**

*If **Yes** please provide details:* _____

17. Do you have any liability towards any financial institution for which you are in default?
Yes **No**

*If **Yes** please provide details:* _____

18. Have you ever been convicted of any offence including money laundering or terrorist financing or are subject to any proceeding which may lead to such conviction under any law in any jurisdiction?
Yes **No**

*If **Yes** please provide details:* _____

Signature and acknowledgement

I hereby declare that:

- a) To the best of my knowledge and belief the statements made and the information supplied in this questionnaire and the attachments are correct and that there are no other facts that are relevant to the firm for assessing my fitness and propriety;
- b) I understand that the Bank may seek additional information from any third parties it deems necessary in view of assessing my fitness and propriety; and
- c) I undertake to bring to the attention of the Bank any matter that may potentially affect my status as being a fit and proper person as and when they arise.

Signature

Date: DD/MM/YYYY

Designation: _____

Company Stamp Affixed: _____

APPENDIX II:

CONFIRMATIONS ON INDEPENDENCE FOR ENGAGEMENT TEAM MEMBERS

This confirmation of independence and compliance with ethical requirements is provided in respect of the audit of the financial statements of the _____

[Company name]

and its related entities _____

[Name if applicable]

for the _____ ended _____
[period/year] *[insert year/period end date]*

This form should be completed at the engagement planning stage by each professional staff member, including partner and manager.

[Audit firm]

Independence

Consider points for threats to independence:

1. A “self-interest threat” occurs when the firm or a member of the engagement team could benefit from a financial interest in, or other self-interest conflict with, the client.
2. A “self-review threat” occurs when any product or judgment of previous engagements needs to be re-evaluated in reaching audit conclusions, or when a member of the engagement team was previously a director or officer of the client, or was an employee in a position to exert direct and significant influence over the accounts being audited.
3. An “advocacy threat” occurs when a firm, or a member of the engagement team, promotes, or may be perceived to promote, the client’s position or opinion to the point that objectivity may be, or could be perceived to be, compromised.
4. A “familiarity threat” occurs when, by virtue of a close relationship with the client or its directors, officers, or employees, a firm or a member of the engagement team becomes too sympathetic to the client’s interests or to the interests of its directors, officers or employees.

5. An “intimidation threat” occurs when a member of the engagement team may be deterred from acting objectively and exercising professional scepticism by threats, actual or perceived, from the directors, officers or employees of the client.
6. An “objectivity” threat occurs when an auditor/audit partner competes directly with a client or has a joint venture or similar arrangement with a major competitor of a client. A threat to objectivity or confidentiality may also be created when an auditor/audit partner performs services for persons, companies or clients whose interests are in conflict or in competition or the parties are in dispute with each other.

I confirm that I am in compliance with the applicable independence rules with respect to:

[Company Name]

and all of its related entities and that I have read and understand the independence rules, including the rules specified below:

1. Neither I nor my immediate family members (spouse, spousal equivalent, and dependents) have a direct or material indirect financial interest in this audit client or any related entity.
2. Neither I nor my immediate family members will trade in securities of this client or any related entity for the duration of the engagement, which starts at the beginning of the entity’s fiscal year and ends when the audit report for the year has been signed.
3. Neither I nor my immediate family members have served as a trustee or as an executor over any interest that has or is committed to acquire a direct or material indirect financial interest in this audit client or any related entity.
4. Neither I nor my immediate family members are the beneficiaries of any estate or trust which has a direct financial interest in this audit client or any related entity.
5. Neither I nor my immediate family members have a financial interest in any entity in which the audit client or any related entity also has a financial interest with significant influence.

6. Neither I nor my immediate family members have any loans or guarantees to or from this audit client, any related entity or any significant shareholder, officer or director thereof (none of which are financial institutions).
7. Neither I nor my immediate family members have any loans, other than those extended under normal lending procedures and within the ordinary course of business with this audit client or any related entity or any significant shareholder, officer or director thereof (which is a financial institution).
8. Neither I nor my immediate family members have any bank deposits or accounts, brokerage accounts or insurance arrangements with this client or any related entity other than under normal commercial terms.
9. Neither I nor my immediate family members have a material financial interest in a joint venture, closely held business investment or business relationship (or commitment to do so) with the client or any related entity or any officer, director or other individual who performs senior managerial functions for this client thereof.
10. Neither I nor my immediate family members have a material financial interest in a joint venture, closely held business investment or business relationship (or commitment to do so) with a competitor of the client or any related entity or any officer, director or other individual who performs senior managerial functions for the client's competitor thereof.
11. I do not have a close personal relationship with a director, officer or any employee of the client or related entity that is in a position to exert direct and significant influence over the financial statements.
12. No close family member is a director, officer or is in a position to exert direct and significant influence over the financial statements of this client or any related entity, or was employed in such a role during the financial period covered by the audit report.
13. I was not employed by this client or any related entity at any point during the audit or the financial period covered by the audit report.
14. I will not entertain an offer of employment with the client or a related entity where acceptance of such an offer would result in

[Audit Firm]

having to resign as auditor under external independence standards.

15. I am not employed in any capacity by a competitor of the client nor will I entertain any offer of employment with a competitor where acceptance of such an offer will result in _____

[Audit Firm]

having to resign as auditor under external auditing standards.

Name of Engagement Team Member	Designation/Engagement Role	Signature

I further confirm that, should these circumstances change during the engagement period, I will notify the audit engagement partner responsible for the audit engagement of any such changes in a timely manner.