

## **SUPERVISORY DIRECTIVE ON THE APPOINTMENT OF AN EXTERNAL AUDITOR**

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### **III-5 Appointment of an External Auditor**

Directive on the appointment of an external auditor by virtue of article 15, paragraph 1, in conjunction with article 21a of the State Ordinance on the Supervision of the Credit System (AB 1998 no. 16) (SOSCS) for credit institutions licensed by the Centrale Bank van Aruba (the CBA).

#### **1. Introduction**

It is important that supervisors obtain the information they need to properly form an opinion on the financial strength of the operations of each credit institution. This information is obtained, amongst others, from the financial reports that are filed, supported by information obtained through communication with the external auditor. As such, supervisors have a clear interest in ensuring that external audits performed are acceptable and that an adequate relationship between them and the credit institutions' external auditors exists, essentially based on the principles and guidance formulated by the Basel Committee on Banking Supervision in its paper of January 2002. In this respect, high standards of auditing are indispensable. As such, the audit performed should be carried out by external auditors who:

- are properly licensed and in good standing;
- have relevant professional experience and competence;
- are subject to a quality assurance program. In this regard, the external audit firm must have policies and procedures in place on the appointment and eligibility of the engagement quality reviewer, the performance of the engagement quality review(er), and the documentation of the quality review. Said policies and procedures must comply with paragraphs 14 up to and including 30 of the International Standard on Quality Management 2, issued by the International Auditing and Assurance Board;
- are independent in fact and in appearance;
- are objective and impartial; and
- comply with relevant ethical requirements. Relevant ethical requirements are defined as the principles of professional ethics and ethical requirements that are applicable to a professional accountant when undertaking the engagement quality review (e.g., International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) related to audits or reviews of financial statements.

As defined under article 1 of the SOSCS an external auditor is: 'a person who is not employed by the company or institution, being a "registeraccountant" or an "accountant-administratieconsulent" registered pursuant to article 36, paragraph 2, item i, of the Dutch Law on the accounting profession (Stb. 2012, 680)'.

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### **2. Directive**

Any appointment of or change in external auditor needs the CBA's prior written approval. In order to assess the intended appointment or change, the institution concerned and the external auditor are required to complete the "Questionnaire External Auditor" (Annex 3). Reference is also made to the Guidance notes associated with the Questionnaire External Auditor.

In case of a change of external auditor, the CBA should also be informed on the reason(s) for the intended change.

The CBA will grant its approval if the external auditor complies with the requirements as stipulated in article 1 of the SOSCS and if there are no circumstances that, in the opinion of the CBA, would make the external auditor unfit for the assignment.

With regard to the independence in fact and appearance, there may not be any material financial interest, loans and guarantees, business relationships, and family and personal relationships between i) the credit institution, its Managing Board or a member thereof, its Supervisory Board or a member thereof, its direct or indirect shareholder(s), and (ii) the external auditor, the audit firm of the external auditor or a member/partner thereof.

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

The provision of information to the CBA by the external auditors of credit institutions is covered in article 23, paragraph 2, of the SOSCS. This section states that when granting the auditor the assignment to audit the annual accounts, the credit institution shall instruct its auditor in writing to:

- a. after consultation with the credit institution that granted the assignment, provide the CBA forthwith with a copy of the auditor's report to the Supervisory Board, of the management letter and of the correspondence that relates directly to the auditor's report, in so far as these documents are considered to be necessary in reason for the proper fulfillment of the CBA's supervisory tasks;
- b. after consultation with the credit institution, inform the CBA in writing forthwith of circumstances that could hinder the issue of an auditor's report stating that the annual accounts give a true and fair view of the financial position of the credit institution;
- c. after consultation with the credit institution that granted the assignment, inform the CBA in writing forthwith of circumstances which could endanger the continuity of the credit institution, or from which it appears that there is a serious suspicion of an extensive fraud; and
- d. furnish the CBA, if required, with additional information on the documents referred to under a. and on the circumstances referred to under b. and c.

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Subject provisions should be included in the engagement letter. A copy of the draft engagement letter must be attached to the request for the appointment of an external auditor.

Upon the CBA's approval of the external auditor, the final and signed engagement letter must be submitted to the CBA.

This directive enters into force as of **July 1, 2023**.