



Code of Practice for Engagement with External Auditors of Financial Institutions

The Central Bank of Trinidad and Tobago (“Central Bank”) recognizes the importance of leveraging the work of external auditors in assessing the safety and soundness of financial institutions and places reliance on audited financial information as an integral aspect of the supervisory process. In March 2014, the Basel Committee on Banking Supervision (“BCBS”) issued guidance entitled “External Audit of Banks” to improve the external audit quality of banks and enhance the effectiveness of prudential supervision and hence financial stability. A key aspect of the document provided guidelines for ensuring an effective relationship and communication between the regulator and banks’ external auditors.

External auditors are duty-bound to follow the standards and principles established in the International Standards on Auditing (ISA), published by the International Auditing Assurance and Standards Board (IAASB) in the conduct of audits of entities. Similarly, the Central Bank seeks to adhere to the principles established by international standard setters such as the BCBS and IAIS¹ for the supervision of banking and insurance entities, respectively. The relationship between external auditors and the Central Bank is premised on both parties operating within their particular regulatory framework as well as within the limits and requirements placed on them by the standards to which they subscribe.

Accordingly, the Central Bank has established a guidance document entitled “**Code of Practice for Engagement with External Auditors of Financial Institutions**” (“**Code**”) to strengthen the Central Bank’s regulatory processes by promoting an effective relationship with the external auditors of financial institutions. The objectives of the strengthened relationship are to ensure enhanced prudential supervision and contribute to high quality external audits of regulated financial institutions.

The Code is based on three (3) key principles that establish, in the context of a particular financial institution:

- a) the nature of the relationship between the Central Bank and external auditor;
- b) the form and frequency that communication between the two parties should take; and
- c) the responsibilities and scope for sharing information between the two parties, subject to the availability and accessibility of information to either party.

Major features of the Code include:

- 1) Identification of appropriate communication channels between the Central Bank and the external auditors for the exchange of information relevant to carrying out their respective statutory responsibilities;
- 2) Ability of the external auditor to report to the Central Bank directly on matters arising from an audit that are likely to be of material significance to the functions of the regulator;
- 3) Facilitation of timely and regular communication as well as a regular exchange of views between the Central Bank, audit firms and the accounting profession as a whole on key risks and systemic issues; and
- 4) Facilitation of bilateral and trilateral meetings.

This Code will be applied primarily to **systemically important banks and insurance companies and their financial holding companies** in the first instance, but may be used for any financial institution.

¹ IAIS is the abbreviation for International Association of Insurance Supervisors.