



POLICY MEMORANDUM ON THE CHANGE OF EXTERNAL AUDITORS OF A CREDIT INSTITUTION

INTRODUCTION

The purpose of this Policy Memorandum is to provide information on the process of changing external auditors by banking institutions and to ensure an orderly course of action during this process.

I. ACCEPTANCE OF THE ENGAGEMENT TO CONDUCT AN AUDIT ON THE ANNUAL FINANCIAL STATEMENTS OF A CREDIT INSTITUTION.

The following procedures are of importance from a supervisory point of view when appointing a new external auditor for the audit of the financial statements.

I.1. Notice of change

Pursuant to section 24 of the National Ordinance on the Supervision of Banking and Credit Institutions of 1994, any intended change in external auditor should be reported to the Bank, and can only be affected upon approval of the new auditor by the Bank.

I.2. Documentation on transfer of audit responsibility

The newly engaged 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, containing all important points of discussion, in order to avoid any misunderstandings in the transfer of audit responsibilities. A copy of subject minutes should be available to the Bank prior to the authorization of the new auditor.

I.3. Provision of information by auditors and consequences for the engagement letter

The provision of information to the Bank by the external auditors of credit institutions is covered in section 15, paragraph 3 of the National Ordinance on the Supervision of Banking and Credit Institutions of 1994.

Pursuant to section 15, the supervised institution must provide written instructions to the external auditor to audit its financial statements. The audit engagement letter should provide for the external auditor to be authorized to:

- a. submit to the Bank a copy of the auditor's report, the management letter, as well as all correspondence with regard to the auditor's opinion on the annual reports and the Chart of Accounts;
- b. inform the Bank, of any circumstantial facts that would inhibit the issuance of an unqualified opinion on the annual statements and/or Chart of Accounts; and elaborate in a meeting, if deemed necessary by the Bank, on the documents mentioned under a. and b. above.

Furthermore, viewing the importance of the EDP system for banking operations, the engagement letter should also indicate that the external auditor should reach, within the scope of the audit of the financial statements, an opinion on the continuity and reliability of the EDP system in so far the system is critical for the institution's daily operations.

Finally, the Bank will usually not request the correspondence as indicated under a. above in the case of an unqualified audit opinion on the set of financial statements.

II. EXIT MEETING

The Bank will inquire from the credit institution and the resigning auditor about the reasons for the change of external auditors during an exit meeting. If on the basis of the information received prior to such meeting, in combination with

the known facts, an exit meeting is not deemed meaningful or necessary for supervisory purposes, then the Bank may elect to disregard such a meeting. The Bank will inform the institution of this decision. If, on the other hand, the Bank does find an exit meeting meaningful, the resigning auditor will be invited for a meeting. The institution will again be informed of and allowed to be present at the meeting. In this meeting the question will be raised as to the reasons for termination of the engagement and whether there are other issues of significance for the Bank's supervision. Also, the Bank will review the applicable rules and regulations governing the activities of the institution with the new auditor.

III. REPORTING AND APPROVAL

The Bank evaluates the procedures which are relevant to the Bank in the change of external auditor and prepares an audit transfer memorandum. The current and coming auditors will cooperate as much as possible in the review of the transfer of audit responsibility.

After the memorandum has been finalized, the Bank will issue a declaration of no objection to the institution concerning the approval of the new external auditor.

CENTRALE BANK VAN CURACAO EN SINT MAARTEN