

## CBTT'S COMMENTS MATRIX ON INDUSTRY CONSULTATION ON THE CODE OF PRACTICE

Content	Section	Comment	Response from CBTT
Purpose of the Code	2.1	“individual financial institution” - Does this include groups?	The word “individual” has been deleted. Also, refer to Footnote 1 for definition of “a financial institution”.
	2.1(c)	“sharing information between the two parties” - Would this be allowed as CBTT can only share with other regulators?	Yes. Refer to Section 3.4 of the Code.
	2.2 (a) paragraph 3	Can the financial institution share the onsite report with the external auditor, especially since there is a clause in the preamble of the report that they cannot share with third parties without CBTT approval?	The financial institution may share the report with a third party with the approval of the CBTT in accordance with section 8(1) of the Financial Institutions Act, 2008, section 6A(1) of the Insurance Act, 1980 Chapter 84:01 and section 56(1) of the Central Bank Act.
	2.2 (b)(ix)	“auditor” - Use of auditor and external auditor interchangeably. What about the internal auditor?	Amendment made to emphasize “external auditor” instead of “auditor” throughout the Code. The Code is focused on the relationship between the external auditor and the CBTT.  Where reference has to be made to the Internal Auditor, it is specified in the Code.
	2.2 (c)(ii)	“but not for the purpose of expressing an opinion on the effectiveness of the financial institution’s internal control” - Does this conflict with Section 3.3 below?	Section 2.2 (c)(ii) was amended to eliminate the conflict with Section 3.3 of the Code.
Legislative Requirements	3.2	Consider updating regulations to include examples of instances and events when external auditors must report bank-specific information directly to supervisors. Examples may include when external auditors detect significant findings, fraud or going concern issues during the course of the audit or when management uses significant accounting judgment which materially affects the bank’s results and position.	Section 3.2 of the Code outlines the relevant sections in the Financial Institutions Act 2008 (“FIA”) and Insurance Act Chap 84:01 (“IA”) indicating general obligations of the external auditor.
	3.3	“external auditor is required to plan” - What about meeting with the external auditors during the planning state to discuss specific areas	This can be incorporated in a Bilateral/Trilateral meeting (Refer to sections 4.3.1 and 4.3.2).

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		within the scope (or outside) of the audit which regulators would like them to focus.	
Principle 1	4.1	It is suggested the content and subject of these discussions are of paramount importance, as such should be documented to promote transparency, independence of the roles as well as minimize possible mis-communication.	Noted.
Principle 2	4.2	Delete the word “all” in the phrase “shall share <b>all</b> information”.	Principle 2 qualifies the scope of such information therefore the word “all” does not need to be eliminated.
Principle 3	4.3	To avoid ambiguity, we suggest that a definition be provided for “material information” in sub-section (c) IV.	Section 4.3(c) has been revised to reflect the principles which govern meetings between the external auditor and the CBTT.
	4.3(b)	Do we want the external auditor liaising directly with the RO/Senior for the institution? Given the sensitivity of the relationship communication should be at the IOFI or the managerial level.	Amended to reflect the Inspector, Deputy Inspector and Manager of Supervision only.
	4.3 c(ii)	The phrase “share with CBTT <b>any</b> information” may be too broad to promote effective oversight. Suggest the information shared should be material to effective supervision of the institution.	Section <sup>1</sup> 4.2 Principle 2 addresses this.
	4.3 c(ii)	The draft code states that “The external auditor shall share with the CBTT any information that it believes may assist the CBTT in the exercise of its supervisory functions”. We should also explicitly request that the external auditor notify the CBTT where there are material changes to the accounting standards and/or operations that may have a material impact on the capital and/or liquidity of the licensee.	The CBTT facilitates quarterly meetings with the Institute of Chartered Accountants of Trinidad and Tobago (ICATT). Matters such as changes in accounting standards, which may impact the capital or liquidity of licensees, are usually raised at these meetings.

<sup>1</sup> CBTT of Trinidad and Tobago.

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	4.3 c(v)	<p>Clarification is requested to determine if this will require renegotiation of contracts?</p> <p>Provisions under the relevant laws provide protection and guidance; clarification is requested to necessity and intent of this section.</p>	Section 4.3(c) has been revised to reflect the principles which govern meetings between the external auditor and the CBTT.
Bilateral Meetings	4.3.1	Foot note 4 indicates that a list of Systemically Important Financial Institutions (SIFIs) will be communicated to the external auditors. Please clarify whether the list will be made available to the industry or included in this Code. Alternatively, we recommend that any RFI which is designated a SIFI should be so informed.	References to SIFIs have been omitted from the Code pending finalization of the regulatory framework for the SIFIs, deemed or otherwise.
	4.3.1	<p>To promote transparency and good governance, it is recommended that these meetings should be Trilateral or the content of such discussions be shared with the Financial Institution with a view to inform and provide an opportunity to respond to concerns.</p> <p>Also, CBTT should consider the impact on both Supervisory and Audit engagement cost given the proposed annual discussions.</p>	Such engagements between the CBTT and the external auditor are already in practice since meetings are usually held with external auditors during the conduct of onsite examinations. This is common supervisory practice as can be seen in Section 5.1 of the BIS Paper " <i>The Four lines of defense model for financial institutions</i> ".
	4.3.1	There is only a provision to meet with the External Auditor if there is an on-site examination or when deemed necessary as opposed to SIFIs having a meeting annually. It is proposed that there be a given timeframe in the case of 'Other Financial Institutions' whereby Bilateral meetings are held at least once every three years. This will enable both the Regulator and the External Auditor to better observe The Principles as set out in the document.	References to SIFIs have been omitted from the Code pending finalization of the regulatory framework for the SIFIs, deemed or otherwise.
Trilateral Meetings	4.3.2	We suggest that the CBTT gives the Chair of the Audit Committee the flexibility to invite relevant senior officers of RFIs to trilateral meetings, based on the agenda items for discussion. Please clarify whether meetings must be held face to face or whether the CBTT will	The CBTT prefers that meetings be held face-to-face but will consider the use of video conferencing facilities on a case by case basis.

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		consider the use of video conference facilities for banks with Group audit committees, and/or internal auditors who reside overseas.	
	4.3.2 (b)	“once it is deemed necessary by the CBTT” - Can the external auditor initiate/call a meeting?	Yes. Amended to convey this.
Proposed Scope for other Bilateral Meetings	Appendix 1	<p>We suggest that the proposed scope of bilateral meetings be extended to include the following:</p> <ul style="list-style-type: none"> <li>• Current/emerging issues affecting the industry including key risks.</li> <li>• Recent changes in legislation and prudential requirements.</li> <li>• Feedback on the quality of the communication between the CBTT and auditors and possible ways for improvement.</li> </ul>	Appendix I outlines guidance on the proposed scope for bilateral meetings which include, but not limited to, 20 areas for discussions. The list is not exhaustive and may be amended at any time by either party.
Other General Comments		The context of its purpose is quite clear, however, is the reporting requirement pertaining to the annual report on AML/CTF considered to be a separate matter and in no way impacts on our engagement with External Auditors?	The Code is geared toward the relationship between the external auditor and the CBTT, and is not specific to any type of annual report.
		<p>The external audit process is not primarily concerned with regulatory compliance but with verifying that the bank or financial institution’s financial statements accurately reflect its financial position, whereas the regulator is more concerned with ensuring that laws and regulations which stipulate prudential requirements that protect depositors and the financial system as a whole, are complied with.</p> <p>(This is the core function although it is acknowledged that the scope of the regulator’s supervisory remit has been gradually extended as a result of the passage of different pieces of legislation affecting RFIs, such as, for example, AML/CFT laws and regulations).</p> <p>Laws and regulations governing the banking system set the parameters</p>	<p>The auditor has certain responsibilities pursuant to Sections 8(5a) and 83 of the FIA which includes an assessment of compliance with regulatory requirements. Furthermore, Section 10(2) of the Financial Obligations Regulations (FOR) states that the external auditor shall evaluate compliance with relevant legislation and guidelines and submit reports and recommendations annually.</p> <p>Additionally, <i>ISA 250 – Consideration of Laws and Regulations in an Audit of Financial Statements</i>, is an auditing standard devoted entirely to compliance testing. Furthermore, the IAASB has made amendments to this standard and the revised ISA 250 will be effective for audits</p>

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		for the regulator's supervision. On the other hand, international or generally accepted auditing standards set the parameters for the external auditor's work. The roles are distinct though there may be areas of overlap. To the extent that the auditors must consider regulatory prescriptions in the process of auditing of financial statements and should therefore have ready access to them, these are available from the published laws, the regulator's website and the client financial institutions themselves. To the extent that the regulator's interpretation of those regulatory prescriptions may be relevant to the audit process, external auditors should have access to them in the same way and through the same channels that RFIs and the general public currently do i.e. CBTT publications.	of financial statements for periods beginning on or after December 15, 2017.
Role of External Auditors vs Role of CBTT - Purpose of Pre-Onsite Examination Meetings		It is important for all parties to have a clear and precise understanding of the nature and purpose of the dialogue between the regulator and the auditors. This is not apparent from the Code which is drafted in very broad and general terms. One possible concern that we have is the risk that by CBTT seeking information about external auditors' concerns on risks which have a common regulatory and audit element (as opposed to matters properly within the sphere of financial reporting), there is the converse risk that the regulator might substitute external auditors' views for its own, or at least be influenced by external auditors' views on such matters.	Each party is guided by its own framework and is complementary, thereby reducing the risk of influence on the work performed by each other. Collaboration between both parties provides surety that any risks arising from financial reporting matters do not negatively impact any regulatory issues.  In the normal conduct of an onsite examination, the regulator places reliance on the external auditor in its assessment of the institution.
Timing of Bilateral Meetings		For SIFIs the Code does not state when in relation to the annual external audit the bilateral meeting would be held, it only says that the meeting shall be held before the regulator's onsite examination, and that subsequent to this the regulator may initiate meetings with the auditor as deemed appropriate. Depending on the timing this could be just before the external audit in the planning stage or could be in the final stages of the audit just before sign off of the financial statements. If the findings/concerns of the regulator from an onsite examination are	This is international best practice, including Canadian and European jurisdictions, and assist in adequately scoping the onsite examination.

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		<p>shared with external auditors in discussions in a bi-lateral meeting prior to conduct of the audit, the risk is that the external auditor's approach and focus to the audit of the issue may be influenced by them and that the regulator may seek to impose its prudential criteria where accounting and auditing standards should properly apply. For an issue like loan loss provisioning, it would be important for the regulator expressing an opinion or concern about the RFIs approach to recognize and concede that the interpretation and application of accounting and auditing standards is a matter within the remit of the RFI and its external auditors. If the bilateral meeting took place nearer to the close of the external audit this might conceivably have implications for the sign off of the audit if external auditors felt compelled to take up the regulator's concerns about the accounting treatment of items in the accounts with Management of the RFI.</p>	
Sharing of Information		<p>Whereas the existing FIA gives CBTT the power to request the licensee to provide such information as it shall request, and specifies the reports which external auditors must make to it, the Code places an added responsibility on external auditors above and beyond their duty to report, as set out in the legislation, to use their judgment to disclose information that would assist the regulator in carrying out its separate, distinct function.</p> <p>This is important because the power that is given to CBTT to request information from licensees and to obtain reports from external auditors goes hand in hand with its responsibility to determine within its own judgment and independently from the external auditor, the information which it requires in order to regulate the matters over which it has oversight. The risk of this is that some of the responsibility for determining what information might be useful to the regulator in carrying out its function, might be shifted from the regulator to the external auditor and, by placing an obligation on external auditors to</p>	<p>In applying Section 4.2 of the Code, the disclosure of information by the CBTT to the external auditor would be done within the remit of Section 56(1) of the Central Bank Act and Section 8 of the FIA.</p> <p>Section 84(4) of the FIA provides the CBTT with access to the auditor's working papers and any other information so required. While we note the concern, the basis of this section of the Act is to allow the CBTT to place reliance on the work of the external auditor.</p> <p>In this regard, we draw reference to Section 8 (5)(a) of the FIA; which facilitates the CBTT's ability of our sharing of information with the external auditor and paragraph 2.2(a) of the Code.</p>

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		<p>notify or disclose in other ways other than set out in the legislation, might serve to widen without legislative authority the parameters of external auditors' obligations.</p> <p>There is legitimate concern about the informality of the process by which the exchange of information between regulator and external auditor can take place under the Code whether in the course of regular informal dialogue or in bilateral meetings that does not include management representatives of the RFI. The formal reporting prescribed by the legislation means that there is a certain rigor or discipline around the information that is reported to the regulator. On the other hand, opinions or judgments which, if committed to writing, might not bear scrutiny because they are not well founded or based on insufficient or incomplete information, are much more freely expressed in dialogue.</p> <p>Based on our review of the FIA, Section 8 is very specific as to the parties and circumstances under which the CBTT can share information and these do not appear to include that which is described in the second paragraph of Section 4.2 of the code. Similarly, Section 56 (1) of the Central Bank Act does not appear to provide a gateway for sharing of a licensee's information with the external auditor. How does the CBTT plan to provide a statutory gateway for sharing of information with the external auditor?</p> <p>Before disclosing information to the external auditor, we believe the CBTT should first consider the sensitivity of the information and the relevance of this information in assisting the external auditor in performing his duties. The CBTT should guard against prematurely disclosing to external auditors material/contemplated transactions under discussion with the Regulator.</p>	

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Notification of Meetings		CBTT should formally notify the RFIs of proposed meetings with the external auditors prior to the meetings taking place. This will assist the RFI in understanding incremental fees that will be charged by our auditors for time spent in attending any meetings with CBTT.	Agreed.
Disclosure to RFIs		CBTT provides the Management of the RFIs with a summary of the key issues addresses at the meetings. This will ensure that the RFIs are made aware of any concerns that the CBTT may have and that issues are addressed in a timely fashion.	The external auditor can report back on the discussions of the meeting. Should the CBTT have any concerns, it will follow up with the RFI.

- ✓ **Principle 1:** Regulators and external auditors should engage in regular dialogue;
- ✓ **Principle 2:** Regulators and external auditors shall share all information relevant to carrying out their respective statutory duties or that is considered to be material to either party in a timely fashion;
- ✓ **Principle 3:** Regulators and auditors shall seek an open, co-operative and constructive relationship;
- ✓ **Principle 4:** Regulators and auditors shall respect their duty to treat information shared between the two parties or received from financial institutions confidentially.