

# FINANCIAL SUPERVISORY COMMISSION



Cook Islands

## PRUDENTIAL STATEMENT

BPS05

### APPOINTMENT OF EXTERNAL AUDITORS IN BANKS

#### Authority

1. This Prudential Statement is issued by the Financial Supervisory Commission (FSC) pursuant to the provisions of Sections 47 and 65 of the Banking Act 2011 (the Act).

#### Application

2. This Prudential Statement is applicable to all bank licensees (banks).

#### Purpose

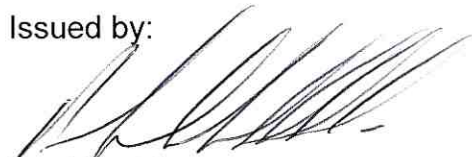
3. This Prudential Statement outlines the information and other requirements which banks must submit to the FSC prior to the appointment of an external auditor.

#### Requirements under the Act

4. A bank must obtain prior approval from the FSC of its appointed auditor as required under Section 47 of the Act. This is regardless of whether a registered auditor has already been appointed under other required acts in the Cook Islands.
5. The following criteria will be applied by the FSC for approving auditors of bank
  - (1) sufficient expertise and resources;
  - (2) commitment to continuing professional education;
  - (3) quality assurance reviews; and
  - (4) independence.
6. The audit firm must have relevant experience in auditing banks and other financial institutions of comparable size and complexity. In addition, staff must possess sufficient specialised skills appropriate to auditing a bank. In the assessment of resources, the factors to be considered include:

- (1) whether the auditor is an extension of an international firm or a separate legal entity;
  - (2) whether the audit firm will be undertaking local sign offs or 'full' audits; and,
  - (3) other financial institutions for which the audit firm has audit responsibility.
7. Partners signing off on audit engagements, or any member of the audit firm with authority to sign off the audit, are expected to possess an internationally recognised accounting qualification. For the purposes of this Prudential Statement the following would be considered internationally recognised accounting bodies: New Zealand Institute of Chartered Accountants, the Institute of Chartered Accountants in Australia, or any other professional body or institute approved by the FSC. The FSC expects partners to have a minimum of five (5) years auditing experience of banks or other types of depository institutions at a management level.
8. All professional accounting personnel are expected to comply with continuing professional education requirements and maintain good standing with their international accounting body.
9. The FSC expects the audit firm to have in place a quality assurance process that ensures that the audit firm's internal, and any externally imposed standards, are being fully complied with and will, at a minimum, include:
- (1) guidelines to be established and implemented requiring concurring partner review of the audit procedures and audit work; and
  - (2) internal quality control reviews of the audit firm's processes and methodology on a regular basis.
10. Independence is important in order to maintain an objective frame of mind in accomplishing the audit. All staff must annually disclose in writing to the audit firm any direct or indirect debts or other obligations owing to or shareholding in client banks. The audit firm must have clear and comprehensive procedures for ensuring independence in relation to new engagements.
11. The FSC's approval of an auditor applies until further notice. The FSC reserves the right to withdraw approval if an audit firm no longer meets the criteria laid out above. Where the appointed auditor will be assisted in the audit, the counterpart auditor to be assigned must also be approved by the FSC.

Issued by:



Paul Heckles  
Commissioner

FINANCIAL SUPERVISORY COMMISSION

1 August 2013