

# The Central Bank of The Bahamas

## GUIDANCE NOTICE

### Re: THE RELATIONSHIP BETWEEN EXTERNAL AUDITORS OF LICENSEES AND THE CENTRAL BANK

The external auditors of Central Bank licensees have sought clarification on a number of issues which are set out below, together with the Central Bank's responses and explanations in respect of same.

***(1) Is notification required if the scope limitation or obstacles do not result in a modification in the external auditors' report?***

Section 12(3)(b)(iii) of the Banks and Trust Companies Regulation Act, 2000 (BTCRA) requires external auditors to provide the Inspector with immediate notification where a decision is taken to include a modification of his report on a licensee's financial statement.

Additionally, paragraph 6.5 of *the Guidelines on the Relationship Between External Auditors of Licensees and the Central Bank (the Guidelines)*, refers to three specific circumstances in which external auditors should immediately notify the Inspector. These are where:

- any scope limitations are requested or imposed by the licensee;
- the external auditor experiences any obstacles to performing the audit; and
- the external auditor experiences any difficulties in obtaining information necessary to perform the audit.

In their notification to the Inspector pursuant to paragraph 6.5 of the Guidelines, external auditors should indicate whether or not any scope limitations, obstacles or difficulties will impact the audit or report.

***(2) Is notification required in 2011, and each year thereafter, if the scope limitations, obstacles or difficulties have been mentioned by the external auditor in his report on the licensee's financial statements previously filed with the Central Bank, and will likely be mentioned in his report on the 2011 financial statements?***

Given that an audit is conducted each calendar year, unless otherwise instructed by the client or the regulator based on the terms of engagement, the Inspector should be notified of any scope limitations or obstacles on an annual basis. If previous audits are referred to wherein there were scope limitations, obstacles or difficulties, for completeness, the Inspector should be so advised.

***(3) How is the external auditor to determine what is "any fact or matter that is likely to be of material significance for the Inspector"?***

Matters of "material significance" are subjective and based on the operations of a licensee but, in broad terms, such matters may inter alia include breaches of: prudential standards, Central

Bank orders and directives, any terms or conditions or changes of licensing, and any other issues related to the audit of the firm. The Inspector may also, at his discretion, engage the external auditor on issues of material significance arising out of supervisory processes such as risk assessments or onsite examinations. Also, at his discretion, the Inspector may bring a matter to the attention of external auditors (refer to paragraph 8.1 of the *Guidelines*).

***(4) Is it expected that the external auditor would be guided by what is included in the Regulations as examples of facts and matters of material significance?***

Yes, the external auditor should be guided by facts and matters of material significance as stated in Regulation 3 of the *Banks and Trust Companies (Auditors)(Facts and Matters of Material Significance) Regulations, 2011*.

Any questions regarding this Guidance Notice should be directed to:

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