

Speech delivered by

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Dutch Caribbean Accountants Association

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Good afternoon ladies and gentlemen,

It is a pleasure and an honor to be a guest at your general membership meeting. Dear Chairman, dear Christiaan, thank you for the kind introduction, and on behalf of all the colleagues at the CBCS, I would like to thank the DCAA members for their cooperation over the years. This cooperation will also be the central theme of my speech today. Cooperation can mean different things, in different situations to different people. In English, there are around 100 synonyms for the word cooperation, so it is only appropriate to reflect on our cooperation regularly.

The tasks of both the CBCS and external auditors are becoming more and more demanding. In many ways, your work and mine are complementary. You provide assurance in financial information that we as supervisors rely upon. We also face similar challenges. For example in assessing compliance with rules and regulations and assessing risks and risk controls.

We cannot be complacent about this. We only need to look at a number of financial entities in the Dutch Caribbean with serious incidents of malpractices. We all know the examples. Although the root cause might have been different for each entity, they have one thing in common: they were supervised by the CBCS and audited by a member of DCAA. It means we both have lessons to learn.

I will start by sharing the paradigm change we want to achieve in our supervision. I will then reflect on the implications for the relationship between the CBCS and the external auditor. In particular on the code of practice and our policy with respect to the declaration of no objection to auditors of financial institutions.

More focused and intrusive supervision

Since becoming autonomous countries within the Kingdom, Curaçao and Sint Maarten have lived through economically turbulent times with the crisis in Venezuela causing almost a decade long recession in Curaçao and hurricane Irma devastating the economic infrastructure in Sint Maarten in 2017. The economic crisis not only caused businesses to contract, but also exposed existing weaknesses and fraudulent transactions on the balance sheet of financial institutions.

Recently we have asked ourselves what we should learn from this and how we can improve our supervision. We have looked at weaknesses and strengths in our rules and regulations, our work processes, our capacity in terms of resources, the perception of external stakeholders and finally actual outcomes.

As you can imagine you get a long list that I do not want to bore you with. I will focus on two. The first is the observation that our supervision was too much compliance based and too little risk based. The second lesson we took is that we had too much patience. We were barking but not biting. We were analyzing but not taking sufficient actions.

Our conclusion was that we needed a paradigm change, a new style of supervision. Supervision that is focused, supervision that is intrusive. What do we mean by that? Focused in the sense that our supervision should quickly lead to identifying the main issues or shortcomings allowing us to take targeted action before any actual harm is done. Intrusive meaning that we will be prompt and decisive in our interventions, and will continue to press for improvements until they are implemented.

This does not mean that we will not be open for feedback. We will be clear upfront about our expectations, consult with institutions to collect feedback, provide practical advice and if needed more policy guidance. We hope that this will help us become a learning organization.

More focused and intrusive Supervision (Code of Practice)

Ladies and gentlemen,

A second point I would like to highlight is the 2019 issuance of the **Code of Practice for the relationship between the External Auditor and the Supervisor**. Better known in Dutch as the *meldingsplicht* from the external auditor to the CBCS.

The code describes the role of the external auditor as a gatekeeper and the relationship the CBCS and the external auditors should have which is more than the distant reliance on just the opinion on the financial statements. Auditors should seek an open relationship, engage in regular dialogue and share relevant information.

The nature of the relationship and the sharing of information between the CBCS and audit firms should be considered in the context of their respective roles and responsibilities. Our roles and responsibilities are of course not the same.

The CBCS is primarily concerned with maintaining the stability of the financial system and fostering the safety and soundness of financial institutions in order to protect the interests of the depositors, policyholders, pension plan members, beneficiaries, investors and other stakeholders. In this respect, the CBCS monitors the present and future viability of financial institutions and uses their financial statements to assess their condition and performance.

In this context, the CBCS is concerned with the maintenance of a sound system of internal controls as a basis for safe and prudent management of the financial institution's business. It must be satisfied that each financial institution maintains adequate records prepared in accordance with consistent accounting policies and practices that enable the CBCS to appraise the financial condition of the financial institution and the profitability of its business, and that the financial institution publishes or makes available on a regular basis financial statements that fairly reflect its condition.

When the CBCS conducts an onsite examination, the conclusions drawn from the examination are communicated to the financial institution. These communications can be useful to external auditors in as much as they provide an independent assessment in important areas and focus attention on specific areas of supervisory concern.

The external audit involves procedures, which include assessment of the risks of material misstatement of the financial statements, whether due to fraud or errors.

The external auditor should also consider internal controls relevant to the financial institution's preparation and fair presentation of the financial statements as also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.

The aforementioned responsibilities and roles from both the CBCS and the auditor are quite straightforward. So what is new?

New will be that the CBCS will expect a more pro-active approach from the auditor in her communication with us.

The CBCS expects for example that the auditor reports to the CBCS as soon as during the audit process it has come to the attention of the auditor that:

- It is clear that you will not be able to express an opinion on the financial statements before the known deadlines.
- It is clear that you will not be able to express an unqualified opinion; or
- It is clear that there are serious governance issues, fraud or other problems amongst senior management within a company.

So incidents that may come to the attention of the auditor during the audit process and may require supervisory action are expected to be reported as soon as confirmed. It is not enough to write-up such type of incidents in the explanatory notes to the financial statements or in the Management Letter, which in that way will only be reported many months after the facts.

We do recognize that in many cases management has the first responsibility to report to the CBCS, and that the external auditor only has a secondary role, in the sense that it has to verify if management has complied by reporting to the CBCS.

My staff and the DCAA board will look into further details on the matter in a meeting later this month.

CBCS experiences so far with the Code of Practice

Since the publication of the Code in 2019, we have found an improvement of reporting by the auditors, although there were a few cases in which the external auditor did not report incidents accordingly. The CBCS has been active on the matter and has had different meetings with those individual external auditors concerning the lack of adequate reporting to the CBCS.

More focused and intrusive supervision (Declaration of No Objection)

Ladies and gentlemen,

The third and last example I would like to use to underscore our new supervision style is on our policy on the issuance of a **Declaration of No Objection to Auditors of Supervised Institutions**.

This policy will be applied whenever a financial institution wants to change from external auditor e.g. appoint a new external auditor.

The institution under supervision is the first to take action when it has the intention to appoint its auditor. It should file a formal request for CBCS's approval of the proposed external auditor.

So what is the purpose of a formal policy concerning a Declaration of No Objection by the CBCS, one would ask?

The CBCS maintains an interest in the quality with which an external auditor performs the audit of a financial institution. In order to ensure mentioned quality the CBCS was given statutory powers over the appointment of the external auditor of financial institutions. By means of this policy, the CBCS will be more intrusive concerning acceptances of new auditors.

This policy sets out the minimum requirements regarding the qualifications of an external auditor to be appointed by a financial institution and the application procedures to be observed by a financial institution when seeking the CBCS approval.

Please allow me to elaborate a bit further on the minimum requirements regarding qualification of an external auditor then you might know that the policy identifies a few criteria for the assessment of an auditor.

One of these five criteria is that an auditor should have sufficient expertise and resources. Please be aware that having sufficient expertise in one subsector of the financial industry does not automatically mean that one has sufficient expertise in a different subsector. So yes, you might be a successful auditor of a small insurance company but if a bank requests us to approve you as their new auditor, you still need to go through the whole process, which can result in an objection to the appointment.

CBCS experiences so far with the policy governing the Declaration of No Objection.

In the recent past period, CBCS has performed the process of Declaring No Objection to auditors over a dozen times.

In all cases, it concerned auditors that were already active within the local financial sector. A few of the auditors felt that they had a good track record auditing other institutions under supervision and did not see why they needed to go through the process.

Some of you might have already experienced the process that will include reporting of different documentation, including one's Curriculum Vitae. We will also conduct an interview. Concerning this process, we have not encountered any major issues with the auditors. There has been a good understanding from both sides.

This brings me to you and our future relationship.

Balanced relationship between the CBCS and the auditor

Both the CBCS and you as auditor benefit from a well-balanced and healthy relationship. As we are part of the Dutch Caribbean Accountants Association, I might use the following words to illustrate our relationship:

“Steunend op eigen kracht doch de wil elkander bij te staan”.

(To rely on one's own strength but willing to assist the other)

These were the words of Queen Wilhelmina in 1954 when the six Antillean islands became autonomous. You may know better than me that the monument with the six birds situated between Saliña en Parera represents those words.

I would not want to go into the historical context of the islands within the Kingdom – also because I will not be sure were this metaphor will then bring us - but I will use that beautiful phrase to illustrate the relationship the CBCS wishes to have with DCAA and its members.

We want to rely on our own respective strengths and responsibilities, but if we also want to do justice to the second part of the phrase, that is to support each other, we need an open, cooperative and constructive relationship between the CBCS and the external auditor.

Equally important, is that the terms and scope of this relationship should be clearly defined and understood by both the supervisor and the external auditor, as well as by the financial institutions that are regulated and supervised.

In this first half year that I have been in office, I have found both staff of the CBCS as well as the different individual DCAA auditors and their offices to be professional within their field of expertise.

I know that later this month CBCS-staff will have a meeting with the board members of DCAA to further discuss different themes such as a public charter for auditors, international audit standards and the creation of a form of supervision on auditors. An intrusive but well-defined relationship will be in the best interest of the financial sector, the CBCS, DCAA and therefore Curaçao and Sint Maarten as a whole.

Thank you for your attention.