



**REGULATORY POLICY**  
Approval of  
an Auditor for a Regulated Entity

**February 2025**

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## List of Acronyms

<b>AOA</b>	Auditors Oversight Authority
<b>CIIPA</b>	Cayman Islands Institute of Professional Accountants
<b>CIMA</b>	Cayman Islands Monetary Authority
<b>IAASB</b>	International Auditing and Assurance Standards Board
<b>IAESB</b>	International Accounting Education Standards Board
<b>IESBA</b>	International Ethics Standards Board for Accountants
<b>IFAC</b>	International Federation of Accountants
<b>ISQM1</b>	International Standards on Quality Management 1
<b>ISQM2</b>	International Standards on Quality Management 2
<b>MAA</b>	Monetary Authority Act
<b>MoUs</b>	Memoranda of Understanding

For Consultation

## Regulatory Policy Approval of an Auditor for a Regulated Entity

### 1. Introduction

- 1.1. This document establishes the Cayman Islands Monetary Authority's (the "Authority" or "CIMA") Regulatory Policy on the Approval of an Auditor for a Regulated Entity (the "Policy").
- 1.2. The Policy should be read in conjunction with the following:
  - a) Regulatory Policy on Exemption from Audit Requirement for a Private Fund;
  - b) Regulatory Policy on Exemption from Audit Requirement for a Mutual Fund;
  - c) Regulatory measures issued by the Authority on Corporate Governance and Internal Controls; and
  - d) any other relevant Acts and regulatory measures issued by the Authority from time to time.

### 2. Definitions

- 2.1. The following definitions are provided for the purpose of this Policy:
  - (1) **"Approved Auditor"** refers to a Firm that has received approval from the Authority for as required under the relevant Regulatory Acts.
  - (2) **"Engagement Partner"** refers to the Partner or someone performing an equivalent role, appointed by the Firm, who is responsible for the engagement and its performance, and for the report that is issued in their name or on behalf of the Firm, and is licenced as a practitioner member of the Cayman Islands Institute of Professional Accountants.
  - (3) **"Firm"** refers to a partnership or corporation or other entity regardless of its legal form, of public accountants.
  - (4) **"Partner"** refers to any individual with authority to bind the Firm with respect to the performance of a professional services engagement.
  - (5) **"Public Accountant"** refers to a person engaged in public practice as defined by the Accountants Act (2024 Revision).
  - (6) **"Network Firm"** refers to a Firm or entity that belongs to the Firm's Network.
  - (7) **"Network"** refers to a wider structure:
    - a. that is aimed at cooperation; and
    - b. that is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or part of professional resources.
  - (8) **"Regulatory Act"** has the same meaning as defined under the Monetary Authority Act.
  - (9) **"Regulated Entity"** refers to an entity that is licenced or registered by the Authority pursuant to the various Regulatory Acts defined under the Monetary Authority Act.

### 3. Statement of Objectives

- 3.1. This Policy sets out the Authority's criteria for the approval of an auditor of a Regulated Entity as required under the various Regulatory Acts.
- 3.2. The Authority notes that the Approved Auditor of a Regulated Entity plays an essential role in the supervisory process, including but not limited to, performing procedures and evaluating evidence for the purpose of issuing an audit report regarding the financial statements and meeting the obligations of an auditor as prescribed by the Regulatory Acts.

### 4. Scope of Application

- 4.1. This policy applies to all Regulated Entities that are required by the applicable Regulatory Acts to appoint an auditor approved by the Authority (the "Approved Auditor") to audit their financial statements.
- 4.2. All Regulated Entities as per paragraph 4.1 above shall have their financial statements audited and the audit report issued or signed-off by the Approved Auditor unless the Regulated Entity has been granted an exemption from audit (s) of its financial statements by the Authority.
- 4.3. References to any Act or Regulation shall be construed as references to those provisions as commenced, amended, modified, re-enacted or replaced from time to time.
- 4.4. The Authority expects that, as applicable, Regulated Entities and Approved Auditors will, through their governance mechanisms, ensure compliance with this Policy on an initial and ongoing basis.

### 5. Statutory Authority

- 5.1. This Policy is consistent with:

- (1) the Authority's statutory objectives as prescribed in the Monetary Authority Act ("MAA"), including:

- i) section 6(1) (b) which provides the principal functions of the Authority as, among others:

*"(i) to regulate and supervise financial services business carried on in or from within the Islands in accordance with this Law and the regulatory laws;*

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*(iii) to perform any other regulatory or supervisory duties that may be imposed on the Authority by any other law;"*

- ii) section 6(3) which provides that in performing its regulatory functions and its co-operative functions, the Authority shall, inter alia:

*"(a) endeavour to promote and enhance market confidence, consumer protection and the reputation of the Islands as a financial centre; and*

*(b) endeavour to reduce the possibility of financial services business or relevant financial business being used for the purpose of money laundering or other crime".*

- (2) the Accountants Act (as amended), which governs the registration, licensing, and conduct of accountant engaging in public practice from or within the Cayman Islands.
- (3) section 3 (2) of the Auditors Oversight Authority Act (as amended), which provides the Auditors Oversight Authority (AOA) principal functions as, among others:

*"(a) to regulate and supervise auditors who audit the accounts of market traded companies<sup>1</sup> or designated companies<sup>2</sup>; and*

*(b) to regulate Auditors who audit the accounts of Authority specified companies and have voluntarily registered as a recognised auditor pursuant to section 17A".*

- (4) various applicable Regulatory Acts which require the appointment of an Approved Auditor (hereafter referred to as "Auditor") for a Regulated Entity.

## **6. Criteria for Approval**

### ***Physical Presence in the Cayman Islands***

- 6.1. The Authority will, at its discretion, approve only those Firms with a physical presence in the Cayman Islands to act as an Approved Auditor for a Regulated Entity under this Policy.
- 6.2. Physical presence for the purposes of this Policy means, having in the Cayman Islands, such resources (including a place of business, human, technological, intellectual and other resources) as the Authority considers appropriate having regard to the nature and scale of the Firm.
- 6.3. The Authority does not require that all the audit work of a Regulated Entity be conducted from within the Cayman Islands or solely by the Approved Auditor. However, the audit report signoff must be issued by the Approved Auditor after satisfying itself about the adherence to the applicable accounting standards and auditing requirements.

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<sup>1</sup> Defined as a company, partnership, unit trust or other entity, whether or not incorporated or established in the Islands, some or all of the transferable securities of which are admitted to trading on a regulated market except where that company, partnership, unit trust or other entity is an exempted entity.

<sup>2</sup> Defined as a company, partnership, unit trust or other entity, whether or not incorporated or established in the Islands, which is not a market traded company or an Authority specified company, but which falls within a specific type or category of company, partnership, unit trust or other entity specified by Regulations.

### **Registration and Licensing**

- 6.4. To receive approval as an Approved Auditor of a Regulated Entity the Authority requires that:
- (1) the Firm is registered as a public practice firm pursuant to section 38 of the Accountants Act with the Cayman Islands Institute of Professional Accountants (CIIPA) and the accountants of the firm are in good standing thereof; and
  - (2) in addition to being registered by CIIPA, where the Firm is to audit the financial statements of a Regulated Entity that is a market traded company, or a designated company (as defined under Auditors Oversight Act), such Firm is registered with the Auditors Oversight Authority (AOA) and in good standing thereof.

### **Independence and Objectivity**

- 6.5. The Authority considers independence as a vital component in maintaining objectivity when conducting the audit of a Regulated Entity. Accordingly, the Authority expects Firms to adhere to ethical standards regarding independence in relation to new and existing engagements. Such ethical standards should, as applicable, be in line with International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) (the “Code”) and any other relevant ethical standards established or issued by CIIPA.
- 6.6. The Authority notes that the Code provides a principles-based conceptual framework to guide Firms in identifying threats to independence, evaluate the threats, and take appropriate steps to reduce such threats to acceptable levels as defined under the Code. These threats may include, but are not limited to:
- (1) **Self-interest threat** – the threat that a financial or other interest will inappropriately influence a professional accountant’s judgment or behaviour;
  - (2) **Self-review threat** – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made, or an activity performed by the accountant or by another individual within the accountant’s firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity;
  - (3) **Advocacy threat** – the threat that a professional accountant will promote a client’s or employing organization’s position to the point that the accountant’s objectivity is compromised;
  - (4) **Familiarity threat** – the threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work; and

- (5) **Intimidation threat** – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue.

6.7. Notwithstanding the threats to independence and objectivity noted above, there may be other circumstances that would result in a Firm being deemed not independent or objective, and Firms and Regulated Entities must be vigilant to this possibility and take appropriate steps to mitigate such circumstances.

### **Competence and Capability**

- 6.8. In assessing competence and expertise of the Engagement Partners of the Firm, the Authority will consider standards and guidance as issued by the International Accounting Education Standards Board (IAESB), and/or any other body it deems appropriate, as applicable. This includes, but is not limited to *International Education Standard 7, Continuing Professional Development (as amended)* and *International Education Standard 8 Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (as amended)*.
- 6.9. The Authority notes that competence and capability include the development and maintenance of professional competence relevant and appropriate to engagements and professional responsibilities performed by the Firm.
- 6.10. Accordingly, the Firm should have procedures to ensure that, as applicable, its personnel fulfil the relevant continuing professional education and maintain good standing with CIIPA and their overseas professional accountancy institute (as defined in the Accountants Act).
- 6.11. As applicable, the Authority may request confirmations in respect of the fulfilment of continuing professional education standards, as well as competence and capability standards, from CIIPA and their overseas professional accountancy institute (as defined in the Accountants Act).

### **Resources and Capacity**

- 6.12. In line with International Standards on Quality Management 1 (ISQM1) issued by the IAASB, the Authority expects that the Firm shall have established quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable effective performance of audits. Such resources include, but are not limited to human resources, technological resources, intellectual resources, and, as appropriate, service providers.
- 6.13. Accordingly, the Firm's personnel should have relevant knowledge, experience and capacity in auditing in the respective industry, based on assignments of comparable size, nature and complexity. In addition, staffing of the Firm should include sufficient specialized skills appropriate to the industry of the Regulated Entity. In assessing the resources and capacity of the Firm, the Authority' will consider, among others:



- a) whether the Firm is an extension of an international Firm or a separate legal entity;
  - b) whether the Firm will be undertaking local sign offs<sup>3</sup> or 'full' audits<sup>4</sup>;
  - c) the industry sectors which it will audit;
  - d) results of quality assurance reviews on the Firm performed by CIIPA, where available;
  - e) results of internal quality control reviews of the Firm's processes and methodology, where available; and
  - f) any other factors considered relevant by the Authority for the purposes of establishing the appropriateness of resources and capacity in auditing the regulated entity.
- 6.14. The Authority expects that Engagement Partners signing off on audits of Regulated Entities are licensed as practicing members with the CIIPA and are in good standing thereof.
- 6.15. Generally, the Authority would expect Engagement Partners to have a minimum of five (5) years auditing experience of financial institutions at a management level, in the respective industry sectors or businesses they are auditing. If a Firm does not have Partners with the necessary experience, the Authority may at its discretion limit the industries or Regulated Entities which the Firm may be approved to audit.
- 6.16. As deemed appropriate, the Authority may request confirmations from the relevant local and/or international accounting body in respect of the adequacy of the Firm's quality management systems including appropriateness of its resources and capacity in auditing the Regulated Entity.

### **Quality Management and Assurance**

- 6.17. The Authority expects that the Firm has in place a competent quality assurance process that ensures that its internal and any externally imposed quality standards are complied with.
- 6.18. In assessing quality management and assurance systems of a Firm, the Authority will consider:
- (1) standards and guidance as issued by the International Auditing and Assurance Standards Board (IAASB), as applicable. This includes, but is not limited to, *International Standard on Quality Management 1 (ISQM1, as amended)* and *International Standard on Quality Management 2 (ISQM2, as amended)*; and
  - (2) any other factors deemed relevant by the Authority for the purposes of establishing the appropriateness of the quality management and assurance systems of the Firm.

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<sup>3</sup> where some of the audit work is performed outside of the Cayman Islands, but the audit report is signed by an audit practitioner licenced by CIIPA.

<sup>4</sup> where all the audit work is performed in the Cayman Islands, and the audit report is signed by an audit practitioner licenced by CIIPA.

### **Ethical Standards and Conduct**

6.19. The Authority expects that the Firm shall have appropriate policies and procedures that address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Such policies and procedures should be adequately designed to ensure:

- (1) The Firm and its personnel:
  - (i) understand the relevant ethical requirements to which the Auditor and respective audits are subject; and
  - (ii) effectively fulfil their responsibilities in relation to the relevant ethical requirements to which the Auditor and the respective audits are subject.
- (2) Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the Auditor and the respective audits are subject:
  - (i) understand the relevant ethical requirements that apply to them; and
  - (ii) effectively fulfil their responsibilities in relation to such ethical requirements.

6.20. In assessing appropriateness of ethical standards and the conduct of an Auditor, the Authority will consider standards and guidance issued by the International Auditing and Assurance Standards Board (IAASB), as applicable. These include but are not limited to *International Standard on Quality Management 1 (ISQM1, as amended)*.

6.21. As deemed appropriate, the Authority may request confirmations from the relevant local and/or international accounting body in respect of the Auditor's adherence to standards relating to ethics and conduct.

### **Professional Indemnity Insurance**

6.22. The Authority expects Firms to have and maintain adequate professional indemnity insurance of a minimum of CI\$500,000 for any one claim and CI\$1,000,000 in aggregate. In meeting this Policy, the Authority would accept an extension of the professional indemnity insurance from a network Firm.

## **7. Relations with the Authority**

### Regulated Entities

7.1. When a Regulated Entity seeks to change its Auditor, the Authority may require the regulated entity or the former Auditor to disclose the circumstances surrounding such change. Additionally, Regulated Entities should note that, at its discretion, the Authority may seek further information from CIIPA and/or

AOA, as applicable.

- 7.2. The Authority may, among other powers provided under the applicable Acts, require the replacement of an Auditor, at any time. For example, if the Authority is of the opinion that the Auditor's objectivity is impaired, or it is not sufficiently competent to carry out an audit of the Regulated Entity.

### Auditors

- 7.3. As stipulated under the applicable Acts, Auditors of Regulated Entities are expected to notify the Authority of certain matters identified while carrying out an audit of a Regulated Entity. Such matters include but are not limited to the Auditor obtaining information or suspecting that the Regulated Entity is:

- (1) unable or likely to become unable to meet its obligations as they fall due;
- (2) carrying on or attempting to carry on business or is winding up its business voluntarily in a manner that is prejudicial to its investors or creditors;
- (3) carrying on or attempting to carry on business without keeping any or sufficient accounting records to allow its financial statements to be properly audited;
- (4) carrying on or attempting to carry on business in a fraudulent or criminal manner; and
- (5) carrying on or attempting to carry on business without compliance with the relevant Acts, regulations, or conditions of its licence.

- 7.4. Additionally, the Authority expects Firms to provide notification, within twenty-one (21) days, on:

- (1) material changes (including cessation of business) occurring in relation to information provided to the Authority for the purposes of approving their application as an Auditor for a Regulated Entity;
- (2) where approval has been granted, material changes occurring that may affect the conditions attached to such approval; and
- (3) any other significant matters that could adversely affect its audit of Regulated Entities.

- 7.5. The Authority may, at its discretion, bring a matter to the attention of the Auditor of a Regulated Entity at any time if:

- (1) the Authority believes that the disclosure is of such importance that the Auditor's knowledge of it could significantly affect its audit or the way in which the Auditor performs its audit or reporting responsibilities;
- (2) the disclosure is for the purpose of enabling or assisting the Authority to discharge its functions under the applicable Acts; and
- (3) the disclosure relates to a prudential standard, or a requirement under the applicable Acts or any conditions of the Regulated Entity's licence.

- 7.6. Where an Auditor contravenes the provisions of the applicable Acts and/or conditions attached to its approval, the Authority may, among other powers provided under the Acts, revoke the approval of the Auditor.

#### Auditors Oversight Bodies

- 7.7. The Authority emphasises the importance of exchanging relevant information with CIIPA and AOA (collectively referred to as the "Audit Oversight Bodies") to ensure the effective approval of Auditors. In line with the provisions of the applicable Acts, the Authority may enter Memoranda of Understanding (MoUs) with the Audit Oversight Bodies to facilitate the exchange of pertinent information.

### **8. Approval Process**

- 8.1. To be recognized as an Approved Auditor and be included in the list of Approved Auditors<sup>5</sup>, a Firm should submit the following to the Authority:
- (1) A formal written request to be an Approved Auditor. The letter should also be accompanied by all the relevant documents stipulated in the Auditor Approval Application Form<sup>6</sup>;
  - (2) Any other information that may be requested by the Authority for purposes of reviewing and approving the application; and
  - (3) Any prescribed fees, as applicable.
- 8.2. Where a Firm is already approved and intends to accept the appointment by a Regulated Entity as its Approved Auditor, the Firm should submit the following to the Authority:
- (1) A letter of consent indicating the acceptance of such appointment and any information and/or documents stipulated in the Auditor Acceptance Form for Approved Auditors and
  - (2) Any other information that may be requested by the Authority for purposes of reviewing and approving the appointment.
- 8.3. Where a Firm is already approved and intends to have its terms or conditions for approval amended, the Firm should submit the following to the Authority:
- (1) A formal written request indicating the reasons for the application to amend its terms or conditions for approval. The written request should specify the terms or conditions the Firm seeks to amend and the rationale for each requested amendment; and

<sup>5</sup> As published on CIIPA's website concerning audits of CIMA regulated entities.

<sup>6</sup> As published on the Authority's website "CIMA.ky" under the Regulatory Measures section for each of the regulated sectors.

- (2) Any other information that may be requested by the Authority for purposes of reviewing and approving the amendment(s).

## 9. Withdrawal Process

9.1. Where a Firm is already approved and intends to cease offering audit services to regulated entities, and withdraw its approval, the Firm should submit the following to the Authority:

- (1) A formal letter from CIIPA confirming withdrawal of approval and the reasons for it;
- (2) Any additional information that may be requested by the Authority; and
- (3) Any prescribed fees, as applicable.

## 10. Approval Notification

10.1. The Authority shall, upon its approval of a Firm pursuant to provisions of section eight (8) of this Policy, issue a written notification of such approval. Such notification may include any conditions attached to the approval.

10.2. If the Authority refuses to approve a Firm pursuant to provisions of section eight (8) of this Policy, it will issue a written notification of the refusal. The Authority may include the reasons for the refusal in the written notification.

## 11. Effective Date

11.1. This Policy will come into effect within six (6) months of the date that it is published in the Gazette.

## 12. Transitional Arrangements

12.1. Regulated Entities that require appointment of an Auditor under this Policy to comply with this policy must do so starting from the first accounting period that begins after the Policy's effective date.

12.2. Firms who are recognised as Approved Auditors prior to effective date of this Policy shall be deemed to have met the qualifications and approval criteria under this Policy. These Firms will retain their approved status without the need for re-evaluation, provided that they remain in compliance with all ongoing requirements, including continuing education, ethical standards, and performance expectations set forth in this Policy.



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