

**PRIVATE SECTOR CONSULTATION**  
**Regulatory Policy - Approval of an Auditor**  
**for a Regulated Entity**

**PRIVATE SECTOR CONSULTATION  
REGULATORY POLICY - APPROVAL OF AN AUDITOR FOR A REGULATED  
ENTITY**

**A. Introduction**

1. Section 34(1)(a) of the Monetary Authority Act (2020 Revision or "CIMA") states that:

*After private sector consultation and consultation with the Minister charged with responsibility for Financial Services, the Authority may –*

- a) *issue or amend rules or statements of principle or guidance concerning the conduct of licensees and their officers and employees, and any other persons to whom and to the extent that the regulatory laws may apply.*

2. Requirements specific to the private sector consultation are outlined in section 4(1) of the MAA as follows:

*When this Law requires private sector consultation in relation to a proposed measure –*

*(a) the Authority shall give to each private sector association a draft of the proposed measure, together with –*

- i. *an explanation of the purpose of the proposed measure;*
- ii. *an explanation of the Authority's reasons for believing that the proposed measure is compatible with the Authority's functions and duties under section 6;*
- iii. *an explanation of the extent to which a corresponding measure has been adopted in a country or territory outside the Islands;*
- iv. *an estimate of any significant costs of the proposed measure, together with an analysis of the benefits that will arise if the proposed measure is adopted; and*
- v. *notice that representations about the proposed measure may be made to the Authority within a period specified in the notice (not being less than thirty days or such shorter period as may be permitted by subsection (3)); and*

*(b) before proceeding with the proposed measure, the Authority shall have regard to any representations made by the private sector associations, and shall give a written response, which shall be copied to all the private sector associations."*

3. Although regulatory policy consultation is generally not required, the Cayman Islands Monetary Authority ("the Authority" or "CIMA") seeks consultation and comment from the private sector associations concerning the revised Regulatory Policy for the Approval of an Auditor for a Regulated Entity. This consultation aims foster engagement with the industry on the approval of auditors of regulated entities.

## **B. Background**

4. In October 2003, the Authority issued a revised *Regulatory Policy on the Approval of an Auditor of a Regulated Institution* ("the 2003 Policy"). The 2003 Policy has since been applied by the Authority in approving external auditors of regulated entities (hereafter referred to as "auditor(s)") as required under various regulatory laws.
5. The 2003 Policy sets out the Authority's approval criteria in assessing the acceptability of an auditor to audit the accounts of a regulated entity. This includes, but is not limited to, assessments of:
  - (1) sufficiency of expertise and resources of auditors;
  - (2) maintenance of continuous professional education;
  - (3) maintenance of a competent quality assurance process that ensures that the auditors' internal and any externally imposed standards are being complied with;
  - (4) adherence to independence requirements as stipulated in the Code of Ethics issued by the International Federation of Accountants ("IFAC"); and
  - (5) maintenance of an adequate professional indemnity insurance of a minimum of CI\$500,000 for any one claim and CI\$1,000,000 in aggregate.
6. Since the issuance of the 2003 Policy, various developments have occurred, including:
  - (1) changes in applicable local legislation, including the enactment of the Public Accountants Act;
  - (2) changes in the international best practices relevant to accountants and auditors as promulgated by, among others, Basel Committee on Banking Supervision ("BCBS"), International Association of Insurance Supervisors ("IAIS"), International Organization of Securities Commissions ("IOSCO") and Group of International Finance Centre Supervisors ("GIFCS");
  - (3) CIIPA becoming officially incorporated as a Non-Profit Organisation in 2007 and taking responsibility for licencing accounting practitioners in the Cayman Islands pursuant to the Accountants Act;
  - (4) CIIPA becoming a full member of IFAC in 2013; and
  - (5) Establishment of the Auditors Oversight Authority ("AOA") in 2012, as a completely independent oversight body from the accounting and auditing profession with specific oversight of, among others, auditors who audit the accounts of Market Traded Companies ("MTC") as defined under the Auditors Oversight Act ("AO Act").
7. Accordingly, the Authority is seeking to incorporate the above developments in its processes and procedures for approving auditors via issuance of the revised regulatory policy (hereafter referred to as the "Proposed Measure" or **Appendix 1**).

**C. International Standards**

***Standards Relating to Supervisory Expectations of Auditors of Regulated Sectors***

8. Various standard-setting bodies, BCBS, IAIS, IOSCO and GIFCS have issued standards relevant to the appointment and approval of auditors. These standards also include provisions that govern the relationship between supervisors and auditors, aiming to ensure the integrity, reliability, and transparency of financial reporting. **Table 1** below summarises the key provisions established by each of these standard-setting bodies.

**Table 1: Relevant Provisions Relating to External Auditors**

<b>Standard Setting Body/ Standard</b>	<b>Provisions</b>
BCBS: /Basel Core Principles	<p><b>Principle 27</b>-<i>Financial reporting and External Audit</i> provides that:</p> <ul style="list-style-type: none"> <li>• The supervisor holds the bank’s board and management responsible for ensuring that the financial statements issued annually bear an independent external auditor’s opinion as a result of an audit conducted in accordance with internationally accepted auditing practices and standards.</li> <li>• Banks and parent companies of banking groups have adequate governance and oversight of the external audit function.</li> <li>• The supervisor has the power to reject and rescind the appointment of an external auditor who is deemed to have inadequate expertise or independence or who is not subject to or does not adhere to established professional standards.</li> <li>• The supervisor determines that banks rotate their external auditors (either the Firm or individuals within the Firm) from time to time.</li> <li>• The supervisor meets periodically with external audit Firms to discuss issues of common interest relating to bank operations.</li> <li>• The supervisor requires the external auditor, directly or through the bank, to report to the supervisor matters of material significance.</li> <li>• As an additional criterion under Principle 27, the supervisor has the power to access external auditors’ working papers, where necessary.</li> </ul>
IAIS: /Insurance Core Principles (“ICP”)	<p><b>ICP 7</b>-<i>Corporate Governance</i> provisions include that:</p> <ul style="list-style-type: none"> <li>• The supervisor requires the insurer's Board to ensure that there is adequate governance and oversight of the external audit process.</li> </ul>

Standard Setting Body/ Standard	Provisions
	<ul style="list-style-type: none"> <li>• The supervisor should require the external auditor to report matters that are likely to be of material significance.</li> <li>• The supervisor and the external auditor should have an effective relationship that includes appropriate communication channels for the exchange of information relevant to carrying out their respective statutory responsibilities.</li> <li>• The Board should take appropriate actions where doubts arise as to the reliability of the external audit process.</li> <li>• The Board should ensure the insurer: <ul style="list-style-type: none"> <li>-applies robust processes for approving, or recommending for approval, the appointment, reappointment, removal, and remuneration of the external auditor.</li> <li>-investigates circumstances relating to the resignation or removal of an external auditor, and ensuring prompt actions are taken to mitigate any identified risks to the integrity of the financial reporting process.</li> <li>-reports to the supervisor on circumstances relating to the resignation or removal of the external auditor.</li> </ul> </li> </ul>
IOSCO: /Objectives and Principles of Securities Regulation	<p><i>IOSCO Principles for Auditors, Credit Rating Agencies, and other information service providers</i> provides that:</p> <ul style="list-style-type: none"> <li>• Auditors should be subject to adequate levels of oversight.</li> <li>• Auditors should be independent of the issuing entity that they audit.</li> <li>• Audit standards should be of a high and internationally acceptable quality.</li> </ul>
GIFCS: /Standard on the Regulation of Trust and Corporate Service Providers	<p><i>GIFCS Standard on Regulation of Trusts and Corporate Service Providers</i> includes, among others, that:</p> <ul style="list-style-type: none"> <li>• The Regulator requires a Trust and Corporate Service Provider (“TCSP”) to produce financial statements, in line with the accounting standards applicable in its home jurisdiction, and to have them audited and submitted to the Regulator.</li> <li>• The scope of the audit should include a review of controls over Clients’ money and Clients’ assets.</li> <li>• A copy of the Auditor’s management letter and the management response should be presented to the Regulator.</li> <li>• A TCSP should be required to notify the Regulator on a timely basis of any decision by its Auditor to qualify its audit report or to raise an emphasis of matter.</li> <li>• The Regulator should require the Auditor to be suitably qualified to undertake the audit.</li> </ul>

Standard Setting Body/ Standard	Provisions
	<ul style="list-style-type: none"> <li>• The Regulator should be empowered to refuse a proposed Auditor and to remove Auditors.</li> <li>• The Regulatory framework should include provisions for gateways between the Regulator and the Auditor. These should include an obligation for the Auditor to report to the Regulator on significant breaches of regulatory requirements by the TCSP, and protection from civil liability for an Auditor in respect of any such information supplied to the Regulator.</li> </ul>

***Standards Relating to General Oversight of the Accounting Profession***

***The International Auditing and Assurance Standards Board ("IAASB")***

9. The IAASB is an independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, quality control, review, other assurance, and related services, and by facilitating the convergence of international and national standards. In doing so, it strengthens public confidence in the global auditing and assurance profession.
10. In December 2020, the IAASB issued the final pronouncement on International Standard on Quality Management 1 ("ISQM")<sup>1</sup>. The ISQM deals with a Firm's<sup>2</sup> responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.
11. Adherence to the ISQM provides the Firm with reasonable assurance that:
  - (1) The Firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
  - (2) Engagement reports issued by the Firm or engagement partners are appropriate in the circumstances.
12. In accordance with the December 2020 pronouncement, the system of quality management complying with the ISQM were required to be designed and implemented by December 15, 2022, and the evaluation of the system of quality management was required to be performed one year after that.
13. The ISQM embeds a principles-based approach for Firms to create a system of quality management ("SoQM") which is tailored to the Firm

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<sup>1</sup> Previously International Standard on Quality Control 1.

<sup>2</sup> The ISQM defines a Firm as a sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent.

and its client base. This scalability enables Firms to design a system which addresses their specific circumstances and risks.

14. The ISQM further provides that a Firm's SoQM must address the following eight components:
  - (1) *Firm's risk assessment process;*
  - (2) *Governance and leadership;*
  - (3) *Relevant ethical requirements;*
  - (4) *Acceptance and continuance of client relationships;*
  - (5) *Engagement performance;*
  - (6) *Resources;*
  - (7) *Information and communication; and*
  - (8) *Monitoring and remediation process*

**International Federation of Accountants ("IFAC")**

15. IFAC is a global organization dedicated to strengthening the accounting profession by establishing high-quality international standards in auditing, ethics, education, and public sector accounting. IFAC represents professional accountants worldwide and works to promote integrity, transparency, and accountability within the financial reporting ecosystem. Through its independent standard-setting boards, such as the IAASB and the International Ethics Standards Board for Accountants ("IESBA"), IFAC develops and promulgates standards that enhance the quality and consistency of professional practices across different jurisdictions, fostering public confidence in the profession.

**IFAC Statements of Membership Obligations ("SMOs")**

16. SMOs provide clear benchmarks to current and potential IFAC member organizations of IFAC's requirements. The SMOs also serve as the global benchmarking framework and represent the core competencies of strong, credible, high-quality professional accountancy organizations ("PAO") that most appropriately serve and function in the public interest.
17. The SMOs, which are the basis of the IFAC Members' Compliance Program, assist PAOs in serving the public interest by supporting the adoption and implementation of international standards and other pronouncements issued by IAASB, IESBA, International Public Sector Accounting Standards Board ("IPSASB"), International Financial Reporting Standards Foundation and ("IFRS Foundation"). The SMOs also promote the adoption and implementation of quality assurance review systems and their associated investigations and disciplinary mechanisms.
18. In accordance with the IFAC, IFAC member organizations are required to fulfil the requirements specified in the SMOs<sup>3</sup>. The SMOs were reviewed in 2021 to ensure that they continue to be relevant, sufficient, and effective. This review focused on:

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<sup>3</sup> IFAC recognizes that its member organizations operate under different national legal and regulatory frameworks and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member organizations in different jurisdictions may have different degrees of responsibility for meeting the requirements in each respective SMO and are therefore encouraged to refer to the applicability framework as appropriate in implementing the SMOs.

- (1) Aligning the SMOs with changes to, among others, standards issued by the IAASB, IESBA and IPSASB;
  - (2) Ensuring SMO 1 on Quality Assurance, and SMO 6 on Investigation and Discipline, remain relevant and reflect best practices; and
  - (3) An editorial review to ensure clarity and consistency.
19. The revised SMOs, which were approved by the IFAC Board in June 2022 and became effective July 1, 2022, are summarised as detailed below:
- (1) **SMO 1—Quality Assurance** sets out the requirements of an IFAC member organization with respect to quality assurance review systems for its members who perform audits, review, other assurance and related engagements.
  - (2) **SMO 2— International Education Standards for Professional Accountants and Aspiring Professional Accountants**, sets out the requirements of an IFAC member organization with respect to International Education Standards and other pronouncements.
  - (3) **SMO 3—International Standards and Other Pronouncements Issued by the IAASB**, sets out the requirements of an IFAC member organization with respect to international standards and other pronouncements issued by the IAASB, an independent standard-setting body.
  - (4) **SMO 4—International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the IESBA**, sets out the requirements of an IFAC member organization with respect to the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by IESBA (the “IESBA Code”). Due to the nature of ethical requirements, SMO 4 requires adoption and implementation of standards no less stringent than the IESBA Code.
  - (5) **SMO 5—International Public Sector Accounting Standards and Other Pronouncements Issued by the IPSASB**, sets out the requirements of an IFAC member organization with respect to International Public Sector Accounting Standards (“IPSAS”) and other pronouncements issued by the IPSASB, an independent standard-setting body.
  - (6) **SMO 6—Investigation and Discipline**, sets out the requirements of an IFAC member organization with respect to mechanisms that provide for the investigation and discipline of those professionals who fail to exercise and maintain the professional standards and related obligations of an IFAC member.
  - (7) **SMO 7—International Financial Reporting Standards (“IFRS”) and Other Pronouncements Issued by the IFRS Foundation**, sets out the requirements of an IFAC member organization with respect to the IFRS as issued by the International Accounting Standards Board (“IASB”), an independent standard-setting body.



- IFAC Member Compliance Program*
20. According to IFAC, the SMOs form the basis of the IFAC Member Compliance Program. All IFAC member organizations are required to perform ongoing self-assessments of their compliance with each of the SMOs' requirements, including an assessment of standards in place compared to the relevant international standards. Based on the self-assessments, and particularly where gaps are identified, IFAC member organizations are required to develop, meaningfully execute, and update their action plans to demonstrate how they intend to strengthen their fulfilment of the SMOs' requirements.
- International Education Standards ("IES")*
21. IESs, issued by IFAC set forth the principles that professional accountancy organizations should follow to build a national accountancy profession that is fully capable of fulfilling the complex demands that economies and societies place on it. The IESs are authoritative and are used by IFAC member organizations when setting education requirements for professional accountants and aspiring professional accountants.
22. IES 8 prescribes the professional competence that professional accountants are required to develop and maintain when performing the role of an engagement partner responsible for audits of financial statements. The standard aims to ensure that engagement partners possess the required technical knowledge, professional skills, and personal qualities to perform their roles effectively.
23. Under IES 8, IFAC member bodies shall:
- (1) require professional accountants performing the role of an engagement partner to develop and maintain professional competence that is demonstrated by the achievement of learning outcomes stipulated in the standard.
  - (2) require professional accountants performing the role of an engagement partner to undertake CPD that develops and maintains the professional competence required for this role.

**D. Purpose of the Proposed Measure and Consistency with the Authority's Functions**

24. Section 6(1)(b) of the Monetary Authority Act ("MAA") establishes the responsibilities of the Authority with respect to its regulatory functions, namely:
- (i) to regulate and supervise financial services business carried on in or from within the Islands in accordance with this Act and the regulatory acts;
  - (ii) to monitor compliance with the money laundering regulations; and
  - (iii) to perform any other regulatory or supervisory duties that may be imposed on the Authority by any other act;

25. Section 6(3) of the MAA provides that in performing its regulatory functions, the Authority shall, *inter alia* –
- (a) *endeavour to promote and enhance market confidence and the reputation of the Islands as a financial centre;*
  - (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;*
- (...)

26. The Proposed Measure sets out the Authority’s criteria for the approval of an auditor of a Regulated Entity as required under the various Regulatory Acts. It also seeks to reflect the relevant changes in the process for approving auditors of regulated entities, incorporating any changes in local legislation as well as best practices.

**Approval Process and Information to be Provided by the Applicant**

27. To be recognized as an Approved Auditor and be included in the list of Approved Auditors<sup>4</sup>, a Firm should submit the following to the Authority:
- (1) A formal written request indicating the reasons for the application to be an Approved Auditor. The letter should also be accompanied by all the relevant documents stipulated in the Auditor Approval Application Form (**Appendix 2**) and an Attestation Letter from CIIPA (**Appendix 5**);
  - (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.
28. 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 Appointment Acceptance Form for Approved Auditors (**Appendix 3**);
  - (2) Any other information that may be requested by the Authority for purposes of reviewing and approving the appointment; and
29. Where a Firm already approved and intends to have its terms or conditions for approval amended, the Firm should submit the following to the Authority:

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<sup>4</sup> As published on CIIPA’s website with regards to audits of CIMA regulated entities.

- (1) A formal written request indicating the reasons for the application to amend its terms or conditions for approval. The cover letter should specify the terms or conditions the Firm seeks to amend and the rationale for each requested amendment; and
- (2) Any other information that may be requested by the Authority for purposes of reviewing and approving the amendment(s).

*Physical Presence in the Cayman Islands*

30. The Authority proposes that it will, at its discretion, approve only those Firms with a physical presence in the Cayman Islands to act as an Auditor for a Regulated Entity under this Policy. This is aimed at ensuring CIIPA has adequate supervisory oversight of the Firms in line with its mandate under the Acts.
31. The Authority notes that Physical Presence for the purposes of the proposed Policy means, having in the Cayman Islands, such resources (including staff and facilities) as the Authority considers appropriate having regard to the nature and scale of the Firm.
32. Moreover, the Authority emphasises that it does not require that all the audit work of a Regulated Entity be conducted locally or solely by the Approved Auditor. However, the signoff of the audit must be by the Approved Auditor.

*Updates to the MOU between CIIPA and CIMA*

33. The Authority notes that a comprehensive review of the MOU with CIIPA will be performed with a view of updating it to effectively support the implementation of the Proposed Measure, particularly in terms of information sharing relating to approval and ongoing monitoring of auditors.

**E. Jurisdictional Comparison**

34. The Authority conducted a review across four jurisdictions (**Bermuda, Bahamas, Jersey and the United Kingdom**), examining various aspects of their auditor approval regimes. Each jurisdiction has specific laws governing the approval of auditors for regulated entities and bodies charged with the oversight of auditors, like the role played by CIIPA in the Cayman Islands. Largely, across all the jurisdictions, the regulator reserves the right to reject an auditor appointment, and/or require replacement of an auditor, similar to the powers held by CIMA. Additionally, across all jurisdictions reviewed, auditors must meet "fit and proper" standards, including qualifications and independence, and some jurisdictions such as Bermuda require the auditor to be ordinarily resident in the jurisdiction. The findings of this analysis are detailed in **Appendix 4**.

## F. Cost and Benefit Analysis

35. **Table 3** below outlines the costs and benefits of the Proposed Measure to CIMA, the Cayman Islands and the relevant Regulated Entities.

**Table 3 – Estimated Costs and Benefits of the Proposed Measure**

	<b>Costs</b>	<b>Benefits</b>
<b><i>CIMA</i></b>	<ul style="list-style-type: none"> <li>-Cost of updating internal procedures, MOUs, and gazetting the measure.</li> <li>-Costs related to training staff to assess auditors effectively in line with the updated measure.</li> <li>-Costs related to oversight of auditor approvals and oversight of ongoing monitoring of approved auditors.</li> </ul>	<ul style="list-style-type: none"> <li>-Higher quality of audits leading to more reliable data for regulatory oversight.</li> <li>-Lower risk of unreported fraud or financial failures within regulated entities.</li> <li>-Efficiencies from streamlined processes for approving and monitoring auditors across the regulated sectors.</li> </ul>
<b><i>Cayman Islands</i></b>	<ul style="list-style-type: none"> <li>-Cost of updating internal procedures, MOUs, and gazetting the measure.</li> <li>-Costs related to training staff to assess auditors effectively in line with the updated measure.</li> <li>-Costs related to oversight of auditor approvals and oversight of ongoing monitoring of approved auditors.</li> </ul>	<ul style="list-style-type: none"> <li>-Potential for better alignment with international best practices, enhancing global competitiveness of the jurisdiction.</li> <li>-Enhanced financial stability and confidence for jurisdiction.</li> <li>-Potential for more effective regulatory outcomes due to increased efficiency in approval and oversight of auditors.</li> </ul>
<b><i>Regulated Entities</i></b>	<ul style="list-style-type: none"> <li>-Administrative and compliance costs associated with meeting updated auditor approval requirements in line with the proposed measure.</li> </ul>	<ul style="list-style-type: none"> <li>-Clearer and consistent expectations on auditor approvals across the regulated sectors, leading to more straightforward compliance.</li> <li>-Increased stakeholder confidence due to high-quality audits.</li> <li>-Potential reduction in the risk of regulatory penalties associated with audit failures.</li> </ul>
<b><i>Summary</i></b>	<p>Consequent to the above, it is determined that the benefits of implementing the Proposed Measure outweigh the costs associated with it. As such, Authority proposes that implementation of the measure be considered.</p>	

## G. Comments and Consultation

36. The Authority seeks consultation concerning:

***Regulatory Policy - Approval of an Auditor for a Regulated Entity***

37. The Authority would like to receive feedback and comments by 1700hrs on **April 2, 2025**.
38. Comments and representations must be addressed to:

The Chief Executive Officer  
Cayman Islands Monetary Authority  
P.O. Box 10052  
SIX, Cricket Square  
Grand Cayman KY1-1001  
Cayman Islands  
Tel: 345-949-7089  
Fax: 345-946-5611  
Email:  
[consultation@cimoney.com.ky](mailto:consultation@cimoney.com.ky)  
and copied to [jasetorry@cima.ky](mailto:jasetorry@cima.ky)

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