



NOTICE NO. TIU/N-5/2017/9

**NOTICE ON APPOINTMENT OF EXTERNAL AUDITORS
FOR INSURANCE COMPANIES, TAKAFUL OPERATORS AND BROKERS**

1. INTRODUCTION

- 1.1. In discharging its responsibility for financial stability, Autoriti Monetari Brunei Darussalam (the “Authority”), places reliance on quality audit services to complement its regulatory and supervisory functions over insurers. The Authority, therefore, maintains a deep interest in the quality with which an external auditor performs the audit of an insurer. This assurance is important in light of the exercise of appropriate due diligence by insurers in the selection and engagement of external auditors.
- 1.2. This Notice sets out the Authority’s supervisory expectations regarding the terms of audit engagements, application procedures and reporting obligations to be observed by insurers. The provisions are aimed at promoting the accuracy and reliability of financial statements issued by insurers for supervisory and general purposes, thereby enhancing the efficacy of the Authority’s risk-based supervisory process and reinforcing effective market discipline.
- 1.3. This Notice sets out the conditions for approval by the Authority of:-
 - 1.3.1. an auditor for a registered insurer and registered insurance brokers under section 59(6) of the Insurance Order, 2008 (“IO”); or
 - 1.3.2. an auditor for a registered takaful operator and registered takaful broker under section 60(6) of the Takaful Order, 2008 (“TO”).
- 1.4. This Notice is issued pursuant to section 88, IO and section 90, TO and shall apply to all insurers.
- 1.5. This Notice shall take immediate effect and shall be applicable to the appointment of an auditor by an insurer for the financial year 2018 onwards.

2. DEFINITIONS

- 2.1 For the purpose of this Notice:
 - 2.1.1 “Audit Committee” refers to a committee established by the Board of an Insurer to provide oversight of the financial reporting process, the audit

process, the system of internal controls and compliance with laws and regulations;

- 2.1.2 “concurring partner” refers to the partner who is responsible for objectively evaluating, before the audit report is issued, the significant judgments made by the engagement team and conclusions reached in formulating the report;
- 2.1.3 “engagement partner” refers to the partner who is principally responsible for the performance of the audit engagement and the auditor’s report issued; and
- 2.1.4 “insurer” refers to all registered insurance companies and insurance brokers under the IO and registered takaful operators and insurance brokers under the TO.

3 CRITERIA FOR APPOINTMENT AND REAPPOINTMENT OF AUDITORS

- 3.1 An auditor appointed by an insurer shall meet the qualifying criteria set out in this Notice, both prior to and during the entire audit engagement. For this purpose, all insurers are expected to obtain, independently verify through reasonable means, and review, relevant information necessary to support their assessment of the auditor’s compliance with the matters dealt with under paragraph 3.2.
- 3.2 Auditors appointed by insurers shall:
 - 3.2.1 be qualified under section 59(5) of the Insurance Order, 2006, section 60(5) of the Takaful Order, 2008 and section 132 of the Companies Act, Chapter 39;
 - 3.2.2 have adequate resources and the necessary skills, knowledge and appropriate experience to perform their duties with professional competence and due care in accordance with generally accepted, professions, auditing standards and applicable regulatory and legal requirements;
 - 3.2.3 not have relationships with, or interests in, the insurer or any of its related entities that are likely to impair their objectivity or independence;
 - 3.2.4 not have any record of disciplinary actions taken against them for unprofessional conduct by the Brunei Darussalam Institute of Certified Public Accountants (BICPA) or any other relevant authority; and
 - 3.2.5 not have served as an engagement partner for a continuous period of more than five (5) years with the same insurer. An auditor who has been rotated off the audit of an insurer may resume the role as engagement partner only after a lapse of a minimum period of three (3) years or such longer period as approved by the Authority from the last audit engagement with that insurer.

- 3.3. Where reliance is placed on attestations provided by an auditor on matters covered in paragraphs 3.2, reasonable steps shall be taken to establish the veracity of the attestations. At a minimum, the following shall be considered:
- 3.3.1. information available from public or independent sources which are relevant to the professional conduct of the auditor;
 - 3.3.2. the auditor's conduct and performance in past assurance engagements with the insurers; and
 - 3.3.3. whether or not appropriate measures have been taken by the auditor to prevent the recurrence of past audit lapses that have been observed, delays in the issuance of audit reports and inadequate audit procedures resulting in the failure to detect material errors or control deficiencies.
- 3.4 The insurers shall ensure that members of the audit engagement team involved in making key decisions on significant matters with respect to the audit of the financial statements meet the qualification criteria in paragraphs 3.2.1 to 3.2.5
- 3.5 The criteria for the re-appointment of an Auditor are:-
- 3.5.1 Where an auditor is reappointed, the existing terms of the audit engagement shall be confirmed for each reporting period and appropriate modifications made as necessary to reflect any material changes in the insurer or existing audit arrangements.
 - 3.5.2 Insurers with incumbent auditors in place for ten consecutive years or more as of the date of this Notice, regardless of whether there has been a change in engagement partner, are required to assess and compare, in a more formal manner with written resolution from the Audit Committee, the quality and effectiveness of the services provided by their incumbent auditors with those of other audit firms, for the financial year ending 31 December 2018.
- 3.6 If, during the course of an audit, the auditor no longer fulfils or may not be able to fulfil any of the qualifying criteria or terms of the audit engagement as required and expected under this Notice, this fact shall immediately be reported by the insurer to the Authority.
- 3.7 Where an auditor resigns or is replaced by an insurer, this shall be reported immediately to the Authority by the insurer and independently by the auditor, together with the reasons for the change in auditor.

4 TERMS OF AUDIT ENGAGEMENTS

- 4.1 Audit engagements shall be carefully reviewed and considered prior to confirming an engagement. The agreed terms shall be documented in a clearly written audit engagement letter.

- 4.2 The terms of audit engagements shall at a minimum address the following:
- 4.2.1 the objective of the audit;
 - 4.2.2 scope of the audit engagement, including auditor responsibilities under the IO or the TO;
 - 4.2.3 agreement on the audit plan;
 - 4.2.4 responsibilities of the engagement and concurring partners;
 - 4.2.5 reports to be prepared by the auditor, including the Auditors' Report and recommendations for improving internal controls, in accordance with International Standards on Auditing (ISAs);
 - 4.2.6 timing of the audit and audit fees;
 - 4.2.7 the use of experts in certain aspects of the audit where necessary;
 - 4.2.8 the audit arrangements to review and verify compliance with and effectiveness of the measures taken in accordance with the Criminal Asset Recovery Order 2012 ("CARO");
 - 4.2.9 Responsibilities of the auditor with regard to any change to members of the engagement team during the audit; and
 - 4.2.10 Any other significant arrangements in relation to the audit.
- 4.3 The following mandatory statutory requirements of an Audit must be addressed by the Auditors, namely that:-
- 4.3.1 they are not aware of any circumstances that require a report in terms of section 59(9), IO and section 60(9), TO;
 - 4.3.2 the provisions of the IO and TO, as applicable, are complied with and any non-compliance shall be disclosed with reasons including the risk associated with such non-compliance; and
 - 4.3.3 the insurer has complied with the provisions of section 22(1)(e), CARO.

5 SCOPE OF AN AUDIT ENGAGEMENT

- 5.1. The scope of the audit engagement shall have regard to the insurer's financial reporting risk areas. Where appropriate, the scope of the audit engagement shall include any additional and specific procedures needed to address areas identified as being of high risk, or particular concern in any particular financial year(s). The insurer shall also consider any significant changes during the reporting period, which may have contributed to an increased risk inherent in the insurer's internal controls over financial reporting processes, the accuracy of its recording of

transactions, and its ability to comply with international financial reporting standards (IFRS).

- 5.2. Changes that are relevant to a determination under paragraph 5.1 may include business combinations, significant changes in operating structures, processes or key management personnel, the implementation of new reporting standards or regulatory requirements and major systems changes or upgrades.
- 5.3. The audit programme and audit plan shall include specific procedures to test the insurer's internal controls over financial reporting in relation to the insurance/takaful liabilities. The procedures shall include a review and validation of the management's processes for determining the adequacy of reserves for insurance/takaful liabilities and values ascribed to financial instruments. The procedures shall be adequate to enable the auditor to form a view as to whether the management's processes are based on a comprehensive, adequately documented and consistently applied analysis of the insurer's investment portfolio and insurance/takaful liabilities.
- 5.4. The scope of the audit engagement shall include recommendations to management for improving internal controls to ensure the fair presentation of financial statements. The issues raised and recommendations made by the auditor shall be deliberated by the governing body of the insurer, in a timely manner with appropriate remedial actions identified and followed through.
 - 5.4.1. For an insurer incorporated in Brunei Darussalam, the Board of Directors of the insurer will be the governing body, which may be assisted by the Audit Committee.
 - 5.4.2. For an insurer incorporated outside Brunei Darussalam, the senior management will be the governing body.
- 5.5. The auditor shall submit to the insurer concerned, a copy of the management letter on the accounts of these insurers, together with the audited accounts, which shall be made available to the Authority when the annual audited accounts are submitted by the insurer, within the statutory period.

6. RESPONSIBILITIES OF ENGAGEMENT AND CONCURRING PARTNERS

- 6.1. An engagement partner and a concurring partner shall be identified for each audit engagement.
- 6.2. The terms of the audit engagement shall state the insurer's expectations of the engagement partner, which at a minimum, include that the engagement partner shall:
 - 6.2.1. effectively direct, supervise and perform the audit in compliance with International standards on Auditing (ISAs) and the audit firm's internal quality control procedures throughout the audit engagement;

- 6.2.2. ensure that the engagement team, collectively, has the appropriate capabilities, competence, including relevant audit experience in the insurance/takaful industry, and time to devote to the audit of the insurer; and
- 6.2.3. ensure that the auditor's report, including any opinions expressed and emphases of matter, is reliable, based on sufficient audit evidence and is not misleading in any material respect.
- 6.3. The terms of the audit engagement shall establish that it is the responsibility of the concurring partner to form an objective assessment, based on an appropriate review of selected audit working papers, of
 - 6.3.1. significant risks identified by the engagement team during the audit and the appropriateness of the team's responses to those risks;
 - 6.3.2. whether the audit evidence obtained is sufficient to support the significant judgments made and conclusions reached by the engagement team;
 - 6.3.3. whether difference of opinion with management or other contentious matters were appropriately dealt with; and
 - 6.3.4. matters which should be communicated to management and where applicable, the Authority, or other regulatory authority.
- 6.4. Appropriate steps shall be taken by the insurer to ensure that the concurring partner carries out the required review of audit documentation to support the assessment required under paragraph 6.3.
- 6.5. Where the auditor appoints an external expert to obtain sufficient audit evidence to support the audit, the terms of the audit engagement shall provide that the use of experts does not diminish the auditor's responsibility for the audit reports issued and opinions expressed.

7. RELIANCE AND ACCOUNTABILITY FOR AUDITOR'S REPORT

- 7.1. The terms of engagement shall establish the Authority's reliance on the auditor's report and its ability to review the auditor's working papers for supervisory purposes. In this regard, the auditor shall acknowledge that being a statutory audit, the work of the auditor shall be used as input to the Authority's supervisory plans under the risk-based approach to the supervision, and its ongoing assessments of the safety and soundness of the insurer.
- 7.2. To support such reliance, the auditor shall perform all necessary procedures to comply with International Standards on Auditing and any accounting standards adopted by the Brunei Darussalam Accounting Standards Council (BDASC). The insurer shall be accountable for any departure from such standards.
- 7.3. The insurer shall not include any provisions in the terms of the audit engagement that limit the auditor's responsibility, including with respect to audit opinions

expressed. In particular, the terms of audit engagement shall not contain any provisions under which the insurer agrees to indemnify the auditor against claims made by third parties, release the auditor from liability for claims or potential claims that might be brought by the insurer against the auditor, or limit the remedies available to the insurer for professional misconduct.

8. AUDIT FEES

- 8.1. The insurer will ensure the audit fees commensurate with the scope of the audit and the accountability assumed by the auditor, taking into account, among other things, the required skills, knowledge and the allocation of time and resources needed to complete the audit assignment as per the legislative requirements and expectations. The audit fees paid to the auditor will not impair, either in fact or appearance, the auditor's professionalism, judgment or independence.

9. APPLICATION PROCEDURES AND REPORTING OBLIGATIONS

- 9.1. All insurers shall submit an application to the Authority for approval to appoint an auditor for each financial year, no later than 2 months before the end of the financial year in question.

- 9.2. An application to the Authority shall be made in the forms enclosed in Appendix 1 and 2, together with the complete information required therein, and as amended from time to time. The form is available at www.ambd.gov.bn. The application shall be addressed to the following:

Takaful/Insurance Unit
Regulatory and Supervision Department
Level 7, Authority Monetary Brunei Darussalam

- 9.3. The insurer and the auditor shall ensure that all legislative requirements and expectations of this Notice have been, or shall be, met before an application is submitted to the Authority.