Terms of Reference for the External Auditor

Selection of External Auditor for CCRIF SPC

1.0 Background

In 2007, the Caribbean Catastrophe Risk Insurance CCRIF was formed as the world's first multi-country risk pool, and was the first insurance instrument to successfully develop parametric policies backed by both traditional and capital markets. It was initially designed as a regional catastrophe fund for Caribbean governments to limit the financial impact of devastating hurricanes and earthquakes by quickly providing financial liquidity when a policy is triggered.

Effective June 1, 2014, CCRIF was restructured into a segregated portfolio company (SPC) and renamed CCRIF SPC ("the Facility") in order to broaden both its natural disaster risk insurance products and its geographical reach. The Facility currently has established the following Segregated Portfolios (SPs):

1. Caribbean EQ-TC SP - Providing Earthquake and Tropical Cyclone Policies for Caribbean Governments
2. Caribbean XSR SP - Providing Excess Rainfall Policies for Caribbean Governments
3. Central America SP - Providing Earthquake and Tropical Cyclone Policies for Central American Governments
4. Loan Portfolio Cover SP - Providing Loan Portfolio Cover policies for Financial Institutions in Caribbean Countries
5. COAST SP – Will provide fisheries insurance coverage for Caribbean Governments.

Collectively the Core and the SPs are referred to as CCRIF SPC.

The Caribbean EQ-TC, XSR, and Loan Portfolio Cover SPs and their respective assets are owned by the CCRIF STAR Trust. The Central America SP and its assets are owned by the Central America STAR Trust.

In April 2015, CCRIF signed an MOU with COSEFIN - the Council of Ministers of Finance of Central America, Panama and the Dominican Republic - to enable Central American countries to formally join CCRIF. Expansion of membership into Central America has the potential to diversify the risk portfolio, improve access to reinsurance markets which would invariably reduce the cost of risk transfer, allowing these benefits to be passed on to members.

CCRIF SPC is registered in the Cayman Islands with a Board of Directors which is responsible for the Facility's corporate governance and providing strategic direction for the Facility, and a Chief Executive Officer with responsibility for overall management on a a day-to-day basis, and supported by a Chief Operations Officer. CCRIF operates largely as a virtual organization, supported by a network of service providers covering the areas of risk management, risk modeling, captive management, reinsurance, reinsurance brokerage, asset management, technical assistance, and corporate communications and information technology.

CCRIF offers earthquake, tropical cyclone and excess rainfall policies to Caribbean and Central American governments. CCRIF helps to mitigate the short-term cash flow problems small developing economies suffer after major natural disasters. CCRIF's parametric insurance mechanism allows it to provide rapid payouts to help members finance their initial disaster response and maintain basic government functions after a catastrophic event.

CCRIF was developed under the technical leadership of the World Bank and with a grant from the Government of Japan. It was capitalized through contributions to a multi-donor Trust Fund by the Government of Canada, the European Union, the World Bank, the governments of the United Kingdom and France, the Caribbean Development Bank and the governments of Ireland and Bermuda, as well as through membership fees paid by participating governments.

Sixteen Caribbean governments are currently members of the CCRIF: Anguilla, Antigua & Barbuda, The Bahamas, Barbados, Belize, Bermuda, Cayman Islands, Dominica, Grenada, Haiti, Jamaica, St. Kitts & Nevis, Saint Lucia, St. Vincent & the Grenadines, Trinidad & Tobago and Turks & Caicos Islands. Nicaragua is currently the only Central American government that is a CCRIF member.

CCRIF SPC's financial statements are prepared by its Insurance Manager, which is the service provider responsible for ensuring sound financial management and maintaining adequate internal controls and supporting documentation for transactions. The financial records provide the basis for the preparation of Annual Financial Statements for CCRIF SPC, which includes the Core and all Segregated Portfolios,

The responsibility for the preparation of financial statements including adequate disclosure is that of CCRIF SPC. CCRIF SPC also is responsible for the selection and application of accounting policies and would prepare the financial statements in accordance with accounting principles generally accepted in the United States of America.

The external auditor is responsible for forming and expressing opinions on the financial statements. The auditor would carry out the audit of the project in accordance with the International Standards on Auditing (ISA), as promulgated by the International Federation of Accountants (IFAC). As part of the audit process, the auditor may request from the implementing agency written confirmation concerning representations made in connection with the audit

CCRIF SPC has been audited every year since its inception. The audit is expected to commence annually in June upon execution of the engagement letter and the expected level of effort (LOE) is no more than annual 520 recurring hours and delivered over a four-month period, ending in September.

Prior to the appointment of the audit firm, CCRIF must inform CIMA of the proposed appointment and await the Monetary Authority's confirmation on the suitability of the -audit firm to be appointed.

2.0 Objectives

The external auditor is required to express an independent professional opinion that the financial statements represent a true and fair view of the financial position, operating results and cash flows of the Company in all material aspects, in conformance with International Standards on Auditing. Based on a well-defined audit plan and audit methodology, the Audit & Risk Management Committee and the Board must be able to place full reliance on the opinion expressed by the auditor, on the overall quality of financial reporting and on any governance matters highlighted as part of the audit. The Audited Financial Statements form part of CCRIF's Annual Report which is submitted to all key stakeholders of the company, hence the auditor must be regarded as highly qualified and independent. The audit must be conducted efficiently and in accordance with best practices, so that the Audited Financial Statements reflect fairness of presentation of the financial statements and related disclosures.

3.0 Scope of the Audit

The external audit will be carried out for CCRIF SPC (the Core and all Segregated Portfolios) in accordance with International Standards on Auditing (ISA) promulgated by the International Federation of Accountants (IFAC), and will include such tests and auditing procedures as the auditor will consider necessary under the circumstances. Special attention should be paid by the auditor as to whether the:

(a) Donor financing, including all external financing such as World Bank, Caribbean Development Bank and other sources have been used in accordance with the conditions of the relevant financing/donor agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;

(b) Counterpart funds have been provided and used in accordance with the relevant financing/donor agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;

(c) Goods, works and services financed have been procured in accordance with the relevant financing/donor agreements and the Company's Operations Manual;

(d) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE) or Interim Unaudited Financial Statements (IFS) methods of reporting. The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account;

(e) National laws and regulations have been complied with, and that the financial and accounting procedures approved for the project (e.g. operational manual, financial procedures manual, etc.) were followed and used;

(f) Financial performance of the Company is satisfactory.

Verification of claims is performed by an Independent Verification Agent. The external auditor may or may not be appointed the Verification Agent, but in either scenario will be provided with full details of the independent verification of claims. Verification of claims will be a key focus area on the annual audit.

In complying with International Standards on Auditing, the auditor is expected to pay particular attention to the following matters:

a) ***Fraud and Corruption***: Consider the risks of material misstatements in the financial statements due to fraud as required by ISA 240: The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements. The auditor is required to identify and assess these risks (of material misstatement of the financial statements) due to fraud, obtain sufficient appropriate audit evidence about the assessed risks; and respond appropriately to identified or suspected fraud;

b) ***Laws and Regulations***: In designing and performing audit procedures, evaluating and reporting the results, consider that noncompliance by the implementing agency with laws and regulations may materially affect the financial statements as required by ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements;

c) ***Governance***: Communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity as required by International Standards on Auditing 260: Communication of Audit Matters with those Charged with Governance.

d) ***Risks***: In order to reduce audit risk to an acceptable low level, determine the overall responses to assessed risks at the financial statement level, and design and perform further audit procedures to respond to assessed risks at the assertion level as required by Internal Standard on Auditing 330: the Auditor's Procedures in Response to Assessed Risks.

4.0 Financial Statements

The auditor should verify that the Company's financial statements have been prepared in accordance with the agreed accounting standards and give a true and fair view of the financial position of the project at the relevant date and of resources and expenditures for the financial year ended on that date

The Financial Statements should include:

(a) A statement of funds received, showing funds from the World Bank, project funds from other donors and counterpart funds separately, and of expenditures incurred;

(b) A Balance Sheet; Statement of Operations; Statement of Changes in Shareholders Equity; and Statement of Cash Flows.

(c) A Summary of the principal accounting policies that have been adopted, and other explanatory notes;

(d) A list of material assets acquired or procured to date

As an Annex to the PFSs, the auditor should prepare a reconciliation of the amounts as “received by the Project from the World Bank”, with those shown as being disbursed by the Bank.

5.0 Audit Report

The auditor will issue an opinion on the CCRIF SPC’s financial statements. The annual audit report of the project accounts should include a separate paragraph highlighting key internal control weaknesses and non-compliance with the financing/donor agreements.

6.0 Management Representation Letter

In addition to the audit report, the auditor will prepare a management letter, in which the auditor will:

(a) Give comments and observations on the accounting records, systems and controls that were examined during the course of the audit;

(b) Identify specific deficiencies or areas of weakness in systems and controls, and make recommendations for their improvement;

(c) Report on the degree of compliance of each of the financial covenants in the financing agreement and give comments, if any, on internal and external matters affecting such compliance;

(e) Communicate matters that have come to his/her attention during the audit which might have a significant impact on the implementation of the project;

(f) Give comments on the extent to which outstanding issues/qualifications issues have been addressed;

(g) Give comments on previous audits' recommendations that have not been satisfactorily implemented; and

(e) Bring to the recipient's attention any other matters that the auditor considers pertinent, including ineligible expenditures.

Ideally, the management letter should also include responses from management to the issues highlighted by the auditor.

7.0 Available Information

The auditor should have access to all legal documents, correspondences, and any other information associated with the project and deemed necessary by the auditor. The auditor will also obtain confirmation of amounts disbursed and outstanding at the Bank. Available information should include copies of the relevant: project appraisal document; financing agreement; financial management assessment reports; supervision mission reports and implementation status reports.

8.0 Reporting Requirements

The financial statements, including the audit report, management letter and management response should be received by the Board no later than four months after the end of the accounting year to which the audit relates.

The auditor will report to Board of Directors of CCRIF SPC through the Audit and Risk Management Committee. Operationally, the auditor will work closely with the CCRIF's Chief Executive Officer and Chief Operating Officer as well as the Insurance Manager.