



Terms of Reference for the Selection of an External Auditor

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.

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

1. Caribbean EQ-TC SP - for Earthquake and Tropical Cyclone Policies for Caribbean Governments
2. Caribbean XSR SP - for Excess Rainfall Policies for Caribbean Governments
3. Central America SP - for Earthquake and Tropical Cyclone Policies for Central American Governments
4. Loan Portfolio Cover SP - for Loan Portfolio Cover policies for Financial Institutions in Caribbean Countries
5. COAST SP – for 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 a memorandum of understanding (MOU) with the Council of Ministers of Finance of Central America, Panama and the Dominican Republic (COSEFIN) 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 for providing strategic direction to the Facility, and a Chief Executive Officer with responsibility for overall management on of the Facility 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, corporate communications and information technology.

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.

CCRIF currently has seventeen members - sixteen Caribbean governments 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; and one Central American government, Nicaragua

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, for both 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 prepares its financial statements in accordance with Generally Accepted Accounting Principles in the United States of America.

The external auditor is responsible for forming and expressing opinions on the financial statements. The external auditor would undertake the audit annual audit of CCRIF SPC's (the Core and all Segregated Portfolios) financial statements 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 facility 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 undertaken over a four-month period ending in September. The expected level of effort (LOE) is no more than 520 recurring hours per year and delivered,

Prior to the appointment of the audit firm, CCRIF must inform the Cayman Islands Monetary Authority (CIMA) of the proposed appointment and await the 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 Facility in all material aspects, in conformance with International Standards on Auditing. The auditor must be regarded as highly qualified and independent. 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 Facility, hence the audit must be conducted efficiently and in accordance with best practices in the International Standards on Auditing (ISA), 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 that from the World Bank, Caribbean Development Bank and other sources have been used in accordance with the conditions of the relevant financing/donor agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
- (b) Counterpart funds from CCRIF 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 Facility’s Operations Manual;
- (d) All necessary supporting documents, records, and accounts have been maintained in respect of all 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 of the Cayman Islands 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 Facility is satisfactory.

Verification of claims is performed by an Independent Verification Agent. The position of Verification Agent will also be tendered, and the external auditor may or may not be selected as the Verification Agent. For the annual audit, the external auditor 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 Facility 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 related to governance 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 Facility’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, 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 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) Provide 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 provide 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 operations of the Facility;
- (f) Provide comments on the extent to which outstanding issues/qualifications issues have been addressed;
- (g) Provide 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 Facility 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 CCRIF’s Chief Executive Officer and Chief Operating Officer, and on a day-to-day basis CCRIF’s account manager at the Insurance Manager.