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General Regulations related to the functions and responsibilities of Independent Auditors, audits and audited reports of Banking Sector Institutions

On August 28, 2014, the People's Power Ministry for Economy, Finances and Public Banks published in Ordinary Official Gazette of the Bolivarian Republic of Venezuela N° 40485, Resolution N° 067.14 (hereinafter referred to as "the Resolution"), issued by the Superintendence of Banking Sector Institutions (hereinafter, "the Superintendence"), for the stated purpose of establishing in general terms, the functions and responsibilities of independent auditors, with respect to audits for the banking sector institutions, the minimum regulations to be observed by auditors and the institutions, as well as the guidelines to jointly prepare and present the reports required by the Superintendence.

Among the changes provided by this regulation, it is observed that the review functions of independent auditors are extended, implying that the review shall not be limited to a sample, but to any document and evidence of the item or control entity being audited.

I. Effectiveness

This Resolution entered into effect on August 28, 2014. Such Regulation includes the clarification that any provision related to the performance of audits as well as the corresponding preparation of reports shall be applicable effective the economic period ending December 31, 2014.

Below you will find the most relevant aspects for the practice:

II. Independent Auditor

Functions

In conformity with Article 8 of the Resolution, independent auditors shall perform, among other, the functions inherent to the practice conducted so far, which are specified below:

- i. Determine the nature, opportunity and scope of the audit, the plan, procedures and schedule of the work, which shall be informed to the audited entity in order to be reviewed and **approved by the independent auditor and the Board of Directors prior authorization of the Internal Audit Committee of the Bank.** (Bold by us)
- ii. Inform as to any weakness detected in connection with the adoption of accounting practices, the maintenance of an effective accounting and administrative system and other administrative systems related to credits, treasury, deposits, as well as the technological platform supporting the foregoing, among other, the creation and maintenance of a proper internal control system.
- iii. Evaluate the **internal control environment of the technological platform and the security administration** of the critical processes of the audited entity; **as well as the information security of the systems** used for the generation of the financial statements.

In addition to the foregoing, it also provides for the possibility that independent auditors, the partner or any member of the work team could **be replaced** by request of the Superintendence, in case of any infringement or failure to comply with the provisions established thereby and/or any other regulation ruling banking matters.

Responsibilities

Independent auditors are compelled to:

- i. Ensure that partners and staff of the work team **have the professional skills, knowledge and experience** required in audits for banking sector institutions and about the topics related to the work to be performed.
- ii. Allow the Superintendence, without restrictions whatsoever, **to access to working papers** and other printed or electronic documentation, supporting the audit work performed, upon request of the entity.
- iii. Evaluate the quality, eligibility and security of **the accounting, administrative and internal control systems of the entity** and issue recommendations in this regard.
- iv. **Issue an opinion** as to the compliance with legal provisions, especially related to equity, limits of credits and contracts with related parties and the sufficiency of the prevision reserves, **the operational capacity and functioning of the technological platform**, among other.
- v. **Issue an opinion as to the compliance with internal policies.**

- vi. Issue an opinion and report as to any operation, event, weakness or circumstance affecting the functioning or creditworthiness of the audited institution.
- vii. Independent auditors shall immediately inform the Superintendence as to any illiquidity or insolvency issue, failure in the technological platform or any relevant event upon detecting any weakness. Moreover, they shall have a term of 5 continuous days to report as to any failure to comply with any contractual obligation.
- viii. **Keep the audit documents and supporting documentation and its audit reports for at least ten (10) years.**

III. Independent Audits

The Resolution establishes the minimum information requisites for audit planning, as well as its bases and premises. Such minimum requisites include:

- i. Identification of the nature, conditions, context, background and financial information of the audited entity.
- ii. Consider the contexts observed in current accounting, administrative, operating and internal control systems.
- iii. Bases for the determination of the audit risks on accounting areas and items.
- iv. **Selection and methodology criteria** to be followed for the analysis of assets, liabilities, equity and contingencies; as well as for the evaluation of credit, market, operating and technological risk; among other, in conformity with the classification criteria established and best practices.
- v. **Evaluation of the Board of Directors' management**, in connection with governance; as well as the business management and administration, among other.
- vi. **Review of the functions of the Audit Committee and Internal Audit works.**
- vii. Levels of risk exposure, concentration of assets and liabilities, degree of dependence on certain operations, etc.

Likewise, the regulation sets forth that independent auditors, as entities responsible for issuing an opinion on the financial statements, shall conduct an assessment on the internal control, determine its efficacy, control or compliance tests, general substantive tests and other tests, which will allow them to issue an opinion on these financial statements.

It should be mentioned that in case of any departure from planning, in the works to be performed, it shall be communicated and disclosed in the Special Report.

IV. Internal control review

In connection therewith, the regulation sets forth as essential part of the audit, the independent auditor shall perform a study and review of the internal control system of the audited institution in order to determine the nature, opportunity and scope of its tests, including **the study on existent controls to guarantee the compliance with the provisions established in current**

laws and the technological platform. The result of such review and its recommendations shall be presented in the **Internal Control Memorandum (management letter)**. Likewise, those events having an effect or modifying the financial statements shall not be considered as an internal control weakness.

The internal control review shall encompass treasury, liquidity, credit management controls, and controls related to financial risk, market, sector, transactions with related parties, investment securities, customers' deposits, loan portfolio, foreign currency operations, concentration of loans, investments and deposits, debit and credit cards, other assets, **other products and services** of the entity, as well as **controls on the technology, information security, systems audit and corporate government.**

The Regulation expressly indicates that independent auditors shall have the assistance of **IT specialists**, to evaluate the general controls related to data electronic processing, contingency plans and recording of transactions, gathering of reports, and if not available, this staff shall be hired, allowing auditors to issue an opinion on those aspects.

Finally, it is also indicated that the Internal Control Memo shall include, **regardless its relevant significance**, any weakness in the internal control system, as well as any **observations issued by the Superintendence** by virtue of the inspection visit, and decide on the **reconsideration or not of such issues**; likewise, it shall report on the **recurrence** of these observations and if applicable, indicate if the audited entity **has implemented corrective measures** for remediation.

V. Review of the accounts comprising the Financial Statements and the reports to be submitted

For this section, the Regulation sets forth that it is mandatory to determine the scope and extension of the procedures, methods of tests, verification and validation of accounting and any other balance, which shall also be determined by the results of the internal control review. Also, it establishes the minimum elements that should be shown in the analysis, in order to be reasonably satisfied as to the transactions. The following actions are relevant:

- i. Verify the proper valuation of foreclosed assets, the criteria applied for fixed assets, their accumulated depreciation and notification to the Superintendence of the sale of assets received in lieu of payment.
- ii. Confirm that goods recorded in this account **are being used** by the banking sector institution.
- iii. Send confirmations of balances and transactions to local and foreign financial institutions and reconcile the responses.
- iv. Confirm and reconcile the balances corresponding to loan portfolio clients, as well as deposits.
- v. Determine the level of concentration on assets and/or liabilities, as well as the degree of dependence on transactions or other parties.
- vi. Disclose the compliance with the standards, limitations and indicators established to regulate banking sector institutions.
- vii. Verify the efficacy, efficiency, care and transparency in the management of the trust funds, mandates, commissions and other trusts administrated by the Bank.

- viii. **Evaluate general controls** implemented in the administration, use and control of the **technological platform, electronic data processing, contingency plans and proper recording of transactions**, as well as to **issue an opinion** about the compliance with the instructions given on this matter.

The Superintendence **might require an extension of the work performed by independent auditors**, when in its opinion, the work scope results to be limited; also, the documentation supporting the work conducted during the audit shall be available for the Superintendence.

VI. Financial Statements and Independent Auditors' Reports

The Resolution establishes that independent auditors shall issue an opinion on the aspects specified in this regulation, for the Bank, its branch or trust fund, if applicable, disclosing any irregular event with respect to the liquidity, solvency or technological platform, unrecorded operations or failure to comply with current regulations.

The Resolution also sets forth that **audited reports including qualifications regarding scope limitations in the audit tests and/or that imply any departure from accounting and auditing standards**, as well as any other measure, instruction, regulation issued by the Superintendence significantly affecting the financial statements **shall not be accepted. In this case, the auditor shall issue an adverse opinion or disclaimer of opinion.**

It is expressly provided the external auditor's responsibility, jointly with the audit firm, for the entire content of the auditors' reports issued, and for the fact of those reports not properly disclosing the financial position, results of operations and cash flows of the audited entity. Likewise, it is provided that the disclosure of the facts and significant events in the notes to the financial statements does not exempt auditors from the disclosure in the auditors' report.

VII. Special Report

The Resolution establishes that the preparation and presentation of the "Special Report" shall include in its scope, at least the following main aspects:

- i. Evaluation of the **500 main debtors** defined in accordance with the Superintendence indicating their classification per risk category and requirements of provision for each case, **their return and recoverable expenses and guarantees.**
- ii. Indicate the reasons for the **differences between the risk classifications determined by the auditor and those determined by the Bank**, also disclosing if the entity recorded the difference of the specific provisions determined by the auditor.
- iii. **Certification from legal attorneys** and/or legal advisors of the bank about the possibility of recovery of loans in litigation in judicial management, bankruptcy or liquidation, as well as civil, mercantile or labor claims.
- iv. Indicate about the existence or not of **credits granted under special conditions** of financing, payment and other specific characteristics.

- v. Issue an opinion as to **the management of daily cash position**, placements and deposits, if they coincide with the amounts shown in the trial balance at that date and the reasons for any difference, if applicable.
- vi. Review of the balances and transactions with the Central Bank of Venezuela (BCV) and other entities of the national and international financial sector under the form of investments, loans, advance facilities and rediscounts, among other, ensuring the compliance with limits established and evaluating the effect of these transactions on the financial stability of the institution and its potential effect on the system.
- vii. **Detailed analysis on the recurrence to overnight financing**, during the period audited, **weekly average liquidity levels** maintained, specifying **shortfall or surplus of legal reserve** maintained in the BCV account or other financing sources received from this Entity.
- viii. Disclose if there are **concentrations of other parties** on transactions related to the purchase and/or sale of securities or any non-compliance with the limitations established for investments, **derivatives, mutual funds or similar instruments**.
- ix. Verification and review of the items comprising fixed assets and foreclosed assets.
- x. Establish the proportion of the direct or indirect risk assumed by the banking sector institution, in connection with capital stock and reserves; as well as with respect to the total loan portfolio of the audited entity, investments and other balance sheet captions based on the nature of transactions performed, observing the standards provided by the Superintendence.
- xi. Analysis of the reasonability of the movement of the accounts comprising the Bank's equity.
- xii. Review of the reasonability of the movement and breakdown of the accounts comprising the statement of profit or loss of the entity during the period audited.
- xiii. **Study of contingency plans** maintained by the institution to ensure its proper functioning.
- xiv. Read the Minutes of the Stockholders' and Board of Directors' Meetings, Audit, Risk, Anti-money laundering and other committees existent in the institution, **in order to verify if decisions made thereat have been executed in conformity with the standards**.
- xv. Issue an opinion as to the compliance or failure to comply during the audited period with any regulation and instruction issued by the Superintendence, the Central Bank of Venezuela Law, the Trust Fund Law, the Regulations, Decrees, Resolutions or Instructions of the National Government or competent Ministries, BCV and any other legal provision in effect. Each regulation shall indicate the procedures and selective audit tests used therefore and the effect of the weaknesses detected on the financial statements and the economic, financial and equity position of the Bank.

Additionally, there are minimum disclosures to be included in the special report about: the level of compliance with “Standards for a proper Comprehensive Administration of Risks”, the observance of Standards related to Banking Service Quality and disclosures about the directed loan portfolio.

Additionally, it is established that with respect to the **prudential regulations for the use and administration of technology and information security**, they shall **disclose the levels of compliance** related to each aspect mentioned in the official communications, standards, resolutions and current laws on this matter. Furthermore, independent auditors shall verify the compliance with the provisions of those financial institutions that were compelled to adopt administrative measures and for those that maintain adjustment plans.

VIII. Report on Prevention and Control of Money Laundering and Financing of Terrorist Activities.

In connection with the assessment provided by the “Report on Prevention and Control of Money Laundering and Financing of Terrorist Activities”, the regulations set forth that the following aspects should be considered:

- i. Evidence the level of compliance, among other, with the **eligibility of automated systems** used by the Anti-Money Laundering Area.
- ii. **Review of an operation sample to validate the quality of the data submitted by the institution before the Superintendence** in the periodical reports and compare such data to the original supports of the operation.

The “Report on Prevention and Control of Money Laundering and Financing of Terrorist Activities”, shall include in any of the aspects mentioned by this regulation, the scope of the review conducted, the audit procedures applied for the review and expressly indicate the existence of any law non-compliance and recommendation for each case.

IX. Derogatory.

This resolution abrogates the following standards:

- a. Resolution No. 097/94 dated August 31, 1994;
- b. Official Communication N° SBIF-UNIF-GSIF-10350 dated September 16, 2003;
- c. Official Communication N° SBIF-GGT-GNP-16296 dated December 19, 2003.

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