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REGULATION ON EXTERNAL AUDITS

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ބޮޑުތަކުރުފާނު މަގު
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ފޯނު: 3323701 ، 3336137
ފެކްސް: 3325500
އީމެއިލް: gazette@po.gov.mv
ވެބްސައިޓް: www.gazette.gov.mv

PRUDENTIAL REGULATION

REGULATION ON EXTERNAL AUDITS

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PART I: PRELIMINARY

1: **Introduction** – This Regulation is issued pursuant to Section 66 of Law No. 24/2010 (Maldives Banking Act).

2: **Title** – This Regulation shall be cited as "Regulation on External Audits."

3: **Application** – This Regulation applies to all Banks licensed under the Maldives Banking Act (Law no. 24/2010).

4: **Commencement** – This Regulation shall come into effect on 25 August 2015.

5: **Definitions** – The terms and expressions used in this Regulation shall, except where expressly defined below in this Regulation or where the context otherwise requires, have the same respective meaning as in the Maldives Banking Act (Law no. 24/2010):

(1) **"Act"** – means the Maldives Banking Act (Law no. 24/2010).

(2) **"audit"** – means the process whereby the books and records of a bank are reviewed in order to (i) verify and confirm financial information regarding the condition and performance of a bank, (ii) prepare financial statements in accordance with accepted accounting regulations, and (iii) render an opinion whether the financial statements give a true and fair view in all material respects of the financial condition of the bank.

(3) **"auditor"** – means the person or firm that performs an audit and renders an opinion in accordance with this regulation and accepted accounting and auditing standards.

(4) **"auditor's letter to management"** – means the letter provided by an external auditor to bank management addressing issues or weaknesses in respect of the bank's internal control systems, accounting and recordkeeping systems, integrity of financial data, or any other material matters identified during the course of an audit.

(5) **"bank"** – means a party holding a license or permit under the Maldives Act, to engage in the banking business; all or part of the banking activities listed in Section 25 of the Act.

(6) **“external auditor”** – means a person who is engaged by a bank for the purpose of conducting an audit or audit-related services in respect of the requirements of this regulation or the Act.

(7) **"MMA"** – means the Maldives Monetary Authority established under the Law no. 6/81 (Maldives Monetary Authority Act).

(8) **“related services”** – means any services or procedures, including but not limited to reviews, compilations, advisory, and other accounting and audit related services or procedures which an auditor performs for a bank in respect of the books, records, audit and accounting systems, or other financial information of the bank.

PART II: STATEMENT OF POLICY

1: Purpose – The purpose of this regulation is to ensure that external audits, including the process of engaging and appointing auditors, provide assurances to the MMA and to shareholders of banks about the following:

(a) accuracy, completeness and reliability of financial information being reported;

(b) adequacy of internal risk management and accounting systems;

(c) compliance, in fact and in principle, with provisions of the Act, regulations and other directives issued by the MMA;

(d) timely reporting of any matters that are or should be of concern about a bank; and

(e) independence, in fact and in principle, of the external auditor.

2: Responsibility – It is the responsibility of the board of directors of a bank to:

(a) appoint and engage a qualified, independent external auditor to prepare audited financial statements for the bank,

(b) submit the audited financial statements and other required information to the MMA,

(c) publish its financial statements, and

(d) promptly inform the MMA of any information relevant to the supervisory oversight of the bank.

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

1: Minimum Requirements – The following minimum requirements shall apply in respect of external audits unless the MMA, by written order to a bank, requires otherwise:

(a) each bank shall cause an audit of its accounts to be made by an external auditor each year as of the date of each bank's financial year end;

(b) the audit report along with the auditor's letter to management shall be submitted to the MMA not later than 30 (thirty) days after it becomes available, and in no event later than 4 (four) months after the end of the financial year;

(c) a bank shall notify the MMA in writing, within 14 (fourteen) days, of any change in its external auditor;

(d) if, at any time, any of the following situations exists –

- (i) there is reasonable cause to believe that a bank is capital insolvent, imminently insolvent, or illiquid, or
- (ii) if matters exist that may materially prejudice the interests or decisions of depositors and creditors of a bank, or
- (iii) if a bank is in breach of any laws or regulations, in fact or in principle, or
- (iv) if there are any other matters which may or reasonably should be of concern to the MMA,

such matter shall be reported promptly to the MMA by any person who is, or becomes aware of, such circumstances or information; and

(e) the bank's auditor shall provide to the MMA full access to the audit work papers for the bank within 10 days of such request.

2: **Meeting between the bank, the external auditor and MMA** – MMA may require a meeting to be held with the executive management of a bank and its external auditor, after MMA's receipt of the annual audit report and the auditors' letter to management; the purpose of such meeting being to review the findings and conclusions of the audit and clarify any questions or outstanding issues.

3: **Prohibited Actions** – No bank may:

(a) appoint or engage an auditor if the MMA has objected in writing to the qualifications or appointment or engagement of that auditor;

(b) appoint or engage the same auditor for more than 4 (four) consecutive years without MMA's permission;

(c) appoint or engage an auditor to provide advisory or consulting services to a bank if that same auditor is engaged to conduct the bank's annual audit, except that services related to the preparation of a bank's profit taxes are not prohibited; or

(d) lend any money or other assets to its auditor, irrespective of the terms or amount, or provide deposit accounts or other banking services to its auditor or enter into any other transaction or business arrangement with its auditor if such loan, deposit account, banking service, or other transaction or business arrangement is on preferential terms.

4: **Reporting Requirements.** Each bank and its auditor shall submit to the MMA reports in the form and frequency as the MMA may require. At a minimum, the following actions shall be taken by a bank and its auditor:

(a) **The ban**k – Within 30 (thirty) days after the audit report and the accompanying letter from the auditor to management of the bank become available, but in no event later than 4 (four) months after the end of the financial year, a bank shall:

(1) submit a statement signed by the chairman of the board and the chief executive officer for a bank, or by the managing director and internal auditor for a branch of a foreign bank, stating that the bank has –

- (i) materially complied, in fact and in principle, with the Act and all regulations and directives issued by the MMA;
- (ii) identified the financial and operating risks of the bank and the board of directors has adopted adequate policies covering such risks; and
- (iii) implemented the necessary systems and procedures to manage the risks;

(2) submit a statement stating whether any actual or possible conflicts of interest exist in respect of the independence of its auditor; and

(3) publish in a newspaper of general circulation in a form and content specified by the MMA a statement of condition and a statement of income and expenses for the most recent financial year-end.

(b) **The auditor** – Within 30 (thirty) days after the audit report and the accompanying letter from the auditor to management of the bank are completed, but in no event later than 4 (four) months after the end of the financial year, the auditor of a bank shall submit a report to the bank and to the MMA signed by the auditor stating specifically whether:

(1) the internal risk management, internal control, and financial reporting systems of the bank are adequate and being followed;

(2) the bank is in compliance, in principle and in fact, with the Act and applicable regulations and directives issued by the MMA; and

(3) provisions for potential loan losses comply with regulations issued by the MMA and are in fact fully adequate after giving regard to the quality, probability of repayment or collection, and potential losses inherent in the bank's loan portfolio.

PART IV: CORRECTIVE MEASURES

1: **Remedial measures and sanctions** – If a bank, its administrators, its auditors or any other person associated with the bank violates any provision of this regulation, or fails to comply with the instructions and reporting requirements in this regulation, the MMA may take any one or more of the corrective measures or impose any administrative penalties as provided in the Act. Such measures and penalties may include, any or all of the following –

(a) Issue a warning to the bank;

(b) Enter into an informal agreement with the bank for correcting violations and any unsafe and unsound practices and conditions;

(c) Issue an order to the bank requiring it to cease and desist from particular actions and further to take affirmative actions to correct violations and any unsafe and unsound practices and conditions;

(d) Require the board of directors to inject additional capital funds;

(e) Restrict the scope of activities of the bank including imposing limitations on any foreign exchange activities, granting of credit, making of investments, acceptance of deposits, borrowing of money, or other activities as the MMA may deem appropriate;

(f) Suspend access to the credit facilities of the MMA;

(g) Require the suspension or removal of any directors or executive officers;

(h) Appoint an advisor or a conservator;

(i) Impose an administrative penalty on the bank or any of its directors, executive officers or managers;

(j) Hold personally liable and seek restitution from, as the law allows, any directors, executive officers or major shareholders of the bank; or

(k) Suspend or revoke the bank's license.

Questions relating to this regulation should be addressed to the Head of Financial Stability, Maldives Monetary Authority.

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