

REGULATION NO. BM/REG/49 /3/ 2004

Relationship of the Central Bank with External Auditors of Licensed Banks

Pursuant to the provisions of the Banking Law, issued by Royal Decree No. 114/2000 and its amendments, and in accordance with the Resolution No. BOG/1682/125/3/04/5 of the Board of Governors of the Central Bank, adopted at its meeting held on March 21,2004, and the Basel Committee's Core Principles for Effective Banking Supervision in respect of the relationship with external auditors, and in accordance with public interest, the following has been decided:

Article 1

Licensed banks shall not contract with Audit firms except after approval of the Central Bank.

Article 2

Licensed banks shall submit a list of audit firms, in the order of their preference, for appointment as external auditors, at least two months in advance of the proposed Annual General Meeting of the shareholders (local banks) or approval by the competent authorities at Head Office (foreign banks), for clearance by the Central Bank. The Central Bank has the right for calling revised nominations, for cause.

Article 3

The audit firms nominated by licensed banks shall comply with the following conditions /qualifications criteria:

- a) Registered with the Ministry of Commerce and Industry.
- b) Have an audit experience of not less than five years.
- c) Have a minimum strength of five qualified professionals in auditing.
- d) Have a good standing and competence in the audit of banks and financial institutions, and have not been barred or subjected to any penalty for professional or audit improprieties by the government or any of its units and public authorities or institutions or any judicial or professional authority.
- e) Have no interest in the licensed bank nominating it as external auditor, whether as a member of board of directors, shareholders or employees, for the last two years, in the licensed bank that is nominating it as its external auditor.

Article 4

Licensed banks shall submit to the Central Bank brief details about the qualifications and experience of the partners in the audit firm and the number of auditors with professional accounting/auditing qualifications, and full details about the audit firms, their competence, professional experiences and technical arrangements.

Article 5

Licensed banks have the right to determine the duration of contracts with external auditors, provided that the same audit firm shall not be appointed for more than four consecutive financial years. A minimum cooling off period of two years shall be enforced after completion of the referred audit period.

Article 6

The responsibility for obtention of true and fair audit reports on the financial statements shall be with the licensed banks. The Central Bank shall not be held responsible, for failure or negligence in discharging the assigned duties and statutory responsibilities by the audit firms, whose nominations have been cleared by the Central Bank.

Article 7

The Central Bank may terminate the contract between the audit firm and the licensed bank, by a decision for cause, when required by public interest. Such decision shall be communicated to the licensed bank in writing. The licensed bank shall advise the audit firm of such decision, and shall implement the decision within a period of 30 days from the date of communication of the direction. The licensed bank shall engage another audit firm pursuant to the provisions of this Regulation.

Article 8

All licensed banks are required to submit to the Central Bank financial statements, audited by independent auditors, before presentation at the Annual General Meeting. All licensed banks shall ensure that their external auditors meet with the Central Bank, by prior appointment. The Central Bank's approval on the audited financial statements shall be subject to compliance with the said requirements.

Article 9

The Central Bank may establish direct access with the external auditors in the circumstances when it considers that such contacts are necessary to ensure financial integrity, or whenever found necessary.

Article 10

The focus of external audit of banks shall cover compliance with the provisions, regulations and prudential standards for supervision mandated by the Central Bank.

Article 11

Licensed banks are directed to ensure that their respective external auditors shall advise the Central Bank on matters of governance interest, material violations committed by the bank, adverse changes in the risks of the bank's business, and any other matters which have supervisory implications. Licensed banks are directed to incorporate the aforesaid aspects in their contracts with external auditors.

Article 12

Licensed banks are precluded from requiring their external auditors to provide them with consultative services, except for the services that are incidental to the audit function.

Article 13

Licensed banks and their external auditors shall attend the tri-lateral meetings convened by the Central Bank, to discuss issues relating to audits and implementation of accounting standards and evolving uniform accounting practices.

Article 14

The Executive President of the Central Bank is hereby authorized to issue the necessary instructions for the implementation of this Regulation.

Article 15

This Regulation shall be published in the Official Gazette and shall be effective after 30 days from the date of publication.