

**REGULATIONS CONCERNING AUDIT OF FINANCIAL
INSTITUTIONS AND PUBLICATION OF FINANCIAL STATEMENTS**



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INTRODUCTION

The Central Bank of Liberia, pursuant to Sections 21 and 39 of the New Financial Institutions Act (FIA) of 1999, hereby promulgates and issues these regulations, replacing Regulations No. CBL/SD/04/2005, Concerning Audit of Bank Financial Institutions and Publication of Financial Statements.

PART I- PRELIMINARY

1.0 Title

These Regulations shall be cited as *Regulations Concerning Audit of Financial Institutions and Publication of Financial Statements, Regulation No. CBL/RSD/012./2011.*

2.0. Application

These regulations shall apply to all financial institutions operating in Liberia and their external auditors.

3.0 Interpretation

In these Regulations, unless the context otherwise requires:-

“**Act**” means the Financial Institutions Act (FIA) of 1999;

“**Board**” or “Board of Directors” means the Board of Directors of a financial institution;

“**External Auditor**” means an audit professional (a person or a firm) who performs an audit in accordance with specific laws, rules and standards on the financial statements of a company, government entity, other legal entity or organization, and who is independent of the entity being audited.

“**Engagement letter**” means the contract between the auditor/audit firm and the financial institution’s board of directors.

“**Management Letter**” means an analysis of findings prepared by the auditor/audit firm for the Board of Directors which identifies issues not required to be disclosed in the Annual Financial Report but represent the auditor's professional opinion on the completeness and accuracy of the financial institution’s financial status and the adequacy and effectiveness of internal controls in financial institutions.

“**Financial institution**” as defined in the New Financial Institution Act of 1999.

4.0 Objective

To provide a framework for licensed financial institutions with regards to the appointment of external auditors and conduct of external audits.

5.0 Purposes of the Regulation

The purposes of these Regulations are as follows:-

- (a) To provide a general framework for the conduct of external audit of financial institutions;
- (b) To ensure that external auditors of financial institutions meet the minimum acceptable standards for the conduct of audits of financial institutions;
- (c) To ensure effective conduct of audits of financial institutions; and
- (d) To promote confidence in the financial system by ensuring adequate and effective disclosure of activities of financial institutions.

PART II- REGULATORY REQUIREMENTS

6.0. Appointment of External Auditors

6.1 In keeping with Section 21 of the New FIA of 1999, every financial institution shall appoint an external auditing firm to conduct a full review of its financial condition, internal controls and risk management system for each year end. For each annual audit, the appointment of the external auditor shall require the prior approval of the Central Bank, before the commencement of any such audit.

6.2 The external auditing firm must be a registered and licensed public accounting firm certified by the Liberian Institute of Certified Public Accountants (LICPA) or a recognized ***foreign firm accredited by LICPA.***

6.3 A financial institution seeking approval of the appointment of an external auditor shall provide the Central Bank with all relevant information to assess the competence and credibility of the auditors. This information shall include, but not be limited to:

- a) The names of the partners, managers and senior auditors of the auditing firm; and

- b) Education, professional qualification(s) and professional experience, and employment history included in a detailed *curriculum vitae of each of individuals listed in (a) above*.
- c) Any other information that the Central Bank may deem necessary for accessing the suitability of the auditors.

6.4 The following criteria shall be used by the Central Bank in evaluating/assessing new external auditing firms:-

- (a) The capacity of the firm, taking into account the number of staff, their qualifications and experience in audit;
- (b) The history and experience of the auditing firm, taking into account the date of its establishment and length of its experience in auditing financial institutions;
- (c) The adequacy of the tests, procedures and audit methodology employed by the firm; and
- (d) The legal status of the auditing firm, including business registration, practicing certificates of partners issued by the Liberian Institute of Certified Public Accountants or any other recognized accounting body, tax clearance, etc.

7.0. Approval Process of External Auditor

7.1 A financial institution shall, within fifteen days after the nomination or appointment of its external auditor, apply in writing to the Central Bank for approval of the appointment. The financial institution shall submit to the Central Bank all necessary requirements as stated above in the case of a new external auditing firm.

7.2 Within thirty days after receipt of an application from a financial institution on the appointment of an external auditor, the Central Bank will, in writing, inform the financial institution of its approval or disapproval of the appointment. In the latter case, the CBL may state the reason (s) for its disapproval, in which case the financial institution shall be required to appoint a new auditor, subject to CBL's approval.

7.3 A request for approval of an external auditor must be made not later than December 31 of the audit year. Where a financial institution fails to appoint its external auditor approved by the CBL by December 31, the Central Bank, in keeping with Section 21 (3) of the New FIA, shall appoint a qualified external auditing firm to conduct the audit of the financial institution at the expense of the financial institution.

- 7.4** In keeping with sound corporate governance practices, no external auditing firm shall continuously provide auditing services for any financial institution for more than seven (7) consecutive years. Upon coming into force of these regulations, external audit relationships that are in excess of this requirement shall be granted a regulatory forbearance to continue for a period not to exceed one year.

Pursuant to the above condition, the financial institution shall be required to contract a new external auditing firm. However, the financial institution may re-contract the services of its previous external auditing firm after a period of three (3) years, subject to CBL's approval.

- 7.5** The Central Bank may, for sufficient cause (s), withdraw its approval of the appointment of an external auditor, prior to the commencement of an audit. In this case, the financial institution shall be required to immediately disengage and/or terminate its services with the auditing firm. This requirement should be stated in the contractual agreement with the auditing firm. The CBL shall grant a special dispensation to the financial institution with regard to the publication of the accounts, on a case-by-case basis.

- 7.6** Sufficient cause shall include but not limited to (i) failure to comply with the requirements of the New Financial Institutions Act, 1999 (ii) breach of duty as imposed by the Act, (iii) inability to conform to acceptable accounting and auditing standards or any other reason that the Central Bank may, in its judgment, consider applicable, including Section 8.0 below.

- 7.7** A financial institution shall not change its external auditors without the prior written notification to the Central Bank, indicating the reason (s) for its decision.

8.0 Conditions for Disqualification of External Auditor

A firm shall not qualify to be appointed or to act as an external auditor of a financial institution where:

- a) Any of its partners is not certified by Institute of Certified Public Accountants of Liberia established under the Liberian law;
- b) A partner, manager or senior auditor of a firm has been a liquidator, trustee in bankruptcy, receiver or manager of any affiliates of the financial institution within the two years immediately preceding the appointment;
- (c) A firm, either directly or indirectly has a material interest in the financial institution or its affiliates; is a significant shareholder, or its senior officers, partners or their immediate family members hold a senior position in the financial institution; or

- (d) In the opinion of the Central Bank, circumstances exist which may impair the independence of the impartiality of the auditing firm in the performance of its duties as an external auditor of a financial institution.

9.0 Independence of External Auditors

9.1 The external auditors must have a professional ethics and code of conduct which at a minimum must ensure strong integrity, objectivity, independence and confidentiality, as well as avoid conflict of interest.

9.2 The external auditors' objectivity and independence is undermined when auditors provide non-audit services/consulting services to financial institutions and their holding companies that they audit. In this regard, the external auditors of a bank shall not provide other non-audit services which nature and quality will impair their objectivity about, even though such services may be performed by another auditing firm. These non-audit services may include, but not limited to the following:-

- a) Internal audit outsourcing services;
- b) Actuary services;
- c) Appraisal or valuation services; and
- d) Booking or other services related to the accounting records or financial statements of the client.

Regarding services not listed above, the external auditors shall be required to seek clarification from the CBL prior to performing such services.

9.3 Furthermore, the objectivity and independence may be comprised if external auditors borrow from institutions that they audit. However, if the situation exist that the external auditors borrows from an institution which they audit, such loans shall not be allowed to be delinquent.

9.4 In all cases, external auditors shall ensure that they are not involved in the management or decision making of the financial institution.

10.0 The Engagement Letter

An engagement letter shall be offered for each audit process. It should include a statement of the scope of the audit and specific schedules to be included in the audit report (balance sheet, income statement, cash flow, changes in equity). The engagement letter should also outline the responsibilities and obligations of both the auditor and management of the financial institution.

11.0 Scope of External Audit

The financial institution's board of directors or audit committee should ensure that the scope of the external auditor's work covers, at a minimum, the following:

- a) Review the application of applicable reporting framework;
- b) Review the adequacy of financial institution disclosures in the financial statements;
- c) Examination and evaluation of the adequacy and effectiveness of the internal control systems;
- d) Review of the application and effectiveness of risk management procedures and risk assessment methodologies;
- e) Review of the accuracy, adequacy and reliability of accounting records and financial reports including prudential reports;
- f) Review of the system for assessing capital in relation to the estimated risks; and
- g) An assessment of compliance with internal policies and procedures, the CBL's Act of 1999, New Financial Institutions Act (FIA) of 1999, regulations, directives, and guidelines promulgated by the CBL.

12.0. Duties, Responsibilities and Rights of External auditor

12.1 The primary duty of an external auditor of a financial institution is to perform an audit of the financial statements of a financial institution and to give an opinion in accordance with the New Financial Institutions Act, 1999 and international auditing and accounting standards.

12.2 An External Auditor's responsibilities and duties are to the following:-

- a) The appointing bank;
- b) The creditors;
- c) The Central Bank of Liberia;
- d) The depositors; and
- e) The general public

12.3 In carrying out its functions, an external auditor has the following responsibilities to the financial institution:—

- (a) Prepare a written report for the shareholders and Board of Directors of each financial institution on the overall financial conditions of the financial institution. With the financial information provided during the audit, the external auditor should state his opinion on the true and fair view of the financial conditions of the financial institution;
- (b) To inform the board of directors of a financial institution of—
 - (i) the ability or inability of a financial institution to meet its capital requirements;
 - (ii) the ability or inability of the financial institution to meet the reserve and liquidity requirements;
 - (iii) the credit, foreign exchange and operational risks of the financial institution; and
 - (iv) any other matter which the auditor becomes aware of in the performance of his or her functions as an external auditor which may prejudice the ability of the financial institution to continue conducting business as a going concern, be detrimental to the interest of the depositors, or violate the principles of sound financial management or the maintenance of adequate internal controls and systems by the financial institution.

12.4 In carrying out its functions, an external auditor has several responsibilities to the Central Bank as stipulated in the Framework on the Relationship between Bank Supervisors and Banks' External Auditors. Accordingly, the CBL shall have full access to all information in the possession of the external auditors concerning any licensed financial institutions. This requirement shall be included in the contractual agreement between the auditors and the financial institution.

12.5 The external auditor of a financial institution shall be given access at all times to:-

- (a) management information systems, financial records of the financial institution and shall be entitled to receive from the officers and staff of the financial institution all information and explanations as he/she may require in the performance of his or her duties; and
- (b) the Board or its Audit Committee to whom they must directly report their findings.

13.0 Meeting Between the Central Bank, the Financial Institution and the External Auditor

- (a) The Central Bank shall, at least once in every financial year, arrange meetings between the Central Bank, the financial institution and its external auditor to discuss matters of supervisory concerns which arose during the course of the audit period; and
- (b) The Central Bank may, if it considers necessary, arrange from time to time meetings with the auditors of a financial institution to discuss pertinent issues related to a financial institution.

14.0 Reportable Transactions to the CBL

Section 21 (1b) of the New Financial Institutions Act of 1999 sets out the reporting requirements of the external auditor. Financial institution should ensure that the external auditor is aware of these obligations.

In addition to the above-referenced provision of the New FIA of 1999, the broad categories of transaction or conditions that are reportable to the CBL include, but not limited to:

- a) Transactions or conditions requiring a change in accounting basis;
- b) Transactions or conditions requiring the auditor to issue a modified or qualified opinion or to include a disclaimer paragraph in the audit opinion;
- c) Material adverse changes in risks inherent in the financial institution's business, with the potential to jeopardize its ability to continue as a going concern;
- d) Material conflict between decision-making authorities of the financial institution; and
- e) Any other situation which, in the opinion of the auditor, is of sufficient importance to be brought to the attention of the CBL. The auditor shall advise the CBL within a reasonable time.

15.0 Reporting Requirements

- (1) The external auditor shall, after performing the audit, submit to the financial institution an annual audit report and the financial institution shall ensure that said report and the management letter are submitted to the Central Bank with the financial statements to which they relate within three months after the close of the financial year.

- (2) The form and contents of the audited annual financial statements required under this regulation shall be prepared in accordance with the prescribed accounting standards required by the Central Bank.
- (3) The Central Bank may, if dissatisfied with the standard or quality of the audit, reject the audit report and call for a fresh audit at the expense of the financial institution concerned and may appoint a new auditor for the financial institution and shall fix the remuneration to be paid to the auditor by the financial institution.
- (4) Before annual accounts of a financial institution are finalized, dividends paid, the Central Bank shall satisfy itself that the financial institution has made adequate provisions for bad debts non-accrual of interest on non-performing loans, and amortization of preliminary and similar expenses in keeping with the relevant CBL Regulations and Section 19 of the new Financial Institutions Act of 1999.
- (5) In keeping with Section 19 (1) of the Central Bank of Liberia Act of 1999, the Liberian Dollar shall be the currency for all accounting, financial reporting, and official purposes in Liberia.

16.0 Publication of Financial Statements

- 16.1** As an essential means of fostering public disclosure and market discipline in the financial system, each licensed financial institution shall, and is hereby required to, publish its financial statements at least four times a year; and such publications shall be made quarterly.
- 16.2** The first publication shall consist of the annual audited accounts, which pursuant to the New FIA shall be made not later than the fourth month from the end of the financial year of the financial institution. The annual audited accounts shall reflect the disclosure standards set out in the Manual of Accounting Guidelines for Licensed Banks.
- 16.3** The other three publications shall consist of unaudited quarterly reports for the remaining three quarters of the year. These publications shall consist of unaudited quarterly reports for the 1st, 2nd and 3rd quarters of the year, which shall be published not later than the month succeeding the end of each quarter. Each of the unaudited quarterly financial reports shall consist of Income Statements, Balance Sheet, Cash Flow and Asset Classification.
- 16.4** Both the annual audited accounts and the unaudited quarterly financial reports shall be published in at least one newspaper and the website of the Financial Institution, for at least three consecutive days. In the case of the annual audited

report, the publication shall include the opinion of the Independent External Auditor (s). (See Appendix I)

16.5 A financial institution shall exhibit in a conspicuous place in the banking hall of each of its offices and branches as well as its website an abridged copy of its audited annual financial statements and the external auditor's report.

16.6 Prior to each of the publications required under these regulations, a financial institution shall submit copies of the financial statements to the CBL for its review of compliance with these regulations and approval for publication.

17.0 Disqualification of Financial Statements

Where the Central Bank is of the opinion that the annual audited financial statements of a financial institution do not comply with the requirements of these Regulations, or contain information that may be misleading in any way, or are not published in the form and with the contents specified in these Regulations, the Central Bank may require the financial institution—

- (a) to amend or correct the audited financial statements to comply with these Regulations or any other additional requirements;
- (b) to correct the misleading information;
- (c) to re-publish the amended or corrected audited financial statements; or
- (d) to submit to the Central Bank any further documents or information needed for verification/clarification.

18.0 Commission of Special Audit

The Central Bank of Liberia may instruct the Board of Directors of the financial institution to commission a special audit, either by the institution's existing auditing firm or by a duly registered and certified auditing firm under the conditions that:

- a) The contents of the management letter are not aligned or supportive of the audit report;
- b) The Board and or Management is not convinced of the financial condition of the bank; and
- c) Any other material reasons as shall be deemed by the CBL.

PART III – PENALTIES FOR NON-COMPLIANCE

19.0 Remedial Measures & Administrative Sanctions

- a) Banks failing to adhere to the requirements and/or standards of this regulation shall be subjected to payment of a fine of not less than Two Hundred Thousand Liberian Dollars (L\$200,000) for each day, for which the default continues; and/or
- b) Other appropriate supervisory sanctions.

19.1 A staff who obstructs an external auditor in the performance of his or her duties, or fails, refuses or neglects to provide an external auditor with books, accounts, computer systems, vouchers or financial records as requested by the external auditor, commits an offence and is liable under Section 30 (2) of the New FIA of 1999.

19.2 An external auditor or auditing firm found in violation of these regulations shall not be granted approval to provide external auditing services to financial institutions licensed by the CBL.

Issued this 23 day of January, A.D., 2012 in the City of Monrovia, Republic of Liberia.

BY ORDER OF THE PRESIDENT

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MINISTER OF FOREIGN AFFAIRS

MINISTRY OF FOREIGN AFFAIRS
MONROVIA, LIBERIA

JANUARY, 2012