

BANKIGA DHEXE EE
SOOMAALIYA



البنك المركزي الصومالي

CENTRAL BANK OF SOMALIA

Licensing and Supervision Department

Qaybta Shati-siinta iyo Kormeerka

REGULATION ON AUDIT COMMITTEE, 2016

CBS/BS/REG/05

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1. INTRODUCTION

1.1. Authority

This regulation is made by the Central Bank pursuant to its authority set forth in Section 34 of the Financial Institution Law, 2012 ("FIL"), and Sections 38(1) and 52(1) of the Central Bank of Somalia Law, 2011, for the purpose of implementing Sections 29 "Audit Committee" and 66 "Mandatory Board Committees" of the FIL.

1.2. Applicability

This regulation applies to all banks licensed by the Central Bank including branches and subsidiaries of foreign financial institutions.

2. ESTABLISH AN AUDIT COMMITTEE

Each bank shall have an Audit Committee.

- 2.1. The Audit Committee shall consist of at least two members appointed by the board of directors from amongst its members.
- 2.2. No member of the Audit Committee shall be employed by the bank, its holding company, its subsidiary, or any company within the bank's corporate group, either at the time of appointment or within the previous twelve months.
- 2.3. The chairperson of the board of directors of the bank shall not be a member of the Audit Committee.
- 2.4. The members of the Audit Committee shall have knowledge of accounting, financial reporting, internal control, compliance, and auditing.
- 2.5. The Audit Committee shall function pursuant to a charter that sets out the committee's mandate, scope, and working procedures; and the Audit Committee shall keep adequate records of its activities.
- 2.6. The Audit Committee shall meet at least once each fiscal quarter or more frequently as required to meet its fiduciary responsibilities.

3. FUNCTIONS OF THE AUDIT COMMITTEE

- 3.1. Assist the board of directors to ensure that the bank has in place effective systems of accounting, recordkeeping, internal control, financial reporting, management information, auditing, compliance, and risk management that include policies and procedures.
- 3.2. Facilitate and promote communication regarding the bank's systems of accounting, recordkeeping, internal control, financial reporting, management information, auditing, compliance, and risk management between the board of directors, the chief executive officer, the compliance officer, the internal auditor, and the external auditor.
- 3.3. Be knowledgeable of the bank's accounting policies and practices; review and ensure their appropriateness and consistency on a year-to-year basis.
- 3.4. Review the bank's financial statements and make comments thereon concerning:
 - (i) Accuracy
 - (ii) Non-recurring or unusual transactions
 - (iii) Classification of assets
 - (iv) Impairment calculations
 - (v) Fair value measurements
 - (vi) Significant adjustments
 - (vii) Lack of clarity in disclosures
 - (viii) Going concern assessment
 - (ix) Compliance with International Financial Reporting Standards
 - (x) Compliance with the FIL
 - (xi) Insider transactions
 - (xii) Any other matter deemed significant by the Audit Committee.
- 3.5. Provide oversight of, and a direct line of authority to, both the internal and external audit function of the bank.
- 3.6. Initiate and maintain regular communication with the internal and external auditors.

- 3.7. Receive and assess annual reports from the head of compliance on the bank's management of its compliance risk; and report to the board of directors its opinion of the effectiveness of bank management in adhering to the board-approved policies.
- 3.8. Provide an open line of communication for the head of compliance to promptly report material compliance failures directly to the Audit Committee.
- 3.9. Ensure that the bank employs a qualified internal auditor; approve the appointment, remuneration, performance and dismissal of the internal auditor.
- 3.10. Approve the terms of reference and budget for the internal audit function.
- 3.11. Monitor the execution of the internal audit program.
- 3.12. Consider and make recommendations to the board of directors on the appointment, reappointment, dismissal, and fees of the external auditor.
- 3.13. Assess the independence of the external auditor prior to appointment; and continue to monitor independence during the duration of the audit term.
- 3.14. Discuss and come to agreement with the external auditor on the terms of the engagement letter.
- 3.15. Meet with the external auditor at least twice each year; once during the planning stage of the independent audit at which time the scope of the audit will be considered and then post-audit at the reporting stage. Other meetings should be held as necessary to enhance the external audit process and to discuss significant issues.
- 3.16. Review the report of independent auditor, financial statements, and management's response to the auditor's management letter prior to their submission to the board of directors for approval.
- 3.17. Assess the external auditor's conclusions management's rationale for significant accounting estimates used in preparation of the financial statements (significant in amount, number, and/or degree of uncertainty).
- 3.18. Receive and promptly review the internal and external audit reports, including the external audit's management letter and report on the bank's internal control.
- 3.19. Ensure that the board of directors and senior management officials take appropriate and timely action to correct weaknesses in internal control and areas of non-compliance disclosed by the auditors and the head of compliance.
- 3.20. Assess the effectiveness of the annual external audit process.

- 3.21. Determine the nature and extent of any non-audit services that the external auditor may or may not provide to the bank.
- 3.22. In any case where the external auditor, internal auditor, or head of compliance resigns or gives notice to resign, promptly determine the reason(s) and take the appropriate follow-up action depending on the information discovered.
- 3.23. Perform other functions as may be assigned by the board of directors or requested by the Central Bank from time to time.

4. ANNUAL REPORT BY AUDIT COMMITTEE

The Audit Committee shall prepare a report, to be included in the annual accounts and financial statements for every financial year:

- 4.1 Describing how the Audit Committee carried out its functions;
- 4.2 Stating whether the Audit Committee is satisfied that the auditor was independent of the bank; and
- 4.3 Commenting, in any way the Audit Committee considers appropriate, on the financial statements, the accounting practices, and the internal financial control of the bank.



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