BANKIGA DHEXE EE SOOMAALIYA

البنك المركزي الصومالي

CENTRAL BANK OF SOMALIA

GUIDELINES ON THE APPOINTMENT OF EXTERNAL AUDITOR FOR TAKAFUL OPERATORS, 2026

CBS/TAK/GU/01

Contents

1. Introduction

1.1 Every takaful and retakaful operator shall ensure effective oversight and governance of the external audit process.

1.2 The external auditor shall conduct an audit of the takaful operator's financial statements and report to the takaful operator according to the International Standards on Auditing and the AAOIFI and report the findings at the end of every financial year.

2. Objectives

2.1 The objectives of this guideline shall be to establish—

a) The qualifications of an external auditor; and

b) The terms of audit engagement, application procedures and reporting obligations to be observed by a takaful and retakaful operator.

2.2 These guidelines shall ensure that there is a reliable financial reporting process for both public and supervisory purposes.

2.3 These guidelines shall also serve to ensure compliance with Shariah principles for the takaful and retakaful operators.

3. Applicability

3.1 These guidelines shall apply to all licensed takaful and retakaful operators in Somalia.

4. Interpretation

4.1 AAOIFI means the Accounting and Auditing Organization for Islamic Financial Institutions.

4.2 Audit engagement means a contractual arrangement between an auditing firm and a takaful and retakaful operator to perform an audit.

5. Duties of the Board and Management

5.1 The Board shall oversee—

a) The preparation of the financial statements.

b) Financial reporting.

c) Disclosure processes.

d) Audit process.

e) Auditor’s plans and material findings; and

f) The process for hiring removal, performance assessment and independence of the external auditor.

5.2 The board shall—

a) Ensure robust processes for the appointment of the external auditor;

b) Monitor and assess the effectiveness of the external audit function throughout the audit cycle;

c) Ensure that the external auditor possesses the desired knowledge, skills, expertise and resources.

d) Ensure that the external auditor is supplied with complete and unhindered access to all the necessary information.

e) Ensure effective communication with the external auditor.

f) Assess and monitor the external auditor’s independence to ensure effective functioning; and

g) Establish and review the terms of engagement with the external auditor.

5.3 The terms of the audit engagement shall at a minimum include—

a) Objective of the audit.

b) Scope of the audit.

c) Agreement on the audit plan;

d) Responsibilities of the audit team;

e) Reports to be prepared by the auditor;

f) Timing of the audit and audit fees.

g) Use of experts in certain parts of the audit; and

h) Any other significant arrangements in relation to the audit;

5.4 The board shall assume responsibility for the integrity of the external reports issued by the external auditor.

5.5 The board shall understand the external auditor's approach to audit, which shall include the risk assessment and the response, and the relationship between the internal audit and actuarial functions.

5.6 If there are any non-audit services offered by the auditor, the Board shall ensure that they do not in any way impair the auditor's objectivity, independence and judgement.

5.7 The Shariah board shall advice the external auditor on Shariah compliance and Shariah related matters.

6. Appointment and Disqualification

6.1 The external auditor shall—

a) Satisfy the fit and proper criteria.

b) Hold valid registration in the country.

c) Holds valid tax compliance certificate.

d) Have at least one-third ownership by a Somali citizen.

e) Be a member of the Somali Institute of Certified Public Accountants.

f) Possess relevant work experience in takaful accounting.

g) Not be disqualified from acting as an auditor in any legislation.

6.2 The external auditor shall not have conflicts of interest with the takaful operator which shall include being—

a) A significant shareholder or director of the takaful operator.

b) An entity/firm in which a significant shareholder controls or which controls a significant shareholder.

c) An affiliate of the takaful operator; and

d) A related party.

6.3 Takaful operators shall appoint an audit firm that has previously not been—

a) Adjudged as insolvent or bankrupt by any court.

b) Convicted in any court for any criminal offence, fraud, financial crime or any criminal activities.

c) A loan defaulter of any bank or financial institution; and

d) A defaulter of tax.

7. Duties of the External Auditor

7.1 The external auditor shall—

a) Report on the adequacy of the takaful operator's accounting records;

b) Audit the accounts of the takaful operator annually and carry out special audit as may be required by the Bank;

c) Communicate to the takaful operator in writing on any control deficiencies that may arise from the audit of the financial statements of the takaful operator.

d) Report on any irregular conditions that pose significant risks to the takaful operator; and

e) Review and report on the existence and nature of the Qard-Hasan transactions in the financial records.

7.2 The external auditor shall examine and evaluate the adequacy and effectiveness of the takaful operator's internal control systems.

7.3 The external auditor shall assess the takaful operator's compliance with internal policies and procedures, anti-money laundering legislation and all other relevant legislations applicable in Somalia.

7.4 The external auditor shall exercise professionalism when conducting an audit, having due regard to the takaful operator's nature and scale, risk appetite and complexity of the takaful operator.

7.5 The external auditor shall apply the concept of materiality required in the planning and performing of the audit.

7.6 The external auditor shall identify and assess the risks of material misstatements and assess controls of a takaful operator when designing and performing the audit.

7.7 The external auditor shall design and implement the appropriate responses to the identified and assessed risks of the takaful operator.

7.8 The external auditor may consider incorporating an actuary in the engagement team or seek advice from an actuary to provide assurance that the actuarial work has been performed in accordance with the generally accepted actuarial principles.

7.9 The eternal auditor shall sign an Independence Declaration Form No. CBS 59-1 annually.

8. Reporting

8.1 The takaful operator shall submit to the Bank, copies of the external auditor's reports including the management letter.

8.2 The external auditor shall report to the Bank any matters that may be of material significance.

8.3 The external auditor's reports shall disclose all information about the types of assurance processes applied in each report, in addition to the independent external audit opinions provided in terms of legal requirement.

8.4 The external auditor shall promptly inform the Bank when the takaful and retakaful operators breach or are likely to breach any solvency requirements and/or have contravened the Law and the contravention may affect the participants.

9. Removal from office

9.1 The takaful and retakaful operators shall ensure a mandatory rotation of the partner of the external auditors after a period of Seven (7) years, replacing the lead Audit personnel after 4 years.

9.2 The takaful and retakaful operators may replace an external auditor when the auditor fails to perform the required functions and duties adequately, is subject to conflicts of interest or no longer meets eligibility requirements.

9.3 The takaful and retakaful operators shall notify the Bank if the auditor resigns or is replaced and give reasons for the resignation or replacement.

9.4 Where the Bank determines that the takaful operator has not complied with the directives thereof, then the Bank may impose the following administrative sanctions—

a) Disqualify an individual from serving as an auditor for the takaful and retakaful operator; and regulated financial institution.

b) Reject an audit conducted by the external auditor and mandate a fresh audit by an auditor chosen by the Bank at the expense of the takaful operator.

10. Enforcement

10.1 The Bank shall enforce these guidelines against takaful and intermediaries.

10.2 The Bank shall enforce compliance with these guidelines by exercising its powers against any person who contravenes these guidelines.