

The Republic of the Union of Myanmar

Central Bank of Myanmar

Directive No. (10/2019)

5th Waning of Tabaung 1380 ME

March 25, 2019

In exercise of the powers conferred under Sections 88, 89, 90 on External Auditors of Banks and Section 184 of the Financial Institutions Law (FI Law), the Central Bank of Myanmar (CBM) hereby issues the following Directive.

Title

1. This Directive shall be called the Directive on External Auditors of Banks.

Persons Subject to Directive

2. This Directive shall apply to all banks and their external auditors.

Purpose of Directive

3. The purpose of this Directive is-
 - (a) to ensure that external auditors of banks have acceptable standards of competence and independence;
 - (b) to require external auditors of banks to discharge their responsibilities effectively;
 - (c) to enforce international best practices in carrying out audits of banks;
 - (d) to assist in promoting confidence in the financial system by ensuring that qualified auditors prepare audit reports;
 - (e) to promote transparency and accuracy in financial reporting to enhance market discipline; and
 - (f) to help safeguard depositors' funds by requiring banks to be subjected to an effective external audit.

Appointment of external auditors

4. A bank shall appoint during its annual general meeting a suitable external auditor to audit the annual financial statements of the bank.
5. Only fit and proper person shall be appointed as external auditor of a bank.

Qualification and approval of external auditor

6. A bank shall within ten days after appointing an external auditor, apply in writing to the CBM for approval of the appointment.
7. The bank shall submit to the CBM the name, business address, qualification and experience of the external auditor and such other necessary information to enable the CBM to process the approval.
8. The CBM shall use the following criteria to evaluate the qualification of the external auditor for approval:
 - (a) the experience of the auditor and the audit firm that person belongs to;

- (b) the staff strength of the audit firm taking into account the number of staff, their qualifications and experience in audit;
- (c) the history and experience of the audit firm based on audit firm's date of establishment and its experience in auditing banks;
- (d) the audit procedures and methodology employed by the audit firm; and
- (e) the legal status of the audit firm and the auditor, which shall consist of proper registration of the firm and authorization of valid practicing certificate of partners or auditors by the Myanmar Accountancy Council.

9. The CBM shall within 30 days after receipt of an application for the appointment of an external auditor-

- (a) approve the appointment; or
- (b) approve the appointment subject to such conditions; or
- (c) disapprove the appointment stating reasons.

10. In the case where the CBM disapprove the external auditor, the bank shall nominate another auditor and seeks the CBM approval.

Failure of a bank to appoint external auditor

11. Where a bank, within 2 months after the lapse of the term of its previous external auditor, fails to obtain the approval of an external auditor by CBM or fails to fill a vacancy for an external auditor, the CBM may appoint a qualified external auditor whose remuneration shall be paid by the bank.

12. A person appointed as an external auditor by the CBM shall be deemed to have been appointed as an external auditor at the immediately preceding annual general meeting of the bank and shall be deemed to be an external auditor appointed by the bank and approved by the CBM.

Conditions on appointment of external auditor

13. A bank shall not appoint the same external auditor for more than 3 consecutive times and replace the audit firm every 5 years, unless the CBM approves otherwise.

14. The CBM may withdraw its approval of the appointment of an external auditor if the auditor-

- (a) fails to comply with the requirements of the FI Law and the duties imposed under the Law or
- (b) is unable to perform his/her duties in accordance with this Directive.

15. Where the CBM withdraws its approval of the external auditor or where the auditor becomes a related party or employee of the bank, the auditor concerned shall immediately cease to act as the bank's external auditor.

16. A bank shall not change its external auditors without prior written approval of the CBM.

17. An external auditor of a bank shall not resign from office unless the external auditor gives thirty-days notice to the bank and the CBM of his decision to resign from office.

Disqualification of the external auditor

18. A person shall not act as an external auditor of a bank if-
- (a) that person is a related party or employee of the bank;
 - (b) that person is not a registered member of the Myanmar Institute of Certified Public Accountants and not have a practicing certificate issued by the Myanmar Accountancy Council;
 - (c) that person, either directly or indirectly has a material interest in the bank or its affiliates;
 - (d) in the opinion of the CBM, circumstances exist which may impair the independence or impartiality of that person in the performance of his duties as an external auditor of the bank;
 - (e) that person is an officer of a bank;
 - (f) that person is a partner, or associate of a director or substantial shareholder of the bank;
 - (g) that person by himself or his or her partners or employees, performs the duties of corporate secretary or bookkeeper for the bank;
 - (h) the firm that the person belongs to or its partners serve the bank in any other capacity other than that of external auditors or as tax professionals.

Duties, responsibilities and rights of external auditor

19. The primary duty of an external auditor of a bank is to perform an audit of the financial statements of a bank and to give an opinion in accordance with the FI Law, the existing Myanmar Companies Law, and international standards on auditing as adopted in Myanmar on the annual statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and other financial statements required to be submitted by the bank to the CBM.

20. The opinion must indicate-
- (a) whether the financial statements are full and fair and properly drawn up;
 - (b) whether they exhibit a true and correct statement of the affairs of the bank; and
 - (c) whether the information obtained from the officers or agents of such bank is satisfactory.

21. The form and contents of the audited annual financial statements required under this Directive shall be prepared in accordance with the guidelines issued by the CBM.

22. An external auditor shall-
- (a) warn the board of directors of a bank of-
 - (i) the inability of a bank to meet its capital requirements;
 - (ii) the inability of the bank to meet the minimum reserve requirements and liquidity ratio and to comply with other prudential limits;
 - (iii) the credit, foreign exchange, operational and other risks of the bank; and
 - (iv) any other matter which the auditor becomes aware of in the performance of his function as an external auditor which may prejudice the ability of the bank to continue conducting business as a going concern, may be detrimental to the interest of the depositors, or may violate the principles of sound financial management or the maintenance of adequate internal control systems by the bank;

- (b) obtain sufficient, relevant and reliable evidence to satisfy himself of the various matters necessary to form his opinion;
 - (c) carefully plan, supervise and review all his work including work performed by subordinate staff;
 - (d) ascertain, evaluate and test internal controls before placing audit reliance on them;
 - (e) exercise reasonable care and skill in accordance with the current professional standards and practices and perform the audit in accordance with international standards on auditing and such other regulations, directives, policies and guidelines as the CBM may issue; and
 - (f) assess and comment in writing on the report of the board of directors before the report is tabled at the annual general meeting.
23. An external auditor shall immediately report to the CBM if -
- (a) there has been a serious breach or non-observance of the provisions of the FI Law, or a criminal offence involving fraud or dishonesty has been committed;
 - (b) losses have been incurred which reduce the capital funds of the bank by fifty per cent;
 - (c) serious irregularities have occurred, including irregularities that jeopardize the security of the creditors; or
 - (d) the auditor is unable to confirm that the claims of creditors are still covered by the assets.

24. The external auditor of a bank shall have a right of access at all times to the books, accounts and vouchers and all documents and records belonging to the bank, which he considers necessary for the performance of his duties, and he shall be entitled to require from directors and officers of the bank such information and explanations as he thinks necessary for the performance and proper discharge of his duties and functions as auditor.

Reporting requirements

25. The external auditor shall, after performing the audit, submit to the bank and to the CBM the audit report together with the management letter and other reports connected with the audit as well as documents that may be prescribed by the CBM not later than 90 days after the close of the financial year.

26. The external auditor shall obtain from the management of a bank a letter of assurance in which they shall state that they have disclosed all financial and other related transactions both on and off balance sheet including contingent liabilities, and a copy of this letter shall be submitted to the CBM with the audit report.

27. When the auditor issues an opinion other than an unqualified opinion on the audited financial statements, the auditor shall identify and quantify the matters that have led to the qualification or the issuance of a disclaimer or other types of opinion.

28. Pursuant to section 64(f) of the FI Law, all credit to related party shall be disclosed in the financial statements for that financial year and for each subsequent year till such credit facility has been repaid or settled in full.

29. If the CBM is dissatisfied with the quality of the audit or finds that the audited financial statements do not exhibit a true and correct statement of affairs of the bank or that the auditor's report or management letter is unsatisfactory, it may order the bank to require the auditor or newly appointed external auditor to submit a fresh report at the expense of the bank.

Meetings between the Central Bank of Myanmar, the bank and the external auditor

30. The CBM shall, at least once in every financial year, arrange meetings between the CBM, the bank and its external auditor to discuss matters relevant to the CBM's supervisory responsibilities which have arisen in the course of the annual audit of that bank, including relevant aspects of the business of the bank, its accounting and internal control systems, and its annual financial statements and management letter.

31. The CBM may, if it considers it necessary, arrange from time to time meetings with the auditor of a bank.

Special audit services

32. The CBM, as may deem necessary, require an external auditor -

- (a) to submit such additional information in relation to the audit of a bank;
- (b) to carry out any other special examinations or further examinations and submit a report on the matter concerned.

33. Where an external auditor carries out an audit or examination under paragraph 32, the bank shall remunerate the auditor for the additional duties.

Publication and exhibition of financial statements

34. Every bank shall publish its audited statement of financial position and statement of comprehensive income together with the external auditor's opinion in at least one widely read newspaper in Myanmar and on its website within four months after the end of its financial year.

35. Every bank shall exhibit throughout the year in a conspicuous place in the banking hall of each of its offices and branches a copy of its audited annual financial statements and the external auditor's report.

Offences, penalties and remedial measures

36. Where an external auditor fails to comply with the requirements of this Directive, CBM may instruct the bank to remove the external auditor notwithstanding the terms of the appointment of the auditor.

37. Failure to comply with this Directive constitutes an offence under the FI Law.

38. The following actions by a bank shall constitute an offence and are subject to the administrative penalties in Paragraph 39-

- (a) failure to submit the audited annual financial statements and management letter to CBM within the period prescribed;
- (b) failure to publish the audited financial statements within the period prescribed; and
- (c) obstructions an external auditor in the performance of his or her duties;
- (d) failures, refusals or neglect to provide books, accounts, computer systems, vouchers or financial records as requested by the external auditor.

39. The CBM may impose any or all of the following administrative penalties on a bank for failure to comply with this Directive -

- (a) suspension of access to new credit facilities of the CBM;
- (b) suspension or restriction of lending and investment operations;
- (c) suspension of opening letters of credit or issuance of guarantees;
- (d) suspension of acceptance of new deposits; or
- (e) suspension or removal from office of the erring director, officer or employee.

Effectiveness

40. This Directive shall come into effect for the next financial year of the banks.

Sd./xxxxxxxxx
For Governor
Soe Thein, Deputy Governor