

**STATUTORY INSTRUMENTS SUPPLEMENT**

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**S T A T U T O R Y I N S T R U M E N T S**

**2010 No. 45.**

**THE FINANCIAL INSTITUTIONS (EXTERNAL AUDITORS)  
REGULATIONS, 2010**

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# S T A T U T O R Y I N S T R U M E N T S

## 2010 No. 45.

### **The Financial Institutions (External Auditors) Regulations, 2010** (Under section 131 of the Financial Institutions Act, 2004, Act No 2 of 2004)

IN EXERCISE of the powers conferred upon the Central Bank by section 131 of the Financial Institutions Act, 2004 and in consultation with the Minister responsible for finance, these Regulations are made this 16th day September, 2010.

#### PART I—PRELIMINARY

##### **1. Title**

These Regulations may be cited as the Financial Institutions (External Auditors) Regulations, 2010.

##### **2. Purpose of Regulation**

The purpose of these Regulations is—

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

### **3. Application**

These Regulations apply to all financial institutions in Uganda and their external auditors.

## **PART II—REGULATORY REQUIREMENTS**

### **4. Appointment of external auditors**

(1) A financial institution shall nominate for appointment annually, from a pre-qualified list to be published by the Central Bank a firm of qualified external auditors whose duty shall be to perform an audit of the annual financial statements of the financial institution.

(2) The Central Bank shall publish a list of approved auditors by 31<sup>st</sup> of December of each year from which financial institutions shall nominate for appointment their respective external auditors.

(3) The following criteria shall be used by the Central Bank in evaluating external auditors and drawing up the list referred to in subregulation (1)—

- (a) the staff strength of the firm taking into account the number of staff, their qualifications and experience in audit;
- (b) the history and experience of the audit firm basing on the firm's date of establishment and its experience in auditing financial institutions;
- (c) the tests, procedures and audit methodology employed by the firm; and
- (d) the legal status of the firm which shall consist of proper registration of the firm and practicing certificates of partners issued by the Institute of Certified Public Accountants of Uganda.

(4) An Audit firm that wishes to be included on the list of pre-qualified external auditors shall apply in writing to the Central Bank not later than 30<sup>th</sup> September of each year.

(5) The Central Bank shall require the applicant firm to supply the necessary information to enable it to carry out the necessary evaluation.

(6) Audit firms on the pre-qualified list shall keep the Central Bank informed of any changes in partnerships, directors and audit managers and any disciplinary or legal actions taken against the firm or their staff on an ongoing basis.

## **5. Approval of external auditor**

(1) A financial institution shall, within thirty days after the nomination for appointment of an external auditor, apply in writing to the Central Bank for the approval of the appointment.

(2) Within thirty days after receipt of an application from a financial institution on the appointment of an external auditor, the Central Bank may in writing—

- (a) approve the appointment;
- (b) approve the appointment subject to such conditions as shall be specified in the approval; or
- (c) decline to approve the appointment stating reasons, in which case a financial institution shall nominate another firm as external auditors and shall apply to the Central Bank for approval of the appointment.

(3) Where a financial institution fails to nominate or obtain approval of an external auditor within two months after the lapse of the term of its previous external auditor, or fails to fill a vacancy for an external auditor, the Central Bank may appoint a qualified firm of external auditors whose remuneration shall be paid by the financial institution.

(4) A person appointed as an external auditor by the Central Bank shall be deemed to have been appointed as an external auditor at the immediately preceding annual general meeting of the financial institution and shall be deemed to be an external auditor appointed by the financial institution and approved by the Central Bank.

(5) An audit firm shall not be approved by the Central Bank to serve as an external auditor of a financial institution for a continuous period exceeding four years.

(6) A firm of external auditors approved for appointment by the Central Bank shall, have in force before the commencement of the audit, a valid professional indemnity insurance cover for negligence in the performance of its duties.

(7) The Central Bank may for sufficient cause withdraw its approval of the appointment of an external auditor previously granted.

(8) Sufficient cause referred to under subregulation (7) relate to failure to comply with the requirements of the Financial Institutions Act, 2004, breach of duty as imposed by the Act, inability to perform to the prescribed standard or any other reason that the Central Bank may, in its discretion consider applicable.

(9) Where the Central Bank withdraws its approval under subregulation (7), the auditor concerned shall vacate office.

(10) A financial institution shall not change its external auditors except with the prior written approval of the Central Bank.

(11) An external auditor of a financial institution who decides to resign from office, or does not seek re-appointment, shall give adequate written notice of not less than twenty eight days to the financial institution and the Central Bank of his or her decision to resign from office or not seek re-appointment, and the reasons for doing so.

## **6. Disqualification of external auditor**

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

- (a) that person is not on the pre-qualified list published by the Central Bank;

- (b) that person, and in case of a firm, every partner in the firm is not a registered member of the Institute of Certified Public Accountants of Uganda established under the Accountants Act;
- (c) that person, either directly or indirectly has a material interest in the financial institution or its affiliates;
- (d) in the opinion of the Central Bank, circumstances exist which may impair the independence or impartiality of that person in the performance of his or her duties as an external auditor of the financial institution;
- (e) that person is an officer or servant of the financial institution;
- (f) that person is a partner, or associate of a director or substantial shareholder of the financial institution;
- (g) that person by himself or herself, together with his or her partners or employees, performs the duties of secretary or book-keeper for the financial institution; or
- (h) that firm or its partners or audit managers serve the financial institution in any other capacity other than that of external auditors or provision of professional tax services.

## **7. Duties, responsibilities and rights of external auditor**

(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 Financial Institutions Act, 2004, the Companies Act, and international standards on auditing as adopted in Uganda on the following—

- (a) annual balance sheet, profit and loss account and other financial statements required to be submitted by the financial institution to the Central Bank;
- (b) compliance of the financial institution with the requirements of the Financial Institutions Act, 2004; and
- (c) compliance of the financial institution with the requirements of the Companies Act.

(2) In carrying out its functions, an external auditor has the following duties to the financial institution—

- (a) to warn 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 operations 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;
- (b) to obtain sufficient, relevant and reliable evidence to satisfy themselves of the various matters necessary to form their opinion;
- (c) to carefully plan, supervise and review all their work including work performed by subordinate staff;
- (d) to ascertain, evaluate and test internal controls before placing audit reliance on them;
- (e) to exercise reasonable care and skill in accordance with the current professional standards and practices and to perform the audit in accordance with international standards on auditing and such other regulations, directives, policies and guidelines as the Central Bank may issue; and

- (f) to assess, and in writing comment on, the report of the board of directors before the report is tabled at the annual general meeting;

(3) In carrying out its functions, an external auditor has the following duties to the Central Bank—

- (a) to inform the Central Bank if there are reasonable grounds to believe that—
  - (i) the financial institution is insolvent, or there is a significant risk that the financial institution will become insolvent; or
  - (ii) the financial institution has contravened a prudential standard, a requirement in the Financial Institutions Act, 2004, Regulations, notice or directive issued under the Act, or a condition imposed on its licence;
- (b) to verify all quarterly returns and other reports of the financial institution which the Central Bank may from time to time require to be verified;
- (c) to submit to the Central Bank a management letter;
- (d) upon request, to submit such information about the financial institution and its subsidiaries or affiliates if the Central Bank considers that the information will assist it in performing its functions; and
- (e) to perform any other functions as the Central Bank may by notice assign to them.

(4) The external auditor of a financial institution shall have a right of access at all times to books, accounts, computer systems, vouchers, financial records and securities 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 or she may require in the performance of his or her duties.



## **8. Reporting requirements**

(1) The external auditor shall, after performing the audit, submit to the financial institution an audit report and the financial institution shall ensure that this 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 its financial year.

(2) The external auditor shall, obtain from the management of a financial institution, 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 Central Bank with the audit report.

(3) When a qualified audit report is issued to a financial institution, the auditor shall identify and quantify the matters that have led to the qualification.

(4) 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 or the external auditor or both, and may appoint an auditor for the financial institution and shall fix the remuneration to be paid to the auditor.

(5) Before annual accounts of a financial institution are finalized, dividends paid and the capital requirements in sections 26 and 27 of the Financial Institutions Act, 2004 are met, the Central Bank shall require to be satisfied by the financial institution that there is sufficiency of provisions for bad debts, existence and enforcement of a proper policy of non-accrual of interest on non-performing loans, and amortization of preliminary and similar expenses has been done.

## **9. Meetings between the Central Bank, the financial institution and the external auditor**

(1) 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 relevant to the Central Bank's supervisory responsibilities which have arisen in the course of the statutory audit of that financial institution, including relevant aspects of the business of the financial institution, its accounting and internal control systems, and its annual balance sheet, profit and loss accounts, and management letter.

(2) The Central bank may, if it considers it necessary, arrange from time to time meetings with the auditors of a financial institution.

## **10. Special audit services**

(1) The Central Bank may require an external auditor to submit such additional information in relation to the audit of a financial institution as the Central Bank may deem necessary or carry out any other special investigations or further investigations and submit a report on the matter concerned.

(2) Where an external auditor carries out an audit or investigation under subregulation (1), the financial institution shall remunerate the auditor for the additional duties.

## **11. Submission of audited annual financial statement**

(1) A financial institution shall within a period of three months after the end of its financial year, submit to the Central Bank its audited annual financial statements approved by its board of directors, the auditors' report and the management letter.

(2) The form and contents of the audited annual financial statements required under this regulation shall be prepared in accordance with all the International Financial Reporting Standards (IFRS) and any other standards issued by the International Accounting Standards Board.

(3) Where the Central Bank is satisfied that the audited annual 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 annual 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 annual financial statements; or

- (d) to submit to the Central Bank any further documents or information or explanations relating to any document or information.

## **12. Publication and exhibition of financial statements**

(1) A financial institution shall, within four months after the end of its financial year, publish its audited annual financial statements and the external auditor's report, in a newspaper circulating in the whole of Uganda in the format prescribed in the Schedule to these Regulations.

(2) A financial institution 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.

(3) A financial institution shall exhibit on a half yearly basis, in the banking hall of each of its offices and branches a copy of its un audited financial statements stating the fact that they are not audited.

## **PART III—REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS**

### **13. Offences, penalties and remedial measures**

(1) Where an external auditor fails to comply with the requirements of these Regulations, the Central Bank may remove the external auditor from the list of approved auditors.

(2) A financial institution which fails to submit the audited annual financial statements within the period prescribed in regulation 11 shall pay to the Central Bank a civil penalty of twenty currency points for each day on which the default continues.

(3) A financial institution which fails to publish the audited financial statements within the period prescribed in regulation 12 shall pay to the Central Bank a civil penalty of twenty currency points for each day on which the default continues.

(4) A person 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 on conviction to a fine not exceeding one hundred currency points or imprisonment not exceeding one year or both.

(5) An external auditor to whom a notice has been given to provide information under regulation 7(3) (d), fails, refuses or neglects to provide the information, or provides information which is false or misleading, commits an offence and is liable on conviction to a fine not exceeding two hundred and fifty currency points or imprisonment not exceeding two years or both.

#### **14. Administrative sanctions**

In addition to the remedial measures available to it in regulation 13 and the Financial Institutions Act 2004, the Central Bank may impose any or all of the following administrative sanctions with regard to a financial institution that fails to comply with these Regulations—

- (a) suspension of access to new credit facilities of the Central Bank;
- (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.

SCHEDULE

*Regulation 12(1)*

NEWSPAPER FORMAT FOR PUBLICATION OF FINANCIAL STATEMENTS

.....  
Name of Financial Institution

Date: \_\_\_\_\_

I INDEPENDENT EXTERNAL AUDITORS' REPORT

.....  
Signed

II BALANCE SHEET (SHS '000)

Current Year Previous Year

Assets

Cash and balances with BOU	XXX	XXX
Balances with banking institutions	XXX	XXX
Due from parent/group companies	XXX	XXX
Marketable (trading) securities	XXX	XXX
Loans and advances (Net)	XXX	XXX
Investment securities	XXX	XXX
Interest receivable and other assets	XXX	XXX
Property and equipment	XXX	XXX
Tax recoverable	XXX	XXX
Deferred tax Asset	XXX	XXX

<b>Total assets</b>	<b><u>XXX</u></b>	<b><u>XXX</u></b>
<b><u>Liabilities and Shareholders' Equity</u></b>		
Customers' deposits	XXX	XXX
Balances due to banking institutions	XXX	XXX
Due to parent/group companies	XXX	XXX
Interest payable and other liabilities	XXX	XXX
Tax payable	XXX	XXX
Dividends payable	XXX	XXX
Deferred tax liability	XXX	XXX
Subordinated debt	XXX	XXX
Total liabilities	XXX	XXX
Share capital	XXX	XXX
Share premium	XXX	XXX
Retained earnings	XXX	XXX
Reserves	XXX	XXX
Total shareholders' equity	XXX	XXX
<b>Total liabilities and shareholders' equity</b>	<b><u>XXX</u></b>	<b><u>XXX</u></b>

III INCOME STATEMENT (SHS '000)	Current Year	Previous Year
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**Income**

Interest on deposits and placements	XXX	XXX
Interest on loans and advances	XXX	XXX
Interest on marketable/trading securities	XXX	XXX
Interest on investment securities	XXX	XXX
Other interest income	XXX	XXX
Foreign exchange income	XXX	XXX
Fees and commissions income	XXX	XXX
Other income	XXX	XXX

<b>Total Income</b>	<b><u>XXX</u></b>	<b><u>XXX</u></b>
<b>Expenditure</b>		
Interest expense on deposits	XXX	XXX
Interest expense on borrowings	XXX	XXX
Interest expense on trading securities	XXX	XXX
Other interest expense	XXX	XXX
Provisions for bad and doubtful debts	XXX	XXX
Management fees	XXX	XXX
Operating expenses	XXX	XXX
Other expenses	XXX	XXX
Total Expenditure	XXX	XXX
Net profits before tax	XXX	XXX
Taxation	XXX	XXX
<b>Net Profits after tax</b>	<b><u>XXX</u></b>	<b><u>XXX</u></b>
<b>IV OTHER DISCLOSURES (SHS '000)</b>	<b>Current Year</b>	<b>Previous Year</b>
Contingent liabilities		
Letters of Credit	XXX	XXX
Guarantees and Performance Bonds	XXX	XXX
Other contingent liabilities	XXX	XXX
<b>Total</b>	<b><u>XXX</u></b>	<b><u>XXX</u></b>
Commitments		
Undrawn stand-by facilities	XXX	XXX
Undrawn credit lines	XXX	XXX
Other commitments to lend	XXX	XXX

<b>Total</b>	<b>XXX</b>	<b>XXX</b>
Non-Performing Loans and other Assets	XXX	XXX
Interest in Suspense	XXX	XXX
Bad debts written off	XXX	XXX
Large loan exposures	XXX	XXX
Insider loan exposures	XXX	XXX
<b>Capital Position:</b>		
Core Capital	XXX	XXX
Supplementary Capital	XXX	XXX
Total Qualifying Capital	XXX	XXX
Total Risk Weighted Assets (RWA)	XXX	XXX
Core Capital to RWA	XX%	XX%
Total Qualifying Capital to RWA	XX%	XX%

V MESSAGE FROM DIRECTORS (for audited annual accounts)

The above balance sheet and income statement were audited by \_\_\_\_\_ and received a \_\_\_\_\_ opinion. The financial statements were approved by the Board of Directors on \_\_\_\_\_ and discussed with the Bank of Uganda on \_\_\_\_\_.

.....  
Signed (Chairman)

.....  
Signed (Managing Director)

**Cross References**

Accountants Act, Cap. 266  
Companies Act, Cap. 110  
Financial Institutions Act, 2004