

INSTRUCTION CPO/B-2000/9

AUDITS, PUBLICATION OF AUDITOR'S OPINION AND ANNUAL REPORT

I. AUTHORITY

This instruction is issued by the Central Payments Office of East Timor (hereinafter, "CPO") pursuant to Sections 32, 33, and 34 of Regulation No. 2000/8 on Bank Licensing and Supervision (hereinafter, the "Regulation"). This instruction applies to all banks licensed in East Timor, including branches of foreign banks and subsidiaries or branch offices of domestic banks.

II. DEFINITIONS

- A. **Audit** - A systemic process conducted according to pre-established generally accepted auditing standards for objectively obtaining and evaluating evidence regarding assertions about economic actions and events, financial statements, financial systems, records, transactions, and operations **performed by professional accountants** for the purpose of providing assurance of accountability, giving credibility to the financial statements and other management reports, identifying weaknesses in internal controls and financial systems, and making appropriate recommendations for improvement.
- B. **Audit Opinion** - A formal report on an audit which gives the auditor's conclusion and which clearly sets forth a judgment upon the reasonability with which the financial statements present the bank's financial position and results of operation and are presented in accordance with International Accounting Standards. This audit opinion may be (1) unqualified; (2) qualified; (3) adverse; or (4) disclaimer of opinion.
- C. **Audit Report** - The expression of opinion rendered by the auditor in writing on the bank's financial information. The Audit Report must contain (1) title; (2) addressee; (3) identification of financial information audited; (4) reference to the auditing standards followed; (5) expression or disclaimer of opinion on the financial information; (6) signature; (7) auditor's address; and (8) date of report.

- D. **Financial Statements** - The balance sheet, income statement or profit and loss accounts, statement of changes in financial position, notes and other statements and explanatory material which are identified as being part of the financial statements.
- E. **Home Country Supervisor** - The competent authority that supervises the financial activities in the country in which the head office of a foreign bank is located.
- F. **International Accounting Standards** - Formal guidelines that specify how certain types of transactions or events are to be recorded and what disclosures should be made in the notes to financial statements. These standards were developed by the International Accounting Standards Committee to resolve differences in accounting standards adopted by different countries and to harmonize accounting treatments.
- G. **International Standards on Auditing** - Formal guidelines on auditing which are issued by the International Federation of Accountants.
- H. **Letter of Engagement** - A document addressed by the auditor to the bank client confirming acceptance of the appointment, stating the objective and scope of the audit, the extent of the auditor's responsibilities to the bank client, and the forms of any reports. It includes any special reports to be addressed to the supervisory authorities and, when applicable, any use and source of specialized accounting principles imposed by national laws and regulations applicable to banks.
- I. **Management Letter** - A letter to the bank's Board of Governors (in addition to the basic opinion contained in the audit report) wherein the auditor addresses weaknesses and other limitations found in the bank's internal control structure and operating procedures. The Management Letter shall meet the following minimum requirements:
 - 1. provide comments and observations on the accounting records, operating systems, and internal controls that were examined during the course of the audit;

2. identify specific deficiencies and areas of weakness in operating systems and internal controls, and make recommendations for their improvement;
3. communicate matters that have come to the auditor's attention during the audit which might have a significant impact on the operations of the bank, including:
 - (a) any fraudulent act by any administrator, employee, or agent of the bank; or
 - (b) any irregularity or deficiency in the administration or operations that should be expected to result in a material loss for the bank.
4. bring to the attention of the Board of Governors any other matters that the auditor deems to be pertinent.

III. AUDIT REQUIREMENTS

A. All Banks

1. Audits shall be conducted in accordance with International Standards on Auditing.
2. On an annual basis, banks shall appoint, upon the recommendation of its Audit Committee, an independent external auditor, approved by the CPO, who shall fulfill the requirements of Section 32.1 of the Regulation.

B. Domestic Banks

1. Not later than the first day of each financial year, banks shall submit to the CPO the following information:

- a. the auditing period;
 - b. identification of the independent external auditor responsible for fulfilling the requirements of Section 32.1 of the Regulation, mentioning: name, address, telephone number, name of the partner in charge of the bank's audit, and a copy of the engagement letter;
 - c. certified excerpts from the minutes of the meeting of Audit Committee and of the Board of Governors of the Bank approving the appointment of the independent external auditor.
2. The audit contract between the bank and the independent external auditor, or letter of engagement, must stipulate that the auditor shall:
- a. fulfill the requirements of Section 32.1 of the Regulation;
 - b. prepare the annual audit report, auditor's opinion, and management letter in accordance with International Standards on Auditing;
 - c. submit the annual audit report, auditor's opinion, and management letter simultaneously to the bank and the CPO by a date (mutually agreed upon between the bank and the auditor, but in no event later than four months from the end of its financial year) that will enable the bank to meet the publishing deadlines of Section 33 of the Regulation; and
 - d. prepare all documents in the official language of the CPO.

C. Branches of Foreign Banks

1. Not later than the first day of each financial year, the following information shall be submitted to the CPO:
 - a. The auditing period;

- b. The identification of the independent external auditor - name, address, telephone number, name of partner in charge of the bank's audit, and a copy of the audit contract or Engagement Letter which specifically states that:
 - (I) the branch office in East Timor will be subject to the external audit;
 - (ii) the audit report will contain financial statements both on an individual (for the branch office in East Timor) and consolidated basis; and
 - (iii) the audit will be conducted in accordance with International Standards on Auditing.
 - c. A statement of either approval or of "no objection" from the home country supervisor regarding the parent foreign bank's appointment of the independent external auditor. Unless the CPO objects in writing, the home country supervisor's approval or "no objection" to the appointment of the independent external auditor constitutes approval by the CPO pursuant to Section 32.1 of the Regulation.
2. Within four months of the end of its financial year, the audit report, auditor's opinion, and management letter shall be submitted to the CPO in the official language of the CPO.

IV. PUBLICATION OF AUDITOR'S OPINION AND ANNUAL REPORT

Within four months of the end of its financial year, each bank (domestic and foreign) shall submit to the CPO :

- A. the national (East Timor) newspaper(s) where a fair and true summary of the bank's balance sheet and auditor's opinion have been published; provided however, that branch offices of foreign banks shall publish their balance sheet and income statement both on individual and consolidated basis; and

- B. the published annual report of the bank, accompanied by a certification from an administrator designated by the Board of Governors that copies of the annual report are available to the public on request without charge.

V. ROLE OF AUDIT COMMITTEE

- A. Establish appropriate accounting systems and accounting controls for the bank, including those prescribed by the CPO under Section 31 of the Regulation, supervise compliance with such procedures, and commission audits, as it deems appropriate and in compliance with this instruction, at the expense of the bank, of some or substantially all of the records of the bank;
- B. Provide oversight of the bank's internal and external auditors;
- C. Approve the appointment and dismissal of the bank's internal and external auditors;
- D. Review and approve the audit scope and frequency;
- E. Receive audit reports;
- F. Ensure that bank management is taking appropriate corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations and other problems noted by auditors;
- G. Monitor compliance with the Regulation, instructions of the CPO, and other laws applicable to the bank, and report to the Board of Governors thereon;
- H. Engage experts at the expense of the bank to assist in the fulfillment of the responsibilities of the Audit Committee;
- I. Deliver opinions on any matters submitted to it by the Board of Governors or that it wishes to address.

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