



AMENDMENT
NOTICE TO BANKS AND FINANCE COMPANIES
EFFECTIVE DATE 4 JULY 2016

NOTICE NO. AMBD/R/32/2013/2 – AMENDMENT NO.1
APPOINTMENT OF EXTERNAL AUDITORS

1. INTRODUCTION

- 1.1. In discharging its responsibility for financial stability, the Autoriti Monetari Brunei Darussalam (the “Authority”), places reliance on quality audit services to complement its regulatory and supervisory functions over licensed institutions, as hereinafter defined. The Authority, therefore, maintains a deep interest in the quality with which an external auditor performs the audit of a licensed institution. This assurance is important in light of the exercise of appropriate due diligence by licensed institutions in the selection and engagement of external auditors.
- 1.2. This Notice addresses the qualifying criteria for the appointment of auditors by licensed institutions, the Authority’s supervisory expectations regarding the terms of audit engagements, application procedures and reporting obligations to be observed by licensed institutions.
- 1.3. The provisions are aimed at promoting the accuracy and reliability of financial statements issued by licensed institutions for supervisory and general purposes, thereby enhancing the efficacy of the Authority’s risk-based supervisory process and reinforcing effective market discipline.
- 1.4. This Notice is issued pursuant to section 54 of the Autoriti Monetari Brunei Darussalam Order, 2010 (AMBD Order) and shall apply to the following:-
 - 1.4.1. All licensed institutions; and
 - 1.4.2. All auditors appointed by the licensed institutions and duly approved by the Authority.

[Amendment No.1 dated 4 July 2016]

- 1.5. This Notice shall take immediate effect and shall be applicable to the appointment of an auditor for the financial year 2013 onwards.



1.6 For the purposes of this Notice –

“**concurring partner**” refers to the partner who is responsible for objectively evaluating, before the audit report is issued, the significant judgments made by the engagement team and conclusions reached in formulating the report;

“**credit**” refers to loans/financing facilities provided to a customer by a licensed institution;

“**engagement partner**” refers to the partner who is principally responsible for the performance of the audit engagement and the auditor’s report issued;

“**licensed institutions**” refers to all institutions licensed under the Banking Order 2006, the Islamic Banking Order, 2008, and the Finance Companies Act, Chapter 89.

[Amendment No.1 dated 4 July 2016]

2. Deleted

[Amendment No.1 dated 4 July 2016]

3. Deleted

[Amendment No.1 dated 4 July 2016]

4. Deleted

[Amendment No.1 dated 4 July 2016]

5. Deleted

[Amendment No.1 dated 4 July 2016]

6. **PROVISIONS REPEALED**

6.1. The provisions of any notices, directives and other policy documents issued prior to this Notice relating to the appointment of external auditors are hereby repealed.

[Amendment No.1 dated 4 July 2016]



7. CRITERIA FOR APPOINTMENT OF AUDITORS

- 7.1. An auditor appointed by licensed institutions shall meet the qualifying criteria set out in this Notice, both prior to and during the entire audit engagement. For this purpose, all licensed institutions are expected to obtain, independently verify through reasonable means, and review, relevant information necessary to support their assessment of the auditor's compliance with the matters dealt with under paragraph 7.2.

[Amendment No.1 dated 4 July 2016]

- 7.2. Auditors appointed by licensed institutions shall:-

[Amendment No.1 dated 4 July 2016]

- 7.2.1. not be disqualified under section 98(2) of the BO, section 99(2) of the IBO and section 132 of the Companies Act, Chapter 39;

- 7.2.2. have adequate resources and the necessary skills, knowledge and appropriate experience to perform their duties with professional competence and due care in accordance with generally accepted, professional, auditing standards and applicable regulatory and legal requirements;

- 7.2.3. not have relationships with, or interests in, the licensed institution or any other entity that are likely to impair their objectivity or independence; and

[Amendment No.1 dated 4 July 2016]

- 7.2.4. not have any record of disciplinary actions taken against them for unprofessional conduct by the Brunei Darussalam Institute of Certified Public Accountants (BICPA) or any other relevant authority.

- 7.3. A licensed institution may continue with the appointment of the same audit firm for more than five years provided that the firm appoints a new engagement partner for the audit. Where an engagement partner has been rotated off the audit of a licensed institution, the concerned partner may resume the role of engagement partner only after a period of five years from the last audit engagement where this partner served as engagement partner.

[Amendment No.1 dated 4 July 2016]

- 7.4. Where the reliance is placed on attestations provided by an auditor on matters covered in paragraphs 7.2 and 7.5, reasonable steps shall be taken to establish the veracity of the attestations. At a minimum, the following shall be considered:-

[Amendment No.1 dated 4 July 2016]



- 7.4.1. information available from public or independent sources which are relevant to the professional conduct of the auditor;
 - 7.4.2. the auditor's conduct and performance in past assurance engagements with the licensed institutions; and
 - 7.4.3. that appropriate measures have been taken by the auditor to prevent the recurrence of past audit lapses that have been observed, including but not limited to, delays in the issuance of audit reports and inadequate audit procedures resulting in the failure to detect material errors or control deficiencies.
- 7.5. The licensed institutions shall ensure that members of the audit engagement team involved in making key decisions on significant matters with respect to the audit of the financial statements meet the qualification criteria in paragraphs 7.2.1 to 7.2.4.

[Amendment No.1 dated 4 July 2016]

8. TERMS OF AUDIT ENGAGEMENTS

- 8.1. Audit engagements shall be carefully reviewed and considered prior to confirming an engagement. The agreed terms shall be documented in a clearly written audit engagement letter.
- 8.2. The terms of audit engagements shall at a minimum address the following: -
 - 8.2.1. the objective of the audit;
 - 8.2.2. scope of the audit engagement;
 - 8.2.3. agreement on the audit plan;
 - 8.2.4. responsibilities of the engagement and concurring partners;
 - 8.2.5. reports to be prepared by the auditor, including the Auditor's Report and recommendations for improving internal controls;
 - 8.2.6. timing of the audit and audit fees;
 - 8.2.7. the use of experts in certain aspects of the audit where necessary;
 - 8.2.8. other significant arrangements in relation to the audit, including responsibilities of the auditor with regard to any change to members of the engagement team during the audit.



- 8.3. For the reappointment of an auditor, the existing terms of the audit engagement shall be confirmed for each reporting period and appropriate modifications made as necessary to reflect any material changes in the licensed institution or existing audit arrangements.

[Amendment No.1 dated 4 July 2016]

9. SCOPE OF AN AUDIT ENGAGEMENT

- 9.1. The scope of the audit engagement shall have regard to the licensed institution's financial reporting risk areas. Where appropriate, the scope of the audit engagement shall address any additional and specific procedures needed to address areas identified as being of high risk, or particular concern in any particular financial year(s). The licensed institution shall also consider any significant changes during the reporting period, which may have contributed to an increased risk inherent in the licensed institution's internal controls over financial reporting processes, the accuracy of its recording of transactions, and ability to comply with financial reporting standards.

[Amendment No.1 dated 4 July 2016]

- 9.2. Changes that are relevant to a determination under paragraph 9.1 may include business combinations, significant changes in operating structures, processes or key management personnel, the implementation of new reporting standards or regulatory requirements and major systems changes or upgrades.

[Amendment No.1 dated 4 July 2016]

- 9.3. The audit programme and audit plan shall at least include specific procedures to test the licensed institution's internal controls over financial reporting in relation to the credit and investment portfolios, including a review and validation of management's processes for determining the adequacy of provisions for credit impairments and values ascribed to financial instruments. The procedures shall be adequate to enable the auditor to form a view as to whether management's processes are based on a comprehensive, adequately documented and consistently applied analysis of the licensed institution's credit and investment portfolios.

[Amendment No.1 dated 4 July 2016]

- 9.4. The scope of the audit engagement shall include recommendations to management for improving internal controls to ensure the fair presentation of financial statements. The issues raised and recommendations made by the auditor shall be deliberated by the governing body of licensed institutions, in a timely manner with appropriate remedial actions identified and followed through.



- 9.4.1. For a licensed institution incorporated in Brunei Darussalam, the Board will be the governing body, which may be assisted by the board audit committee.
- 9.4.2. For a licensed institution registered in Brunei Darussalam, the senior management will be the governing body.

[Amendment No.1 dated 4 July 2016]

- 9.5. In drawing up the audit scope, licensed institutions shall pay due regard to the mandatory sign-offs required from statutory auditors of licensed institutions that:-
 - 9.5.1. they are not aware of any circumstances that require a report in terms of section 98(7) of the BO and section 99(7) of IBO;
 - 9.5.2. the provisions of the BO, IBO and FCA, as applicable, are complied with and any non-compliance shall be disclosed with reasons including the risk associated with such non-compliance; and
 - 9.5.3. the licensed institution complies with the provisions of section 22(1)(e) of the Criminal Asset Recovery Order, 2012.
- 9.6. The auditor shall submit to the licensed institution concerned, a copy of the management letter on the accounts of these licensed institutions, together with the audited accounts, which shall be made available to the Authority when the annual audited accounts are submitted by the licensed institution, within the statutory period.

10. **RESPONSIBILITIES OF ENGAGEMENT AND CONCURRING PARTNERS**

- 10.1. An engagement partner and a concurring partner shall be identified for each audit engagement.

- 10.2. Deleted

[Amendment No.1 dated 4 July 2016]

- 10.3. The terms of the audit engagement shall state the licensed institution's expectations of the engagement partner, which at a minimum, include that the engagement partner shall:



- 10.3.1. effectively direct, supervise and perform the audit in compliance with professional standards and the audit firm's internal quality control procedures throughout the audit engagement;
 - 10.3.2. ensure that the engagement team, collectively, has the appropriate capabilities, competence, including relevant audit experience in the banking industry, and time to devote to the audit of the licensed institution; and
 - 10.3.3. ensure that the auditor's report, including any opinions expressed and emphases of matter, is reliable, based on sufficient audit evidence and is not misleading in any material respect.
- 10.4. The terms of the audit engagement shall establish that it is the responsibility of the concurring partner to form an objective assessment, based on an appropriate review of selected audit working papers, of:
- 10.4.1. significant risks identified by the engagement team during the audit and the appropriateness of the team's responses to those risks;
 - 10.4.2. whether the audit evidence obtained is sufficient to support the significant judgments made and conclusions reached by the engagement team;
- [Amendment No.1 dated 4 July 2016]
- 10.4.3. whether differences of opinion with management or other contentious matters were appropriately dealt with; and
 - 10.4.4. matters which should be communicated to management and where applicable, the Authority, or other regulatory authority.
- 10.5. Appropriate steps shall be taken by the licensed institution to ensure that the concurring partner carries out the required review of audit documentation to support the assessment required under paragraph 10.4.
- [Amendment No.1 dated 4 July 2016]
- 10.6. Where the auditor appoints an external expert to obtain sufficient audit evidence to support the audit, the terms of the audit engagement shall provide that the use of experts does not diminish the auditor's responsibility for the audit reports issued and opinions expressed.



11. RELIANCE AND ACCOUNTABILITY FOR AUDITOR'S REPORT

11.1. The terms of engagement shall establish the Authority's reliance on the auditor's report for its supervisory purposes. In this regard, the auditor shall acknowledge that being a statutory audit, the work of the auditor shall be used as input to the Authority's supervisory plans under the risk-based approach to supervision, and its ongoing assessments of the safety and soundness of the licensed institution.

11.2. To support such reliance, the auditor shall perform all necessary procedures to comply with standards adopted by the Brunei Darussalam Accounting Standards Council (BDASC), and adhere to the format for the preparation and publication of the audited accounts of licensed institutions as prescribed by the Authority. The licensed institution shall hold the auditor accountable for any departure from such standards.

[Amendment No.1 dated 4 July 2016]

11.3. The licensed institutions shall not include any provisions in the terms of the audit engagement that limit the auditor's responsibility, including with respect to audit opinions expressed. In particular, the terms of audit engagement shall not contain any provisions under which the licensed institution agrees to indemnify the auditor against claims made by third parties, release the auditor from liability for claims or potential claims that might be brought by the licensed institution against the auditor, or limit the remedies available to the licensed institution for professional misconduct.

[Amendment No.1 dated 4 July 2016]

12. AUDIT FEES

12.1. The licensed institutions will ensure audit fees commensurate with the scope of the audit and accountability assumed by auditors, taking into account, among other things, the required skills, knowledge and the allocation of time and resources needed to complete the audit assignment as per the Authority's requirements and expectations. The audit fees paid to the auditor will not impair, either in fact or appearance, the auditor's professionalism, judgment or independence.

13. APPLICATION PROCEDURES AND REPORTING OBLIGATIONS

13.1. All licensed institutions shall submit an application to the Authority for approval to appoint an auditor for each financial year, 6 months before the end of the financial year in question. This paragraph shall apply to the appointment of an auditor for the financial year 2017 onwards.

[Amendment No.1 dated 4 July 2016]



- 13.2. An application to the Authority shall be made in the form enclosed in **Attachment I**, together with the complete information required therein. The application shall be addressed to the Banking Supervision Unit, Autoriti Monetari Brunei Darussalam.

[Amendment No.1 dated 4 July 2016]

- 13.3. The licensed institution shall ensure the requirements and expectations of this Notice have been, or shall be, met before an application is submitted to the Authority.
- 13.4. If during the course of an audit, the auditor no longer fulfils or may not be able to fulfill any of the qualifying criteria or terms of the audit engagement as required and expected under this Notice, this fact shall immediately be reported to the Authority.

MANAGING DIRECTOR
AUTORITI MONETARI BRUNEI DARUSSALAM

Date: 28 Ramadhan 1437 / 4 July 2016

Application Form for Appointment of External Auditor

1. Name of licensed institution : _____

2. Appointment for financial year ending : [e.g. 31 Dec 201x]

3. Date of Annual General Meeting : _____
(for locally incorporated licensed institution)

4. Particulars of the Audit Firm

Name	
Firm No.	
Address	
Appointed as auditor of the institution since	<u>[financial year]</u>

5. If new appointment, please state reason(s) for change of audit firm:

6. Particulars of engagement and concurring partners

	Engagement partner	Concurring partner
Name		
Audit Licence No.		
Identity card No.		
Contact No.		
E-mail		

Engagement partner since [financial year]:-

New appointment

Reappointment

If new appointment, please state reason(s) for change of engagement partner:

Concurring partner since [financial year]:-

New appointment

Reappointment

7. Additional information to be enclosed with application:

- Extract of board minutes endorsing the proposed appointment/
reappointment of the audit firm and confirming that the board is
satisfied that the auditor has met the criteria for appointment as
specified by the Ministry of Finance and Autoriti Monetari Brunei
Darussalam
- Curriculum vitae of the engagement and concurring partners
- Statutory declaration by the engagement partner (**Attachment II**)

Date

Name and Signature
Chief Executive Officer /
Company Secretary

STATUTORY DECLARATION BY ENGAGEMENT PARTNER OF AUDIT FIRM

I, [name of engagement partner (Audit Licence Number)], of [name of audit firm (Firm's Number)], [I.C. No.], being the partner primarily responsible for the audit engagement, do solemnly and sincerely declare that:

(A) I am not disqualified under section 98(2) of the Banking Order 2006 or Section 99(2) of the Islamic Banking Order 2008 or section 133 of the Companies Act, Chapter 89 from being appointed as an auditor for [name of licensed institution] as:-

- (i) I am an approved auditor;
- (ii) I am not a director, controller, officer or agent of [name of licensed institution]
- (iii) I have not acquire a financial or proprietary interest in [name of licensed institution] otherwise than as a depositor;

(B) I have no relationships with, or interests in, [name of licensed institution] or any other entity that is likely to impair my objectivity or independence, and which cannot be reduced to an acceptable level through the application of appropriate safeguards.

AND I MAKE THIS SOLEMN DECLARATION CONSCIENTIOUSLY BELIEVING THE SAME TO BE TRUE.

SUBSCRIBED AND SOLEMNLY DECLARED BY THE ABOVENAMED

AT _____
IN THE STATE OF _____
THIS DAY OF _____ **20** _____

Before me:

(Signature of Sessions Court Judge,
 Magistrate or Commissioner for Oaths)