

## **Chapter Six**

### **External Auditor**

External Auditor

**Regulating External Auditors' Role in the Banks**

**1- Appointing and Changing the External Auditor**

1/1 Each bank shall appoint one or more external auditors and determine their fees according to article no. (141) of the commercial companies law no. (5) of year 2002.

1/2 QCB's prior approval is a must to appoint the external auditor or extend his contract duration, before the board of directors nominates him in the general assembly (in case of national banks), or the head office in case of foreign banks. The board of directors (or the general manager in Qatar in case of foreign banks) should submit a request to QCB for appointing the auditor by December 31 of each year at most, along with the form mentioned in annex no. (54) attached to the request.

1/3 Duration of the contract between the bank and the auditor must not exceed five years, after which a different auditor must be appointed. The earlier auditor may be appointed after two years from his last appointment in the bank. Branches of foreign banks shall be exempted from this condition.

1/4 All national banks must assign the same auditor who is authorized by QCB, to audit accounts of their branches abroad and subsidiaries, unless this contradicts with the directions of central bank, host supervisory authorities, or any other laws applicable in the county of location or for any other reasons beyond the bank's control.

1/5 If the bank fails to appoint an auditor authorized by QCB, QCB may assign an auditor for this bank, and determine his fees, which the bank is liable to pay.

1/6 The board of directors of the bank is not allowed either to change or dismiss the auditor within the financial year, or even changing him within the renewal period allowed to him after ending the financial year, except after getting QCB approval due to specific and convincing reasons.

1/7 QCB is entitled to demand dismissal or changing the auditor during the financial year or after closing of financial year, if QCB finds out any negligence in performing his tasks, or if he violates one or more of the conditions mentioned below under item no. (2), or if there are justifying reasons to do so.

1/8 QCB is entitled to demand appointing an additional auditor for a particular mission or limited period, if necessary, and the bank shall incur the fees.

## **2- Conditions Required for External Auditor**

External auditor must meet the following conditions which form the basis for QCB's approval for his appointment, dismissal or change.

### **2/1 Registration and License:**

- The auditor must be registered in the auditor's register according to the law no. (30) of year 2004 regulating the auditing profession in Qatar. Also, he must be committed to all the provisions of law and to the decree no. (25) of the year 1979 regarding the executive regulations of the law no. (7) of the year 1974 regulating the auditing profession, as well as any legislation that may be issued in future.
- The auditor has to be registered in the authorized auditor's register at QCB in order to audit banks and financial services institution's accounts.

### **2/2 Professional Efficiency and Experience:**

- The auditor [the partners] and his main staff have to obtain internationally recognized professional certificates, and membership of any one of the internationally recognized legal accountants associations.
- The auditor must have auditing experience in the banking field, and have an acceptable local and international reputation.
- The auditor must apply the international auditing standards issued by the International Auditing and Assurance Standards Board (IAASB) as well as their developments, in addition to being committed to all the instructions issued by QCB in that regard.

### **2/3 Neutrality and Independency:**

- The auditor may not combine the auditing activities by participating in the bank's incorporation or its board of directors' membership, or occupying any technical, administrative or consulting position. In addition, neither the auditor nor any of his main staff are allowed to be a partner, an agent or an employee for anyone of the bank's founders or of the members of board of

directors, or be a relative or having common interests with them that may affect his unbiased and independent role.

- Neither the bank auditor nor any of his staff are allowed to be involved in any offers, benefits, privileges, or transactions with the audited bank that may affect his unbiased and independent role.
- Neither the bank auditor nor any of his staff are allowed to trade directly or indirectly in the bank shares.

**2/4 Honesty, Creditability and Secrecy:**

- QCB must be satisfied about the absence of any previous cases or substantial contraventions or any legal cases or judicial verdicts that would bring the auditor's credibility and honesty under suspicion.
- The auditor must adhere to honesty, moral ethics known in accounts auditing, and the professional moralities, and avoid any dishonorable actions.
- The auditor must be committed to article no. (146) of QCB Law with respect to the bank's secrecy.

**3- External Auditor's Tasks and Duties:**

Without violating auditing standards and codes issued by the International Auditing and Assurance Standards Board (IAASB), the auditor's tasks and duties should include, at the very minimum, addressing the following main risks:

**3/1 Strategic risk:**

Risks related to the bank policies, plans and goals.

**3/2 Administrative and organizational risks:**

Risks related to the organizational and supervisory tasks of the board of directors and its committees, the policies and work procedures of the management, committees, and executive departments, the organizational structure, work description, and operational systems, powers and procedures.

**3/3 Risk management:**

It is related to exchange rate and financial derivative risks, interest rate risk, market risk, liquidity risk, credit risk, operational risk and other risks.

**3/4 Financial performance risk:**

It is related to accounting policies and procedures, and in preparing: budgets, financial statements and periodical returns sent to QCB, trends analysis and measurements indicators, as well as making comparisons and determining the deviations between the actual performance and the estimated budget.

**3/5 Credit granting policies and procedures:**

It includes policies and procedures for credit granting, following up, clearing and classification, as well as assessment of adequacy of provisions.

**3/6 Treasury management risks.**

**3/7 Legal risks.**

**3/8 Problem resolving mechanism related to all kind of activity and systems of operation.**

**3/9 Internal auditing role and effectiveness of its policies and procedures.**

**3/10 Protection and internal control measures, their effectiveness in avoiding the violations, manipulations, thefts, and embezzlements as well as the detection ability.**

**3/11 Information systems and computer management activities.**

**3/12 In addition to addressing the main risks indicated above, one of the top priorities of the auditor's tasks and duties is to evaluate the bank's commitment to its license conditions, QCB law and instructions, and evaluating the soundness and credibility of the periodical data and information submitted to QCB.**

**4- External Auditor's Responsibilities towards QCB**

External auditor should directly inform QCB on any auditing remark during auditing the bank, its branches and subsidiaries inside and outside Qatar, or auditing the consolidated financial statements or regular statement during the year regarding the following:

**4/1 Any significant development whether negative or positive to any of the bank's assets.**

**4/2 Any significant development on items of revenue, expense, profit, loss in regular and irregular operations.**

4/3 Any assessment to the financial statement items, classifications, or disclosure in contradiction with International Accounting Standards or Islamic standards (Islamic banks) or QCB instructions.

4/4 Any violations to QCB instructions.

4/5 Any criminal, legal violations, or infringements to the local and international laws.

4/6 Any other issues affecting the bank's financial position and its risk structure.

All banks should inform the external auditors regarding these instructions to be implemented as from the date the external auditors have executed the contract to comply with the rules and responsibilities of QCB instructions.

## **5- External Auditor's Reports**

5/1 The annual public disclosure report:

At the end of the financial year, the auditor must present a report to shareholders in respect of the bank balance sheet, income account, allocation, cash flows, all their disclosures and remarks, and opinion regarding them in accordance with the international standards governing the same, and the report would be read together with the board of directors report in the general assembly annual meeting. The bank as well, must obtain QCB approval of the financial statements in the auditor's annual report, knowing that the responsibility of the soundness and creditability of these financial statements and disclosures mentioned in that report would be that of the bank management and the auditor.

As per Article no. (133) of QCB law and the regulation of financial institutions; “The financial institution shall submit its budget, its profit and loss account, and its profit distribution to the QCB for approval before presenting the same to the general assembly. The Statements shall be certified by the auditor. The financial institution shall call upon the QCB to delegate a person on its behalf to attend the general assembly meetings in the capacity of observer.”

5/2 Quarterly financial reports prepared for publishing:

A week prior to publication, banks must provide QCB with the reports prepared by the auditor throughout the year for the concerned entities except those prepared for Qatar Exchange, which are exempted from the said requirement,

particularly while preparing the annual balance sheet and the year-end quarterly profit and loss account. The bank's administration and the auditor are responsible for the soundness and credibility of the reports.

**5/3 Internal Control Letters and "Management Letter":**

- QCB Supervision and Control Department should be provided with copies of all the internal control letters and reports prepared by the auditor on his auditing and review activity during the year, The auditor must present such reports to the bank's management or board of directors or the head office, in case of foreign banks, enclosing therewith the bank administration's feedback.
- All national banks must provide Supervision and Control Department with copies of the auditor's reports on the results of his scrutiny and auditing activities of the bank branches abroad whether submitted to the bank administration or to the host supervisory authorities under which the branch operates. The bank administration's feedbacks on such reports and all the related management letters, either from the auditor or the host supervisory authorities, should be enclosed.

**6- External Auditor's Special Tasks**

QCB may, if it is necessary, request the bank to assign an auditor for a special mission or task in order to check or evaluate either one or more elements of the assets and liabilities or the internal systems, procedures and policies. As such, the bank shall assign the auditor to perform such task in accordance with QCB special requirements, either within his tasks agreed upon with the bank or as a special task between him and the bank. The auditor submits such report directly to the QCB after informing the bank.

**7- Contracting with External Auditor**

On the appointment of the external auditor in accordance with QCB instructions mentioned in page no. (356), all banks must conclude a contract with the auditor. Such contract at least should include the roles, duties and reports to be submitted as mentioned in items (3), (4) and (5) in page no. (354) of these instructions, and the

auditor's responsibilities in respect of these items should be determined according to the following:

7/1 The auditor's tasks specified in item (3), his views and approval on both the annual financial report used for public disclosure purposes and the management letter of inspection results, should be identified in the contract as an auditing and risk evaluation activities according to the International Auditing Standards and the QCB requirements.

7/2 The auditor's tasks concerning the special financial reports issued by the bank during the year for some entities such as Qatar Exchange, or the financial reports the bank submits to QCB, shall be identified as reviewing activities, unless otherwise agreed upon with the auditor to be identified as auditing activities.

7/3 The auditor's special tasks assigned by QCB to the bank, and mentioned in item (5) of the QCB instructions, shall be identified according to QCB request by the bank.

7/4 All copies of the auditor reports submitted by the bank to QCB, must be in Arabic.

## **8- External Auditor for Mutual funds:**

In accordance with Article (8) of Law no. (25) year 2002 on investments in mutual funds, Article (31) of its executive regulations on QCB supervision and control relating to investments in mutual funds, and with reference to articles (34-39) of its executive regulations on auditors; Mutual funds managers should consider the following matters relating to external auditors:

- 1- The maximum period allowed to the fund managers to sign contract with external auditors should be five successive years and same auditors may not be reappointed before two years from the date of ending his service.
- 2- QCB's non-objection to appoint and renewal of appointment of external auditors should be obtained.



## **9- Credit facilities Classification and Provision Determination (External Auditor)**

Refer to circulars no. (16/2012), dated 19/2/2012, no. (20/2013) dated 17/3/2013, and no. (102/2012) dated 4/11/2012. These circulars are included herein pages (177-179).

## **10- Legal Issues related to External auditors**

Following are articles of QCB law on external auditors:

Article (130):

The financial institution's board of directors, senior officers and auditors shall notify the QCB immediately upon the occurrence of any incidence that might threat or affect the financial institution's reputation or its financial position, or upon the violation of the law or the QCB instructions.

Article (131):

Each financial institution shall have one or more external auditors. The number and selection of auditors shall be pre-approved by the QCB. In the event the financial institution did not appoint an auditor or the appointment thereof was made in violation of the QCB's instructions, the QCB shall appoint one or more auditors and shall determine their fees.

The financial institution shall not grant credit facilities to its auditor .

The QCB may appoint additional auditors on the expense of the financial institution, as deemed appropriate.

The QCB shall issue the necessary instructions to define the tasks of the financial institution's external auditor and the grounds for its selection.

Article (132):

The auditor shall provide the financial institution's general assembly with a detailed report including all the amounts that it received from the board members and a statement of their obligations to the financial institution, their nature, and the extent of constancy in the payment of debts.

The QCB may ask the auditor directly to provide it with copies of all the reports related to the auditing results of the financial institution, or to conduct any special audit determined by the QCB.

The QCB shall have the right to discuss with the external auditors their reports without referring to the financial institution.

Article (133):

The financial institution shall submit its budget, its profit and loss account, and its profit distribution to the QCB for approval before presenting the same to the general assembly. They shall be certified by the auditor.

The financial institution shall call upon the QCB to delegate a person on its behalf to attend the general assembly's meetings in the capacity of observer.

Article (134):

The financial institution shall abide by the QCB instructions with regards to publishing the auditor's report of accounts, budget, income statement, changes in shareholders' rights, cash flows, profits and loss statement certified by the auditor in one of the daily newspapers.

The QCB may oblige the financial institution to constitute additional reserves and allocations before distributing profits to shareholders.

The QCB may put restraints on the distribution of annual profits in cases of non-compliance with the capital adequacy or financial solvency or any other risks estimated by the QCB.

Article (148):

The account auditor shall be prohibited to reveal any data or information he receives when assuming his duties stipulated by law, regarding any credit or banking information for any bank customers which shall contribute directly or indirectly in disclosing the identity of the customer or anything related to his financial or banking affairs, unless in other than the cases required or permitted by the law.

The prohibition mentioned in the previous paragraph shall remain ongoing even if the relationship between the customer and the bank or the account auditor and the bank ended for any reason whatsoever.