

DFIM Circular No. -04

Date: 30April, 2015
17 Baishakh, 1422

Chief Executive Officer/ Managing Director
All the Financial Institutions in Bangladesh

Dear Sir,

Appointment of external auditors in financial institutions

External auditors are appointed by the Financial Institutions (FIs) on annual basis for auditing all of their activities under Section-24 of the Financial Institutions Act, 1993. In order to ensure transparency and accountability of their activities FIs have to comply with the following instructions:

- 1) Approval of Bangladesh Bank (BB) must be taken before appointing external auditors in the annual general meeting;
- 2) FIs must comply the instructions of the “[Guidelines on appointing external auditors in financial institutions](#)” attached herewith before appointing external auditors;
- 3) FIs must provide a copy of the attached Guidelines to the external auditors along with the appointment letter;
- 4) FIs will present the comments and recommendations of the auditors’ report before the Board of Directors and take necessary actions accordingly.
- 5) A declaration of FI specifying that any owner/partner of the concerned audit firm is not related to ownership/business with that FI, must be attached with the proposal sent to BB for approval. This declaration must be signed by the CEO of the concerned FI.
- 6) The audit report prepared by the external auditor must be scrutinized to ensure its compliance with the Financial Institutions Act, 1993, the Company Act, 1994 and the instructions given by BB. The FIs will inform BB immediately if any deviation is observed in this regard.

The instructions of FID Circular no.: 03 Dated: 02 March, 1999 will be considered as void after issuance of this circular.

Yours sincerely,



(Md. Shah Alam)
General Manager
Phone: 9530178

Guidelines on appointment of external auditors in FIs

FIs must comply the following instructions while appointing external auditors:

a) Qualification of external auditors:

- 1) Selected external audit firm must have at least one qualified chartered accountant having minimum 10 (Ten) years' working experience as chartered accountant in home or abroad.
- 2) An external audit firm, which has been appointed for three years in a row, must not be appointed in that FI for at least subsequent two years.
- 3) Selected external audit firm will have adequate number of article clerks. At least 3 (three) of the article clerks must have prior experience of auditing banks/financial institutions.
- 4) A person or an agent or any representative of the respective FI and any person who has interest in that FI in any way other than deposits must not become an auditor or a member of the audit team.
- 5) The audit firm having grade 'A' from BB will get priority in the selection process.
- 6) An audit firm which has been penalized by any regulatory authority will not be qualified for auditing FIs for subsequent two years.

b) Duties of External Auditors:

1. External auditors will state their opinion in detail in the report on the following issues in light with the Financial Institutions Act, 1993, the Company Act, 1994 as well as different instructions of BB:

- 1.1 whether the financial condition and profit/loss of the respective period of that FI are reflected properly;
- 1.2 whether the prevailing laws, rules, regulations and policies are complied while sanctioning and disbursing loans/leases;
- 1.3 whether the instructions issued by BB, from time to time, on classification, provisioning and calculating interest suspense are properly complied;
- 1.4 whether the financial statements of the respective FI have been prepared as per prevailing accounting standards of the country and BB;
- 1.5 whether the records and accounts of branch offices of the respective FI have been preserved and adjusted properly;
- 1.6 whether the inquired information and explanation from respective FI are satisfactory;
- 1.7 whether the subsidiary company of concerned FI has been audited and the accounts of that subsidiary was consolidated properly in the financial report;
- 1.8 whether the accuracy of statement sent to BB has properly been checked;
- 1.9 whether the prevailing policy/regulation complied while approving loan/leases to the Directors of FIs;

1.10 whether at least 80% of the risk weighted assets of the concerned FI has been audited;

1.11 whether the instructions of 'First Schedule' of Bank Company Act,1991 (revised up to 2013) are properly complied while preparing financial statement of the concerned FI;

1.12 whether the internal control and compliance of the concerned FI is satisfactory and effective measures have been taken to prevent possible fraud forgery;

1.13 whether capital, reserve & net worth, cash & liquid assets have been maintained as per regulatory requirement;

1.14 whether there exists any mismatch between the maturity of assets and liabilities, if any, how it will affect negatively the liquidity condition of that FI;

1.15 whether the FI has adopted any unethical means i.e 'window dressing' to inflate the profit;

1.16 whether proper measures have been taken to eliminate the irregularities mentioned in the inspection report of BB;

1.17 whether the instructions issued by BB and other regulatory authorities have been complied properly;

1.18 whether internal policies of the concerned FI are being followed appropriately;

1.19 whether taxes and other duties collected and deposited to Government treasury as per Government instructions;

1.20 whether any other issues, which should be notified to the stakeholders of the FI, has been incorporated in the audit report

2. While auditing an FI, the external auditor must inform BB on urgent basis if the following issues are identified:

(a) the instructions of Financial Institution Act,1993 and instructions issued by BB and other regulatory authorities have been violated severely by the concerned FI;

(b) any criminal offence has occurred due to fraud-forgery, cheating and unfair activities of that FI;

(c) minimum required capital, set by BB, decreased by 25% due to losses of the FI;

(d) if the assurance of paying back the depositors money has impeded and other severe irregularities have occurred; and

(e) if the auditor has any reason to doubt that the assets of the FI is not sufficient to pay back the depositors money.

3. The audit firm will have to send a copy of management report prepared for the audited FI directly to BB within one month of the completion of audit.