



NATIONAL BANK OF CAMBODIA

Number B7 017 335 Prokor

Prakas

on

External Audit of Banking and Financial Institutions

The Governor of the National Bank of Cambodia

- With reference to the Constitution of the Kingdom of Cambodia;
- With reference to the Royal Decree NS/RKT/0515/417 of May 11, 2015 on the reappointment of His Excellency Chea Chanto as Governor General of the National Bank of Cambodia, equivalent to Senior Minister;
- With reference to the Royal Kram NS/RKM/0196/27 of January 26, 1996 promulgating the Law on Organization and Conduct of the National Bank of Cambodia;
- With reference to the Royal Kram NS/RKM/1206/036 of December 29, 2006 promulgating the Law on the Amendment of article 14 and 57 of the Law on Organization and Conduct of the National Bank of Cambodia;
- With reference to the Royal Kram NS/RKM/1199/13 of November 18, 1999 promulgating the Law on Banking and Financial Institutions;
- With reference to Prakas N° B8-98-385 Prokor dated July 20, 1998 on Organization structure of National Bank of Cambodia and all department of the National Bank of Cambodia
- With reference to Prakas N° B1-010-194 Prokor dated November 26, 2010 on the amendment of Article 3, Article 4, Article 5, Article 12 and Article 13 of Prakas on Organization Structure of the National Bank of Cambodia and all departments of the National Bank of Cambodia;
- Pursuant to the recommendation made by National Bank of Cambodia Management meeting on October 25, 2017.

Decides

Chapter 1

General Provisions

Article 1.-

The purpose of this Prakas is to set conditions for accreditation of audit firms to audit banking and financial institutions and to set obligations of accredited audit firms hereinafter referred to as “firm”, and audited banking and financial institutions hereinafter referred to as “institution”.

Article 2.-

This Prakas aims at:

- Assuring accuracy and integrity of information provided by institutions to the National Bank of Cambodia (NBC) and other stakeholders;
- Enhancing the effectiveness of banking supervision and harmonization of supervisory practices with national and international standards and best practices; and
- Enhancing the quality of work performed by the audit firm.

Article 3.-

This Prakas is applicable to audit firms accredited by the NBC and for the audited institutions under the supervisory authority of the NBC.

Article 4.-

- **Competence:** refers to external auditor's ability to exercise professional judgment and carry out key aspects of the audit, such as identifying and assessing the risks of material misstatement and designing and implementing appropriate responses to those risks.
- **Objectivity:** refers to external auditor's judgment is not affected by conflicts of interests. The external auditor should be independent in both fact and appearance.
- **Independence:** refers to the freedom from situations and relationships which could impair external auditor's objectivity. Independence should be observed not only in the context of the institution that is being audited but also with respect to the institution's related entities.
- **Code of Ethics:** refers to the Code of Professional Ethics as promulgated by competent organizations in the Kingdom of Cambodia.
- **Engagement partner:** refers to person in the audit firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm.
- **Immediate family member:** refers to spouse, child, parents, sibling, or dependent.

Chapter 2

Accreditation Requirement

Article 5.-

Any audit firm that intends to audit banking and financial institutions shall apply for accreditation from the NBC.

Any firm that applies for accreditation from the NBC shall satisfy the following requirements:

1. Having registered at Ministry of Commerce;
2. Having registered as member of the Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA);

3. Holding an audit license from the National Accounting Council (NAC) of the Ministry of Economy and Finance (MEF);
4. Having a minimum of 2 (two) partners and auditors registered as active members at the KICPAA who shall be subject to the qualification as stated in Article 7;
5. Having been engaged in auditing business and have a good reputation for at least 3 (three) years up to date of filling the application for accreditation;
6. Shall be subject to a regular engagement quality control review; and
7. Any other conditions required by the NBC.

Article 6.-

Any audit firm applying for an accreditation shall submit the following documents:

1. Company profile;
2. Company registration certificate;
3. Certificate of membership with the KICPAA;
4. Audit license from the NAC of the MEF;
5. List of partners and auditors who are active members with the KICPAA, attached with certificate of active membership, their criminal record, and CVs specifying qualifications and experiences;
6. Audit manuals;
7. Information of the audit services conducted for the last 3 (three) years;
8. Audited financial statements of the audit firm for the last 3 (three) years; and
9. Any other documents required by the NBC.

Article 7.-

The firm's partners and auditors who are active members with the KICPAA shall satisfy the additional criteria as below:

1. Are fit and proper persons;
2. Satisfy the auditor's objectivity and independence requirements as defined in the Code of Ethics promulgated by competent organizations in the Kingdom of Cambodia;
3. Have a minimum of 3 (three) years' experience in banking audit; and
4. Have sufficient knowledge and competence corresponding to the regulatory and risk management frameworks for banking sector.

Article 8.-

After receiving the complete documents, the NBC shall notify the applicant about its decision within 3 (three) months.

Chapter 3

Obligations of the Firm and the Institution

Article 9.-

The firm shall have the following obligations:

1. Conduct audit for the institutions' financial statements;
2. Provide assessment on other reports as required by the NBC;
3. Report to the NBC immediately on any incidents concerning insolvency or significant risk leading to insolvency of the institution, failure to comply with applicable laws and regulations, and any existing or proposed state of affairs that may materially prejudice the institution's capacity to safeguard the interests of depositors and stakeholders;
4. Refrain from providing the institution with the information and documents related to situations referred to in point (3) above
5. Report to the NBC of any unexpected change of the institution's staffs involved in the audit work during the audit assignment;
6. Provide the outcome of the Engagement Quality Control Review as required by the NBC;
7. Provide the NBC with updated information related to any material changes including change in its engagement partners, active members and senior management;
8. Provide the NBC with other documents or information as required by the NBC.

The audit firm shall complete the application for accreditation as specified in Appendix.

Article 10.-

If there is a special purpose engagement conducted, the firm shall submit the report of the special purpose engagement to the NBC and to the Board of the institution.

If not otherwise specified by the NBC, the audit firm shall provide reasonable assurance on the report of the special purpose engagement and notify to the institution in writing.

Article 11.-

In order to enhance the audit quality and to monitor the soundness of the institution's operations as well as its regulatory compliance, the NBC may require a tripartite meeting with the audit firm and the institution to discuss the audit report, any irregularities, and other matters deemed necessary. On the other hand, bilateral meeting between the NBC and the audit firm may be held as warranted.

Article 12.-

The firms shall, at all times, comply with the following standards:

1. Cambodian International Financial Reporting Standards (CIFRSs); as applicable in the Kingdom of Cambodia;
2. Standards on auditing applicable in the Kingdom of Cambodia;
3. Code of Ethics; and
4. Others related laws and regulations.

Article 13.-

The accredited audit firm is not allowed to audit the institution in the following situations:

1. Having material direct and indirect financial and/or economic relations with the institution;
2. Any member of the management of the audit firm being an immediate or close family member of the Board, management, head of internal audit, head of compliance, head of finance or other senior officers of the institution;
3. Receiving any direct or indirect interests from the institution and/or having any other relationship, as determined by the NBC that may reasonably pose conflict of interest with the institution.

Article 14.-

The audit firms shall not provide the following services to the institution:

1. Bookkeeping or other services related to the accounting records or financial statements;
2. Financial information systems design and implementation;
3. Internal audit outsourcing services;
4. Tax consultation services; and
5. Any other services, as determined by the NBC that reasonably may pose conflict of interest.

In case the audit firm has already provided any of the above mentioned services to audited institutions, the audit firm is not allowed to sign a contract intending to provide audit services to that institution except where the services were completed at least 3 (three) years for point (1) and 1 (one) year for other points above.

Article 15.-

An audit firm shall not serve as an engagement partner for a continuous period of more than 3 (three) years with the same institution. However, branches or subsidiaries of foreign bank may select the same audit firm as their head office provided that engagement partner of the audit firm be changed every 3 (three) years. The audit firm that has been rotated off the audit of an institution may resume its audit engagement with the same audited institution only after a lapse of 2 (two) years from the last audit engagement.

Article 16.-

1. The audited institution has the following obligations:
 - a. Be subject to an annual audit;
 - b. Select the audit firms that have been accredited by the NBC and make a request to the NBC before December 31st of each calendar year, by attaching the list of engagement partner;
 - c. Provide the NBC with the terms of the engagement at least 30 (thirty) days prior to the commencement of the engagement;
 - d. Provide the audit firms with the data and information in accordance with the audit scope, and the regulatory requirements and directives by the NBC. Unless permitted by the NBC, the institution shall refrain from providing the NBC's on-site inspection report to the audit firm;
 - e. Allow the audit firm to access information from the board, committees, internal auditor and other relevant staffs and to access to other information for the audit firm to fulfill its obligations under this Prakas;
 - f. Ensure that the institution's Audit Committee review the external auditor's engagement every year, including an evaluation of the auditor's independence;
 - g. Ensure that the institution's head of internal audit be represented in the tripartite meetings with the NBC, the institution and the audit firm unless otherwise specify by the NBC; and
 - h. Provide its Board and Audit Committee the audit reports and other relevant documents.
2. If necessary, the NBC may require an institution to appoint an audit firm, who maybe the existing firm or another firm to perform special audit on a particular aspect of the institution's operations, regulatory reporting, risk management systems or financial position.
3. The audit costs and relevant expenses shall be borne by the institution.

Chapter 4

Fees and Charges

Article 17.-

Applying audit firm shall pay information fee and processing fee at the time of the application as below:

1. Information fee: KHR 500,000 (five hundred thousand riels);
2. Processing fee: KHR 4,000,000 (four million riels).

Accredited audit firms shall pay the annual accreditation fee of KHR 20,000,000 (twenty million riels) no later than January 15 of each year.

Audit firm accredited during the year shall pay the accreditation fee as follows:

- When accredited in the first quarter: shall pay accreditation fee in full;
- When accredited in the second quarter: shall pay three quarters of accreditation fee;
- When accredited in the third quarter: shall pay two quarters of accreditation fee;
- When accredited in the fourth quarter: shall pay a quarter of accreditation fee.

Chapter 5

Transitional Provision

Article 18.-

Audit firms which have already been authorized by the NBC shall apply for accreditation from the NBC under this Prakas in the period of 6 (six) months, starting from the effective date of this Prakas.

Chapter 6

Penalty Provision

Article 19.-

An audit firm that contravenes any provision of this Prakas shall be subject to administrative actions such as warning, reprimanding to correct the mistakes, and revocation of accreditation.

Article 20.-

The NBC may revoke the accreditation of the audit firm based on any of the following grounds:

1. The Company registration, Certificate of active member with KICPAA and/or audit license from NAC, MEF have been revoked;
2. Audit firm has seriously contravened accounting and/or auditing rules and principles prescribed in the Law on Accounting and Auditing or related laws and regulations; and/or
3. Not fulfilling the obligations prescribed in this Prakas and other requirements by the NBC.

An audit firm whose accreditation has been revoked shall terminate its auditing services to an audited institution from the date of receiving a written notice of revocation from the NBC.

The NBC, at its own discretion, may consider a new application of an audit firm whose accreditation has been revoked, after 3 (three) years from the date of revocation.

Article 21.-

An audit firm that contravenes any provision of this Prakas shall be subject to transactional penalty from KHR 10,000,000 (ten million riels) to KHR 20,000,000 (twenty million riels).

Article 22.-

Institution that contravenes any provision of this Prakas shall be subject to penalty as specified in Article 52 of the Law on Banking and Financial Institutions.

Chapter 7

Final Provision

Article 23.-

Circular B7-010-002 CL dated December 29, 2010 on the Selection of Independent Auditors for Annual Audit of Banks and Financial Institutions and any others provisions contrary to this Prakas are hereby repealed.

Article 24.-

The General Secretary, the General Director of Banking Supervision, the General Director of Central Banking, the General Cashier, the General Inspector, Directors of all relevant Departments in the National Bank of Cambodia, Banking and Financial Institutions under the National Bank of Cambodia's supervisory authority and the accredited audit firm shall strictly implement this Prakas.

Article 25.-

This Prakas shall take effect from the signing date.

Phnom Penh, November 14, 2017

The Governor

Signed and Sealed: **Chea Chanto**

To:

- As stated in article 24 "for implementation"
- Files - archives

Cc:

- All members of the Board of Directors
- Council of Minister
"for information"
- Administrative Department of CM
"for publication in the National Gazette"