



**Da Afghanistan Bank**  
**Banking Supervision Department**

**External Audit Regulation**

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## Chapter 1: General Provisions

### Article 1: Basis

This regulation is issued pursuant to authority granted to the Da Afghanistan Bank (DAB) by Articles 93, 94, 95, 96, 131 and 177 of Banking Law of Afghanistan (Banking Law).

### Article 2: Objective and Scope

- (1) The terms and conditions of this regulation are applicable on licensed banks and bank holding companies as defined in the Banking Law. It outlines the qualifications of an external auditor firm to be appointed by a bank and determines bank's requirements pertinent to the terms of an audit engagement, application procedures and reporting obligations to be performed by a bank.
- (2) The purpose of this regulation is to fortify the regulatory framework relative to banks' external audit and to make ascertain the quality of the services executed by external auditors. High standards of external audit have to be maintained to enhance the confidence of all users of interest, including supervisors, in the reliability of the audited financial statements and the quality of the information provided. A solid external audit process shall help in assessment of specific risks, evaluate adequacy of banks' internal control systems and corporate governance.

### Article 3: Standards

- (1) All conventional banks and branches of non-resident banks shall follow International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as per the Banking Law.
- (2) Islamic banks shall follow Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Institutions (AAOIFI). In conformity with the requirements of AAOIFI, for issues where no AAOIFI standards exist, Islamic Banks may use relevant IFRS.
- (3) Islamic Windows and Islamic branches of non-resident banks shall follow FAS issued by AAOIFI, where the parent conventional bank shall consolidate the financial statements according to IFRS and IAS.
- (4) External Audit processes and tasks shall be performed in accordance to International Standards on Auditing (ISA) issued by International Auditing and Assurance Standards Board (IAASB) and /or AAOIFI unless mentioned otherwise in this regulation and/or other standards/circulars prescribed by DAB").

### Article 4: Definitions

Unless otherwise noted below, the definitions used in this Regulation shall have the same meaning as in the Banking Law.

1. Bank – consists of Conventional and Islamic Banks as defined in Article 2.1, 2.2 and 2.3 of the Banking Law, and Foreign Bank Branches as defined in Article 40 of the Banking Law;
2. Bank Holding Company – as defined in Article 2.4 of the Banking Law;
3. COBIT (Control Objectives for Information and Related Technology) – business and management framework for governance and management of enterprise information technologies (IT) as developed by Information Systems Audit and Control Association (ISACA);
4. External auditor – external audit firm and/or independent audit professional who conducts an audit according to specific rules and standards. The external audit team includes partner/partners, audit manager, audit supervisor, engagement managers, team members and quality control partner responsible for audit of a bank;

5. Fit and Proper Person – as defined in Article 2.16 of the Banking Law.

## **Chapter 2: Registration of External Auditors**

### **Article 5: Registration**

- (1) According to the article 9 of CPA law, the only authorized body to issue license and supervise the external auditors is CPA Afghanistan and therefore, DAB only register these companies to be authorized to audit banks.
- (2) Subject to sub-paragraph 1 and 4 of Article 94 of Banking Law, each domestic bank and domestic branch office of non-resident banks shall appoint an independent external auditor with qualifications and experience acceptable to DAB.
- (3) Those external auditors that are licensed by the Ministry of Commerce & Industry and the Certified Professional Accountants of Afghanistan (CPA) and intend to obtain authorization from DAB to perform external audit in banks and bank holding companies, are required to provide the following minimum requirements to be registered with DAB:
  1. Formal written application to DAB that explain the nature of the external audit team members' roles and authorisation, which is signed by an authorised partner;
  2. Copy of the firm's valid license, authorisation or equivalent document in its home country. Registration documents by the Ministry of Commerce and Industry;
  3. Articles of Association of external audit firm and its legal status in Afghanistan;
  4. A valid document that has been processed and approved by the relevant diplomatic authorities, in relation to its membership in an international auditing and accounting company, which authorized to use the name of a reputable international auditing company in Afghanistan;
  5. Written consent of the relevant foreign authority for the establishment of a branch in rendering audit services in Afghanistan (It must be attested by relevant foreign official bodies and Ministry of Foreign Affairs of Afghanistan);
  6. Audit Firm's work experience documents showing at least 3 years of work experience in auditing of financial companies;
  7. Organizational structure of external audit firm;
  8. Type of activities and list of its services (Business Profile);
  9. List of shareholders, partners, senior management, chartered accountants and professional staff and their professional and practical experience, educational documents, CVs as well as contact information with copies of passport/ID card (Tazkira);
  10. Should employ a minimum of seven professionals having Association of Chartered Certified Accountants (ACCA), Certified Public Accountant (CPA) or other relevant qualifications in audit. Three of the professional team shall be ACCA members;
  11. Name and full contact information of designated individuals authorized to act as the official representative of the applicant through the application process and be capable of providing answers to all queries and instructions of DAB and must have professional capabilities and necessary skills;
  12. Present the most important projects and audit assignments completed during the last three years;
  13. Explanation in regard to other activities and services of the company in addition to auditing;

14. Submit a letter of commitment for employing, training and capacity building of Afghan citizens (in case the company is a foreign applicant);
15. Exact headquarters address;
16. Submitting a three-year rent contract of the office building to advance the company's business or if the owner is a shareholder and the head of the applicant company, a copy of the property documents owned by the owner, is required;
17. External audit firms, their partners and other senior staff should be independent and have no direct or indirect relationship with the country's banks, their board members, the board of management and other key positions;
18. If the applicant is a representative of a external audit company, in addition to the above conditions, the applicant is required to submit the original license and articles of association of its main company to DAB and introduce a separate and specific working group/team of its representative company in Afghanistan to Da Afghanistan Bank;
19. Confirmation of the registration fee payment (AFs. 500,000). DAB, if deem necessary, will revise fee amount from time to time through circular;
20. DAB may ask for additional documents to support in evaluating application of external auditors; and
21. External auditor shall inform DAB within 30 days of any change in the address and/or contact information.

(4) Criteria for Senior Members/Key position of External Audit Firms is a following:

1. It includes criteria for partners, directors and other professional members of external audit firms applying for registration at Da Afghanistan Bank:
2. Managing Partner: Having professional credentials (ACCA, CPA, other relevant comparable qualifications in auditing) and at least 7 years of work experience in the field of audit including 5 years in external audit of the banking sector is must;
3. Quality Assurance Manager: Having professional credentials (ACCA, CPA, other relevant comparable qualifications in auditing) and at least 7 years of work experience in related field including five years in quality control and external audit of the banking sector is must;
4. Partner: Having professional credentials (ACCA, CPA, other relevant comparable qualifications in auditing) and at least 5 years of work experience in audit field including 3 years in external audit of the banking sector is must; and
5. Directors/senior members: Having professional credentials (ACCA, CPA, other relevant comparable qualifications in auditing) and at least 4 years of work experience in the audit field including 3 years in the external audit of the banking sector is a required.
6. When all the above-mentioned requirements are fulfilled, the company's shareholders, partners, senior managers and all employees must be introduced to ministry of Interior affairs to provide their police clearance to DAB.
7. The process and assessment of application of external audit firms will be started that all above mentioned requirements are met by the applicant. In this stage, BSD prepare a memo and present it to the Executive Board of Management of DAB for the final decision whether to approve or reject the

application of applicants. BSD will perform based on decision taken by the DAB's management.

8. At the end, when DAB realized to issue the approval to external audit firm to perform audit of banks, the related company's president and vice president are obliged to sign and stamp the commitment letter which is available in BSD.

#### **Article 6: Qualifications of External Auditors**

- (1) The Audit Committee is in charge for recommending the external auditor to the Board of Supervisors (BOS) of the bank. Banks shall submit a nominated external auditor to DAB, from among registered external auditors, for appointment to perform audit, at least three months in advance of the proposed annual general meeting of the shareholders.
- (2) In case the external auditor is not in conformance with the provisions of the Article 5 and Article 6 of this Regulation, DAB has the right to ask for revision of nominations.
- (3) The external auditor nominated by a bank shall comply with the following minimum conditions and qualifications:
  1. Should employ a minimum of seven professionals having Association of Chartered Certified Accountants (ACCA), Certified Public Accountant (CPA) or other relevant qualifications in auditing and at least three of the professional team shall be ACCA members or comparable qualifications for Islamic banks.
  2. Should have a solid understanding of the way bank operates and adequate competence in bank audit;
  3. Should have not been barred or subjected to any penalty for professional or audit improprieties by the government or any of its units and public authorities or institutions or any judicial or professional authority; and
  4. Should not have a relationship with the bank for the last two years that could affect its objective judgment, including but not limited to, having one or more of its former officers employed at the bank in the last two years.
- (3) DAB shall consider the following factors in deciding on the appointment of an external auditor:
  1. Proficiency of the external auditor – it should have adequate industry experience to appropriately assess the risks of material misstatement in the bank's financial statements and to properly evaluate regulatory compliance;
  2. Reputation of the external auditor – it should not be engaging in any activity incompatible with the external audit function;
  3. Resources of the external auditor – it should be sufficient relative to the size and complexity of the bank; and
  4. Compliance of the external auditor with applicable laws and regulations.
- (4) Approval of the external auditor by DAB does not limit shareholders' rights to reject the external auditor in case proper grounds are present.
- (5) Approval of the appointment of external auditor shall not hold DAB responsible for failure or negligence in discharging the assigned duties and statutory responsibilities by the external auditor.

### **Chapter 3: Appointment and Removal**

#### **Article 7: Appointment of External Auditor**

- (1) Banks shall only contract with the external auditor after receiving written approval from DAB.
- (2) Foreign banks shall apply for approval of DAB on the external auditor after obtaining approval from competent authority in their home country. In consideration with Article no. 6. (1) Foreign banks shall select among the registered external auditors and apply for approval of DAB on the external auditor after obtaining approval from competent authority in their home country.

#### **Article 8: Removal or Resignation of External Auditor**

- (1) External auditors of banks may only be dismissed where there are proper grounds. Disagreement between auditors and management on the accounting treatment or disagreement on audit opinion shall not be the basis of removal of auditors. External auditors can be removed or can resign based on the following:
  1. Non-compliance with the Banking Law and relevant regulations;
  2. Conflict of interest;
  3. Lack of independence; and
  4. Sharing wrong information with the bank before, during or after the audit engagement
- (6) Bank shall immediately notify DAB in writing about removal or in the case intends to remove external auditor, and/or resignation or intends to resign of the latter with an adequate explanation of the reasons thereof.
- (7) DAB may terminate the contract between the bank and the external auditor based on proper grounds with regard to Article 5 and Article 6 of this Regulation, as well as material deficiency in the external audit report.
- (8) Termination decision shall be communicated to the bank in writing. The bank shall advise the external auditor of such termination and the decision shall be exercised within a period of 30 days from the date of written directive. The bank shall engage another external audit or that is in compliance with this Regulation immediately after termination.

#### **Article 9: Revoking of Approval of External Auditors**

- (1) Approval of an external auditor shall be revoked if the external auditor fails to meet any of the requirements of this regulation including, but not limited to, cases when provisions of Article 5 and Article 6 are no longer fulfilled.
- (2) DAB may warn the external auditor in writing, as well as informing the bank, in case external auditor has contravened its duties pursuant to the Banking Law, this Regulation and other relevant DAB regulations.
- (3) DAB may revoke the approval of the external auditor for performing external audit duties as defined in Banking Law, in case the contraventions are not corrected and obligations are not met in full.

### **Chapter 4: Requirements and Restrictions**

#### **Article 10: External Audit Requirements**

- (1) Banks may determine the duration of contracts with the external auditor provided that the same external audit firm shall not be appointed for more than 4(four) consecutive financial years in a bank.

- (2) External auditor shall not in any way be involved in management decisions of the audited licensed banks or bank holding companies. External auditors firm and external audit team shall not perform an audit if there is any direct or indirect financial, business, employment or other relationship including the provision of additional non-audit services between the external auditors and the audited entity from which an objective, reasonable and informed third party would conclude that the independence of the external auditor is compromised.
- (3) The shareholders of an external auditor, as well as the executive officers, partners and employees of external auditor, or an affiliated firm of an external auditor, shall not intervene in the execution of an audit in any way that might jeopardise the independence and objectivity of the auditor who carries out the audit on behalf of the external auditor. The external auditors shall document in the audit working papers, all threats to their independence, as well as the safeguards applied to mitigate those threats.
- (4) The bank is responsible for taking necessary steps to ensure that the external auditor is independent of the bank's activities. The bank shall inform DAB about any independence issues and take reasonable steps to remedy those issues. DAB may instruct the termination of the external auditor contract if issues are not resolved and independence has not been achieved within a reasonable time frame.
- (5) External auditor should inform DAB immediately about:
  1. Any act by any member of the BOS, management board, shareholder, employee or agent of the bank that constitutes fraud, embezzlement, or a material violation of a provision of the Banking Law or any related DAB regulation;
  2. Any situation, which results materials losses for the bank or could endanger its continued operation;
  3. Resignation or dismissal of the auditor prior to the conclusion of the audit, with a statement of the reasons;
  4. Any matter/issues that cause the auditor judgment that its opinion within the report to be qualified.

**Article 11: External Audit Restrictions**

- (1) A bank shall not be provided consultative services from an external auditor that it has contracted for external audit, with the exception of the services that are incidental to the audit function.
- (2) A bank shall not grant any loans to its external auditor that it has contracted for external audit or to any partners thereof or to employees of the external auditor, during the audit period.
- (3) A bank and/or its affiliates shall not enter into any contracts of professional indemnity insurance and/or takaful with its external auditor.
- (4) External auditor of a bank is prohibited, during the audit period, from the following:
  1. Being a member of the board of supervisors of the bank;
  2. Holding a managerial position in the bank;
  3. Buying any shares in the bank or its affiliates, or selling any owned shares;
  4. Acting as a director, agent or representative of the bank; and
  5. Taking up any administrative work in any of the bank's departments or supervising its accounts.
- (9) The external auditor must meet the criteria of the Fit and Proper and Related Person Regulations in addition to complying with ethical standards issued by ISAs and/or AAOIFI.



- (10) A partner, director or manager of the external auditor that took part in auditing a bank may not be a member of the board of supervisor or hold a managerial position with the bank for the period of two years following the end of audit period.
- (11) Any members of external auditors that have access to a bank's confidential information shall be responsible for, and be required to keep it secret, not use for personal gain and not disclose it to any unauthorised parties.

## **Chapter 5: External Audit Process**

### **Chapter 12: Key Provisions – External Audit Process**

- (1) The external auditor shall identify and assess the risks of material misstatement in the bank's financial statements, taking into consideration the complexities of banking activities and the need for banks to have a strong control environment.
- (2) External auditors shall perform audit process in accordance with International Financial Reporting Standards (IFRS) and ISAs as stated in Article 3 of this regulation. Findings of external auditors' audit process shall be included in the following reports.

### **Article 13: Audit Engagement Letter**

- (1) External auditor shall prepare in conjunction with the bank, an engagement letter along with an audit plan. A copy of engagement letter shall be submitted to the DAB following approval by the BOS of the bank.
- (2) The engagement letter documents should confirm the auditor's acceptance of:
  1. The appointment;
  2. Objectives and scope of the audit;
  3. Period to be covered;
  4. The extent of the auditor's responsibilities to the client and the form of any reports to be provided by the auditor;
  5. Use of experts in certain areas of the audit;
  6. Billing arrangement; and
  7. Any additional requirements applicable as required by ISAs and/or AAOIFI.
- (3) External auditor shall send an engagement letter before the commencement of the engagement in order to avoid misunderstandings with respect to the engagement.
- (4) A bank shall not accept any terms of an audit engagement under which the bank agrees to indemnify the external auditor against claims made by third parties, release the external auditor from liability for claims or potential claims that might be brought by the bank on against the external auditor, or limit the remedies available to the bank for professional misconduct.
- (5) In the case external auditor expects or intends to use the work of an external expert to support the audit, the terms of the audit engagement shall provide that the use of experts does not reduce the external auditor's responsibility for the audit reports issued and opinions expressed.

### **Article 14: Audit Plan**

- (1) Audit plan shall be determined considering all activities of a bank where financial reporting risks are material. External auditor shall consider any significant changes during the reporting period which may have contributed to an increased risk inherent in the bank's internal controls over financial reporting processes, the accuracy of its recording of transactions, and ability to comply with financial reporting standards. Audit plan shall address any additional and specific procedures needed to address areas identified as being of high risk or particular concern.
- (2) Changes that are relevant to determination of financial reporting risk may include:

1. Business combinations;
  2. Significant changes in operating structures;
  3. Processes or key management personnel;
  4. Implementation of new reporting standards or regulatory requirements; and
  5. Major system changes or upgrades.
  6. Significant changes in financial figures
- (3) Audit plan shall include specific procedures to test the bank's internal controls on financial reporting processes. These procedures shall include a review and validation of management's processes for determining the adequacy of provisions for loan impairments and adequacy of reserves for values of its assets. The procedures shall be adequate to enable the auditor to form a view as to whether the management's processes are based on a comprehensive, adequately documented and consistently applied analysis of the bank's loans portfolio, investment portfolio and other liabilities as necessary. Audit plan shall include recommendations to the management for improving internal controls to ensure fair presentation of the financial statements.
- (4) An engagement partner shall be identified for each audit engagement. The engagement partner is responsible for the performance of the audit engagement and the auditors' reports issued. The terms of the audit engagement shall state the responsibilities of the engagement partner to:
1. Direct, supervise and perform the audit in compliance with ISAs and/or AAOIFI and the audit firm's internal quality control procedures throughout the audit engagement;
  2. Ensure that the engagement team collectively has relevant audit experience in the industry, appropriate capabilities, competence and time to devote to the audit of the bank;
  3. Ensure that the auditors' report, including any opinions expressed and emphases of matter, is reliable based on sufficient audit evidence and is not misleading in any material respect.

#### **Article 15: Management Letter**

- (1) Management letter is a short summary to the board of supervisors that covers the findings and recommendations of the audit report and status of prior period audit recommendations. External auditors shall, in accordance with the law and regulations, produce a final management letter to the bank at the conclusions of the audit process.
- (2) The management letter shall include any conclusions the external auditor may have reached on the financial statements, as well as information on the diligences they have performed in the scope of the audit mission. In the letter, external auditors shall make a specific statement concerning the internal controls system in order to provide specific assurance on the internal control structure. The specific statement shall also include comments on the internal audit function.

#### **Article 16: Audit Report**

- (1) External auditor shall produce an audit report that is in accordance with ISAs and/or AAOIFI. Audit report shall confirm that the external auditor:
  1. Audited the bank in accordance with applicable ISAs and/or AAOIFI;
  2. Received all required information and explanations to prepare the report;
  3. Focused on examining the bank's compliance with the provisions, regulations and prudential standards prescribed and issued by DAB; and
  4. Carried out any other procedures considered necessary as required by auditing standards and regulations issued by DAB.

- (2) In the audit report, an external auditor will express an opinion on the financial statements, which states:
  1. Whether, in the external auditor's opinion, the accounts have been properly prepared in accordance with the requirements imposed by the applicable financial reporting framework;
  2. Whether the financial statements give a true and fair view and present fairly the financial position of the bank;
  3. Treatment of correction of an error in prior period financial statements and whether it should be corrected prospectively or retrospectively; and
  4. Any other matter that needs to be disclosed in accordance with ISAs and applicable IAS and IFRS and/or AAOIFI for Islamic banking only.
- (3) The audit report should include, but not be limited to, the following:
  1. Title;
  2. Addressee;
  3. Opening or introductory paragraph;
  4. Scope paragraph describing the nature of the audit;
  5. Reference to the relevant auditing and accounting standards;
  6. Description of the work the auditor performed;
  7. An expression of opinion on the financial statements;
  8. Date of auditor's report;
  9. Auditor's address; and
  10. Date of signature.
- (4) The external auditor shall review and assess the conclusions drawn from the audit evidence obtained as the basis for the expression of an opinion on the financial statements. This review and assessment involve considering whether the financial statements have been prepared in accordance with the IAS, IFRS, and national standards where applicable. It will also be necessary to consider the financial statements' compliance with statutory requirements. The audit report shall contain a clear written expression of opinion on the financial statements taken as a whole.
- (5) DAB reserves the right to request a second opinion by a different external auditor, at the expense of the bank, to the extent that existing external auditor of the bank has carried out the audit or has submitted a report which is inconsistent with the requirements of the Banking Law, related regulations, international accounting standards and therefore does not reflect the true and accurate financial situation of the bank.

#### **Article 17: Corporate Governance Report**

- (1) The external auditor shall produce a corporate governance report that advises the bank on the effectiveness of its corporate governance, internal controls and risk management systems and procedures. A corporate governance report shall include at a minimum:
  1. A description of the bank's internal control and risk management systems, and the bank's assessment of the effectiveness of those systems;
  2. Identification of the members of the board of supervisors, board committees, and management board;
  3. The total number of meetings of the board of supervisors and its committees held during the most recent financial year and the number of those meetings attended by each member; and
  4. Other information as required by DAB.

#### **Article 18: Quarterly Reviews**

- (1) Banks are required to perform audit review on a quarterly basis and submit the audit review reports to DAB within 45 days at the end of each quarter.

- (2) Conventional banks that offer Islamic banking services through Islamic Windows and/or Islamic branches, shall submit both an audit review report that includes Islamic and conventional banking activities and an audit review report of Islamic banking to DAB.
- (3) The Quarterly Review Engagement Letter shall document and confirm the external auditor's acceptance of the appointment, the objectives and scope of the audit, period to be covered, the extents of the external auditor's responsibilities to the bank, the form of any reports to be provided by the external auditor, and the billing arrangement. External auditor shall send an engagement letter before the commencement of the engagement in order to avoid misunderstandings with respect to the engagement.
- (4) The scope of the Quarterly Review shall include a review of quarterly financial statements of the bank. It shall consist of making enquires primarily to persons responsible for financial and accounting matters, applying analytical review procedures, evaluation, conclusion and reporting. A Quarterly Review is less in scope than an audit, where the external auditor shall review and provide that the financial statements are/are not prepared according to IAS, IFRS and other applicable standards.

## **Chapter 6: Disclosure Requirements**

### **Article 19: Key Provisions**

In fulfilling disclosure requirements, bank's Audited Financial Statements including audited CAR, shall be approved at the annual general meeting of the shareholders of the bank within three months after the end of the financial year. Subsequently, within 15 days of approval, the bank is to provide a complete set of financial statements along with auditor report thereon to DAB. In addition, the bank shall provide a BOS letter, management letter, and a corporate governance report issued by auditors to DAB.

### **Article 20: Disclosure**

- (1) Banks shall publish financial statements in newspaper of general circulation in Afghanistan as well as publish its audit report, financial statements and corporate governance report on the bank's website.
- (2) Financial statements of banks shall be exhibited in a conspicuous place in of its branches, in Afghanistan or abroad and kept exhibited throughout the following year. Banks shall provide copies of its financial statements to any person requesting such copies, for a reasonable fee as comparable to its administrative cost.

### **Article 21: Non-resident bank branches**

- (1) A Non-resident bank with one or more domestic branch offices in Afghanistan shall:
  1. Provide a complete set of financial statements along with auditors' report, management letter, board letter and other report if deem necessary thereon to DAB within 15 days of approval, and no later than the date that financial statements and reports for the non-resident bank as a whole are submitted to the non-resident bank's home country relevant authority;
  2. Specify the report submission period of home country relevant authority to DAB at the beginning of financial year;
  3. Publish financial statements in a newspaper of general circulation in Afghanistan and also publish its audit report and audited financial statements on the bank's website;
  4. Exhibit financial statements in a conspicuous place in each of its branch offices in Afghanistan, and keep exhibited throughout the following year;
  5. Provide copies of its financial statements to any person requesting such copies, for a reasonable fee as comparable to its administrative cost.

## **Article 22: Annual Audit Report**

- (1) Banks shall submit an annual report to DAB, audited by external auditors, pursuant to procedures established by DAB and prescribed by the regulations and/or circulars of DAB. Annual report shall be published on bank's website and kept within reach in each of bank's branches.
- (2) The annual report shall include, but not be limited to the following:
  1. Administrative structure of the bank;
  2. Information on business activities held in the last year;
  3. Information on the bank's financial condition within the country and abroad;
  4. Information showing the assets and liabilities structure of the bank in detail;
  5. The amount and character of local and foreign currency held by the bank;
  6. Details of tax paid, investments and foreign exchange profit/loss.

## **Article 23: Islamic Banks**

- (1) Conventional banks which conduct Islamic banking services through Islamic Windows and Islamic banking branches of non-resident banks shall submit both an audit report that evaluates Islamic and conventional banking activities together, audited financial statements, along with an audit report specific to Islamic Banking to DAB.
- (2) Islamic banks, banks that conduct Islamic banking services through Islamic Windows and Islamic banking branches of non-resident banks shall declare that such services are in compliance with Sharia' requirements and are as well required to meet the corporate governance and other relevant standards as regulated by DAB. This declaration shall be confirmed by external auditor in an audit report on Sharia Banking.
- (3) The following disclosures are mandatory for an Islamic Window's Audit:
  1. Whether or not the Islamic Window commingled funds related to Islamic financial business with funds relating to conventional financial business;
  2. Sources and applications of funds mobilised and invested through the Islamic Window business and the sources of funds used to cover deficit;
  3. Any revenues prohibited by Shari's and the disposition of any such revenues in accordance with the guidelines of the Shari's Supervisory Board; and
  4. Any reserves deducted from the funds mobilised according to Sharia rules, the purpose of such reserves and to whom the reserves shall revert in case the activities in respect of which the reserves were deducted have ceased;
  5. Percentage amount of funds relating to Islamic financial business in comparison with the percentage amount of funds relating to conventional financial business.
- (4) The Islamic Windows shall prepare separate financial statements based on AAOIFI standards. The financial statements shall be published as an appendix in the notes to the financial statements of the bank.
- (5) External auditors shall prepare and present a Sharia audit report on the bank's systems and controls with respect to Sharia compliance to the Internal Sharia Reviewer and/or Sharia Board who may present it to the Shari's Supervisory Board.

## **Article 24: Other Disclosure Requirements**

- (1) Banks and/or external auditors shall inform DAB promptly where a material error becomes evident in any report that has been published. Material error shall be corrected and revised financial statements along with a revised report shall be issued and published thereafter. Errors or misstatements are considered material if they could, individually or collectively, influence the economic decisions that user's make on the basis of the financial statements. Materiality depends on the size or nature, or a combination of both, of the omission, error or misstatement that becomes evident.

- (2) Banks shall ensure consistency of the disclosure of information published on website, newspaper, provided to shareholders and any electronic media. Banks may submit their financial statements to other relevant authorities prior to DAB approval, provided compliance with the provisions issued by the DAB and included disclosure that the financial statements are subject to approval by the DAB. Micro level credit information and/or customer information shall not be disclosed to any other without DAB consent.
- (3) Banks are required to seek an appointment for the meeting of the external auditors with DAB after submitting their financial statements for approval. Banks and external auditors shall attend the trilateral meetings convened by DAB to discuss issues relating to the audits, supervisory concerns including but not limited to the implementation of accounting standards and evolving accounting practices.
- (4) Da Afghanistan bank may, if considers it necessary in the performance of its functions under this regulation, arrange bilateral meetings with external auditors of banks or branches of foreign banks operating in Afghanistan.

### **Chapter 7: Information Technology (IT) Audit**

#### **Article 25: Key Provisions – IT Audit**

- (1) Banks' IT systems shall be audited every year by external auditors. Audit process shall include:
  1. Information technology systems audit – as general controls in information systems are audited with regard to security, compatibility, efficiency and adequacy, taken into account materiality;
  2. Penetration Testing: The scope of penetration testing must include but not limited to the entire perimeters, Access points, Links, systems which are connected to public network, critical systems, and other factors that affects security of Banks' customer's data.
  3. Bank must conduct penetration testing at any of following situations immediately:
    - a. Establishing new branch/segment in the bank network.
    - b. Changing bank network structure/systems.
    - c. Updating patches.
  8. Banking processes audit – as processes in business activities, including but not limited to deposit accounts, loan initiation, digital channels, payment systems, reporting systems, accounting procedures, tracing the source of income and expense, accuracy of transaction in the income and expense GL, verifying of revenue from core income and non-core income, trading screens are audited, taken into account materiality.
  9. Abnormal banking transactions: verification of transaction out of working hours, suspicious transactions, commenting on transactions of substantial amount which seems not to be normal banking transaction.

#### **Article 26: Requirements and Reporting**

- (1) IT External auditors shall perform audits in accordance with the most recent COBIT framework. External auditor's members engaged in IT audit must have Certified Information Systems Auditor (CISA), Certified Ethical Hacker (CEH) and/or other relevant certifications. Penetration Tester must be CEH or other related certifications.
- (2) Findings of IT audit shall be documented in an IT audit report and presented to the bank and the DAB. DAB shall order the bank to take necessary actions in the case material findings are present in IT audit report.

### **Chapter 8: Final Provisions**

### **Article 27: Miscellaneous Issues**

- (1) Banks shall ensure that external auditors have timely access to any relevant information they may require to carry out their duties. Banks must take reasonable steps to ensure that their staff:
  1. Provide support to the external auditor to carry out its responsibilities;
  2. Provide the external auditor with the right to access relevant records and information;
  3. Do not interfere with the external auditor's ability to discharge its duties;
  4. Do not provide false or misleading information to the external auditor; and
  5. Report to the external auditor any matter which may significantly affect the financial position of the bank.
- (2) Banks shall ensure that their respective external auditors advise DAB on matters of governance interest, material violations committed by the banks, adverse changes in the risks of the bank's business, and any other matters which have supervisory implications. Banks shall incorporate the aforementioned aspects in their contracts with external auditors.
- (3) DAB may establish direct communication with the external auditors in circumstances when it considers that such contacts are necessary to ensure financial integrity or whenever found necessary.
- (4) DAB examination reports are the property of the DAB. Banks shall not release these reports to the External Auditor without written permission of the DAB.

### **Article 28: Audit of AML/CFT Compliance and Systems**

- (1) Banks shall ensure that at least the following areas related to AML/CFT compliance are reviewed/audited by the external auditors:
  1. Corporate governance;
  2. Policies and procedures;
  3. Risk management;
  4. Internal controls;
  5. Compliance functions;
  6. Trainings;
  7. Record Keeping;
  8. Suspicious Transactions Reports (STR) identification and reporting;
  9. Large Cash Transactions Reports (LCTR);
  10. Wire transfers (Both domestic and international); and
  11. Sanctions screening of customers.
- (2) Banks should ensure that all the requirements described in AML/CFT legislative documents and their internal policies are reviewed/audited by the external auditors.

### **Article 29: Failure to Comply**

Failure to comply with this regulation constitutes a violation and is subject to corrective actions and sanctions as allowed under the Banking Law and any other applicable laws or regulations.

### **Article 30: Effective Date of Regulation**

This regulation is effective immediately upon adoption by the Supreme Council of Da Afghanistan Bank.