GOVERNMENT NOTICE NO. 30

FINANCIAL SERVICES ACT

(Cap. 44:05)

FINANCIAL SERVICES (EXTERNAL AUDIT AND RELATED MATTERS FOR MICROFINANCE INSTITUTIONS) DIRECTIVE, 2019

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IN EXERCISE of the powers conferred by section 34 of the Financial Services Act, I, Dr. DALITSO KABAMBE, Registrar of Financial Institutions, issue the following Directive—

PART I—PRELIMINARY

Citation

1. This Directive may be cited as the Financial Services (External Audit and Related Matters for Microfinance Institutions) Directive, 2019.

Interpretation

2. In this Directive, unless the context otherwise requires—

"external auditor" means an audit firm engaged by a microfinance institution and approved by the Registrar to offer audit services to the microfinance institution; and

"International Financial Reporting Standards" or "IFRS" has the same meaning as International Financial Reporting Standards or IFRS under the Companies Act.

Cap. 46:03

Application

3. This Directive applies to—

(*a*) deposit taking microfinance institutions; and

(*b*) non – deposit taking microfinance institutions which are prudentially regulated in terms of the Microfinance (Non Deposit Taking Microfinance Institutions) Directive, 2018.

PART II—OBJECTIVES

Objectives

4. The objectives of this Directive are to—

(*a*) promote the accuracy and reliability of financial statements issued by microfinance institutions for supervisory purposes;

(*b*) enhance credibility of information submitted to the Registrar and ensure an independent review and opinion of the microfinance institutions' compliance with prevailing IFRS; and

(*c*) ensure that persons appointed as external auditors are fit and proper to carry out their duties.

PART III—REQUIREMENTS ON EXTERNAL AUDITS

Responsibilities of a microfinance institution Cap. 46:08

5. A microfinance institution shall ensure that an external auditor—

(*a*) is appointed in accordance with the requirements of the Act, Microfinance Act and this Directive;

(*b*) has access to all data, information, including examination reports, and staff that the external auditor believes is necessary to fulfill its roles and responsibilities including access to the board members and the internal auditors of the microfinance institution;

(*c*) is fully informed of all applicable prudential requirements prescribed under the Act, Microfinance Act, IFRS and applicable audit standards; and Cap. 46:08

(*d*) is rotated after every five years of engagement.

Appointment of external auditor

6.—(1) A microfinance institution shall, annually, appoint an external auditor to fulfill the requirements of section 56 of the Act during the annual meeting of the microfinance institution.

(2) Subject to subparagraph (1), the appointment of the external auditor shall not take effect unless the microfinance institution obtains written approval from the Registrar in accordance with section 56 (1) of the Act.

(3) An audit firm duly registered under Public Accountants and Public Auditors Act to provide audit services shall be eligible for appointment as an external auditor. Cap. 53:06

(4) An application for approval of an external auditor to the Registrar shall require the following information—

(*a*) name of the external auditor;

(*b*) physical and postal address of the local office of the external auditor;

(*c*) names, qualifications and experience of each partner;

(*d*) details of the partner-in-charge of the audit of the microfinance institution;

(*e*) name, qualifications and experience of the auditor to be engaged in the audit of the microfinance institution;

(*f*) details of the experience of the external auditor in other financial institutions or microfinance institutions;

(*g*) details of any existing business relationship between the auditor and the partner-in-charge of the audit and between the microfinance institution and the audit firm;

(*h*) confirmation that neither the external auditor nor the partners or staff involved in the audit are holding past due or non-performing loans in the microfinance institution;

(*i*) copy of practicing certificates of each of the partners in the audit firm; and

(*j*) any other information that may be required by the Registrar.

Evaluation process

7.—(1) In assessing the application for approval of an external auditor, the Registrar shall among other things be satisfied that—

(*a*) the external auditor is registered with the Malawi Accountants Board;

(*b*) the partners and lead audit manager have professional experience and competence in microfinance or banking audit;

(*c*) the external auditor or its partners are free from any business or other relationship with shareholders or directors of the microfinance institution which could be seen to materially interfere with the external auditor's capacity to act in an independent manner;

(*d*) if the external auditor, its partners or staff have been subject to disciplinary action by any professional body, written clearance has been obtained from that body;

(*e*) there has been no element of misconduct in the performance of the duties of the external auditor in other entities, microfinance or financial institution;

(*f*) the external auditor has the experience and expertise or has arrangements to source personnel to conduct audit in specialized areas of the operations of the microfinance institution including credit, risk management, anti-money laundering and combating financing of terrorism and information and communication technology (ICT) audit; and

(*g*) the partners, lead audit manager and supervisor are members of the Institute of Chartered Accountants in Malawi (ICAM) and of good standing with ICAM.

2. The Registrar may verify any information submitted by the microfinance institution or seek additional information on the external auditor before granting approval.

Submission of audit report and management letter

8.—(1) A microfinance institution shall submit to the Registrar a copy of its audited financial statements and management letter within three months after close of its financial year.

(2) The microfinance institution shall publish audited financial statements containing a copy of its statement of financial position, statement of comprehensive income and cash flow statement in at least one newspaper of nation-wide circulation in Malawi within four months of the close of its financial year.

Comminication between Registrar and external auditor

9.—(1) The Registrar may hold tripartite meetings with an external auditor and management of a microfinance institution.

(2) The Registrar and external auditor may also hold bilateral meetings at the request of either party.

(3) The Registrar may, where necessary, request addition information from an external auditor.

Resignation of an external auditor

10. An external auditor shall notify the Registrar in writing of its intention to resign from the appointment, including reasons for resignation, at least thirty days prior to the resignation taking effect.

PART V—ENFORCEMENT

Monetory policies

11.—(1) The Registrar may impose the following monetary penalties for violations of this Directive—

(*a*) for microfinance institutions, up to fifty million Kwacha; and

(*b*) for individuals who are members of the board or management, up to ten million Kwacha.

(2) The penalties in subparagraph (1) shall be paid through a bank certified cheque payable to the Reserve Bank of Malawi within ten working days after being notified of the violation.

(3) In addition to the monetary penalty imposed in subparagraph (1), the Registrar may impose directions and administrative penalties as provided for under the Act.

Administrative penalty

12. In addition to monetary penalties in paragraph 11, the Registrar may disqualify and withdraw his approval of an external auditor, if the external auditor fails to comply with the requirements of this Directive, or international standards of auditing.

Made this 14th day of June, 2019.

DALITSO KABAMBE, PHD
Registrar of Financial Institutions

(FILE NO. FIN/PFSPD/03/04)