



The Governor

**DIRECTIVE N°2100/2018-006 [613] ON CONDITIONS FOR
ACCREDITATION OF EXTERNAL AUDITORS FOR SMALL SACCOS AND
OTHER ADDITIONAL REQUIREMENTS.**

Reference number: DIR 2100/2018-006 [613]/DIR

Initiator: Financial Stability Directorate/Microfinance Institutions Department

Approved by: BNR Management

Date of approval: 20th July 2018

Signed by: Dr. NSANZABAGANWA Monique, Deputy Governor and Acting Governor

July 2018



The Governor

DIRECTIVE N°2100/2018-006(613) ON CONDITIONS FOR ACCREDITATION OF EXTERNAL AUDITORS FOR SMALL SACCOS AND OTHER ADDITIONAL REQUIREMENTS

Pursuant to Law n° 48/2017 of 23/09/2017 governing the National Bank of Rwanda especially in its article 8, 9 and 10;

Pursuant to Law n° 40/2008 of 26/08/2008 establishing the organization of the Microfinance activities especially in its article 36;

Pursuant to regulation n° 02/2009 of 27/05/2009 on the organization of the microfinance activity especially in its article 31;

Pursuant to Regulation no 14/2017 of 23/11/2017 on accreditation requirements and other conditions for external auditors for financial institutions;

The National Bank of Rwanda hereafter referred to as “**Central Bank**” decrees:

CHAPTER ONE: GENERAL PROVISIONS

Article 1: Purpose of the Directive

The Directive aims at establishing the conditions on accreditation and career development of individual external auditors. It sets up also additional requirements for large SACCOS and Small SACCOS.

Article 2: Definition of key terms

- 1° **Central Bank:** National Bank of Rwanda;
- 2° **A large SACCO:** A SACCO with total deposits of equal or above one billion Rwandan Francs (Frw 1,000,000,000);
- 3° **A Medium SACCO:** A SACCO with total deposits of five hundred million Rwandan Francs (Frw 500,000,000) but less than one billion Rwandan Francs (Frw 1,000,000,000);
- 4° **Small SACCOS:** A SACCO with total deposits of less than five hundred million Rwanda Francs(500,000,000);
- 5° **Individual external auditor:** An external auditor accredited under this Directive

Article 3: External Auditors for large SACCOS

Large SACCOS shall be audited by large external audit firms accredited pursuant to Regulation n° 14/2017 of 23/11/2017 on accreditation requirements and other conditions for external auditors for financial institutions.

rdm

Article 4: External Auditors for medium SACCOs

Medium SACCOs shall be audited by small external audit firms accredited pursuant to Regulation n° 14/2017 of 23/11/2017 on accreditation requirements and other conditions for external auditors for financial institutions.

Article 5: External Auditors for small SACCOs

Small SACCOs shall be audited by individual external auditors accredited as provided under this Directive.

Article 6: Appointment of Large Audit Firm by Medium and Small SACCOs

Medium and Small SACCOs may appoint large audit firms accredited under Regulation n° 14/2017 of 23/11/2017 on accreditation requirements and other conditions for external auditors for financial institutions. In doing so, Medium and small SACCOs shall take into account the related costs.

CHAPTER II: REQUIREMENTS FOR INDIVIDUAL EXTERNAL AUDITORS

Article 7: Appointment of an individual external auditor

A small SACCO is required to appoint an individual external auditor approved and accredited by the Central Bank as shown on the list of external auditors published by the Central Bank through its official website.

In case a small SACCO fails to appoint an individual external auditor, the Central Bank shall appoint him/her at the expense of the small SACCO.

Article 8: External auditor term period

The term of office for an individual external auditor in the same small SACCO is limited to three (3) years and no individual external auditor shall perform two consecutive terms within the same small SACCO.

Article 9: Accreditation criteria of individual external auditors

An individual external auditor shall have the following minimum entry requirements:

- 1° A minimum of bachelor's degree in accounting, finance, economics or related field;
- 2° certified professional in ACCA, CPA, CFA, and similar certificates;
- 3° Membership certificate from Institute of Certified Public Accountants Rwanda(ICPAR);
- 4° Minimum experience of two (2) years in accounting and or auditing field;
- 5° Not being banned from conducting microfinance activities in accordance with the microfinance law;
- 6° Pass the fit and propriety test.

rfm

Article 10: Application documents for individual external auditors

An Individual external auditor shall submit the following documents prior to their accreditation:

- 1° License application letter;
- 2° Certified academic degrees and professional certificates;
- 3° Detailed curriculum vitae;
- 4° Work certificates;
- 5° An original copy of the police clearance;
- 6° Tax clearance certificate;
- 7° A copy of the Identity card.

Article 11: External auditor's fee requirements

The application for accreditation shall be accompanied by a non-refundable application fee of fifty thousand (Frw 50,000) for individual external auditors.

Individual external auditors shall pay annual fee of fifty thousand Francs (Frw 50,000) not later than 30th January of the following year. After payment, the payslip or any proof of payment shall be presented to the Central Bank for validation. In case the payslip or the proof of payment is not presented by that date, the external auditor shall be automatically removed from the list of approved external auditors.

Article 12: Renewal of External Auditor's accreditation

The accreditation of an individual external auditor shall be renewed every three (3) years. After this time, the external auditor shall submit the renewal application to the Central Bank associated by the details of audit assignments handled in the three (3) year period as well as the capacity development progress report in that period.

The Central Bank may reject the renewal of accreditation, if it not satisfied with the progress of the external auditor in the career.

Article 13: Capacity development of external auditors

External Auditors of a small SACCO is required to undergo refresher courses offered by the recognized institute especially in International Financial Reporting Standards (IFRSs), International Standards on Auditing (ISAs), Corporate Governance and Professional ethics at least once within a period of three (3) years. Failure to undergo the above refresher courses will be among the factors for rejection of accreditation renewal.

Article 14: Duties of External Auditors

An individual external auditor must conduct its audit in accordance with International Standards on Auditing (ISAs) and the audit guidelines issued by the Central Bank. The audit must comply with International Financial Reporting Standards (IFRSs). At the end of the audit, the auditor must produce the audit report composed of the report on audit of financial statements and the Management letter.

rfm

Article 16: Minimum audit areas

During the audit exercise, the external auditor shall cover but not limited to the following areas:

- 1° The financial statements and the required accounting processes;
- 2° Compliance with the microfinance law and regulations as well as other legal and regulatory framework;
- 3° Key material risks including strategic and governance risk, operational risk, credit risk, liquidity risk, Legal and regulatory risk, market risk, reputational risk, etc;
- 4° Internal audit functions;
- 5° Internal Control systems in place;
- 6° Implementation of Central Bank recommendations;
- 7° Any other provisions detailed in the terms of reference issued by the Central bank guidelines for MFIs' external audit reporting.

Article 17: External Auditors' threats to independence

An individual external auditor may face threat to independence related to familiarity, self-interest, litigations, self-review, intimidation or advocacy. In case the external auditor faces a threat that can hamper his or her objectivity; he/she shall resign from the assignment.

In case the threat to independence can have mitigation measures, the individual external auditor shall reveal the mitigation measures to the Central Bank before commencement of the audit assignment. If the Central Bank is not satisfied with the mitigation measures, the external auditor shall decline the assignment.

Any assurance service provided by the external auditor in the audited small SACCO shall require prior approval from the Central Bank.

The provision in the preceding paragraph does not concern external auditors conducting assurance services in small SACCOs which they are not currently auditing.

Article 18: Annual audit report

The individual external auditor shall, at least two (2) weeks prior to the meeting of the institution's Board of Directors to discuss the annual audited accounts, submit to the Central Bank a copy of the draft audit report containing at least the following:

- 1° Statement of financial position as of the balance sheet date;
- 2° Statement of financial performance including profit and loss account and other comprehensive income for the financial year;
- 3° Statement of cash flow for the financial year;
- 4° Statement of changes in equity;
- 5° Accompanying notes and disclosures to the financial statements;
- 6° An opinion on the financial statements;
- 7° List of major adjustments required;
- 8° A copy of the external auditor's management letter on the audit findings and concerns;

rfm

9° Any other comments on the institution's risk profile and control environment.

Article 19: Final Annual audit report

The final audit report comprising all items listed in article 18 of this directive shall be submitted to the Central Bank by the small SACCO being audited not later than 30th April following the year covered by the audit.

Article 20: Additional report to Central Bank

In addition to the statutory obligation provided for in Article 18 of this Directive, the individual external auditor is required to report promptly to the Central Bank any of the information concerning the following matters:

- 1° Matters that may affect the institution to continue as a going concern;
- 2° Intention of the auditor to resign or any threat of removal of the auditor from office;
- 3° Material adverse changes in the current or potential risks of the institution's business;
- 4° Serious irregularities or significant losses which may jeopardize the interests of depositors or other creditors of the institution;
- 5° Information on material breach of the laws and regulations, internal policies and procedures, major contracts and their likely effect on the institution;
- 6° Any other information that the Central Bank may request or deemed necessary by the external auditor.

Article 21: Prohibitions for external Auditors

No person shall be an external auditor of a small SACCO in the following circumstances:

- 1° The individual external auditor is a related party to the small SACCO;
- 2° The individual external auditor is in a position of threat to independence with the small SACCO that cannot be mitigated;
- 3° The individual external auditor is banned from carrying out microfinance activities in accordance with the microfinance law and regulations;
- 4° The external auditor is no longer on the list of approved external auditors by the Central Bank;
- 5° The individual external auditor holds a function, conducts a business or is in any situation that can put him/her in the conflict of interest with the deposit taking microfinance institution;
- 6° Any other prohibition as may be determined by the Central Bank.

Article 22: Disciplinary sanctions to external auditors

The Central Bank may apply sanctions without prejudice to other disciplinary sanctions or penal proceedings to an individual external auditor who fails to comply with the microfinance law and regulations or manifests the behavior that discredits the audit profession as follows:

rdm

- 1° Warning;
- 2° Removal from the list of external auditors accredited by the Central Bank for a period of five (5) years;
- 3° Permanent removal from the list of external auditors accredited by the central bank.

In case the Central Bank finds that an individual external auditor is in breach of any of the provisions of the law and the small SACCO has already appointed the auditor, the Central Bank shall write to the small SACCO to terminate the contract with the external auditor and appoint a new one. In this case, the audit assignment conducted in breach of the legal provisions shall be cancelled.

CHAPTER III: MISCELLANEOUS AND FINAL PROVISIONS

Article 23: Compliance with the Directive

Existing individual external auditors approved by the Central Bank are given a period of five (5) years to comply with the entry requirements stipulated by this directive. By the expiry of this period, an individual external auditor who does not fulfil the conditions will be automatically lose his/her accreditation.


Article 24: Repealing provision

All provisions contrary to this Directive are hereby repealed.

Article 25: Commencement

The directive shall come into force by the date of its signature

Done at Kigali, 20/7/ 2018.


Dr. NSANZABAGANWA Monique
Deputy Governor and Acting Governor

