

## **18- INSTRUCTIONS CONCERNING EXTERNAL AUDITORS**

- A) Guideline Criteria for Approving the Appointment of External Auditors For Islamic Banks.**
- B) Instructions Concerning the Appointment of External Auditors and the Organization of their Functions.**

**Instructions No. (2/IBS/105/2003)  
concerning the guideline criteria for approving  
the appointment of external auditors for Islamic banks**

**First:** Given the significance of the accounts auditing profession for banking business in general (conventional or Islamic), as the external auditors present the financial position of banks in a manner ensuring the interest of shareholders, customers and stakeholders, and whereas banks are viewed as part of the major financial institutions of the domestic economy, the Central Bank Board of Directors has approved at its meeting of 15/6/2003 the guideline criteria to be observed upon studying the application for approving the nomination of accounting firms to audit Islamic banks accounts. These criteria are as follows:

- 1) The local auditing firm must have full membership with an international auditing firm whose policies and procedures are applied by the local firm. In the event the local firm is only a representative office, these conditions do not apply and only the name of the international firm is used.
- 2) The experience of the international auditing firm in the area of auditing banks accounts will be significant for its evaluation, as the nominee international firm should be already auditing banks listed among the top 50 banks in the world. The international auditing firm should also supply a list of the banks it audits in the Gulf region, as well as a list of the Islamic banks audited by this firm if available.
- 3) The extent to which the international auditing firm has developed an auditing methodology or guidelines, explaining the method of auditing banks accounts.
- 4) The local auditing firm should have at least one partner and qualified employees experienced in auditing banks accounts. Employees in charge of auditing banks accounts must have professional certificates such as CPA or CA.

- 5) The local auditing firm should provide to its employees, who will be in charge of auditing banks accounts, an acceptable number of training hours in the banking field, with a minimum of 30 hours of training.
- 6) Ascertaining whether the international auditing firm reviews selected audit files from those of the local firm, so as to check the local firm's compliance with the policies and procedures of the international auditing firm, as well as the quality of the work performed.

Islamic banks nominating external auditors other than those auditing existing local (conventional and Islamic) banks accounts at the time of issuing these criteria, must ensure the satisfaction of the above criteria before applying to Central Bank of Kuwait in this respect. Supporting documents evidencing the satisfaction of these criteria must be attached to the nomination application form. The list of auditing firms approved for auditing local banks accounts can be obtained from the supervision sector at the Central Bank.

**Second:** These criteria shall be implemented from the date of their notification.

**GOVERNOR**

*Ramadhan 15, 1424 H  
November 10, 2003*

**Instruction No. (2/IBS/111/2003)  
To All Islamic Banks**

**THE CHAIRMAN,**

**Appointment of External Auditors,  
and the Organization of the Functions they have to Perform**

This has reference to the rules of Article (161) of the Commercial Companies Law No. (15) of the year 1960, amended law No. (51) of the year 1994, whereby companies registered with Kuwait Stock Exchange must have at least two chartered external auditors from two separate audit firms, and to Article (20) of the Decree Law No. (5) of the year 1981 concerning the practice of auditing profession, which provides that the accounts auditor may not practice any other occupation that conflicts with the nature of his work, particularly the works specified in the said article.

Kindly observe the following:

- 1) Your bank must notify us in advance of the nominated audit firm for approval by the Central Bank before its final appointment by the general assembly of your bank. It is also a must to ensure the satisfaction of the guideline criteria issued by the Central Bank with regard to its approval of the external auditors for Islamic banks accounts.

In the event of appointing two external auditing firms, each of the two auditors apart must perform a comprehensive audit of your bank's accounts, so that the two offices do not make an agreement whereby one of them would carry out the audit and the other would conduct the review, or agree to divide the audit functions between the two of them.

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**18- INSTRUCTIONS CONCERNING EXTERNAL AUDITORS**

B) Instructions Concerning the Appointment of External Auditors and the Organization of their Functions.

- 2) In order to support the independence of the audit works undertaken by the auditors appointed by the general assembly, and to enhance the reliability for the shareholders on the auditors' report on the financial statements, your bank is required not to assign to your external auditors the task of evaluating the adequacy and sufficiency of the bank's internal control system, or any technical or consulting works. Further, the other technical and advisory works having an accounting nature (such as the design of accounting records and the provision of advice on alternative accounting treatments), may not be assigned to companies economically or legally interrelated with your external auditors, whether such interrelation is by way of common ownership or common directorship.

Based on the above, the works your bank may assign to such companies are only the other technical and advisory works having no accounting nature (such as the preparation of feasibility studies – the review of the working plan – development of wages and salaries structure – advice on staff attraction).

With my best wishes,

***SALEM ABDUL AZIZ AL SABAH***