

# **GUIDELINE ON APPOINTMENT, DUTIES AND RESPONSIBILITIES OF EXTERNAL AUDITORS CBK/PG/09**

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## **PART 1: PRELIMINARY**

- 1.1 Title** – Guideline on Appointment, Duties and Responsibilities of External Auditors.
- 1.2 Authorisation** - This guideline is issued under Section 33(4) of the Banking Act, which empowers the Central Bank of Kenya to issue guidelines to be adhered to by institutions in order to maintain a stable and efficient banking and financial system.
- 1.3 Application** – All institutions licensed under the Banking Act (Cap.488) and Non-Operating Holding Companies.
- 1.4 Definition** – The terms ‘external auditor’ or ‘Auditor’ means a registered public accounting firm. These terms are used interchangeably.

Other terms used within this Guideline are as defined in the Banking Act.

## **PART II: STATEMENT OF POLICY**

- 2.1 Introduction** - This guideline sets out minimum requirements regarding the appointment, duties and responsibilities of external auditors of institutions. While the preparation and integrity of financial statements are the responsibility of the board and senior management of commercial banks, assurance of a properly conducted audit serves to provide an independent view of the financial statements’ reliability. Such assurance would depend significantly on the exercise of appropriate due diligence by commercial banks in the selection and engagement of auditors.
- 2.2 Purpose** - The need for Central Bank’s approval of the registered public accounting firm arises out of the desire to ensure that the registered public accounting firm appointed by the institutions has achieved acceptable standards of both competence and independence to enhance the supervisory role of the Central Bank. This guideline is therefore intended to:
- Require and assist the external auditors of institutions to discharge its functions more effectively. Every institution shall advise its registered accounting public firm to use this guideline in conjunction with Sections 24, 25 and 26 of the Banking Act.
  - Ensure that external auditors of institutions have acceptable standards of competence and independence;
  - Enforce international best practices in carrying out audits of institutions;

- Assist in promoting confidence in the financial system by ensuring that qualified auditors are appointed by institutions to audit and report on their operations and financial statements;
- Promote transparency and accuracy in reporting by institutions to enhance market discipline; and
- Safeguard depositors' funds by requiring institutions to be subjected to effective external audits.

**2.3 Scope** - This guideline applies to the appointment, duties and responsibilities of a registered public accounting firm.

**2.4 Responsibility** – It is the responsibility of the board of directors to ensure that the institution's shareholders appoint a registered public accounting firm annually in accordance with this guideline and other applicable laws.

It is also the responsibility of the board of directors of institutions to ensure that the institution's external auditors are given right to access at all times the institution's books of accounts, computer systems, vouchers, financial records, securities and all other relevant records in order to facilitate their work.

## **PART III: SPECIFIC REQUIREMENTS**

### **3.1 Appointment of an external auditor**

- Every institution shall appoint an auditor annually, within the meaning of section 3(1) of the Companies Act (Cap. 486), and approved by the Central Bank.
- An external auditor shall not audit the same institution for more than six (6) consecutive years.
- An external auditor that has audited an institution for six (6) consecutive years may be reappointed only after a lapse of three (3) years from the last audit engagement.
- Notwithstanding Clause 3.1(b) above, an external auditor shall not audit the same institution for more than six (6) years within any nine (9) year period.

### **3.2 Audit Partner and/or Manager Rotation**

- A registered public accounting firm shall ensure that the lead audit partner (having primary responsibility for the audit), or the audit partner responsible for reviewing the

audit and the audit manager or officer leading the audit team, do not perform audit services for an institution for more than three (3) years.

- b) The lead and reviewing audit partners and/or audit manager who have been rotated off the audit of an institution may resume the role only after a lapse of three (3) years from the last audit engagement with the institution.
- c) For the purposes of paragraphs 3.2 (a) and (b), any period of service and the applicable cooling-off period shall continue to apply to the individual lead audit partner, reviewing audit partner, audit manager or officer, notwithstanding transfer to or employment with another external auditor.

### **3.3 Approval of Appointment**

#### **3.3.1 Approval Procedures**

- a) The nomination and subsequent appointment of a registered public accounting firm by an institution does not take effect unless written approval has been obtained from Central Bank of Kenya as required under Section 24(1) of the Banking Act. Institutions have to apply to the Central Bank for approval of a newly appointed registered public accounting firm prior to commencement of any audit work by the registered public accounting firm.
- b) All applications for approval of newly appointed external auditors should be received by the Central Bank by 30<sup>th</sup> June in the year of appointment and prior to the commencement of the interim audit. The application will be accompanied by the extract of the Annual General Meeting (AGM) resolution approving the appointment of the external auditor.
- c) On an annual basis, where there is no change in the registered audit firm, an institution shall notify CBK of the reappointment of the existing audit firm within fifteen days of reappointment by submitting the Annual General Meeting Resolution reappointing the audit firm together with the valid annual licence for the audit firm from the Institute of Certified Public Accountants of Kenya.
- d) Where there is a change in the lead or reviewing partner or audit manager, the institution shall inform the Central Bank of the change at least 30 days before the change takes effect. The notice of change of audit partner and/or audit manager shall be accompanied by the following:

- Name, qualifications, experience and detailed CV of the new audit partner and/or audit manager. Details of the audit partner's/manager's experience in auditing banks and other financial institutions, including a list of major audit assignments over the last three (3) years. Confirmation that the audit partner or manager are not holding past due loans in the institution. Copy of the practicing certificates of the audit partner/manager issued by the Institute of Certified Public Accountants of Kenya (ICPAK). Certification that the audit partner/manager has no pending administrative or criminal case or any record of disciplinary action taken against them for unprofessional conduct by the Institute of Certified Public Accountants of Kenya and the decision for such disciplinary action has not been reversed. Any other information considered necessary in support of the application.
- e) The Central Bank shall, within 30 days of receipt of information on change in audit partner and/or audit manager, review and respond to the institution.
- f) The firm should keep the Central Bank informed of any changes in partnerships, audit managers, disciplinary actions against the firm or its partners, etc. within 30 days of the event.

### **3.3.2 Information Required for Application**

The application for the approval of a newly appointed registered public accounting firm should contain the following information:

- i) Name of the registered public accounting firm.
- ii) Names, qualifications, experience and detailed CVs for each partner and the number of professional staff.
- iii) Physical and postal address of the local office. In case of an international firm, full details of the head office.
- iv) Details of the partner in charge of the institution.
- v) Name, qualifications and experience of the manager who will be directly engaged in the audit of the institution.
- vi) Details of the audit firm's experience in auditing banks and other financial institutions, including a list of major audit assignments over the last three (3) years.
- vii) Details of any existing business relationship between the partner in-charge of the audit and the institution.
- viii) Confirmation that neither the firm, nor the partners or staff involved in the audit of financial institutions, are holding past due loans in the institution or any other institution.

- ix) CRB reports of the audit firm, its partners and staff to conduct the audit.
- x) Declaration that the credit facilities granted to the audit firm, its partners and staff are at arm's length.
- xi) Copy of the practicing certificates of the partners in the firm issued by Institute of Certified Public Accountants of Kenya (ICPAK).
- xii) Copy of the valid annual license for the audit firm from the Institute of Certified Public Accountants of Kenya.
- xiii) A declaration under oath that the audit firm or the lead audit partner has no pending administrative or criminal case and has not been convicted of or has been an accomplice in any offence involving corruption, fraud, tax evasion, money laundering, other economic and financial crimes.
- xiv) Certification that the audit firm does not have any record of disciplinary action taken against them for unprofessional conduct by the Institute of Certified Public Accountants of Kenya (ICPAK) and the decision for such disciplinary action has not been reversed.
- xv) A signed declaration that the audit firm, lead audit partner and staff involved in the audit, are aware of the provisions of the Banking Act, Prudential Guidelines and other regulations by CBK.
- xvi) A signed independence declaration by the registered public accounting firm and the proposed engagement partner(s) that confirms that appropriate safeguards have been applied to any identified threats to independence.
- xvii) A signed independence declaration by the proposed engagement partner(s) confirms that appropriate safeguards have been applied to any identified threats to independence.
- xviii) Gross audit fees for the audit firm for the last two (2) years, projected audit fees for the current period and the proposed audit fee for the planned audit engagement.
- xix) Any other information considered necessary in support of the application.

### **3.3.3 Evaluation**

- a) In assessing the application, the Central Bank will have to be satisfied that:
  - i) The registered public accounting firm is not disqualified in terms of Section 24(7) of the Banking Act.
  - ii) The firm or any of its partners do not operate an account or has not been granted any type of facilities in the institution, except in the normal course of business and at an arms-length. The facility has been approved by the full board.
  - iii) The firm or its partners do not represent directly or indirectly the interests of the shareholders or directors of the institution in any business ventures.

- iv) The partners of the firm do not have any business association with the shareholders or directors of the institution except in public quoted companies.
  - v) The registered public accounting firm has adequate resources, capacity and ability to perform its duties with professional competence and due care in accordance with approved professional auditing standards and applicable legal and regulatory requirements.
  - vi) Where the firm or its partners have been subject to any disciplinary action by any professional body, clearance has been obtained from that body.
  - vii) The audit fees from an institution shall not exceed 10% of the total gross income of the firm.
  - viii) There has been no element of misconduct in the performance of the registered public accounting firm's duties in other firms whether in its auditing, accounting, secretarial, trustee nominee services or otherwise.
  - ix) The firm maintains adequate quality control measures.
- b) The Central Bank may verify any information submitted by the registered public accounting firm for the purpose of the approval.

### **3.4 Duties and Responsibilities**

#### **3.4.1 Principal Responsibilities**

Traditionally, the principal role of the registered public accounting firm is to express an opinion as to whether:

- a) All the necessary information and explanations for the audit have been obtained.
- b) Proper books of accounts have been kept and maintained by the institution.
- c) The accounts dealt with in the report are in agreement with the books of accounts and are in conformity with the International Financial Reporting Standards.
- d) The financial statements derived from the books of accounts give a “true and fair view” of the financial affairs and results of the institution.
- e) The institution has adhered to the Banking Act and the attendant regulations and prudential guidelines issued by the Central Bank of Kenya.

#### **3.4.2 Scope of Audit Engagement**

- The scope of the audit engagement shall have regard to the institution's financial reporting risk areas.

- The audit programme and audit plan must cover several areas, including but not limited to the following:

- Review of the loan portfolio,
- Loan loss provisions
- non-performing exposures
- asset valuations
- trading and other securities activities
- derivatives
- asset securitizations,
- consolidation of off-balance sheet vehicles and other involvement with such vehicles
- the adequacy of internal controls over financial reporting.

These procedures should include a review and validation of management's processes for determining the adequacy of provisions for loan impairments and values ascribed to financial instruments. The procedures should be adequate to enable the auditor to form a view as to whether management's processes are based on a comprehensive, adequately documented and consistently applied analysis of the banking institution's loan and investment portfolios.

- The audit scope and plan should similarly address any other area identified by the board which presents a significant financial reporting risk to the institution.
- As an extension of the financial statement audit, the scope of the audit engagement should include recommendations to management for improving internal controls to ensure the fair presentation of financial statements. The issues raised and recommendations made by the auditor should be deliberated by the institution's board in a timely manner with appropriate remedial actions identified and followed through.
- The audit should be aligned with internationally accepted standards and use a risk- and materiality-based approach in planning and performing the external audit.

### **3.4.3 Reports to Audit Committees**

Each registered public accounting firm that performs for any institution any audit shall report to the audit committee of the institution:-

- a) All critical accounting policies and practices used or to be used;



- b) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management officials of the institution, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the registered public accounting firm; and
- c) Other material written communications between the registered public accounting firm and the management of the institution, such as any management letter or schedule of unadjusted differences.

#### **3.4.4 Additional Responsibilities**

In order to enhance the supervisory role of the Central Bank, the registered public accounting firm may also be required under Section 24(3) to:-

- a) Submit such additional information in relation to its audit as the Central Bank may consider necessary, from time to time.
- b) Attend tripartite meetings with the institution and Central Bank when required by the Central Bank.
- c) Provide working papers for audit engagements when required by the Central Bank.
- d) Conduct ICT audits as provided for in the CBK Guidance Note on Cybersecurity
- e) Carry out any other special investigation.
- f) Submit a report on any of the matters referred to in (a) to (d).

The institution concerned shall remunerate the registered public accounting firm in respect of the discharge of all or any of such additional duties.

#### **3.4.5 Information to be submitted to the Central Bank**

- a) Section 24(4) of the Banking Act stipulates that the registered public accounting firm shall immediately report to the Central Bank if:
  - i. There has been a serious breach of or non-compliance with the provisions of the Banking Act, the Central Bank of Kenya Act or guidelines or other matters prescribed by the Central Bank;
  - ii. Any criminal offence involving fraud or dishonesty has been committed by the institution or by any of its officers or employees;
  - iii. Losses have been incurred which reduce the core capital of the institution by fifty per cent (50%) or more;
  - iv. Serious irregularities have occurred which may jeopardize the security of depositors or creditors of the institution; or

- v. It is unable to confirm that the claims of the depositors and creditors of the institution are capable of being met out of the assets of the institution.
- b) To submit to Central Bank a copy of the Interim Audit Management report.
- c) The registered public accounting firm in addition is required to submit directly to Central Bank no later than three (3) months after the financial year end:
  - i. Certified copies of the BSM-A, PR4-1A, PR21 and PR3-A returns confirming that they are in agreement with the institutions audited books of accounts.
  - ii. A copy of the final audit management letter.
  - iii. A confirmation that adequate provisions for loans and advances have been made. The registered public accounting firm must base their calculation for the required provisions for loans and advances debts as a minimum, on the Guideline CBK/PG/04 on “Risk Classification of Assets and Provisioning”, and relevant Prudential Returns and Completion Instructions.
  - iv. Information that indicates a material breach of the institution’s own policies, Articles of Association and Memorandum of Association.

#### **PART IV: AUDITOR INDEPENDENCE**

External auditors appointed under this Guideline shall maintain independence in both fact and appearance throughout the audit engagement. Independence in fact refers to the exercise of objective and unbiased professional judgement free from actual conflicts of interest. Independence in appearance refers to avoidance of circumstances that may give rise to a perception that such objectivity or professional judgement is impaired.

Auditor independence shall be safeguarded through the following minimum requirements.

##### **(a) Independence Principles**

External auditors shall assess and manage threats to independence arising from self-interest, self-review, advocacy, familiarity and intimidation. Where identified threats cannot be eliminated or reduced to an acceptable level through appropriate safeguards, the auditor shall decline or discontinue the engagement.

##### **(b) Non-Audit Services**

External auditors shall not provide non-audit services that create self-review, advocacy or management participation threats. Prohibited services include, but are not limited to those indicated in Part 4.1 below. Permitted non-audit services shall be subject to prior approval by the institution's audit committee and shall not impair auditor independence.

### **(c) Financial Interests, Relationships and Employment**

- i. External auditors, audit firms and partners shall not:
  - hold any direct or material indirect financial interest in the institution;
  - maintain business or close personal relationships that impair independence; or
- ii. Any circumstance giving rise to an independence threat shall be promptly disclosed to the institution's audit committee.

### **(d) Documentation of Independence Assessments**

External auditors shall maintain documented assessments of independence threats and the safeguards applied for each audit engagement. Such documentation shall be available for inspection by the Central Bank upon request.

### **(e) Auditor Fees and Economic Dependence**

Institutions shall monitor audit and non-audit fees paid to external auditors to ensure that fee levels do not create economic dependence or self-interest threats.

Audit committees shall assess auditor fee dependence annually and document safeguards applied where fee concentration is significant. Fee information shall be made available to the Central Bank upon request.

### **(f) Oversight by the institution's audit committee**

An institution's audit committee shall review the auditor's independence annually. The review shall include: including:

- appointment and reappointment decisions;
- compliance with rotation requirements;
- approval of non-audit services;
- assessment of fees as given in (e) above and

- review of independence of the external auditors including a review of independence confirmations - The audit committee shall obtain annual written confirmation from the external auditor regarding its independence.

## **PART V: INELIGIBLE ACTIVITIES OF REGISTERED PUBLIC ACCOUNTING FIRMS**

### **5.1 Incoming Registered public accounting firm**

A registered public accounting firm shall not be approved to audit an institution if the firm or its partners are involved directly or indirectly with the institution in other non audit services including:-

- i. Book-keeping or other services related to the accounting records or financial statements of the audit client;
- ii. Financial information systems design and implementation;
- iii. Appraisal or valuation services, fairness opinions or contribution-in-kind reports;
- iv. Actuarial services;
- v. Internal audit outsourcing services;
- vi. Management functions or human resources (including head hunting services);
- vii. Broker or dealer, investment adviser, or investment banking services;
- viii. Legal services and expert services unrelated to the audit; and
- ix. Contingent fee arrangements and commission-based engagements relating to the institution's transactions;
- x. Pricing for related-party transactions where the auditor may subsequently audit or opine on the financial statements;
- xi. Design or implementation of internal controls or control frameworks that the auditor subsequently tests as part of the audit;
- xii. Any other service that the Central Bank may specify as not permissible.

An existing audit firm, audit partners or audit manager, already engaged by an institution, which gets involved directly or indirectly with the institution in any of the above non audit services is subject to disqualification by the Central Bank from auditing the institution.

An audit firm, audit partners or audit managers, who have offered any of the above non audit services to an institution, can only be allowed to audit the institution if three (3) years have lapsed from when they ceased offering the services.

## **PART VI: DISQUALIFICATION OF AN APPOINTED REGISTERED PUBLIC ACCOUNTING FIRM**

- a) An approved registered public accounting firm shall be disqualified from auditing an institution if the firm or its partners or associates:-
- i. are involved in the matters specified in Section 24 (7) of the Banking Act.
  - ii. have been granted any type of facility by the institution outside the normal course of business and not at an arm's length by that institution.
  - iii. represents directly or indirectly the interest of the shareholders or directors of the institution in any business venture.
  - iv. have any business interest in association with the shareholders or directors of the institution.
  - v. refuse or fail to satisfactorily undertake additional duties as required by the Central Bank under Section 24 (3) of the Banking Act.
  - vi. fail to report the matters specified in Section 24 (4) of the Banking Act.
  - vii. become involved in matters specified in Section 24 (7) of the Banking Act.
  - viii. do not give a written notice to the Central Bank of the matters specified in Section 25 (2) of the Banking Act.
  - ix. fail to comply with the guidelines and regulations issued by the Central Bank from time to time.
  - x. fail to furnish to the Central Bank details on changes of partnership, audit managers, disciplinary actions against the firm or partners or any other pertinent information.
  - xi. fails to meet the approval criteria set by Central Bank.
- b) If a registered public accounting firm of an institution fails to comply with the requirements of this Guideline, the Central Bank may disqualify the firm from auditing an institution.
- c) Any other information that casts doubt on the integrity and conduct of the firm or any of its partners may also be used for purposes of disqualification.

## **PART VII: CHANGE OF A REGISTERED PUBLIC ACCOUNTING FIRM**

No institution shall remove or change its registered public accounting firm except with the prior written approval of the Central Bank. In considering the proposed change, Central Bank shall obtain a written representation from the outgoing firm. Any institution aggrieved by a decision of the Central Bank to disallow the change of a registered public accounting firm,

may under Section 25(3) of the Banking Act appeal to the Minister for Finance within 14 days. The decision of the Minister for Finance shall be final.

## **PART VIII: REMEDIAL ACTIONS**

Failure to comply with the requirements of this Guideline shall constitute grounds for supervisory action, including objection to appointment, disqualification of the auditor, or other remedial actions provided under sections 33, 33A, 34 and 55 of the Banking Act and Section 56 of the Banking (Penalties) Regulations, 2025

## **PART IX: EFFECTIVE DATE**

**5.1 Effective date** - The effective date of this guideline shall be January 1, 2027.

### **5.2 Transition provisions**

- a) For purposes of Clause 3.1 (b), the six (6) consecutive year tenure of an external auditor shall commence from the effective date of this Guideline.
- b) For purposes of Clause 3.1 (c), the nine (9) year period shall commence from the effective date of this Guideline.
- c) For purposes of Clause 3.2 (a), the three (3) year tenure of the audit partner/manager or officer shall commence from the effective date of this Guideline.

**5.3 Supersedence** – This guideline supersedes and replaces Prudential Guideline on Appointment, Duties and Responsibilities of External Auditors, CBK/PG/09 of 1<sup>st</sup> January 2013.

## **Enquiries**

Enquiries on any aspect of these guidelines should be referred to:-

The Director

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