

**CENTRAL BANK OF SOLOMON ISLANDS**  
**Financial Market Supervision Department**

**Prudential Guideline No. 4**  
**External Audit Requirements**

**Applicability**

1. This Prudential Guideline is applicable to all financial institutions<sup>1</sup> licensed by the Central Bank of Solomon Islands (CBSI).

**Background**

2. In its prudential supervision of licensed financial institutions the Central Bank of Solomon Islands (CBSI) seeks to satisfy itself that individual financial institutions are meeting prudential and statutory requirements and are following management practices which limit risks to prudent levels and which are kept under review and adapted to changing circumstances.
3. CBSI obtains regular statistical data from financial institutions, which in part allow it to monitor whether financial institutions are complying with supervisory requirements set out in the Financial Institutions Act 1998 (the FIA) and Prudential Statements issued by the CBSI. The CBSI is, however, unable to be confident that its judgments about observance of prudential requirements are firmly based without independent confirmation of the accuracy and integrity of the information being submitted by financial institutions.
4. For foreign banks licensed to operate in the Solomon Islands, the external audit requirements outlined in this Prudential Guideline are applicable only to the foreign bank's operations in the Solomon Islands.

**External Audit Requirements**

5. At the time that a licensed financial institution provides a copy of its audited financial statements to CBSI as required by Section 9(3) of the FIA, the financial institution, in accordance with Section 9(10) of the FIA, shall cause the external auditor to submit to the CBSI a report up to the latest balance sheet date containing the auditor's opinion as to whether:
  - (a) the Prudential Guidelines issued 3rd September 2009 by the CBSI for financial institutions are being observed, including, compliance with:
    - (i) minimum capital requirements outlined in Prudential Guideline No. 1 on Capital Adequacy;
    - (ii) single and large borrower limits outlined in Prudential Guideline No. 5, Large Credit Exposures;
    - (iii) the placement of non-performing loans and other interest earning assets on non-accrual or suspended interest status and the adequacy of general and specific provisions for loan losses outlined in Prudential Guideline No. 2; and

---

<sup>1</sup> As defined in the Financial Institutions Act 1998, a financial institution "includes any body corporate doing banking business" in the Solomon Islands.

- (iv) the instructions for the preparation of “prudential returns” in the submission of monthly and quarterly data outlined in Prudential Guideline No. 7; and
  - (b) for foreign bank branches, whether transactions between the foreign bank branch and the head office or any subsidiary or affiliate of the head office or parent are properly supported, not preferential and consistent with similar transactions by the branch with other third parties.
6. Not later than 45 (forty five) days prior to the commencement of the annual external audit required by Section 9(3) of the FIA, a financial institution shall request and meet with the CBSI to discuss and select an aspect, or aspects, of the financial institution’s risk management system to be reviewed by the external auditor. The financial institution will instruct the external auditor to prepare and submit to the CBSI a report on the area selected by the CBSI to be reviewed, a copy of such report shall be provided to the financial institution by the external auditor. The report is to comment on the strengths and weaknesses of the risk management system in the designated area/s. Any report required under this paragraph is to be submitted to the CBSI and the respective financial institution within not later than three (3) months of the financial year-end of the respective financial institution.

### **Enforcement and Corrective Measures**

7. A financial institution which fails to comply with the requirements contained in this Prudential Guideline or submits reports to the Central Bank of Solomon Islands which are materially inaccurate will be considered as following unsound and unsafe practices as provided in Section 16(1) (a) of the FIA.
8. The Central Bank of Solomon Islands may pursue any or all corrective measures as provided in Section 16 of the FIA to enforce the provisions of this Prudential Guideline including:
- (a) issuance of an order to cease and desist from the unsound and unsafe practices and
  - (b) action to replace or strengthen the management of the financial institution.

### **Effective Date**

9. The effective date of this Prudential Guideline is 1 January 2010.

Issued this *4th* day of *September*, 2009

---

Governor Denton Rarawa  
Central Bank of Solomon Islands