

PRACTICE NOTE FOR APPOINTMENT OF AUDITORS OF LISTED COMPANIES

REF: PART II, SECTION 4 – CORPORATE GOVERNANCE CODE

DRAFT

FOREWORD

External auditors are a key stakeholder in ensuring that companies tread the correct path in understanding and managing the risks posed to the companies.

The CMDA, having recognized the importance of the role of the external auditors especially to listed companies which are required to maintain complete and accurate financial reports on a continuing basis decided to publish these practice notes to assist listed companies in determining the criteria to be adopted in selecting their external auditors and also in providing guidance to these companies on managing conflicts of interest which may be prejudicial to the company and its stakeholders.

The practice notes as set out herein includes the qualification framework for external auditors of listed companies, mandatory rotation of the audit partner, criteria to determine the independence of auditors, external auditors advisory capacity, an undertaking by the executive officers of the company responsible for the preparation of the financial reports of the manner of preparation and a declaration of compliance by the auditors concerned.

The CMDA believes that these practice notes will assist the listed companies in improving the risk management processes within their companies and thereby improve the standards of accountability and transparency.

The objectives of these practice notes are to strengthen the effectiveness of the audit while enhancing the accuracy, transparency, consistency and reliability of financial reporting.

SECTION 1

Scope of Application

- 1.1 Every company listed in the Maldives Stock Exchange (MSE) is encouraged to implement these practice notes.
- 1.2 The listed companies should obtain from their auditors a written declaration, setting out the extent of their compliance or non-compliance with these practice notes. The listed company may publish such declaration in the annual report of the company.

SECTION 2

Qualifications and Appointment of Auditors

- 2.1 A listed company should appoint a firm of chartered accountants having the capacity to perform an independent audit of the accounts of the company as their auditors.
- 2.2 A listed company should ensure that its external audit partners are rotated at least every 5 years.
- 2.3 Auditors are to be selected through a formal, open tendering process.
- 2.4 The audit committee to make recommendations to the board on the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor.
- 2.5 Audit Committees to include in the audit committee's report, information on the appointment, reappointment or removal of the Auditor, including supporting information on tendering frequency and the tenure of the incumbent Auditor.
- 2.6 The agreed terms of the audit engagement shall be recorded in an audit engagement letter.

SECTION 3

Independence

- 3.1 The listed company should take all possible measures to ensure that auditors are independent and do not have any conflict of interest (self-interest, self-review, familiarity, intimidation, and advocacy) with the following:

- the listed company;
- the parent of the listed company;
- the subsidiaries of the listed company;
- the associates of the listed company

3.2 The listed company in taking all possible measures to ensure independence of the auditors should among other things require the auditors to ensure that:

- a) The auditors of the listed company should not have transactions with the listed company except in the normal course of business such as transactions as a subscriber or consumer of a utility company and a holder of a current account with a commercial bank but should not be taken to permit the auditor or its partners to obtain a loan or borrowing facility, from the listed company;
- b) The partners of the audit firm or a member of the engagement team does not have a material financial interest or benefit from another form of interest in the listed company, i.e. an investment in the listed company;
- c) The auditors in providing services to a listed company do not audit their own work;
- d) The auditors do not act as representatives for a listed company in dealing with third parties;
- e) Auditors must not hold shares in companies they audit. If auditors hold shares in a company for which they are appointed as the statutory auditor, the shareholding amount should be disclosed;
- f) A member of the engagement team is not being, or has not recently been employed by the audit client, in a position to exert direct and significant influence over the subject-matter (financial statements) of the audit;

- g) A member of the audit team should not have any close or immediate family relationship with a director or officer of the client.

3.3 External auditors of listed companies should not be assigned to undertake any work of advisory nature for the audit client. Advisory work includes but is not limited to undertaking a valuation of business or shares, preparation of prospectus and undertaking internal audit work.

(Circular Number: 179-CIR/2009/14. Dated 07 June 2009)

SECTION 4

Fees

- 4.1 Fees charged by the auditors should demonstrate that the audit firm is able to assign qualified staff and appropriate time to the task.
- 4.2 If the total fees paid by the audit client form a large portion of the audit firm's total income, the dependence on the client may create a self-interest threat. Hence, in order to mitigate such a threat the fees should be discussed with the audit committee and others charged with governance.

SECTION 5

Evaluation of Auditors

At the end of the annual audit cycle the audit committee should assess the qualification, expertise and resources, and independence of the external auditors and the effectiveness of the audit process. They should oversee the appraisal of the auditor and then the chairman of the audit committee should present the results to the board.

ANNEXURE – 1

DRAFT

Confirmation from an Auditor Performing Work for a Listed Company in compliance with these practice notes

[Name and address of the Audit firm]

I [name of the partner] hereby confirm that [name of the Firm of auditors] is in compliant, with respect to [name of listed company] with regard to the PRACTICE NOTE FOR APPOINTMENT OF AUDITORS OF LISTED COMPANIES / REF: SECTION 4 – CORPORATE GOVERNANCE CODE] and all of its related entities (Parent, Subsidiaries and Associates) as follows and that any deviations from the practice notes are as set out below together with the rationale for same.

(Signature of Engagement Partner)

(Date)