



Bangko Sentral ng Pilipinas

OFFICE OF THE GOVERNOR

**Circular No. 474
Series of 2005**

Pursuant to Monetary Board Resolution No. 93 dated 27 January 2005, the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) are hereby amended/added as follows:

Section 1. Subsec. X164.1 of the MORB and Section 4172Q of the MORNBFI are hereby amended, and Sections 4172N and 4172S are hereby added to the MORNBFI to read as follows:

"Financial Audit. Banks/quasi-banks/NSSLAs/NBFIs shall cause an annual financial audit by an external independent auditor ACCEPTABLE TO THE BSP not later than thirty (30) calendar days after the close of the calendar year or the fiscal year adopted by the CONCERNED INSTITUTION. Report of such audit shall be made and submitted to the board of directors/TRUSTEES and the appropriate supervising and examining department of the BSP not later than ninety (90) calendar days after the start of the audit. THE REPORT TO THE BSP SHALL BE ACCOMPANIED BY THE: (1) CERTIFICATION ON THE: (a) DATES OF START AND TERMINATION OF AUDIT; (b) DATES OF SUBMISSION OF THE FINANCIAL AUDIT REPORT (AFS) AND LETTER OF COMMENTS (LOC) TO THE BOARD OF DIRECTORS/EXECUTIVE OFFICER/COUNTRY HEAD; AND (c) THE ABSENCE OF ANY DIRECT OR INDIRECT FINANCIAL INTEREST AND OTHER CIRCUMSTANCES THAT MAY IMPAIR THE INDEPENDENCE OF THE EXTERNAL AUDITOR; (2) RECONCILIATION STATEMENT BETWEEN THE AUDITED FINANCIAL STATEMENTS AND THE CONSOLIDATED STATEMENT OF CONDITION (CSOC) AND CONSOLIDATED STATEMENT OF INCOME AND EXPENSES (CSIE) SUBMITTED TO THE BSP; AND (3) OTHER INFORMATION THAT MAY BE REQUIRED.

The board of directors/TRUSTEES, in a regular or special meeting, shall consider and act on the financial audit report and shall submit, within thirty (30) banking days after receipt of the report, a copy of its resolution to the appropriate supervising and examining department of the BSP. The resolution shall show, among other things, THE ACTION(S) TAKEN ON THE REPORT AND the names of the directors/TRUSTEES present and absent.

PANANALAPING MATATAG, BANSANG PANATAG

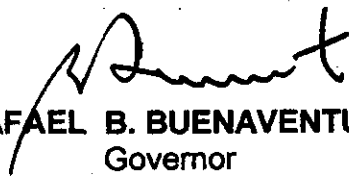
IN ADDITION, THE EXTERNAL AUDITOR SHALL BE REQUIRED BY THE CONCERNED INSTITUTION TO SUBMIT A LETTER OF COMMENTS (LOC) INDICATING ANY MATERIAL WEAKNESS OR BREACH ON THE INSTITUTION'S INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS WITHIN THIRTY (30) CALENDAR DAYS AFTER SUBMISSION OF THE FINANCIAL AUDIT REPORT. IF NO MATERIAL WEAKNESS OR BREACH IS NOTED TO WARRANT THE ISSUANCE OF AN LOC, A CERTIFICATION STATING SAID FACT SHALL BE SUBMITTED IN ITS STEAD TOGETHER WITH THE FINANCIAL AUDIT REPORT.

The board shall consider and act on the Letter of Comments (LOC) and shall submit, within thirty (30) banking days after receipt of THE LOC, a copy of its resolution together with the said LOC to the appropriate supervising and examining department of the BSP. The resolution shall show, among other things, the action(s) taken on the findings and recommendations and the names of the directors/TRUSTEES present and absent.

GOVERNMENT-OWNED OR -CONTROLLED BANKS, INCLUDING THEIR SUBSIDIARIES AND AFFILIATES, AS WELL AS OTHER FINANCIAL INSTITUTIONS UNDER BSP SUPERVISION WHICH ARE UNDER THE CONCURRENT JURISDICTION OF THE COMMISSION ON AUDIT (COA) SHALL BE EXEMPT FROM THE AFOREMENTIONED ANNUAL FINANCIAL AUDIT BY AN ACCEPTABLE EXTERNAL AUDITOR: *PROVIDED*, THAT WHEN WARRANTED BY SUPERVISORY CONCERN SUCH AS MATERIAL WEAKNESS/BREACH IN INTERNAL CONTROL AND/OR RISK MANAGEMENT SYSTEMS, THE MONETARY BOARD MAY, AT THE EXPENSE OF THE CONCERNED INSTITUTION AND UPON RECOMMENDATION OF THE APPROPRIATE SUPERVISING AND EXAMINING DEPARTMENT OF THE BANGKO SENTRAL, REQUIRE THE FINANCIAL AUDIT TO BE CONDUCTED BY AN EXTERNAL INDEPENDENT AUDITOR ACCEPTABLE TO THE BSP: *PROVIDED FURTHER*, THAT WHEN CIRCUMSTANCES SUCH AS LOANS FROM MULTILATERAL FINANCIAL INSTITUTIONS, PRIVATIZATION, OR PUBLIC LISTING WARRANT, THE FINANCIAL AUDIT OF THE CONCERNED INSTITUTION BY AN ACCEPTABLE EXTERNAL AUDITOR MAY ALSO BE ALLOWED.

This Circular shall take effect fifteen (15) days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:



RAFAEL B. BUENAVENTURA
Governor

3 February 2005