

Pursuant to Article 195, paragraph (4), and Article 196, paragraph (4) of the Credit Institutions Act (Official Gazette 117/2008), and Article 43, paragraph (2), item (9) of the Croatian National Bank Act (Official Gazette 75/2008), the Governor of the Croatian National Bank hereby issues the

**Decision
on the contents of audits of credit institutions**

1 GENERAL PROVISIONS

Article 1

(1) This Decision governs the contents of audits of credit institutions, as well as the reasons for the refusal of audit reports and audit firms' assessments of compliance with risk management rules, adequacy of operations of the risk control function, the compliance function and the internal audit function, the state of the information system and adequacy of information system management, as well as of the regularity, accuracy and completeness of the reports delivered to the Croatian National Bank.

(2) The provisions of this Decision shall apply to credit institutions with registered offices in the Republic of Croatia which have been authorised by the Croatian National Bank.

(3) The provisions of this Decision shall apply *mutatis mutandis* to branches of third-country credit institutions which have been authorised by the Croatian National Bank to provide services.

2 CONTENT OF AUDIT

**Audit
Article 2**

(1) For the purposes of this Decision, 'audit' means:

- 1) an audit of annual financial statements and
- 2) audit for the purposes of the Croatian National Bank.

(2) Based on the audit referred to in paragraph (1) of this Article, an audit firm shall prepare:

- 1) a report on the audit of annual financial statements; and

2) a report on the audit for the purposes of the Croatian National Bank.

3 AUDIT OF FINANCIAL STATEMENTS

Audit of financial statements

Article 3

(1) For the purposes of this Decision, 'audit of financial statements' means a procedure for the verification and assessment of a credit institution's annual financial statements, consolidated annual financial statements of a group of credit institutions in the Republic of Croatia and of consolidated annual financial statements of the group, where group members include non-financial institutions, which are prepared by the credit institution in accordance with the Accounting Act and are intended for external users including the Croatian National Bank.

(2) A credit institution's annual financial statements, consolidated annual financial statements of a group of credit institutions in the Republic of Croatia and consolidated annual financial statements of the group, where group members include non-financial institutions must be audited for each business year.

(3) The audit of a credit institution's financial statements shall be carried out in accordance with the State Audit Act, the International Standards on Auditing and rules of the auditing profession, the Accounting Act, the Credit Institutions Act and regulations adopted thereunder.

4 AUDIT FOR THE PURPOSES OF THE CROATIAN NATIONAL BANK

Audit for the purposes of the Croatian National Bank

Article 4

For the purposes of this Decision, 'audit for the purposes of the Croatian National Bank' means a procedure for the verification and assessment of:

- 1) compliance with risk management rules;
- 2) the adequacy of operations of the risk control function, the compliance function and the internal audit function;
- 3) the state of the information system and the adequacy of information system management; and
- 4) the regularity, accuracy and completeness of the reports delivered to the Croatian National Bank.

Audit of compliance with risk management rules

Article 5

(1) An audit firm shall provide an assessment of compliance with risk management rules in accordance with the provisions of the Credit Institutions Act and regulations adopted thereunder.

(2) An audit firm shall assess the adequacy of managing the following risks:

- 1) credit risk;
- 2) liquidity risk;
- 3) market risks;
- 4) interest rate risk in the non-trading book;
- 5) operational risk; and
- 6) other risks to which a credit institution is significantly exposed in its operation, and which might affect the safety and stability of the credit institution' operation.

(3) An audit firm shall provide an assessment of the adequacy of managing the risks referred to in paragraph (2) of this Article based on the assessment of:

- 1) compliance with organisational requirements regarding the management of a particular risk;
- 2) policies and procedures for the management of a particular risk;
- 3) the implementation of adopted policies and procedures;
- 4) the adequacy of identifying, measuring and monitoring a particular risk; and
- 5) the adequacy and efficiency of internal control systems relating to the management of a particular risk.

Audit of control functions

Article 6

An audit firm shall provide a separate assessment of the control functions. The audit firm shall verify and/or assess at a minimum whether:

- 1) a credit institution has established stable and efficient control functions in accordance with subordinate legislation adopted under the Credit Institutions Act;
- 2) the credit institution has organised an internal audit function as a separate organisational unit, functionally and organisationally independent both from the activities it audits and from other organisational units of the credit institution;
- 3) the credit institution has established the control functions in a manner to avoid conflicts of interest;

- 4) the bylaw on control functions is adequate and adopted by the management board subject to the prior approval of the supervisory board;
- 5) the credit institution has ensured, proportionally to its size and the type, volume and complexity of operation, a sufficient number of persons with adequate professional qualifications and experience for carrying out the control function activities;
- 6) the annual control functions' work plans are adequate and adopted in accordance with subordinate legislation adopted under the Credit Institutions Act;
- 7) the control functions prepare control function reports in accordance with subordinate legislation adopted under the Credit Institutions Act;
- 8) the control functions prepare control function work reports in the manner and within time limits stipulated in subordinate legislation adopted under the Credit Institutions Act; and
- 9) the control functions' activities are carried out in accordance with subordinate legislation adopted under the Credit Institutions Act.

Audit of information system

Article 7

(1) An audit firm shall provide a separate assessment of the state of a credit institution's information system and adequacy of the information system management. The audit firm shall:

- 1) apply the methods and procedures for the audit of information systems based on risk assessment;
- 2) define the scope of the audit of the information system based on risk assessment prior to the beginning of the audit of the information system;
- 3) define the depth of audit of the information system, depending on the current state of the information system; and
- 4) verify whether the credit institution complies with subordinate legislation adopted under the Credit Institutions Act relating to the information system.

(2) Based on the audit of the information system, an auditor shall indicate significant risks to which the credit institution is exposed.

Audit of regularity, accuracy and completeness of the reports delivered to the Croatian National Bank

Article 8

(1) In auditing the reports delivered to the Croatian National Bank, an audit firm shall verify the regularity, accuracy and completeness of the reports delivered in accordance with the:

- 1) Decision on reports on own funds and capital requirements of credit institutions;
- 2) Decision on liquidity risk management;
- 3) Decision on the management of interest rate risk in the non-trading book; and
- 4) Decision on credit institutions' supervisory reports.

(2) By way of derogation from paragraph 1 of this Article, the audit firm shall not be obliged to verify the regularity, accuracy and completeness of the:

- 1) Report on shareholders and persons connected with them holding 3 percent or more of shares with voting rights; and
- 2) Report on a credit institution's borrowers whose debt exceeds a specified amount.

(3) An audit firm shall verify the regularity, accuracy and completeness of the reports, by assessing whether they are prepared in accordance with the Credit Institutions Act, regulations adopted thereunder, and the policies and rules laid down by the credit institution, and whether the comparable items of these reports correspond with those of annual financial statements. The assessment of the reports shall be provided in the form of a statement that the reports have been prepared in accordance with the Credit Institutions Act and subordinate legislation of the Croatian National Bank, and that they reflect the state in a realistic and objective way.

(4) Individual reports referred to in paragraph (1) of this Article and their specification shall also be signed by a person from the credit institution's management board responsible for reporting.

5 SCOPE AND CONTENTS OF AUDIT REPORTS

Article 9

(1) Based on the audit referred to in Article 3 of this Decision, an audit firm shall prepare a report on the audit of annual financial statements.

(2) In the audit report referred to in paragraph (1) of this Article, the audit firm shall express a clear opinion on:

- 1) whether the annual financial statements give a true and fair view of a credit institution's financial position in accordance with the Accounting Act and the International Financial Reporting Standards; and
- 2) the compliance of the annual reports with the annual financial statements for the same business year.

(3) Based on the audit referred to in Article 4 of this Decision, an audit firm shall prepare a report on the audit for the purposes of the Croatian National Bank.

(4) The report on the audit for the purposes of the Croatian National Bank shall be prepared in accordance with the Credit Institutions Act and regulations adopted thereunder.

(5) The audit report referred to in paragraph (3) of this Article shall contain:

- 1) a separate assessment of compliance with risk management rule
- 2) a separate assessment of the adequacy of operations of the risk control function, the compliance function and the internal audit function;
- 3) a separate assessment of the state of the information system and the adequacy of information system management;
- 4) a separate assessment of the regularity, accuracy and completeness of the reports delivered to the Croatian National Bank;
- 5) a list of deficiencies identified in the course of the audit of the areas referred to in Articles 5 to 8 of this Decision;
- 6) a statement regarding the implementation of auditor's recommendations from previous years;
- 7) recommendations for the improvement of policies, processes and procedures relating to the management of the risks referred to in Article 5, paragraph (2) of this Decision.

(6) The audited financial statements shall be enclosed with the audit reports referred to in this Article.

(7) The audit reports referred to in this Article shall be signed by a certified auditor in his/her personal name and by an authorised representative in the name of the audit firm.

6 REFUSAL OF AUDIT REPORT AND AUDITOR'S ASSESSMENT

Reasons for refusal

Article 10

(1) The Croatian National Bank may refuse a report on the audit of annual financial statements in the cases referred to in Article 195, paragraph (2) of the Credit Institutions Act, where such a report may lead a beneficiary to a wrong business decision, or where there are significant discrepancies between the income established in the audited profit and loss account and the position established by the Croatian National Bank, or where there are significant discrepancies between the

audited balance sheet and the position established in the course of supervision exercised by the Croatian National Bank.

(2) Where the Croatian National Bank establishes that the audit firm's assessment referred to in Article 9, paragraph (5) items (1) to (4) of this Decision is not in accordance with the Credit Institutions Act, subordinate legislation adopted thereunder, the law governing audits and rules of the auditing profession, or where, in the course of supervision of the credit institution's operation or in any other way, it establishes that the assessment is not based on true and objective facts, it may:

- 1) require the auditor to correct or supplement the assessment; or
- 2) refuse the assessment and require the credit institution to obtain another assessment by certified auditors of a different audit firm at the expense of the credit institution.

(3) The Croatian National Bank shall refuse the audit firm's assessment referred to in Article 9, paragraph (5) items (1) to (4) of this Decision and require the credit institution to obtain another assessment by certified auditors of a different audit firm at the expense of the credit institution, if it establishes significant discrepancies between the audit firm's assessment and the findings of the supervision of the credit institution.

(4) By way of derogation from paragraph (3) of this Article, the Croatian National Bank may require the audit firm to correct or supplement the assessment referred to in Article 9, paragraph (5) of this Decision. Should the audit firm not correct or supplement the assessment, or should it do so in an inappropriate way, the Croatian National Bank shall refuse the audit firm's assessment.

(5) The Croatian National Bank shall, in a decision to refuse an audit report or a decision to refuse an audit firm's assessment, specify the time limit for the delivery of a new audit report or a new audit firm's assessment.

7 REPORTING OBLIGATION AND EXCHANGE OF INFORMATION

Credit institution

Article 11

(1) A credit institution's general meeting shall appoint an audit firm to carry out an audit of the annual financial statements and audit for the purposes of the Croatian National Bank by 30 September of the business year in question at the latest.

(2) The credit institution's management board shall deliver a decision to appoint an audit firm to the Croatian National Bank within eight days of the adoption of the decision.

(3) When delivering the decision referred to in paragraph (2) of this Article, a credit institution shall notify the Croatian National Bank of the total income earned by the audit firm in the previous year and of the income derived from auditing the credit institution in the previous year.

Audit firm
Article 12

An audit firm shall, by 31 October of the current year, submit to the Croatian National Bank an audit plan for the year in question for each credit institution which has entrusted it with the carrying out of audit, indicating the areas of operation in which audits will be carried out and the contents of the audits planned by individual area, as well as the envisaged duration of audit.

8 TRANSITIONAL AND FINAL PROVISIONS

Article 13

(1) As of the day of entering into force of this Decision, the Decision on the audit of financial statements and business functions of banks (Official Gazette 17/2003, 29/2006 and 46/2006) shall cease to be valid.

(2) The first audits of credit institutions in accordance with this Decision shall be carried out for the business year 2009.

This Decision shall be published in the Official Gazette and shall enter into force on 1 July 2009.

No.: 17-020/01-09/ŽR
Zagreb, 2 January 2009

Croatian National Bank
Council Chairman
Governor
Željko Rohatinski, m. p.