

***AUDIT COMMITTEE CHARTER***

***BANK OF BOTSWANA***

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***(Pursuant to Article 7.1 of the Bank of Botswana Bye Laws – Revised 1997)***

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## **1. INTRODUCTION**

1.1 *Article 7.1 of the Bank of Botswana Bye Laws (Revised 1997) provides that there shall be an Audit Committee (the “Committee”) of the Board. The Bye Laws provide that there shall be an Audit Committee Charter, containing the Committee’s terms of reference as approved by the Board, to govern the operations of the Committee, and the Audit Committee Charter shall be regarded as part of the Bye Laws.*

## **2. PURPOSE OF AUDIT COMMITTEE**

2.1 *The purpose of the Audit Committee is to:*

- (a) *assist the Board in the oversight of the following:*
  - (i) *the Bank’s management of market, credit, liquidity and other financial and/or operational risks;*
  - (ii) *the integrity of the Bank's financial statements, including appropriateness, relevance and reliability of operational and financial reporting;*
  - (iii) *the Bank's compliance with legal and regulatory requirements;*
  - (iv) *the external auditors' qualifications and independence; and*
  - (v) *the performance of the Bank's internal audit function and that of external auditors.*
- (b) *recommend whether to appoint, retain or terminate the Bank's external auditors and to pre-approve all audit, audit-related and other services, if any, to be provided by external auditors.*
- (c) *evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied by the Bank in the day-to-day management of its business;*
- (d) *recommend the introduction of measures which the Audit Committee believes may enhance the credibility and objectivity of financial statements and reports concerning the affairs of the Bank; and*
- (e) *advise on any matter referred to the Audit Committee by the Board.*

2.2 *The terms of reference of the Audit Committee shall be reviewed annually by the Board to ensure that the Committee’s objectives are being met effectively and that the terms of reference are sufficiently flexible to adjust to the changing needs of the business;*

2.3 *These terms of reference may be amended as required, subject to the approval of the Board; and*

2.4 *Each Committee member will obtain an understanding of the detailed responsibilities of Committee membership as well as the Bank’s business, operations and risks.*

### **3. MEMBERSHIP AND EXPERIENCE**

- 3.1 *Members of the Audit Committee shall be appointed by the Board and may include non-Board members, who are external experts.*
- 3.2 *The Board shall elect a non-executive Board member to be the Chairman of the Committee, who shall have appropriate expertise in financial and/or accounting matters.*
- 3.3 *The Board shall from time to time, review the composition of the Audit Committee, taking into account the need for an adequate combination of financial literacy, business skill and knowledge.*

### **4. STRUCTURE AND OPERATIONS**

- 4.1 *The Committee shall comprise at least three Board members; one of which shall have appropriate expertise in financial and/or accounting matters.*
- 4.2 *The Committee shall meet at least three times a year and at such other times of the year as may be determined by the Committee and/or required by the Board.*
- 4.3 *The Audit Committee may request the presence of any other persons, such as officers and employees of the Bank, and the Bank's external auditors, at any of the Committee meetings.*
- 4.4 *The Chief Internal Auditor of the Bank shall act as Secretary to the Committee, providing all secretarial services for the meetings.*
- 4.5 *The quorum of the Committee shall be at least two thirds of the members of the Committee, including the Chairman.*
- 4.6 *The members shall serve for a period of four years and shall be eligible for re-appointment. Not more than two thirds of the Audit Committee members should retire within two years of each other.*
- 4.7 *The Board shall have the power at any time to:*
  - (a) *remove any member from the Committee;*
  - (b) *fill any vacancy on the Committee; and*
  - (c) *appoint additional members.*

### **5. MEETINGS AND PROCEEDINGS**

- 5.1 *An appropriate interval of at least five working days should be allowed between Audit Committee meetings and main Board meetings.*
- 5.2 *The members of the Board, the Governor, the Chief Accountant, the External Auditors and the Chief Internal Auditor shall have unrestricted access to the Chairperson or any other member of the Committee in relation to any matter falling within the remit of the Committee.*

- 5.3 *Reasonable notice of meetings and the business to be conducted, together with all relevant supporting documentation, shall be distributed at least one week prior to a meeting to the members of the Committee and all invitees.*
- 5.4 *Any Board member, Committee member or invitee may raise issues or make proposals for consideration at Committee meetings, provided the matters raised are supported by a Committee member.*
- 5.5 *The appointment of alternates or proxies to act for or on behalf of Committee members is not permitted.*
- 5.6 *The Committee members and attendees will, where possible, work by consensus.*
- 5.7 *Only Committee members shall be entitled to vote at meetings.*
- 5.8 *The Audit Committee shall meet with the external and internal auditors independently, at least once a year during the year without the presence of Management of the Bank.*
- 5.9 *The secretary shall take minutes of meetings, which shall be reviewed and approved by the members of the Committee and signed-off by the Chairperson at the next scheduled meeting.*
- 5.10 *The minutes of all Committee meetings shall record the proceedings, approval taken and reasons thereof and the recommendations to be made to the Board. The minutes shall be submitted to the Board meeting following that of the Audit Committee.*
- 5.11 *The agenda for each Board meeting shall provide for an opportunity for the Chairman of the Audit Committee to report on any matters of importance as well as on the Audit Committee's findings and recommended actions. If the Audit Committee Chairman is absent from a meeting, the remaining members shall appoint a Chairperson for the particular scheduled meeting, provided that the meeting has been convened with the full consent of all members, including the Audit Committee Chairman.*
- 5.12 *The Chairman of the Audit Committee shall excuse from the meeting or from any item on the agenda, any Board member or representative, who could, in his opinion, have any conflicts of interest.*

## **6. RESPONSIBILITIES AND AUTHORITY**

- 6.1 *The Committee's responsibility is one of oversight. The responsibility for the preparation, completeness and accuracy of the financial statements rests with Management.*
- 6.2 *The responsibility of the Bank's external auditors is to conduct audits and express an opinion as to whether the Bank's annual financial statements are free of material misstatement and are presented in accordance with Generally Accepted Accounting Principles (GAAP), including International Financial Reporting Standards (IFRSs), and in the manner required by the Bank of Botswana Act (CAP 55:01).*

6.3 *The Committee shall have the resources and appropriate authority to discharge assigned duties and responsibilities, including to recommend to the Board the selection, retention, termination, and approval of fees and other retention terms of special or independent counsel, accountants or other experts. The Committee has the authority to interview members of Management, other employees of the Bank and advisors and agents on any relevant matter, to deal directly with internal and external auditors and to investigate any matters, when necessary. To facilitate this, the Committee's access to records and information relating to the operations of the Bank shall be unrestricted.*

6.4 *The following are the Committee's duties and responsibilities:*

(a) *Financial Reporting and Review Functions*

- (i) *To meet with external auditors, Management, the Chief Internal Auditor, Head of Risk Management and Planning Division and such other personnel as appropriate, and discuss such relevant matters as necessary.*
- (ii) *To recommend whether to appoint, retain or terminate the Bank's external auditors, pre-approve all audit, audit-related and other permitted services, as necessary, to be provided by external auditors; monitor and evaluate external auditors' qualifications, performance and independence; approve and oversee external auditors' annual engagement letter and work, respectively, (including resolving external auditors' possible disagreements with Management) on financial reporting. In conducting such evaluations, the Committee shall:*
  - *at least annually, obtain and review a report by external auditors describing their internal quality control procedures; any material issues raised by their most recent internal quality control review or peer review, or by any inquiry or investigation by governmental or professional authorities, in the preceding five years, respecting one or more independent audits carried out by them and any steps taken to deal with any such issues; and (to assess the auditors' independence) all relationships between the external auditors and the Bank;*
  - *discuss with external auditors any disclosed relationships or services that may impact on their objectivity or independence;*
  - *review and evaluate the qualifications, performance and independence of external auditors' lead and concurring review partners;*
  - *discuss with Management the timing and process for implementing the rotation of the lead audit partner, the concurring review partner and any other active audit engagement team partner, and consider whether there should be a regular rotation of the audit firm itself;*

- *present to the Board, at least annually, the Committee's conclusions with respect to the external auditors.*
- (iii) *To recommend whether to appoint and retain and be directly responsible for fees and oversight of the work of any registered public accounting firm, other than external auditors, engaged by the Bank to perform audit, review or attest services for the Bank.*
- (iv) *To review and discuss with Management and external auditors and, if appropriate, the Bank's internal auditors, the following:*
- *the annual audited financial statements, including whether the financial statements fairly present, in all material respects, the financial condition, results of operations and cash flows of the Bank as of and for the periods presented, and recommend to the Board approval of the audited financial statements;*
  - *whether any significant deficiencies and material weaknesses exist in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarise and report financial information;*
  - *any fraud that has occurred, whether or not material, that involves Management or other employees who have a significant role in the Bank's internal control over financial reporting;*
  - *major issues regarding accounting principles and financial statement presentations, including any significant changes in the Bank's selection or application of accounting principles, and major issues as to the adequacy of the Bank's internal controls and any special audit steps adopted in light of material internal control deficiencies;*
  - *analyses prepared by Management and/or external auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements; and*
  - *the effect of regulatory and accounting initiatives, as well as off-balance sheet structures and contingencies, on the financial statements of the Bank.*
- (v) *To discuss with external auditors at least annually, any matters, problems or difficulties encountered by the auditors in the course of their audit work, including any restrictions on the scope of external auditors' work or access to requested information, and resolve any significant disagreements between external auditors and Management. Among the items the Committee will consider discussing with external auditors are:*

- *any accounting adjustments that were noted or proposed by external auditors, but were "passed" by Management (as immaterial or otherwise); and*
  - *any "Management" or "Internal Control" letter issued, or proposed to be issued, by external auditors to the Bank. The discussion shall also include adequacy of scope of responsibilities, budget and staffing of the Bank's internal audit function.*
- (vi) *To review with Management and, as appropriate, external auditors, at least annually:*
- *external auditors' annual audit scope, risk assessment and plan;*
  - *the form of external auditors' report on the annual financial statements and matters related to the conduct of the audit; and*
  - *comments by external auditors on internal controls and significant findings and recommendations resulting from the audit.*
- (b) *Oversight of the Internal Audit Function*
- (i) *Review the objectives of the internal audit function.*
  - (ii) *Review and approve the annual internal audit work schedule.*
  - (iii) *Assess the adequacy of performance of the internal audit function, including responsibilities, budget and staffing.*
  - (iv) *Review any significant disagreements between Management and internal auditors.*
  - (v) *Review any significant matters reported by internal auditors.*
  - (vi) *Review the coordination between internal auditors and external auditors.*
  - (vii) *Review and recommend for Board approval, the Internal Audit Charter.*
- (c) *Other Oversight Functions*
- (i) *Review corporate policies relating to compliance with laws and regulations, ethics, conflict of interests and the investigation of misconduct and fraud.*
  - (ii) *Review current/pending litigation or regulatory proceedings bearing on corporate governance in which the Bank is a party.*

- (iii) *Review the procedures for the receipt, retention and treatment of complaints received by the Bank regarding accounting, internal controls or auditing matters.*
  - (iv) *Review the policies governing the employment by the Bank of any current or former employee of the Bank's external auditors, to include a provision that no former employee of external auditors, who was a member of the Bank's audit engagement team, may undertake a financial reporting oversight role at the Bank within one year of the date of the commencement of procedures for a review or audit.*
  - (v) *To discuss with Management periodically Management's assessment of the Bank's market, credit, liquidity and other financial risks.*
  - (vi) *To discuss periodically Management's assessment of the operational risks, and the policies, systems and processes for managing such risks.*
  - (vii) *To discuss with relevant Bank officers and/or legal advisors any significant legal, compliance or regulatory matters that may have a material impact on the Bank's business, financial statements or compliance policies.*
- (d) *To discharge any other duties or responsibilities delegated to the Committee by the Board from time to time.*

## **7. COMMITTEE REPORTS**

- 7.1 *The Chairman of the Committee shall produce an annual performance evaluation of the Committee (self-assessment), which evaluation shall compare the performance of the Committee with the requirements of this Charter. The performance evaluation shall also include a review of the adequacy of this Charter and shall recommend to the Board any revisions the Committee deems necessary or desirable, although the Board shall have the sole authority to amend this Charter. The performance evaluation shall be conducted in such a manner as the Committee deems appropriate.*

## **APPENDIX I**

### **ITEMS TO ADDRESS AT AUDIT COMMITTEE MEETINGS**

*The Audit Committee meetings should be scheduled to address the following concerns, and the items on the agendas should, when appropriate, include those matters detailed as follows:*

1. *Statutory Audit Matters*

- (a) Engagement letter; also ensure that all amendments or additions in terms of the engagement have been agreed in writing;*
- (b) Audit scope and coverage, including levels of materiality;*
- (c) Audit fee or any changes thereto;*
- (d) Coordination of internal/external audits;*
- (e) Rotation of audit locations or functions;*
- (f) Number of external audit personnel and allocation of responsibilities;*
- (g) Special emphasis areas, including reviews of information systems;*
- (h) Specialised services to be rendered by external auditors;*
- (i) Timing of fieldwork;*
- (j) Deadlines and expected date of completion;*
- (k) Anticipated audit problems;*
- (l) Recent changes in policies and practices; and*
- (m) Any reported material weaknesses in internal control.*

2. *Internal Control and Audit*

- (a) Internal audit plan, scope and objectives;*
- (b) Internal audit resource requirements;*
- (c) Training facilities for internal auditors; and*
- (d) Any reported significant control deficiencies.*

3. Interim Reports

- (a) *Audit status;*
- (b) *Internal control problems;*
- (c) *Accounting disclosure issues;*
- (d) *Accounting policy changes;*
- (e) *Actions required before year-end; and*
- (f) *Possible audit opinion qualifications,*

4. Review of External Audit

- (a) *Audit findings, recommendations and opinion qualifications; and*
- (b) *Management's response to the external auditors' recommendations and opinion qualifications.*

5. Annual Financial Statements

- (a) *Results of operations.*
- (b) *Prior period adjustments.*
- (c) *Adequacy of disclosures and explanations of accounting policies; and*
- (d) *External Auditors' Report.*

6. Risk Management

- (a) *Review the adequacy of the Bank's risk management policies;*
- (b) *Review financial risk disclosures in the Bank's financial statements; and*
- (c) *Review the adequacy of the Risk Management Framework, Plan, Resources, and progress on recommendations.*