



***AUDIT AND RISK COMMITTEE CHARTER***

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## 1. INTRODUCTION

- 1.1 *Section 67A of the Bank of Botswana (Amendment) Act 2022 provides that there shall be an Audit Committee of the Board that shall be chaired by a non-executive member of the Board and may include non-Board Members.*
- 1.2 *Article 10.2 of the Bank of Botswana Bye-Laws (Revised December 2022) provides 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 Audit Committee. The Audit Committee Charter shall be regarded as part of the Bank's Bye Laws.*

## 2. PURPOSE

2.1 *The purpose of the Audit and Risk Committee (The Committee) is to:*

- (a) *assist the Board in fulfilling its responsibility for the financial reporting process, designing system of internal controls, management of the audit process and the Bank's process of monitoring compliance with laws and regulations, and code of conduct through oversight of the following:*
- (i) *the Bank's management of operational, strategic, financial (market, credit, liquidity), and other financial, operational, information and cyber security 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' engagement and performance;*
  - (v) *the performance of the Bank's internal audit function; and*
  - (vi) *recommend whether to appoint, retain or terminate the Bank's external auditors in line with the Bank's Auditor Rotation Policy of two (2) consecutive five (5) year terms or ten (10) years and to pre-approve all audit, audit-related and other services, if any, to be provided by external auditors.*
- (b) *evaluation of the adequacy and effectiveness of the fraud and other risk assessments, internal control systems, accounting practices, information systems and monitoring processes applied by the Bank in the day-to-day management of its business;*

- (c) *recommend the introduction of measures which the Committee believes may enhance the credibility and objectivity of financial statements and reports concerning the affairs of the Bank;*
  - (d) *recommend measures which the Committee believes may enhance effective governance, performance and accountability in the conduct of the Bank's affairs, including audit reporting; and*
  - (e) *advise on any matter referred to the Committee by the Board.*
- 2.2 *The Charter shall be reviewed annually by the Board to ensure that the Committee's objectives are being met effectively and that the terms of reference covered in the Charter are sufficiently flexible to adjust to the evolving needs of the Bank.*
- 2.3 *These terms of reference may be amended as required, subject to the approval of the Board.*
- 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. COMPOSITION, STRUCTURE AND OPERATIONS**

- 3.1 *Members of the 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 Committee, considering the need for an adequate combination of knowledge of financial matters and business skills.*
- 3.4 *As per section 67A of the Bank of Botswana (Amendment) Act, 2022, the Committee shall consist of three (3) non-executive Board members who should have competence in accounting and auditing, and others having requisite skill in either business, economics, risk management, information technology, information management, legal or other related disciplines.*
- 3.5 *The Committee shall meet at least four (4) times a year and at such other times of the year as may be determined by the Committee and/or required by the Board.*
- 3.6 *The 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.*
- 3.7 *The Director, Internal Audit Services Department (DIASD) of the Bank shall act as Secretary to the Committee, providing all secretarial services for the meetings.*

- 3.8 *The quorum of the Committee shall be at least fifty (50) percent of the members of the Committee, including the Chairman.*
- 3.9 *The members shall serve for such a period as may be determined by the Board and shall be eligible for re-appointment.*
- 3.10 *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.*

#### **4. MEETINGS AND PROCEEDINGS**

- 4.1 *An appropriate interval shall be allowed between Committee meetings and main Board meetings. All committee members are expected to attend each meeting, in person or via virtual platform, teleconferencing or video-conference, as approved by a Board Resolution.*
- 4.2 *The members of the Board, the Governor, the External Auditors, the DIASD , and the Chief Financial Officer shall have unrestricted access to the Chairman or any other member of the Committee in relation to any matter falling within the remit of the Committee.*
- 4.3 *The Committee shall meet with the external and internal auditors independently, at least once a year, without the presence of Management of the Bank.*
- 4.4 *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.*
- 4.5 *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 the Committee.*
- 4.6 *The appointment of alternates or proxies to act for or on behalf of Committee members is not permitted.*
- 4.7 *The Committee members and attendees will, where possible, work by consensus.*
- 4.8 *Only Committee members shall be entitled to vote at meetings.*
- 4.9 *The Secretary shall take minutes of meetings, which shall be reviewed and approved by the members of the Committee and signed by the Chairman at the next scheduled meeting.*
- 4.10 *The minutes of all Committee meetings shall record the proceedings, resolutions made and reasons thereof and the recommendations to be made to the Board. The minutes shall be submitted to the members of the Board.*

- 4.11 *The agenda for each Board meeting shall provide for an opportunity for the Chairman of the Committee to report on any matters of importance, as well as on the Committee's findings and recommended actions.*
- 4.12 *If the Committee Chairman is absent from the Committee meeting, the remaining members shall appoint a Chairman for the scheduled Committee meeting, provided that the meeting has been convened with the full consent of all Committee Members, including the Committee Chairman.*
- 4.13 *The Chairman of the Committee shall excuse from the meeting or from any item on the agenda, any Committee Board member or representative, who could, in the Chairman's opinion, have any conflicts of interest.*

## **5. RESPONSIBILITIES AND AUTHORITY**

5.1 *Section 67A provides that the Committee shall be responsible for:*

- (a) the review, management and audit of financial statements of the Bank;*
- (b) making recommendations to the Board concerning accounting and auditing policies, financial controls; and*
- (c) the appointment of auditors.*

5.2 *The Committee shall ensure that the Bank's external auditors are unrestricted and independent to conduct audits and express an opinion as to whether the Bank's annual financial statements are free from 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 (Amendment) Act 2022.*

5.3 *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.*

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

(a) *Financial Statements*

5.4.1 *To review and discuss with Management and external auditors and, if appropriate, the Bank's internal auditors, the following:*

- (i) 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;*

- (ii) whether any significant deficiencies and material weaknesses exist in the assessment of risks and the design or operation of internal controls over financial management, information and cyber security; which are reasonably likely to adversely affect the Bank's ability to record, process, summarise and report financial information;*
- (iii) any fraud or inappropriate payment that has occurred, whether or not material, that involves Management or other employees who have a significant role in the Bank's internal and financial controls;*
- (iv) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Bank's selection or application of international 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;*
- (v) analyses prepared by Management and/or external auditors setting forth significant financial reporting issues and judgements made in connection with the preparation of the financial statements; and*
- (vi) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures and contingencies, on the financial statements of the Bank.*

*(b) External Audit*

*5.4.2 To discuss with external auditors at least annually, any matters, problems or difficulties encountered by the external 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:*

- (i) any accounting adjustments that were noted or proposed by external auditors, but were "passed" by Management (as immaterial or otherwise);*
- (ii) any "Management" or "Internal Control" letter issued, or proposed to be issued, by external auditors to the Bank; and*
- (iii) the discussion shall also include adequacy of scope of responsibilities, budget and staffing of the Bank's internal audit function.*

*5.4.3 To review with Management and, as appropriate, external auditors, at least annually:*

- (i) external auditors' annual audit scope, risk assessment and plan;*

- (ii) *the form of external auditors' report on the annual financial statements and matters related to the conduct of the audit; and*
- (iii) *comments by external auditors on internal controls and significant findings and recommendations resulting from the audit.*

5.4.4 *To meet with external auditors, Management, the DIASD, and such other personnel as appropriate, and discuss such relevant matters as necessary.*

5.4.5 *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' engagement, 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:*

- (i) *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 (5) years, in respect of one (1) 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's stakeholders;*
- (ii) *discuss with external auditors any disclosed relationships or services that may impact on their objectivity or independence;*
- (iii) *review and evaluate the qualifications, performance and independence of external auditors' lead and concurring review partners;*
- (iv) *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 in line with best practice of not more than seven (7) years, and consider whether there should be a regular rotation of the audit firm itself in line with the Bank's Auditor Rotation Policy of two (2) consecutive five (5) year terms or ten (10) years; and*
- (v) *present to the Board, at least annually, the Committee's conclusions with respect to the external auditors.*

5.4.6 *To recommend whether to appoint and retain external auditors 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.*



(c) 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;*
- (viii) *Ensure there are no unjustified restrictions or limitations;*
- (ix) *Review and concur in the appointment, replacement, or dismissal of the DIASD;*
- (x) *At least once per year, review the performance of the DIASD;*
- (xi) *Ensure that the remuneration of the DIASD is aligned to salary grade approved by the Board; and*
- (xii) *Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' International Professional Practices Framework for Internal Auditing consisting of the Definition of Internal Auditing, Code of Ethics and the Standards.*

(d) Compliance

- (i) *Review the effectiveness of the system for monitoring compliances with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance;*
- (ii) *Review the findings of any examinations by regulatory agencies, and any auditor observations;*
- (iii) *Review the process for communicating the code of conduct to Bank staff, and for monitoring compliance therewith; and*
- (iv) *Obtain regular updates from Management and Bank's Legal Counsel regarding compliance matters.*

(e) Reporting Responsibilities

- (i) Regularly report to the Board about Committee activities, issues, and related recommendations;
- (ii) Provide an open avenue of communication between internal audit, the external auditors, and the Board; and
- (iii) Review any other reports the Bank issues that relate to Committee responsibilities.

(f) Oversight of Risk Management Activities

- (i) To discuss and ~~approve~~ recommend for Board approval, the Bank's Risk Management Framework and Policy, and periodically review Management's assessment of the strategic, operational, financial, cyber-crime, fraud, legal and regulatory compliance, project and operational risk and the policies, structures, systems and processes for managing such risks;
- (ii) To receive and evaluate a report that reflects the key risks facing the Bank and the appropriate mitigating action put in place;
- (iii) To discuss with Management periodically, Management's assessment of the Bank's operational, strategic, financial (market, credit, liquidity), project, legal and regulatory compliance, fraud, financial information and cyber-crime risks; and
- (iv) Assess the adequacy and effectiveness of the Risk Management systems, activities and processes in the Bank.

(g) Oversight of ICT Governance and Projects

*The Committee shall:*

- (i) be accountable for ICT Governance and setting strategic direction for ICT;
- (ii) review and recommend the ICT strategic plan to the Board for approval;
- (iii) provide guidance to the Board on the implementation of the ICT strategic plan;
- (iv) periodically review the progress made in the implementation of the ICT strategic plan and make the necessary adjustments;
- (v) monitor and evaluate significant ICT investments and expenditures;
- (vi) ensure that the information assets are managed effectively and securely; and
- (vii) submit implementation status reports to the Board annually.

(h) Other Oversight Functions of Accountability

- (i) *Review corporate policies and structures 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 relevant Bank officers and/or advisors any significant legal, compliance or regulatory matters that may have a material impact on the Bank's operations, financial statements or compliance policies;*
- (vi) *To discharge any other duties or responsibilities delegated to the Committee by the Board from time to time; and*
- (vii) *The Committee will ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities as required by King III and IV's Code on Corporate Governance.*


**6. COMMITTEE REPORTS**

- 6.1 *The Chairman of the Committee shall produce a summary of proceedings to the Board on the review of accounting and auditing activities of the Bank, and the results of the Committee's evaluation of the risks facing the Bank and the adequacy of mitigating controls in place, especially with regard to cyber-crime and fraud. The Chairman may present any recommendations to the Board on the Committee's findings.*
- 6.2 *The Chairman of the Committee shall produce a performance evaluation of the Committee (self-assessment) every two years, 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.*

**7. APPROVAL**

**7.1** *This Charter was approved by the Board at its meeting of June 16, 2023.*

*Moses D. Pelaelo*  
**GOVERNOR**



**BANK OF BOTSWANA**  
★ 31 JUL 2023 ★  
MOSES D. PELAELO

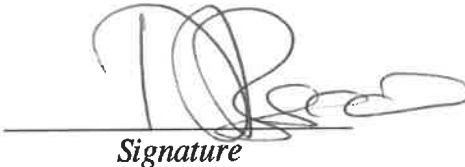
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*Lipalesa G. Makepe*  
**CHAIRMAN, AUDIT AND RISK  
COMMITTEE**



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Signature

**CHAIRMAN OF BOARD**



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Signature

**ITEMS TO ADDRESS AT AUDIT AND RISK COMMITTEE MEETINGS**

*The Committee meetings should be scheduled to address the following issues, and the items on the agenda 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 framework and policies;*
  - (b) *Review financial risk disclosures in the Bank's financial statements; and*
  - (c) *Review the adequacy of the risk management process in the Bank and evaluate controls for all key risks facing the Bank, including cyber-crime and fraud risks.*
7. *Review of the Finance Department's resources (Staffing and the necessary IT Tools)*
- (a) *Review of the Finance Department staffing, and IT tools to enable automation of processes where necessary.*
8. *ICT Governance and Projects*
- (a) *To discuss and recommend for Board approval the ICT related resources.*
  - (b) *Review ICT governance and projects implementation and set ICT strategic direction.*