

**GUIDELINES ON BANKS' AUDIT COMMITTEES, ANNUAL INDEPENDENT
EXTERNAL AUDIT AND PUBLICATION OF AUDITED FINANCIAL STATEMENTS**

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1. AUTHORITY, PURPOSE AND SCOPE

(a) Authority

- 1.1 The Guidelines are issued by the Bank of Botswana (Bank) pursuant to its authority set forth in Section 22 of the Banking Act (CAP. 46:04) (hereinafter referred to as the "Act").

(b) Purpose

- 1.2 The purpose of these Guidelines is to provide guidance for the implementation of the provisions of Sections 22 and 23 of the Act, as well as to enhance good corporate governance, sound accounting and auditing practices in the Botswana banking system.

(c) Scope

- 1.3 These Guidelines apply to banks licensed by the Bank under the Act, to statutory banks and other financial institutions established under separate Acts of Parliament, but falling under the purview of the Bank's supervision in terms of Section 53(2) of the Act and/or their respective statutes.

2. DEFINITIONS

- (a) **Act** - The Banking Act (CAP. 46:04).

- (b) **Audit** - An objective evaluation of information about a bank's economic actions and events, financial statements, financial systems, records, transactions, and operations, conducted in accordance with International Standards on Auditing (ISA) for the purpose of providing assurance of accountability, giving credibility to the financial statements and other management reports, identifying weaknesses in internal controls and financial systems, and making appropriate recommendations for improvement.

- (c) **Audit Committee** - A committee (or equivalent body) established by and amongst the board of directors of a bank, for the purpose of overseeing the accounting and financial reporting processes and audits of the financial statements of the bank and ensuring the adequacy and efficiency of the bank's internal control systems.

- (d) **Audit Opinion** - A formal report on an audit, which gives the auditor's conclusion and clearly sets forth a judgement of the reasonableness with which the financial statements present the bank's financial position and results of operation and are presented in accordance with international and/or national financial reporting standards. The audit opinion expressed may be (1) unqualified, (2) qualified (3) adverse or (4) a disclaimer of opinion, as the case may be.

- (e) **Audit Report** - The expression of opinion rendered in writing by the auditor on the financial information of the bank in accordance with ISA. The audit report must contain, as a minimum, the following information:
 - (i) title;
 - (ii) addressee;
 - (iii) introductory paragraph;
 - (iv) references to the auditing standards followed;
 - (v) board of directors' responsibility for the financial statements;
 - (vi) auditors' responsibility;
 - (vii) auditors' opinion;
 - (viii) other reporting responsibilities (including reporting on non-financial and regulatory compliance issues);
 - (ix) auditors' signature;
 - (x) date of the auditors' report; and
 - (xi) auditors' address.
- (f) **bank** - A company which is licensed by the Bank, pursuant to the Act, to conduct banking business in Botswana.
- (g) **Banking Business** - The business of accepting deposits of money repayable on demand or after fixed periods or after notice, as the case may be, by cheque or otherwise; and/or the employment of deposits in the making or giving of loans, advances, overdrafts or other similar facilities, and in the making of investments or engagement in other operations authorised by law or under customary banking practice, for the account of, and at the risk of, the person or persons accepting such deposits, and includes the discounting of commercial paper, securities and other negotiable instruments, for the purpose of extending loans or other credit facilities.
- (h) **Board of Directors** - The highest body of authority in a bank responsible for strategically guiding the bank, effectively monitoring management and properly accountable to shareholders (Section 127 of the companies Act, 2003).
- (i) **The Bank** - The Bank of Botswana established under the Bank of Botswana Act (CAP. 55:01).

- (j) **Home Country Supervisor** - The competent authority that supervises the financial activities in the country where the head office of a bank's foreign parent bank is located.
- (k) **Non-Executive Director** - A director who has no involvement in the day-to-day management of the company.
- (l) **International Financial Reporting Standards (IFRS)** - Formal requirements issued by the International Accounting Standards Board (IASB) that specify how transactions or events are to be recognised and accounted for and what disclosures should be made in the face or notes to the financial statements.
- (m) **International Standards on Auditing** - Standards prescribed by the International Auditing and Assurance Standards Board (IAASB) for the conduct of audits of banks and similar entities.
- (n) **Letter of Engagement** - A document addressed by the auditor to the client bank confirming acceptance of the appointment, stating the objective and scope of the audit, the extent of responsibilities to the client bank and the format of any reports.
- (o) **Management Letter** - Separate from the audit opinion contained in the audit report, the management letter is addressed to the management of the bank and discloses weaknesses and the limitations found in the internal control structure and operating procedures of the bank. The management letter:
 - (i) provides comments and observations on the accounting records, operating systems, and internal controls that were examined during the course of the audit;
 - (ii) identifies specific deficiencies and areas of weaknesses in operating systems and internal controls and makes recommendations for their improvement;
 - (iii) communicates matters that have come to the auditor's attention during the audit that might have a significant impact on the financial condition of the bank, including: (1) any fraudulent act(s) by any director, senior management official, employee, or agent of the bank; (2) any irregularity or deficiency in the administration or operations of the bank that should be expected to result in a material loss; and (3) any violation of laws and regulations governing the bank; and
 - (iv) brings to the attention of the board of directors any matter that the auditor deems pertinent.

- (p) **Mobile Site** - A place of business at which a bank provides banking services to an area on a temporary and periodic visiting basis.
- (q) **Place of Business** - Any branch, office or agency (including a mobile site) of a bank in Botswana open to the public for the transaction of banking business.
- (r) **Related Person** - Includes all of the following without limitations: (1) Significant shareholders; (2) Member of the board of directors, Audit Committee, Credit Committee, Asset/Liability Management Committee (ALCo), Remuneration Committee (RemCo) and any other structure responsible for policy decisions in a bank; (3) Senior management officials; (4) Any person who is related to such significant shareholder, member of the board of directors or Audit Committee, Principal Officer or Senior Management Official by family or business interest; (5) Subsidiary of the bank; (6) Company or undertaking in which at least a 5 percent interest is held by the bank; (7) Parent company of the bank; (8) Company that is under common control with the bank; and (9) A company that holds at least a 5 percent interest of another company in which the bank holds at least a 5 percent interest.
- (s) **Senior Management Official** - Any person who is an officer of a bank, including the “Managing Director” or Chief Executive Officer (and deputies), Chief Financial or Operations Officer, Chief Lending Officer, Chief Internal Auditor, Chief Treasury Officer (or their equivalents), and other Heads of Department (core banking functions).
- (t) **Significant Shareholder** - A person (physical or juridical) holding, directly or indirectly: (1) 5 percent or more of the equity or voting rights of a bank; or (2) an equity or other interest in a bank that enables the holder to exercise significant influence over its management or activity.

3. **REQUIREMENTS FOR AN AUDIT COMMITTEE**

- 3.1 In accordance with Section 23(1) of the Act, a bank shall have an Audit Committee, consisting of at least three members of the board of directors, the majority of which must be independent non-executive directors.
- 3.2 At a minimum, members of the Audit Committee should have relevant experience and should possess a balance of skills and expert knowledge, commensurate with the complexity of banking organisations and duties performed in financial reporting, accounting and auditing.
- 3.3 The functions of the Audit Committee shall, as a minimum, include the following:
 - (i) recommend to the board appropriate accounting policies, standards and controls for the bank and supervise compliance therewith;

- (ii) assist the board of directors in its evaluation of the adequacy, efficiency and effectiveness of the bank's internal control systems, accounting practices, information systems and auditing processes;
- (iii) facilitate communication between the board of directors, senior management, internal auditor and the external auditor regarding matters referred to in paragraph 3.3(ii), risk management or any other related matters;
- (iv) recommend to the board of directors the appointment, dismissal and compensation of external auditors;
- (v) provide oversight of the internal and external auditors and take appropriate measures to enhance their independence by ensuring that the auditors' report is sent directly to the Audit Committee;
- (vi) introduce such measures as, in the Audit Committee assessment, may serve to enhance the integrity of financial statements, including appropriateness, relevance and reliability of operational control environment, financial disclosures and, in general, financial reporting;
- (vii) review and approve the audit scope;
- (viii) receive and review internal and external audit reports including the management letter, ensure that senior management officials take appropriate and timely action to correct weaknesses in internal control, non-compliance with policies, laws, regulations and directions, and other problems uncovered by the auditor;
- (ix) receive and review the audited financial statements and recommend these financial statements to the board of directors; and
- (x) establish procedures for confidential submissions by employees regarding inappropriate accounting and other business matters.

4. REQUIREMENTS FOR ANNUAL INDEPENDENT AUDIT

(a) Appoint an Independent External Auditor

- 4.1 In accordance with Sections 19 and 22 of the Act, each bank shall, on an annual basis and upon recommendation by its Audit Committee, appoint an independent external auditor.
- 4.2 The independent external auditor appointed must be professionally qualified and acceptable to the Bank. The auditor must:
 - (i) be a member of the Botswana Institute of Accountants (BIA) and/or equivalent body and in good standing;

- (ii) have relevant professional experience and competence;
 - (iii) be subject to a quality assurance programme by BIA;
 - (iv) demonstrate objectivity and impartiality; and
 - (v) comply with ethical standards for auditing and the “Code of Ethics for Professional Accountants” of the BIA and International Federation of Accountants.
- 4.3 The independent auditor must not have any interest in the bank other than as a depositor or borrower in the ordinary course of business. Specifically, the following persons are not qualified for appointment as independent auditor of a bank:
- (i) any related person of the bank as described under paragraph 2(r);
 - (ii) a director or senior management official of the bank;
 - (iii) a person who is an employee or employer of a director or senior management official of that bank or any related person of such Director or senior management official;
 - (iv) a body corporate;
 - (v) a person who alone, or with a partner or employee, regularly performs the duties of a secretary or book-keeper to the bank or for any related person of the bank; and
 - (vi) any former employee of the client bank who has resigned from the service of the client bank within the last three years.
- (b) **Execute a Letter of Engagement**
- 4.4 The letter of engagement between the bank and the independent auditor must stipulate that the auditor shall:
- (i) fulfil the requirements of Sections 19 and 22 of the Act;
 - (ii) conduct the audit and prepare the audit report, audit opinion and management letter in accordance with the requirement in the Companies Act 2003 relating to the auditing of company accounts, IFRS and ISA;
 - (iii) prepare all audit documents in English.
- (c) **Rotation of Lead or Coordinating Partner**
- 4.5 The external audit firm must rotate, every five years, the lead auditor or coordinating partner or the partner responsible for reviewing the audit.

(d) Notify the Bank of Audit Appointment

4.6 Not later than the first day of each financial year, each bank shall submit to the Bank the following information:

- (i) the audit period;
- (ii) details of the identified independent auditor, including: name, address, telephone number, and a copy of the letter of engagement;
- (iii) certified excerpts from the minutes of the meetings of the Audit Committee and of the board of directors recommending the appointment of the independent auditor. However, within four months after the balance sheet date, each bank shall submit to the Bank certified excerpts from the minutes of the Annual General Meeting approving the appointment of auditors; and
- (iv) where a bank has failed to re-appoint an independent auditor, the reasons for such failure.

(e) Perform Annual Independent Audits

4.7 The duly appointed independent auditor shall audit a bank on an annual basis. The auditor shall have the right of access at all times to the books, records and information from senior management officials of the bank, its affiliates and subsidiaries.

(f) Submit Independent Audit Report to the Bank

4.8 Within 15 days from the date that its year-end audited financial statements have been prepared, each bank shall submit to the Bank under the signatures of the principal officer and two of its directors:

- (i) the audit report, audit opinion, management letter and other documents required by Sections 19 and 22 of the Act; and
- (ii) a certification that the bank has met the requirements to publish and exhibit its audited financial statements and audit opinion pursuant to Section 19 of the Act and these Guidelines, and that the bank has fully complied with Sections 19, 22, and 23 of the Act. A bank will only publish its audited financial statements after receiving prior Bank approval.

(g) Submit Independent Audit Report to the Annual General Meeting (AGM) of Shareholders

4.9 The audit report shall be read with the report of the board of directors at the AGM of the shareholders of the bank.

5. REQUIREMENT TO PUBLISH AUDITED FINANCIAL STATEMENTS

5.1 Within 15 days from the date that its year-end audited financial statements have been prepared, but not later than the 15th day of the 4th month following a bank's financial year-end (after receiving consent from the Bank), each bank shall:

- (i) publish in at least two newspapers of general circulation in Botswana, its audited statement of financial position and statement of income, on both an individual and consolidated basis as applicable, and an audit opinion;
- (ii) exhibit in each place of business in Botswana, excluding mobile sites, its latest audited statement of financial position and statement of income for its most recent financial year on both an individual and consolidated basis as applicable, and an audit opinion. Such exhibit shall be displayed in a conspicuous position in each of the bank's places of business in Botswana at all times throughout the year.

6. REQUIREMENTS FOR COMMUNICATION BETWEEN THE BANK AND A BANK'S INDEPENDENT AUDITOR

(a) Bilateral Meetings and Communications

6.1 The Bank may, if it considers it desirable or necessary in the interests of depositors, from time to time arrange bilateral meetings with the independent auditor of a bank.

6.2 A bank's independent auditor shall notify the Bank, as soon as practical, if the auditor:

- (i) becomes aware that there has been a breach or non-compliance with the provisions of the Act, the Bank of Botswana Act, the Companies Act (or any regulations issued under those acts), any guidelines issued by the Bank, or the bank's articles of association, charter, or by-laws;
- (ii) becomes aware that a criminal offence involving fraud or other dishonesty has been committed;
- (iii) becomes aware that losses have been incurred which will reduce the paid-up capital of the bank;
- (iv) becomes aware that serious irregularities have occurred in the affairs of the bank, particularly such irregularities that jeopardise the security of depositors and creditors;
- (v) is unable to confirm that the claims of depositors and creditors are still covered by the assets of the bank (the bank is or may be insolvent);
- (vi) knows of facts that adversely affect the bank's ability to continue as a going concern;

- (vii) has information that the bank has failed to fulfil one of the requirements for or a condition of its licence;
- (viii) concludes that there is serious dissension or conflict between the decision-making levels of management, which has significantly impaired or has the potential to significantly impair the risk management capacity of the bank, for example a senior management official in a key function has unexpectedly left the bank's employ;
- (ix) intends to resign, or is removed, during the audit of the bank;
- (x) becomes aware that there has been material adverse changes in the risk profile of the bank's current or possible future business;
- (xi) intends to issue a "qualified" audit opinion due to irreconcilable differences with senior management officials regarding material misstatements of the bank's financial statements; and
- (xii) becomes aware that the bank has failed to comply with a recommendation by the auditor that a matter be communicated to the Bank.

(b) **Trilateral Meetings**

6.3 At least once a year, the Bank shall arrange a trilateral meeting with officials from each bank and the independent auditor for that bank to discuss matters relevant to the Bank's supervisory responsibilities, which would have arisen in the course of the annual independent audit of the bank, including:

- (i) relevant aspects of the bank's business; accounting and internal control systems, and annual balance sheet and profit and loss statement;
- (ii) major auditing issues, appropriate accounting policies, current accounting problems, new instruments, products and transactions, financial innovations, etc; and
- (iii) other issues of mutual concern.

7. **ADDITIONAL REQUIREMENTS FOR EXTERNAL AUDITOR TO CONTRIBUTE TO SUPERVISORY PROCESS**

7.1 As part of the statutory audit of a bank the auditor shall, in addition, be required to:

- (i) certify that the information on the Statutory Returns as at the end of the financial year is in agreement with the audited books of accounts. The auditor's certificate should be submitted to the Bank no later than three months after the end of the financial year;
- (ii) submit directly to the Bank, a copy of the interim and audit management letter as soon as they are finalised; and

- (iii) conduct a special audit at the expense of the bank as and when directed to do so by the Bank.
8. These guidelines set out minimum requirements. It is expected that while ensuring full compliance, each bank shall aim for higher standards and proactive adoption of standards that compare with international best practice.

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DIRECTOR
BANKING SUPERVISION DEPARTMENT