

INTERNAL AUDIT CHARTER

BANK OF BOTSWANA

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1. PURPOSE OF THE INTERNAL AUDIT CHARTER

- 1.1 *The purpose of the Internal Audit Charter is to define the purpose, authority and responsibility of the Internal Audit Division in the Bank. The Charter seeks to lay down the purpose of internal auditing, specify the scope of its work, and declare that auditors are to have no line function or responsibility for the activities/areas they audit.*
- 1.2 *The Internal Audit Charter facilitates the approval of the above stated understanding by the Management and its acceptance by the Audit Committee. Article 7.6 of the Bank of Botswana Bye Laws (Revised in 1997) requires the appointment of an Internal Auditor of the Bank, and briefly summarises his/her reporting and other responsibilities. The Internal Audit Charter gives substance to this.*

2. PURPOSE OF THE INTERNAL AUDIT DIVISION

- 2.1 *The purpose of the Internal Audit Division is to provide an independent, objective assurance and consulting/advisory services designed to add value and improve the Bank's operations. It helps the Bank to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*
- 2.2 *The Internal Audit Division must assist the Governor in achieving the objectives of the Bank by evaluating and developing recommendations for the enhancement or improvement of the processes through which:*
- *accountability is ensured; and*
 - *corporate values are preserved.*

3. POLICY STATEMENTS

3.1 Establishment of the Internal Audit Function in the Bank

- 3.1.1 *It is the policy of the Board, as embedded in the Bye Laws of the Bank, to establish, empower and support an Internal Audit Division in the Bank. This Division operates as a function which evaluates and appraises the activities, operations, systems and controls of the Bank.*

3.2 Vision

- 3.2.1 *The Internal Audit Division aspires to provide a world class internal audit service with the highest standards of governance and professional excellence.*

3.3 Mission Statement

- 3.3.1 *The mission of the Internal Audit Division is to ensure that Management establishes and maintains a sound internal control and governance environment in the Bank.*

- 3.3.2 *The primary goals of the Division are to:*

- (a) *provide auditing services to the Management that are timely, effective and relevant;*
- (b) *reduce risk while promoting operational efficiency within the Bank; and*
- (c) *promote the adoption and use of international best practices in corporate governance and accounting standards.*

3.4 Values

3.4.1 *The key values of the Bank's Internal Audit Division are integrity, objectivity, confidentiality and competency.*

3.5 Authority and Reporting

3.5.1 *The Chief Internal Auditor will report functionally to the Audit Committee of the Board and administratively to the Governor of the Bank. The Chief Internal Auditor and other Internal Audit Division staff will have the right to full, free and unrestricted access to all of the Bank's financial and operational activities, systems, records, property, personnel and such other sources of information and resources as may be necessary to carry out their function.*

3.6 Independence

3.6.1 *In order for the Internal Audit Division to meet objectives and responsibilities set out in the Charter, the Division's staff members shall be independent from the activities they audit. The Internal Audit Division shall carry out its work freely and objectively and render impartial and unbiased judgements.*

3.6.2 *Independence is achieved through the organisational status of the Internal Audit Division and the objectivity of the internal auditors. To provide for the independence of the internal auditing function, the staff members of the Division report to the Chief Internal Auditor, who reports administratively to the Governor and functionally to the Audit Committee.*

3.6.3 *Internal Audit Division shall have an objective attitude and will be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality. Specifically:*

- (a) *the Internal Audit Division staff member(s), notwithstanding their employment by the Bank, should be free from any conflict of interest arising either from professional or personal relationships or other interests in the Bank or activity, which it may subject to audit;*
- (b) *the Internal Audit Division should be free from undue influence, which either restricts or modifies the scope or conduct of its work or over-rules or significantly affects its judgment as to the content of any internal audit reports; and*

- (c) *in the interest of independence, the Internal Audit Division will remain independent of all line and functional management and will have no direct responsibility for or authority over, any of the Bank's activities.*

3.7 Cooperation

3.7.1 *The independent role of the Chief Internal Auditor should in no way diminish a good working relationship with other Departments within the Bank. Contact at the appropriate managerial levels before, during and after the conclusion of an audit assignment is essential.*

3.7.2 *There should be close cooperation between the Internal Audit Division and the Bank's external auditors. The Internal Audit Division shall also maintain a close working relationship with all the relevant Compliance Officers/Internal Auditors of the Bank's custodian(s), fund managers and other agents of the Bank.*

3.8 Budget

3.8.1 *The Chief Internal Auditor shall submit annually, prior to the beginning of each financial year, the budget for the operations of the Internal Audit Division to the Governor for consideration.*

3.8.2 *The Internal Audit Division budget shall form part of the overall budget of the Bank that would be submitted to the Audit Committee for review.*

4. SCOPE AND RESPONSIBILITIES OF THE INTERNAL AUDIT DIVISION

4.1 Nature and Scope of Work

4.1.1 *It is the Management's responsibility to design and maintain a system of controls, financial and otherwise; to ensure that the activities of the Bank are carried out in an orderly, efficient, and economical manner; ensure adherence to Management policies; safeguard the assets and secure, as far as possible, the completeness and accuracy of the Bank's records.*

4.1.2 *The nature and scope of the Internal Audit Division's work includes the following:*

- (a) *review all Departmental functions within the Bank and its agents at appropriate intervals, to determine whether such functions are efficiently and effectively carried out in accordance with established objectives, policies, procedures, practices and standards;*
- (b) *determine the soundness, adequacy, effectiveness and application of financial and other management systems and internal controls;*
- (c) *review the reliability, integrity and usefulness of financial, technical, operational and management information and the means used to identify, measure, classify, and report such information;*

- (d) *review established systems to ensure compliance with those policies, plans, targets, procedures, laws and regulations, which could have a significant impact on operations and reports;*
- (e) *determine and evaluate the adequacy of the systems, which safeguard Bank assets and interests from losses of all kinds, including waste, extravagance and inefficient administration, commercially deficient practices or any other causes;*
- (f) *appraise the economy and efficiency with which resources are employed and the quality of performance in carrying out assigned responsibilities;*
- (g) *review, appraise and report on operations, plans or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations, plans or programmes are being carried out as directed by the Management and the Board;*
- (h) *review compliance with the Bank's guidelines for ethical business conduct and ensure that the highest personal and corporate standards are met;*
- (i) *ensure that actions to be taken by the Management to correct audit findings are satisfactorily implemented. If actions are considered unsatisfactory, follow-up should be made at an appropriate level;*
- (j) *conduct special examinations and investigations requested by the Operational and Executive Management;*
- (k) *facilitate and coordinate the Control Risk Self-Assessment Programme of the Bank and ensure that risks identified by the Departmental Management are actioned where appropriate, tailor the audit programmes of regular audits accordingly, in order to address risks identified through the Control Risk Self-Assessment Programme;*
- (l) *initiate the periodic review of both the Audit Committee Charter and the Internal Audit Charter to ensure that they remain relevant to the requirements of the Bank and in line with modern corporate governance practices;*
- (m) *coordinate the activities of the Bank's external auditors regarding the audit of the Bank's annual financial statements;*
- (n) *the Chief Internal Auditor or his/her nominees will act as Secretary to the Audit Committee, providing all secretarial services of the Audit Committee meetings;*
- (o) *provide a list of significant measurement goals and results to the Audit Committee; and*
- (p) *keep the Audit Committee informed of emerging trends and successful practices in internal auditing.*

4.1.3 *The Internal Audit Division shall have a comprehensive manual to guide staff on the process of examining and evaluating information.*

4.2 *Auditing and Reporting Responsibilities*

4.2.1 *The Chief Internal Auditor will be responsible for ensuring that:*

- (a) *major areas of the Bank which need to be reviewed or audited are identified and discussed with the Governor, Deputy Governors, General Managers and Heads of Department in order to determine the required and appropriate direction and thrust of the audit effort within the Bank;*
- (b) *audit programmes are developed so that the overall audit effort is directed towards those areas which have the highest exposure to risk. The assessment of risk must be evaluated at appropriate intervals and amendments made to annual audit plans, where necessary;*
- (c) *annual audit plan/work programme is prepared and submitted to the Governor for his/her review and approval. This should be submitted to the Audit Committee of the Board for consideration and recommendation to the Board for approval. The accepted audit plan/work programme, including any changes made thereto by the Audit Committee, will be binding on the Chief Internal Auditor;*
- (d) *audit activities are carried out in accordance with the approved strategic and annual audit plans and resources as appropriately approved by the Governor and /or Audit Committee;*
- (e) *audit findings and recommendations which need immediate corrective action are timely reported to those levels of Operational and/or Executive Management who are responsible for taking immediate corrective actions. The adequacy and effectiveness of corrective actions will be monitored, evaluated and, where necessary, reported on;*
- (f) *draft audit reports are discussed with the appropriate levels of Operational Departments. Heads of Department will formally document their comments and implementation timetables within two weeks of receipt of the draft audit report. Final audit reports will incorporate Departmental Management's written comments and implementation timetables for each of the audit recommendations. Final audit reports shall be submitted to the Governor. An executive summary of each report will be submitted to the Audit Committee of the Board on a half yearly basis;*
- (g) *any major disagreements between the Internal Audit Division and the Management are discussed at the Audit Committee;*
- (h) *any attempted scope limitation by management is reported, preferably in writing, to the Governor and to the Audit Committee. The question of whether an action from management in fact constitutes a scope limitation is the judgment of the Chief Internal Auditor. Except in cases of suspected fraud, the Governor and the Audit Committee may decide to accept a limitation of*

scope. In such instances, the Chief Internal Auditor should evaluate from time to time whether the circumstances surrounding the scope limitation are still valid and whether the scope limitation needs to be reported again to the Governor and the Audit Committee for their renewed consideration; and

- (i) a monthly report is prepared and submitted to the Governor, containing information and feedback regarding:
 - (i) audit progress against the approved plans and any deviations from them, as well as any required/requested changes which need to be made;*
 - (ii) major audit findings and recommendations;*
 - (iii) corrective action already taken or implementation progress in respect of significant audit recommendations;*
 - (iv) significant audit projects completed or in progress which require consideration;*
 - (v) the extent to which the Chief Internal Auditor has met set performance targets;*
 - (vi) investigations carried out on reported cases of fraud or suspected fraud or any other irregularities and reported to the most appropriate level of the Operational Executive Management for action;*
 - (vii) progress on appropriately approved ad-hoc audit requests from the Operational or Executive Management; and*
 - (viii) variation of planned audit resources, training and awareness programmes.**

4.3 Other Responsibilities

4.3.1 In addition to the above, the Chief Internal Auditor will ensure that:

- (a) all activities are carried out according to the rules and guidelines as set out in this document and in such a manner that it is consistent with the Standards for the Professional Practice of Internal Auditing and with the professional standards of conduct as per the Code of Ethics of the Institute of Internal Auditors;*
- (b) the Internal Audit Division is adequately structured and staffed with professionally qualified internal auditors, to carry out its duties and responsibilities in accordance with specific audit needs and requirements of the Division as identified, planned and approved, from time to time;*
- (c) appropriate and adequate Divisional policies, procedures, and controls are established to ensure the smooth functioning of the Internal Audit Division*

within the broader boundaries of the applicable Bank policies and procedures as prevailing from time to time; and

- (d) the Chief Internal Auditor and the Division keep up to date with technological and business changes in order to adjust the Internal Audit Division's methods of operation and audit approach to ensure that the Internal Audit Division remains efficient and effective. This includes a constant review of the Division's image, standards, level of professionalism and adequacy of its overall service and value to the Bank as a whole.*

5. OBJECTIVES OF INTERNAL CONTROLS

5.1 Reliability and Integrity of Information

5.1.1 Internal Auditors review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.

5.1.2 Information systems provide data for decision-making, control and compliance with external requirements. Therefore, internal auditors examine information systems and, as appropriate, ascertain whether:

- (a) financial and operating records and reports contain accurate, reliable, timely, complete, and useful information; and*
- (b) controls over record keeping and reporting are adequate and effective.*

5.2 Compliance with Policies, Plans, Procedures, Laws and Regulations

5.2.1 Internal Auditors review the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and should determine whether the Bank is in compliance.

5.2.2 Management is responsible for establishing the systems designed to ensure compliance with such requirements as policies, plans, procedures and applicable laws and regulations. Internal Auditors are responsible for determining whether the systems are adequate and effective and whether the activities audited are complying with the appropriate requirements.

5.3 Safeguarding of Assets

5.3.1 Internal Auditors review the means of safeguarding assets and, as appropriate, verify the existence of such assets.

5.3.2 Internal Auditors review the means used to safeguard assets from various types of losses such as those resulting from theft, fire, improper or illegal activities, and exposure to the elements. Internal auditors, when verifying the existence of assets, should use appropriate audit procedures.

5.4 Economic and Efficient use of Resources

5.4.1 *Internal Auditors should appraise the economy and efficiency with which resources are employed.*

5.4.2 *Management is responsible for setting operating standards to measure an activity's economical and efficient use of resources. Internal auditors are responsible for determining whether:*

- (a) *operating standards have been established for measuring economy and efficiency;*
- (b) *established operating standards are understood and are being met;*
- (c) *deviations from operating standards are identified, analysed and communicated to those responsible for corrective action; and*
- (d) *corrective action has been taken.*

5.4.3 *Audits related to the economical efficient use of resources should identify such conditions as:*

- (a) *Under-utilised facilities;*
- (b) *Non-productive work;*
- (c) *Procedures which are not cost justified; and*
- (d) *Over staffing or under staffing.*

5.5 Accomplishment of Established Objectives and Goals for Operations

5.5.1 *Management and the Board are responsible for establishing operating or programme objectives and goals, developing and implementing control procedures, and accomplishing desired operating or programme results. Internal Auditors should ascertain whether such objectives and goals conform to those of the Bank and whether they are being met.*

5.5.2 *Internal Auditors can provide advice to managers who are developing objectives, goals and systems by determining whether the underlying assumptions are appropriate; whether accurate, current, and relevant information is being used; and whether suitable controls have been incorporated into the operations or programmes.*

6. **RELATIONSHIP WITH EXTERNAL AUDITORS**

6.1 *The External Auditors fulfill a statutory duty for which they are responsible to the Bank. The Internal Audit Division will co-ordinate its activities with others, as directed by Management. The External Auditors will be notified of the activities of the Internal Audit Division in order to minimise duplication of audit effort.*

6.2 *This will be accomplished by:*

- (a) *a meeting between the Internal Audit Division and External Auditors to discuss the annual Internal and External Audit plans;*
- (b) *periodic meetings to discuss the audit plans and activities;*
- (c) *access by External Audit to the Internal Audit documentation;*
- (d) *exchange of management letters concerning their respective audit findings and recommendations. Internal Audit may carry out follow-ups on comments and recommendations contained in the External Audit reports, and vice versa; and*
- (e) *sharing information of perceived risk areas.*

7. **MANAGEMENT'S RESPONSIBILITIES**

7.1 *Although the role of Internal Audit Division is to review Bank's internal controls, systems, procedures, risks, etc, management and ultimately the Board, retains full responsibility for ensuring that the Bank maintains an appropriate framework of controls to reduce business risks to an acceptable level.*

7.2 *Management remains accountable and responsible for addressing weaknesses and inefficiencies, which have been identified by both External and Internal Audit, and for taking the necessary corrective action. Management is further responsible for:*

- (a) *proposing the areas of investigation by Internal Audit;*
- (b) *ensuring that the Internal Audit Division has;*
 - (i) *the support of senior management; and*
 - (ii) *direct access and freedom to report to senior management, including the Governor and the Audit Committee.*
- (c) *maintaining internal control, including proper accounting records and other management information suitable for governing the Bank;*
- (d) *responding to internal audit queries submitted to line management; and*
- (e) *reviewing internal audit reports and implementation of recommendations as considered appropriate.*

7.3 *Other management responsibilities are:*

- (a) *to play an active and contributory role in establishing a risk profile and audit coverage plan for the Bank and to accept co-ownership of the continuous maintenance and update of responsibility; and*

- (b) *to inform the Chief Internal Auditor of any significant internal control problems, thefts, fraud, unauthorised transactions, accounting breakdowns, large stock shortages, major bad debts, etc. Significant matters will be reported to the Audit Committee.*

8. QUALITY ASSURANCE REVIEWS

8.1 *The Internal Audit Division should establish and maintain a quality assurance programme to evaluate the work performed by the operations of the Internal Audit Division, specifically the Chief Internal Auditor should:*

- (a) *conduct periodic internal quality assurance reviews on the work performed by the Internal Audit Function; and*
- (a) *ensure that issues identified are followed up and corrective action taken where necessary.*

9. STAFF DEVELOPMENT AND TRAINING

9.1 *Internal Audit Division staff should be appointed with the appropriate qualifications and experience, personal qualities and potential. The Internal Audit Division should be suitably staffed with qualified individuals who possess the appropriate experience in order to ensure adequate coverage of the audit environment.*

9.2 *The Chief Internal Auditor has a responsibility to ensure that the internal audit team receives the necessary training for the performance of their duties. A structured staff development plan should be developed and implemented to ensure that the audit team is provided with the necessary experience, training and continuing professional education.*

9.3 *The Chief Internal Auditor shall coordinate the training requirements of internal audit staff. This includes the preparation and maintenance of training profiles, which identify the training requirements for different levels of internal auditors and the maintenance of personal training records for each individual.*

10. SUPERVISION

10.1 *The Internal Audit Division should provide assurance that internal audits are properly supervised.*

10.2 *The Chief Internal Auditor is responsible for providing appropriate audit supervision.*

10.3 *The extent of supervision required will depend on the proficiency of internal auditors and the complexity of the audit assignment.*

10.4 *All internal audit assignments, whether performed by/or for the internal audit, remain the responsibility of the Chief Internal Auditor.*

11. PROFESSIONAL STANDARDS AND CODE OF ETHICS

11.1 *Adherence to the Professional Standards and Code of Ethics*

The Chief Internal Auditor and all staff members of the Division are required to ensure adherence to the highest standards of professionalism and ethics, such as those promulgated by the Institute of Internal Auditors, Inc. USA (IIA), and as represented by its local chapter in Botswana. This shall in no way dilute the obligation of every staff member to adhere to the Bank's General Conditions of Service or any other regulation as applicable to all other staff members of the Bank by virtue of their employment in the Bank.

11.2 The Professional Practices Framework of the Institute of Internal Auditors

The Bank recognises the Institute of Internal Auditors, Inc. as the authority on international best practices of internal audit. The activities of the Internal Audit Division, as well as those of its staff members, should be carried out in accordance with the Professional Practices Framework of the Institute of Internal Auditors.

11.3 The Framework consists of the following:

- (a) Code of Ethics;*
- (b) International Standards for the Professional Practice of Internal Auditing, consisting of:
 - (i) Attribute Standards;*
 - (ii) Performance Standards;*
 - (iii) Implementation Standards; and**
- (c) Practice Advisories.*

11.4 All staff are required to adhere to the provisions of the Framework.

12. APPROVAL

12.1 This Charter establishes the authority, procedures and responsibility conferred by management on the Internal Audit Function and has the approval of the Audit Committee and the Board. This Charter will be reviewed annually.