

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 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. POLICY STATEMENTS

2.1 Establishment of the Internal Audit Function in the Bank

2.1.1 *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.*

2.2 Vision

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

2.3 Mission Statement

2.3.1 *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.*

2.3.2 *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.*

2.4 Divisional Values

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

2.5 Authority and Reporting

2.5.1 *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 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.*

2.6 Independence

2.6.1 *In order for the Internal Audit Division to meet its objectives and responsibilities, its 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.*

2.7 Cooperation

2.7.1 *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.*

2.7.2 *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.*

2.8 Budget

2.8.1 *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.*

2.8.2 *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.*

3. **SCOPE AND RESPONSIBILITIES OF THE INTERNAL AUDIT DIVISION**

3.1 Nature and Scope of Work

3.1.1 *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.*

3.1.2 *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; and*
- (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.*

3.2 Auditing and Reporting Responsibilities

3.2.1 *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 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 plans and work programmes are prepared and submitted to the Governor for his/her review, modification and approval. This should be submitted to the Audit Committee of the Board for final review, discussion and acceptance. The accepted audit plans and 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 audit plans and resources as appropriately approved by the Governor;*
- (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; and*
- (h) *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) *any restrictions placed on the staff and authority of the Internal Audit Division or on access to any of the operation's activities, records, property and personnel;*
- (vi) *the extent to which the Chief Internal Auditor has met set performance targets;*
- (vii) *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;*
- (viii) *progress on appropriately approved ad-hoc audit requests from the Operational or Executive Management; and*
- (ix) *variation of planned audit resources, training and awareness programmes.*

3.3 Other Responsibilities

3.3.1 *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.*

4. PROFESSIONAL STANDARDS AND CODE OF ETHICS

4.1 Adherence to the Professional Standards and Code of Ethics

4.1.1 *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.*

4.2 The Professional Practices Framework of the Institute of Internal Auditors

4.2.1 *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.*

4.2.2 *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.*

4.2.3 *All staff are required to adhere to the provisions of the Framework.*