

BOARD AUDIT AND RISK COMMITTEE



**ANNUAL REPORT
TO THE BOARD OF DIRECTORS**

**FOR THE PERIOD
APRIL 2020 TO MARCH 2021**

EASTERN CARIBBEAN CENTRAL BANK

ST KITTS

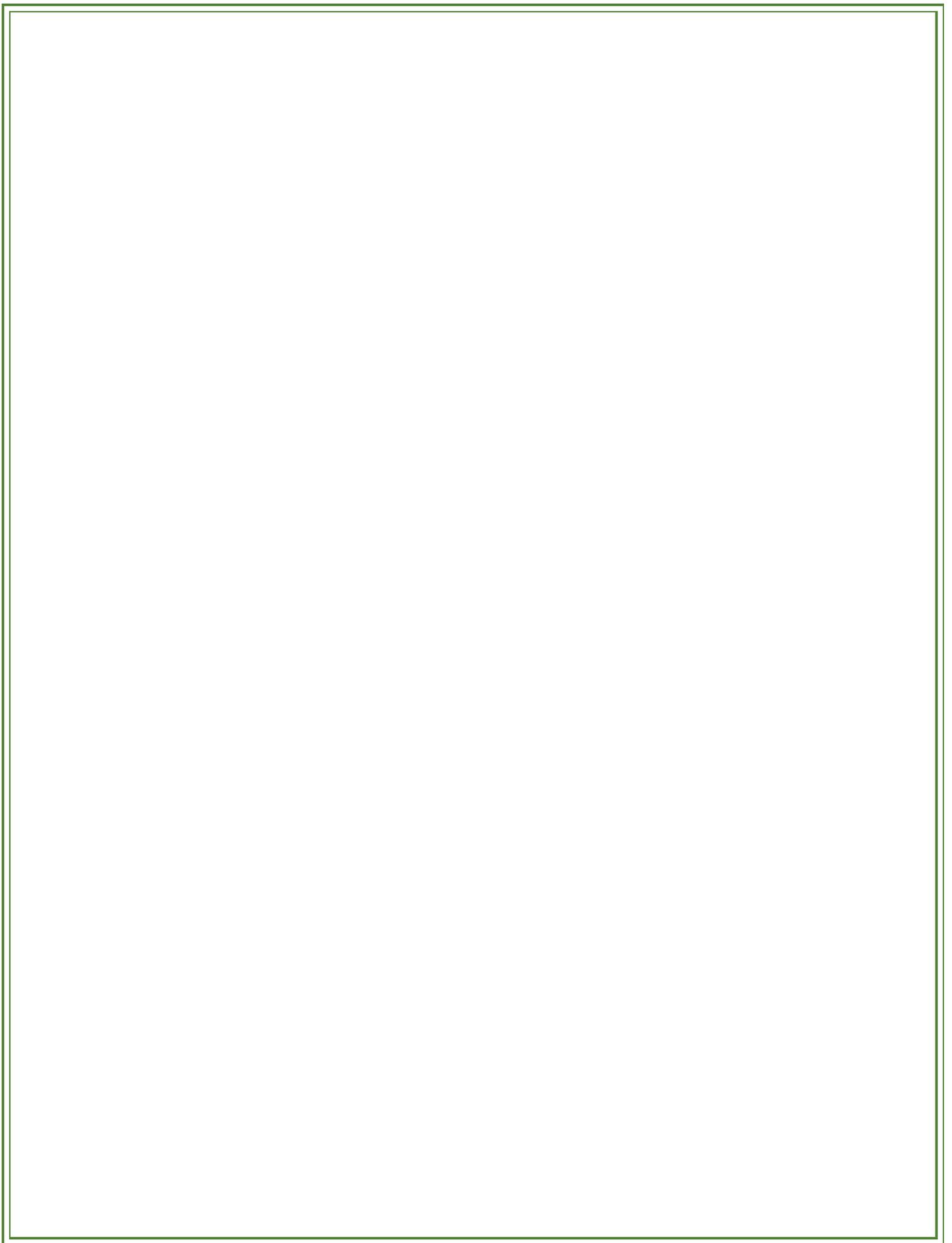


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The TRANSMITTAL LETTER

10 June 2021

Mr Timothy N. J. Antoine
Chairman
Board of Directors
Eastern Caribbean Central Bank
Bird Rock
Basseterre
St Kitts

Dear Chairman

Board Audit and Risk Committee Annual Report 2020-2021

As required under section 6.8 of the *Board Audit and Risk Committee Charter 2020*, I am pleased to present you with the Board Audit and Risk Committee Annual Report for the period 1 April 2020 to 31 March 2021. The report covers the activities of the Board Audit and Risk Committee (BARC) during the period and should assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control and risk management.

The report also provides information on the focus of the Committee for the upcoming financial year 2021/2022.

The BARC recommends that the Board consider the contents of the report and grant approval for its publication.

Submitted for your consideration and approval.

Yours sincerely,



John Skerritt
Chairman, Board Audit and Risk Committee
Eastern Caribbean Central Bank

The CHAPTER 2020-2021

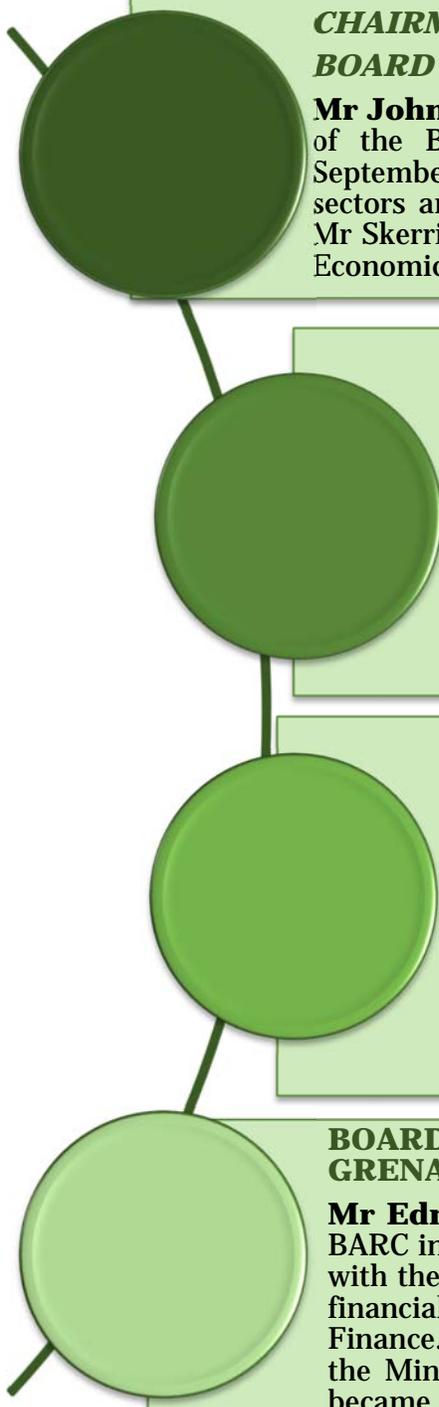
The Board Audit and Risk Committee (BARC), the subcommittee of the Board of Directors (the Board) of the Eastern Caribbean Central Bank (ECCB), embarked on an unprecedented and unexpected Chapter. By the beginning of the new Chapter, the world had changed due to the COVID-19 pandemic. As such, the BARC's intensified focus on the emerging risks that ensued due to the unpredictable global environment. But through the time of uncertainty, the BARC had poised itself to navigate these unprecedented times and maintained its overall purpose which is to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of governance, internal controls, risk management, values and ethics and the internal and external audit functions.

With the committed and continuous thrust to evaluate and embrace best practices, the BARC conducted its inaugural self-assessment in June 2020, and has been committed to embrace and expand its strengths and acknowledge and address its weaknesses in order to become more efficient and effective. Additionally, the BARC houses a full set of certified Chartered Directors to continue to chart the course.

The Charter requires that, on an annual basis, the BARC present a written report to the Board detailing how it has discharged its duties and met its responsibilities. This report was prepared in compliance with this requirement to provide documentary evidence of the BARC's accountability to the Board for the year ended 31 March 2021.

The CHANGE CHAMPIONS

The BARC Charter mandates that the Committee is comprised of at least three members selected from the independent membership of the Board of Directors. For the period under review, the BARC comprised four members.



CHAIRMAN

BOARD REPRESENTATIVE FOR MONTSERRAT

Mr John Skerritt, CBE, MSc, BBA, ACC, C. Dir. has served as a member of the BARC from January 2017 and assumed chairmanship from September 2017. Mr Skerritt has experience in both the private and public sectors and is trained in business administration and public economics. Mr Skerritt is a former Financial Secretary in the Ministry of Finance and Economic Management, Montserrat.

BOARD REPRESENTATIVE FOR ST KITTS AND NEVIS

Mrs Hilary Hazel, MSc., BA, RCC, C. Dir. has served as a member of the Committee from June 2015, and was appointed Deputy Chairman from September 2017. Mrs Hazel is a development and finance specialist with over 20 years of professional experience in designing, implementing, monitoring and evaluating economic development policies, strategies, programmes and projects. Mrs Hazel is currently the Financial Secretary in the Ministry of Finance, St Kitts and Nevis.

BOARD REPRESENTATIVE FOR SAINT LUCIA

Ms Esther Rigobert, MBA, BSc., ACCA, ACC, C. Dir. has served as a member of the Committee from February 2020. Ms Rigobert has over 12 years of financial experience in public service and is trained in Accounting and Business Administration (Finance). Ms Rigobert also holds a certificate in Project Management. She is currently the Permanent Secretary/Director of Finance in the Department of Finance, Saint Lucia. Ms Rigobert became Charter Director Certified (C Dir) in July 2020 and Audit Committee Certified (ACC) in October 2020.

BOARD REPRESENTATIVE FOR ST VINCENT AND THE GRENADINES

Mr Edmond Jackson, MSc., BSc., ACC, C. Dir, was appointed to the BARC in November 2017. Mr Jackson has over 20 years of public service with the Government of St Vincent and the Grenadines and is trained in financial economics. Mr Jackson has held several posts in the Ministry of Finance. He is presently the Director General of Finance and Planning in the Ministry of Finance, St Vincent and the Grenadines. Mr Jackson became Audit Committee Certified (ACC) in October 2020.

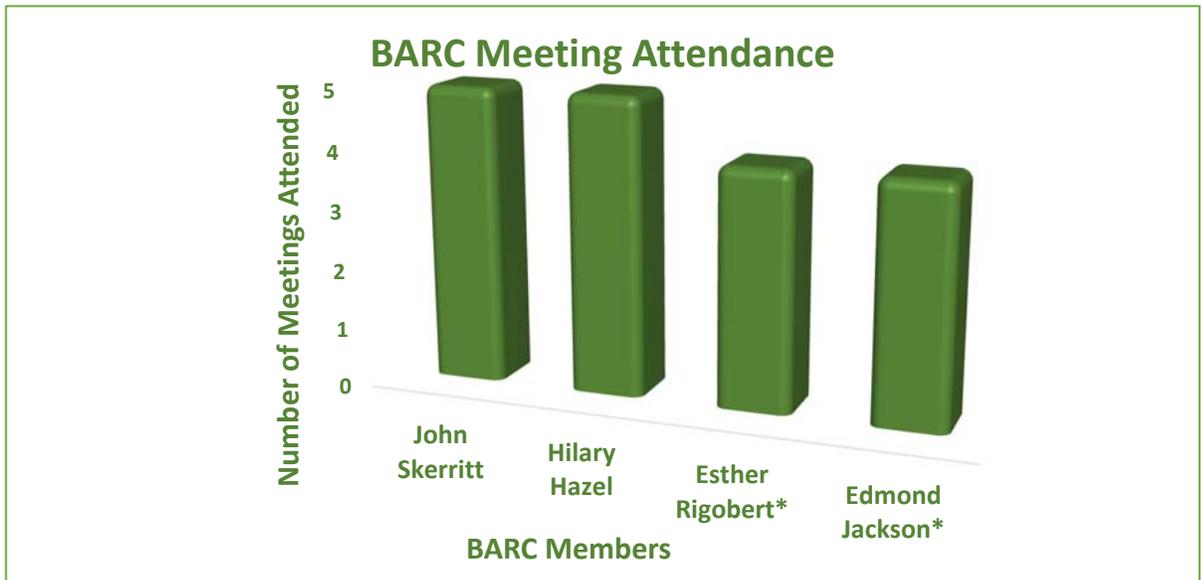
The CHARTER

The BARC Charter (September 2019) mandates that the Committee meets at least four times annually. There were five meetings convened during the period, one of which was a special meeting convened in June 2020. The meetings were convened on the following dates:

- 11 June 2020**
- 19 June 2020 (Special Meeting)**
- 10 September 2020**
- 28 January 2021**
- 25 March 2021**

The BARC meetings are generally attended by the Governor and the Deputy Governor. The Committee also invites to its meetings the Directors of the Accounting and Internal Audit Departments and the Bank's Chief Risk Officer/Director of the Office of Corporate Strategy and Risk Management.

Chart: Meeting Attendance - Period April 2020 to March 2021



*Members were excused from meetings

The CHARTER Cont'd

The BARC engaged in several activities that enhanced its effectiveness to execute its responsibilities over the past year.

BARC Charter

The BARC conducted a review of its Charter in August 2020 and the results concluded that there were no required changes to the Charter. The Charter mandates that an annual review of the Charter be conducted and that proposed changes be brought to the Board of Directors for approval. The review is intended to ensure that the Charter remains relevant and effective. The BARC Charter has maintained its relevance and effectiveness.

BARC Self-Assessment

The BARC conducted its inaugural BARC self-assessment for the reporting period. International best practice dictates that audit committees conduct an assessment to determine how they were performing and to identify areas for improvement. The Board had previously approved the framework that guided this process. The BARC members, along with the Governor, the Deputy Governor, the Chief Risk Officer and Directors of the Accounting and Internal Audit Departments were all part of the assessment process. Areas of improvements were identified with a mission to address to ensure effectiveness is maintained. The BARC is expected to continue this annual assessment.

BARC Capacity Building and Training

The BARC continues to be committed to continuous training to enhance its overall effectiveness. To date, all of the BARC members earned the privilege to use the designation of Chartered Director, 'C. Dir', a demonstration of their commitment to effectively execute organisation strategy and enhance organisation performance at the Bank. The newest BARC member attended this Chartered Director Programme and earned the designation in July 2020.

In October 2020, two BARC members became 'Audit Committee Certified', 'ACC' to further demonstrate their individual commitment to the charge. This audit committee training programme is geared to enhance executive decision-making and to add value to audit committees in the Caribbean. It encompassed among other topics, the understanding of the changing roles, responsibilities and accountabilities of the audit committee and the performance evaluation and continual improvement of audit committees. To date, three of the four BARC members have earned this designation. One member holds the Risk Management certified (RCC) designation.

The CHARGE

OVERSIGHT - INTERNAL AUDIT DEPARTMENT

IAD Charter

The BARC reviewed and approved the changes made to the Internal Audit Charter in accordance with the Institute of Internal Auditors (IIA) Standards, which states that the Internal Audit Charter should be reviewed on an annual basis. Hence, it was reviewed in September 2020 and recommended changes were incorporated.

Monitoring

The BARC continued to monitor the progress on the implementation of audit recommendations through the review of bi-annual reports from the Internal Audit Department (IAD). However, arising from an external review of the IAD, it was recommended that the department increase the frequency of updates to the BARC on the implementation of audit recommendations. Once instituted, this would increase the frequency of monitoring of outstanding audit recommendations by the BARC.

The BARC reviewed and approved the revised Bank-wide risk assessment and the resulting revised IAD's Work Programme for 2020-2021. The Committee continues to closely monitor the department's execution of its work programme. The IAD Work Programme for the 2020-2021 was revised, following a risk assessment, to focus on specific risk areas due to the COVID-19 pandemic. The BARC approved amendments to the programme to ensure the effectiveness of the function.

The BARC approved a cybersecurity audit—Vulnerability Assessment and Penetration Test on the IAD work programme for the 2020-2021 fiscal year. This audit was concluded in January 2021.

The BARC continued to monitor the progress on the IAD action plans for the implementation of the recommendations arising from on the IAD's internal self-assessment as well as an external quality assessment of the department.

Engagement Reports—Assurance

The BARC examined audit reports and discussed the effectiveness of governance, risk management and controls within the audited function. The BARC reviewed a total of four audit reports during the period, of which, three audits were facilitated by the IAD during the year: Physical Access and Security Audit, Bank Supervision Department Audit and the Procurement, Contract and Vendor Management Audit; and one security report of the audit facilitated by KPMG, Trinidad and Tobago; Vulnerability Assessment and Penetration Test Audit, mentioned above.

OVERSIGHT - INTERNAL AUDIT DEPARTMENT Cont'd

Engagement Reports – Non-Assurance

The **BARC** received reports produced by the IAD other than audit assurance reports:

- **Bank-wide Risk Assessment: The BARC** provided approval for the IAD to conduct a revised Bank-wide risk assessment to ascertain the changes in the risk landscape of the Bank due to the COVID-19 pandemic in May 2020. Subsequently, the BARC approved a revised work programme for the IAD, arising from the results of the risk assessment. Additionally, the BARC also approved the IAD's 2021-2022 work programme arising from an annual Bank-wide risk assessment undertaken in September 2020. The following audits from the 2020-2021 and 2021-2022 work programmes were in progress—HR Strategy Recruitment and Data Privacy Audit (2020-2021) and Risk Management Audit (2021-2022).
- **IAD Self-Assessment: The BARC** reviewed the second self-assessment that was conducted by the IAD in 2019. The assessment included a review of the IAD's policies, procedures and operations and the department's compliance with the International Standards for the Professional Practice of Internal Audit (the Standards). The BARC welcomed the conclusion of 'Generally Conformed', rating which is the highest that can be achieved.
- **IAD External Quality Assessment: The BARC** approved the IAD External Quality Assessment (EQA) which was conducted by the Institute of Internal Auditors (IIA) between December 2020 and January 2021. It was the IIA's overall opinion that the IAD 'generally conformed' with the International Standards for the Professional Practice of Internal Auditing (Standards) and the IIA Code of Ethics. This was the highest rating of the three possible criteria ratings awarded. This level of conformance demonstrated a clear intent and commitment to achieve the Core Principles for the Professional Practice of Internal Auditing
- **Protocols for Sharing Information between the IAD and OCSRMs: The BARC** received and approved the information sharing protocols between the second and third lines of defense. The International Standards for the Professional Practice of Internal Auditing (Standards) made provision for the IAD to share information, coordinate its work and rely on the work of other assurance providers.
- **Other Work Programme Items: The BARC** also received other reports on a number of IAD investigations and verifications conducted during the period.

OVERSIGHT - RISK MANAGEMENT

The BARC continued to have oversight responsibilities of the risk function at the Bank through the IAD and the Office of Corporate Strategy and Risk Management (OCSRМ).

Bank-Wide Risk Assessment

The BARC reviewed the Bank-wide Risk Assessment conducted by the IAD. In conformance with the International Standards for the Professional Practice of Internal Auditing, the IAD is required to conduct a risk assessment, at least annually, to form the basis for its annual work programme. To this end, the department undertook a Bank-wide risk assessment in October 2020. The process was informed by evaluation of the Bank's critical documents such as the strategic plan, departments' work programmes and strategic initiatives, objectives, projects, results of past audit engagements, the implementation of audit recommendations, the Operational Risk Reports from the departments and the Risk Assessment Report.

Risk Report Analysis

The BARC assessed the risk reports from the OCSRМ and provided feedback and guidance on risk treatments identified in these reports. Risk events and high risk areas are often highlighted. Given the emergence of the COVID-19 pandemic, there was a need for departments to reassess their risks given the new operating environment (telecommuting) and implication for going forward. The OCSRМ required that each department review its risk registers and relook their controls to ensure that the risks were assessed, documented and accurately reflected the current risk environment to ensure that appropriate mitigating measures could be instituted. The BARC continued to oversee the operations of the OCSRМ.

Business Continuity Management System (BCMS)

The BARC had previously approved the engagement of PwC to assist with the revision and full implementation of the Bank's Business Continuity Management System (BCMS). The policy development and the business impact analysis across all departments were completed during the period. The design and implementation stages are scheduled to be completed in the financial year 2021-2022. After these processes are in place, validation sessions would be held with the PwC.

The key milestones examined in the 4th quarter of the 2020-2021 Bank's financial year were the completion of the business impact analysis and the conduct of a threat and risk impact analysis.

OVERSIGHT - FINANCIAL STATEMENTS AND INTERNAL CONTROL

ECCB's Annual Audited Financial Statements 2019-2020

The BARC reviewed the ECCB's Annual Audited Financial Statements for the period ended 31 March 2020 and recommended to the Board of Directors for approval and publication. The BARC acknowledged the KPMG's report that the financial statements for the period ended March 2020 were presented fairly in all material respects and the internal controls over financial reporting were effective.

Financial Statements 2020-2021

The BARC monitored the progress on the completion of the 2020/2021 Financial Statements in preparation for the annual audit which commenced in April 2021. The BARC acknowledged that the Financial Statements would be impacted due to the COVID-19 pandemic. Although there were delays in the commencement of the interim audit, the audit is expected to be completed on schedule.

The BARC will receive the ECCB's Annual Audited Financial Statements for the period ended March 2021 from the Bank's Auditors at its June 2021 meeting.

OVERSIGHT - EXTERNAL AUDITOR

The BARC performed its oversight role of the external audit function, along with the oversight of outsourced functions as follows during the period:

Revised Policy and Procedures Engagement of External Auditors

The BARC reviewed and recommended for the approval by the Board of Directors the revised Policy and Procedures for the Engagement of External Auditors in September 2020. The Revised Policy was updated in line with the newly adopted format for documenting ECCB Policies. Further, the procedures were revamped to reflect the requirements of each step of the process and a quantitative component to assess the auditors on an annual basis was included. Also, upon the recommendation of the BARC, the procedures were updated to include a meeting of the due diligence team to plan and agree upon the approach for conducting the on-site interviews.

External Audit Plan for Annual Audit

The BARC received the report on the audit plan from the external auditors, KPMG for the audit of Bank's Financial Statements for the period ended 31 March 2021. The plan outlined the KPMG audit team assigned to the audit and a summary of the main deliverables and timeline for the audit engagement.

Vulnerability Assessment and Penetration Test

The BARC received the report on the Vulnerability Assessment and Penetration Test from PwC, Trinidad and Tobago. PwC highlighted the critical and high priority issues. The Bank's focus going forward would be geared towards enhancing employee security awareness training. The BARC welcomed the ongoing relationship that existed between the PwC and the ECCB to ensure that ECCB would be kept informed and received capacity from the PwC team.

Information Technology (IT) Controls Oversight

The BARC noted that the IT audit conducted in 2019 by PwC, Trinidad and Tobago reflected a 54 per cent completion in the implementation rate as at January 2021. The OCSRM is in the process of establishing a cybersecurity committee to have outstanding items implemented by the final quarter of the financial year.

The CHART

The BARC is committed to improving its effectiveness and to maintain a high standard of performance. The areas below are some of the areas of focus for the BARC in the upcoming period.

Bank's Strategic Plan 2022-2026

The BARC continued to monitor the development of the Strategic Plan for the period 2022-2026 for its launch in the new financial year. The BARC will also ensure that due consideration be given to the deficiencies noted in the Internal Audit findings from the prior Strategic Plan audit to incorporate the solutions in the new five-year Plan.

Business Continuity and Disaster Recovery Plan

The BARC will review the Bank's Comprehensive Business Continuity and Disaster Recovery Plan prepared by KPMG in the new financial year with the hope to fully implement the necessary measures in the second quarter of the new financial year.

Fintec Independent Assessment and Audit

The BARC is committed to providing oversight in relation to the governance, risk and controls surrounding the Bank's Fintech project. The pilot was launched in March 2021 and the BARC has approved as part of the IAD's 2021-2022 Work Programme the audit of the Fintech pilot project. This audit will be outsourced due to its specialised nature, however, the department's IT Specialist will coordinate the process.

Work Programme 2021-2022

The BARC noted in the IAD's Work Programme for 2021-2022 that there were 13 scheduled audits, of which, four would be IT related.

The CHART Cont'd

Audit Function Software

The BARC requested the review of the capabilities of the AuditBoard audit software to compare with the Teammate software currently being used by the Bank with the view to determine whether AuditBoard would be a better fit for the Bank's needs. The new audit software is expected to be commissioned by the next financial year.

Capacity Building and Training

The BARC will continue to focus on upskilling its members to ensure that all members are Audit Committee Certified. This is testament to the commitment of the Committee to ensure updated and relevant capacity in governance. In addition, the BARC's training and development plan includes at least two members holding certifications in Risk Management as well as other relevant training which would enhance the effectiveness of the Committee to deliver on its mandate.

Cybersecurity

Cybersecurity remains at top priority for the Bank. Plans are in process to establish a cybersecurity committee to continue to identify, assess and address the cybersecurity risks at the Bank. The Bank recruited a qualified IT auditor who will assist with assurance coverage of IT related areas and the accompanying risks.

IMF Safeguard Assessment

The BARC would continue monitoring the Bank's implementation of the recommendations emanating from the IMF Self-Assessment conducted in 2019 and will avail itself to the IMF team for discussions when the assessment is conducted in the 2021-2022 financial year.

The CHEERS

The BARC accomplished a few milestones during the year. The BARC members have all attained the designation of Chartered Director (C. Dir), and three of the four Directors are now Audit Committee Certified (ACC). The Directors are committed to build their capacity to enhance governance in the Institution.

The BARC conducted its inaugural self-assessment for the reporting period in accordance with international best practice for audit committees—an activity which would be continued going forward.

The BARC recognises the IAD for delivering on its mandate of adding value to the Bank through its assurance function and the efforts toward improving the Bank’s internal audit activity. In particular, the Committee commends the department in achieving a ‘Generally Conformed’ rating in its independent external assessment—the highest rating of the three possible criteria ratings awarded. The department was also successful in recruiting an IT professional to spearhead most of the scheduled IT audits for the 2021-2022 financial year.

The BARC recognises the OCSRSM for its progress towards instituting the Bank’s Business Continuity Management System (BCMS). The OCSRSM had completed the policy development and the business impact analysis across all departments during the period. Full completion of the BCMS is expected in the 2021-2022 financial year.

The BARC recognises the ardent efforts of the Accounting Department and was satisfied with the Bank’s financial reporting and anticipates an unqualified opinion from the KPMG for the 2020-2021 Financial Statements that resulted.



11 June 2021

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Mr John R. S. Skerritt
Chairman
Board Audit and Risk Committee

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Date