ASSESSMENT FRAMEWORK FOR THE BOARD AUDIT AND RISK COMMITTEE



Approved by the Board Audit and Risk Committee Meeting January 2020

EASTERN CARIBBEAN CENTRAL BANK ST KITTS

ASSESSMENT FRAMEWORK FOR THE BOARD AUDIT AND RISK COMMITTEE

1.0 PURPOSE

This framework for the BARC assessment provides a comprehensive structure that would guide the process and provide consistency in the BARC's assessment of its effectiveness.

1.1 Benefits of Assessment

Audit committee assessments are recommended by esteemed institutions including the 'Big Four' accounting firms and corporate governance reform groups. It is a great tool geared at improving the effectiveness of audit committees.

The assessment would assist the BARC in determining whether it is meeting expectations as espoused in its Charter and help in identifying any performance and competency gaps that may exist. In addition, it would provide an avenue for committee members to develop a better appreciation and understanding of their purpose and role in the overall governance and control structure of the Bank. The assessment would ultimately assist in the enhancement of the Committee's overall effectiveness.

An assessment of the BARC with a view to improve the Committee is in full alignment with the ECCB's Strategic Goal 5 - Enhance organisational effectiveness to ensure responsiveness and service excellence.

2.0 OBJECTIVES

The objectives of the framework are as follows:

- i. Establish a methodology or protocol for the assessment of the Board Audit and Risk Committee (BARC)
- ii. Determine the key components needed for the BARC's assessment of its effectiveness

3.0 PROCESS OWNER

The Chairman of the BARC is responsible for conducting the BARC assessment and the control of its criteria.

4.0 METHODOLOGY

The assessment should take the form of a self-assessment where the BARC members would be required to evaluate the Committee's performance. Feedback from other Board members, as well as members of management who report to the Committee would also be useful to the BARC in its assessment. The assessment consists of four main processes: prepare and distribute evaluation survey, analyse results, prepare report for approval by the Board and communicate report.

4.1 Prepare and Distribute Evaluation Survey

- i. Preparation of the Questionnaire
 - a. The duties of the BARC as documented in its Charter should be used as a guide for the question development process. Proposed questions for each area of assessment are detailed in *Appendix I*. The questions should be cast as a series of statements and they should focus on identifying areas for discussion and improvement.
 - b. Respondents would be asked to use a rating scale of one to five for each question, where a rating of five suggests that the respondent strongly agrees with the statement while a rating of one suggests that the respondent strongly disagrees. A rating of N/A is used to indicate that the subject matter is not applicable.
 - c. There should be additional boxes for comments and action required (used for any additional information the respondent may want to provide).

ii. Respondents

The assessment should be distributed to all members of the BARC for completion. Should the BARC agree to solicit feedback from other Board members and key management, the assessment forms should be distributed as required. The BARC should determine whether feedback should come from all or specified members of the Board. Key members of management who report to the BARC such as the

Director of Internal Audit, the Chief Risk Officer and the Director of Accounting should be considered to respond to assessment forms.

iii. The questionnaires should be distributed on a confidential basis through any means deemed appropriate by the BARC.

4.2 Analyse Results

- i. Once the assessment forms/questionnaires are completed, a summary of the results should be prepared for discussion by the Committee. See section 8.0, *Evaluation Criteria* for more details.
- ii. A plan of action should be determined for all improvement areas identified. Action agreed upon should be clearly identified, responsibility should be assigned (typically to a member of management), and a timetable for follow-up should be agreed upon.

4.3 Prepare Report for approval by the Board

Upon conclusion of the assessment, a report including the summary of the results and action plan should be prepared and submitted to the Board for approval.

4.4 Communicate Report

The Assessment report should be distributed to parties as approved by the BARC.

5.0 EVALUATION

i. Upon completion of the questionnaires by the members of the BARC, the rating scores for each question by each member should be summed and an average score determined. Subsequently, the total average score per section should be tallied and an average rating score per section would be determined. This rating per section would be evaluated using the rating categories below:

Strong -(4.0 to 5.0)

This rating indicates that the BARC is performing exceptionally well and demonstrated highly effective performance.

Acceptable -(3.0 to 3.9)

This rating indicates that the BARC has been effective in carrying out its mandate.

Needs Improvement -(1.0-2.9)

This rating indicates that the BARC is somewhat effective but its effectiveness needs to be enhanced. Corrective measures may need to be taken immediately.

ii. Feedback from other Board members and key management staff should be considered and discussed by the BARC. Any area for improvement highlighted should be considered for inclusion in the action plan.

6.0 FREQUENCY OF ASSESSMENTS

The BARC self-assessments should be performed bi-annually with ongoing reviews of areas identified for improvement done throughout the year.

7.0 DISCLOSURE

Questionnaires are distributed on a confidential basis. The BARC should ensure that there is strict confidentiality with respect to each respondent's input and feedback.

8.0 RETENTION OF QUESTIONNAIRES

Responses to questionnaires should not be retained once the assessment process is complete. If a decision is made to retain questionnaires, there must be rationale for that decision with an indication of how long they should be retained.

9.0 REVIEW OF FRAMEWORK

The BARC should periodically review and approve the Framework to ensure continued efficiency and appropriateness.

10.0 AREAS OF ASSESSMENT

10.1 Independence, Authority and Purpose

In this area of assessment, attention should be placed on the BARC's ability to carry out its mandate. The evaluation should focus on the Committee's understanding of its roles and responsibilities both collectively and individually, as well as

committee members' independence and diversity in thought. The assessment should examine whether committee members have sufficient time to devote to their duties, which may include an evaluation of conflicting obligations. There should also be a review of the resources available to the BARC in the conduct of their duties, including its access to employees and external parties.

10.2 Meetings and Committee Management

An assessment should be done on committee management and the BARC's ability to efficiently conduct meetings. This entails an evaluation of the adequacy of meetings held throughout the year, pre-meeting preparations, attendance and attendants, the adequacy of minutes, meeting management and post meeting follow-ups. The assessments should also delve into how the Committee handles its workload, the adequacy of the work plan and the ability of the Committee to work together and maintain constructive working relationships with stakeholders. In this section, the BARC could be assessed on how it reports to the Board of Directors, the quality of its decisions and papers, as well as its effectiveness in supporting the Board of Directors in fulfilling of its responsibilities.

10.3 Tone at the Top

The Chairperson of the BARC should be assessed on his/her effectiveness as a leader. The knowledge of and ability to harness committee members' skills as well as appropriately engaging external resources should be considered, in addition to mentoring new members. The Chairperson should be able to communicate effectively as well as plan and conduct effective meetings of the BARC allowing opinions and personalities to contend in a productive and respectful environment. The BARC Chairperson should be evaluated on the adequacy of reports to the Board and his/her aptitude to work with stakeholders.

10.4 Competency and Continuous Improvement

The BARC must engage in continuous professional development that is relevant and timely to continue to effectively perform its oversight responsibilities. As such, the Committee should be assessed on the process it uses for participating in continuous education in keeping current on risk management, internal controls, accounting, reporting, and other relevant governance and industry-specific matters. The Committee should also be assessed on its approach to allow members to remain current on independence requirements. The adequacy and appropriateness of professional development programmes should also be looked at.

10.5 Oversight of Culture, Ethics and Code of Conduct

The BARC is charged with the role of overseeing the systems and practices that management established to set and sustain high ethical standards; monitoring compliance with laws, regulations, polices and standards; and identifying and quickly addressing any legal or ethical violations. Assessment of the Committee in this regard should therefore focus on the Committee's posture and appearance in the performance of its roles. Areas for evaluations should include the Committee's ability to exhibit appropriate tone from the top and its commitment in ensuring that management maintains the code of conduct. The BARC should also be assessed on its capacity to be sufficiently sceptical in the analysis of issues by asking difficult questions of management, the internal and external auditors. Further, the Committee's proclivity to address issues and react quickly to effect change should be examine.

10.6 Oversight of Compliance

The effectiveness of the BARC's oversight of compliance should be examined. As part of the assessment, there should be a review of the Committee's role in ensuring the system for monitoring compliance is effective. The evaluation should look at how compliance matters are brought to the Committee and how the Committee responds to these matters.

10.7 Oversight of Risk Management and Internal Control

Assessment of the BARC's oversight of risk management and internal controls includes the understanding of the Bank's strategic direction, risk tolerance and risk appetite, the processes in place to identify, evaluate and monitor key risks and the extent of controls testing by internal and external auditors. The attitude towards fraud risk and potential of management to override internal controls should be

assessed. Thus, the assessment should also include an evaluation of the adequacy of risk management and internal control systems and the processes to monitor changes in the risk profile. There should also be an assessment on the BARC's ability to ensure that recommendations emanating from reports from internal and external auditors are implemented and management actions are appropriate. Reports submitted to the Committee must be sufficient and timely.

10.8 Oversight of Financial Reporting

Through the review of annual audited financial statements, the BARC ensures that the Bank uses appropriate accounting principles and that financial statements are complete and accurate. The BARC should therefore be assessed on the processes in place to determine how developments in accounting standards impact the financial statements and that significant accounting and reporting issues are reviewed and evaluated. The BARC should also ensure that disclosures to the financial statements are adequate and complete. The Committee needs to understand strategies, assumptions and estimates made in preparing the financial statements. Therefore, the Committee should be assessed on its inclination to challenge the proposed financial reporting, to be alert to 'red flags' and to seek appropriate changes where necessary, including those proposed by the external auditors.

The Committee should also be assessed on its ability to ensure that there are adequate skillsets and resources available to ensure sufficient control in financial reporting. This includes ensuring that the Accounting Department has the requisite knowledge and skillset plus the willingness to engage experts and advisors when needed. Further, the Committee should foster effective communication in order that significant deficiencies or material weaknesses are communicated promptly.

10.9 Communication

The assessment should include an evaluation of BARC's effectiveness in its communication with management, internal audit, external audit and the Board. This also includes following-up on recommendation, ensuring audit inquiries and

request are responded to in a timely fashion and reporting to the Board are timely and of quality. The assessment should include a look at how diligent the Committee is at meeting with key members of management, internal and external auditors.

10.10 Oversight of Internal Audit

The BARC should be assessed on its role as it relates to the internal audit function and its effectiveness. This includes the audit plan, the scope of work, its resources, authority and independence. The performance of the BARC should be examined to determine if it was able to fulfil its responsibilities related to the Head of the Internal Audit Department such as appointment and removal, performance review and regular private meetings. The BARC should also be reviewed on its diligence in reviewing reports, providing feedback and ensuring that management responded to internal audit recommendations in a timely and appropriate manner.

10.11 Oversight of External Auditors

The BARC assessment should include its role in the appointment, compensation and discharge of the external auditor. This includes the confirmation of independence and the approval of audit services to be provided. Further, the assessment should include the Committee's oversight of the audit scope and the coordination of internal and external auditing work in an effort to minimise duplication of efforts. The evaluation of the performance of the BARC should also comprise a look at its record in meeting with external auditors that discuss audit matters.

INTERNAL AUDIT DEPARTMENT

DECEMBER 2019

Board Audit Risk Committee Members (BARC)

In keeping with best practices the Board Audit and Risk Committee (BARC) is undertaking a self-assessment to determine whether it meets expectations as espoused in its charter and to identify any performance and competency gaps that may exist.

To assist the BARC with the Assessment, kindly provide your input in the Questionnaire below. The Questionnaire takes about Forty Five (45) minutes to complete and should be completed in the following manner:

- 1 For each of the following statements, select a number between 1 and 5, with 1 indicating that you strongly disagree and 5 indicating that you strongly agree.
- N/A can be used where you do not enough information to rank the BARC on that particular item.
- There are spaces provided besides each question for comments and recommended action steps. We encourage you to utilize both the Recommeded Action Steps and Comments boxes to provide additional details that will improve the quality of the review. However, in instances where your rating falls below four (4), you are required to provide the reasons for your rating.

			Strongly disagree			Strongly agree			
	Topic/Issue	N/A	1	2	3	4	5	Recommended Action Steps	Comments
	1. INDEPENDENCE, AUTHORITY AND PURPOSE								
1	The BARC has at least one member who possesses the requisite level of financial knowledge, including having training and experience in finance.								
2	The members of the BARC have a sufficient understanding of the Bank and its operations, skills, experience, business acumen, time and resources to serve the Board of Directors and satisfy the BARC charter.								
3	The BARC operates pursuant to a written charter and assesses its charter annually, suggesting required updates to the Board for its approval.								
4	The BARC has the approriate number of members to address risk adequately and effectively.								
5	All members of the BARC have a clear understanding of the roles and responsibilities of the committee as a whole and of its individual members.								
6	The BARC members have adequate time to devote to their duties and are not considered to be "over Boarded" (i.e., they do not have too many conflicting obligations in serving other committees of the Board, additional Boards where they are serving as directors or advisors to, etc.).								
7	The BARC members are independent of the organisation's management in both form and appearance and exercise their own judgement; voice their own opinions; and act freely from any conflicts of interest so that impartiality may be applied in committee decision-making.								
8	The BARC annually confirms its independence to the Board of Directors.								
	2. MEETINGS AND COMMITTEE MANAGEMENT								
1	The BARC holds at least four meetings annually in accordance with the charter, scheduled at appropriate points to address its responsibilities in a timely manner.								
2	The BARC committee reports to the Board on a timely and accurate basis and such communications are comprehensive, meaningful and focused.								
3	The BARC holds meetings that are effective, getting advance buy- in on the agenda and receiving appropriate briefing material in a timely manner, which members review before meetings.								
4	The BARC meetings allow sufficient time for the discussion of substantive matters.								
5	The BARC ensures proper follow up to questions and issues that arise.								
6	The BARC maintains adequate meeting minutes.								
7	Appropriate processes are in place for ensuring the BARC is kept fully informed on all material matters between meetings (including appropriate external information eg emerging risks and material regulatory changes).								
8	The BARC workload is dealt with effectively and members work together and constructively as a team								
٥	Committee meetings are free from inappropriate management								

			Strongly disagree			Strongly agree			
					Π	Π			
	Topic/Issue 3. TONE AT THE TOP	N/A	1	2	3	4	5	Recommended Action Steps	Comments
	The chair has adequate time scheduled to fulfill his/her								
1	responsibilities.								
2	The chair is knowledgeable of committee members' skill sets and draws on such expertise/experience as needed.								
3	The chair sets the appropriate tone for meetings, demonstrates effective leadership, and is able to manage various personalities and dissenting opinions in maintaining a productive and respectful environment.								
4	The chair sets the BARC agenda with appropriate allocation of time for discussion and decision-making based on risk, complexity, and other significant considerations.								
5	The chair effectively listens to and communicates with the BARC and others internal and external to the organization.								
6	The chair solicits input for meeting agendas from other BARC members, management, and both the internal and external auditors.								
	The chair engages the appropriate external resources (including experts and advisors), if and when needed.								
8	The chair adequately reports out to and works with other committees and the full Board, as appropriate.								
	4. CONTINUING EDUCATION								
1	The ongoing professional development received by the BARC (eg, regulatory matters, accounting and financial reporting, audit and risk) is both appropriate and timely.								
	BARC members are given appropriate opportunities to attend formal courses and conferences, internal talks and seminars, and briefings by external advisers such as the auditors and legal advisers.								
	The BARC has an effective process for participating in continuation education in keeping current on accounting, reporting, and other relevant governance and industry-specific matters.								
	The BARC has a process for allowing members to remain current on independence requirements.								
	5. CULTURE, ETHICS AND CODE OF CONDUCT								
	The BARC requires that management maintains a Company Code of Conduct and that it is adhered to.								
2	The BARC exhibits the appropriate tone from the top.								
3	The BARC maintains a questioning mindset and respects dissenting opinions to foster robust dialogue on significant matters.								
4	The BARC requires management to communicate "bad" news promptly and fully and management is in compliance with this requirement.								
5	The BARC is able to ask difficult questions of management, the internal auditor and the external auditor.								
	The BARC is able to react quickly to effect change and take preventative measures for the future.								
7	The BARC uses the BARC charter to guide its responsibilities and assist in setting agendas.								
	6. OVERSIGHT OF COMPLIANCE								
1	The BARC monitors the organization's compliance with legislation, regulations and any legislative mandates, as well as public sector reporting requirements.								
2	compliance matters encountered by the organization (including results of regulatory reviews/reports) and how management is addressing and responding to these matters.								

			Strongly disagree			Strongly agree			
					\Box				
	Topic/Issue The BARC obtains reports on adherence to internal policies such	N/A	1	2	3	4	5	Recommended Action Steps	Comments
3	as the organization's code of conduct or conflict of interest policies.								
J	7. OVERSIGHT OF RISK MANAGEMENT AND INTER	NAL C	ONTR	OL					
1	The BARC understands the organisation's risk appetite for each material category of risk falling within the committee's remit.								
2	The BARC has an appropriate understanding of the processes in place to identify, evaluate and monitor the key risks facing the organisation.								
3	Appropriate processes are in place to ensure that the risk management and internal control systems are fit for purpose and working as intended.								
4	The BARC is alert to fraud risk factors, particularly potential for management override of internal controls.								
5	The BARC fully understands its role in providing oversight over internal financial controls; the wider aspects of internal control; and risk management systems.								
6	The BARC is knowledgeable of and considers risk to the company's strategy and business models posed by evolving and disruptive technologies and processes.								
7	The BARC is adequately briefed on management's cybersecurity risk management program and has confidence that this program is designed and operating effectively.								
	8. OVERSIGHT OF FINANCIAL REPORTING								
1	The BARC oversees the periodic financial reporting process and reviews interim and annual financial statements in order to be in a position to recommend to the Board of directors the release of these financial statements.								
2	The BARC is well informed and satisfied as to the knowledge and skillset with the accounting department, including middle management positions.								
3	The BARC understands and challenges the appropriateness of critical accounting policies, estimates and judgements, including the implementation of new accounting standards.								
4	The BARC has an adequate succession plan in place for key financial management personnel (e.g., Director of Accounting).								
5	The BARC understands the pressures faced by management that could impact the financial reporting of the Bank and maintains skepticism and exercises appropriate professional judgment.								
6	The BARC understands and challenge the completeness and transparency of the financial statements, annual report, and other related communications and seek appropriate changes where necessary.								
7	The BARC is alert to "red flags" which may signal improper earnings management, fraudulent financial reporting, and misappropriation of funds or illegal acts.								
8	The BARC has a process in place for reacting to alleged fraud. 9. COMMUNICATION								
1	Management communicates significant deficiencies or material weaknesses directly to the BARC along with plans for remediation.								
2	The BARC adequately follows up on management's remediation plans.								
3	The BARC maintains open and honest communication with management.								
4	The BARC maintains open and honest communication with internal audit.								
	The BARC maintains open and honest communication with external auditors.								

		Strongly disagree	←	←		Strongly agree		
Topic/Issue	N/A	1	2	3	4	5	Recommended Action Steps	Comments
The BARC ensures external audit inquiries, requests, and recommendations are responded to in a timely fashion.								
10. OVERSIGHT OF INTERNAL AUDIT								
The BARC is responsible for and has adequate knowledge of the selection, operation, and retention of the internal audit function.								
The process by which the BARC reviews the effectiveness of the internal audit is both timely and rigorous.								
The BARC discusses the overall scope, risk identification, and audit plan with the internal auditors and suggests adjustments as appropriate.								
The internal auditors report directly to the BARC, providing it with unfiltered information.								
The BARC periodically evaluates the adequacy, effectiveness, and independence of the internal audit department.								
The BARC plays an appropriate role in approving the appointment of the Director of Internal Audit.								
The internal audit function is appropriately resourced taking into account the skills and the breadth and depth of experience necessary to cover the organisation's operations.								
The BARC takes appropriate steps to ensure the head of internal audit has direct access to the BARC and makes appropriate use of that access through informal as well as formal meetings.								
The BARC takes appropriate steps to ensure management respond to internal audit recommendations in a timely and fitting manner.								
11. OVERSIGHT OF EXTERNAL AUDITORS								
The BARC plays an appropriate role in recommending the appointment and retention of the external auditor which is based on the results from assessments conducted by the BARC over the period of the contract.								
External audit staff are appropriately qualified and experienced taking into account the skills and the breadth and depth of experience necessary to cover the organisation's operations.								
The BARC takes appropriate steps to ensure the external auditor has direct access to the committee and makes appropriate use of that access through informal as well as formal meeting.								
The BARC has taken the appropriate steps to ensure the independence and objectivity of the external auditor is not compromised – including where the external audit provides non-audit services								
The external audit work plan focuses on the organisation's key audit risks.								
The BARC discusses the audit results with the external auditor, assesses how the executive Board handles the weaknesses identified and the recommendations made by the external auditor.								
The process by which the BARC reviews the effectiveness of the external audit is both timely and rigorous.								
The BARC inquires of and is satisfied that the auditors have adequate quality control policies and procedures in place to ensure services rendered meet professional and regulatory requirements as well as the BARC's expectations.								
The BARC obtains sufficient information to ensure that the audit								

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