

EASTERN CARIBBEAN CENTRAL BANK



# **Board Audit and Risk Committee Report to ECCB Board of Directors**

*April 2018 - March 2019*



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**Board Audit and Risk Committee  
Report to the ECCB Board of Directors  
for the period April 2018 - March 2019**

**BOARD AUDIT AND RISK COMMITTEE ANNUAL REPORT**  
**TO THE BOARD OF DIRECTORS FOR THE PERIOD**  
**APRIL 2018 TO MARCH 2019**

**1.0 INTRODUCTION**

The Board Audit and Risk Committee (BARC) is a subcommittee of the Eastern Caribbean Central Bank's (ECCB) Board of Directors. Its overall purpose entails assisting 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. The BARC is governed by a Charter (*Appendix I*) which outlines the Committee's remit. The Charter which was last reviewed and approved by the Board of Directors of the ECCB on 28 September 2018, guides the BARC in terms of its purpose, authority, composition, meetings and responsibilities.

The Charter requires that on an annual basis the BARC present a written report to the Board of Directors detailing how it has discharged its duties and met its responsibilities as outlined in the Charter. This report is prepared in compliance with this requirement of providing documentary evidence of the BARC's accountability to the Board of Directors for the year ended 31 March 2019.

**2.0 BARC COMPOSITION, QUALIFICATIONS AND MEETINGS**

The BARC is comprised of four members, who were selected from among the independent membership of the Board of Directors. The Committee is mandated to meet at least twice annually.

## **2.1 *BARC Composition over the period April 2018 to March 2019***

The members of the current BARC were:



**Mr John Skerritt**, CBE, MSc, A.C.C., BBA, C. Dir, Board representative for Montserrat, has served as a member of the BARC from January 2017 and assumed chairmanship from September 2017. Mr Skerritt has extensive experience in both the private and public sectors and is trained in business administration and public economics. His experience includes tenure on several boards, including, the Caribbean Development Bank, Eastern Caribbean Regional Debt Coordinating Committee, Resolution Trust Corporation, and Montserrat Social Security Fund. Mr Skerritt is a former Financial Secretary in the Ministry of Finance and Economic Management, Montserrat. He is the principal and partner of Guardian Business Group which comprises three firms providing investment and consultancy, accounting and business, and project management services.



**Mrs Hilary Hazel**, MSc., BA, C. Dir, Board representative for St Kitts and Nevis, has served as a member of the Committee from June 2015, and was appointed Deputy Chairperson 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. She is trained in financial management. Mrs Hazel has served as permanent secretary in the Ministry of Sustainable Development and as chairperson of the Board of the St Christopher Tourism Authority. She currently serves as a director on the Board of the Caribbean Development Bank and is the chairperson of the St Kitts and Nevis Financial Services Regulatory Commission. Mrs Hazel is currently the Financial Secretary in the Ministry of Finance, St Kitts and Nevis.



**Ms Cointha Thomas**, MSc., BSc., C. Dir, Board representative for Saint Lucia, was appointed as a member of the BARC from November 2016. Ms Thomas has a background in planning, preparing, implementing, monitoring and evaluating a wide range of projects including economic, social, and public and private sector. Ms Thomas is trained in economics and development finance. She has served on several boards including Caribbean Public Health Agency, and the Saint Lucia Development Bank. Ms Thomas is chairperson for the Board of Saint Lucia Air and Sea Ports Authority and is a member of the Authority's Audit, Finance and Investment Committee. She is also the chairperson of the Investment Committee, National Insurance Corporation and a Director of the Saint Lucia Financial Services Regulatory Authority. Ms Thomas is the Permanent Secretary/Director of Finance, Department of Finance, Saint Lucia.



**Mr Edmond Jackson**, Board representative for St Vincent and the Grenadines, 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. His experience includes tenure on several boards of financial institutions in St Vincent and the Grenadines. Mr Jackson is the Director General Finance and Planning in the Ministry of Finance, St Vincent and the Grenadines.

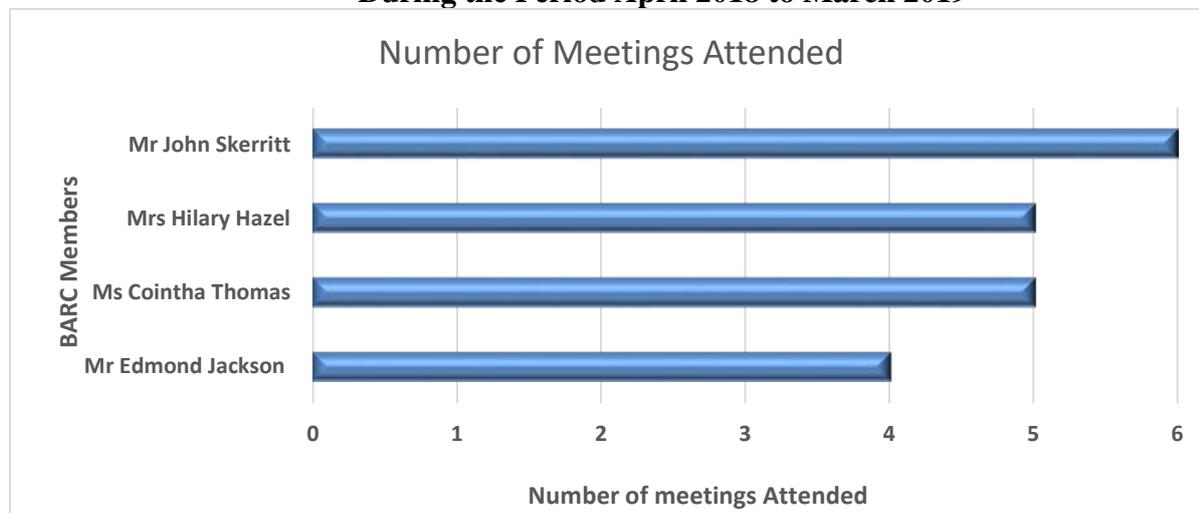
## **2.2 Meetings**

Over the year in review, the Committee met six times, as follows:

7 June 2018
28 September 2018
25 January 2019
21 February 2019
22 March 2019
29 March 2019

The table below shows the attendance of meetings by the members of BARC over the period under review:

**Table 1: Attendance of BARC Members  
During the Period April 2018 to March 2019**



### 3.0 BARC EFFECTIVENESS

The BARC's overall effectiveness improved over the review period as evidenced by the following activities:

- ***Establishment of a Code of Conduct for the members of the BARC.*** This Code is testament to the Committee's commitment to implementing best practices in the execution of its duties.
- ***Review and update of the BARC Charter.*** The Charter was reviewed to reflect consistency in the expectations and requirements between the Internal Audit Department's (IAD) Charter and the BARC's Charter. In addition, updates were made to ensure the responsibilities documented in the Charter were aligned with International Internal Auditing Standards, the confirmed mandate of the Bank's BARC and the BARC Code of Conduct.
- ***Training and Capacity Building received.*** Two members of the Committee successfully completed the Caribbean Governance Training Institute (CGTI) Audit Committee Certification (ACC) programme. The programme covered many critical areas including audit committees' role in risk management, financial reporting and the changing roles, responsibilities and accountabilities of audit committees. In addition, the Committee along with the remaining members of the Board, participated in an Enterprise Risk Management Awareness Training Session facilitated by PricewaterhouseCoopers (PwC), Jamaica.

#### 4.0 INTERNAL AUDIT

The BARC oversees the work of the Internal Audit Department. The oversight role of the BARC included:

- ***Approval of IAD's strategic plan and work programmes for the three year period 2019/2020 to 2021/2022 and the requisite staffing required to fulfil its work programme.***  
In order to facilitate execution of the approved work programme for the new financial period 2019/2020, the BARC requested a review of the resources of the IAD be conducted to ensure adequacy and recommended additional resources where necessary.
- ***Review and approval of the revised IAD charter.*** The IAD's charter was reviewed and updated to reflect the removal of all operational activities and to emphasise its focus on Assurance and Consultancy Services;
- ***Review of the Bankwide Risk Assessment.*** A comprehensive risk assessment was undertaken of all the auditable entities of the Bank. The results of this assessment formed the basis for the department's three-year work programme, which resulted in the identification of thirty-two (32) auditable entities.
- ***Review of engagement reports from the IAD.*** The Committee devoted significant time to discuss the issues and recommendations arising from the audit reports. The main risks highlighted were reputational and operational in nature and hinged upon the Bank's ability to meet its deadlines and reach targets set. Relevant recommendations were made to mitigate those risks presented.
- ***Review and monitor progress made by departments to remedy the audit findings.*** In instances when the implementation rate of audit recommendations needed improvement, the Committee met with the management of those departments to ascertain the underlying issues and challenges. Revised timelines for implementation of the recommendations were provided with a view to ensuring all audit recommendations were addressed within an agreed upon timeframe. Bi-annual reports on the progress of implementation of all audit recommendations are to be submitted to the Committee.
- ***Requirements for a comprehensive Information Technology (IT) assessment by relevant experts.*** Given the emerging risks in IT and cybersecurity, the BARC recommended to the Board that a comprehensive IT assessment be conducted to determine the Bank's vulnerabilities. A team of IT experts, including a cybersecurity specialist, from PwC Trinidad and Tobago, was engaged. The assessments covered the Strategic IT Management, IT General controls and Network Configuration, Application Security as well

as Vulnerability and Penetration testing. The BARC is committed to receiving regular reports on the Bank's implementation of the recommendations made by the PwC.

## **5.0 RISK MANAGEMENT OVERSIGHT**

The BARC paid close attention to the implementation of the Enterprise Risk Management (ERM) at the Bank in line with International Standard ISO 31000 – Risk Management. In addition, the following were executed:

- Engage PwC Jamaica to assist in the ERM implementation process and conducted Risk Training Workshops across the Bank to ensure there was a common understanding and evaluation of risks within each department.
- Review and assess updates on the Bank's risk profile via summary reports
- Review and recommend to the Board of Directors for approval, risk tolerances for Strategic, Financial and Operational areas.
- Receive reports on the implementation of the Bank's Business Continuity Plan and Framework.

## **6.0 FINANCIAL STATEMENTS AND INTERNAL CONTROLS**

During the review period, the BARC performed the following:

- Review of the ECCB's Annual Audited Financial Statements for the period ended 31 March 2018 and recommended to the Board of Directors for approval and publication; and
- Oversee the implementation of IFRS 9 to ensure the ECCB's compliance. The Committee received regular updates on implementation progress from the Director AD.

## **7.0 EXTERNAL AUDIT OVERSIGHT**

During the period under review, the BARC carried out its oversight role of the external audit function as follows:

- Acknowledged the KPMG's report that the financial statements for period ended March 2018 were presented fairly in all material respects and that the internal controls over financial reporting were effective;
- Received assurance from KPMG that the 2017/2018 audit process was achieved as planned, with support from the ECCB's management.

- Considered KPMG’s audit methodology and approach set out in their audit plan for the financial period 2018/2019 and noted the following priority areas identified:
  - ✓ Valuation of Investments and Forward Contracts,
  - ✓ Transition Adjustments for IFRS 9 and IFRS 15,
  - ✓ Adoption of IFRS 9 and IFRS 15.

## **8.0 FOCUS AREAS LOOKING FORWARD - 2019/2020 FINANCIAL PERIOD**

The BARC work programme for the period April 2019 to March 2020 will encompass the following areas:

### **8.1 *BARC’s Effectiveness***

The BARC is committed to continuous improvement in order to ensure the highest level of governance is achieved. To this end, the focus areas have been identified:

- ***Pursue training Initiatives.*** The Committee members will continue to seek training initiatives to ensure that they can undertake their responsibilities adequately and in an effective manner.
- ***Attain membership in Caribbean Association of Audit Committee Members.*** The Committee members will seek to become members of the Caribbean Association of Audit Committee Members (CAACM). Membership will provide opportunities for additional capacity building in emerging matters related to governance, risk management and internal controls. Members will receive access to a secure message board on which they can anonymously share information and experiences, pose and answer questions, and otherwise discuss topics of interest. In addition, the Committee will have an opportunity to influence the governance direction in the region through their involvement in the Association.
- ***Assist and encourage enhancements in the internal audit function.*** The Committee will work closely with the Internal Audit Department to enhance its visibility, consistency and efficiency.
- ***Examine the compliance function.*** The committee will reassess its oversight role in relation to the compliance function across the Bank.
- ***Understand and examine the drive toward digital innovation.*** The Committee will assess the implications of technology/digital innovation as it relates to the ECCB’s thrust towards digital currency.

## **8.2 Internal Audit**

The BARC will focus on ensuring that the IAD is appropriately upskilled and staffed to provide the required support to the Committee and that the work programme of the department continues to be relevant. To this end, the Committee's attention will concentrate on the following:

- Receive and review reports on the department's progress made against the approved work programme and the adequacy of resources to execute that work programme ;
- Oversee the implementation of a comprehensive IAD Quality Assurance and Improvement Programme;
- Scrutinise assurance engagement reports issued, including the IAD's opinion on the effectiveness of governance, risk management and controls within audited functions of the Bank; and
- Review and monitor progress made by departments to remedy the audit findings and continue to engage departments which encounter challenges in the implementation of audit recommendations.

## **8.3 Risk Management**

The BARC will focus on the following matters related to the Office of Risk Management:

- Review and recommend for approval the revised Enterprise Risk Management Policy, which incorporates feedback emanating from the PwC engagement.
- Review and recommend for approval a comprehensive Business Continuity and Disaster Recovery Plan.
- Review and recommend for approval the revised risk reporting framework.

## **8.4 External Audit and Financial oversight**

The role of the BARC in overseeing the external audit function will include the following:

- Review of and approval of financial statements for publication;
- Receipt of preliminary audit reports;
- Review of audit schedules and plans; and
- Appraise and recommend for approval, amendments to financial policies.

### **8.5 *Financial statements and internal controls.***

Review the ECCB's Annual Audited Financial Statements for the period ended 31 March 2019 and recommend to the Board of Directors for approval and publication.

## **9.0 CONCLUSION**

The BARC conducted its work at the Bank as required by the Charter.

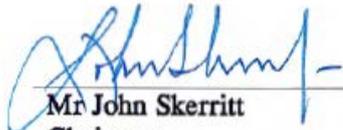
The Committee recognises the work of the IAD team in undertaking the assurance function during the reporting period. The BARC encourages the department to continue to implement the necessary governance, management and process requirements in order to secure full conformance with the International Standards for the Professional Practice of Internal Auditing Standards and Code of Ethics. The audit reports submitted by the department highlighted a number of risk areas to be addressed. Management should pay close attention to resolving the issues in a timely manner. The Committee regretted the slow implementation of the audit recommendations by some of the departments and look forward to improvement in that area during the upcoming period.

The BARC commends the work of Senior Management and the Chief Risk Officer in relation to steps toward implementation of the ERM system and notes the recommendations from PwC Jamaica. The management of the Bank is expected to continue its strides toward ensuring that a risk culture is promoted at the Bank and all employees are aware of their responsibilities in this regard.

With reference to the financial statements, the BARC is satisfied with the Bank's financial reporting based on information received through discussions with the Director AD on the implementation of new standards and the unqualified opinion from the KPMG.

The BARC recognises the importance of ensuring a state of cyber resilience and notes that the foundation of a cyber-resilient organisation is a robust governance framework. As such, the Committee commends the Bank on the steps toward alignment with ISO 270001 – Information Security Management and encourages the implementation of a governance structure to manage cyber security risk.

Finally, the BARC wishes to highlight to the ECCB Board of Directors that it received the full support of the Bank's management and staff in discharging its responsibilities and duties.

  
Mr John Skerritt  
Chairman

  
Date

**BOARD AUDIT AND RISK COMMITTEE CHARTER**  
*(Adapted from the Institute of Internal Auditors)*



*Revised August 2018*

**EASTERN CARIBBEAN CENTRAL BANK  
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# **BOARD AUDIT AND RISK COMMITTEE CHARTER**

*(Adapted from the Institute of Internal Auditors)*

## **1.0 INTRODUCTION**

Pursuant to Article 8 (1) of the Eastern Caribbean Central Bank Agreement 1983 which states “the powers of the Bank shall be vested in a Board of Directors (the Board), which subject to Article 7, shall be responsible for the policy and general administration of the Bank”, the Board meeting, dated 12 December 1995, Paper number BD 84-95, approved the formation of the Audit Committee. The main responsibilities of the committee were to provide oversight of the financial reporting process, selection of the external auditor and internal and external audit function. In November 2016, the areas of responsibility of the audit committee were broadened to include oversight of the Office of Risk Management, which was a newly established functional area within the Bank. The audit committee was resultantly renamed, the Board Audit and Risk Committee (BARC).

## **2.0 PURPOSE**

The purpose of the Board Audit and Risk Committee (BARC) 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.

## **3.0 AUTHORITY**

The authority of the BARC is established by the Board and is articulated in the Charter. The BARC shall have unrestricted access to personnel (internal and external auditors, management and employees), records, reports and any other explanatory information relevant to perform its duties. It has the authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, compensate and oversee the work of the Bank’s external audit firm
- Appoint, compensate and oversee the work of any external independent reviewers of the internal audit function.
- Resolve any disagreements between management and the internal and external auditors regarding financial reporting, audit activities and risk management.
- Retain independent counsel, accountants, risk experts, or other advisors to direct the committee or assist in performing its functions as deemed necessary.

- Seek any information it requires from employees or external parties.
- Meet with the Bank's officers, external auditors, or outside counsel, as necessary.

#### **4.0 COMPOSITION**

The BARC shall consist of at least three members of the Board who are independent of the Bank. The Board will appoint committee members and the committee chairman. The Board may remove any member of the BARC at any time. Each member of the BARC shall be financially knowledgeable, with at least one member being proficient in the area of finance, including having training and experience in the field. The members of the committee shall collectively possess knowledge of accounting and finance, governance, finance, internal control and risk management. The committee should also possess strategic and broad thinking ability with the skills to also drip down into matters when necessary. In addition, the members of the BARC shall be bound by the BARC Code of Conduct.

#### **5.0 MEETINGS**

The committee shall convene meetings at least twice annually, with authority to convene additional meetings as circumstances require. All committee members are expected to attend meetings in person or via video or tele-conference. The committee will meet at such times and frequencies as determined by its Chairman or as requested by any two of its members. The quorum necessary for the meeting shall be two members. The Chairman shall preside at all meetings. In the absence of the Chairman, the deputy chair will preside over the meeting. In the absence of the chair and deputy chair the committee shall select a member of the committee to serve as acting chair at the meeting.

The Chairman shall establish agenda items in collaboration with the head of the internal audit department. The agendas shall be prepared and circulated in advance to members, along with appropriate briefing materials. Minutes shall be prepared and circulated, incorporating any necessary amendments at an agreed time after each meeting. The Chairman shall report the committee's actions, recommendations and findings to the Board.

The BARC shall convene executive sessions with the Governor, the head of IAD, other heads of departments, the Chief Risk Officer, or other executives to impart pertinent information as required.

## **6.0 DUTIES AND RESPONSIBILITIES**

The BARC shall review and assess the adequacy of this Charter at least annually and recommend any proposed changes to the Board for approval. It shall ensure that the responsibilities that are outlined in the Charter are performed. The BARC shall perform the following duties and responsibilities:

### **6.1 *Financial Reporting Process***

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the external audit engagements, including any difficulties encountered, scope limitation and significant disagreements with management.
- Review the annual audited financial statements, and consider whether they are complete, accurate and consistent with information known to committee members, and reflect appropriate accounting principles.
- Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing Standards.
- Understand strategies, assumptions and estimates that management has made in preparing the financial statements.
- Discuss with management and the external auditors any off Balance Sheet structures on the Bank's financial statements
- Recommend approval of the annual financial statements to the Board.
- Review and recommend to the Board for approval, any new or amendments to the Bank's accounting policies.

## **6.2 Risk Management and Internal Control**

- Consider the effectiveness of the ECCB's internal control system, including information technology security and control.
- Provide oversight for the development and implementation of the Bank's Enterprise Risk Management (ERM) Policy and Framework for the Board's approval.
- Submit recommendations to the Board concerning the levels of risk tolerance and appetite and receive reports on the monitoring and management of risks within the levels of risk tolerance and appetite as approved by the Board.
- Discuss with the external auditors the ECCB's policies on risk assessment and risk management, including the risk of fraud.
- Review with senior management the ECCB's overall antifraud programmes and controls.
- Provide oversight on material risk exposures, including monetary policy, financial stability, market, credit, operational, liquidity, information security and cybersecurity, and review the steps that management has taken to control or monitor those exposures.
- Evaluate the linkages between the Assurance Framework and the Enterprise Risk Framework and submit recommendations for changes or improvements where necessary.
- Obtain reports on significant findings and recommendations, together with management's responses emanating from the External Auditor's review internal controls.

## **6.3 Internal Audit Activity**

- Review and approve the Internal Audit Charter. The committee should ensure that the Charter reflects the internal audit activity's purpose, authority and responsibility, consistent with the Institute of Internal Auditors' mandatory guidance.
- Review the independence and effectiveness of internal audit to ensure that its operations are in accordance with applicable and appropriate professional standards, particularly those approved by the Institute of Internal Auditors.
- Approve the list of external independent reviewers of the internal audit function to be approved by the Board.
- Review with Executive and the head of IAD, plans, objectives, activities, staffing, and organizational structure of the internal audit function as well as the impact of any staffing limitations and significant changes within the IAD.

- Review internal audit reports and other recommendations that were proposed to management and receive updates on the results of monitoring and assessment of audit recommendations
- Approve the strategic plan and annual risk-based audit plan and all major changes to the plans.
- Review the internal audit activity's performance and outcomes relative to its plan.
- Consider and approve decisions regarding the appointment and removal of the head of IAD. Ensure there are no unjustified restrictions or limitations in the appointment, replacement, or dismissal of the head of IAD.
- Review the performance of the head of IAD at least once per year.
- Meet separately with Head of Internal Audit Department, on a regular basis, to discuss any matters that the committee or internal audit believes should be discussed privately.
- Ensure that the internal audit activity has a Quality Assurance and Improvement Programme (QAIP), and that the results of these assessments are presented to the Board.
- Ensure that the external quality assurance review is conducted every five years.
- Review the results of the external, independent quality assurance review, and monitor the implementation of the internal audit's action plans to address any recommendations.

#### **6.4 External Audit Function**

- Recommend the list of External Auditors to be approved by the Monetary Council (pursuant to Article 47 of the ECCB Agreement Act 1983)
- Review and discuss with the external auditors, the proposed audit scope and approach, and oversee the coordination of internal and external auditing work to ensure adequate audit coverage and to minimise duplication of efforts.
- Review the performance of the external auditors, and submit to the Board for ratification, the appointment, compensation or discharge of the external auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Bank, including non-audit services, and discussing the relationships with the auditors.
- Review and approve/recommend for approval audit services to be provided.
- On a regular basis, meet separately with the external auditors, on a regular basis, to discuss any matters that the committee or auditors believe should be discussed privately.

- Evaluate reports on external auditors with regard to the external auditors' internal quality control procedures, conclusions on the external auditors' quality assurance and improvement programmes and peer reviews or professional and supervisory authorities.

### **6.5 *Other Responsibilities***

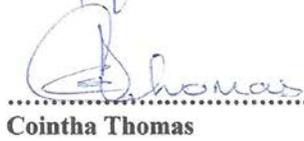
The additional responsibilities of the BARC may include the following:

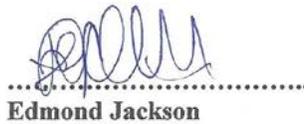
- Institute and oversee special investigations as needed.
- Obtain any information and training needed to enhance the committee members' understanding of the role of internal audit and the independent auditor, the risk management process, internal controls and financial reporting.
- Establish and oversee procedures for receipt, retention and treatment of complaints related to accounting, internal controls or auditing matters, as well as confidential, anonymous submission by Bank's employees.
- Present annually to the Board of Directors a written report of how it has discharged its duties and met its responsibilities as outlined in the charter.
- Provide an open avenue of communication between internal audit, the external auditors, and the Board.
- Perform other activities related to this charter as requested by the Board.

This Charter was agreed to by the undersigned members of the Board Audit and Risk Committee of the Eastern Caribbean Central Bank.

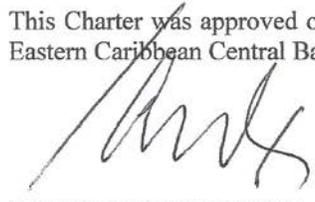
  
.....  
**John Skerritt**  
**(Chairman)**

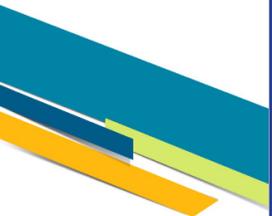
  
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**Hilary Hazel**

  
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**Cointha Thomas**

  
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**Edmond Jackson**

This Charter was approved on the 28<sup>th</sup> day of September 2018 by the Board of Directors of the Eastern Caribbean Central Bank.

  
.....  
**Timothy N. J. Antoine**  
**CHAIRMAN OF THE BOARD OF DIRECTORS**  
**EASTERN CARIBBEAN CENTRAL BANK**



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