

**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, policies 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

REFERENCES

https://www.schiffhardin.com/Templates/Media/files/archive/binary/rossiter_010105.pdf

<https://www2.deloitte.com/content/dam/Deloitte/us/Documents/center-for-board-effectiveness/us-audit-committee-resource-guide-section-1.pdf>

<https://www.bdo.com/insights/assurance/client-advisories/audit-committee-self-assessment>

<https://www2.deloitte.com/content/dam/Deloitte/us/Documents/center-for-board-effectiveness/us-audit-committee-resource-guide-section-2.pdf>

<https://global.theiia.org/standards-guidance/Public%20Documents/Independent-Audit-Committees-in-Public-Sector-Organizations.pdf>

<https://www.ey.com/gl/en/issues/governance-and-reporting/audit-committee/ey-improving-audit-committee-performance#Conduct-a-self-assessment>

<https://home.kpmg/content/dam/kpmg/pdf/2016/07/4-aci-self-assessment-fs-uk-v4-lr.pdf>

https://www.pwc.ch/en/publications/2016/questionnaire_selbstbeurteilung_e.pdf

https://www.nao.org.uk/wp-content/uploads/2012/10/Self_Assessment_Checklist.pdf

<https://www2.deloitte.com/ru/en/pages/risk/articles/audit-committee-effectiveness.html>

<https://boardleadership.kpmg.us/content/dam/boardleadership/en/pdf/General/kpmg-audit-committee-guide.pdf>