



Audit and Risk Committee

Charter

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Email: feedback@bvirecovery.com

Website: www.bvirecovery.vg

First Floor, Ritter House,
Wickham's Cay II, Tortola VG1110, Virgin Islands

Table of Acronyms

BOD	Board of Directors
CEO	Chief Executive Officer
CFO	Chief Financial Officer
IAA	Internal Audit Activity
IIA	Institute of Internal Auditors
IPPF	International Professional Practice Framework
IT	Information Technology
RDA	Recovery and Development Agency

Table of Contents

1	Organizational Principles.....	1
1.1	Introduction	1
1.2	Background	1
1.3	Purpose	1
1.4	Authority.....	2
1.5	Composition of the Audit and Risk Committee.....	2
1.6	The Chair of the Audit and Risk Committee.....	3
1.7	Terms of Office.....	3
1.8	Quorum.....	3
2	Operational Principles	4
2.1	Audit and Risk Committee Values.....	4
2.2	Communications	4
2.3	Meeting Agenda.....	5
2.4	Information Requirements	5
2.5	Executive Sessions	5
2.6	Preparation and Attendance.....	5
2.7	Conflict(s) of Interest	5
2.8	Orientation and Training.....	5
3	Operational Procedures	5
3.1	Meetings	5
3.1.1	Minutes.....	6
3.1.2	Required Attendance.....	6
3.1.3	Secretariat Services	6
3.2	Remuneration of Committee Members.....	6
3.3	Responsibilities	6
3.3.1	Values and Ethics	6
3.3.2	Organizational Governance	6
3.3.3	Risk Management	7
3.3.4	Fraud.....	7
3.3.5	Control.....	7
3.3.6	Compliance	7

4	Oversight of the Internal Audit Activity and Other Assurance Providers.....	8
4.1	Internal Audit Activity	8
4.1.1	Internal Audit Charter and Resources	8
4.1.2	Internal Auditor’s Performance	8
4.1.3	Internal Audit Strategy and Plan.....	8
4.1.4	Standards Conformance	9
4.2	External Auditors	9
4.3	Financial Statements and Public Accountability Reporting	10
5	Oversight of Risk Management	10
5.1	Committee Responsibilities	10
5.2	Other Responsibilities	11
5.3	Reporting on Audit Committee Performance	12

1 Organizational Principles

1.1 Introduction

The Audit and Risk Committee (the Committee) plays an important role in providing oversight of the RDA's governance, risk management, and internal control practices. This oversight mechanism also serves to provide confidence in the integrity of these practices. The Audit and Risk Committee performs its role by providing independent oversight to the BOD.

1.2 Background

The Audit and Risk Committee was established on 13 December 2019 at the 20th Board Meeting.

1.3 Purpose

The purpose of the Audit and Risk Committee is to assist the Board in the fulfilment of its corporate governance duties in relation to risk management, internal controls and financial reporting.

The duties of the committee should cover these areas:

- review RDA's risk assessment process to ensure effectiveness and consistency;
- monitor action taken by management in response to risk;
- examine and review all systems and methods of internal and financial control;
- review reports on any material breakdown of controls and the adequacy of proposed action;
- oversee and evaluate the performance of the external auditors and advise the Board on any changes that ought to be made in their terms of engagement;
- manage the process for the tendering of the external audit and recommend to the Board the appointment and re-appointment of the external auditors and the level of their fees;
- review and approve the annual audit plan and ensure consistency with the scope of the audit engagement;
- review the findings of the audit with the external auditors;
- review the adequacy of management's response to issues identified by audit activity and monitor agreed action;
- develop and implement a policy on the supply of non-audit services by the external auditor;
- monitor the integrity of the Directors Report, the annual financial statements and the business/operating review before recommending them to the Board;

- review and challenge, as appropriate, RDA’s accounting policies, the methods used to account for significant or unusual transactions and the clarity of disclosure in the annual financial statements;
- review and approve the statements to be included in the annual report and accounts relating to governance, internal control, and risk management;
- review RDA’s policy and procedures for the prevention and detection of fraud;
- review RDA’s insurance arrangements, including directors’ and officers’ liability insurance, to ensure that appropriate cover is in place;
- undertake authorized investigations on behalf of the Board and advise on the findings and recommendations.

1.4 Authority

The Audit and Risk Committee Charter sets out the authority of the Committee to carry out the responsibilities established for it by the BOD. In discharging its responsibilities, the Committee will have unrestricted access to members of management, employees and relevant information it considers necessary to discharge its duties. The Committee also will have unrestricted access to records, data, and reports. In the unlikely event that access to requested documents is denied due to legal or confidentiality reasons, the Committee and/or the Internal Auditor will follow a prescribed, BOD approved, mechanism for resolution of the matter.

The Committee is entitled to receive any explanatory information that it deems necessary to discharge its responsibilities. The RDA’s management and staff should cooperate with the Committee’s requests.

The Committee may engage independent counsel and/or other advisers it deems necessary to carry out its duties. This will require additional resources that will need approval and any engagement with additional support must follow the RDA’s procurement process.

The Committee is empowered to:

- Appoint, compensate and oversee all audit and non-audit services performed by auditors, including the work of any registered public accounting firm employed by the organization;
- Resolve any disagreements between management and the external auditor regarding financial reporting and other matters;
- Pre-approve all auditing and non-auditing services performed by auditors; and
- Ensure the Internal Auditor is furnished with all tools and information needed to conduct his/her business.

1.5 Composition of the Audit and Risk Committee

The Committee will consist of at least three members that are independent of the executive members of the RDA. The members should collectively possess enough knowledge of audit,

finance, project management, information technology, law, governance, risk and control to conduct their business. Because the responsibilities of the Committee evolve in response to regulatory, economic and reporting developments, it is important to periodically re-evaluate members' competencies and the overall balance of skills on the Committee in response to emerging needs.

1.6 The Chair of the Audit and Risk Committee

The BOD will designate the Chair of the Committee from its membership and appointment of Committee members. A person may be a member of the Committee without being a member of the BOD.

1.7 Terms of Office

The term of office for a committee member will be determined by the BOD upon appointment. Continuance of membership will be reviewed annually, if the BOD otherwise directs. A member of the Committee may be removed at any time by the BOD.

1.8 Quorum

The quorum necessary for the transaction of business will be a simple majority of the nominated members.

1.9 Three Lines of Defense

To ensure the effectiveness of RDA's risk management framework, the board and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the RDA. The 3 lines of defense model is outlined below:



- the first line of defense – functions that own and manage risk

- the second line of defense – functions that oversee or specialise in risk management, compliance
- the third line of defense – functions that provide independent assurance, above all internal audit.

1.9.1 First Line of Defense

Under the first line of defense, operational management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.

1.9.2 Second Line of Defense

The second line of defense consists of activities covered by several components of internal governance (compliance, risk management, quality, IT and other control departments). This line of defense monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organization.

1.9.3 Third Line of Defense

Internal audit forms the RDA’s third line of defense. An independent internal audit function will, through a risk-based approach to its work, provide assurance to the RDA’s board of directors and senior management. This assurance will cover how effectively the RDA assesses and manages its risks and will include assurance on the effectiveness of the first and second lines of defense. It encompasses all elements of an institution’s risk management framework (from risk identification, risk assessment and response, to communication of risk related information) and all categories of organizational objectives: strategic, ethical, operational, reporting and compliance.

2 Operational Principles

2.1 Audit and Risk Committee Values

The Audit and Risk Committee will conduct itself in accordance with the RDA’s Code of Conduct; the RDA’s Board Charter; and the Audit and Risk Committee Charter.

2.2 Communications

The Committee expects that all communication with management and staff of the RDA, as well as with any external assurance providers, will be direct, open and complete.

The Committee’s Chair will collaborate with senior management and the Internal Auditor to establish a work plan to ensure that the responsibilities of the Committee are scheduled and executed.

2.3 Meeting Agenda

The Chair will establish agendas for Committee meetings in consultation with Committee members, Agency senior management and the Internal Auditor.

2.4 Information Requirements

The Committee will establish and communicate its requirements for information, which will include the nature, extent and timing of information. Information will be provided to the Committee at least one week prior to each Committee meeting.

2.5 Executive Sessions

The Committee will schedule and hold, if necessary, a private session with the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Internal Auditor, external assurance providers and other staff that the Committee may deem appropriate at each of its meetings.

2.6 Preparation and Attendance

Committee members are obligated to prepare for and participate in Committee meetings.

2.7 Conflict(s) of Interest

Committee members should adhere to the RDA's Code of Conduct and any values and ethics established by the RDA. It is the responsibility of Committee members to disclose any conflict(s) of interest or appearance of a conflict of interest to the Committee. If there is any question as to whether members should recuse themselves from a vote, the Committee should vote to determine whether the member should recuse himself or herself.

2.8 Orientation and Training

Committee members will receive formal orientation training on the purpose and mandate of the Committee, RDA's Code of Conduct and on the Virgin Island Recovery and Development Act (Act). A process of continuing education will be established.

3 Operational Procedures

3.1 Meetings

The Committee will meet at least four times annually or more frequently as the Committee deems necessary. The time frame between Committee meetings should not exceed four months.

3.1.1 Minutes

Minutes will be prepared in accordance with applicable law, regulation, bylaws, policy, procedure and/or other applicable requirements. Meeting minutes will be provided in draft format at least two weeks after the Audit and Risk Committee meeting. Once minutes are agreed by the Committee, the Chair is to sign on behalf of the Committee to commit the minutes to permanent record.

3.1.2 Required Attendance

The Internal Auditor and the CFO are required to attend all Committee meetings. The Chief Executive Officer, the Head of Finance, the external auditors, and other staff members as appropriate, should be invited to attend meetings.

3.1.3 Secretariat Services

The Internal Auditor or the Chief Finance Officer will facilitate and coordinate meetings as well as provide ancillary support to the Committee, as time and resources permit.

3.2 Remuneration of Committee Members

In accordance with the Recovery and Development Act, Committee members may be reimbursed for travel and Committee-related expenses.

3.3 Responsibilities

It is the responsibility of the Committee to provide the BOD with independent, objective advice on the adequacy of management's arrangements with respect to the following aspects of the management of the RDA:

3.3.1 Values and Ethics

To obtain reasonable assurance with respect to RDA's values and ethics practices, the Committee will:

- Review and assess the policies, procedures and practices established by the BOD to monitor conformance with its Code of Conduct and ethical policies by all managers and staff of the RDA.
- Provide oversight of the mechanisms established by management to form and maintain high ethical standards for all managers and staff of the RDA.
- Review and provide advice on the systems and practices established by management to monitor compliance with laws, regulations, policies and standards of ethical conduct and identify and deal with any legal or ethical violations.

3.3.2 Organizational Governance

To obtain reasonable assurance with respect to the RDA's governance process, the Committee will review and provide advice on the governance process established and maintained within the RDA and the procedures in place to ensure that they are operating as intended.

3.3.3 Risk Management

The Committee will review the RDA's Principal Risks¹ and assess whether key risks have been identified and are appropriately being managed.

3.3.4 Fraud

To obtain reasonable assurance with respect to the RDA's procedures for the prevention and detection of fraud, the Audit and Risk Committee will:

- Oversee management's arrangements for the prevention and deterrence of fraud.
- Ensure that appropriate action is taken against known perpetrators of fraud.
- Challenge management and internal and external auditors to ensure that the RDA has appropriate antifraud programmes and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.

3.3.5 Control

To obtain reasonable assurance with respect to the adequacy and effectiveness of the RDA's controls in responding to risks within the RDA's governance, operations and information systems, the Audit and Risk Committee will:

- Consider the effectiveness of the RDA's control framework, including information technology security and control;
- Review and provide advice on the control of the RDA, as a whole, and its individual units; and
- Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance to senior management and the BOD.

3.3.6 Compliance

The Committee will:

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigations and follow-up (including disciplinary action) of any instances of noncompliance; and
- Review the observations and conclusions of internal and external auditors and the findings of any regulatory agencies.

¹ *Principal Risk (definition): The key risks of the RDA which include a broad range of risk such as legal and regulatory compliance, reputational, institutional, technical, commercial and external.*

4 Oversight of the Internal Audit Activity and Other Assurance Providers

4.1 Internal Audit Activity

To obtain reasonable assurance with respect to work of the IAA, the Audit and Risk Committee will provide oversight related to:

4.1.1 Internal Audit Charter and Resources

- Review and approve the Internal Audit Charter at least annually. The Charter should be reviewed to ensure that it accurately reflects the IAA's purpose, authority and responsibility, consistent with the mandatory guidance of the IIA's International Professional Practices Framework (IPPF) and the scope and nature of assurance and consulting services, as well as changes in the financial, risk management and governance processes of the RDA and reflects developments in the professional practice of internal auditing.
- Advise the BOD about increases and decreases to the requested resources to achieve the Internal Audit plan. Evaluate whether any additional resources are needed permanently or should be provided through outsourcing.

4.1.2 Internal Auditor's Performance

- Agree the performance objectives that the Internal Auditor will be measured against.
- Advise the BOD regarding the qualifications and recruitment, appointment and removal of the Internal Auditor.
- Provide input to management related to evaluating the performance of the Internal Auditor.

4.1.3 Internal Audit Strategy and Plan

- Review and provide input on the IAA's strategic plan, objectives, performance measures and outcomes.
- Review and approve proposed risk-based Internal Audit Plan and make recommendations concerning Internal Audit projects.
- Review and approve the Internal Audit Plan and engagement work programme, including reviewing internal audit resources necessary to achieve the plan.
- Review the IAA's performance relative to its audit plan.
- Review Internal Audit reports and other communications to management.
- Review and track management's action plans to address the results of Internal Audit engagements.
- Review and advise management on the results of any special investigations.
- Inquire of the Internal Auditor whether any Internal Audit engagements or non-audit engagements have been completed but not reported to the Committee; if so, inquire whether any matters of significance arose from such work.

- Inquire of the Internal Auditor whether any evidence of fraud has been identified during Internal Audit engagements and evaluate what additional actions, if any, should be taken.

4.1.4 Standards Conformance

- Inquire of the Internal Auditor about steps taken to ensure that the IAA conforms with the IIA's International Standards for the Professional Practice of Internal Auditing (Standards).
- Ensure that the IAA has a quality assurance and improvement programme and that the results of these periodic assessments are presented to the Audit and Risk Committee.
- Ensure that the IAA has an external quality assurance review every five years.
- Review the results of the independent external quality assurance review and monitor the implementation of the IAA's action plans to address any recommendations.
- Advise the BOD about any recommendations for the continuous improvement of the IAA.
- Ensure that the Internal Audit contributes to the continual improvement of RDA process and performance.

4.2 External Auditors

To obtain reasonable assurance with respect to the work of the external assurance providers, the Audit and Risk Committee may meet with the external assurance providers during the planning phase of the engagement, the presentation of the audited financial statements and the discussion of the results of engagements and recommendations for management.

The Committee will:

- Review the external auditor's proposed audit scope and approach, including coordination of audit effort with the IAA;
- Review the performance of the external auditors and exercise final approval on the appointment or discharge of the auditors;
- Obtain statements from the external auditors about their relationship with the organization, including non-audit services performed in the past and discuss the information with external auditors to review and confirm their independence;
- Have regularly scheduled exclusive meetings with external auditors to discuss any sensitive matters; and
- Monitor management's progress on action plans.

To obtain reasonable assurance that management has acted on the results and recommendations of internal and external audit engagements, the Audit and Risk Committee will regularly review reports on the progress of implementing approved management action plans and audit recommendations resulting from completed audit engagements.

4.3 Financial Statements and Public Accountability Reporting

The Committee is responsible for oversight of the independent audit of the RDA's financial Statements including, but not limited to, overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance and ethics.

The Committee will:

- Review with management and the external auditors the results of audit engagements, including any difficulties encountered;
- 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 the annual financial statements and consider whether they are complete, consistent with information known to Committee members and reflect appropriate accounting principles;
- Review other sections of the annual report and consider the accuracy and completeness of the information before it is released.
- Review with management and the external auditors all matters required to be communicated to the Audit and Risk Committee under generally accepted external auditing standards.
- Understand strategies, assumptions and estimates that management has in preparing financial statements, budgets and investment plan; and
- Review interim financial reports with management and consider whether they are complete and consistent with the information known to Committee members.

5 Oversight of Risk Management

5.1 Committee Responsibilities

The Committee will review management's recommendation for the RDA's risk appetite and Enterprise Risk Policy (at least annually) and, upon agreement, will recommend them to the BOD for approval.

The Committee will review and, if in agreement, approve the following:

- Transactional risk-taking authorities delegated to management and any transactions exceeding those delegated authorities (at least annually);
- Risk management policies, to ensure they remain appropriate to effectively identify, assess and manage the RDA's Principal Risks, in light of changing circumstances and in light of how the policies and practices have performed; and

- The risk limits for Principal Risks, as appropriate, delegated to management, any exposures exceeding those delegated limits and the risk response plans to manage exposures as appropriate.

The Committee will review:

- Reports, presentations and other information presented by the Agency's Risk Senior Manager and other members of management related to the RDA's programs, procedures and controls in place to manage its Principal Risks and economic capital adequacy (at least annually);
- Reports from the Internal Auditor, relating to the adequacy of the RDA's procedures and controls to manage its Principal Risks, together with management's responses and relating to the effectiveness of the RDA's programs, procedures and controls to manage its Principal Risks (at least annually);
- Reports, presentations and other information related to the RDA's principal risk exposures, economic capital adequacy and trends as identified by management (quarterly);
- Reports from management providing reasonable assurance that the RDA's risk management policies for Principal Risks are being complied with and, for instances where they are not being complied with, review and approve requests for exceptions or recommended remedial action plans (at least annually);
- Reports, presentations and other information presented by the Risk Senior Manager relating to the adequacy and independence of the RDA's risk data aggregation and reporting practices;
- Reports from management on the impact of incentive compensation on risk taking;
- The risk impact of business plan and new business initiatives, including consistency with the approved risk appetite and related risk management and controls; and
- Assessments and reports from management evaluating the RDA's risk culture.

The Committee will receive reports on the Business Continuity Program and the Information Services Risk Management Program, which includes Information Security, Global Privacy Risk Management and the Outsourcing Policies.

The Committee shall report to the BOD on matters referred to it by the BOD and on the proceedings following each meeting of the Committee. The report shall include findings, matters identified for specific recommendation to the BOD, action points and any other issues as deemed appropriate. The BOD remains collectively responsible for the decisions of any sub-committee and shall review the effectiveness and performance of committees annually. The BOD may be required to establish other committees from time to time.

5.2 Other Responsibilities

In addition, the Committee will:

- Perform other activities related to this Charter as requested by the BOD;
- Institute and oversee special investigations as needed; and
- Regularly evaluate its performance and that of its individual members.

5.3 Reporting on Audit and Risk Committee's Performance

The committee shall arrange for periodic reviews of its own performance and, at least annually, review its terms of reference to ensure that it is operating effectively and report to the Board any changes it considers necessary. The report may be delivered during an Audit and Risk Committee meeting attended by the BOD or during a regularly scheduled meeting of the BOD.

The report should include:

- A summary of the work the Audit and Risk Committee performed to fully discharge its responsibilities during the preceding year;
- A summary of management's progress in addressing the results of internal and external audit engagement reports;
- An overall assessment of management's progress in addressing the results of internal and external audit engagement reports;
- Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended;
- Provide information required, if any, by new or emerging corporate governance developments; and
- The committee may report to the BOD at any time regarding any other matter it deems of sufficient importance.

