SUPERVISION GUIDELINE NO. 8

ISSUED UNDER AUTHORITY OF
THE FINANCIAL INSTITUTIONS ACT 1995
ACT NO. 1 of 1995

CORPORATE GOVERNANCE

Bank of Guyana
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1.0 Introduction

1.1 Corporate governance for a licensed financial institution (LFI) is the process and structure used to direct and manage the business and affairs of the institution with the objective of ensuring its safety and soundness, protecting depositors' funds and enhancing shareholder value. The process and structure define the division of power and establish mechanisms for achieving accountability between board of directors, management and shareholders, while protecting the interests of depositors and taking into account the effects on other stakeholders, such as creditors, employees, customers and the community.

1.2 Because of the LFIs' special position of trust in the national economy, their corporate governance is a matter of paramount importance. LFIs are highly leveraged institutions, with most of their funds coming from depositors and creditors. They provide basic financial services to the public, financing to commercial enterprises, and access to the payments system. Increasing globalization of financial markets, emergence of conglomerate structures, technological advances and innovations in financial products have added to the complexity of risk management in the banking sector. For these reasons, the quality of corporate governance expected in LFIs is high.

1.3 This Guideline applies to all LFIs, domestic and foreign including non-bank LFIs. When a banking operation is conducted by way of a branch of a foreign FI, it is expected that the parent organization will pay due attention to the spirit of the Guideline and promote good governance in the branch. Wherever the term 'LFI(s)' is used in the Guideline, it will also include non-bank LFIs.

1.4 This Guideline is issued under the authority of the Financial Institutions Act of 1995 (FIA) and the Bank of Guyana Act 1998 (BOGA), taking cognizance of the specific requirements of section 61(1) of the FIA.

1.6 This Guideline covers a variety of governance related issues. However, should there be additional areas arising out of the particular circumstances of the LFI that merit coverage, the board will be responsible for ensuring that appropriate governance systems and practices are implemented.

1.7 The guideline shall come into effect on November 30, 2007.

2.0 Interpretation

2.1 'affiliate'- one entity is affiliated with another entity if one of them is controlled by the other or the same person controls both;

2.2 'affiliated person' in relation to another person means any person which controls, is controlled by, or is under common control with, the first person;

2.3 ‘banking business’ means the business of accepting deposits including demand deposits in any currency, and the use of such funds for loans, advances, extensions of credit, guarantees, investments or other activities authorised by law;

2.4 ‘financial institution’ means a bank doing banking business or company other than a bank engaged in financial business; but does not include a cooperative society registered under the Co-operative Societies Act;

2.5 ‘independent director’ is a director, who has no relationships with or interests in the LFI or its affiliates, which could, or could be reasonably perceived to, materially affect the exercise of his judgment in the best interest of the LFI;

2.6 ‘executive director’ is a director, who is an officer or employee of the LFI or any of its affiliates;

2.7 ‘non-executive director’ is a director, who is not an ‘executive director’.

3.0 Board of Directors’ Responsibility in Implementing Sound Governance Practices

3.1 Section 27 of the FIA defines in broad terms the duties and responsibilities of directors and officers of an LFI. Sections 27-30 of the FIA define the duties of directors and of care required in the discharge of their responsibilities. The board has the ultimate responsibility for the management of the LFI. In discharging this responsibility, the board often delegates the management of the day-to-day operations of the LFI to senior officials and then holds them accountable.

3.2 The board remains responsible for the stewardship of the LFI, setting its overall direction and supervising the management of its business. The board is ultimately responsible for the financial soundness of the LFI as required by section 27 of the FIA.

3.3 A good corporate governance system, implemented by the board, should provide for the following:

4.0 Independent Functioning of the Board

4.1 The ability of the board to function independently of management is central to effective corporate governance. The board has the responsibility to appoint and monitor management, which also creates the public perception that the board is independent and operates at a level higher than management. To this end, the board should put in place appropriate structures and procedures to achieve, project and exercise its independence.

4.2 An appropriate structure would include a sufficient number of 'independent directors' on the board with the chairperson who is not a member of management. To further strengthen independence, a committee of the board, called the ***governance committee,*** could be appointed with the express mandate to manage the processes of the board to ensure its independence from management. Such processes may provide for periodically holding board meetings where no members of management are present. It is recognized that the absence of management from the board's meetings could pose a challenge as in most LFIs the Chief Executive Officer (CEO) is a member of the board. The requirement for 'independent directors' on the board, is dealt with in paragraph 14.0 below.

5.0 Demarcation of Responsibilities of the Board and Management

5.1 There should be a clear demarcation of responsibilities of the board and management in the interest of an effective accountability regime. It is the responsibility of the board to establish the approval authority of different levels of senior management. The board, together with the CEO, should develop a position description for the CEO, defining the limits to management's responsibility. In addition, the board should approve the corporate objectives, which are entrusted to the CEO to achieve in the ensuing year. This approach will not only provide for a clear division of responsibilities between the board and management but also set out the basis for measuring the CEO's effectiveness in achieving corporate objectives.

5.2 If a particular area falls under management's responsibility, the board cannot consider itself absolved of its responsibility for scrutinizing and monitoring the area. The board shall always remain responsible for the overall stewardship of the LFI and must be ready to question, scrutinize and monitor, in a pro-active manner, management's performance.

5.3 Management is responsible for creating an accountability framework for its staff. While this is a useful tool of good management, it needs to be recognized that management is ultimately responsible to the board for the LFI's performance. It would be quite appropriate and indeed preferable to seek the board's approval of the accountability regime for at least the top level and middle management levels.

5.4 The structure of delegation of authority and accountability from the board to management at various levels must be observed in situations where the institution outsources one or more of its key functions, such as internal audit. Accountability for the performance of those functions cannot be delegated to the service providers. The oversight of the outsourced functions and the management of the associated risks remain the responsibility of the board of the institution. This situation can frequently arise in an institution which is a part of a conglomerate where, for sound business reasons, common services are provided by a central facility to members of the group.

6.0 Adoption of Strategic Planning Process

6.1 The CEO, with the active involvement and oversight of the board, is responsible for leading the LFI into the future and must, therefore, take the initiative of setting the vision and long and short-term goals. He must ensure that an appropriate strategic planning process is in place and take the lead in developing a proposed strategic plan, including the objectives to be achieved. The board will bring to bear its breadth of judgment on the plan and provide an objective assessment because it is not normally involved in the day-to-day management of the business.

6.2 Central to the planning process is the establishment of corporate values. The board should take a lead in establishing and approving such values for itself, management and other employees, particularly emphasizing timely and frank discussions of problem areas. Among other things, the values should cover prohibition of corruption, management of conflict of interest, self-dealing (e.g. lending to officers and employees), prohibition of unduly favourable treatment of related parties, and always acting in the best interest of the LFI.

6.3 The board must ultimately approve the strategic plan with appropriate measurable benchmarks. It will be responsible for monitoring management's success in implementing the strategy and achieving results. The board will ensure that the operations of the LFI are conducted in conformity with all legal and prudential requirements, specifically the FIA, the BOGA, the Companies Act 1991, and the LFI's own policies. The board must approve the budget of the LFI.

7.0 Management of Risk

7.1 Business decisions in banking/financial business involve taking risks. The board's responsibility is to ensure that the LFI's policies and systems are effective enough to achieve a prudential balance between the risks and potential returns to the shareholders. Risks should be monitored and managed to achieve long term viability of the LFI. In order to discharge the oversight of the risk management function effectively, some board members must possess a reasonable knowledge of the risks specific to the entire spectrum of the LFI's activities.

7.2 The first level of responsibility is with management, which must ensure that a comprehensive risk management process, which identifies, measures, monitors and controls different types of risks, is in place. It should establish prudential norms for different risks which may not be breached lightly. The board must carefully review and approve the adequacy of the risk management policies, systems and procedures proposed by management. This is an important task for the board and, if deemed necessary, it should seek expert advice from outside the LFI. The board should periodically review management's performance in controlling the risks in accordance with established policies, the LFI's risk appetite and tolerance. Any departure from the acceptable prudential norms should be justified, evaluated, and approved by the board.

7.3 Before introducing new products and services, management must identify and assess the associated risks and ensure that appropriate procedures and controls are in place to manage those risks. The board must approve the introduction of new products and services.

7.4 In order to facilitate its work, the board may establish a specialized risk management committee, with the mandate to review the adequacy of risk management policies and systems, and to monitor their effectiveness. Alternatively, this role could be combined with the audit committee. Appendix 2 provides guidelines on questions pertaining to risk governance and risk management that board members could ask senior management of their LFIs.

8.0 Integrity of Internal Control and Management Information Systems

8.1 Implicit in the effective discharge of the board's responsibilities, is the adequate functioning of well-designed internal control and management information systems. The board will require information on a variety of issues. For example, in approving the strategic plan, the board would specify criteria for assessing management's performance in respect of various strategies. It will need to ensure that proper systems and controls are in place for tracking the criteria so that it can monitor the implementation of the strategies. Similarly, the LFI produces a variety of financial and other data, which go to different end users, including the Bank of Guyana. The board should ensure that systems are in place to assure the integrity of the data and information produced.

8.2 The role of internal and external auditors is crucial to ensuring an effective control environment. Management and the board can enhance their effectiveness by ensuring that the internal audit function is duly recognized in the organization and its profile built. Among the measures that management should seriously consider taking are:

- raising the profile of the internal audit function by highlighting to all staff concerned the contribution that internal audit makes;
- appointing the head of internal audit at a senior level, reporting directly to the Audit Committee of the Board of Directors;
- enhancing the auditor's independence by providing him/her with direct access to the audit committee and the board;
- staffing the internal audit function with appropriately qualified professionals; and
- requiring timely rectification of deficiencies identified by the internal auditor.

Appendix 3 provides model guidelines for a policy on Internal Audit for an LFI.

8.3 Section 23 of the FIA requires an audit of an LFI by the external auditor and the production of specific reports in accordance with auditing and accounting standards. The external auditors conduct a review of the accounting and other records and internal controls of an LFI and report to the board and the CEO on their assessment of the control environment. This is a useful step in promoting good corporate governance. The board should also use, as appropriate, the services of external auditors as an independent check on information received from management on, for example, the implementation of a particular risk management policy.

8.4 The board should ensure that it receives, without undue delay, a copy of the external auditors' management letter issued on completion of the annual audit, together with management's action plan to deal with the deficiencies identified. Similarly, in accordance with FIA section 23(3) the external auditor should receive the 'Report of Inspection" issued by the Bank at the conclusion of its inspection of the LFI, together with management's plan to implement the recommendations of the report.

9.0 Integrity in Conducting Banking/Financial Operations

9.1 A bank or non-bank institution operates in an environment of trust by the investing public and its reputation is its most valuable asset. To nurture its reputation, the LFI must maintain a high level of integrity in the conduct of its operations.

9.2 LFIs must scrupulously observe the requirements of the FIA and ensure that they have a code of conduct for their employees. This code should set out the LFI's ethical values and the high standards expected of all the employees. The Bank expects that, among other things, the code will deal with the proper use of confidential information, corruption, compliance with laws and regulations, insider dealing and other legal and prudential requirements. The code should be adequately communicated to the employees through orientation programmes conducted from time to time.

9.3 Through the Code or other policy document, the board must ensure that any employee of the institution may, without fear of disciplinary action, reprisal or other adverse consequences, report to the board legitimate concerns about illegal, unethical or questionable practices on the part of directors, officers or employees.

9.4 The board must see that adequate systems and procedures have been established and sufficient resources committed to ensure compliance with the requirements of the Anti-money Laundering legislation, regulations, and guidelines. It should review the effectiveness of the applicable systems and controls from time to time.

9.5 The board should ensure that adequate policies, systems and procedures have been implemented for related party transactions and conflict of interest situations.

10.0 Related Party Transactions

10.1 Sections 14 and 28 of the FIA prescribe some restrictions for transactions with a related party of the LFI. LFIs should establish and implement their own policies on related party transactions. The relevant systems and controls should cover, among other things, approval procedures for related party lending, policies and procedures for taking collateral for such lending, and procedures for setting interest rates and other terms and conditions of lending.

11.0 Conflict of Interest

11.1 There could be a variety of situations where a conflict of interest could potentially arise between the LFI and the private affairs of a member of its board. Section 28 of the FIA requires a director or officer of an LFI who is a party to a material loan, contract or transaction, or a proposed material loan, contract or transaction with the LFI, or who has a material interest in or a material relation to, any person who is a party to a material loan, contract or transaction, or a proposed material loan, contract or transaction with the LFI to disclose in writing the nature and extent of the material interest or relation. While transactions with related parties cannot, and need not, always be avoided, systems and processes can be put in place so that they are properly managed in order to avoid any prejudice to the LFI. The board should develop a comprehensive policy along with procedures to deal with conflict of interest. Section 28(4) further specifies certain procedural steps to be observed by a board member in the event of a conflict of interest.

11.2 The board should put in place procedures to ensure compliance with the requirements of the FIA and further extend its scope to cover additional requirements of Supervision Guideline No.6 – Limits on large loans and on loans to shareholders, directors, officers, and other related persons. For example, the scope should be extended to cover transactions with the management personnel of the LFI.

12.0 Appointing and Monitoring Senior Management

12.1 Since the board functions through delegation to management, the single most important step for ensuring the success of the LFI is the appointment of competent management. The most important individual in this process is the CEO, who is the LFI's business leader. He must be a person with integrity, technical competence and a proven track record in the banking/financial business. He must fully accept and endorse the oversight role of the board over the business and affairs of the LFI. The board should also sanction the appointment of other senior executives of the LFI, such as the heads of various departments and the internal auditor, to ensure that these senior officers possess the required skills and experience to discharge their responsibilities effectively.

12.2 The board should assess the CEO's performance against the objectives previously established in conjunction with him, in line with the strategic plan objectives. The board must also ensure that the LFI has in place adequate programmes to train and develop management and the board must ensure the development of a plan for the orderly succession of management of the LFI.

13.0 Size of the Board

13.1 The size of the board is dictated by the nature of business of the LFI, its scale of business and its needs. The guideline does not prescribe any particular number. A board should have enough directors to represent a variety of skills and perspectives reflective of the functions of the LFI. There should be a sufficient number of directors with the required time available to serve on various committees of the board without overburdening any individual director. However, the board should not be so large that its meetings become unwieldy and lose focus. Similarly, the number should not be so small that the breadth of backgrounds and skills needed is not available, which may lead to the role of the board being usurped by management.

14.0 Independent Directors

14.1 This Guideline defines independent directors as individuals who do not, directly or indirectly, have business relationships with the institution which could be likely to materially affect their judgement on matters coming before the board. Ordinarily, deposit relationships would not disqualify an individual whereas relationships involving extension of credit in various forms might do so. Institutions must develop criteria for determining the materiality thresholds.

14.2 The boards of most LFIs have a combination of executive directors and independent directors. The representation of a healthy proportion of independent directors on the board promotes better accountability, independence, and depth in corporate governance. Independent directors are likely to be successful business people, with experience spanning a number of industries or in areas relevant to the LFI. They can become a significant source of strategic expertise in times of corporate stress.

14.3 While not mandatory, LFIs should strive to achieve a majority of independent directors on their boards. Furthermore, it is highly desirable that the chairperson of the board should be an independent director. The CEO of the LFI should not be appointed chairperson of the board. To provide for renewal, the chairperson's term of office should not exceed five years.

15.0 Qualifications of Directors

15.1 Section 27(2) of the FIA describes in general terms the duties of a director. The board can provide effective direction only if it is composed of persons with a variety of backgrounds reflective of the functions of the LFI. The diversity of experience and skills provides advantages in dealing with the breadth of decision-making envisaged for an LFI's board. In this regard, independent directors play an invaluable role.

15.2 While it is not mandatory that any particular backgrounds or expertise must exist on the board, it is, nevertheless, highly desirable that some members of the board possess demonstrated expertise and experience relevant to the principal issues that face an LFI, such as financial controls, capital management, risk management pertaining to banking and financial business, and corporate planning.

16.0 Board Meetings

16.1 LFIs shall hold board meetings on a regular basis. The frequency of meetings will depend on the nature of operations and the size of the LFI. It would be preferable for larger LFIs to hold monthly board meetings. Other smaller LFIs should hold meetings at least once every quarter. The chairperson of the board shall ensure that clear and complete minutes of the board meetings are maintained and circulated to members. Minutes should record attendees, include material facts presented on matters discussed, sources and essence of external advice given to the board, be in enough detail to support decisions taken and avoid misunderstandings and clearly record decisions taken.

17.0 Information to the Board

17.1 The prime responsibility for setting the agenda of board meetings and ensuring that key information is made available to the board lies with the chairperson. Frequently, in the first instance, it is the CEO who determines what information is made available to the board. The chairperson must decide on the adequacy of information and give instructions to the CEO to ensure that the board's information needs are met. The information sought should go beyond just assessing the quantitative performance of the LFI. It should look at other factors, such as the observance of prudential norms, customer satisfaction, service quality, market share, and market reaction.

17.2 Also, while the board will give attention to transactions, as necessary, in discharging its responsibilities, it will be more concerned with the systems that support the board's direction of the LFI's business.

17.3 The board of an LFI needs to be forward-looking in decision-making rather than looking only at past results. It should demand from management information that provides a broader perspective for measuring performance and assessing the future prospects of the business.

17.4 A balance must be struck in providing enough information to the board on significant issues so that it can come to an informed view and well-based decisions, and providing so much that it ends up spending its valuable time on sifting through the information to determine what is truly relevant. The chairperson must ensure that adequate systems and procedures are in place to guard against this problem.

17.5 It is also critical that directors receive information in sufficient time to enable them to read and digest it. The amount of time needed will vary depending on the volume and complexity of information.

18.0 Orientation of Directors

18.1 Each LFI should establish an orientation programme for new directors as well as a periodic refresher programme for the existing directors. The foremost element will be the discussion of the responsibilities and legal obligations of a director and the board as a whole. The programme will also include a discussion of the nature of business of the LFI, current issues within the LFI, conditions in the industry, corporate strategy, and expectations of the LFI and its stakeholders concerning inputs from the directors. The program should provide an opportunity to discuss issues with experts as well as visit the LFI's facilities and meet with corporate officers to discuss and better understand the business.

19.0 Committees of the Board

19.1 For better utilization of its scarce resources and attaining more in-depth review of issues or areas, the board may decide to establish specialized committees of directors. More common committees of the board are the risk management committee, audit committee, credit committee, and compensation committee. The board should by resolution establish the mandate of each committee and the scope of its authority, such as the authority to engage outside experts. The committees' proceedings and decisions should be submitted to the board for confirmation.

19.2 The committees should preferably be made up of non-executive directors, a large proportion of whom are independent directors. The inclusion of management on the committees should be the exception rather than the rule, to reinforce the independence of the board. Management could, of course, be invited to attend the meetings as needed to provide operational inputs. The executive committee could include more management or executive directors as compared to the other committees.

20.0 Audit Committee

20.1 There is at present no statutory requirement under the FIA for the establishment of an audit committee of the board. However, in view of the critical role an audit committee can play in monitoring and strengthening the control environment, and depending on the size and nature of its operations, an LFI must establish an audit committee. Appendix 1 sets out the guidelines for the operation of an audit committee of an LFI.

20.2 The board should, by resolution, specify the roles and responsibilities of the audit committee. A principal responsibility of the committee will be to provide an oversight over the performance of the external and internal audit functions. The committee must maintain direct communication channels with the auditors to review management's financial stewardship of the institution.

20.3 The committee should monitor management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it will be the responsibility of the audit committee to ensure that management has discharged its responsibility. The committee will also review the annual financial statements of the LFI before they are approved by the board and provide an oversight over the LFI's financial disclosure obligations. The board may assign additional responsibilities to the audit committee, such as risk management and risk governance.

20.4 The committee should be made up of non-executive directors, the majority of whom are independent directors. The members of the audit committee should have definite expertise in banking/financial business, possess familiarity with different aspects of financial statements to understand the LFI's accounting policies and practices and major judgements involved in preparing its financial statements, and the internal and external audit process.

Appendix 3 sets out best practice guidelines for a policy on internal audit for an LFI.

21.0 Employee Compensation

21.1 The board should form a compensation committee to review and oversee employee compensation policy. The board should approve the compensation package for senior management personnel and other key employees. It should also keep an oversight over the compensation policy for the other employees of the LFI. The compensation should be established with due regard to the LFI's strategic plan, objectives, financial capacity and the control environment.

21.2 Incentives should be designed to discourage excessive risk-taking by employees, booking business to boost volume or short-term profitability with little regard to long-term risk consequences. The compensation should always be set within the scope of the business plan, without undue emphasis on short-term performance, such as short-term trading gains.

22.0 Transparency in Governance

22.1 A pre-condition to holding the board and management of an LFI accountable for their actions and performance, is to have effective transparency in this regard. The board should be satisfied that procedures are in place to ensure that the LFI is meeting its disclosure obligations and that the information being disseminated is complete and accurate.

22.2 Each LFI is required to disclose on an annual basis its approach to corporate governance. The disclosure, to be called a "Statement of Corporate Governance Practices" should be a part of the LFI's annual report and should be prepared in the context of and by reference to this guideline. The discussion on "Corporate Governance Practices" should be concise and deal with the following points:

- mandate of the board, its duties and objectives;
- composition of the board, identifying 'executive directors', 'non-executive directors', and the proportion of 'non-executive directors' that are 'independent directors';
- description of the board committees – risk management, audit and compensation – and their mandates and activities;
- description of decisions requiring prior approval of the board;
- senior management structure, outlining their responsibilities, reporting lines, qualifications, and experience;
- board's expectations of management and the measurement of performance in meeting them;
- incentive structure of the LFI, remuneration policies, executive compensation; and
- nature and extent of transactions with affiliates and related parties.

22.3 Any feedback received from the stakeholders of the LFI should be properly documented. Procedures should also be established to deal with the stakeholders' concerns.

23.0 Foreign banks and other non-bank licensed institutions operating in Guyana

23.1 The parent organization's strategic guidance and policies normally have a major influence on the operations of a foreign LFI's subsidiary or branch. It is to be recognized, however, that the board of directors of the subsidiary or the CEO of the branch remains fully responsible for ensuring that such guidance and policies are proper and adequate in the light of the subsidiary's or branch's circumstances and operational contingencies.

23.2 If the board of the subsidiary or the CEO of the branch is of the view that the parent organization is engaging in practices or giving instructions that are not in the branch/subsidiary's best interest, they should put their views on record and take whatever action is necessary to protect those interests.

24.0 Oversight by Management

24.1 The board supervises management and is accountable for their actions. For that reason, much of the focus of this guideline has been on the role and responsibilities of the board. However, it is appropriate to review briefly the oversight role of senior management over line management.

24.2 Senior managers must be in a position to exercise appropriate control over the key personnel in the businesses within their responsibility and accountability. Furthermore, in the interest of better control environment, it is important that key management decisions are made by more than one person.

24.3 The situations to be avoided include:

- senior managers being overly involved in business line decision-making;
- senior managers being assigned an area of responsibility to manage without the necessary expertise and skills; and
- senior managers who are unwilling to exercise control over successful, key employees for fear of losing them.

24.4 The board should review on a regular basis the effectiveness of senior management's oversight of line management to ensure that there is adequate control and accountability.

25.0 Assessment by Bank of Guyana of the Effectiveness of Directors (Corporate Governance)

25.1 General Approach

The BOG will assess the effectiveness of directors in the governance of licensees by

i. assessing the governance process against a set of criteria

ii. assessing the effectiveness of the board in fulfilling its responsibilities for governance.

25.2 The assessment of the quality of the governance process and board stewardship measures the

i. composition of the board

ii. defined roles and responsibilities of directors

iii. committee structure and membership

iv. governance policies and practices

v. board self-assessment process

25.3 Effective board performance means that directors actively embrace their responsibilities and bring their collective skills and knowledge to the provision of independent and objective oversight and guidance to the licensee. In the assessment, the BOG will give due regard to the nature, size, complexity and risk exposure of each licensee.

25.4 In addition to this Guideline, there is a wide range of material available including the Director's Handbook on the duties and responsibilities of directors and on the subject of corporate governance. The Bank expects that directors will be aware of emerging best practices as they may apply to their licensees and will look for evidence that governance regimes incorporate those practices where appropriate. This will apply particularly to licensees which are publicly traded entities.

26.0 Effective Board Performance

26.1 Appropriate organizational structures, policies and controls help promote, but do not ensure, good corporate governance. Effective governance is mainly the result of dedicated directors and senior management performing faithfully their duty of care to the enterprise. Structures and policies work in practice through knowledgeable and competent people with clear understandings of their roles and strong commitment to fulfilling them.

26.2 In the view of the BOG, the characteristics of an effective board include:

Judgement

- Decisions that strike a reasonable balance between business objectives and risk management and control functions.

Initiative

- Proactive exercise of responsibilities by directors while respecting the responsibilities of the CEO and senior management for the conduct of the business;
- Readiness to both advise and challenge management;
- Commitment of adequate time to fulfill their responsibilities;
- Close involvement to understand the business and the objectives of the licensee and of the related risks.

Responsiveness

- Responsiveness to issues or deficiencies identified by management, the control processes or the regulators;
- Involvement in management's responses to regulatory recommendations or requirements;
- Responsiveness to issues identified by board self-assessments or evaluations of management.

Operational Excellence

- Board processes that encourage discussion and advance consideration of important issues and transactions, based on appropriate and timely information and analysis;
- Regular periodic review of the adequacy, frequency and reliability of information required and received by the board to fulfill its responsibilities.

APPENDIX 1 – Guidelines for Audit Committees of Licensed Financial Institutions

The Bank is issuing these guiding principles to LFIs to enable board members to establish an audit committee as part of their governance of the institution.

Policy Requirements

The internal audit policy requirements call for an active Audit Committee that is chaired by an independent director.

Role

The role of the Audit Committee includes:

- providing advice to assist the CEO in discharging his responsibilities for risk management, the design and operation of management control frameworks, and the quality of financial and other performance information used for decision making and reporting;

- ensuring that the results of internal audit are incorporated into the LFI's priority setting, planning and decision making processes;

- strengthening the independence and effectiveness of the internal audit function;

- emphasizing the accountability of line managers;

- providing the CEO with advice on the impacts of the Bank of Guyana's initiatives aimed at improving management practices; and

- facilitating communication between the line managers, CEO and the internal audit function.

Responsibilities

The responsibilities of the Audit Committee need to be determined by the board members. These responsibilities should include:

- approving the internal audit policy;

- approving the annual internal audit plan and budget;

- approving the annual assessment of overall materiality and risks associated with the annual internal audit plan;

- approving internal audit reports, and the management action plans developed to address the recommendations made in these reports;

- approving management action plans developed to address recommendations contained in reports of the external auditors;

- monitoring the performance of the LFI's internal audit function; and

- monitoring the adequacy and timeliness of actions taken in relation to management action plans.

The audit committee, which should comprise a majority of independent directors, should meet at least annually, in the absence of management, with the external auditors to address matters of mutual interest or concern. Similar meetings should be held with the head of Internal Audit and the officers responsible for the legal, risk management and compliance functions in the institution.

Membership

It is important that the chair of the audit committee brings independence and objectivity to the committee.

Committee members should generally be selected, on the basis of their individual abilities, experiences and interest, as being most able to effectively contribute to the activities of the committee. An audit committee composed of members with strong interest in business ethics, risk management and internal controls will indicate to senior management that there is strong support for internal audit and that internal audit will be focused on matters of interest to the CEO.

APPENDIX 2 – Risk Governance

These guiding principles focus on questions that board members could ask senior management of their LFIs on risk governance and risk management of the institutions.

There are eighteen questions that the board could use to assess how effective it is in meeting its responsibilities for the oversight of strategic planning and risk.

The questions deal with the organisation as a whole, and the board members may choose to use them in discussions with the CEO and other members of the senior management team. Alternatively, these questions can provide the basis for one or more presentations to the board. They roughly correspond to the elements of a risk management process:

- Strategic Planning and Risk: identifying, analyzing and assessing business risks and opportunities
- Risk Management Processes: designing and implementing strategies for managing business risks
- Risk Monitoring and Reporting: implementing processes to monitor and communicate business risks.

The questions at numbers 14 – 18 – Board Effectiveness – are primarily directed at the board itself and may be more appropriate for discussion among the board members.

1. What are the LFI's key business risks as a deposit-taking/non-deposit taking institution and delivering banking/financial business?
2. How effective is the LFI in identifying and assessing its business risks?
3. How does the LFI integrate risk management in developing its

corporate strategic direction and plan?

4. How is risk management coordinated across the industry?

5. How is the LFI managing its own business risks to ensure that an appropriate level of risk is established for approval by the board?

6. Does the LFI’s senior management have a good understanding of its business and operational risks?

How does senior management ensure that risk management is an integral part of the planning and day-to-day operations of individual business units of the LFI?

7. How do the board members ensure that their expectations for risk management are communicated to and followed by management and the employees?

8. How do the board members ensure that the LFI’s executives and employees act in the best interests of the LFI?

9. How do the board members ensure that the LFI is performing according to the business plan and within (approved) appropriate risk tolerance limits?

10. How do the board members monitor and evaluate changes in the external environment and their impact on the LFI’s strategy and risk management practices?

11. What information about the risks facing the LFI do the board members get from management to help them fulfill their stewardship and governance responsibilities?

12. How do the board members ensure that the information they get from senior management on risk management is appropriate, accurate and reliable?

13. How do the board members and senior management take advantage of the organizational and operational learning opportunities that result from the establishment of an integrated risk management program in the LFI?

14. What are the priorities of the board members in the oversight of risk management?

15. How do the board members handle their responsibility for the oversight of opportunities (approval of large new loans, new businesses etc.) and risks?

16. How do the board members ensure that at least some of their members have the requisite knowledge and experience in risk management?

17. How do the board members, as a board, help establish the "tone at the top" that reinforces the LFI’s values and promotes a "risk awareness culture"?

APPENDIX 3 – Policy on Internal Audit for a Licensed Financial Institution

These guiding principles are provided to LFIs to ensure that they adopt, as a minimum, the following standards for the operation of their internal audit function:

The following are the internal auditing standards to be met by the LFI. The CEO is accountable for ensuring that the LFI's internal audit function accomplishes its responsibilities and:

- is organizationally independent, by reporting at an appropriate level in the LFI;

- is objective by being staffed with individuals who have an impartial, unbiased attitude and avoid conflicts of interest;

- has the capacity to accomplish its responsibilities, by having sufficient resources and

  being staffed with competent people, effectively deployed, who work to professional

  standards, utilize good communication practices, and adhere to professional ethics, values

  and the LFI's code of conduct;

- has the breadth of knowledge to accomplish its responsibilities, by utilizing auditors or work teams that collectively possess or have access to sufficient expertise of the subject matter being audited;

- is managed effectively with approved plans that address areas of highest risk and significance, and provides periodic summary reports to the CEO and senior management on the activities and performance of the function and on any significant risks and control issues;

- conducts individual audits in an effective and efficient manner with risk-based plans that address the scope of the engagement, work programs that meet the objectives of the engagement, and sufficient appropriate evidence that supports the findings and conclusions.

The following are the reporting standards to be met by the LFI. The CEO is accountable for ensuring that LFI's internal audit reports:

- are written so that senior management can readily focus on and understand the important risk and control issues being reported;

- are clear and concise by including only information that is needed for a proper understanding of the conclusion and any significant problems identified;
- identify to whom the recommendations are directed;
- provide context by describing the area that has been examined, how it fits into the overall operations of the LFI, and its importance;
- describe the objective(s), scope and timing of the engagement;
- identify the criteria used in the engagement;
- describe compliance with relevant laws, prudential/regulatory requirements, policies and standards;
- provide relevant analysis and explanation of the exposure to risks for any significant problems and key recommendations;
- state for an audit engagement a conclusion that conveys to senior management a clear understanding of what is being assessed, the criteria assessed, the level of assurance that the Internal Auditor is providing, and any reservations; and
- integrate a management action plan that clearly identifies, for each recommendation, the actions to be taken and their timing.

Completed internal audit reports are submitted to the audit committee of the board, and contain the required management action plans. In any situation where a management action plan is not forthcoming, the reports are to be presented without further delay to the audit committee of the board of the LFI for timely approval as a completed report, and to the CEO to ensure that necessary corrective actions are taken.