

PRINCIPLE SEVEN – AUDIT

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and all the requirements of the Mauritius Companies Act 2001, the Banking Act 2004 and the Financial Reporting Act 2004 and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Any deviations on the above will be reported in the independent auditor's report attached to the financial statements.

EXTERNAL AUDIT

The Bank has appointed Deloitte to perform its external audit for the next 3 years through an audit tender carried out in December 2016 with the Bank reserving the right to review its decision at the end of each financial year end. Audit fees of MUR 2.8m is payable to Deloitte for the audit of the financial year ended 30 June 2018.

The fees paid to the auditors for audit and other services were:

	YEAR ENDED 30 JUNE 2018		YEAR ENDED 30 JUNE 2017		YEAR ENDED 30 JUNE 2016	
	Audit	Other	Audit	Other	Audit	Other
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Deloitte						
The Bank						
AfrAsia Bank Limited	2,456	1,313	-	-	-	-
Ernst & Young						
The Bank						
AfrAsia Bank Limited	-	-	1,761	1,723	3,100	4,422
The Subsidiaries						
AfrAsia Investments Limited	-	189	183	39	150	86
AfrAsia Holdings Limited (Under liquidation)	-	-	-	-	-	-
Stellar Advisers Pty Limited (disposed in December 2015)	-	-	-	-	460	23
AfrAsia Corporate Finance (Africa) Limited (Under liquidation)	-	-	247	58	-	-
AfrAsia Capital Management Limited	-	828	426	19	178	173
AfrAsia Corporate Finance (Pty) Limited (Under liquidation)	-	-	212	-	142	115
AfrAsia Corporate Finance Limited (Under liquidation)	-	-	-	-	370	362
AfrAsia Corporate Finance International Limited (Under liquidation)	-	50	-	-	-	-
AfrAsia Kingdom Holdings Limited (Under liquidation)	-	-	-	-	71	6

Other services relate to interim review work and other assurance engagements performed by Deloitte amongst others.

INTERNAL AUDIT

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to the evaluation and improvement of risk management, control and governance processes. An internal audit helps the Board and management maintain and improve the process by which risks are identified and managed and helps the Board discharge its responsibilities for maintaining and strengthening the internal control framework.

Approved 3-year strategic plan (financial year 2016 to 2018)

During financial year 2018, the Internal Audit function continued the execution of the 3-year strategic plan classified under four building blocks comprising: Strategy, People, IT and Internal Process. An update on the implementation of the key initiatives in the strategic plan is provided below:

	Key initiative	Status
	- Vision and Mission (IA Charter)	 Completed
	- 3-Year Risk-Based Audit plan	 Completed
	- Advisory services	 Completed
	- Synergy with other control functions	 Completed
	- Promote knowledge growth, hard & soft skills and discipline	 In progress
	- Recruitment of appropriate professionals	 Completed
	- Development and retention of professionals	 In progress
	- Establish Key Performance Indicators	 Completed
	- IT Audits:	
	- General Controls	 Completed
	- Application Controls	 In progress
	- Used of Computer Aided Audit Tools	 In progress
	- Audit methodology in line with IIA standards	 Completed
	- Revised communication protocol (including risk-based grading of issues)	 Completed
	- Drafting of Audit Manual	 Completed

Independence of the internal audit team

The function remains independent of the activities audited and objective in its work. There have been no restrictions placed over the right of access by internal audit to the records, management or employees of the Bank. The Head of Internal Audit maintains a direct reporting line with the Audit Committee for direction and accountability and to the Chief Executive Officer for administrative interface and support in line with good governance practices.

The Head of Internal Audit has regular access to the Chairperson of the Board and the Chairperson of the Audit Committee. He attends quarterly meetings with the Audit Committee and more frequently when the need arises.

Qualifications and experience

The Head of Internal Audit is a Chartered Accountant (ICAEW member) and has 13 years of experience in the auditing field covering banking, offshore, insurance, telecommunications and manufacturing sectors. Prior to joining the Bank, he was the Group Internal Audit Manager at the Mauritius Commercial Bank Limited. He started his career with PwC where he grew to become an Audit Manager for a number of local and international clients. He is well acquainted with strategy setting for risk functions in banks and risk management and relevant information has been disclosed on the Bank's website.

The Head of Internal Audit is adequately supported by staff members with significant banking experience. Some have past "Big 4" firm exposure and are members of professional bodies such as ACCA.

Implementation of the risk-based audit plan

The Internal Audit team implements the yearly risk based audit plan approved by the Audit Committee. The audit frequency for identified processes is as follows:

Process risk category	Audit frequency
High	Yearly or more frequently where the need arises
Medium	Every two years or more frequently where the need arises
Low	Every three years or more frequently where the need arises

The financial year 2018 audit plan that covers key operational and IT areas has been satisfactorily executed by the Internal Audit Function during the year. Treasury and Credit processes were audited in financial year 2018 and they cater for a major part of the Bank's income. Other core functions such as compliance, finance and operations have also been covered as well as the subsidiary AfrAsia Capital Management Limited. In addition, several ad-hoc assignments have been performed at the request of management comprising fact finding and other assignments of an advisory nature. A total of 55 reviews were completed in financial year 2018 made up of both initially planned and ad hoc reviews.

The financial year 2019 audit plan is purely risk based and will also accommodate (i) any financial year 2018 audit that could not be completed in that period and for which very valid justifications exist and (ii) any ad hoc that will arise. To complete the financial year 2019 audit plan, Internal Audit

has used the following key criteria to assign a risk rating to the relevant processes in the Bank:

- Financial impact;
- Volume of transactions;
- Whether the process is impacted by key regulatory requirements;
- Whether the process represents a key second line of defence function; and
- Recent or foreseen changes in management, structure, systems impacting the process.

The internal audit team provides varying degrees of assurance about the effectiveness of the risk management and control processes of selected activities and functions of the organization. The Internal Audit function does not believe that any deficiencies identified so far could at this stage, individually or collectively fully jeopardize the operations of the Bank.

It is also worth mentioning that as at date, the lion's share of issues categorized as "critical" and "major" have been or are in the process of being addressed by management.

Any risk or deficiency in the system of internal controls revealed during audits performed have been reported in the respective reports issued at the end of the assignment. The audit report includes audit recommendations, management comments, action plan and timeline for implementation. Strict monitoring of implementation is done by Internal Audit and a periodic status is given to the Audit Committee.