

## AUDIT COMMITTEE CHARTER

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### FOREWORD

This Charter provides a set of guidelines and authority to the Board Audit Committee of the Bank of Bhutan Ltd. to undertake its responsibilities and duties in accordance with the RMA's Prudential Regulation of 2002, Financial Institution Act, Companies Act of Bhutan, Income Tax Act and other related Acts and the policies and procedures established by the Board. The Audit Committee has a responsibility to the Board and the Shareholders to monitor and provide assurance on the operation of the internal control system and internal activities, financial reporting, external audit, accounting and legal compliance of the company.

The Board of Director of the Bank of Bhutan Ltd. has approved the Audit Committee Charter in its 217<sup>th</sup> meeting held in February 13<sup>th</sup> 2015.

A handwritten signature in blue ink, appearing to be 'P. Gurung', written over the printed name of the Chairperson.

Chairperson  
Board of Directors  
Bank of Bhutan Ltd.



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## 1. Purpose

The purpose of this Audit Committee Charter is to provide a framework for the establishment and working of the Board Audit Committee

## 2. Authority

2.1 The Board authorizes the Audit Committee, within the scope of its duties and responsibilities to exercise its powers in a manner it deems appropriate, including to:

- i. Investigate any activity;
- ii. Request and obtain any information from management, employees, or from external parties as the committee deems advisable;
- iii. Establish procedures for receiving and dealing with concerns of interested parties;
- iv. Make recommendations to the board on issues related to policies, procedures and oversight systems;
- v. Obtain external legal and professional expert advice as necessary; and
- vi. Ensure the attendance and co-operation of company employees / officers at meetings as appropriate.

2.2 The Audit Committee functions as an oversight and review role and will make recommendation for Board decision / approval when required. Any disagreement between the Audit Committee and the rest of the board committee shall be resolved at board level.

## 3. Membership

- 3.1 The Audit Committee shall be comprised of three non-executive directors who are independent from the management and two of whom are independent directors;
- 3.2 The Members of Audit Committee shall be appointed by the Board;



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- 3.3 The Committee shall consists of not less than two financially literate non-executive directors of the board;
- 3.4 The chairman of the board shall not be a member of the Audit Committee;
- 3.5 The chairman of the Audit Committee shall be elected or appointed by the shareholders or full Board;
- 3.6 The chairman of the Audit Committee shall be an independent non-executive director and should be financially literate;
- 3.7 Audit Committee members shall not simultaneously serve on the Audit Committee of more than two other public companies; and
- 3.8 The Head of Inspection and Audit shall be the member secretary to the Committee.

#### 4. Compensation and Compliance

- 4.1 All the members of the Audit Committee shall be eligible to receive a sitting fee, which is determined from time to time and approved by the Board; and
- 4.2 All the members of Audit Committee shall comply with BoBSR in the course of their duties of Bank and shall be eligible for all post service benefits (equivalent to that of the CEO) during the business travel and duty.

#### 5. Meeting

- 5.1 The Audit Committee shall meet ordinarily once per quarter. The Audit Committee Chairman shall convene extraordinary meeting as the roles and responsibilities of the committee demands;
- 5.2 Decisions shall be taken by majority of the members present and no abstentions shall be allowed. Other non-committee persons may be requested to attend part of audit committee meetings for specific agenda items;
- 5.3 The Audit Committee shall hold tripartite meeting consisting of Royal Audit Authority and Statutory Auditors to discuss on the annual statutory audit findings before the annual general meeting;



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- 5.4 Upon the request of the Member Secretary, the Chairman of Audit Committee should convene a meeting to consider any matter that the auditors believe should be brought to the attention of the Directors or shareholders;
- 5.5 Notice of each meeting shall be circulated by the Member Secretary to all members of the committee and to other attendees as far in advance as possible. The notice shall confirm the date, time and venue of the meeting. Supporting documents shall be circulated prior to at least five working days of the meeting;
- 5.6 The Member Secretary shall take minutes of all AC meetings and document it. Copies of the minutes shall be made available to all board members after the committee members have approved the minutes; and
- 5.7 The chairman of the Audit Committee shall report on the audit committee activities to the board at the next Board meeting after the audit committee meeting, or earlier to the Chairman of the Board, if necessary.

## 6. Responsibilities

The Audit Committee shall carry out the following responsibilities:

### 6.1 Company Reporting

- 6.1.1 Review financial reports, including quarterly, half-yearly and annual financial statements before the financial statements are submitted to the board;
- 6.1.2 Consider and advise the board on whether the annual report is fair, balanced, and understandable and provides users with the information necessary for their assessment of the company's performance, business model and strategy;
- 6.1.3 Consider whether all interim, ad hoc reporting and half-yearly and annual financial statements are complete, consistent with information known to committee members and with information in other sections of the annual or half-yearly reports or other company reports generally, reflect applicable accounting standards and comply with laws and regulations;
- 6.1.4 Ensure all reported financial information include a review of:
- i. Critical accounting policies and practices, any changes in them and compliance with accounting standards;



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- ii. Management decisions requiring significant elements of estimates and judgment;
- iii. The extent to which financial statements are affected by unusual transactions during the period and how they are disclosed;
- iv. The going concern assumption;
- v. Clarity and fullness of disclosures, including in the notes to financial statements;
- vi. Significant adjustments resulting from the external audit and any unresolved issues arising from the external audit; and
- vii. All legal and regulatory requirements to ensure compliance.

## 6.2 Internal Controls and Risk Management Systems

- 6.2.1 Consider the effectiveness of the company's internal control system and of contingency plans for systems breakdown and recovery and for protection of assets against fraud and misuse;
- 6.2.2 Understand the scope of the internal and external auditor's review of internal controls, significant findings and recommendations together with management's responses;
- 6.2.3 Evaluate the risk oversight framework and system, and assess if the board and senior management are setting the appropriate risk and control culture in the company, relevant for the company's business operations, that key risks are being identified and appropriately managed and, where necessary, reported to the board;
- 6.2.4 Review arrangements for the receipt, retention and treatment of complaints by the company, provided in confidence and in writing, in relation to concerns about possible improprieties in financial reporting or other matters; and
- 6.2.5 The Bank must notify the Audit Committee of any fraudulent act and error or misstatement of which they become aware in any account.



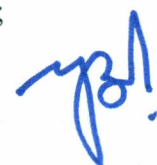
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### 6.3 Internal Audit (details reflected in the Terms of Reference for Internal Audit)

- 6.3.1 Be the direct reporting line for the internal auditor and the internal audit function;
- 6.3.2 Monitor and review the effectiveness of the internal audit function;
- 6.3.3 Review and approve the appointment and replacement of the internal auditor. The Audit Committee will have direct input into evaluations of the internal auditor's performance as well as any decisions regarding promotion or compensation;
- 6.3.4 Review, assess and recommend board approval of the internal audit work plans;
- 6.3.5 Receive reports on the internal auditor's work on a periodic basis, review significant internal audit findings and recommendations, together with management's responses and action taken;
- 6.3.6 Review the performance, career advancement, training and compensation, of the internal audit unit;
- 6.3.7 Review the significant recommendations made to management by the internal auditing department and management's responses;
- 6.3.8 Approve the strategy, operations and budget for the company's internal auditor that is appropriate for the nature and scope of the company's business; and
- 6.3.9 Monitor and ensure that the management complies with requirement to have a strong internal auditing system with adoption of the following
  - a. Internal audit TOR/ auditing manual;
  - b. Internal auditing annual plan;
  - c. Action taken report by Management on audit reports;
  - d. HRD and structure of the Internal Audit Division; and
  - e. Issue instructions/directives to the Management for compliance of above requirement.

### 6.4 External Audit

- 6.4.1 Oversee the company's relations with the external auditor;



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- 6.4.2 Within the requirements of the Company's Act and Royal Audit Authority, interact with relevant persons and shareholders on the appointment, reappointment, and removal of the external auditors;
- 6.4.3 Assess and report to the board on the external auditor's qualification, expertise, resources, independence and performance;
- 6.4.4 Meet with the external auditor to review the scope and planning for the audit and the audit quality control procedures and on any issues arising in the course of the audit;
- 6.4.5 Discuss with the external auditor any related party transactions the auditor may bring to the audit committee's attention;
- 6.4.6 Meet with the external auditor to receive audit findings and recommendations for management regarding any deficiencies;
- 6.4.7 Monitor management to see that significant audit findings are acted on in a timely manner; and
- 6.4.8 Monitor any other non-audit services provided to the company by the external auditors to ensure that these additional non-audit services do in no way compromise the quality or independence of the external audit.

## 7. Review and Approval

The Audit Committee shall review and reassess the adequacy of this Charter on timely basis and recommend any proposed changes to the Board for approval.

