



# A Case for Cooperation Between the Audit Committee and Management

ICPAK

Audit Conference

Advisory | Risk Consulting

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# Which way?

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I think we will  
get there!!

# 1 Agenda

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2

Understanding Corporate Governance

3

The three lines of defense

4

What is cooperation

5

Why cooperate?

6

Elements of good cooperation

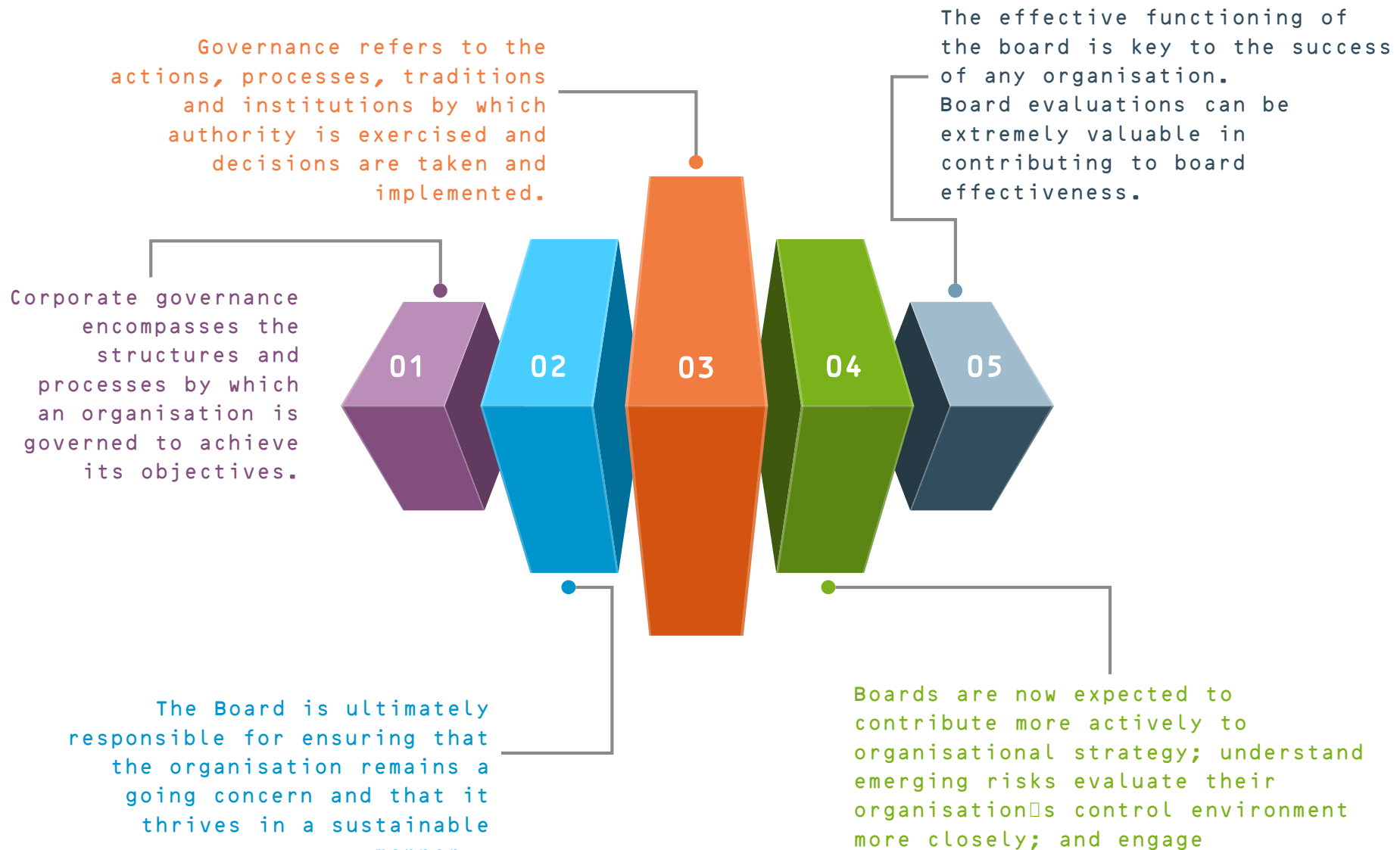
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How do we cooperate?

# 2

# Corporate Governance in a Nutshell

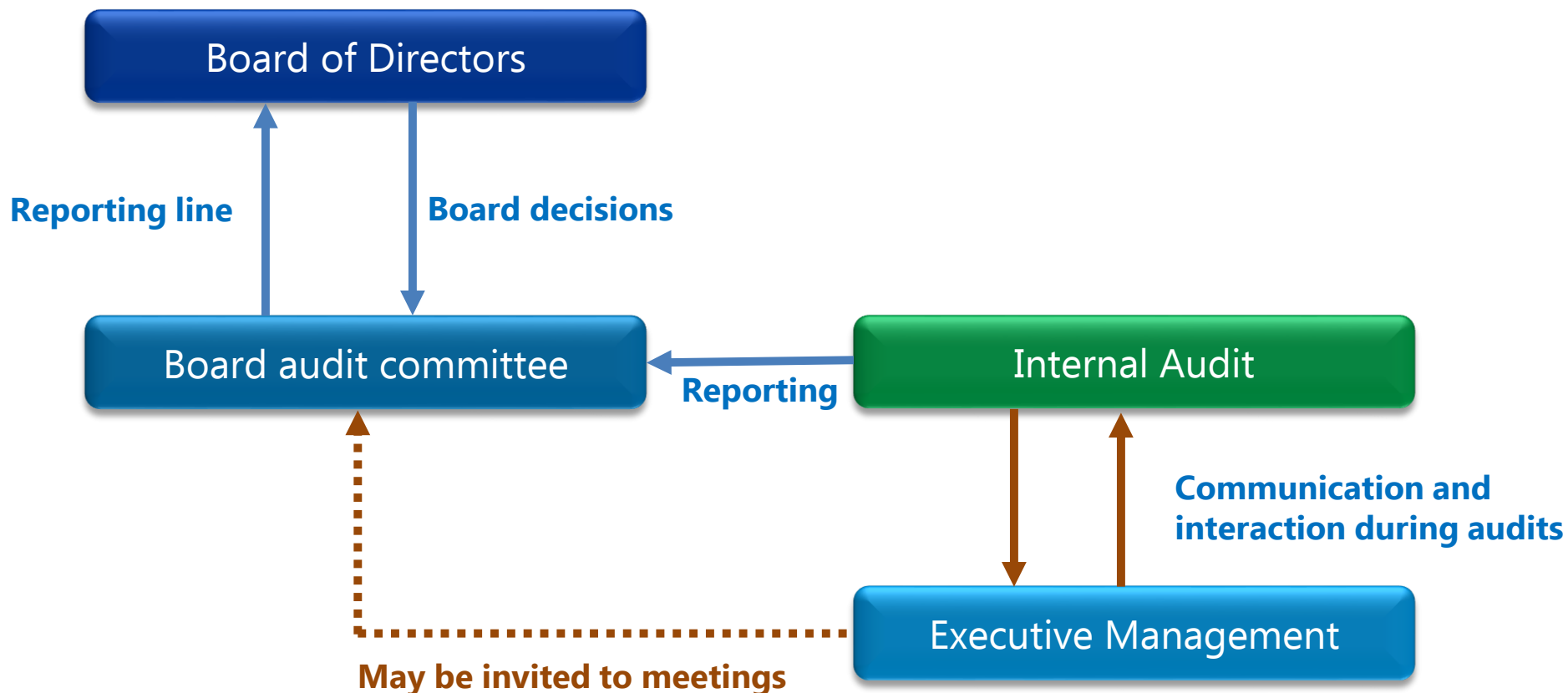
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# 2

## Interaction Between Management and Audit Committee

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## 2

Vs

Management

Management	Board Audit Committee
Day to day operations of the internal control system in an organisation	Oversight on the internal control environment in the organisation
Preparation of policies and procedures for approval by the board	Approval of policies including risk management frameworks
Feed into the preparation of audit plans through the internal and external auditors	Review and approval of the annual internal and external audit plans
Cooperation with internal and external auditors	Appointment and remuneration of the internal and external auditors
Preparation of annual financial statements	Review of external audit reports on accuracy of financial statements
Day to day risk management in operations	Oversight over the risk management processes in the organisation
Implementation of recommendations of internal and external auditors	Oversight over implementation of recommendations
Reporting to the board audit committee on risk management and internal control matters	Advisors to the board on risk management and internal control matters

# 3

## Lines of Defence

### Traditional lines of defence

#### 01 Business Operations

An established risk and control environment.



#### 02 Oversight Functions

HR, finance, quality and risk management.



#### 03 Independent Assurance

Internal audit, external audit and other assurance providers.



Board, Audit, finance, technical and risk committee

The first level of control is the user departments/ pillars which are within the organisation.

Oversight functions such as finance, HR and risk management set directions, define policy and provide assurance to the board.

Internal audit and external audit (e.g KPMG) offer independent challenge to the assurance provided by operations and oversight functions.



# 3

## Lines of Defence

### A case for the fourth line of defence

#### 01 Business Operations

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#### 04 Board Audit Committee



Board, finance, technical and risk committee

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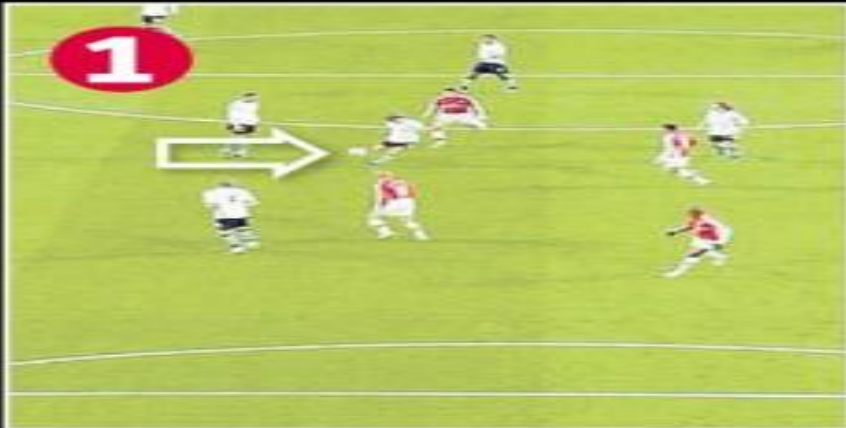
Internal audit and external audit (e.g. KPMG) offer independent challenge to the assurance provided by operations and oversight functions.

Provides oversight over the risk and internal control environment in the business. Makes key decision on resource allocation for internal controls.



# Putting it all together

## WAS DAVID BENTLEY'S STRIKE THE GREATEST PREMIER LEAGUE GOAL?



When the ball is lost in midfield (**1st line**) and the defense (**2nd line**) fails to pick up the opposition's attack, it is left to the goalkeeper (**3rd line**) to save the day. Failure by the goalkeeper to act diligently may lead to significant loss (4) to the team.



# 4

# What is Co-operation?

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“Cooperation is defined as an **act or instance** of **working or acting together** for a **common purpose or benefit**.

- [www.dictionary.com](http://www.dictionary.com)

“**Competition** has been shown to be useful **up to a certain point** and no further, **but cooperation**, which is the thing we must strive for today, begins **where competition leaves off**.

- Franklin D. Roosevelt

# 5 Why Co-operate?

## Benefits of cooperation between the audit committee and management

- Better understanding of the business challenges facing management within the board.
- Optimal allocation of resources for management of risks
- Alignment of board decisions with the business realities facing operations.
- Reduced defensiveness among management when audit issues are raised.
- Better understanding of the role of internal audit as a business advisor amongst management.
- Improved enterprise risk management.
- Increased loyalty and talent retention.
- Improved management ownership of the internal control environment.
- Improved financial reporting and cooperation with external auditors.
- Speedy resolution of audit findings.

## 6

# Elements of Good Co-operation

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## TRUST

Management and audit committee members trust that each member will add value to the organisation, and members work to ensure that everybody contributes and that appreciation is expressed for different contributions.



## OPEN & HONEST COMMUNICATION

Contribute ideas; Provide feedback constructively; Ask for clarification on anything that might be confusing; Provide frequent updates; Listen to each other carefully; accommodates different views.



## FULL COMMITMENT

All team members contribute their time and energy to the organisation. More importantly, all team members participate in the decision making process.



## SOCIAL / BUSINESS BALANCE

Although teams shouldn't socialise 100% of the time, it shouldn't be all business either. Casual conversation allows members to know each other better, leading to better working relations.



## TEAMWORK

Management and the board committee work in harmony to continuously improve governance, risk management and internal controls in the organisation. Conflicts are also effectively resolved.

## Current state

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Confrontational audits and defensive management in audit committee meetings.

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Management may not be invited to audit committee meetings.

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Aggressive approach to audits turning it into a 'policing' function.

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Audit committee members do not interact with management outside the meetings.

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Audit committees do not receive input from management on deployment of resources for risk management and internal controls.

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## Target state

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Management and the internal auditor agree on findings and recommendations for improvement.

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Management invited to audit committee meetings and committee members listen to management's input.

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Audit becomes both an assurance and advisory function to the business.

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Audit committee members interact with management while keeping in check familiarity threats.

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Management input is taken into account in deployment of resources.

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## Management's role   Board's role

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Providing adequate and accurate information in board packs

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Implementing the action plans approved by the board

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Advising the board on emerging risks and changing business models

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Taking charge of the roles assigned to them in internal controls and risk management

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Providing honest unbiased feedback on board audit committee performance during evaluation exercises

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Questioning management's information to generate value in good faith

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Providing adequate resources for management to implement action plans

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Keeping up to date with changes in the business environment, risks and governance

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Providing oversight over risk and internal controls while recognising prevailing business conditions

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Obtaining management feedback on the performance of the committee during board evaluation exercises

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## 7

# Commanding management respect?

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A key element of cooperation is trust and trust is built through respect. The audit committee can command management's respect by understanding the following 8 principles:

01

One size does not fit all

02

De facto independence and financial literacy are fundamental.

03

Focus on those few things with the greatest impact

04

Make sure the committee is getting 'information' and not just data

05

Consider how the committee might improve its efficiency and make the most of its meetings.

06

Understand that it cannot all be done at the formal committee meetings; 'between meeting' work is essential

07

Reinforce the right audit committee culture and dynamics.

08

Regularly evaluate the audit committee's performance incorporating views from management

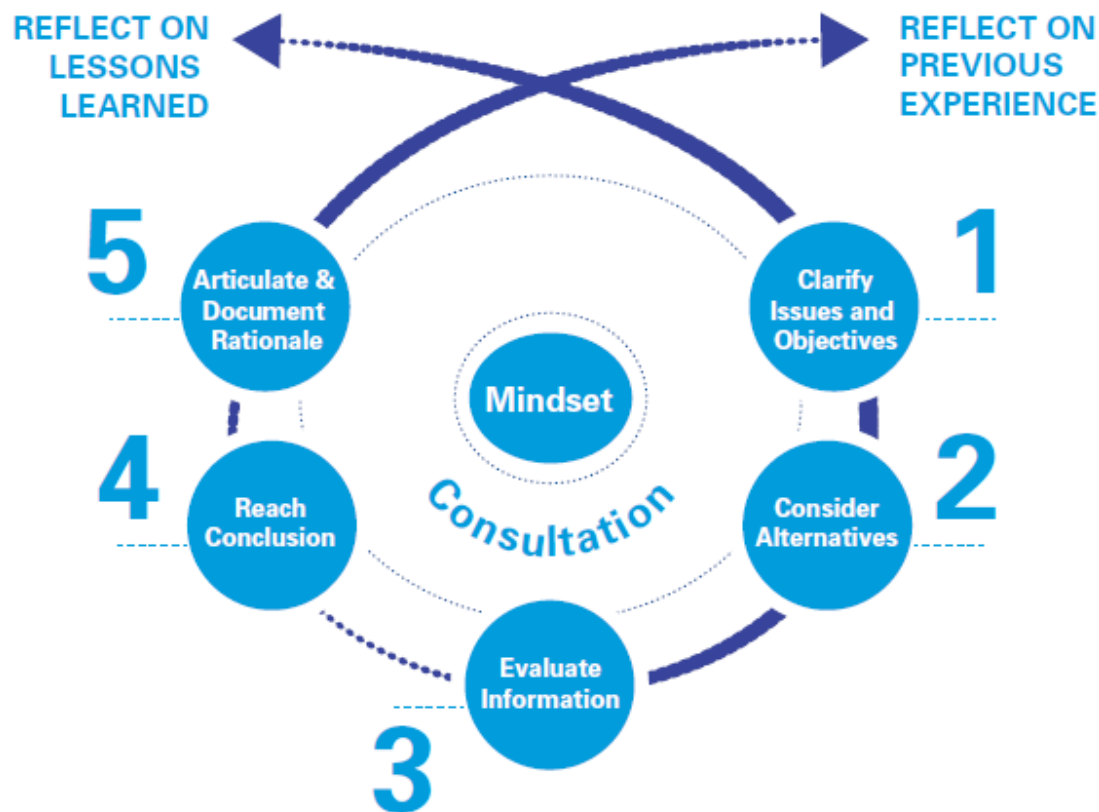


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# Commanding respect: Enforcing a formal judgement process in meetings

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Below is a five step process of ensuring that a formal judgement process is adopted in both management and board audit committee meetings:



## The board committee can build a good working relationship with management by:

- Engaging in informal meetings/dialogue with management, auditors and advisors to build empathy.
- Making full use of the 'in camera' private sessions at each audit committee meeting by planning ahead.
- Attending away days' and using social functions constructively to deepen relationships.
- Attending meetings in the business to deepen understanding of issues and provide context for committee meetings.
- Ensure key management (operational heads, individuals responsible for key risks, etc) attend and are present at meetings.
- Ensuring the 'marzipan layer' of management (i.e. those below the executive tier) is appropriately engaged.

# Questions?



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