



Establishment, Composition & Functions of Audit Committees

(Public vis -a -vis Private Sector Experience)
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Presentation Outline



1. Definitions
2. Rationale for Audit Committees (AC)
3. Objectives of Audit Committees (AC)
4. Composition of Audit Committees
5. Establishment of Audit Committees
6. Functions of Audit Committees



Wise words



**No one can go back and
change a bad beginning;**

**But anyone can start now and
create a successful ending.**

F.A.L.L.L.



Definitions....



❑ *Audit Committee*

- An audit committee is an operating committee of the Board of Directors or (Independent committee of a government Agency) charged with dealing with oversight of financial reporting process, audit process (*internal & external*), system of internal controls and compliance with laws and regulations.



Definitions....



❑ *An Audit Charter*

- Sets forth the general purpose, authority, composition and responsibilities of the committee.
- The board should develop & adopt a Board Charter
- The Charter should define the role, responsibilities & functions of the Board in the Governance of the entity.
- The Board should periodically review the Charter.



Governance Audit...



- ❑ The board in consultation with the oversight office should ensure that it subjects the organization to an annual governance audit by a member of ICPSK and accredited for that purpose.



Governance Audit...



- The governance audit should cover the governance practices of the entity in;
 1. *Leadership & strategic management*
 2. *Transparency & disclosure*
 3. *Compliance with laws & regulations*
 4. *Communication with stakeholders*
 5. *Board independence & governance*
 6. *Board systems & procedures*
 7. *Consistent shareholder & stakeholder value*
 8. *Corporate social responsibility & investment*



Rationale for having AC..



- ❑ *Existence of an independent AC is recognized internationally as an important feature of good corporate governance. The entity benefits by;*
1. Acting as a forum for dialogue between various levels
 2. Promoting integrity & quality of IA&EA by providing a high level of check & assurance
 3. Fostering & promoting more effective & efficient audit process



Rationale for having AC..



4. Providing a 'no surprise' environment in an entity by prompt identification of risks and threats to the entity
5. Providing a depth of knowledge that assists management to discharge its duties effectively and efficiently.

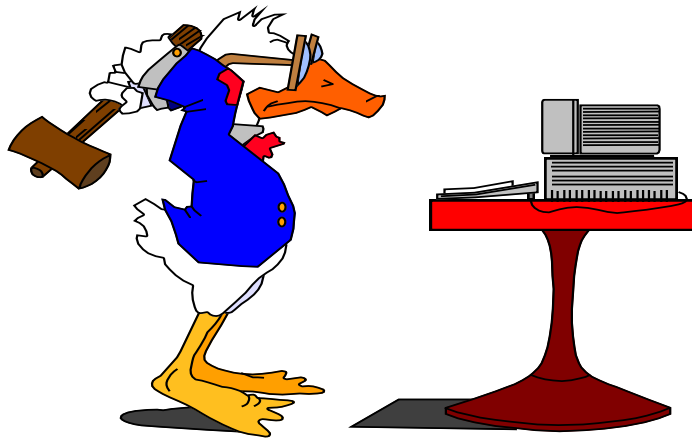


Please Note



■ When things don't look right, they are probably not right.'

'If it looks like a dog, walks like a dog, barks like a dog; then it's probably a dog.'





Objectives of AC...



1. Obtain assurance that all financial & non financial internal controls & risk management functions are operating effectively and reliably
2. Provide an independent review of an entity's reporting functions to ensure integrity of reports
3. Monitor effectiveness of performance management and performance information
4. Provide strong and effective oversight of Internal Audit function



Objectives of AC...



5. Provide effective liaison & facilitate communication between management & external audit
6. Provide oversight of implementation of accepted audit recommendations
7. Ensure entity effectively monitors compliance with legislative & regulatory requirements & promotes a culture committed to lawful & ethical behaviour.



Wise words



**"Changing the Face" can change nothing.
But "Facing the Change" can change everything.**



**Don't complain about others;
Change yourself if you want peace.**



Composition.. cntd



1. At least three members to five depending on the size of the entity.
2. At least one member must have relevant qualifications & expertise in audit, financial management or accounting with adequate experience
3. Diverse membership with appropriate mix of skills & expertise relevant to each entity's nature
4. Members be able to dedicate sufficient time
5. Committee can co-opt persons with special skills on a need basis;



Composition.. cntd



1. Appointment should be by individual letters by the appointing authority
2. Initial term shall be three years which can be extended for a further term of only three years.
3. Extension of appointment shall be after evaluation of performance
4. The management should have an officer from top management as a member.



Membership cessation..



1. Convicted of a criminal offence & sentenced to a term of imprisonment of not less than six months
2. Absent from two consecutive regular meetings without leave of absence
3. Resigns in writing from the AC
4. Becomes an employee or officer of concerned entity
5. Discovered to have conflict of interest as prescribed at time of his appointment & failed to disclose
6. Audit committee is disbanded



Membership-- Chairman..



1. Effectiveness & true independence hinges of the effectiveness of the chair
2. In appointing, careful consideration be given to leadership qualities
3. Chair should be a proactive leader with confidence & integrity and highly respected & experienced person, who possesses strong interpersonal skills & time to develop & closely monitor agenda
4. Excellent working knowledge of an audit committee's function & risk management framework



Meetings of AC..



☐ Meetings

1. The committee shall meet at least four times in a year (or as deemed necessary by the Chairman).
2. The committee shall hold other quarterly meetings without necessarily management being present.
3. The quorum shall be a majority of members
4. Agenda shall be circulated prior to the meeting



Establishment of Audit Committees..



- ❑ An entity is accountable to the owners of capital on how it uses the resources.
- ❑ The Audit committee form a key element in governance process by providing an independent expert assessment of the activities of top management, the quality of risk management , financial reporting, financial management and internal audit, to the board of directors or a supervisory board or executive management.



Laws for Public entities



- The Public Finance Management Act, 2012 & Public Finance Management Regulations, 2015 requires that each public entity establishes and Audit Committee.
- Section 66 requires establishment of appropriate systems of internal controls & risk management
- Section 73(5) provides for establishment of Audit committee for each governing body.
- ❖ For private entities, it is provided for it the organizational strategic and governance structures and organizational strategic objectives.



Wise words



**Every successful person has a
painful story.
Every painful story has a
successful ending.**

**Accept the pain and get
ready for success.**





Establishment.... cntd



The primary responsibilities of AC in enhancing accountability are to;

1. Oversee internal & external Audit functions
2. Oversee the financial reporting process
3. Oversee the entity's internal controls to prevent, detect & deter frauds and errors.
4. Ensure appropriate channels of communication exist for whistle blowing policies, antifraud activities & reporting of illegal activities.



Establishment.... cntd



AC ensures that external audit recommendations are fully addressed, that quality of Internal Audit is of appropriate standard & line management has full regard to Internal Audit recommendations.

AC has a vital role in being a watchdog for independence of Internal Audit & ensuring that information made available to capital owners is reliable to enable them make judgements about quality of management and future prospects of the entity.



Establishment.... cntd



❑ Characteristics of a Strong committee;

1. Should be formally established
2. Be independent from management
3. Members should have a background in financial matters
4. Appropriate tone at the top (show leadership by example)
5. Understand their role & their personal responsibility



Functions of AC..



1. Key role with respect to integrity of financial information, its systems of governance, risk & internal controls and the legal & ethical conduct of management & employees
2. Evaluate processes in place to address key roles & responsibilities in relation to risk management
3. Evaluate adequacy of control environment to provide reasonable assurance that ICS are sound
4. Independent review of financial statements to ensure integrity & transparency of reporting



Functions of AC..



5. Monitoring the effectiveness of an entity performance information & compliance with performance framework & reporting
6. Evaluating quality of internal audit function in planning, monitoring & reporting
7. Engaging with external audit & assessing adequacy of management response to issues.
8. Reviewing effectiveness of how the entity monitors compliance with legislative & regulatory requirements.



Responsibilities of AC..



1. Financial reporting issues
2. Narrative reporting
3. Whistle blowing
4. Internal controls & risk management systems
5. Internal audit process
6. Annual Audit cycle
7. Independence including provision of non-independent audit services



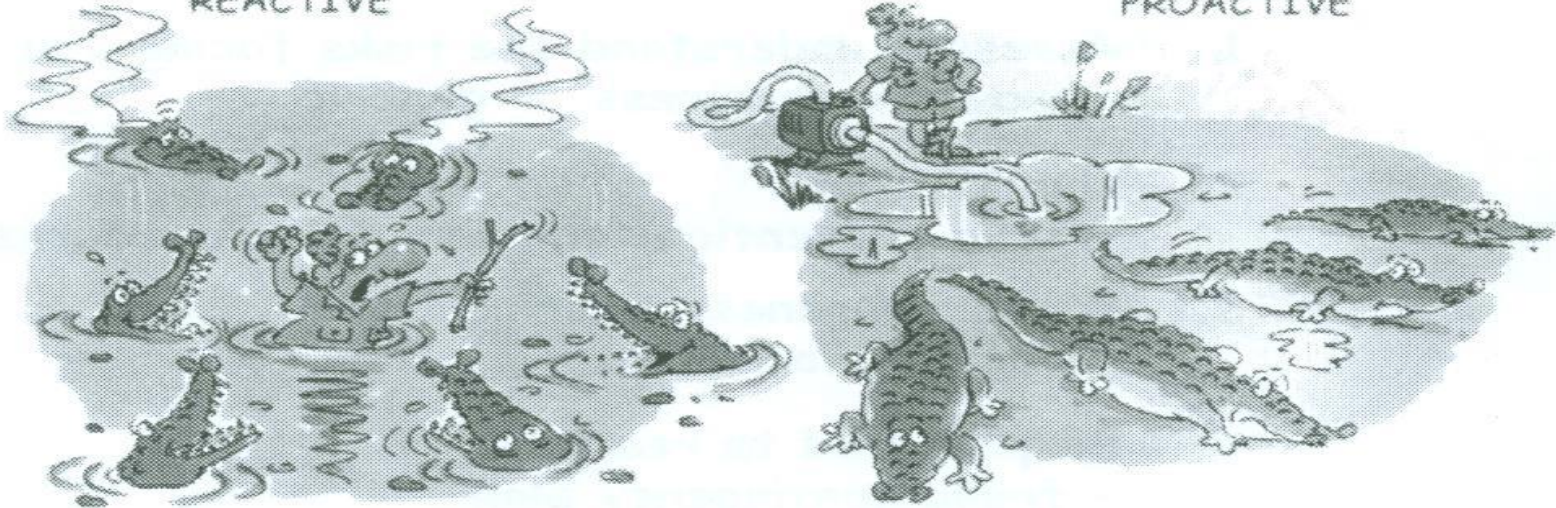
The choice is yours....



YOUR CHOICE...

REACTIVE

PROACTIVE



"IT IS BETTER TO DRAIN THE SWAMPS
THAN TO FIGHT THE ALLIGATORS"

PROF IRVIN WALLER, DIRECTOR GENERAL,
INTERNATIONAL CENTRE FOR THE
PREVENTION OF CRIME - 8 MARCH 1996

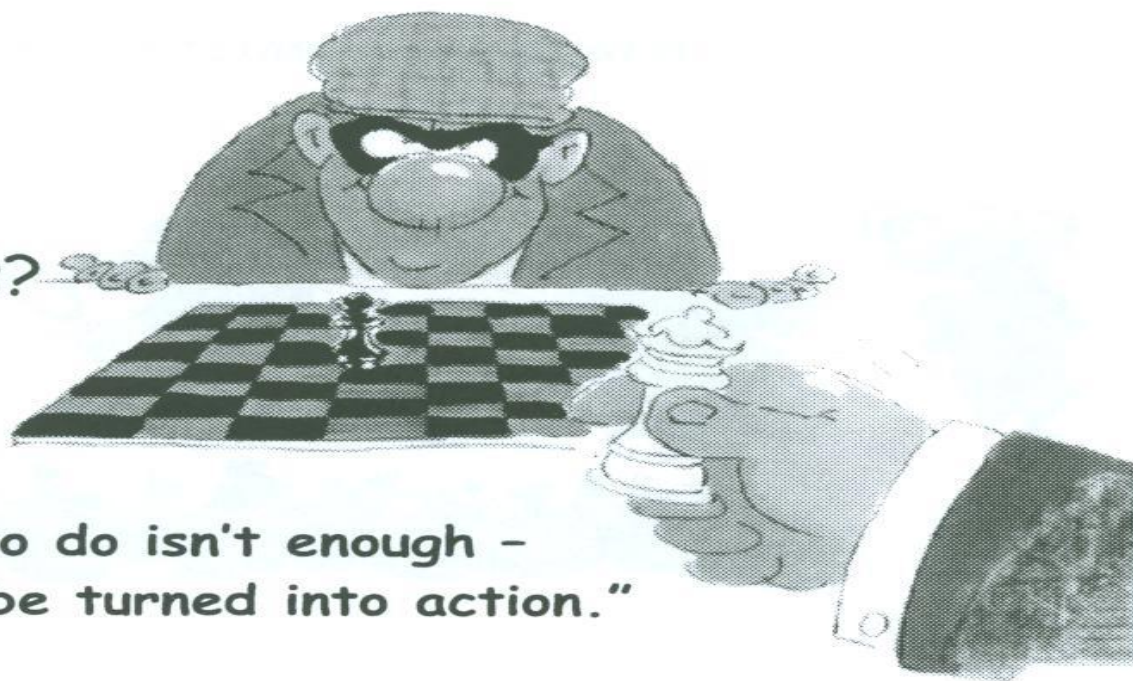


Interactive Session



YOUR MOVE...

Questions?
Comments?
Observations?



"Knowing 'what' to do isn't enough -
knowledge must be turned into action."