

COAST BRANCH PFM SEMINAR

AUDIT COMMITTEE GUIDELINES

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Public Policy & Research Division

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Uphold

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Public

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Interest

"Individuals and teams have a sense of ownership, and are focused, disciplined and collaborative, while holding each other accountable for outcomes." *Di Worrall*

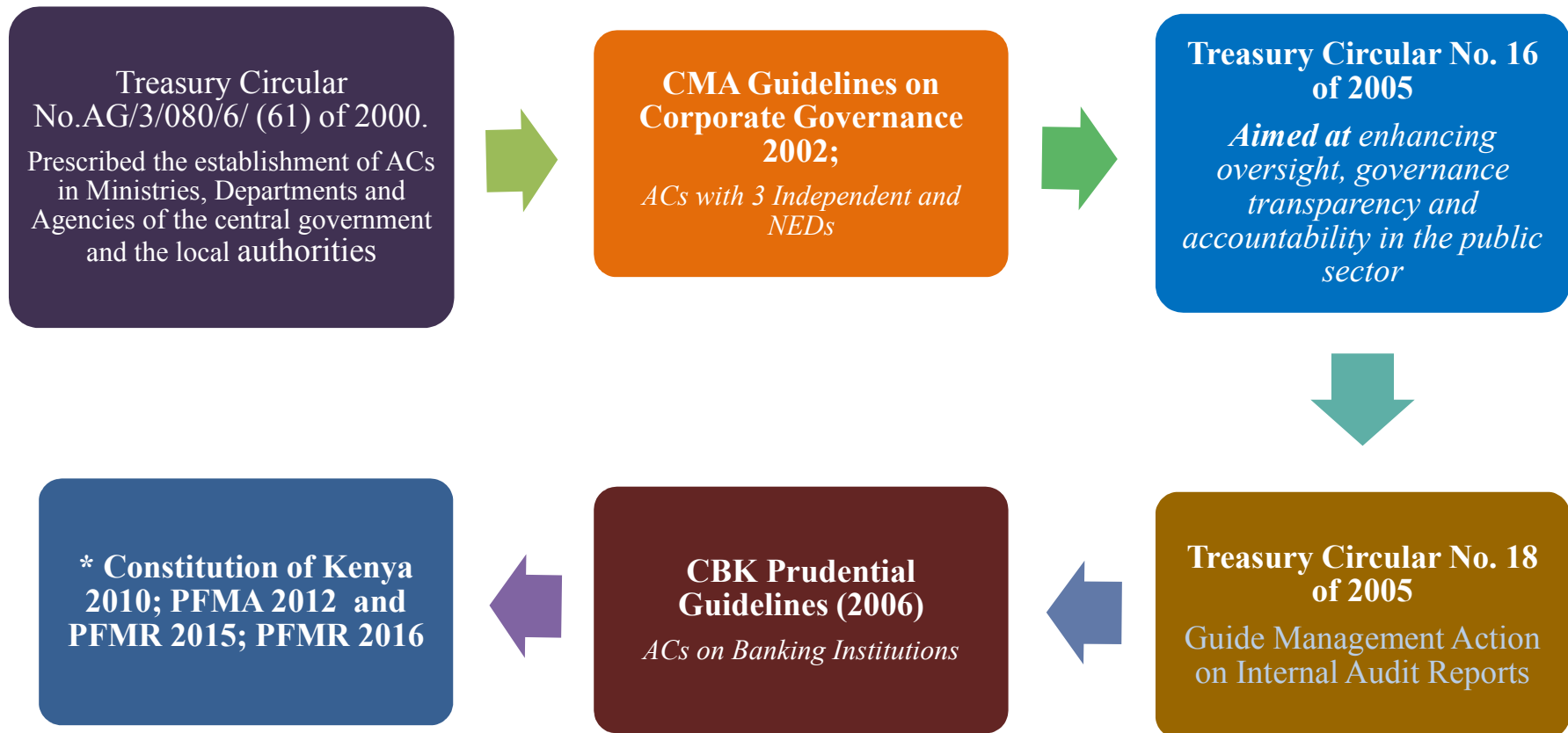
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Definition

- ❑ An audit is the independent examination of the financial statements, as well as non-financial information, of an organization to ascertain fairness and accuracy of representation of the transactions carried out by the organization
- ❑ is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.
- ❑ It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process.

Evolution of Audit Committees



- Treasury circular No. AG3/086/6/ (61) of 8th August 2000 represented the first initiative towards establishment of Ministerial audit committees.
- The performance of audit committees in some ministries was not effective due to lack of guidelines on their independence and objectivity.
- In 2005 the Treasury through circular No.16/2005 for the establishment and operationalization of Audit Committees in the public institutions.

- PFM Act 2012 imposes significant responsibilities on accounting officers and governing bodies, including the duty to manage the entity efficiently, effectively and economically and to establish and maintain appropriate systems of internal control and risk management (section 66).
- Section 73(5) of the PFM Act, 2012 provides that each accounting officer of a department must, and each governing body shall establish an audit committee for the entity

Objectives of Audit Committees

Assurance

- Obtain assurance from management
- Assurance from internal control and risk management processes are operating effectively and reliably

Reviews

- Provide independent review of an entity's reporting function to ensure the integrity of financial reports
- Internal control systems and risk management processes

Monitoring

- Monitors effectiveness of entity's performance management system

Oversight

- Provide oversight of entity's Internal Audit activity
- Provide oversight of the implementation of accepted audit recommendations

Liaison

- Facilitate communication between management and external auditors

Compliance

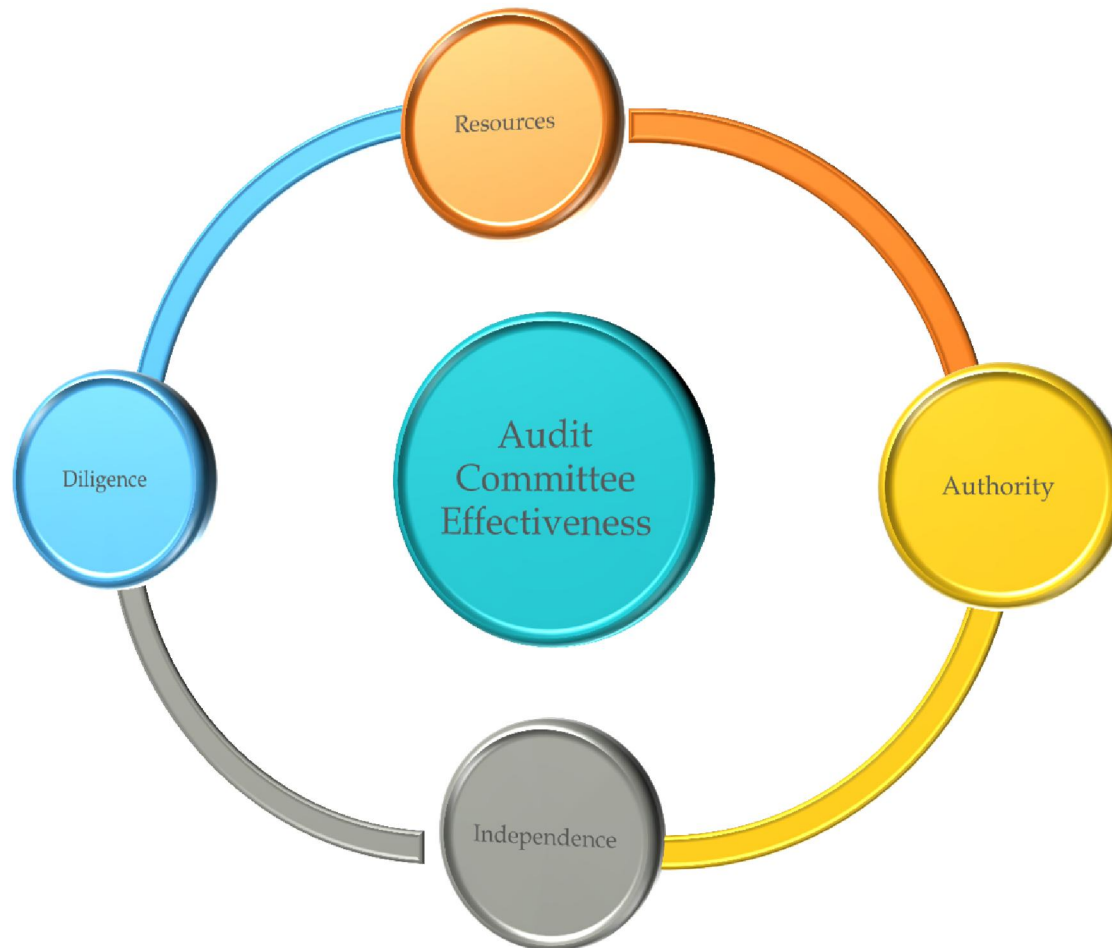
- Ensures that entity effectively monitors compliance with legislative and regulatory requirements
- Promotes culture committed to lawful and ethical behavior

Rationale for Audit Committees



- ❑ Acting as a forum for dialogue between the accounting officer or governing body, executive management and the internal and external auditors.
- ❑ Promoting the integrity and quality of internal and external reports by providing a high level of assurance and check.
- ❑ Fostering and promoting a more effective and efficient audit process by providing an independent review of the internal audit annual work plan and reports.
- ❑ Providing a ‘no-surprises’ environment in an entity, particularly with regard to the prompt identification of risks and threats to the entity.
- ❑ Providing a depth of knowledge that assists management discharge its responsibilities in the most effective and efficient manner.

Effectiveness of Audit Committees



1. Authority

- Authority-this is driven from the audit committee charter;
- Establishing instruments (PFM Act. 2012 & Regulations, 2015);
- Oversight responsibilities & roles played by the Committee

2. Diligence

- No. of meetings held by the Committee;
- Agenda items included for the meeting;
- Asking difficult questions;
- Attendance by the members;
- Voluntary audit committee disclosures such as conflicts of interest on agenda items discussed;

3. Independence

- The Charter provides the roles and responsibilities of the Audit Committee.
- It clearly provides operating principles of the Committee (communication, committee education, committee expectations & information needs, resources, meeting agendas, committee attendees, reporting to the Board of directors
- Shows the relationships of the Committee with external and internal auditors and other stakeholders.
- The Charter is the foundation upon the success of the Audit Committee

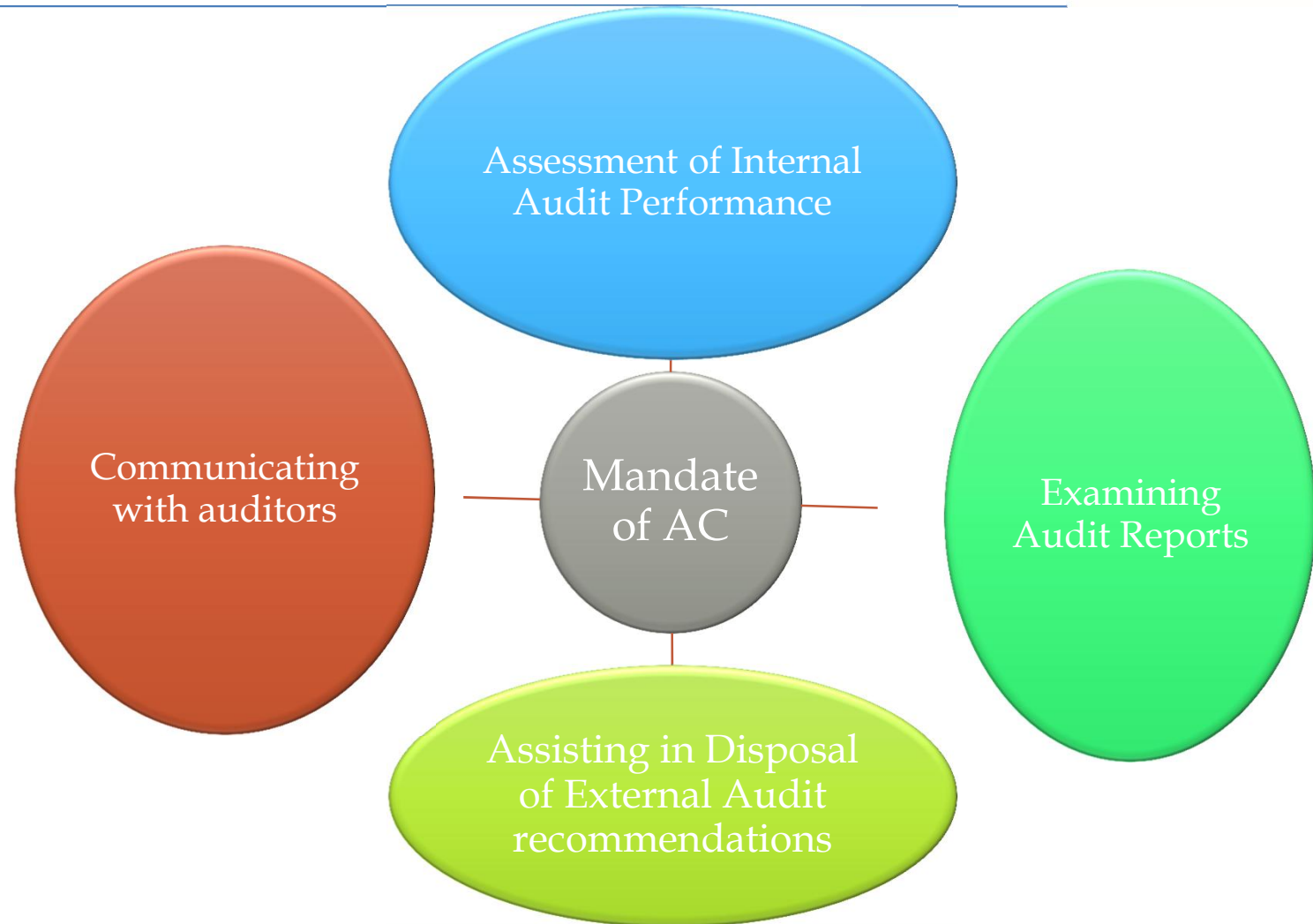
3. Independence

- Exercise independent judgment on discharging duties;
- Disclose all real or perceived conflict of interest and manage within agreed framework;
- Free to source independent advice on a matter it is currently seized of;

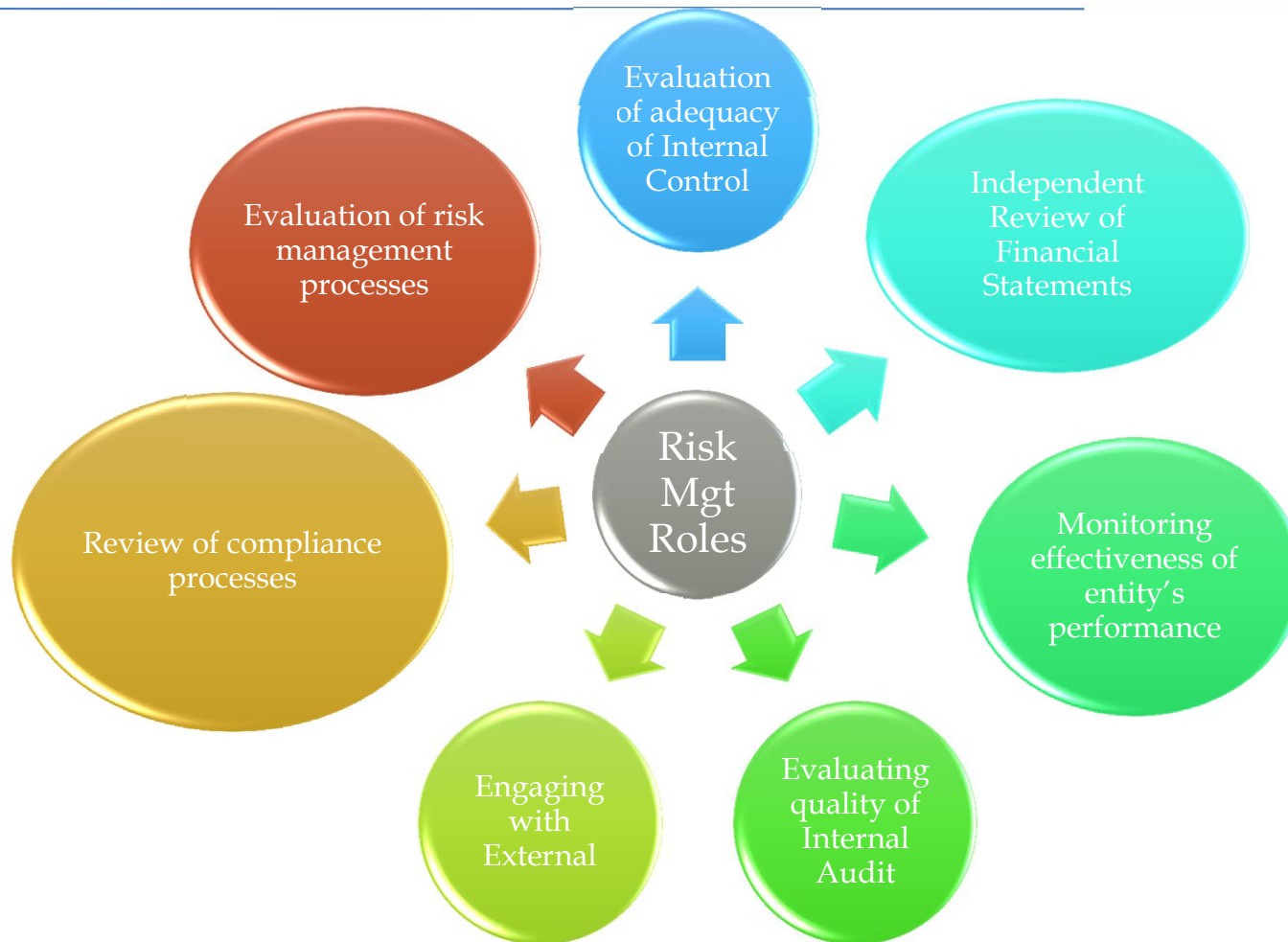
4. Resourcing

- Budgetary allocation;
- Well resourced internal audit function;
- Access to the internal and external audit;
- Access to all necessary information and papers to perform its duties;
- Adequate budgetary allocation to aid in taking independent legal and other expert services when required;
- Continuous training of members to understand the audit committee dynamics, roles, responsibilities, risk management and emerging issues

Mandate of Audit Committees

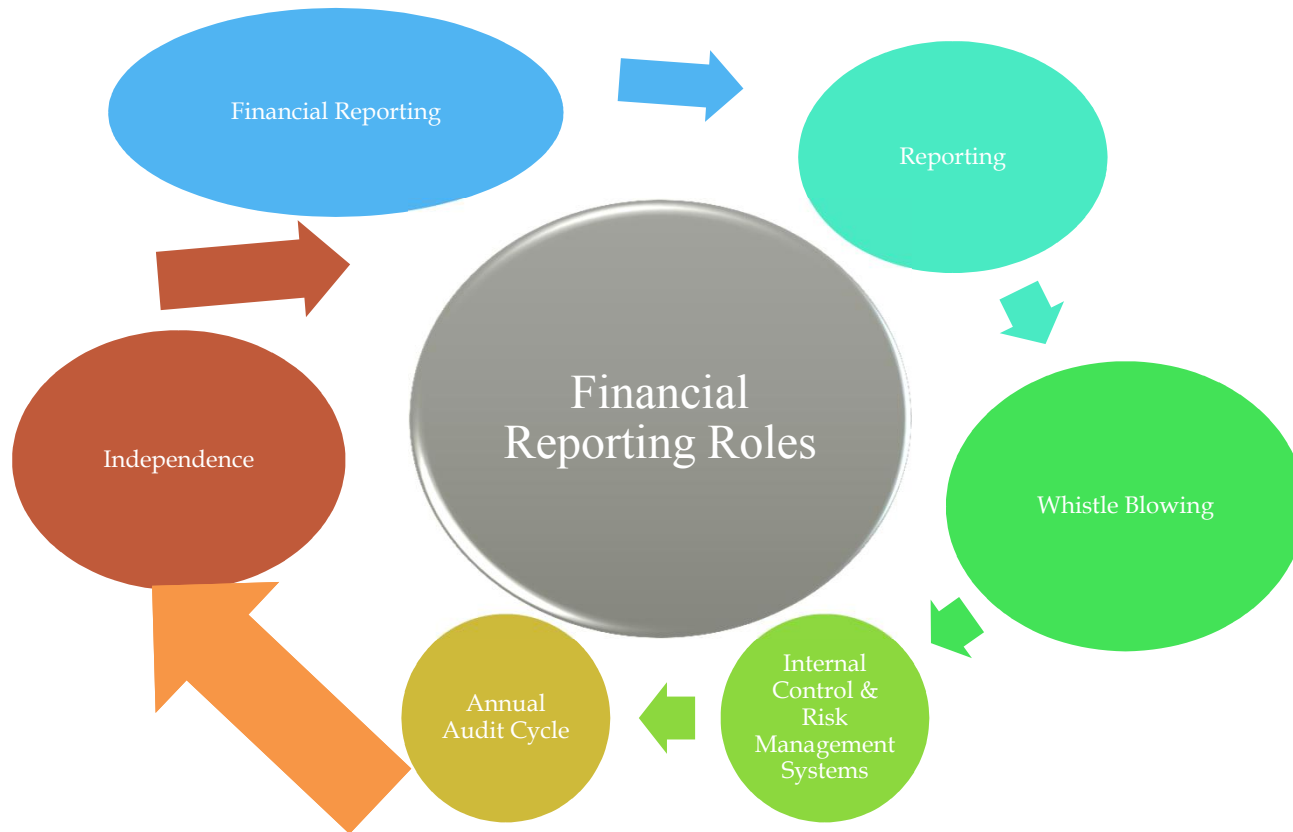






- ❑ Internal audit planning shall be carried out on the basis **Risk based audit assessment strategic** of risk assessment and shall be set out in a three-year strategic plan, on plan.

- ❑ The annual work plan shall be submitted to the audit committee by the 15th February each financial year; & approved by the audit committee and shared with the Accounting Officer of that entity, in sufficient time for inclusion in the budget of that entity.



Reporting

- Audit Committee should review and report to the board and top management on the significant financial reporting issues and judgments made in connection with the preparation of the entity's financial statements.
- It is management's not audit committee's reasonability to prepare complete and accurate financial statements and disclosures in accordance with financial reporting standards and applicable rules and regulations
- Where requested by the management, the audit committee should review the content of the annual report and accounts and advise the board or executive management on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for stakeholders to assess the entity's performance, business model and strategy.

Whistle blowing

The audit committee should review arrangements by which staff of the entity or any other person may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Internal controls & Risk Management Systems

Audit Committee should review internal control systems on the entity.

It should review the risk management framework and provide assurance on the effectiveness and reliability of the system.

The audit committee should approve the appointment and termination of appointment of the head of internal audit.

Assessing Independence

- The audit committee should seek assurance that the auditors and their staff have no financial, business, employment or family and other personal relationships with the entity which could adversely affect the auditor's independence and objectivity, taking account of relevant ethical standards for auditors.

Annual Audit Cycle

- The audit committee should approve the annual audit work plans including the **resources** and other budgetary provisions for the internal audit function.
- In addition, it should approve the training plans and provide adequate budget for capacity building for the internal audit function.

Assessing Independence

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Internal Audit Function

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Audit Committees – Internal Arrangements

Role of Chairman of Audit Committee

- The Chair person committee plays a key role in the performance of the committee.
- Effectiveness and true independence of the audit committee hinges on the chair's effectiveness.
- The chair should be a proactive leader with confidence and integrity.
- A highly respectable and experienced person, who possess strong interpersonal skills and time available to develop and closely monitor the committee agenda.
- A person with excellent working knowledge of an audit committee's functions and risk management frameworks.

Role of Secretary of Audit Committee

- The Head of Internal Audit activity is the secretary of the committee.
- The secretary drafts the agenda for the meeting and agrees with the Chair person of the Committee.
- Facilitate the distribution of materials to the audit committee members.
- Maintains records for the audit committee's meetings and activities including minutes and review reports.

Meetings of Audit Committee

- The committee should determine its own agenda.
- Meetings should be held on a timely and regular basis and their proceedings, recommendations and discussions recorded.
- The meeting be at least quarterly but a special committee meeting could be convened where necessary.
- Most significant risks and threats should be emphasized while setting the agenda.
- A quorum shall consist of at least three (3) members of the committee, one of whom shall be an independent external member.
- No proxies in the meeting.
- Members should declare interest in matters being discussed and dissenting members shall be taken and appropriately recorded.

Minutes of Meetings of Audit Committee

- Minutes should cover each agenda of the meeting.
- Minutes should be prepared and distributed to members within 7 working days after the conclusion of the meeting.
- Minutes should be confirmed as true record of the meeting at the next meeting and signed by the Chair and Secretary to the Committee.
- Copies of the minutes should be shared with management and external auditor.

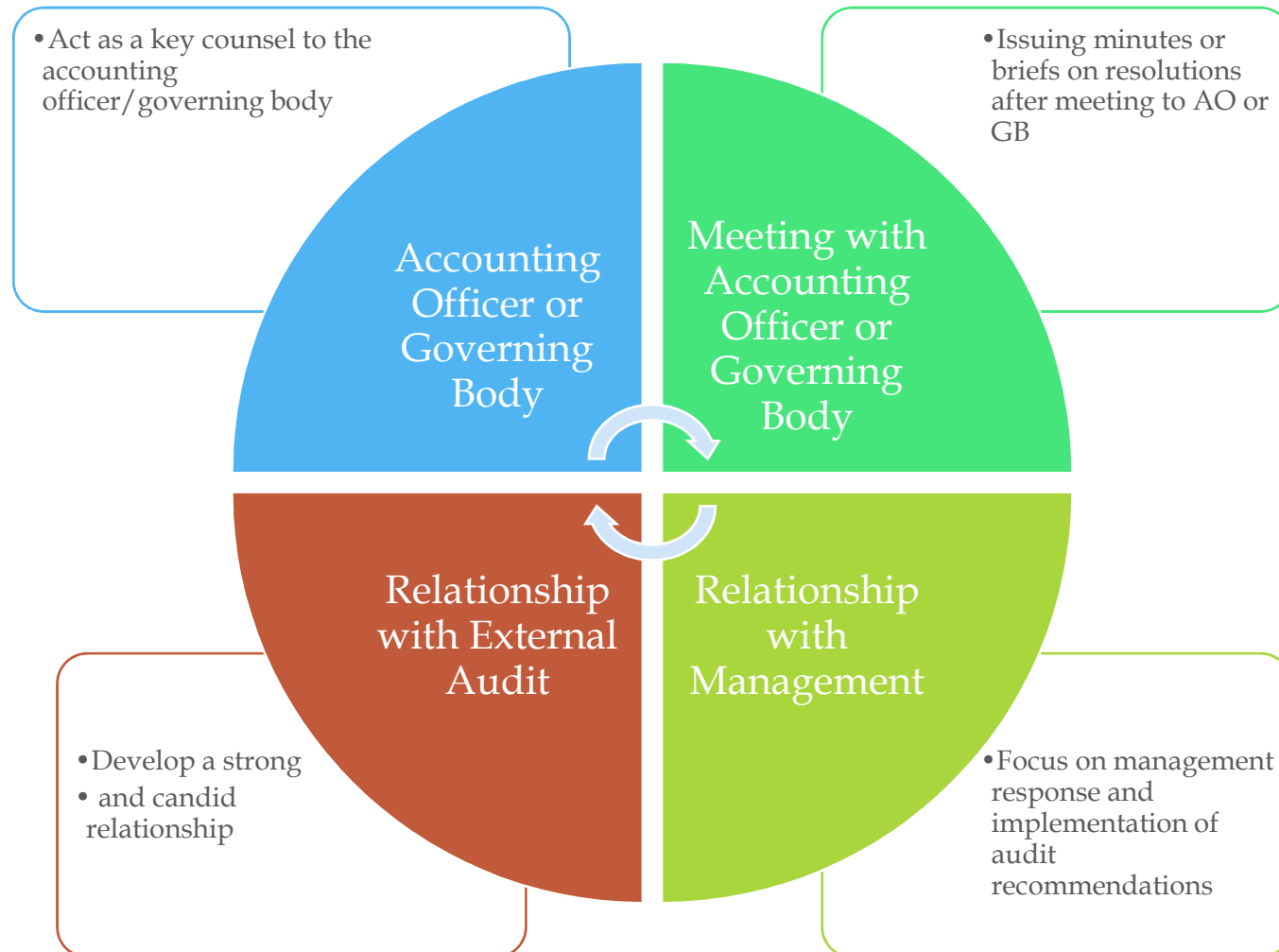
Information - base

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- The PFM Act, 2012
 - The PFM Regulations 2015
 - Strategic Plan for the Entity
 - The Service Charter
 - Performance Contract
 - Budget
 - Procurement Plan
 - Risk policy framework and risk profile
 - Internal Audit Strategic Plan
 - Internal Audit Charter
 - Internal Audit Budget
 - Internal Risk Based Annual Work Plan
 - Audit Committee Charter
 - Any other relevant legislations, guidelines or documents

Progress Reporting

- Progress on the annual audit work plan implementation.
- Report on consulting activities.
- Emerging issues from internal audit.
- Risks accepted by management.
- Major disagreement with management.
- Limitations affecting internal audit.
- Emerging issues from external audit.
- Report on cooperation between internal and external audit.
- Internal and external quality assurance reports on internal audit function if any.
- Periodic management accounts and/or budget performance reports either quarterly or semi-annually.

Relationships and Access



Performance Assessment



"At the end of the day we are accountable to ourselves - our success is a result of what we do." *Catherine Pulsifer* "

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Thank You!!