



Maintaining and Measuring Board Audit Committee (BAC) Effectiveness

Presentation by:

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19 – 21 September 2018

Agenda



- What is an effective BAC?
- Maintaining BAC effectiveness
 - Key challenge in maintaining BAC effectiveness
 - Next steps
- Assessing BAC effectiveness
 - What should be assessed?
 - How should the assessment be done?
 - Assessing the individual.
 - Evaluating the assessment.
 - Next steps in performing BAC assessments

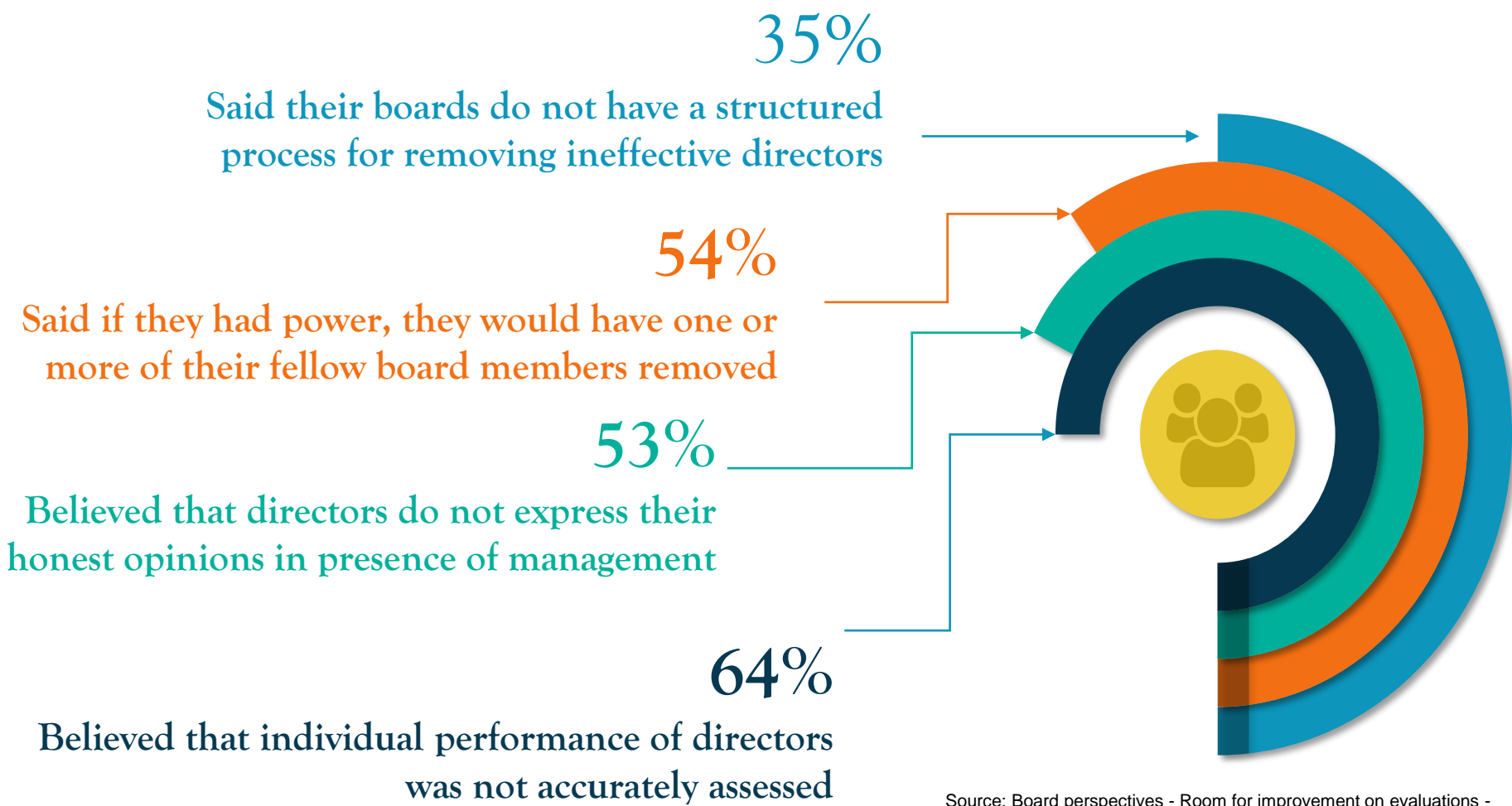
Maintaining BAC effectiveness

What is an effective BAC?

An effective BAC is one that is able to “keep the eye on the ball”. In keeping the eye on the ball, the BAC should have the following characteristics.



Effectiveness laid bare



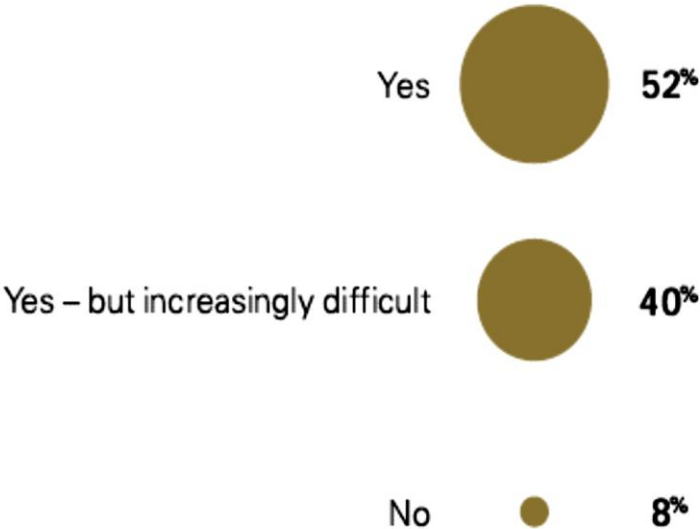
Source: Board perspectives - Room for improvement on evaluations - Stanford Research

Key challenge in maintaining BAC effectiveness



Agenda overload is not a new issue for audit committees, but our global audit committee survey continues to show that it is a major concern.

Are you satisfied that your audit committee has the time and expertise to oversee the major risks on its agenda in addition to carrying out its core oversight responsibilities?



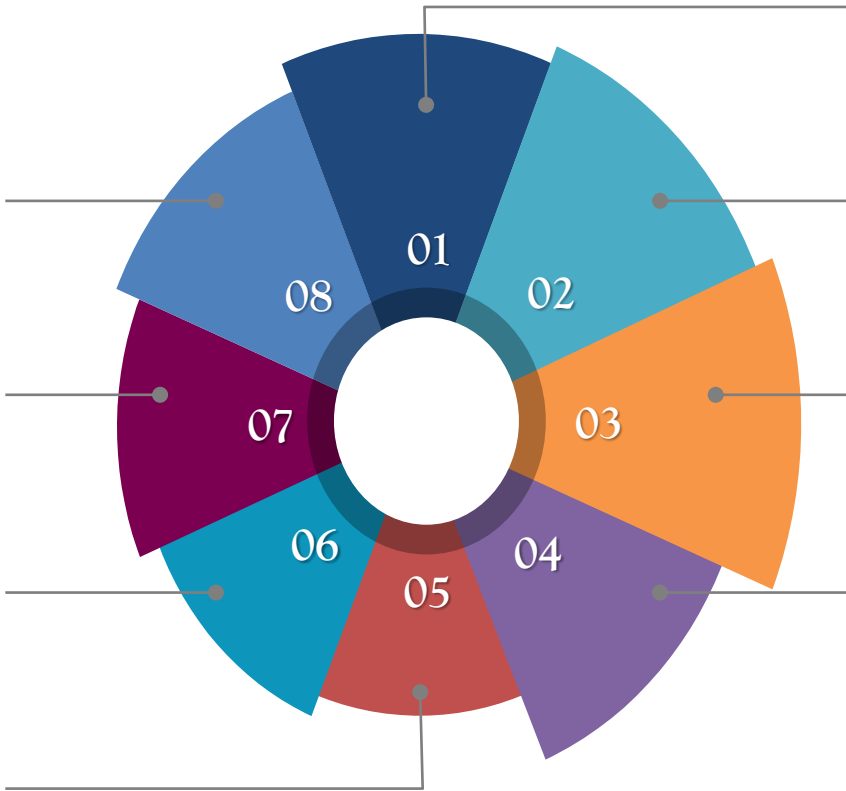
Next steps: Maintaining effectiveness

Ensuring BAC has appropriate expertise & experience

Active involvement of members

Audit committee must shape its own agenda

Open lines of communication with stakeholders



Information provided to the audit committee must be relevant, concise and timely

Informal and ad-hoc meetings are essential to stay informed

Sensitivity to the tone at the top

Attitude, skill set and engagement of BAC chair is essential to drive BAC effectiveness

Assessing BAC effectiveness

Why assess BAC effectiveness?

Effective assessments provide a pathway for the BAC and individual directors to OBJECTIVELY ASSESS their strengths and weaknesses and IMPLEMENT plans for CONTINUOUS IMPROVEMENT



Assessing effectiveness



- The precise method by which the board and audit committee assess the audit committee's effectiveness should be for the board and the audit committee to decide.
- It is common for the board and committees to self evaluate.
- However, it is good practice that organisations have externally facilitated evaluations.

Assessing effectiveness: Recommended guidelines



Should be tailored to meet
the needs of the organization

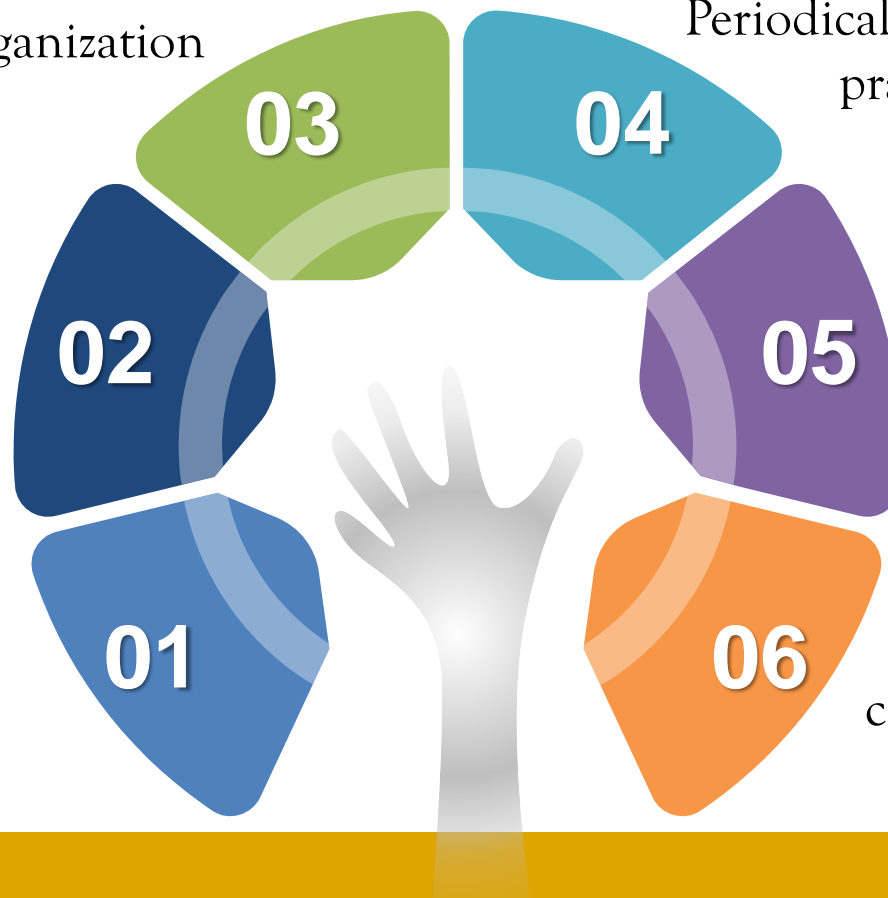
Periodically review BAC assessment
practices and criteria

Have clear goals

Provide feedback to
those involved in the
process

Process must be
independent

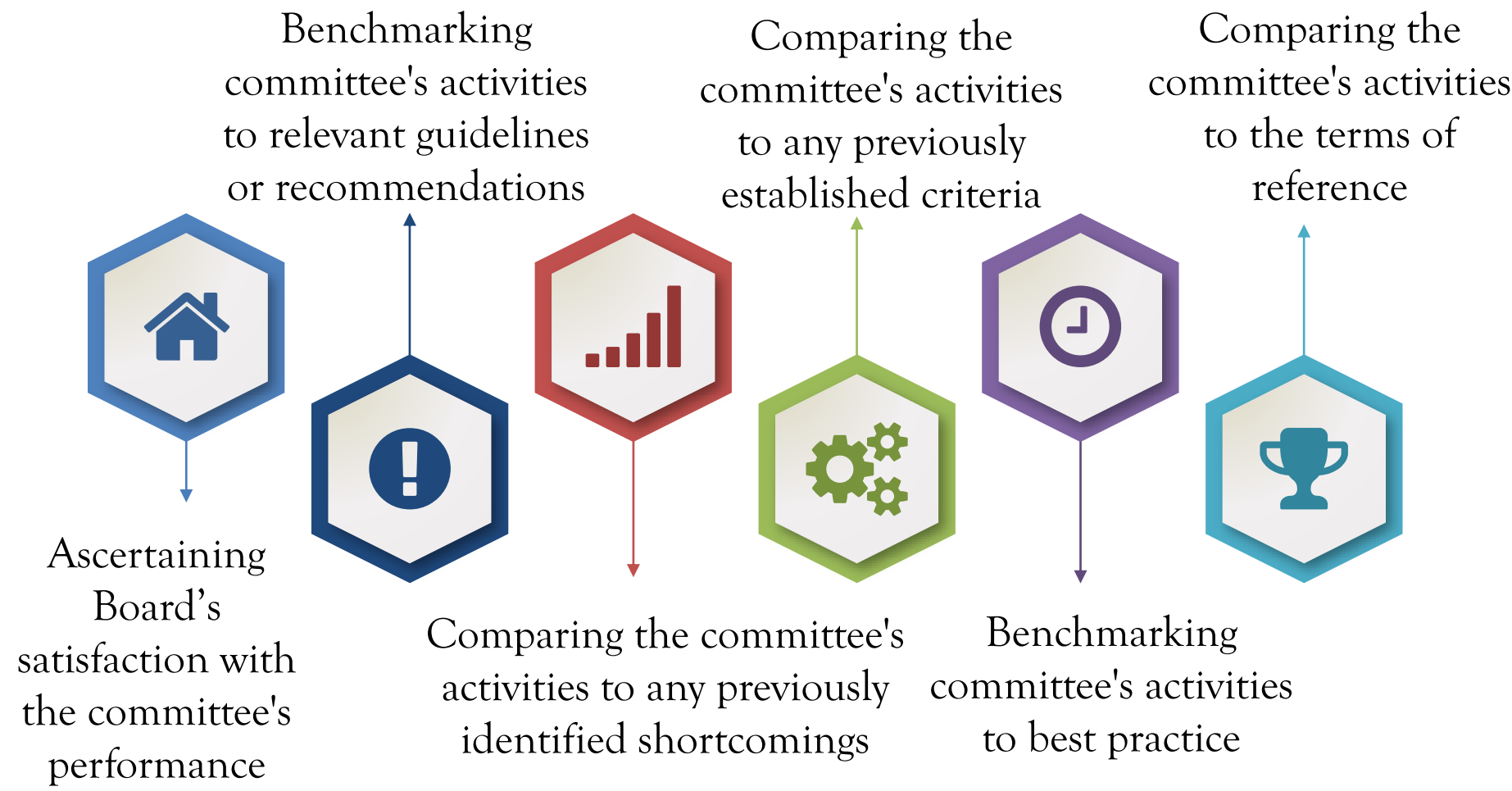
Ensure there is candor,
confidentiality and trust in
the process



What should be assessed?

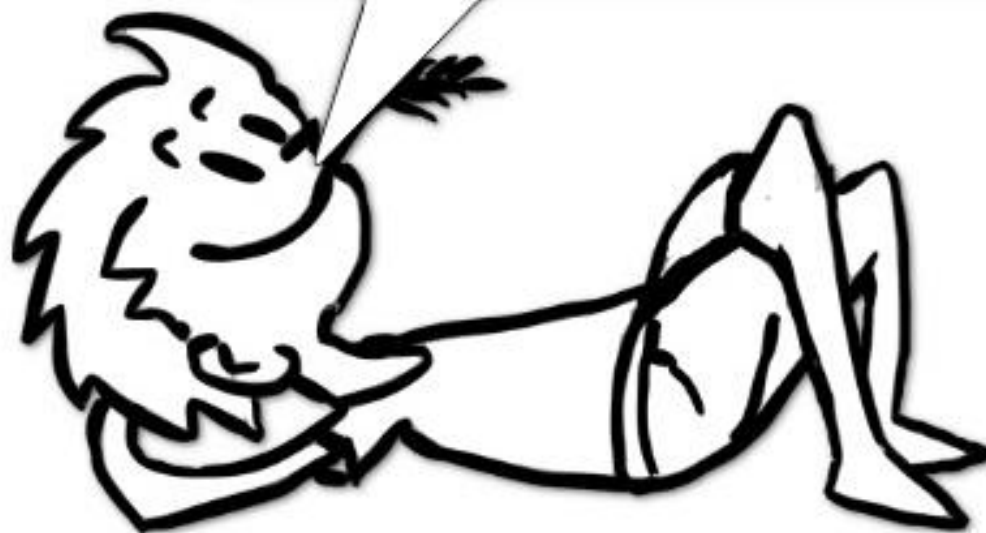
- What is the committee for and what does success look like?
- Do others within the organization understand what the audit committee is supposed to do?
- Outcomes rather than activities - not what the committee did, but how it did it.
- Is time spent on the right areas?
- What impact has the committee had? Has it added value to the governance process?

How should the assessment be done?



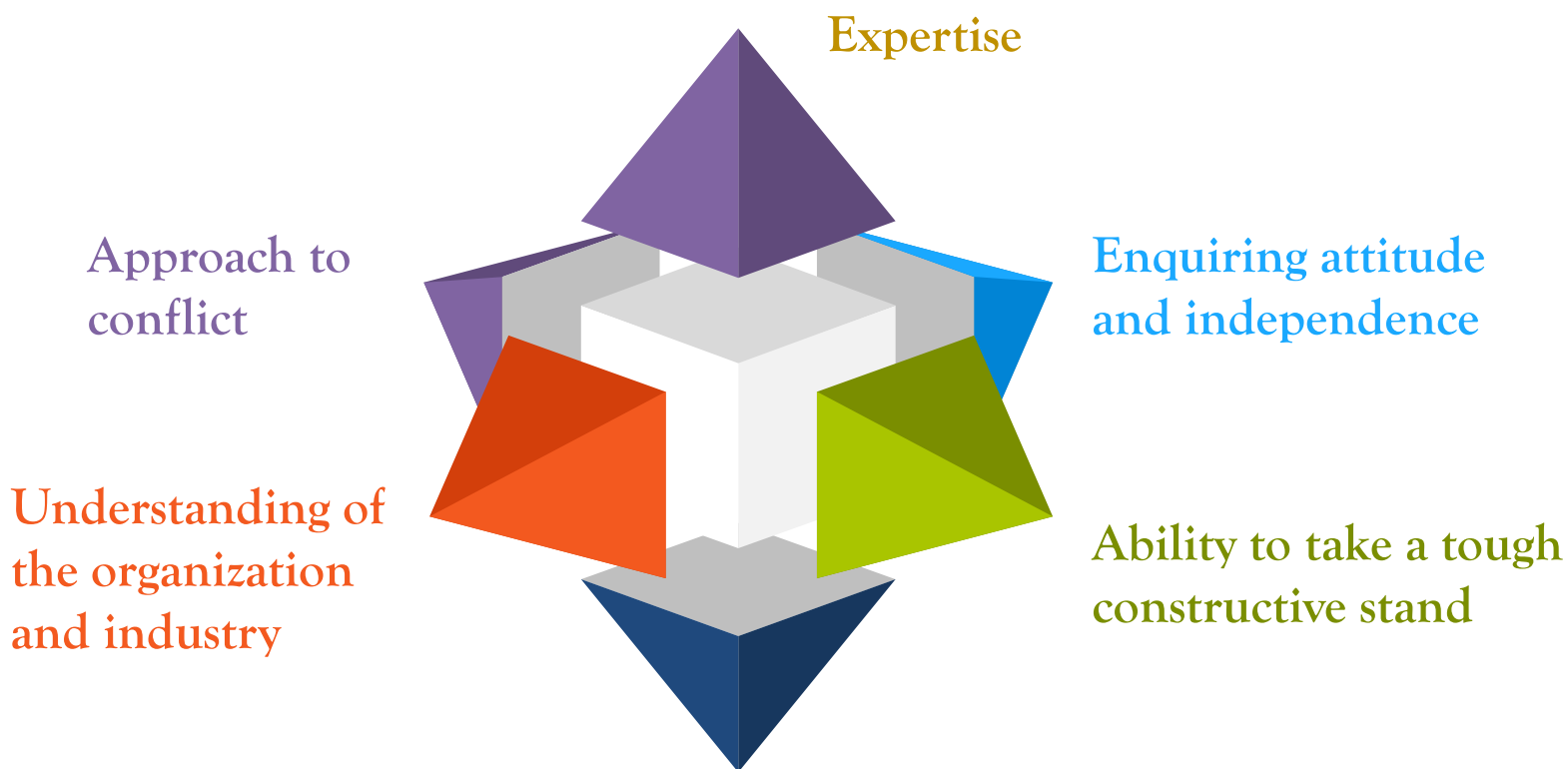
Assessing the individual...

Many BAC assessments
focus on processes without
probing behavior.



Assessing the individual

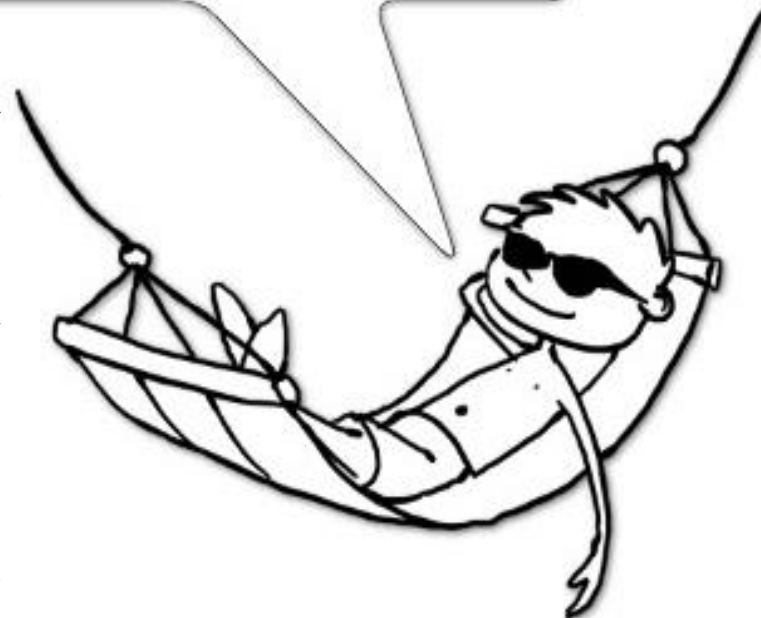
Performance of individual committee members should be assessed in consideration of the following:



Assessing the individual...

Separating the ASSESSMENT PROCESS from the RE-NOMINATION DECISION is emerging as a best practice

Most evaluations at the individual director level tend to focus on historical performance and contribution, which does not necessarily equate to strategic fit with the needs of the board and the organization in the future – therefore, decisions to re-nominate directors should be largely separate from the evaluation process.



Assessment feedback



- After completing the evaluation, the chair of the board and the audit committee chair should discuss the outcomes so that appropriate action can be taken.
- The audit committee chair should discuss with individual members the outcomes of the evaluations and any actions required.

Evaluating the assessment

- Do we have the fortitude to part ways with a respected and well-liked director who is no longer the right fit when the needs of the company change?
- Do we tailor the assessment process to the needs of the board and avoid “check the box” evaluations?
- Is our process sufficient to gain insight into the effectiveness of the committee and individual directors?

Evaluating the assessment

- Do we allocate sufficient time to discuss the results of the assessment and develop concrete plans for improvement?
- Do we monitor progress against our post-evaluation goals and hold ourselves accountable for meeting them?
- Do we stay current on best practices to enhance our process and keep it fresh?

Evaluating the assessment

- Does the non-executive chair set the right tone by asking thought-provoking questions, facilitating candid reflection and discussion and expecting accountability and continuous improvement?
- Do we disclose sufficient information about the process to instill confidence in our key investors?

Next steps: Performing assessments

Strive to demonstrate the seriousness and validity of the assessment process. This will enhance credibility of the board.



A robust process should pull back the curtain on the assessment methodology and explain how the results will be used.



Improve related disclosure – There is no credit for having a robust assessment process if the stakeholders do not know about it.

Thank you