



The Audit Committee and the Internal Audit Function

Presentation by:
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Agenda

- **The Audit Committee (AC)**
 - *Guiding principles for Audit Committees*
 - *Duties of the audit committee*
 - *Directors' independence*
- **The Internal Audit Function**
 - *Roles*
 - *Needs and challenges*
 - *The audit committee support*



01 | The Audit Committee (AC)



The Audit Committee



“An audit committee is essentially an oversight committee, for it is management who are responsible for the internal controls and the financial statements. The committee, however, has to satisfy itself, on behalf of the board and ultimately the shareholders that **key controls are operating**, that **ethical practices are being reinforced**, that **key accounting estimates and judgments are being properly made** and that **internal and external audits are effective.**”



1

Promote ethical culture



2

Performance and value creation



3

Adequate and effective internal controls



4

Trust, good reputation and legitimacy

Duties of the audit committee



Guiding principles for Audit Committees

- Independence is fundamental – Audit committee must be in a position to challenge management and draw sufficient attention to dubious practices.
- Focus on those few things with the greatest impact.
- Make sure the committee is getting ‘information’ and not just ‘data’.
- Consider how the committee might improve its efficiency and make most of its meetings.

Guiding principles for Audit Committees

- Understand that it cannot all be done at the formal committee meetings; 'between meeting' work is essential.
- Reinforce the right audit committee culture and dynamics
 - The audit committee effectiveness hinges on a number of critical factors e.g. knowledge, experience, commitment and independence.
- Continually reinforce the audit committee's direct responsibility for the Internal audit function.

Directors' independence



Director's independence may be impaired in the following circumstances:

- Been an employee of the organization or group within (say) the last five years;
- Had within (say) the last three years, a material business relationship with the organization either directly, or indirectly as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;

Directors' independence - Cont.

- Received or receives additional remuneration from the organization apart from a director's fee, participates in the company's share option or a performance related pay scheme, or is a member of the company's pension scheme;
- Close family ties with any of the organization's advisers, directors or senior employees;
- Cross directorships or has significant links with other directors through involvement in other organizations;

Directors' independence -Cont.



- A significant shareholding; or
- Served on the board for a prolonged time period from the date of their first election.
- Has been a partner or employee of the current or former external auditor of the company or a related company or person within the last three years;

Directors' independence -Cont.



- Is an executive director of another company in which an executive director of the company is a non-executive member of the board, and having other significant links with executive directors of the company through involvement in other companies or bodies; or

Directors' independence -Cont.



- Is a spouse, legal partner or close family member to the second degree of a director or member of the legal management committee or person entrusted with the daily management or employee of the senior management in the company or a related company or person or of the persons referred to in the above.



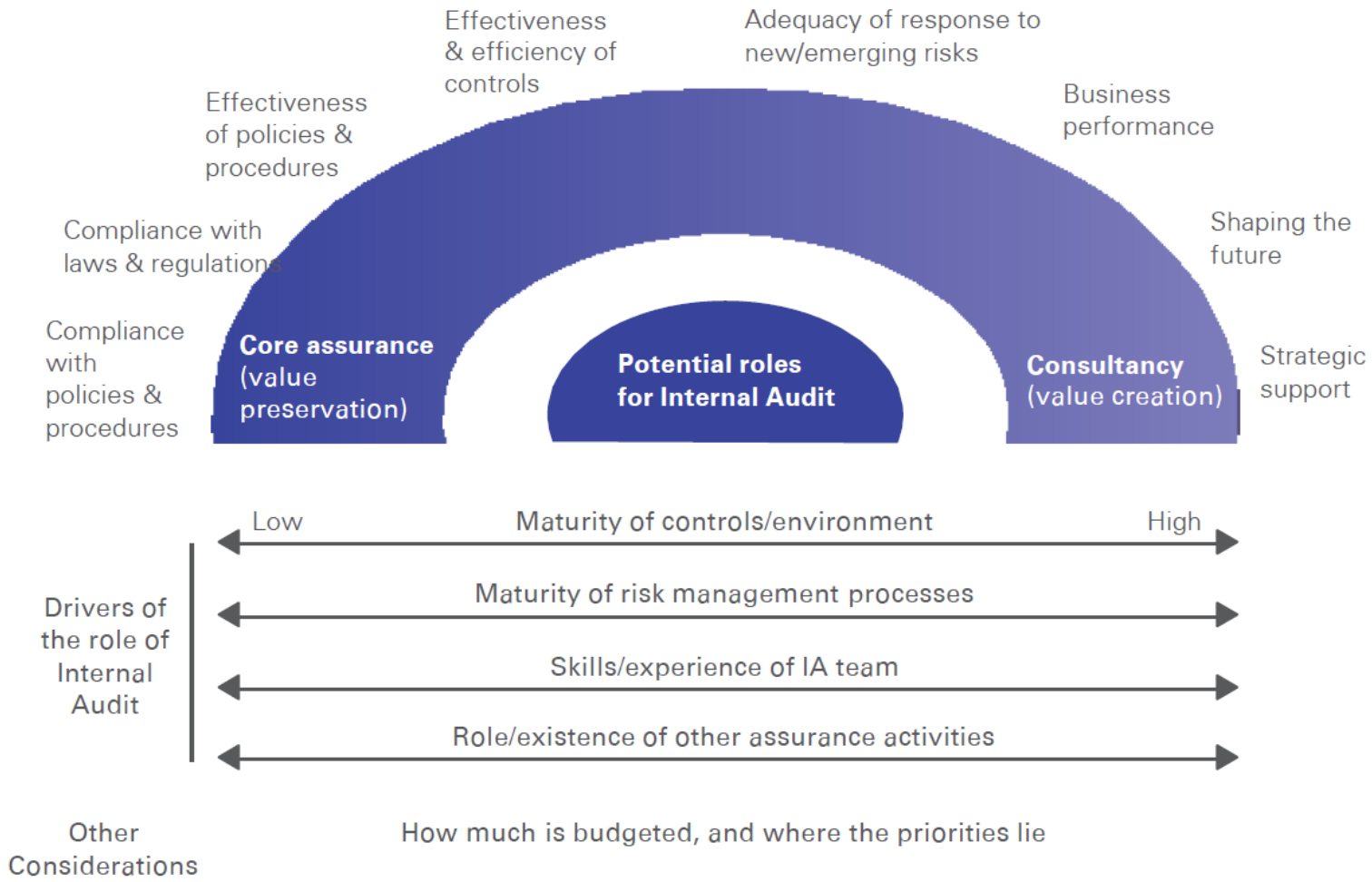
02 | The Internal Audit Function

The Internal Audit Function

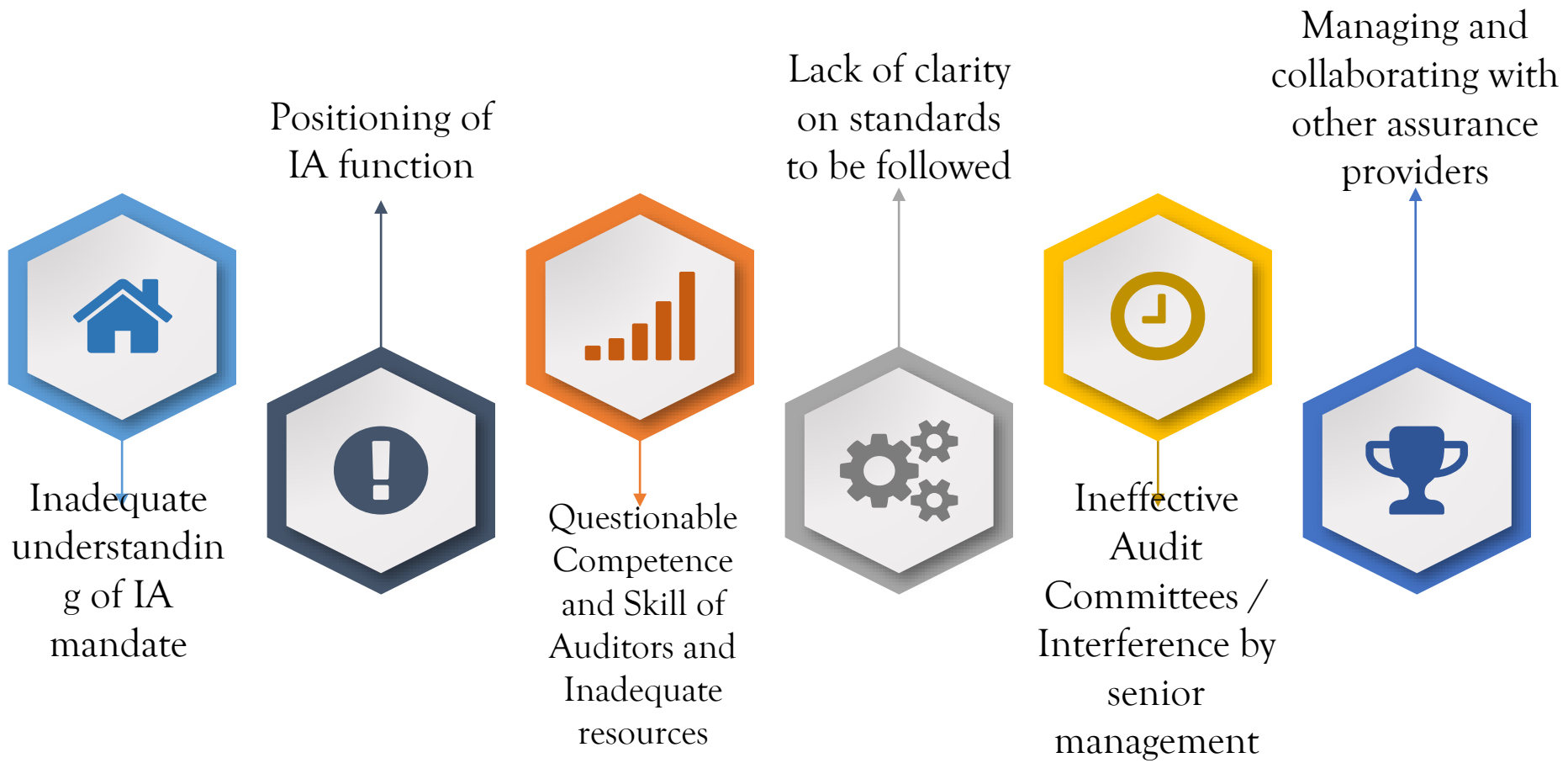


- The mission of internal audit is to **enhance** and **protect** **organizational value** by **providing risk-based** and **objective, assurance, advice** and **insight**.
- The internal audit function plays a significant role in the evaluation of risk management and internal control.
- Internal audit can support the audit committee by providing their independent view and advice on the adequacy of the control environment of the organization.

Roles of Internal Audit



Needs and challenges faced by internal audit



The Audit Committee support...



The audit committee should;

- Approve decisions regarding the appointment, remuneration, performance and removal of the head of internal audit.
- Allow the head of internal audit direct and unrestricted access to the board.
- Be involved in developing and approving the internal audit remit, goals and mission. Also ensure that this is communicated to relevant people within the organization.
- Ensure that the internal audit function has adequate resources and access to relevant information to enable it to fulfil its mandate.

The Audit Committee support...



- Ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors.
- Assess the annual internal audit work plan to satisfy itself that appropriate audit coverage will be devoted to all the organisation's assurance needs
- Follow up on implementation of issues raised by the Internal Auditor.
- Closely monitor and assess the performance of the Internal Audit function



Questions?

Thank **Y**ou!



Contact us



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