

### ESSENTIALS OF AUDIT COMMITTEE REPORTING

Presentation by:

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#### Presentation agenda

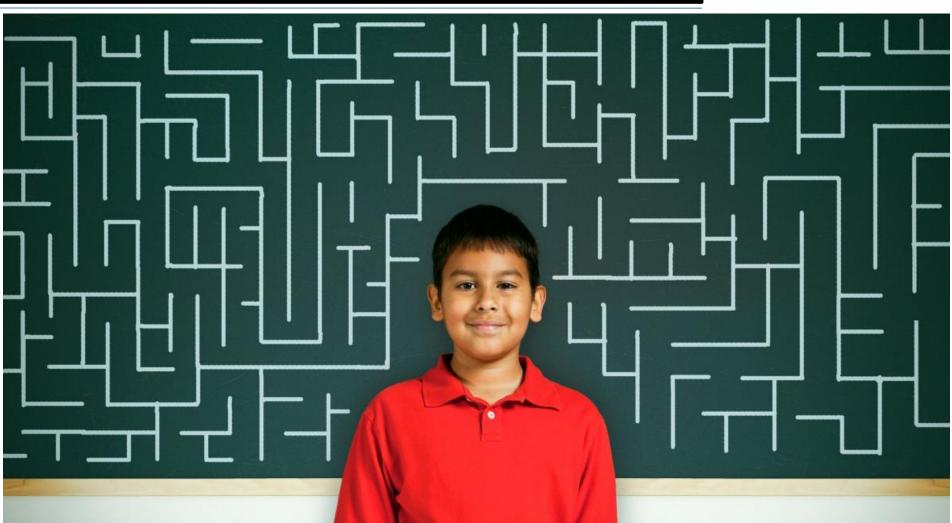


- ☐ Introduction
- ☐ Role of the Board & AC
- ☐ Achieving Objectives
- ☐ Reporting Function
- ☐ Managing Relationships
- ☐ Conclusion



## How do our clients understand Internal Auditing?





#### Internal Auditing?



Internal auditing is an <u>independent</u>, <u>objective</u> <u>assurance</u> and <u>consulting</u> activity designed to <u>add</u> <u>value</u> and <u>improve operations</u> of an organization.

It is a control tool that helps in the accomplishment of the organization's objectives by establishing a systematic, disciplined approach to evaluate and improve the effectiveness of <u>risk management</u>,

control and governance processes.

Institute of Internal Auditors

# Functions of Internal Auditing



- ☐ Risk Management
- ☐ Internal Controls
- ☐ Governance Processes
- ☐ Compliance
- ☐ Assurance Services
- ☐ Consulting Services
- ☐ Monitoring &

Evaluation



#### Functions of Internal Audit



- By bringing systematic disciplined approach to evaluate and improve the effectiveness of
- Risk Management,
- Control and
- Governance processes.



### Where were the Auditors?





### Audit Committees' Definition



"The Audit Committee refers to the governance body that is charged with oversight of the organization's audit and control functions. These fiduciary duties are often delegated to an audit committee of the board of directors.

(IIA Practice Advisory 2060-2 of 2004).



### Constituted Audit Committee in the Public Sector



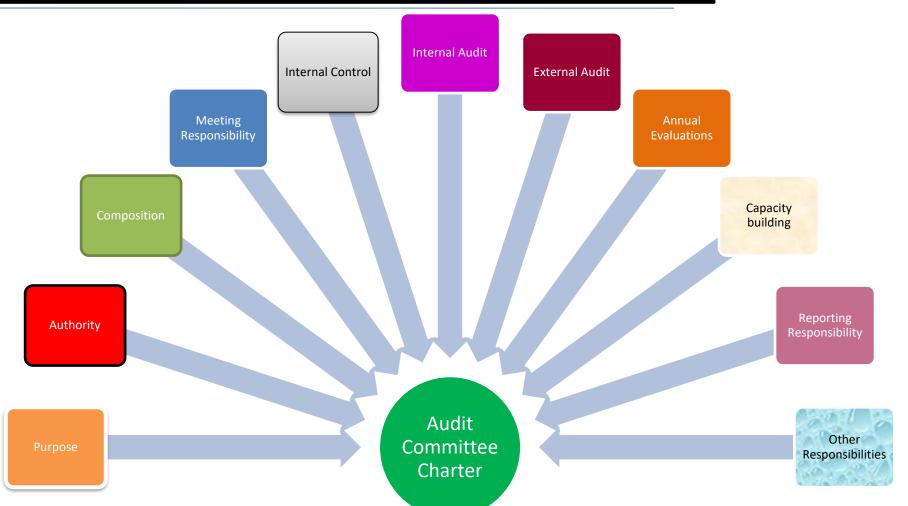
- The Audit Committee will consist of at least three and no more than six members of the Board of Directors... Each Committee Member will be both independent and financially literate.
- At least one Member shall be designated as the "financial expert," as defined by applicable Legislation and

Regulation".

Institute of Internal Auditors (IIA Standards)

# CONTENTS OF AN AUDIT COMMITTEE CHARTER





## Requisite for Audit Committees to perform responsibilities

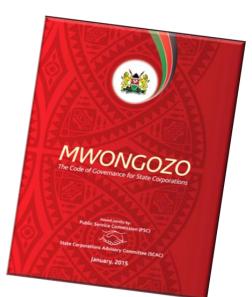




#### Requirements to have an Audit Committee in the Public Sector



- ☐ Treasury Circular No 16/2005 Establishment and Operationalisation of Audit Committees in the Public Service.
- ☐ 'Mwongozo' Code of Governance in the Public Sector
- ☐ Public Finance Management Act
- ☐ PFM Regulations, 2015
- ☐ Audit Committee Charter
- ☐ Generally the Constitution



### Requirements of the Audit Committee in the Private/ Corporate Sector.



- The Capital Markets (Corporate Governance) Market Intermediaries, 2011, section 13 (Board Committees)
- ☐ Central Bank of Kenya, Prudential Guidelines for Institutions Licensed under the Banking Act, section 3.2.2.9
- ☐ Insurance Regulatory Authority, Corporate
- Governance Guidelines for Insurance and Reinsurance Companies, June 2011, section 4.1(Audit functions)
- ☐ Companies Act, 2015 Division 3 (Directors' duties)

## Role of the Audit Committee in MWONGOZO



- ☐ The overall responsibly of the Board in Governance, Risk and Compliance.
- ☐ Enhance prudent and responsible use of public funds
- ☐ Enhance transparency and accountability of the public funds
- ☐ Improve service delivery
- ☐ Protect and enhance the organization's reputation
- ☐ Enhanced Stakeholder Relationships.

## Mwongozo Directive in Relation to HIA.



### Responsibility of the Board under Mwongozo. 3.4 2 (H) (i)

- ☐ Ensure that Internal Audit function <u>reports</u> to the Audit Committee.
- Ensure that the Head of Internal Audit holds a senior position in the Management team is professionally qualified and is a Member in good standing of the professional body responsible for Regulating Auditors.

# Role of the Audit Committee in PFM & IIA Standards



Responsibility of the Board under PFM Act,

Regulations Chapter 18.

PFM guidelines and IPPF - IIA Standards.

PFM Guidelines 2.5 & 4.5 (ix)

PFM Regulations 174 (8)



Each Accounting Officer of an entity shall ensure that the Audit Committee is adequately funded and

supported – (This is not happening in County Governments & Independent Commissions)

#### Audit Committee agenda



- Facilitated by the Secretary HIA
- Approved by the Chair of Audit Committee
- Board Pack prepared 7 days to the Meeting
- Recommendations for items presented
- Minutes circulation 14 days after meeting.
- ☐ Follow up report on Status of implementation



### Typical AC Agenda



- Adoption of the Agenda
- Approval of Minutes
- Review of Status of Implementation
- Presentation of Audit Reports
- Key Audit updates
- Any Other business



#### New Requirement - Mandatory

- Meeting with Board Chairman
- Meeting HIA without Management

#### Effective Meetings



- ☐ Study, understand pre-read
- ☐ Be Familiar with each agenda item
- ☐ Make meeting attendance a priority
- Participate in, contribute to deliberations and decision-making
- proactively address questions, issues raised without bias.
- ☐ Arrive to Consensus \$ Voting.



#### Audit Process



**Planning** 

Follow-up

Field work

Audit cycle

Releasing report

Analysing findings, writing report

Clearing findings/report

### Types of Audit Reports (External)



#### Auditor's report on financial statements

- 1. Unqualified Opinion
- 2. Qualified Opinion report
- 3. Adverse Opinion report
- 4. Disclaimer of Opinion report

**KEY AUDIT MATTERS (KAM)** 



### Audit Opinion - External



Audit Opinion	Comment
1. Unqualified 'The accounts give a true and fair view'	<ul> <li>A 'clean' opinion – this is the opinion everyone wants to see</li> <li>May Contain Emphasis of Matters</li> <li>May Contain Other Matters</li> </ul>
2. Qualified Opinion Except for, the financial Statements are fairly presented	There are specific material misstatements, such as an incorrect accounting policy, debtors which are not recoverable, an undisclosed fraud or insider loan.
3. Adverse Opinion The Financial Statements are not fairly stated	There are so many fundamental misstatements in the accounts that they are completely wrong and misleading
4. Disclaimer of Opinion 'I am not able to express an opinion	There are so many missing documents or explanations that we do not have enough information to form an opinion

#### Types of Audit Reports

CPAK

Uphold Public Interest

- ☐ Forensic Audit Report
- Value for money audit
- Legal and Governance audit
- Compliance and Assurance reports
- Financial Statements Audits
- Risk Management report
- Technical/ Project Reports
- ☐ Procurement Audit PRADA
- Investigations Reports EACC
- ☐ Cyber Security Reports (ICT)
- Integrated Reports



#### Final Report



- ☐ PFM Regulations Section 162 (2)
- ☐ IIA Standards.



The final report, including the actions taken by the Accounting Officer shall be **Reported** to the Audit Committee in the format determined by the Cabinet Secretary.

### Audit Reports =





### Audit Committee Reporting



- ☐ Internal Audit (IA) is the primary resource of Audit Committee (AC) in carrying out its duties and responsibilities .
- ☐ Direct reporting to the AC and the Board helps in implementation of audit recommendations.
- AC helps in risk mitigation and enhances business opportunities.
- Active and informed AC
   provides objective oversight
   of corporate control environment.

# Audit Committee Report - Mwongozo



The Audit Committee Shall ensure that the Annual Report includes:

- Organisation Vision and Values
- Policy on Corporate Governance
- ☐ Key Stakeholder Groups
- ☐ Governance Structures
- Board Evaluation Report
- ☐ Corporate Social Responsibility
- Sustainability Reporting



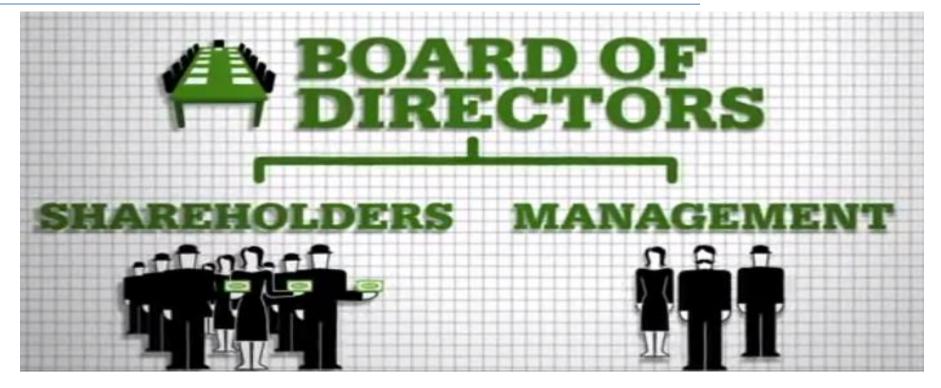
# Audit Committee Report - Mwongozo



The	e Audit Committee Shall ensure Reporting on
	Financial Reporting
	Risk Management
	Procurement Process
	Internal Controls
	Performance Management
	Code of Conduct
	Whistle Blowing Policy
	Legal, Compliance and Governance Audit

#### Organizational Structure





The Management team and the Board of Directors have the ultimate goal of directing the organisation's management and protecting Shareholders investment (maximising value).

#### Role and Functions of the Board



Set Overall Strategy of the Organisation and Approve Policies. Alignment of the Strategy to organisation goals Approve Organisation Structure Approve Annual Budget Monitor organisation Performance and ensure Sustainability Enhance Corporate image of the Organisation Ensure Availability of Resources Hire CEO and Appoint Senior Management Enhance Stakeholder Management

#### Duties of the Board Members



- Exercise highest degree of Care, Skill and Diligence in discharging duties
- Act in the best interest of the organisation
- Exercise Independent Judgement
- Collective Responsibility
- Devote time to carry out responsibilities
- Regularly update knowledge and enhance their skills



#### Duties of the Board Members



- Promote transparency and accountability at Board level
- Promote teamwork and protect the image of the Organisation
- Owe duty to the organisation and not the appointing authority
- Ensure Confidentiality in information availed to them
- No more than 2 Appointments as Board Members in Public Service (Chairman one)

#### The Board Chair



- □ CEOs can set the **tone**, **vision**, and sometimes the **culture** of their organizations.
- ☐ The CEO directs the operational aspects of an organisation; the Board of Directors oversees the Organisation as a whole, through the Chairman.
- ☐ The Board has the power to overrule the CEO's decisions, but the Chairman of the Board does not have the power to overrule the Board.



#### Who is a CEO?





The Chief Executive Officer (CEO) is the highest-ranking executive in an Organisation, whose primary responsibilities include; Making corporate decisions, managing the overall operations and resources of the organisation, acting as the main point of communication between the Board, Management and Staff and is also the face of the Organisation.

#### Role of a CEO?



- ☐ A Chief Executive Officer (CEO) is elected / appointed by the Board and its Shareholders.
- A CEO's role varies depending on the Organisation's size, culture, and corporate structure. CEOs can set the tone, vision, and sometimes the culture of their organizations.
- ☐ One of the most important **roles** of a CEO and their Senior leadership team is to develop and successfully execute their organisation's **strategic plan**.



#### Audit Committee REPORTING -Audit Stakeholders



- ☐ The CEO
- Senior Management
- Operational Management
- Audit Committee and
- ☐ The Board
- ☐ The public
- ☐ Regulators
- ☐ Government
- Customers



#### Audit Committee Reporting



- ☐ Periodic review of Audit Reports.
- Provide feed back to the full Board
- ☐ Provide feed back to the Share/Stake holders
- Provide feed back to the Head of Internal Audit on the resolutions of the Board.
- ☐ Review the Reporting functions of the External Auditors and other Regulatory Bodies.

# AC Relationship with Management





### AC Relationship with Management



- ☐ Continually communicating with Senior Management regarding status, progress, and new developments, as well as problematic areas.
- The Audit Committee should balance their role as Advisor and Counsellor to Management with their fiduciary duty to monitor and oversee management.
- ☐ Communicate openly and often with Management and challenge management as appropriate.

#### AC Meeting with Management



- ☐ Highlight issues of critical importance
- ☐ Ensure common understanding by Board & Management
- Address Audit Reports on matters requiring elaboration or clarification.
- ☐ AC Members should meet with HIA alone
- ☐ Strongly support decisions on audit recommendations.



### Audit Committee Relationship Management ......



- ☐ Mandating the establishment of an Internal Audit function
- ☐ Effective corporate governance & oversight.
- ☐ Providing strategic guidance and resolving conflicting priorities
- ☐ Safeguarding resources and independence from executive management
- ☐ Securing proper Management attention.

### Audit Committee on Internal Audit......



- Approval of the Appointment and Dismissal of the Head of Internal Audit.
- Approval of Annual Audit Plan /Strategy.
- Review of Audit Annual Budgets
- Approval of the Internal Audit Structure
- Regular updates of the implementation of internal audit recommendations



# Harmonious work Relationship.....



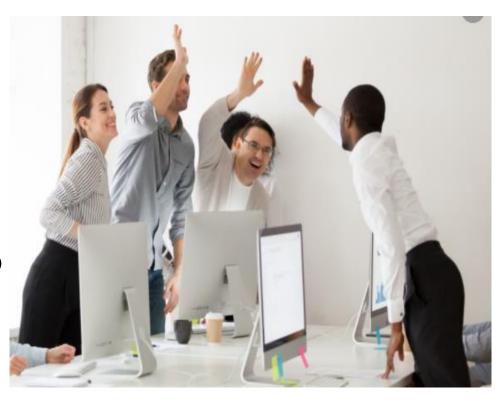
- Taking initiative to start conversations.
- Looking for ways to collaborate.
- Recognizing biases and keeping an open mind.
- Asking questions and listening to responses.
- Offering to help without being asked.
- Learning about others' experiences.



# Creating Harmonious work Relationship.....



- ☐ Be kind
- ☐ Pay Attention
- ☐ Ask for feed back
- Do your job
- ☐ Be willing to help
- ☐ Don't engage in gossip
- ☐ Send the right signals
- ☐ Be positive



# Successful achievement of Audit Objective ...





#### Achieving Objectives



- ☐ Define goals/Objectives.
- ☐ Make plans and processes (Risk Mgt).
- ☐ Visualise yourself achieving objectives
- ☐ Create time and hard work
- ☐ Have visible champions
- ☐ Measure your efforts/Progress
- Accountability
- Adjust your plan if progress slows.
- ☐ Don't rush it.



## Successful achievement of Audit Objective ...



- Apply best practices in Standards Frameworks
- Coordinate internal audits, review internal controls, compliance and coordinate external audit in order to optimize resources and performance.
- Communicate openly and expect the right tone at the top.
- ☐ Internal Audit must be able to "audit at the speed of risk"
- ☐ Ensure independence, objectivity and utmost good faith in operation reviews.

### Key Success Factors for Audit Committee Members......



- ☐ Be well-rounded Board members with diverse expertise.
- ☐ Maintain independence and integrity at all times
- Adequate training and engage in continuous education
- ☐ Staggered appointments to provide continuity.
- ☐ Committee meeting on regular basis and have private sessions with the Head of Internal Audit.



# Why Board Members get into trouble ....





### Why Board Members get into trouble ....

CPAK
Uphold Public Interest

- Poor governance practices
- Lack of Independence
- ☐ Improper Appointments
- Lack of leadership Skills
- Poor preparation
- Lack of Confidentiality
- Lack of relevant experience in the Sector



## Why Board Members get into trouble ....



- Lack of Approved policies and Procedures
- ☐ Lack Proper Board induction
- Poor risk disclosures
- Conflict of Interest
- Boardroom domination
- ☐ Non participating Board Members
- ☐ Non compliance with other Legislations
  - Board Evaluation done by SCAC Public Sector

#### Statement of Good Governance



- ☐ Adhere to Code of Conduct
- ☐ Approve the Whistle blowing Policy
- ☐ To observe high Standards of ethical and moral behaviour
- ☐ To act in the best interest of the organisation
- ☐ To Remunerate and Promote fairly and responsibly
- ☐ To recognise the legitimate interests of all Stakeholders
- ☐ To ensure that the organisation act as a good Corporate Citizen.

Corporate Governance?

#### Conclusion



#### How it started

















#### Conclusion



## Comments, Observations, Discussions.....

### QUESTIONS?





#### Thank You