



# **OVERVIEW OF THE AUDIT COMMITTEE GOVERNANCE FRAMEWORK**

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# OUTLINE



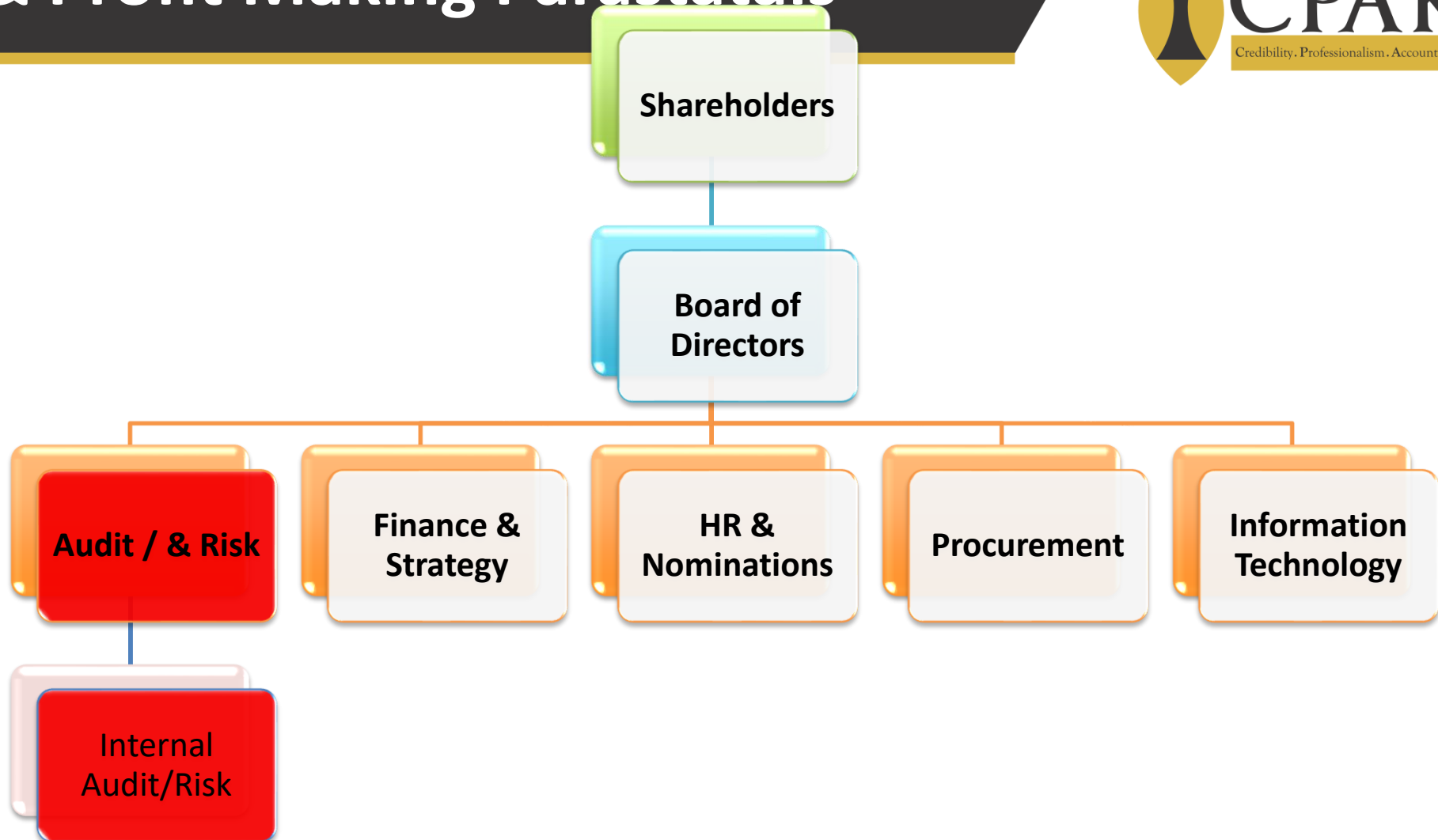
- 1 Governance overview & Structures
- 2 Global Regulatory Landscape
- 3 Kenyan Regulatory landscape
- 4 Audit Committee Charter
- 5 Audit Committee Terms of Reference
- 6 What could go wrong?

# 1. Governance Frameworks Overview



- ❑ Governance framework is a *set of principles, guidelines* and *practices* that support *sustainable* financial performance and *value creation* for shareholders/stakeholders over the *long-term*.
- ❑ Commitment to good corporate governance is integral to any business and reflects *effective leadership* and *oversight* by senior management team and Board of Directors.

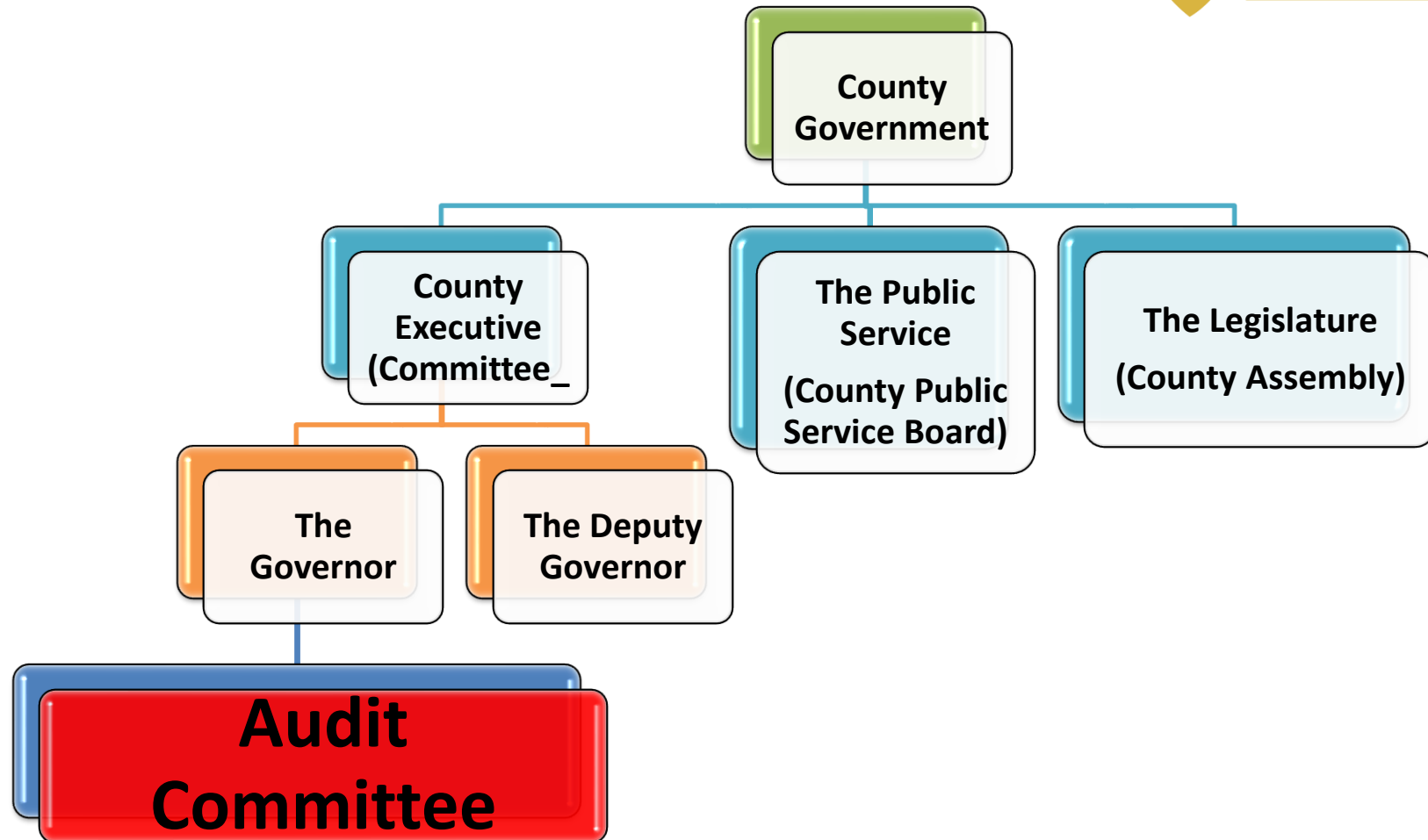
# Governance Structure-Private Sector & Profit Making Parastatals



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# Governance in the Public Sector

## County Government



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# Global Regulatory Frameworks

## Key Features of Audit Committees



Jurisdiction & Framework	Audit Committee Oversight Responsibilities
<p>European Union</p> <p>2014 EU Directive &amp; Regulation 4</p>	<ul style="list-style-type: none"><li><input type="checkbox"/> Inform administrative Body of external audit outcome and the role played</li><li><input type="checkbox"/> Monitor financial reporting process</li><li><input type="checkbox"/> Monitor the effectiveness of the internal quality control, risk management systems and internal audit</li><li><input type="checkbox"/> Monitor audit performance and take into account findings and conclusions carried out by competent authorities</li><li><input type="checkbox"/> Review and monitor the independence of statutory auditors</li><li><input type="checkbox"/> Be responsible for the procedure of the selection of external audit</li></ul>

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# Global Regulatory Frameworks

## Key Features of Audit Committees



Jurisdiction & Framework	Audit Committee Oversight Responsibilities
<p>Sarbanes Oxley Act &amp; Rules</p> <p>NYSE &amp; NASDAQ Listing Requirements</p>	<ul style="list-style-type: none"><li><input type="checkbox"/> Oversee the accounting and financial reporting processes of the issuer and audits of the financial statements</li><li><input type="checkbox"/> Establish procedures for the receipt, retention and treatment of complaints regarding accounting internal accounting controls or auditing matters</li><li><input type="checkbox"/> Oversee related party transactions and code of conduct compliance by senior management</li><li><input type="checkbox"/> Oversee internal audit function.</li></ul>

# Regional Developments towards Governance



## Tanzania

**FA.130/170/01/5 (22.01.2021).** Requires banks to maintain cost to income ratio of 55% and NPLs above 5% not to pay dividends.

Circular **FA.178/461/01/02 (Feb 19, 2018)** requires every bank to develop a non-performing loan strategy

**Mining Local content Regulations, 2018** requires all persons who conduct mining at all levels of supply chain to maintain and transact with a bank account held at an indigenous Tanzanian bank.

## Uganda

**Financial Institutions (Islamic Banking) Regulations (Feb 2, 2018)** to regulate institutions conducting Islamic banking

Fit and proper classification has become onerous; 6-12 months compared to 3-5 months there before

Crane bank aftermath: All international banks to have in-country data centre

Immediate application of **IFRS 9**  
King 1V review on Banking Sector Risk Management



### 3. Kenya's Regulatory Environment



CBK Guidelines on Corporate Governance	<b>IRA Guidelines on CG</b>  <b>SASRA Guidelines on composition of BoD</b>
The CMA Code of Corporate Governance for Issuers of Securities to the Public (The Code)	Legal Compliance and Governance audit under the CMA Code
Directors Duties under the Companies Act 2015	Public Finance Management Act, 2015 & Mwongozo Code : Guidelines on both levels of govt on establishment and operationalization of Audit Committees.

# Directors Duties under the Companies Act 2015



Promote success of the Company.  
S.142

Exercise independent judgement. S.  
143

Exercise reasonable skill, diligence and care.  
S. 144

Avoid conflict of interest.  
S.145

Not to accept benefits from third parties.  
S.146

Declare interest in a proposed transaction S.  
147

Duty to act within powers.  
S151

# Companies Act, 2015:

## Sec 769: Establishment of AC for Quoted Companies



### • Sec 770: Responsibilities of Audit Committees

## Is it another Centre of Power in a Company?

Set out corporate governance principles appropriate for nature and scope of business

Annual assessment on observance of the SOPs

Establish standards of business conduct and ethical behavior for managers, directors and other personnel

Provide directors with comprehensive, relevant and timely information that will enable them to review the companies business objectives, business strategy and policies, and to hold management accountable for company performance.

Establish policies & strategies of achieving them (CG Principles)

Organise the Co. to promote effective and prudent management of the Co. and directors oversight of that management

Oversee the operations of the company and providing direction to it on a day to day basis.

Provide Directors with recommendations, for their review and approval on the objectives, strategy, business plans and major policies that govern the company.

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## Roles & Duties of Audit Committees

- ☐ Be informed, vigilant and effective overseers of the financial reporting process and internal controls
- ☐ Explicit authority to investigate any matter within the ToRs.
- ☐ Obtain external professional advice on any matter.
- ☐ External Auditors: Appointment, independence, evaluation
- ☐ Discuss problems and reservations arising from internal and external audits.
- ☐ Consider any related party transactions.

# CG Guidelines for insurance & Reinsurance Companies



- Role of the audit Committee
  - ☐ Oversee the financial statements, financial reporting and disclosure processes
  - ☐ Chair should be independent and a CPA
  - ☐ Oversee efficient functioning of internal audit and review its reports.
  - ☐ Monitor progress made in rectification of irregularities and changes in processes.
  - ☐ Appointment, remuneration, performance and oversight of audit (Internal & External).

# Good governance Guidelines for Deposit Taking Saccos – June 2015



## Regulation 57.

- ☐ Review Financial conditions of the Sacco Society
- ☐ Review its internal control performance and findings of the internal auditor and recommend remedial action
- ☐ May expand mandate to include oversight on risk management.
- ☐ Membership of three, one should have financial background
- ☐ The Chairman of the board shall not be a member of AC



- **PFM Act Guides on how both levels of government shall establish and operationalize audit Committees**
- **Mwongozo Code, January 2015 provides guidance on the operationalize audit committees.**

# Mwongozo Code

## GOVERNANCE PRINCIPLES



Composition  
& Size

Strategic  
Direction

Knowledge  
and skills

Board  
Performance

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# Mwongozo Code

## Role & Functions of the Board



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# Audit Committees Governance Framework



Audit  
Committee  
Charter

Internal  
Audit  
Charter

Board  
Charter

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# Model Audit Committee Charter



## **Establishment & purpose**

- Assist the board with oversight of Financial reporting, internal controls, compliance

## **Membership**

- From the board
- Minimum of 3
- One member should have financial background

## **Administration**

- Mode of attending meetings
- Quorum
- Engaging internal & external auditor
- Frequency of meetings

## **Duties & Responsibilities**

- Financial reporting
- Oversight of the Company's Relationship with the Independent Auditor
- Oversight of the Company's Internal Audit Function

## **Duties...**

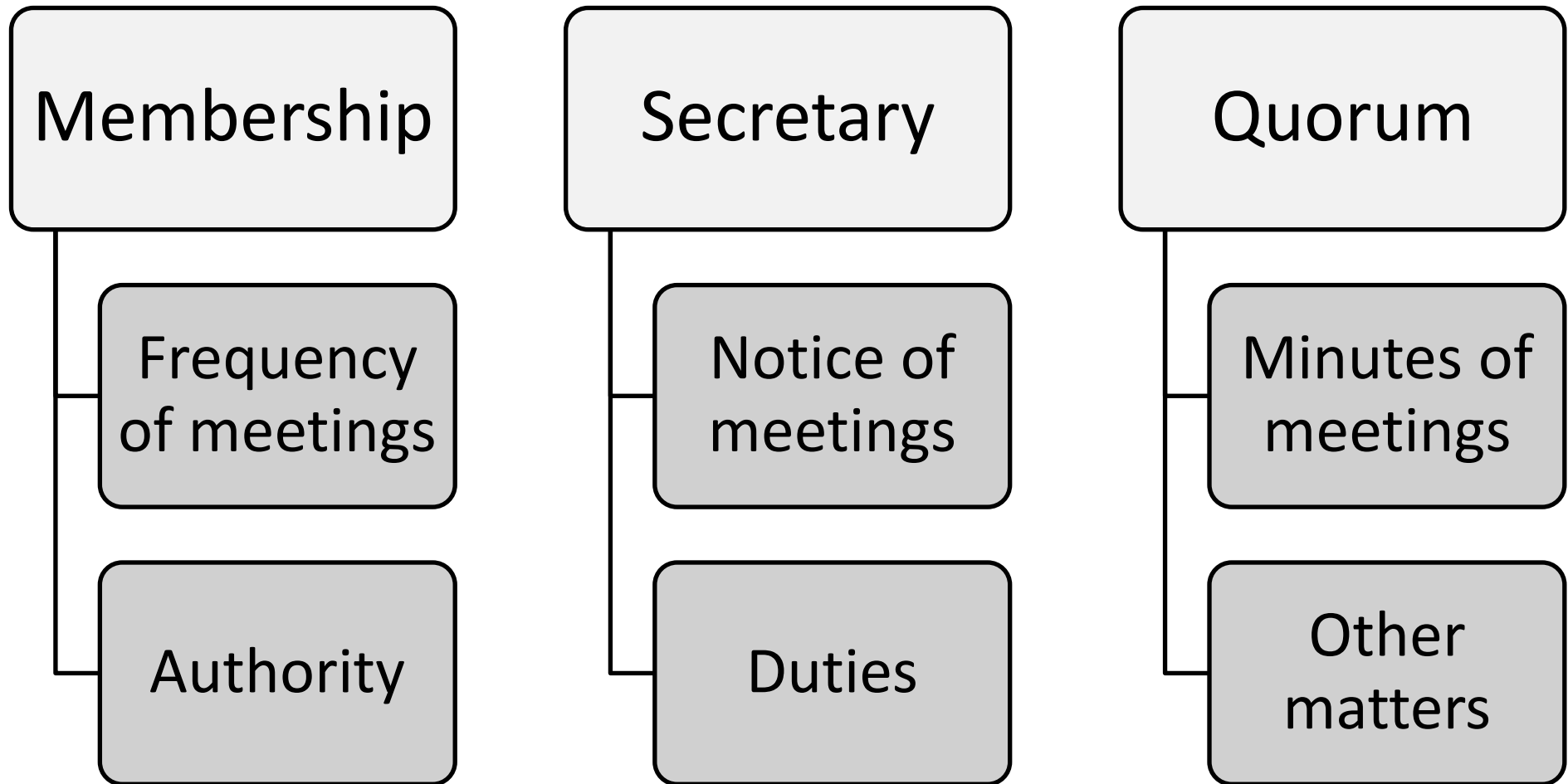
- Compliance Oversight Responsibilities
- Governance

## **Governance**

- Reporting to the board
- Review Audit Charter
- Review Committees own performance

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# Snap Shot of Terms of Reference for Audit Committees



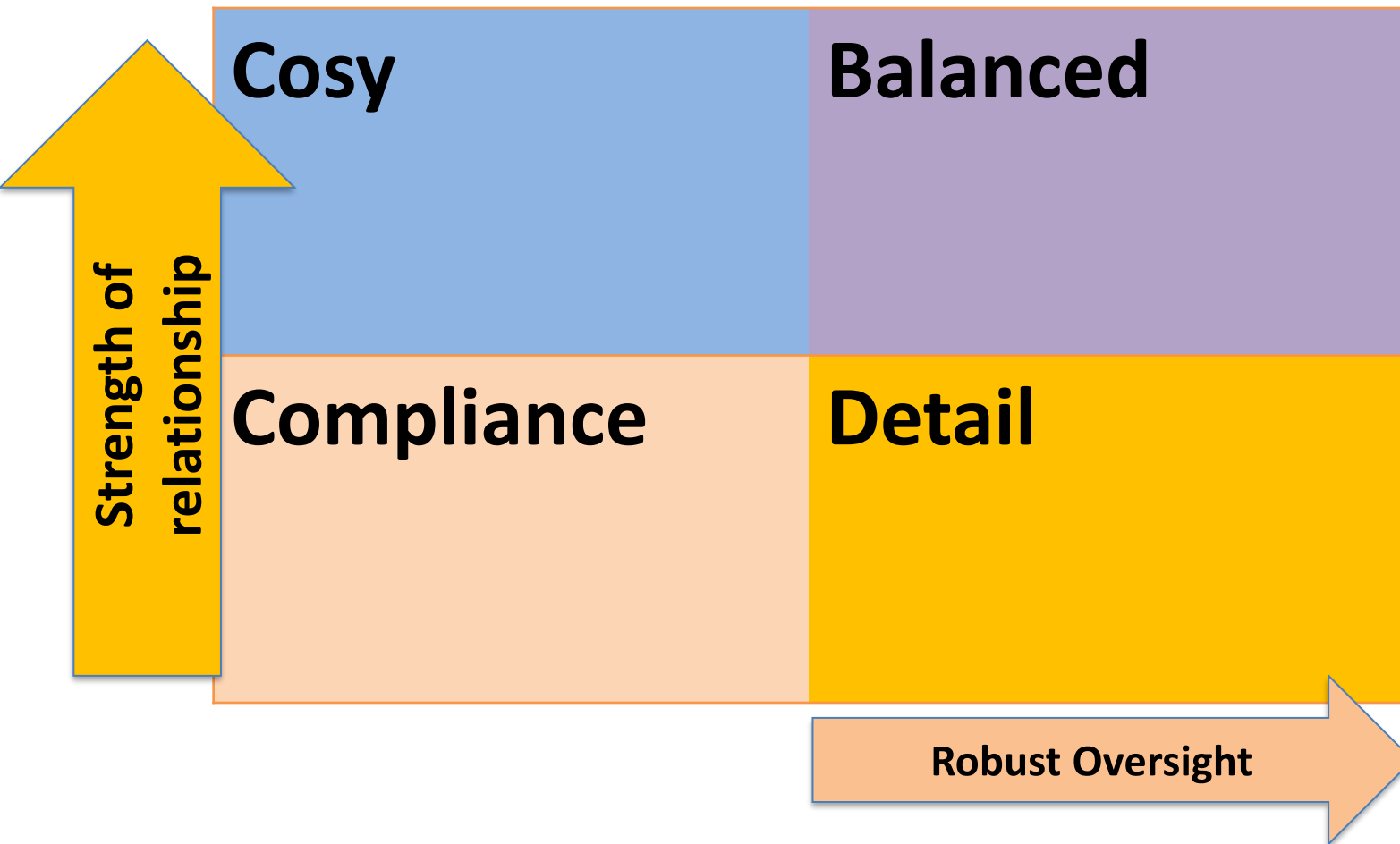
# Audit Committee Reflections



1. Are leaders engaged?
2. Does your audit committee understand its role?
3. Do you have the right members?
4. Do your meetings add value?
5. Is your committee improving and evolving?

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# Conclusion: The Oversight & Relationship “Paradox”



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