



**The essentials of corporate governance best practices for
Audit Committees during and post the pandemic**
Key governance aspects for top performing Audit Committees

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Martin is an independent Business Advisor, Accredited Executive Coach and Governance Auditor and is Founder of the Consulting Firm, The Leadership Group Limited through which he supports organizations in the areas of Executive Coaching, Leadership development and Board Governance/Effectiveness programs. He had an illustrious career at Kenya Commercial Bank Group (KCB Group, plc) between October 2005 and December 2012, most of which time he was Chief Executive Officer, presiding over rapid transformation and growth for the bank. Subsequent to this he was Financial Services Industry Partner in the professional services firm Deloitte East Africa. He has also held senior positions in Barclays Bank both in Kenya and in South Africa, and at British American Tobacco Kenya. Martin has also had a stint in the Public Sector as Permanent Secretary Ministry of Finance/Treasury in the Government of Kenya between 1999 and 2001. He is a non-executive director of a number of listed companies and private organizations.

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The Leadership Group




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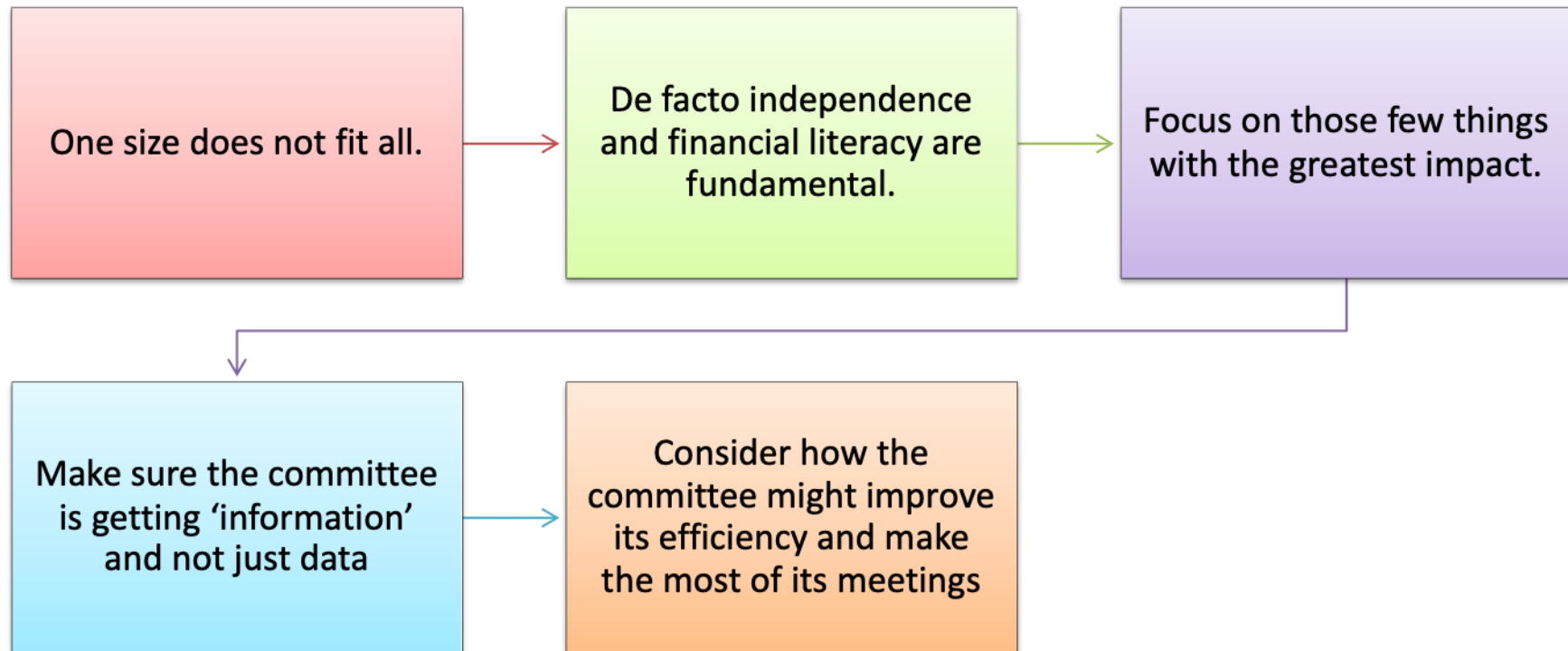
BAC Defined



“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 judgements** are being properly made and that **internal and external audits** are effective.”

Audit Committee Institute

Guiding Principles for Effective BACs



Guiding Principles for Effective BACs



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.

Take a hard look at the audit committee's performance.

Continually reinforce the audit committee's direct responsibility for the external auditor

Factors for BAC Effectiveness



1

Audit committee transparency

2

Effective communication

3

Committee composition – including appropriate skills, competencies and expertise

4

How it gets its work done – efficient and effective ways of working

5

Strength of the finance function

Best Practices for Audit Committees



Consistent communication practices



The audit committee work plan



Regular meetings



Interaction with the audit firm



In camera meetings



Determination and disclosure of audit fees



Statement of corporate governance practices



Evaluation of the external auditor

Need for an Effective BAC Chair



An independent proactive leader with confidence and integrity



A highly respected and experienced board member, who possesses strong financial literacy skills and time available to develop and closely monitor the committee agenda



A person with an excellent working knowledge of an audit committee's functions and risk management frameworks



A good listener and communicator who can facilitate successfully

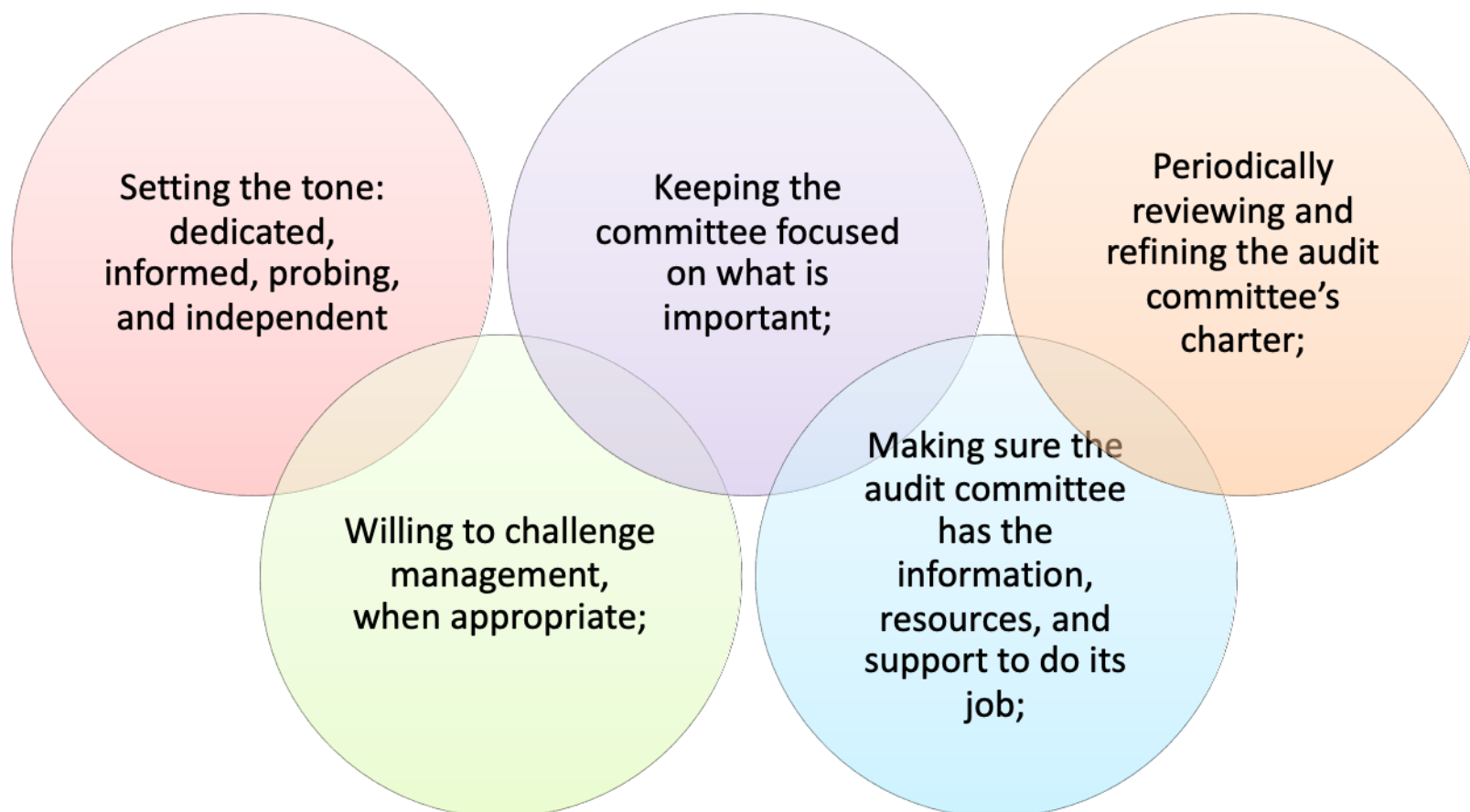


Able to champion open and frank discussion with discipline; and

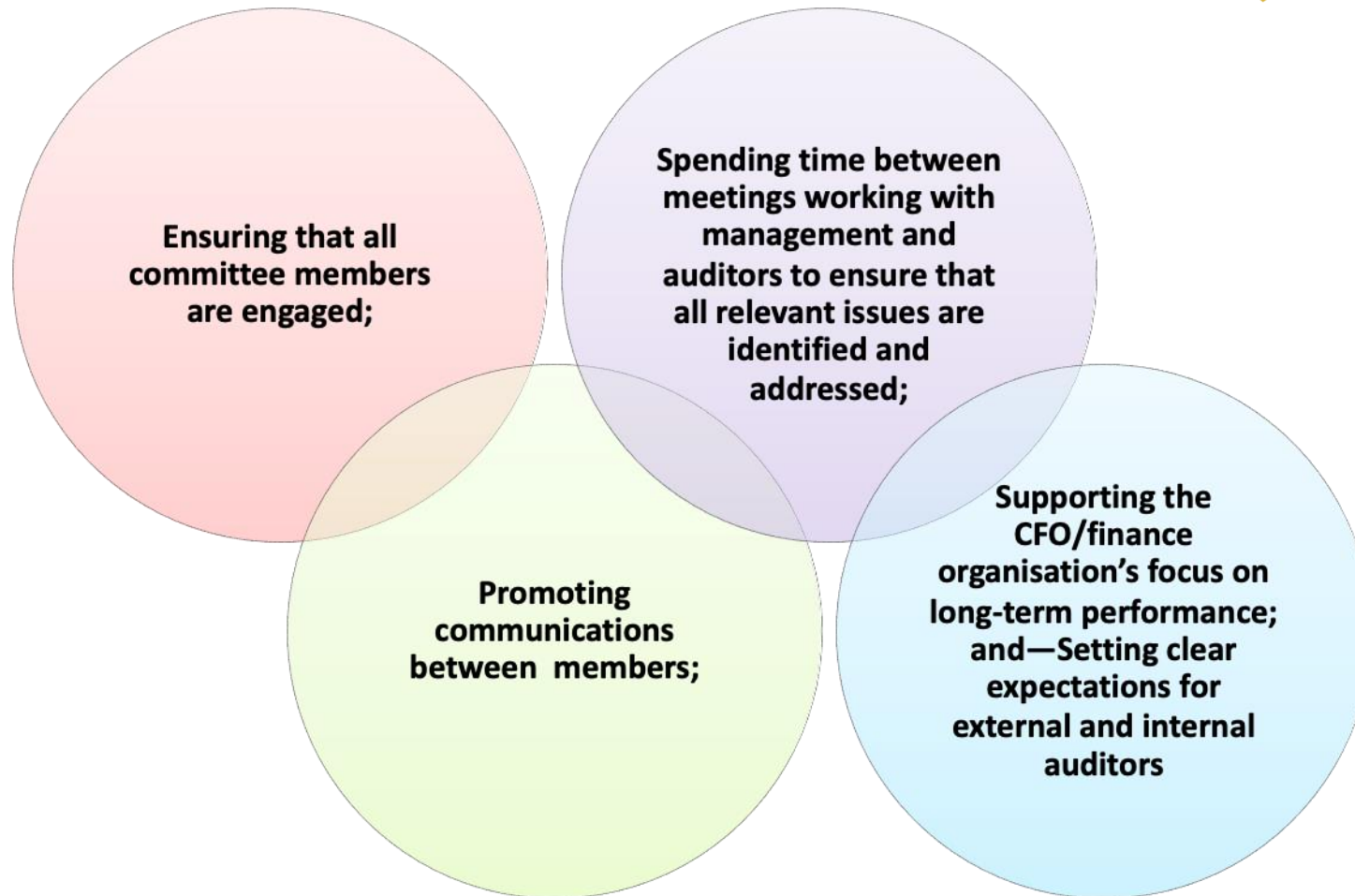


Tenacious and prepared to ask the tough questions.

Leadership Role of BAC Chair



Leadership Role of BAC Chair

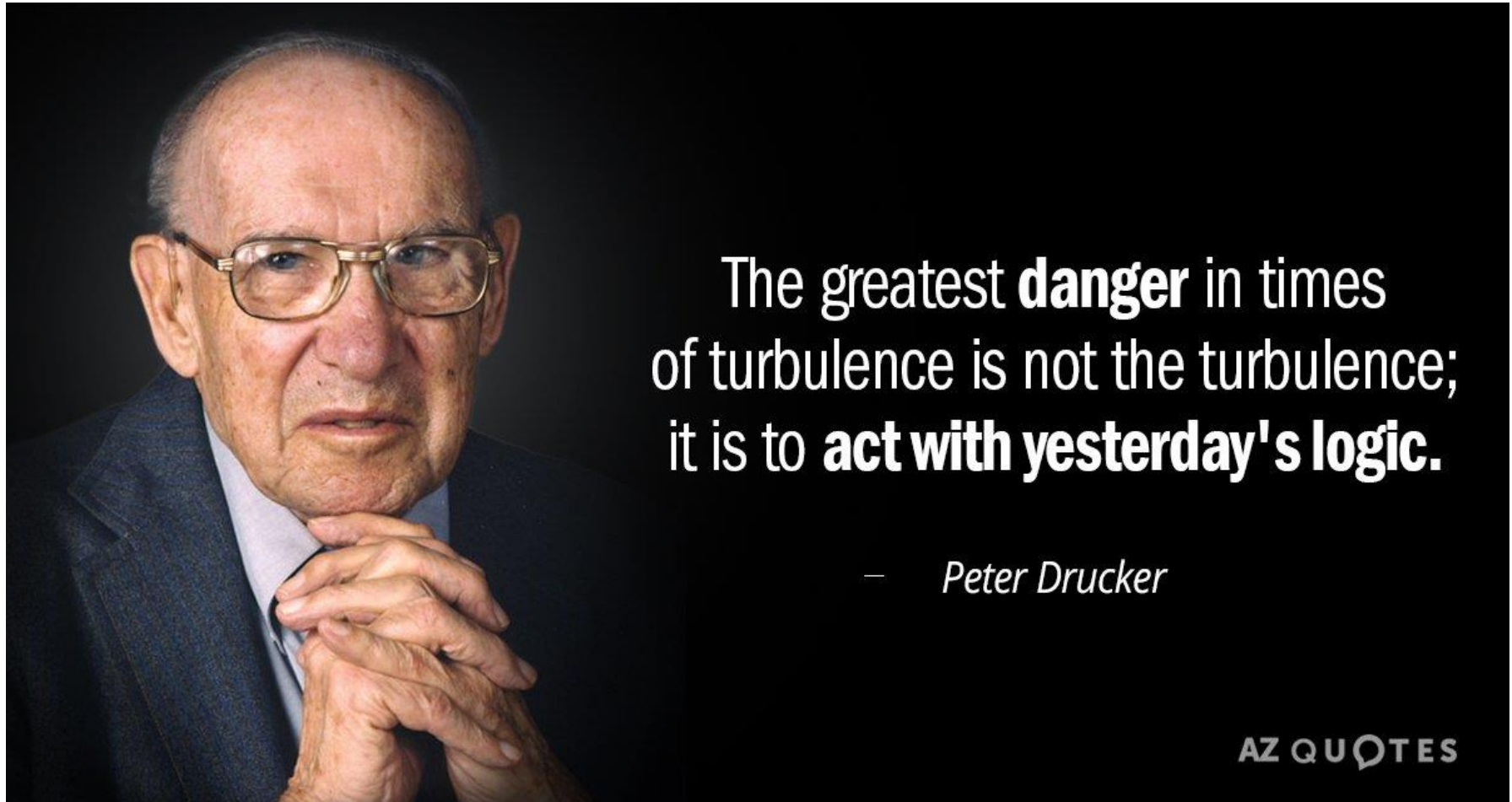


Covid 19 Pandemic and Beyond



“In the current COVID-19 pandemic landscape, organizations are faced with an unprecedented duality: of managing the transition to a “new normal,” while also reimagining the future of work and business. The recent pandemic has also brought to the forefront the current state of enterprise risk management (ERM) and highlighted the interconnectedness of risks and the velocity at which the risk landscape can change.”

Quoted...



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2021 Audit Committee Agenda



THE 2021 MANDATE FOR AUDIT COMMITTEES

Enterprise, Process and Technology Risk Issues

- 01 Consider shifts in the risk landscape to establish an appropriate business context
- 02 Work with the CFO to review the finance function's resiliency
- 03 Encourage the CFO to function as a strategic partner in addressing cybersecurity, privacy and other key priorities
- 04 Work with the CAE to formulate appropriate imperatives for internal audit to ensure the function's continued relevance

Financial Reporting Issues

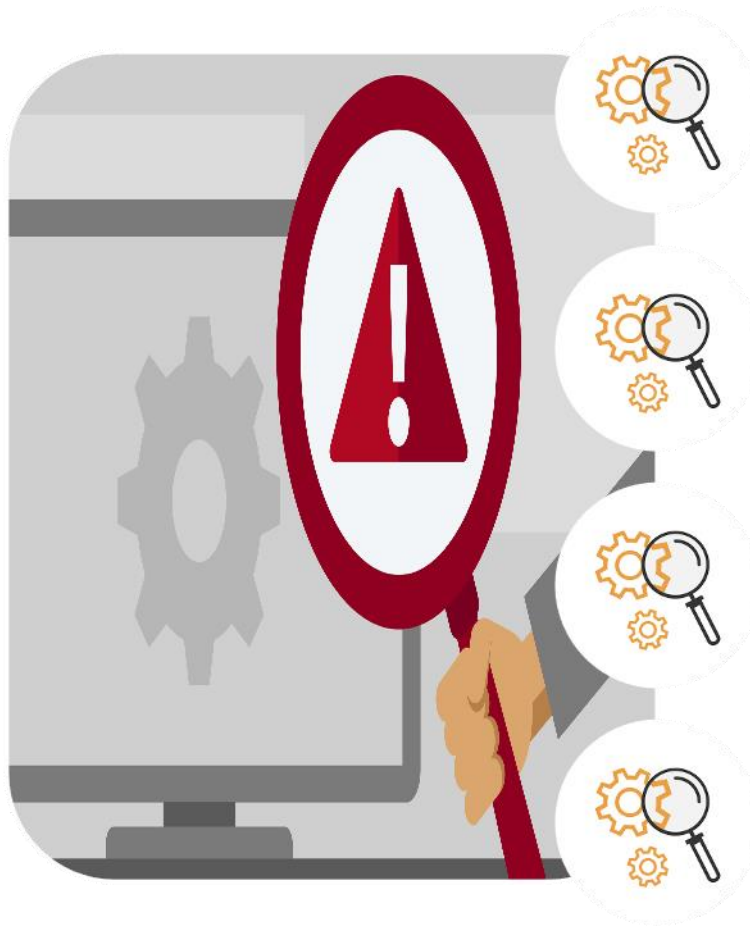
- 05 Address accounting and reporting implications of operational adjustments during the pandemic and recession
- 06 Assess COVID-19-related impacts on financial reporting assertions
- 07 Evaluate the pandemic's near-term and longer-term impacts on the internal control environment
- 08 Consider the nature of critical audit matters raised by the independent auditor

What COVID-19 Requires of BACs



- Discuss with management and auditors the key accounting and disclosure implications arising from COVID-19
- Stay up to date with tax policy developments in real time, and understand management's approach to potential income tax accounting ramifications
- Consider the efficacy of remote controls and whether there have been changes or overrides of existing controls
- Assess whether the ERM program is being updated in a timely manner
- Stay abreast of the evolving and emerging legislative, administrative and regulatory developments on reporting and disclosure.
- Maintain strong oversight over financial reporting

COVID: Top of Mind Issues for BACs



Monitoring impact on profitability, cash flow, capital preservation, and a renewed focus on the strength of the balance sheet, as well as identifying early signs of financial stress and going concern considerations, etc.

Third-party risk management, scenario planning, awareness of new legislation, and ensuring comprehensive business continuity thinking that is relevant to the current crisis.

Monitoring and maintaining an effective internal control environment, taking into account changes as a result of updated policies and procedures and displacement of staff.

The potential for heightened risk of fraud due to financial pressures and new operating environments.

Financial & Non Financial Risks:



Financial

Credit
Liquidity/Funding
Market

Non Financial

Third Party
Information
Cyber
Technology
Business disruption
Compliance
Conduct
Fraud
Model
Financial/Accounting
Tax

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Annual Internal and External Audit Reports to the Board Audit Committee



Achievements - people, technology, innovation, coverage



Audit Outcomes - summary of ratings of completed audits



Control environment - risk culture assessment



Next year objectives and Workplan



Key Audit Matters



Regulatory issues



Risk Map - Impact/Likelihood

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Key Areas for Audit Committees in 2021



**Accounting topics -
valuations, impairments,
taxes**



Going concern



**Year end audits in virtual
environment**



ESG strategy, measures



Company Culture



**Disclosures,
Transparency demanded
by stakeholders**



**VUCA creating
challenges**



**Assumptions, challenges
due to Covid**



Role of External Audit



**BAC's operation in a
virtual environment**



**Timely, proactive
communication -
reducing risk of surprises**



**Assessment of
materiality, risks,
internal controls, impact
of economic downturn**



**Use of enhanced
technologies**



**Continuous dialogue
with management,
auditors, BACs**



**Application of
judgements and
assumptions**

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COVID: Need for More Collaboration



There is need for interaction between different committees such as the audit committee and risk committee



The audit committee may also need to work with other committees of the board, such as those focused on ethics, remuneration, strategy, and business planning.



The finance function, internal audit, and IT are increasingly working closely together



Dealing with accounting and reporting issues, and emerging risk areas may require drawing on relevant expertise from auditors and other functions



Audit committees more fully utilizing the potential of internal audit to provide an advisory role where needed particularly in areas like data analytics.

COVID: Governance Questions for BACs



As an audit committee, how are we maintaining our education with respect to COVID-19 considerations, relief efforts and related risks and opportunities?

Are we appropriately engaging with internal and external stakeholders and providing transparent and consistent communications about significant impacts on our business?

Are we allocating enough time and making ourselves available to discuss critical issues as they arise with management, the auditors and the board?

Are we keeping the full board appropriately updated as to significant challenges with respect to financial accounting and reporting?

COVID: Governance Questions for BACs



Are we considering responses to anticipated questions from shareholders during upcoming annual meetings?

Are we, as a board committee, appropriately considering additional risks that have arisen related to other stated committee responsibilities as described in our Audit Committee Charter – e.g., COVID-19 cybersecurity and data privacy risks?

Is management actively and effectively engaging with lenders, customers and other stakeholders in a timely and productive manner and are the results of those engagements reflected in the financial accounting and reporting?

COVID: Audit Committee Considerations



Has the company considered whether the impact of COVID-19 has resulted in new or different risks and how those risks are being addressed?



Is there a need to review management's risk appetite framework to ensure it is appropriate in this rapidly evolving environment?



What risks have emerged that need to be addressed, and are there protocols in place to report, aggregate, and analyze emerging risks as this situation evolves?



Has the company considered leveraging internal audit or other resources to provide assurance related to new or different internal controls?



Does management have the tools and resources to update and present its risk information in a manner that is digestible for the audit committee?

COVID: Recommendations for BACs



Staying Informed: Have a clear-eyed view and understanding of risk areas

Communicating and Collaborating: Ensuring alignment with priorities of the governing body is critical.

Leveraging Available Expertise: Be fully informed about senior management's responses to risks.

Promoting Continuous Improvement: Effective risk management must account for changing circumstances and evolving risks.

Thinking Holistically: The COVID-19 crisis is pushing organizations to evolve their thinking and improve planning, operations, and reporting.

Embracing Technology: The pandemic has forced a revolution in remote working that is likely to remain part of the post-COVID world.

Turbulent Times: Governance Lessons



In situations of high turbulence, survival cannot and should not be taken for granted.



In times of crisis, leadership is about making hard choices, doing the unexpected, and sometimes the seemingly impossible, even in the face of opposition.



In an environment of high turbulence, emotional resilience and “esprit de corps” are critical among the leadership team.



Deciding on the information boundaries between the public and private spheres can be detrimental to your success.



When you cannot anticipate everything (or even anything), you should trust your instincts, stick to your beliefs and stand by your values.

Finally - Board Resilience...



“During a crisis situation, those threats posed to a company’s value and reputation – or even its very existence – will typically go beyond the operational level as shareholders, regulators and legal authorities become involved. Under such circumstances, Board members are often challenged in ways that may be unfamiliar to them as they’re drawn into a more active role.”

Closing Discussion...



Thank you!




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