Governance Auditors’ Accreditation Course

- Governance Audit: Process & Procedure, Tools and Guidelines
- Presented to Members of ICS
- On: Friday, December 07, 2018
- At: Sarova Panafric Hotel, Nairobi
- By: FCS. Sam G. Ogutha (Past Chairman of ICS)
- Contact: 0722-525-812
CONDUCT OF GOVERNANCE AUDIT - PROCESS & PROCEDURE, TOOLS AND GUIDELINES

GOVERNANCE AUDITOR ACCREDITATION COURSE
Preparing for Governance Audit

Basic Questions:

- Are you competent to perform the Governance Audit engagement. Do you have time and the necessary resources?

- Are you and your team able to comply with the requirements which include: Integrity, objectivity, confidentiality and professional behaviour?
Preparing for Governance Audit (Cont.)

- Have you formed a conclusion on compliance with independence requirements including:
  - Have you identified and evaluated the circumstances that create threats to independence
  - Have you agreed with the Client on the terms of engagement to avoid any potential misunderstanding
Definition of Governance Audit: A Governance Audit is an independent assessment of an organization with a view to expressing an opinion on the adequacy and effectiveness of the organization’s policies, systems, practices and processes within the legal framework and in line with the best practices on governance.
Types of Governance Audit

- **Self-assessment Governance Audit**: A structured tool used by the Management and Board to assess the adequacy and effectiveness of organization’s governance structures.

- **Independent Governance Audit**: This is an independent assessment carried out by a Governance Auditor.
General Principles of Governance Audit

- **Comply with ethical guidelines**: The Governance Auditor shall act with integrity; be objective and not allow prejudice to influence his decisions.

- **Professional skepticism**: The Governance Auditor shall plan and perform the Governance Audit with an attitude of professional skepticism, noting the possibility of being provided flawed information.
General Principles (Cont.)

- Evaluate the self-Assessment Reporting Framework: The Governance Auditor shall determine whether the Governance Self-Assessment Reporting Framework adopted by Management is acceptable and in compliance with the Framework approved by the Institute.
General Principles (Cont.)

- Governance Audit Risk:
  - This is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information for expression of a Governance Audit opinion.
  - The Governance Auditor shall manage risks. Audit planning documents shall state possible or known risks of the work envisaged and how they will be handled.
Governance Audit is broad based, traversing the structural and functional areas of the organization under consideration and varying from organization to organization.

Governance audit examines the existence and effectiveness of governance instruments, policies, structures, systems and practices in an organization within the legal and regulatory framework of the entity.
Governance Audit Parameters

Governance audit is mainly carried out within the following parameters:

a) Ethical Leadership and strategic management;
b) Transparency and disclosure;
c) Compliance with laws and regulations;
d) Communication with stakeholders;
e) Board independence and governance;
Governance Audit Parameters (Ctd..)

f) Board policies, systems, practices and procedures;

g) Consistent shareholder and stakeholder value enhancement;

h) Corporate social responsibility and investment; and

i) Sustainability.
Governance Audit Enablers

Governance Audit effectiveness is supported by a number of factors. Among these enablers is:

- Proper planning and preparation by all parties.
- Common understanding of the governance audit tools and checklists.
- Use of structured simple open ended questionnaires.
- Etc..
Deciding on the Governance Audit Approach

The overall audit approach is a central element of any audit. Selection of the approach also determines the methods and means used for conducting the audit. There are three approaches:

a) a system-oriented approach;

b) a result-oriented approach; and

c) a problem-oriented approach.
System-oriented Audit Approach

This approach examines the proper functioning of management systems, e.g. governance management systems.
Result-oriented Audit Approach

This approach assesses whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended.
Problem-oriented Audit Approach

This approach examines, verifies and analyses the causes of particular problems or deviations from criteria.
THE GOVERNANCE AUDIT CYCLE (AUDIT PROCESS)

COMMITTEE IN CHARGE OF GOVERNANCE MATTERS
Governance Audit Engagement: The engagement of a Governance Auditor shall be in accordance with the Governance Audit Guidelines (GAG) on Appointment of Governance Auditors.

Management Representation: The written representation shall include:

- Management’s responsibility for the design and implementation of Governance practices and control systems
Note: Where Management refuses to provide a representation, then this constitutes a limitation in scope and consideration shall be given to expressing a qualified opinion or a disclaimer of opinion.
- **Self-Assessment**: the organization shall conduct a self-assessment based on the Self-Assessment tool issued by the Institute.

- **Governance Self-Assessment Report**:  
  - Is a structured representation of the practice of governance as prepared by Management of an organization based on the Self-Assessment tool provided by the Institute.
Governance Self-Assessment Report (Cont.)

- It is intended to communicate an organization’s governance status and compliance at a point in time in accordance with a Governance Reporting Framework.

- It highlights the areas which have been fully complied with, areas which have been partially complied with, and areas of non-compliance.

- Management shall also indicate the reason of such partial or non-compliance and provide a compliance plan.
Governance audit Process

a) Governance Audit Engagement
b) Management Representations
c) Self-Assessment
d) Governance Self-Assessment Report
e) Desk Review and Field Work
f) Management letter
g) Final Governance Audit Report
Management Letter: The purpose of the Management Letter is to communicate key internal governance control system and other issues which have been noted in the course of the Governance Audit (e.g. deficiencies in the governance and compliance systems and records; deficiencies in the design or implementation of internal governance control; difficult areas for verification due to absence of relevant evidence documents)
- **Governance Audit Report**: Is an independent opinion by a Governance Auditor on the appropriateness, adequacy and effectiveness of governance practices of an organization based on available evidence.

- **Desk Review and Field Work**: The purpose of the Desk Review exercise is to ascertain the accuracy of the Self-Assessment report and the completed Self-Assessment Tool against evidence and documents provided.
Communicating Governance audit Matters

a) Focus on matters of Interest to Governance
b) Determining relevant persons to be addressed to;
c) Governance matters to be relayed;
d) Timing and Forms of Communication
Governance Audit Tools
THE GOVERNANCE AUDIT TOOLS

The Governance Audit Tool is used to record in summary the audit findings. It covers the Governance Audit Parameters within which the entity is subjected to audit.

The nine sections of the audit tool are:
1. Ethical Leadership and strategic management;
2. Transparency and disclosure;
3. Compliance with laws and regulations;
Sections of the audit tools (Ctd..)

4. Communication with stakeholders;
5. Board independence and governance;
6. Board policies, systems, practices and procedures;
7. Consistent shareholder and stakeholder value enhancement;
8. Corporate social responsibility and investment; and
9. Sustainability
Governance Audit Tool as a Working Paper

- The Governance Audit Tool should be filled appropriately in each and every section. For every Governance practice examined, the auditor should indicate the level of compliance accordingly.

- This Tool is subject to review based on the best industry practice.

- Completed Governance Audit Tool Schedules form critical part of the working papers
The following are some of the schedules of the Governance Audit Tool:

a) Engagement Letter
b) Terms of Reference
c) Management Letter
d) Management Representations
e) Auditor’s Opinion- report
Governance Audit Documentation

Documentation of the work done, processes and procedures used is a central part of governance auditing as it provides documentary evidence for traceability of the work done, for future reference and records. The documentation include mainly:

- Audit Files
- Working Papers
Governance Audit Documentation (Ctd..)

Types of Governance Audit Files

a) Current Governance Audit File (CGAF)
b) Permanent Governance Audit File (PGAF)

Layout and Indexing of Governance Audit Files

Governance Audit File should follow a standard (numerical or alphabetical) sequence. The indexing should allow for easy audit evidence trail.
Contents of Working papers (WPs)

- All governance audit working papers should be sufficiently complete and detailed to provide an overall understanding of the governance audit.

- The working papers should contain information on planning of the governance audit; the nature, timing, extent of governance audit procedures performed and the results thereof; and the conclusions drawn from the governance audit evidence obtained.
Preparation of Working papers (WPs)

a) Form - Either manually or electronically

b) Manual WPs should be clean, neat, legible and in permanent ink.

c) Should contain complete details for ease of identification

d) All form of evidence should be recorded and paper initialled.

e) Due care should be taken to safeguard working papers and working paper files.
Evidence and Liaison with

In the course of audit, the auditor should liaise with the following parties:

a) **In-house Corporation Secretary**;

b) **Internal and External Auditor**;

c) **Regulatory oversight bodies**;

d) **Other parties as determined**.

The roles of the above parties are critical and should be well understood by the Governance Auditor.
Ownership and Custody of WPs and Files

- Working papers and audit files are the property of the governance auditor. It can only be made available to a Third Party with consent of the client or a court order.

- The Auditor must adhere to confidentiality in handling working papers and files that contain clients information.

- Audit files may be availed to the regulator for purposes of quality control reviews.
ICS GUIDELINES ON GOVERNANCE AUDIT
Contents

- General Guidelines on the conduct of Audit
- Qualifications, disqualifications, appointment and removal of a Governance Auditor
- Term limit for Governance Auditor
- Fees for Governance Audit services
- Approaches to Governance Audit
- Peer Review of Governance Audit
- Duties and responsibilities of Governance Auditor
- Role of in-house CS in Governance Audit
- Professional judgment, independence of judgment, accuracy of information and facts
- Professional competence and due care, objectivity and integrity, disclosure and non-disclosure of information
- The role of ICS in Governance Audit
Introduction to General Guidelines on the conduct of Audit

- Governance audit guidelines are designed to guide governance auditors in the conduct of governance audits in accordance with Governance Standards issued by the Institute of Certified Public Secretaries of Kenya.

- The principles set out in these Guidelines will be of general application to all governance audits but the audit approach will need to be tailored for specific organizations.
Appointment and Qualification

- Governance auditor shall be appointed by the Board.
- The auditors qualifications are as set from time to time by ICS which is the accrediting body.
- Disqualification as a Governance auditor is as laid down in the by-laws governing the process.
- The process of removal from office is as set out by the regulations.
Engagement and Client Acceptance

The auditor will determine, address and ensure the following matter:

- Considerations before accepting an audit engagement
- Compliance with requirements for independence
- Instances where governance audit engagement may be declined
- Sources of information
- Adherence to Professional Ethics and Conduct
Terms of Audit Engagements and Changes Thereeto

Engagement Letter/ Contract

The governance auditor and the client should agree on terms of the engagement, preferably prior to the commencement of the governance audit, in a governance audit engagement letter or other suitable form of contract.
Recurring/ Subsequent Re-appointment

- The governance auditor does not need to send an engagement letter each year but should consider whether circumstances require the terms of the governance audit to be revised and whether there is need to remind the organization of the existing terms of the governance audit.

- However, it may be necessary to send a new letter in the following circumstances:

(Refer to Governance Audit Guidelines)
Time of Appointment and Term Limits

Time of Appointment

- It is advisable that the governance auditor is appointed at the beginning of the financial year. A governance auditor should be reappointed annually.

Terms Limit

- Term limits for the engagement of governance auditors may vary from time to time.
Governance Audit Fees

- Determination of Audit fees to be charged on the assignment should mainly be driven by market fundamentals.

- In order to ensure quality, the Institute may issue guidelines for consideration in arriving at fair pricing.
Rights and Duties of the Auditor

The powers and duties of the governance auditor shall be according to applicable laws, regulations or guidelines where defined and according to the letters of engagement for voluntary governance audits.
Key Governance Audit Areas

a) Ethical Leadership and strategic management;
b) Transparency and disclosure;
c) Compliance with laws and regulations;
d) Communication with stakeholders;
e) Board independence and governance;
f) Board policies, systems, practices and procedures;
g) Consistent shareholder and stakeholder value enhancement;
h) Corporate social responsibility and investment; and
i) Sustainability.
Conducting Governance Audit: General Principles

1. Communication to the out-going Governance auditor;
2. Acceptance of Appointment;
3. Preliminary Discussions/Surveys and entry meeting;
4. Finalization of the Audit Plan and Briefing the Staff;
5. Testing, Interviews and Analysis;
6. Working Papers;
7. Management Representation Letter;
8. Audit Summary for Discussions; and
Duties and Responsibilities of a Governance Auditor

- The Governance Auditor will be required to undertake a quality audit resulting in an assurance report;
- The audit opinion should be evidence-based, arrived at following professionally independent judgment;
- The auditor must possess competence and capacity, observe due care, objectivity and integrity;
- The auditor must ensure confidentiality of the information;
- Observe codes of ethics of a CS and requirements of CPS Act, CAP 534 and other applicable laws.
Communicating Audit Findings

a) The governance auditor shall communicate to the organization matters of governance interest that arise from the governance audit.

b) Management Letter

A management letter is used to communicate key weaknesses in governance and compliance issues that may have been noted during the course of the governance audit.
The Governance Audit Report

1. Format of governance audit report
2. Signing
3. Reporting with Qualification
4. Grounds for Qualification
5. Explanations by the Board

(Refer to Governance Audit Guidelines for details)
Governance Audit Peer Review

- At the discretion of the Council of the Institute, governance audits and auditors may be subjected to peer review through a Governance Audit Peer Review Mechanism prescribed by the Institute.

- The purpose of the peer review would be to improve quality in future audits.
Role of in-house Certified Secretary

The responsibilities of the in-house Certified Secretary with regard to the governance audit shall include the following:

a) Providing all necessary governance and compliance information and documentation;

b) Facilitating effective communication between the organization, management and other stakeholders;

c) Facilitating the governance auditor in the conduct of the governance audit; and,

d) Coordinating the preparation of Governance Audit Self-Assessment Report.
Client’s Responsibilities

An organization should prepare itself for the governance audit by taking the following steps:

a) Putting in place a compliance Programme;
b) **Constituting a team responsible for governance compliance**;
c) Maintenance of proper Records;
d) Preparation of Compliance Chart;
e) Conduct Compliance Awareness Programmes; and,
f) Giving all assistance and facilities to the governance auditor.
THANK YOU