Audit committees can earn public trust

Gatekeepers of corporate governance are facing more and more scrutiny. Heightened investor awareness of high-profile corporate failures, an increased risk of fraud, tightened regulatory and legal requirements and a fast-changing business environment are all contributing factors. Information technology and globalisation are also impacting corporate governance.

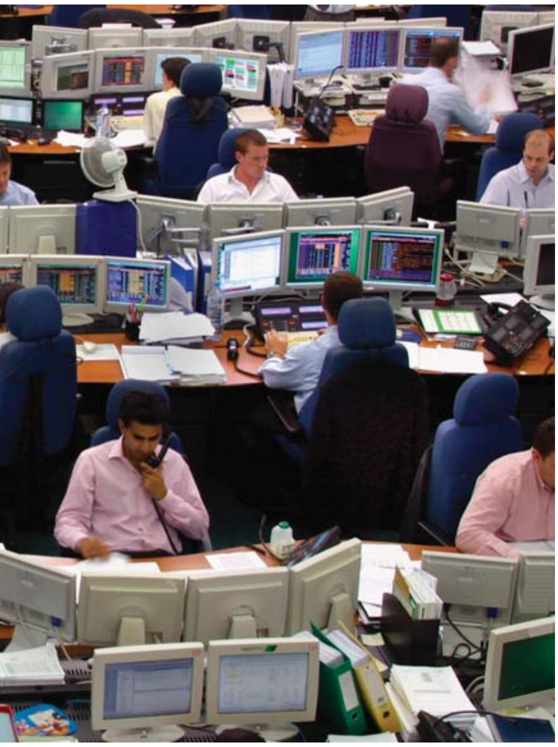
In Kenya, a recent spate of irregularities points to both a lack of procedures and enforcement as well as a lack of confidence in existing governance practices. This is not good for our economy; we need a vibrant and trust-worthy governance culture to build confidence in our companies and growth potential. We can start by examining the role of Board audit committees.

Most large organisations have several gatekeepers of corporate governance such as a Board of Directors including a Board Audit committee, executive management and internal and external auditors. The audit committee plays a vital role in providing independent oversight and has unique relationships with the other gatekeepers.

Concerns about audit committee effectiveness include whether they have the right skills or if they ask the right questions. In the past, pointing fingers at external auditors and sometimes lawyers has allowed audit committees to dodge public wrath—but not anymore. Public trust has been on the decline as the role of the audit committee and internal audit have been brought into focus.

In many jurisdictions, regulations require that at least one member of the audit committee be a financial expert. This is the case with Sarbanes-Oxley legislation affecting companies listed on American stock exchanges. However, our own CMA guidelines and Company's Act are silent on the matter and so, while most Boards are likely to have a member or two who do have financial expertise, for others it's simply something 'nice to have'.

Oversight roles are also changing. Above and beyond the traditional areas of financial statements and internal controls, audit committees increasingly oversee risk management programme design, efficiency and effectiveness, responsibility and risk response. Some



also oversee codes of conduct and ethics–certainly approving and reviewing reported violations and follow-up actions. Some also oversee compliance with laws and regulations and management's action to resolve systematic issues. In some organisations, they also monitor whistleblower and complaints hotlines, especially those relating to auditing and accounting issues.

Audit committees must balance advising and counselling management with the fiduciary duty to monitor and oversee management without interfering. To build trust, the committee must cultivate effective communication channels. Charters help define roles and responsibilities but these lines of demarcation will differ from entity to entity; it depends very much on the strength of both management and the committee. Audit committees also must seek to balance internal audit's stature in an organisation and external audit's perceived stature in terms of independence and performance.

Above all, time remains the biggest challenge. Participating on an audit committee requires time and dedication to understand the issues robustly.

Finance skills are few and far between in many cases. Many of those who possess the right skills find themselves being invited to more Boards than they can manage.

Last but not least is the matter of composition and attributes. Members are required to be independent (non executive). They need to have a good grasp of business issues and dedicate sufficient time. They need to have a high level of integrity as well as an inquisitive and open mind. They need to be prepared to challenge and maintain a healthy level of scepticism. And they need to maintain their objectivity.

The chairperson needs strong leadership qualities and must encourage teamwork. He/she should also remain objective and be willing to dedicate additional time as well as possess adequate financial acumen and an awareness of international, regional and local financial and accounting best practices. He must be available in times of crisis outside of committee meetings in case urgent issues are raised by management or internal or external auditors. He must also drive high-quality reporting to the main Board on the work of the audit committee.

Audit committees should have no more than six members who are willing to meet regularly and prepare adequately ahead of meetings. The committee should also evaluate itself annually to ensure that it adds value to the organisation and fulfils its mandate. If these principles were followed by more audit committees in Kenya, we'd see a lot more confidence in corporate governance—and growth among our companies and markets.

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Some audit committees are unclear about their own expectations and so are not clearly driving the assurance agenda; others question the skills and competencies of the internal audit functions and many believe that internal audit's role is being shaped by its capabilities and not necessarily by the business's need. They recognise that their role is changing and they're finding more and more on their plate