Power Breakfast Report: Building Robust Audit Committees
Take-Aways

“Key challenges are the scarcity of competent resources, overreliance of the board on the audit committee and the role of IT technology.”

- Hamed Kazim, Chairman of the Audit Committee, Commercial Bank of Dubai

“Regulating a robust Board of Directors including the committees underneath the board such as the audit committee is crucial for the importance of investor protection.”

- Dr. Obaid Saif Hamad Al Zaabi, CEO, The Securities & Commodities Authority (SCA)

“Audit committees are overloaded with responsibilities which are supposed to be with the board so they often miss out on the risk element.”

- Dr. Ashraf Gamal Eldin, CEO, Hawkamah

“Specific training is needed for the financial experts as the amount of updates and the constant evolving of regulations and frameworks makes it difficult for them to be updated.”

- Darren Yule, Audit Partner, Grant Thornton
Hawkamah held a Power Breakfast on Building Robust Audit Committees on 12th September 2017 at the DIFC’s Conference Center.

In fulfilling their fiduciary responsibilities, regional Boards have set up Audit Committees as a subset of the Board to provide more in-depth and robust oversight over the organization. Audit Committees have taken on a varied portfolio ranging from external audit oversight, risk governance, information technology governance, and assurance of the overall control environment. With this varied portfolio Audit Committees need to be vigilant in ensuring that they have the required collective capacity and experience to be able to adequately and strategically respond to the plethora of regulatory, environmental, social, and organizational challenges faced by the modern corporation.

Hawkamah’s Power Breakfast explored the regulators as well as the practitioners’ perspective on the Role of the Audit Committee in the overall corporate governance assurance eco-system of companies. Good practices and trends were discussed from the practitioners and advisers viewpoint.

The panel was moderated by Peter Montagnon, Hawkamah Board Member and Associate Director of the Institute of Business Ethics (UK).
Regulator’s view on the role of the Audit Committee

The Regulator’s view on the role of the Audit Committee was presented by Dr. Obaid Saif Hamad Al Zaabi, CEO of the Securities & Commodities Authority (SCA).

SCA introduced the Chairman of Authority’s Board of Director’s Resolution No. (7 R.M) of 2016 Concerning the Standards of Institutional Discipline and Governance of Public Shareholding Companies which set out the new corporate governance rules for local listed companies and repealed decree no. 518 of 2009.

SCA focused on the importance of investor protection. Better shareholder protection on the major stock markets is associated with lower shareholder protection on the major stock markets which is associated with lower capital costs, reduction of capital costs by elevating the agency problems between minority shareholders and management with regard of disparity between their special interest in the allocation of the company’s resources. In Addition, a greater degree of shareholder protection can be reflected in higher cash flow, greater efficiency of resource allocation at corporate levels, higher corporate ratings and performance. All these factors stand as incentives to regulate a robust Board of Directors along with the committees underneath the board such as the audit committee.

The auditing committee shall be formed as a permanent committee.

Art. (48) 1 The Chairman of Authority’s Board of Directors’ Resolution No. (7 R.M) of 2016 Concerning the Standards of Institutional Discipline and Governance of Publishing Shareholding Companies.
Expectation of the regulator on the audit committees

The regulators expectation on audit committees include:

• Formation as a permanent committee by the Board of Directors. All members shall have knowledge & know how of financial & accounting matters; at least one of them shall have a university degree/professional degree in accounting or finance or other relevant fields.

• Hold its meetings at least once quarterly or as required. The Company must provide adequate resources for the committee to perform its duties including a permission to seek assistance of experts whenever required.

• The Board of Directors shall not appoint any former partner at the company’s auditing office as a member of the audit committee for the period of one year as of the date of expiry of such partnership.

• Review the company’s financial and accounting policies and procedures and monitor the integrity of these by coordinating with the company’s management, senior executive management, and the financial manager or the manager doing such role in the company.

• Submit recommendations to the Board of Directors on selection, resignation, or discharge of the auditor, and in case the Board of Directors rejects the recommendations of the auditing committee in this regard, the Board of Directors shall include in the governance report a statement clarifying the recommendations of the audit committee and the reasons for the Board of Directors’ rejection thereof.

• Ensure the auditor’s fulfillment of the terms stipulated in the applicable laws, regulations, and resolutions and the company’s articles of association, and following up and monitoring his/her independence.

SCA regulates the formation and responsibilities of the Audit Committee in Article (48) and Article (49) of the SCA Resolution No. (7 R.M) of 2016.

• Meet the company’s auditor without attendance of any of the personnel of the senior executive management or representative thereof, at least once annually, and discussing the nature and scope of the auditing process and its effectiveness according to the approved auditing standards.

• Responses of the Board of Directors to inquiries for illustration and substantial matters mentioned in the auditor’s letters shall be timely. The internal control and risk management systems in the company shall be reviewed and assessed; the internal control systems with the Board of Directors shall be discussed and it shall ensure the establishment of an effective system for internal control.

• Review the auditor’s assessment of internal control procedures and ensure coordination between the internal and external auditors; ensure availability of the resources required for the internal control department and monitor effectiveness of such department.

• Studying internal control reports and follow up implementations of corrective measures for the comments arising from such reports; setting rules that enable the company’s staff to confidentially report any potential violations in financial reports, internal control, or any other issues and the procedures sufficient for conducting independent and just investigations concerning such violations.
Hamed Kazim, Chairman of the Audit Committee, Commercial Bank of Dubai, highlighted that practical challenges obviously exist as in terms of the maturity of the governance and audit process in this region as things are still maturing and developing. The key practical challenges he identified were the scarcity of competent resources or individuals which are relatively independent but competent enough to be on an audit committee and the overreliance of the board on the audit committee. The board expects the audit committee to do everything despite having other committees at the Board level as well. Another very important aspect he stressed was the role of IT technology which often in the broader spectrum of governance isn’t really tackled. Although technology plays a critical role in almost all the business it still does not get enough attention by the board or its committees.

From an advisor’s perspective, Darren Yule, Audit Partner, Grant Thornton, sees two key challenges. The first challenge is that financial experts need to be constantly up to date with regulations and frameworks as there are so many updates which continuously evolving, it’s crucial that the financial expert is up to date. So he calls on audit committees to have discussion with the management and internal audit on how new regulations are going to impact their business.

The other challenge he highlighted is the number of financial experts on boards. If a business is multinational or with a large geographical footprint, does...
one financial expert on the board feel comfortable that they have the sufficient expertise to handle this whole responsibility alone or would they like to have someone else to assessing the audit committee or consider that they do need someone else?

Dr. Ashraf, CEO of Hawkamah, mentioned three challenges which are crucial. The Audit Committees are overloaded with responsibilities which are supposed to be with the board. In most of the companies there is only an audit committee which is in charge of their duties and additionally has to take over the risk element as well. However the audit committees in practice focus on financial statements and the audit structure of companies but not really on the risk element. This risk absence can be very dangerous for companies as changes are happening very fast within the whole ecosystem of the companies.

Secondly, the relationship between audit committee and management should be healthy. In some companies it can be seen that the audit committee has more power than the management. And lastly the concept of co-opting people from outside, i.e. non-board members, on the audit committee. Most people on boards do not have the experience needed so they bring people from outside to the audit committee. These non-board members do not share the same responsibility as the board members. So they might give recommendations but are not liable for results as they are not a part of the board which is responsible for the performance of the company itself.

From a practitioner’s perspective there is no other choice than co-opting people from outside as the pool of resources for potential board members and audit committee members is really limited and adding to this another requirement on financial expertise is almost impossible. So co-opting is a result of the lack of expertise which is fine as there seems to be no other possibility. So the aim should be co-opting people as audit committee members who are non-board members and in such time developing the expertise of the society itself to a level where resources of capable board members and audit committee members will be developed.

Conclusion

Overall, the panelists were in agreement in calling for more training, educating and keeping the financial experts up to date constantly. Especially lack of training in risk can be very risky for companies as changes are happening very, very fast and constant training is needed.

Boards today should be carefully composed teams, and the presence of a financial expert –at least for listed companies- is mandatory. Co-opting people for the audit committee can be a possible solution to fill the gap of expertise of the board in financial matters. But before doing this, the board should be aware of the limitations and constraints of these possible audit committee members.

The panelists identified cybersecurity as the biggest non-financial risk.

Boards across the world have not really grasped the scopes and speed of technological change and the risks involved with this.

The panelists called for separate IT committees in banks and companies as risks can be crucial.

All the panelists called for board members to be trained in IT. As seen in practice most attendees of these workshops are non-board members, mainly IT experts.

The panelists called for more awareness on this sensitive topic and called out more board members to attend these workshops.