

THE IMPORTANCE OF AN AUDIT COMMITTEE



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Organised By



Supported By



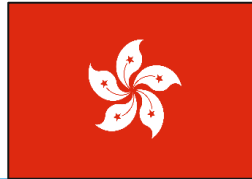
| Size (Higher of annual total receipts or expenditure, in each of 2 immediate preceding FYs) | Charity | IPC |
|---|-------------------|--------------|
| \$0 < Size < \$50,000 | No GEC submission | Intermediate |
| \$50,000 ≤ Size < \$500,000 | Basic | |
| \$500,000 ≤ Size < \$10,000,000 | Intermediate | Enhanced |
| \$10,000,000 ≤ Size | Enhanced | Advanced |

AC Relevant Guidelines from the 2017 Charity Code of Governance:

- 1.2.1: Terms of reference to clearly set out the authority & duties
- 1.1.11: The Chairmen of the AC should preferably have recognised accounting qualifications and / or appropriate practical experience
- 1.2.1: Besides the Chairperson, other committee members need not be serving on the Board
- 1.2.1: Treasurer & FC Chairman should not concurrently chair the AC

| Board Committees Required | Basic | Intermediate | Enhanced | Advanced |
|--------------------------------|-------|--------------|----------|----------|
| Audit | ✓ | ✓ | ✓ | ✓ |
| Finance | ✓ | ✓ | ✓ | ✓ |
| Programs & Services | | ✓ | ✓ | ✓ |
| Fundraising | | ✓ | ✓ | ✓ |
| Appointment/Nomination | | | ✓ | ✓ |
| Human Resources | | | ✓ | ✓ |
| Investment | | | | ✓ |

Guidelines on AC in Other Jurisdictions



Singapore Code of Governance for Charities and Institutions of a Public Character (2017)

Hong Kong Guide to Corporate governance for Subvented organisations (2015)

England and Wales Charity Governance Code for larger charities

Australian Charities and Not-for-profits Commission Governance Standards (2013)

Principles for Good Governance and Ethical Practice by the Independent Sector (2015)

Duties & Authority

Written terms of reference

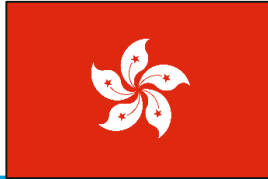
Written terms of reference

Terms of reference are reviewed regularly

Having a committee charter that sets out how responsible persons are expected to behave & what their duties are

No specific mention

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Qualifications and Experience

The Chairmen of the Audit Committees should have recognised accounting qualifications and / or appropriate practical experience.

At least one independent NED AC member with appropriate professional qualifications or accounting or related financial management expertise.

AC Chair has recent and relevant financial experience

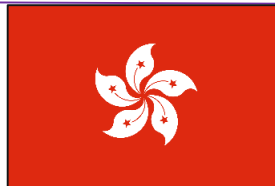
No specific mention

AC composed of independent board members with appropriate financial expertise

Guidelines on AC in Other Jurisdictions

| | Singapore Code of Governance for Charities and Institutions of a Public Character (2017) | Hong Kong Guide to Corporate governance for Subvented organisations (2015) | England and Wales Charity Governance Code for larger charities | Australian Charities and Not-for-profits Commission Governance Standards (2013) | Principles for Good Governance and Ethical Practice by the Independent Sector (2015) |
|---------------------------------------|--|--|--|---|---|
| Composition & Independence | <p>Besides the chairperson, other committee members need not be serving on the Board</p> <p>* 1.1.3: All Board members should exercise independent judgement</p> | <p>Comprising of only NEDs</p> <p>Be separate from & independent of management</p> | <p>Committee membership is refreshed regularly & does not rely too much on particular people</p> <p>The committee includes at least 2 trustees</p> | <p>No specific mention</p> | <p>AC composed of independent board members</p> <p>Board may appoint non-voting, non-staff advisors to the AC</p> <p>Invite a financial expert to serve in an advisory non-voting basis</p> |

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Avoid Conflicting Duties

The Treasurer and Finance Committee Chairman should not concurrently chair the Audit Committee

The board chairperson should not chair the Audit Committee

No specific mention

No specific mention

May choose not to delegate the audit responsibility to a separate committee & instead have the full board handle audit related issues

FC & AC – Together or Separate?

Argument for together

- Non-profits do not have the same revenue reporting issues that listed companies have
- Non-profits don't have senior staff on the Board who have a conflict of interest with what to report because of its effect on share price
- Non-profit Boards do not have the resources to staff two committees.

Argument for Separate

There is an inherent conflict of interest between the two functions:

- The FC assists the board in overseeing the budget process & overseeing finance policies and procedures.
- The AC assists the board in overseeing the annual audit which includes auditing the financial controls & reviewing the effectiveness of policies & procedures.
- Therein lies the conflict. If a committee helps to create the financial controls can they objectively critique them?

Role of the FC vs. the AC

| Finance Committee | Audit Committee |
|---|--|
| Oversees the administration, collection, and disbursement of the organization's financial resources, in addition to the related policies and procedures | Oversees the organization's internal controls, including compliance with applicable policies and procedures and risk management Oversees whistleblowing reporting & investigations |
| Oversees the preparation of the annual budget and financial reporting. | Oversees the annual independent audit process, including engaging the independent auditor and receiving all reports and management letters from the auditor Reviews the organization's financial statements and other official financial information provided to the public |
| Oversees compliance with reporting requirements to regulators and donors | Reviews & recommends for Board approval, & engage independent auditor to review if necessary |

There are substantial governance and oversight benefits that pay tremendous dividends over time.

Resistance & Challenges in Establishing Effective AC

1. No provision for AC in the Constitution. No requirement in the Companies Act or Societies Act. Charity Code is comply or explain, not "compulsory"
2. Resistance from Treasurer: Why need AC, already have FC
3. Don't have qualified person to chair the AC
4. No financial resource to appoint independent internal auditor to support AC
5. Independence & conflicting duties
 - Staff member sitting as AC member
 - Long serving board member serving as AC chair
 - Board Chairman sitting as AC member
 - Treasurer and/or other FC members sitting as AC member
 - Functional committees chair or member sitting as AC member

Case: Board & AC composition of Alamak Charity

| S/N | Board Position | Remarks | Years on Board | Audit Committee |
|-----|--------------------------|-------------------------------------|----------------|-----------------|
| 1 | President | Founder (former paid staff) | > 15 | |
| 2 | Staff A – Vice President | Head of Division (paid staff) | 13 | |
| 3 | Staff B - Secretary | Operation Director (paid staff) | > 15 | AC Member |
| 4 | Staff C | Programme Director (paid staff) | 6 | |
| 5 | Board Member A | Treasurer | > 15 | AC Member |
| 6 | Board Member B | | 9 | |
| 7 | Board Member C | No accounting or finance background | 4 | AC Chair |
| 8 | Board Member D | | 4 | |
| 9 | Board Member E | Wife is a contract staff | 3 | |
| 10 | Board Member F | | 3 | |
| | | Finance Director (paid staff) | | AC Member |
| | | Senior Admin Executive (paid staff) | | AC Member |

This case is fictitious, any resemblance to any organization is purely coincidental

Four US cancer charities accused of US\$187m in fraud

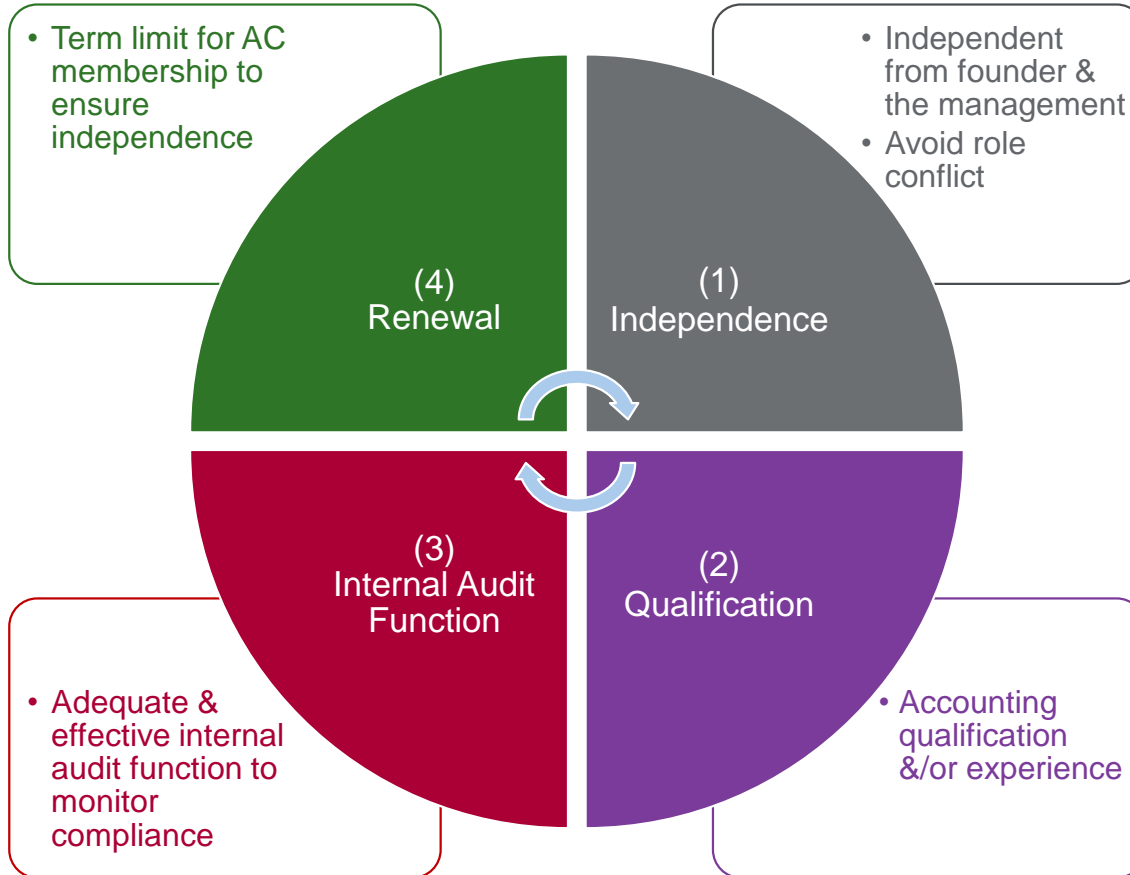
WASHINGTON: Four organisations claiming to help cancer patients allegedly siphoned off more than US\$187 million (RM676.32 million) to pay for lavish salaries, luxury vacations and other goods in what could be one of the largest cases of US charity fraud, authorities said Tuesday.

To hide the expenses and high salaries, the organizations inflated their revenue by reporting in-kind donations totaling more than US\$223 million made in other countries, but were in fact only pass-through agents for those goods.

Meanwhile only 3% of donations made it to cancer patients.

Audit Committee is responsible for ensuring that the organisation upholds accounting integrity and maintains transparency to all stakeholders

4 – Pillars of an Effective Audit Committee



Key pillars of an effective audit committee:

Independence of members from management, founder and functional committees

- Audit committee acts as an objective party which is responsible for transparent reporting
- Members of the audit committee have to flag out conflicts of interests that may compromise objectivity
- Not supposed to have vested interests in or receive remuneration from the charity



Key pillars of an effective audit committee:

Appropriate accounting qualification and experience of the chairperson

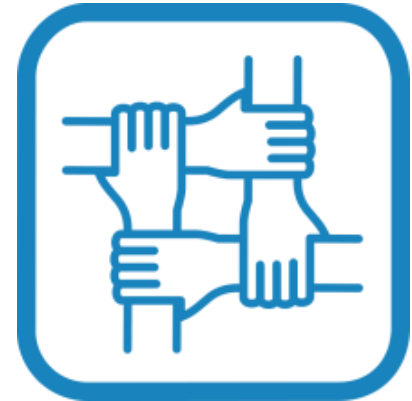
- Each member, particularly chairperson, should have appropriate accounting and financial literacy
- The Chairman may be required to be able to challenge management on financial reporting issues at a high level, so an important aspect of the role is to know what questions to ask, what to investigate and understand how to assess responses
- Members are given ongoing training to keep up with regulatory requirements and the charity's changing needs



Key pillars of an effective audit committee:

Support and resource of the internal audit function

- Internal audit helps an organisation accomplish its objectives by evaluating and improving the effectiveness of risk management, control and governance processes benefiting the charity in the long run
- Internal audit is an independent voice necessary for accountability and transparency
- Voice from the top is very important, management must see value in and support the internal audit function with adequate resources for it to be fully effective



Key pillars of an effective audit committee:

Renewal of the audit committee

- The term limit of audit committee members should be restricted to six years to prevent over-familiarity and reluctance to reveal points overlooked in prior years' work
- Rotation of committee members could allow fresh ideas and new initiatives



Making the Audit Committee more effective

- Incorporate provisions to make Audit Committee compulsory
- Guidelines on the roles and responsibilities of Audit Committee
- Guidelines on composition and term limit of AC members to ensure independence and avoid conflicting duties
- Ensure adequacy and effectiveness of the internal audit function



The Importance of an Audit Committee

Thank You!

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