



# **FINANCE, ADMINISTRATION, AUDIT AND RESOURCE MOBILIZATION (FAARM) COMMITTEE**

## **AUDIT CHARTER**

JUNE 2023



**FINANCE, ADMINISTRATION, AUDIT AND  
RESOURCE MOBILIZATION (FAARM)  
COMMITTEE**

**AUDIT CHARTER**

Approved by:  
Biannual Board of Directors' Meeting

A handwritten signature in blue ink, appearing to read "F. A. Odeh", is positioned below the approval text.

JUNE 12, 2023

# ACRONYMS

<b>BAC</b>	-	Board Audit Committee
<b>GAAP</b>	-	Generally Accepted Accounting Practices
<b>EA</b>	-	External auditors
<b>IA</b>	-	Internal auditors
<b>IFRS</b>	-	International Financial Reporting Standards
<b>IPPF</b>	-	International professional practice framework standard
<b>ISA</b>	-	International Standards on Auditing
<b>KCCO</b>	-	Kilimanjaro Centre for Community Ophthalmology
<b>KES</b>	-	Kenya Shillings – Currency of the Republic of Kenya
<b>NSSF</b>	-	National Social Security Fund
<b>UGX</b>	-	Uganda Shillings – Currency of the Republic of Uganda

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## 1. INTRODUCTION

The Board of Directors of the Agency For Accelerated Regional Development (AFARD) resolved to create the Finance, Administration, Audit and Resource Mobilization Committee that is charged with among other roles and responsibilities including being the audit Committee of the board. The major objectives of the Committee are to assist the Board provide a systematic oversight over AFARD governance, risk management and internal control practices.

## 2. AUDIT PURPOSE OF THE COMMITTEE

The Committee is to assist the Board by providing advice and guidance on the adequacy of AFARD operations for the following;

- o Internal auditor, external auditors and other providers of assurance
- o Financial Reporting and accountability.
- o Internal control framework
- o Risk Management
- o Compliances, Values and Ethics
- o Governance structure

The Committee shall review and handle each of the items listed above and will provide the board with independent advice and guidance regarding the adequacy and effectiveness of policies and management practices and potential improvements to those practices.

## 3. AUTHORITY

This Charter sets out the authority of the FAARM Committee to carry out the responsibility established for it by the board.

In order to discharge its responsibilities, the Committee will have unrestricted access, except for justified legal issues or confidentiality reasons, to management records, data and reports as well as the Internal and external auditors for relevant information and documents it considers necessary to discharge its duties.

The Committee is empowered to appoint, compensate and oversee audit and non-audit services performed by the auditors

The Committee shall also have the authority to resolve any disagreements between management and internal and external auditors regarding financial reporting and any other matters.

### 3.1 Composition of the Audit Committee

The Committee will consist of a minimum of 3 members who are Non-executive Directors. The members should collectively possess sufficient knowledge of either audit, finance, IT, Law, Governance, risk control or specific knowledge in development and business management.

### 3.2 The Chair of the Committee

The Board of Directors of AFARD will appoint the Chair of the Committee members

### **3.3 Terms of Office**

The term of office for an audit Committee shall be 7 years and the terms of office will be reviewed by the Board of Directors of AFARD as and when necessary.

### **3.4 Quorum**

The Quorum for the Committee will be a majority of the members.

## **4.0 AUDIT RESPONSIBILITIES OF THE COMMITTEE**

The Committee shall have the following responsibilities;

### **4.1 Audit oversight**

The Committee will provide oversight over the outsourced audit (refer to Appendix B: Three Lines of Defence Model)

#### **4.1.1 Audit resources**

- (i) Annually review and approve the audit terms of reference.
- (ii) Advise the board about the resources required to undertake audit.

#### **4.1.2 Audit Outsourcing**

- (i) Advise the board regarding the appointment of Internal auditors.
- (ii) Recommend to the board the appropriate compensation of the internal audit.
- (iii) Evaluate the performance of the Internal auditor

#### **4.1.3 Audit plan**

- (i) Review and provide input on the audit plan.
- (ii) Review and approve the audit engagement work program.
- (iv) Review the audit performance relative to the audit plans.

#### **4.1.4 Audit engagement and follow up**

In order to obtain very reasonable assurance from the external auditors, the Committee will meet with the auditors before the start of the audit and at the time of presentation of the audited financial statement, discussion of the results and recommendations for management.

- (i) Review the auditors proposed scope, approach and the coordination of the audit.
- (ii) Review the performance of the auditors and exercise final approval on the appointment or discharge of the auditors.
- (iii) Obtain a statement of the external auditors about their independence from AFARD
- (iv) Inquire from the auditors whether any evidence of frauds has been identified during audit engagements and evaluate what additional actions should be taken.
- (v) Monitor management's progress on action plans on the implementation of audit recommendations.
- (ivi) Review and advice management on the results of any special investigations

#### **4.1.5 Audit Quality assurance**

- (i) Ensure that audit has a quality assurance and improvement program and that the results of these periodic assessment are presented to the Board.
- (ii) Advise the board about any recommendations for the continuous improvements of the audit.
- (iii) Review the results of the Independent external quality assurance review and monitor the implementations of audit recommendations made.

#### **4.2 Financial Reporting and Project Accountability Statements**

The Committee is responsible for the oversight of independent audit of its financial statements and project accountability statements. To have effective oversight over the financial reporting and project accountability, the Committee will do the following;

- (i) Review significant accounting and reporting issues including complex or unusual transactions.
- (ii) Review the annual financial statements and consider whether they are complete, consistent with the information known to the Committee members and reflect appropriate accounting principles.
- (iii) Review other sections of the annual report and related regulatory filings and consider the accuracy or completeness of the information before its released.
- (iv) Review with the auditors all matters required to be communicated to the FAARM Committee under the GAAP.
- (v) Review interim financial statements with the auditors before filing with regulators and consider whether they are complete and consistent with information known to the FAARM Committee members.

#### **4.3 Compliance and Ethical values**

To obtain reasonable assurance with respect AFARD ethical values and compliances to laws, regulations and internal procedures, the Committee will do the following;

- (i) Review the effectiveness of the AFARD system for monitoring Compliances with laws and regulations.
- (ii) Review the process for communicating the code of conduct to the AFARD's personnel and for monitoring compliances.
- (iii) Obtain regular updates from AFARD's legal counsel regarding compliance matters
- (iv) Review and assess the policies and procedures and practices established by AFARD to monitor conformance with its code of conduct and ethical policies by all managers and AFARD staff.

#### **4.4 Risk Management**

To obtain reasonable assurance with respect to AFARD risk management practices, the Committee will do the following;

- (i) Annually review AFARD risk profile
- (ii) Obtain from the Director of Finance and Administration an annual report on the managements' implementation of risk management process such as an enterprise wide risk management process. (Refer to appendix C: COSO Enterprises Risk Management Model)



- (iii) Provide oversight on significant risk exposures and control issues including fraud risk, governance issues and other matters.
- (iv) Provide oversight on the adequacy of the combined assurance of the internal and the external auditors on the risk management
- (v) Review and provide advice on any other risk management process established

#### **4.5 Frauds**

To obtain reasonable assurance with respect to AFARD procedures for the prevention and detection of frauds and corruption, the Committee will do the following;

- (i) Review AFARD's fraud and corruption policies and procedures, oversee management arrangements for the prevention and deterrence of frauds and corruption.
- (ii) Ensure that appropriate action is taken against known perpetrators of frauds and corruption
- (iii) Challenge internal and external auditors to report whether management ensured that AFARD has an appropriate anti-fraud programs and controls in place to identify potential frauds.

#### **4.6 Controls**

To obtain reasonable assurance with respect to the adequacy and effectiveness of AFARD's controls in responding to risk within AFARD's Governance, operations and information systems, the Committee will do the following;

- (i) Consider the effectiveness of AFARD's control framework, including information technology, security and control.
- (ii) Review and provide advice on controls of AFARD as a whole and its individual units.
- (iii) Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance to the board.

### **5. REPORTING**

The Committee will report to the Board every 3 months summarizing the committees' activities and recommendations.

The report to AFARD Board of Directors will include the following;

- (i) A summary of the work the Committee performed to fully discharge its responsibilities during the preceding period.
- (ii) A summary of management progress in addressing the results on internal and external audit engagement reports.
- (iii) An overall assessment of management's risk, control and compliances processes, including details of any significant emerging risk or legislative changes impacting AFARD.
- (iv) Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended.
- (v) Provide information required if any concerning emerging corporate governance issues.

## 6 OPERATIONAL PRINCIPLES

The Committee of the Board plays very important role in providing oversight of AFARD's Governance, risk management and internal control practices. This oversight mechanism requires proper follow up of good operational principles to provide integrity of these practices. The following will be operational principles of the committee;

### 6.1 AFARD Ethics and Values

The Committee will conduct itself in accordance with AFARD code of values and ethics, the Committee charter and other applicable laws and regulations.

The board members will be independent and objective in its operations

### 6.2 Conflict of Interest

Members of the Committee should not have any conflict on interest. Members should disclose any conflict on interest or appearance of conflict of interest to the Chairperson of the Committee.

### 6.3 Orientations and training.

Members of the Committee will receive formal orientation training on the purpose, responsibilities of the Committee and on AFARD's audit objectives. A process of continuing education will be established for the members

## 7 OPERATIONAL PROCEDURES

### 7.1 Agenda of the meeting

The Chairperson of the Committee will establish agendas for the Committee meetings in consultations with the auditor and Director of Finance and Administration.

### 7.2 Work plan

The Committee Chairperson will work with the auditor to establish a workplan and ensure that responsibilities of the Committee are scheduled and carried forward. (refer to appendix A)

### 7.3 Private meeting sessions

The Committee will schedule and hold a meeting privately or in confidence with the auditors.

### 7.4 Meetings

The Committee will meet at least 4 times in a year or more frequently as the Committee deems necessary. The time frame between the Committee meetings should not exceed 3 months

### 7.5 Minutes of the meeting

Minutes of the Committee meeting will be prepared in accordance with established policies and procedures and formats. All agreed resolutions of the meeting shall be numbered sequentially for easy reference and implementations.

## 7.6 Required Attendance

The Auditors and Director Finance and Administration are required to attend to all Committee meetings. The Executive Director and Board Secretary may be co-opted to attend these meetings too.

## 8 AFARD BOARD DIRECTORS APPROVAL OF THE FAARM COMMITTEE AUDIT CHARTER

The FAARM Committee Audit Charter has been approved by the Board of Directors of AFARD as undersigned

(1) Chairperson of AFARD Board of Directors

Name: \_\_\_\_\_

Sign: \_\_\_\_\_

Date: \_\_\_\_\_

(2) Chairperson of FAARM Committee

Name: \_\_\_\_\_

Sign: \_\_\_\_\_

Date: \_\_\_\_\_

# APPENDIXES

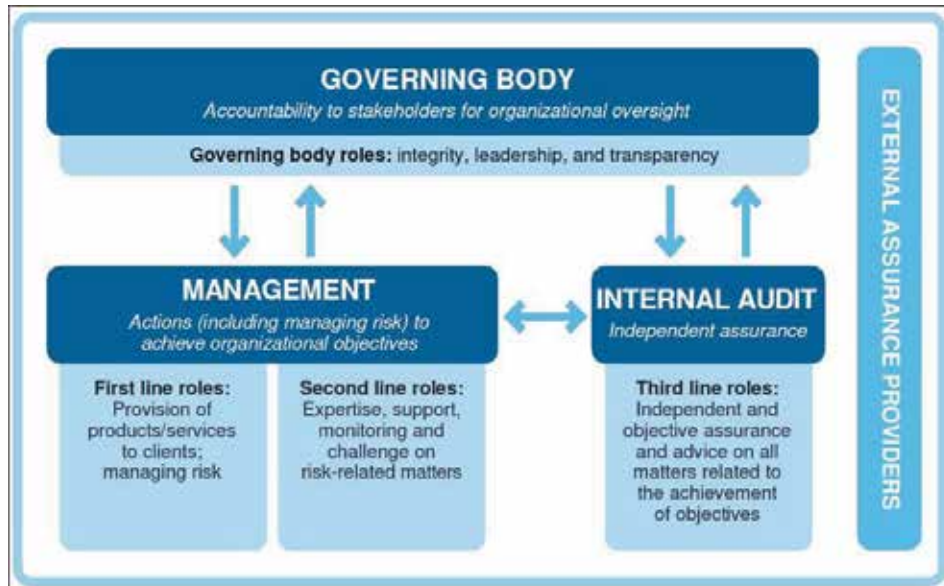
## Appendix A: Audit Committee Planner sample

	Activities	Annual Event	Q1	Q2	Q3	Q4
S/N	Scheduled meetings		March	Jun	Sept	Dec
<b>1</b>	<b>Internal audit oversight</b>					
	Review and approval of Internal audit plan &. budget					
	Appoint or remove Internal auditor					
	Review Internal audit performance					
	Review Internal audit Budget and resource plans					
	Review Internal audit reports					
<b>2</b>	<b>External audit oversights</b>					
	Appoint or re appoint External auditors					
	Engagement letter, letter of auditors' independence					
	Time schedules and completion of the audit					
	Reviews of the Audit reports and findings					
	Meeting with external auditors					
	Reviews of the management implementations of audit recommendations					
	Assessments of the external audit effectiveness					
<b>3</b>	<b>Oversight to Compliance to Laws and regulations</b>					
	Review of the list of legal and regulatory matters of AFARD and management actions					
	Review of Whistle blowing arrangements and reports					
	Review any related compliance matters					
<b>4</b>	<b>Financial Reporting oversight</b>					
	Review of the new accounting and reporting developments					
	Review of large, unusual and complex transactions					
	Review of the narrative sections of the annual reports					
	Review any significant matters raised by the External auditors over the Financial statements					
	Review and approval of financial statements					
<b>5</b>	<b>Risk Management oversight</b>					
	Review AFARD risk Profiles					
	Review AFARD Significant risk exposures identified by the auditors					
	Review on the risk management and internal control process.					
	Review on any new risk management model identified					
<b>6</b>	<b>Frauds and Corruption</b>					
	Review on frauds management process					
	Review on the management of frauds corruption cases identified					
	Review of the fraud and corruption management policies and procedures					

## Appendix B: The three Lines of Defence Model by the Institute of internal auditors

The three lines of Defence model is designed by the Institute of Internal auditors to help organisations identify structures and process that best assist the achievement of objectives, facilitate strong governance and risk management.

The model has six principles to explain what an organisation has to do and the relationship between the different lines and roles that defends the organisation for its existence as reflected in its image as below



### The Six principals of the Model

- (i) Principle 1: An Organisations such as AFARD has the Governance Body
- (ii) Principle 2: The Governing body of an organisation has clear structures and roles for effective governance
- (iii) Principle 3: Management has the first and second roles. Management responsibility is to achieve organisational objectives.
- (iv) Principle 4: Internal audit activity provides the third lines roles.
- (v) Principle 5: Independence of the third roles, Internal audit activity be independent from the roles of management.
- (vi) Principle 6: All the roles of the 1 and second lines of defence should collectively work to protect their values

### The roles in the model

- (a) The Governing body: Is accountable to the stakeholders, establishes structures of the organisation, delegates its responsibilities to management, determines the organisational appetite for risk and exercise oversight over of over risk management.
- (b) Management in the first of defence leads and directs actions and application of resources to achieve the objectives of the organisation.  
In the second line of defence Management provides complementary expertise, support to the management of the organisation.
- (c) In the third line of Defence is the internal audit who provides independent assurance and consulting services to the organisation.

## Appendix C: Risk Management Model by COSO

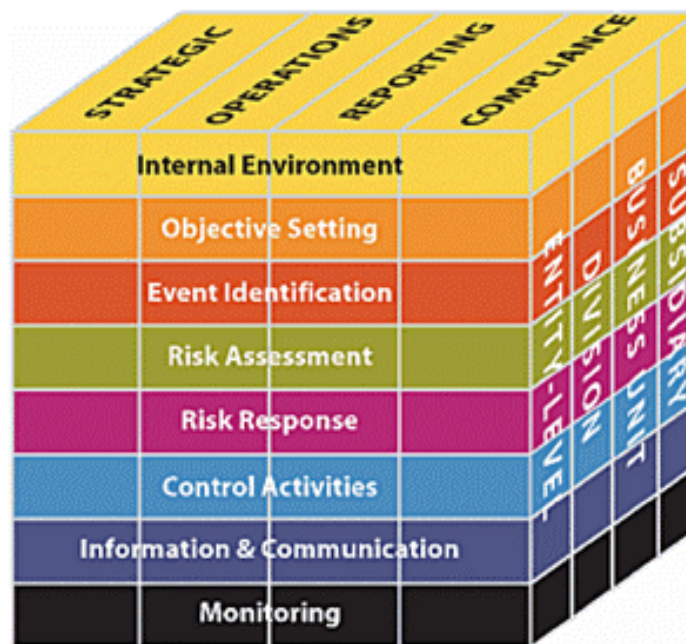
COSO refers to the Committee of Sponsoring Organisations of the Treadway Commission (COSO). It was established in the mid-1980s, initially to sponsor research into the causes of fraudulent financial reporting.

The Current mission of COSO now to help organizations improve performance by developing thought leadership that enhances internal control, risk management, governance and fraud deterrence.' The Cube model noted below was developed in 1992 and modified in 2013 to help explain the management of risk in an organisation.

COSO used the cube or the box to illustrate the links between objectives that are shown on the top of box (strategic, operations, Reporting, compliance).

The eight components shown on the front (Internal Environment, Objective setting etc) which represent what is needed to achieve the objectives.

The third dimension represents the organisation's units (departments, divisions, operational units etc), which portrays the model's ability to focus on parts of the organisation as well as the whole.



**The Components can be explained as follows;**

**(a) Internal environment.**

The internal environment establishes the tone of the organisation, influencing risk appetite, attitudes towards risk management and ethical values.

The tone is set by the board of an organisation. A board lacking appropriate technical knowledge and experience, diversity and strong, independent voices is unlikely to set the right tone, such a board should seek support to help set the tone.

The work directors do in the board audit committees can also make a significant contribution to setting the tone.

**(b) Objective setting**

The board should set objectives that support the organisation's mission and which are consistent with its risk appetite. If the board is to set objectives effectively, it needs to be aware of the risks arising if different objectives are pursued.

**(c) Event Identification**

The organisation must identify internal and external events that affect the achievement of its objectives. The COSO guidance draws a distinction between events having a negative impact that represent risks and events having a positive impact that are opportunities, which should feedback to strategy setting.

Some organisations may lack a process for event identification in important areas. There may be a culture of no-one expecting anything to go wrong.

The distinction between strategic and operational risks is also important here. Organisations must pay attention both to occurrences that could disrupt operations and also dangers to the achievement of strategic objectives.

**(d) Risk Assessment**

The likelihood and impact of risks are assessed, as a basis for determining how to manage them. The Board audit Committee should ensure that Internal auditors carry out regular risk assessment in the organisation.

**(e) Risk response**

Management selects appropriate actions to align risks with risk tolerance and risk appetite.

This stage can be seen in terms of the four main responses – reduce, accept, transfer or avoid the risk.

The risk responses chosen must be realistic, considering the costs of responding as well as the impact on risk. An organisation's environment will affect its risk responses

**(f) Control activities**

Policies and procedures should operate to ensure that risk responses are effective. The board audit Committee should ensure that the organisation should have well developed policies and procedures manual to guide every operational activity. The policies and procedures should be used effectively by the people employed. Because the human element is so important, it follows that many of the reasons why controls fail is because of problems with how managers and staff utilise controls

(Please refer to the COSO Internal control Model)

**(g) Information and communication**

Information systems should ensure that data is identified, captured and communicated in a format and timeframe that enables managers and staff to carry out their responsibilities.

The information provided to management needs to be relevant and of appropriate quality. It also must cover all the objectives shown on the top of the cube.

**(h) Monitoring**

The management system should be monitored and modified if necessary

