



# INSTITUTION OF ENGINEERS OF KENYA

## GOVERNANCE, AUDIT AND RISK COMMITTEE TERMS OF REFERENCE 2020-2022

Document Approver	IEK COUNCIL
Document Custodian	IEK CEO
Review Frequency	2 Years
Document Date	28th April, 2022
Document Status	Draft Awaiting Review & Approval
Document Version	<b>IEK/GARC/02</b>

## AMENDMENT SHEET

Revision No.	Subject of Amendments	Date of Approval

## **1. BACKGROUND**

- 1.1 The Governance, Audit and Risk Committee is one of the Committee of the Institution of Engineers of Kenya.
- 1.2 The proposed Terms of reference of the Governance, Audit and Risk Committee is outlined hereunder and submitted for deliberation and approval by the Council.
- 1.3 The Committee after properly constituted may establish sub-committees to assist it in the conduct of its business provided that the Council approves such action.
- 1.4 The Governance, Audit and Risk Committee will be referred to as GARC

## **2. THE PURPOSE OF THE COMMITTEE**

- 2.1 The Governance, Audit and Risk Committee which is an advisory Committee of the Council was established to :
  - a) Maintain oversight, and ensure the integrity, of the IEK's governance, internal audit, external audit, and financial controls and
  - b) Assess such risks as the IEK may be exposed to, and propose the measures taken to mitigate those risks.
- 2.2 Membership of the GARC shall comprise of not more than eleven members with at least two members who are elected members of the Council (Chair and Vice chair of GARC).
- 2.3 The GARC will report to Council. The Committee acts independently to ensure that the interests of IEK stakeholders are protected in relation to the IEK's business and financial reporting, and internal controls.

## **3. RELEVANT APPLICABLE STRATEGIC GOALS**

The Strategic Plan 2019- 2023 seeks to position IEK as an effective platform for the delivery of an exciting value proposition to its members, thereby attracting and retaining members and strengthening the institutional capacity. The IEK GARC will contribute towards achievement of the following strategic goals drawn from the IEK Strategic Plan 2019-2023:

Strategic Goal5: Strengthen IEK Institutional Capacity

- Ensure compliance with laws and policies
  - Conduct Financial audits
- Effectiveness of the Council
  - Conduct Annual Board Evaluation

#### **4. MEMBERSHIP**

- 4.1 The members of the GARC are appointed by Council and shall serve at the discretion of the Council and for such term or terms as the Council may determine.
- 4.2 The Chairperson and Vice Chairperson will be nominated by the President, and approved by the Council.
- 4.3 The Committee will collectively possess a diverse range of skill, and expertise, relating to the remit and operational functions of the IEK, and such risks as may arise in these areas.
- 4.4 The Committee is composed of a maximum of eleven members which includes:
- One person who is a Council member, who will Chair the Committee.
  - One person who is a Council member, who will be the Vice Chair the Committee
  - Corporate Members who have experience in risk management relevant to the IEK's remit, or its core operational functions, or the governance of public bodies and public sector reform initiatives.
  - Two persons who are graduate Engineers
- 4.5 The Committee members may be replaced and the Chair may be changed, once their term of service has come to an end or upon resignation of a member by notice.

#### **5. REPORTING**

- 5.1 The GARC will report to Council by means of a written report, presented by the Chair of the Committee, at the first meeting of Council following each Audit and Risk Committee meeting.
- 5.2 Each year the Audit and Risk Committee will provide the Council with a copy of its annual report, prior to its publication in the IEK's Annual Report and financial statements, summarizing its findings for the year in question.

#### **6. RESPONSIBILITIES**

The GARC will advise the Council on:

- 6.1 IEK's policies and procedures for the management of risk, internal control and governance;
- 6.2 The assurance it has received that the correct procedures are being applied across the institution with regard to the IEK's internal control, and its procurement function;

- 6.3 Its quarterly financial accounts, the IEK's annual financial statement as published in the IEK's Annual Report, including issues of concern, levels of error or omissions, and the Executive's letter of representation to the external auditors;
- 6.4 The schedule and results of both the IEK's internal and external audits;
- 6.5 The adequacy of management response to issues identified in audits, including the external audit's management letter of representation;
- 6.6 Assurances relating to the management of risk, and corporate governance, in the IEK;
- 6.7 Proposals for tendering for either internal or external audit services or for purchase of non-audit services from contractors who provide audit services;
- 6.8 Anti-fraud policies and procedures, protected disclosure processes, and arrangements for special investigations;
- 6.9 Establish and oversee the IEK's Whistle-blowing, Anti-bribery and other policies regarding fraud and irregularity, including being notified of any action taken under these policies;
- 6.10 Establish and oversee the IEK's Data Protection policy and other policies regarding the collection, use and safe-keeping of data; and
- 6.11 The GARC will review its own effectiveness each year, and report the results of that review to the Council.
- 6.12 A Committee Work Plan is to be maintained and reviewed annually to ensure the Committee effectively discharge its responsibilities. This is to be published on Council's website.

## **7. DUTIES**

In order to meet its responsibilities, the IEK's GARC may investigate any matter which falls within the scope of the following headings. It will be granted access to any information it requires in order to do this and may seek external professional advice if it deems necessary.

### **7.1 Risk Management**

- a) Establish a risk management policy & framework
- b) Report to the council on the effectiveness of the IEK risk management framework.
- c) Review the efficacy of the IEK's policy and processes for the identification assessment and control or mitigation of risk.

## 7.2 Internal Control

- a) Consider the efficacy of the internal control system in providing early warning of control failures, and/or notice of emerging risk.
- b) Obtain and review internal audit reports, significant findings and recommendations, together with the Executive team's responses.
- c) Initiate special projects or investigations it deems necessary.
- d) Monitor the Executive team's implementation of audit recommendations.

## 7.3 Corporate Governance

- a) Report to Council on assurances relating to the IEK's compliance with its corporate governance obligations as outlined in its code of conduct.
- b) Report to Council on the IEK's levels of compliance, with regard to the law as it relates to professional bodies including, but not limited to, the following areas: Health & Safety; Data Protection; Freedom of Information; Standards in Public Office; Equality; Disability; Discrimination; the Official Languages; and Protected Disclosures.

## 7.4 Financial Statements

- a) Review with management and the External Auditors, the results of each audit.
- b) Review the draft Annual Financial Statements, prior to submission to Council, and consider whether they are complete, consistent with information known to the Committee, reflect appropriate accounting standards and principles, and present accurately the IEK's financial position.
- c) Consider whether issues raised by the External Auditor have been comprehensively and appropriately dealt with by the Executive Team.

## 7.5 Internal Audit

- a) Review with the management and the Internal Auditor the Internal Audit Charter and audit plan.
- b) Approve the annual audit plan, ensuring it includes value for money audits, and complies with the IEK's procurement policy, which requires an internal audit be carried out on procurement of all purchases
- c) Consider regular progress reports on the audit plan assignments. Ensure that there are no restrictions or limitations placed on the work of internal auditors.
- d) Assess the adequacy of the internal audit function.

## 7.6 External Audit

- a) Review the Internal Audit working relationship with the External Auditor, to ensure cooperation, avoidance of duplication, and gaps in audit coverage.
- b) Review the external audit letter to the Council and its letter of representation, and the IEK's response to management letters and external audit report.
- c) Review any other external audit reports, as required.
- d) Meet with the External Auditors annually to ensure that there are no unresolved issues of concern, and make the External Auditor aware of any emerging risks, or governance issues.

## 7.7 Financial control

Ensure its financial controls, enable the IEK to achieve its objectives on a value for money basis.

## 7.8 Tenders

Advise on proposals for tendering for either internal or external audit services, or for purchase of non-audit services from contractors who provide audit services.

## 7.9 Investment appraisal

The GARC should consider whether the procedures for investment appraisal are fit for purpose and comply with best practice including the principles and relevant requirements of the Public Financial Management Act.

## 7.10 Anti-fraud, protected disclosures and special investigations

Ensure the effectiveness and adequacy of the IEK's anti-fraud, anti-corruption and protected disclosure policies, arrangements for special investigations, and staff awareness of them.

## 7.11 Legislative Compliance :The GARC will:

- a) Review the effectiveness of the system for monitoring compliance with and changes to legislation and regulations and the results of management's investigation and follow-up of any instances of non-compliance.
- b) Review the Institution's policies and legislative framework.
- c) Review any non-compliance examinations and/or investigations by other agencies and any auditor observations.
- d) Review compliance with internal policies, plans and procedures.

#### 7.12 Ethics and Conduct : The GARC Committee will:

- a) Establish and periodically review the Ethics Framework in place within Council.
- b) Assess the internal process for management's identification and control of unethical behaviours or conduct.
- c) Ensure the Internal Auditors have regard to ethics in the development of the internal audit plan and in the conduct of internal audit projects.
- d) Review the outcomes of, and monitor any subsequent recommendations and management responses to, independent investigations into ethical matters and monitor the outcomes
- e) Review related party transactions arising from the end of year external audit process.

#### Further Members of the Committee are to:

- f) exercise objectivity and probity in the discharge of their duties and responsibilities
- g) refrain from entering into any activity that may prejudice their ability to carry out their duties and responsibilities objectively and independently
- h) act in a proper and prudent manner in the use of information acquired in the course of their duties and responsibilities
- i) exercise sound judgement guided by highest personal standards of honesty and integrity in all matters relating to membership of the Committee
- j) ensure that they do not place themselves in situations which could lead to, or be perceived to, give rise to a conflict of interest
- k) disclose to the Committee any matter which could compromise, or be seen to compromise, the performance of their duties on the Committee or give rise to a perception of a conflict of interest

#### 7.13 Performance review

Review the Committee's own effectiveness through an annual performance review and report the results of that review to the Council.

#### 7.14 Terms of Reference

Review and assess the adequacy of the terms of reference on an annual basis and request approval by Council in relation to amendments.

The GARC shall perform any other duties as it deems necessary to fulfil its role and as may be assigned by the Council. The internal, external auditors and other assurance providers



support the Committee by providing independent and objective assurance on internal corporate governance, risk management, internal control and compliance.

## **8. RIGHTS**

The GARC may:

- 8.1 Access the Hon. Secretary and President of the Council;
- 8.2 Conduct or authorize investigations into matters within its scope of responsibility;
- 8.3 Co-opt additional members to provide specialist skills, knowledge and experience;
- 8.4 Procure specialist ad-hoc advice at the reasonable expense of the IEK, subject to budgets agreed by the Council;
- 8.5 Receive copies of the IEK's Annual Service Plans and Annual Reports on a timely basis; and
- 8.6 Make a recommendation to Council to remove a member of the Committee for non-attendance at two consecutive meetings unless the member demonstrates to the Committee that the failure to attend was due to particular extenuating circumstances.

## **9. ACCESS**

The GARC facilitates communication between the Internal Auditors, the External Auditors and the Council. The Internal Auditor and the representative of external audit will have confidential access to the Chairperson of the Governance, Audit and Risk Committee.

## **10. MEETINGS**

The GARC will meet at least four times a year.

- 10.1 The Chairperson of GARC may convene additional meetings, as they deem necessary.
- 10.2 The quorum for a meeting of the GARC shall be one greater than half of the number of members of the Committee. A Council member should be present for a meeting to be considered quorate and should chair the meeting, if the appointed chair is not present;

- 10.3 The business of the Governance, Audit and Risk Committee will require the Hon. Secretary, relevant heads of IEK Departments, Internal Auditor and the External Auditor to attend for specific meetings or agenda items, at the Committee's request;
- 10.4 The Committee may also ask other secretariat members to assist it with its discussions on any particular matter.
- 10.5 The Committee may ask any or all of those who normally attend, but who are not Committee members, to withdraw from the meeting in order to facilitate open and frank discussion on a particular matter.
- 10.6 The Council may ask the Governance, Audit and Risk Committee to convene further meetings to discuss particular issues on which they seek the Committee's advice.
- 10.7 Decisions of the Committee shall be by majority decision. In case of an equality of votes, the Chairman of the meeting shall have a second or casting vote.
- 10.8 The members of the Committee should make themselves available at each Annual General Meeting of the Institution of Engineers of Kenya to answer questions concerning the Committee's work.

## **11. CONFLICT OF INTEREST**

- 11.1 Members of the Committee must comply with their legal, statutory and fiduciary duties and policy obligations, when discharging their responsibilities as members of the Governance, Audit and Risk Committee. The Secretariat shall provide information to assist Committee members as appropriate to perform their functions.
- 11.2 Members of the Committee shall act in good faith and in the best interests of IEK as a whole, act with care and diligence and for proper purpose as per IEK policies.
- 11.3 Members of the Committee shall disclose to the Chair and/or the Committee any actual, perceived or potential conflicts of interest which may exist as soon as the Committee Member becomes aware of any such issue and shall recuse themselves from discussions and or decisions which may involve that conflict.

## **12. INFORMATION REQUIRED**

For each meeting, the GARC will be provided with the following one week ahead of the meeting:

- 12.1 A copy of the Corporate Risk Register;

- 12.2 Reports from the Internal Auditor as per the agreed internal audit plan;
- 12.3 A report on progress made against internal audit recommendations, which provides information on work performed, key issues emerging, management response to the recommendations, changes to the agreed internal audit plan, and resourcing issues affecting the delivery of objectives of internal audit;
- 12.4 Any progress reports, (written or verbal), from the external audit representative summarizing work done and emerging findings;
- 12.5 Management assurance reports; and
- 12.6 Reports on the management of any major incidents, near misses, and lessons learned, and acted upon.

When required, the Committee will also be provided with:

- 12.7 proposals for the terms of reference of internal audit / the internal audit charter;
- 12.8 the internal audit strategy;
- 12.9 the Internal Auditor's annual opinion and report;
- 12.10 quality assurance reports from the Internal Auditor;
- 12.11 the draft financial statements of the IEK;
- 12.12 the IEK's draft governance statement;
- 12.13 a report on any changes to accounting policies;
- 12.14 external audit's management letter;
- 12.15 a report on any proposals to tender for audit functions, where appropriate;
- 12.16 a report on co-operation between internal and external audit; and
- 12.17 The IEK's risk management policy.

### **13. USE OF INFORMATION AND CONFIDENTIALITY**

- 13.1 Upon appointment and reappointment to the Committee, GARC Members will be required to sign a confidentiality agreement.
- 13.2 The nature of the work of the Committee will provide its members with access to information about the day to day operations of Council including information that may be commercial in confidence. Accordingly, it is important that members of the

Committee recognise the responsibilities associated with their access to this information, in particular with regard to its use or misuse.

13.3 In the event that a GARC Member resigns or is removed from the Committee, any documents and papers relating to Council, must be returned.

## **14. OTHER**

The Committee will:

14.1 Consider the findings and recommendations of relevant Performance Audits and other specific audits undertaken by the External Auditor and make any appropriate recommendations.

14.2 Within its purpose and authority, review and assess any other matter deemed necessary by the Committee or requested by the Council or Chief Executive Officer.

14.3 At least annually, the Committee must review the Council's oversight of any subsidiaries as may be required. This should include, but is not limited to, Council approval of budgets, annual and strategic plans, governance of the subsidiary and reporting arrangements.

14.4 At its discretion the Committee may consider complaints from the public which may expose inappropriate practices within the IEK Council and any subsidiaries.

14.5 Monitor the progress of any significant claims or litigation by or against Council

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Chair Person IEK Western Branch