Audit Committee Brief

Issues for Audit Committees to Consider at Year-End

In today's complex business environment, audit committees are busier than ever and are challenged to focus on what matters most to their organisations. Audit committees of Namibian companies are expected to work closely with management, the internal auditors and the independent auditor to oversee risk, financial reporting, compliance, and corporate resources.

Setting the tone at the top has never been more important than it is today. In addition to the questions the audit committee routinely asks management and the auditors at year-end, additional emphasis should be placed on topics such as:

- financial reporting;
- risk management;
- strategy;
- anticorruption measures; and
- the ongoing impact of legislative and governance developments.

Financial reporting

Although there were few new accounting pronouncements implemented in 2010 and 2011, compliance with existing standards can be a challenging exercise in the current Namibian economy. Questions the audit committee may want to consider asking management and the independent auditor include:

- How has management addressed accounting issues faced by any Namibian economic challenges?
- Has the company appropriately determined, classified, and disclosed any impairment of assets?
  - Are there any significant changes to management's assumptions this year that affect the outcome of impairment testing?
  - Are there any close calls?
- Are there any unusual transactions included in the financial statements that have a significant impact on the company's results?
  - Have these transactions been recorded and disclosed appropriately?
- Are assets and liabilities that are reported at fair value or for which fair value is disclosed appropriately measured at a current exit value?
  - Are there any new assets or liabilities reported at fair value?
  - Are there changes to the methodology used to estimate fair value?

- Are contingencies estimated and disclosed appropriately?
- Are changes in management's estimates of significant accounts communicated and documented adequately and in a timely manner?
- Are there adequate disclose qualitative considerations related to key estimates?

Risk management

Risk management is a detailed process of identifying, assessing and ranking of risks faced by any organisation. Priority risks are then managed, by application of resources, to minimise negative impacts on the business and to maximise any opportunities that may arise. Certain aspects of risk management processes have of late, however, come under criticism, and questions the audit committee may want to consider asking management include:

- How is management dealing with the consequences of realised residual risk in the form of a business continuity plan?
- Are current risk communication procedures effective on collective and individual decision making?
- Do management's disclosures about the board's comprehensive risk oversight process provide stakeholders with a thorough and accurate view?
- Based on the disclosures made by competitors and peers, should the company consider implementing changes to its risk oversight processes?
- How does management plan to update the prior-year disclosure on risk management processes?
- Has management received any stakeholder inquiries about risk oversight that should be considered in future proxy filings?

Strategy

During the global economic downturn, many companies focused their strategic discussions on short-term challenges. However, as the gobal economy begins a slow recovery, companies are turning their attention to long-term growth strategies; most five-year plans that were developed several years ago are no longer relevant.

Questions the audit committee may want to consider asking management include:

- How much time does management spend on strategic discussions?
- Has management adequately challenged the underlying assumptions of its strategy?
- Does management provide timely and sufficient information to allow the board to fully evaluate the organisation's strategic objectives?
- Is the strategic plan aligned with the company's risk appetite and profile?

Anticorruption measures

Enforcement of anticorruption laws (the Anti-Corruption Act of 2003, the Constitution, the Public Service Act of 1995, the Tender Board Act of 1996 and the Diamond Act of 1999) has steadily increased in Namibia. Audit committees and management may want to discuss the company's anticorruption policies, how risk is assessed, and the effectiveness of compliance programs to determine whether there are any year-end implications.

Questions the audit committee may want to consider asking management include:

- What regulations, guidelines, and laws have changed?
- What new processes have been put in place to address the changing requirements?
- How effective is management's process for monitoring compliance with anticorruption laws?
- Has management engaged any outside advisers to assist in its efforts?

Ongoing impact of legislative and governance developments

Recent legislation and governance developments to impact Namibia include, amongst others, the:

- Competition Act (2003) (Namibian Competition Commission);
- Directive on Remuneration levels for Chief Executive Officers and Senior Managers at State-owned Enterprises and Annual Fees and Sitting Allowances for Board Members (2010);
- Banking Institutions Amendment Act (2010);
- Transfer Duty Amendment Act and the Transfer Duty Second Amendment Act (2010);
- Value Added Tax Amendment Act (2010);
- Income Tax Amendment Act (2010);
- the King III Code (2009);
- Communications Act (2009);
- State-owned Enterprises Governance Amendment Act (2008);

- Affirmative Action (Employment) Amendment Act (2007);
- Companies Amendment Act (2007)
- Financial Intelligence Act (2007);
- Labour Act (2007); and the
- Companies Act (2004);

Questions the audit committee may want to consider asking management include:

- What is the likely impact of regulatory activity on the company?
- What is the company's plan to address the new requirements of the above legislation and governance developments?
- What additional disclosures will be included in annual financial reports to reflect the impact of the new legislation?
- What further impact do we expect in 2011, and has management begun assessing and planning for that impact?

Conclusion

The audit committee plays a critical role in focusing management's attention on key issues that may affect the business. It is important for the audit committee to ask management questions that will focus them on what matters most to their organisations. Those discussions will help the audit committee meet its oversight responsibilities with respect to risk, financial reporting, compliance, and corporate resources.

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For more information on the topic covered in the brief, please do not hesitate to contact our Deloitte Namibia team:

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