SCHOOL OF CS III

PAPER NO. 18

Certified Secretaries (CS) Examination Syllabus

GOVERNANCE AND SECRETARIAL AUDIT

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CHAPTER 1

GOVERNANCE AND SECRETARIAL AUDIT

18.1: Introduction to Governance Auditing

Definition: This is the examination of the administration procedures, finance procedures and ethics of the organization to give an independent and fair view of the current position with regard to the professional and legal standards. It is independent and expression of opinion on the administration and governance procedures in accordance with the appointment and statutory requirements.

Governance is term used to describe persons entrusted with the supervisory, control and direction of any entity, like board of directors, audit committees and any other auxiliary committee which has the responsibility of managing any organization.

Governance" applies to nearly all entities: for-profit businesses, nonprofit organizations and governmental entities. It relates to the relationships between management, the board of directors, and other stakeholders, such as stockholders, donors, or citizens. At the fundamental level, good governance is all about Checks and Balances. Auditors love checks and balances, although we usually say "internal control." Same thing. But what does that have to do with governance?

Organizations have a governance audit to gain assurance about their governance statements. To have a good governance audit, you generally need good internal control. How does an organization find out if they have good governance checks and balances? And why would it want to?

Let's focus on the nonprofit and governmental sectors. Many of us volunteer on boards of local nonprofits, or are appointed to advisory boards for local governments. Some even hold an elected office. In these capacities, we are impacted by the effectiveness of the organization's governance structure and how it functions. In fact, we are active participants in the system of governance. Can we just assume that the governance system is operating as it should? How would we know if it is not? And why should we be concerned about this?

Take a nonprofit that has a strong executive director. Let's call him ED. He recruits the members of the board and, naturally, they all happen to be his buddies. They like ED because he lays out his plan for the organization and provides information to the board to support that plan. ED makes the board's job easy. But the board doesn't realize that they are not getting the full picture. ED tells them only enough to get approval for his plan. So instead of the board guiding the organization, ED is really calling the shots. This arrangement can accomplish some amazing things, or it can blow up in the board's face. After all, it is the board of directors that is ultimately responsible for the organization, not the executive director.

Or let's take a different organization with a weak but likable executive director. Let's call him Nerdly. The board is made up of directors with big egos who are fond of micro managing. Actually they are addicted to micro managing. They stick their nose into everything. Nerdly owes his position to keeping the board happy, so he goes along with the board members. This too can result in some worthwhile accomplishments, but they may not be aligned with what is best for the organization. Does this arrangement really provide for the best utilization of resources?

In the first situation, ED's power is not checked because he stacked the deck and is the only dealer. ED receives a 360-review, but it is filtered by an evaluation committee made up of ED's board buddies. Staff comments that describe ED's bullying of staff are filtered out and not seen by the full board. To the board, it looks like ED is doing a great job. How would they know otherwise?

Nerdly is reviewed only by his board. That is why he works so hard to keep the board happy. The organization's staff have no input to Nerdly's evaluation, so he can be indifferent to staff input. Staff are not even allowed to initiate communication to board members, so the board is not aware of staff concerns. Besides, the board members get their way with Nerdly, so they are happy. But who is looking out for the organization's best interest? Certainly not this board or Nerdly.

One answer to these questions can be a Governance Audit: an objective review of how an organization is governed. This review looks at how the governance structure is designed, but also how it is actually operating. It assesses whether there adequate checks and balances in place for effective governance. Larger organizations may have their internal audit department perform the governance audit. Smaller organizations are, for the most part, unaware that a governance audit is even an option to consider.

18.1.1: Nature, purpose and scope of governance audit

Governance audit describes the overall management approach through which senior executives direct and control the entire organization, using a combination of management information and hierarchical management control structures. Governance activities ensure that critical management information reaching the executive team is sufficiently complete, accurate and timely to enable appropriate management decision making, and provide the control mechanisms to ensure that strategies, directions and instructions from management are carried out systematically and effectively.

18.1.1.1 Nature and development

The word "audit" is an in independent examination. It comes from the Latin word audire which means "to hear" because, in the middle Ages, accounts or revenue and expenditure were "heard" by the auditor.

Statutory audits (i.e. carried out in accordance with statutory provisions) become mandatory for companies in 1900. At this time the purpose of an audit was to detect fraud, technical errors and errors of principle.

However, the recognition in case law that it is unreasonable to expect auditors to detect all aspects of fraud, even though they exercised reasonable skill and care, means that this is not now a primary purpose.

With improvement, auditing profession has sought to broaden its role (e.g. with value for money and operational audits.

18.1.1.2 Purpose and objective of governance audit is to:-

- Provision of checks and balances on governance information and reports given.
- Deduction of uncertainty of risks.
- Adds value to information given and running of an entity.

- ∑ Help stakeholders to make decisions
- ∑ To uncover misstatements and frauds
- ∑ Provision of confidence in any entity to external and internal stakeholders
- ∑ Reviewing of the systems of the organization to ensure that they are working well
- ∑ Review the reports provided to determine whether they portray a fair vies of what is on the ground.

18.1.1.3 Scope of audit

The scope of governance auditing means the procedure that is necessary to achieve the desire objectives of governance auditing which must cover the following:-

- ∑ The legal conditions that follow the rules and regulations applicable to the work that it should operate within the legal framework.
- ∑ The governance audit must cover all aspects of the business not ignore or assume anything material great and small.
- ∑ Apply the skills necessary when preparing reports so as to prove the facts
- ∑ Compare records with record statements given to arrive at a fair view of the situation at hand
- ∑ Be able to evaluate the internal checks system to the satisfaction that whatever they provide is what is required and supported.
- ∑ The conclusion of the exercise of governance auditing report be based on persuasive auditing opinion not on probability.
- ∑ Legislation and regulations (e.g. Companies Acts);
- ∑ The terms of the audit engagement and reporting requirements.

Fundamental Concepts

Reasonable assurance – in an audit engagement, the auditor provides a high, but not absolute, level of assurance, expressed positively in the audit report as reasonable assurance, that the information subject to audit (i.e. the governance statements) is free of material misstatement.

· To provide such assurance, the auditor assesses the evidence collected in respect of the governance statements as a whole and expresses a conclusion thereon.