



CIRCULAR NO. 1 of 2020

Date: January 2, 2020

To: All Chairpersons –
All Chief Executives –
Issuers of Securities to the Public in Kenya

RE: GOVERNANCE AUDITS

As you are aware, a governance audit is an independent assessment of an organization with a view to expressing an opinion on the adequacy and effectiveness of the organization's systems, policies, processes and practices within the governance legal framework and in line with the best practices on corporate governance. Clause 2.11 of The Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 requires Boards of issuers of securities to the public to ensure that a governance audit is carried out at least annually to confirm that the company is operating on sound governance practices. Further, the Code requires that the annual governance audits are conducted by a competent and recognized professional accredited for that purpose by the Institute of Certified Secretaries (ICS). After undergoing the governance audit, the Board is required to provide an explicit statement that the governance audit was carried out and disclose the entities level of compliance.

Following stakeholder consultation on the second Report on the State of Corporate Governance of Issuers of Securities to the Public in Kenya 2018/19 published on 23rd October 2019, the Authority has received and considered feedback on the frequency, cycle, cost and scope of governance audits. After further consultations & engagements with the stakeholders, taking into account the issues raised and wider stakeholders' interests, the Authority will be amending the Code in order to reschedule the governance audits to at least once in every 2 years with the option of the Authority increasing or decreasing the cycle based on a risk based approach. In all cases, in any period in which a governance audit has not been undertaken, the issuer will be required to detail the progress made in implementing prior audit recommendations.

The Authority will conduct further consultations on the operation of a risk-based approach which may have the potential of allowing an issuer that: For example, is consistently assessed and rated weighted overall score as a leader" in 3 consecutive years to have a governance audit cycle of 3-5 years. Such treatment will be deemed appropriate where a board was noted to be, of its own volition, identifying areas for continuous improvement. On the other hand, if an issuer is consistently assessed and rated as "fair" and "needs improvement" in its overall weighted score for 3 consecutive years, then the Authority may require the governance audit of the respective issuer to be conducted on an annual basis.

For an issuer to be eligible for a 2 year cycle of governance audit cycle, it must have conducted at least one governance audit and have demonstrated that the findings of the audit are being proactively implemented.

The Authority notes that the Institute of Certified Secretaries (ICS) has developed a governance audit opinion template to:

- i. Guide issuers on reporting in their annual reports on their degree of adherence to good corporate governance practices and;
- ii. Detail the auditors opinion on the adequacy and effectiveness of the issuers policies, systems, practices and processes within the legal framework and in line with the best practices on governance.

In this regard and in the spirit of transparency & disclosure outlined in the code, the Authority expects all issuers to publish their respective degree of adherence to good corporate governance practices and the audit opinion received in their respective annual reports after completion of such audits.

Kindly note that this circular applies to all issuers of securities to the public in Kenya. Please ensure compliance and we look forward to your continued support and engagement with the Authority as we strive to promote good corporate governance & sustainability practices in Kenya, especially among the issuers of securities to the public in Kenya.

Yours sincerely



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