

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF KENYA

EFFECTIVENESS OF AUDIT COMMITTEES IN THE PUBLIC SECTOR



WEDNESDAY, 12TH OCTOBER 2016

@ Sarova Whitesands Hotel, Mombasa

Credibility .

Professionalism

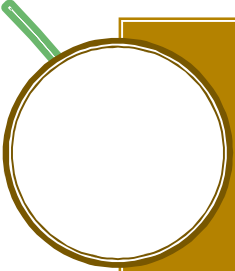
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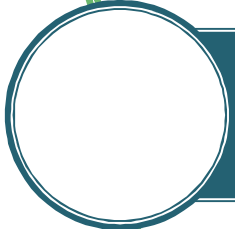
OUTLINE

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INTRODUCTION



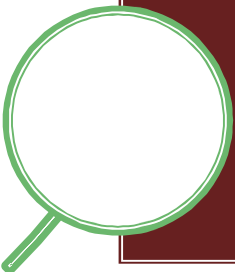
Demand for accountability and efficient use of resources in the public sector – a key subject matter: Global financial crisis that began in mid-2007, spate of corporate failures and scandals coupled with globalization and expansion of financial markets are some of the factors that have led to increased demand for audit.



The Auditor General in the last two audit cycles reported glaring discrepancies in the financial management systems of Government.



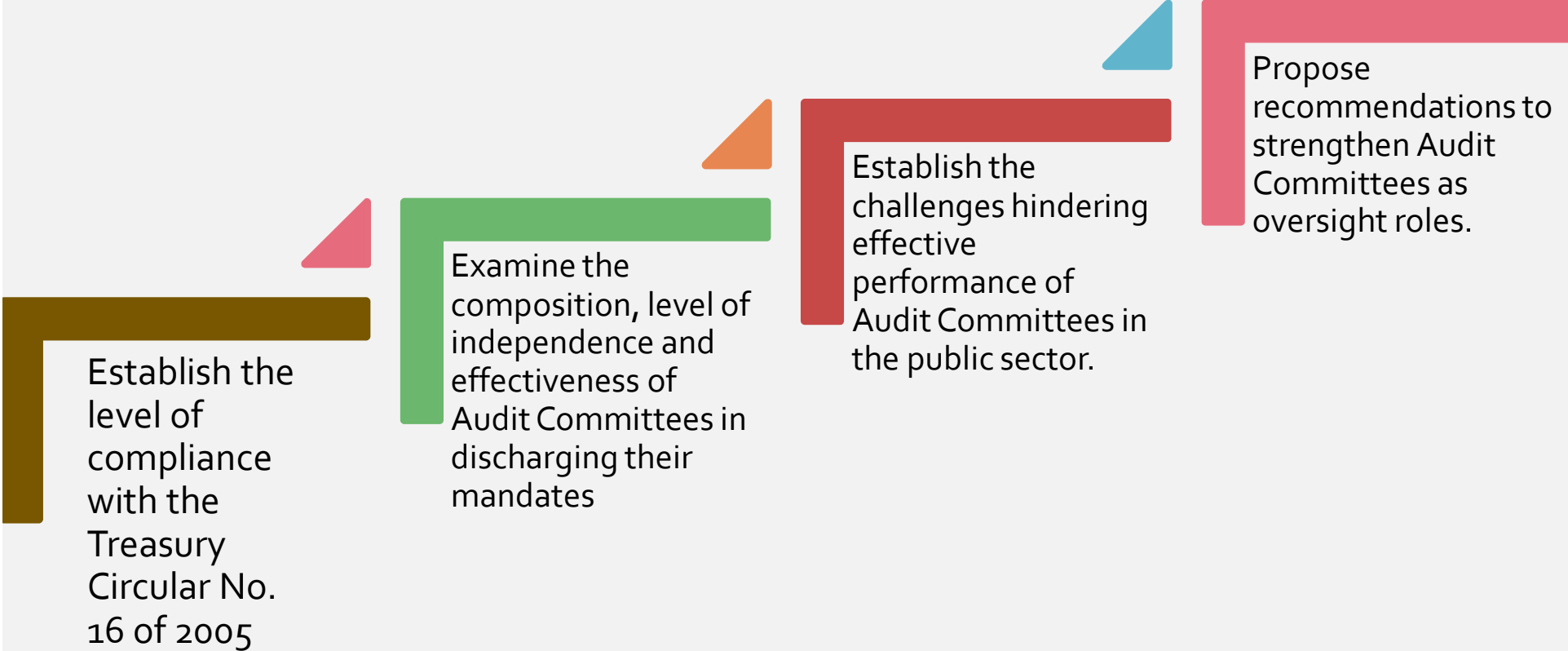
In conjunction with the Office of the Internal Auditor General of the National Treasury conducted a survey on effectiveness of Audit Committees in the public sector in line with the Treasury Circular No. 16/2005



The core mandate of ACs is to undertake Audit and ascertain Risk and Compliance levels of an entity. *How the committee fulfils that mandate varies according to; the clarity of the committee's mission, the abilities of the committee's members, and the tone set at the top of the governance structure*

STUDY OBJECTIVES

- The study sought to:



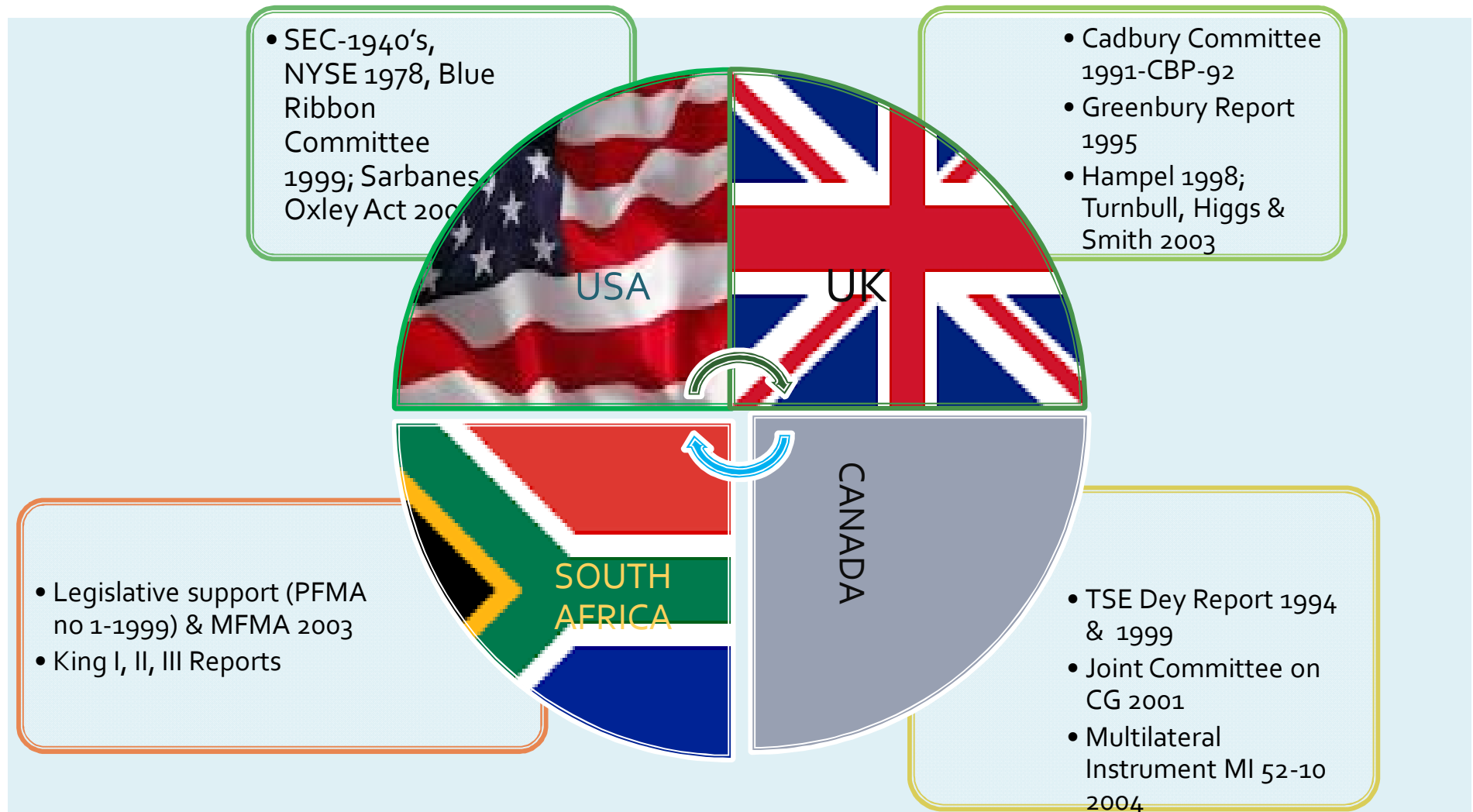
Establish the level of compliance with the Treasury Circular No. 16 of 2005

Examine the composition, level of independence and effectiveness of Audit Committees in discharging their mandates

Establish the challenges hindering effective performance of Audit Committees in the public sector.

Propose recommendations to strengthen Audit Committees as oversight roles.

EVOLUTION OF AUDIT COMMITTEES IN THE WORLD



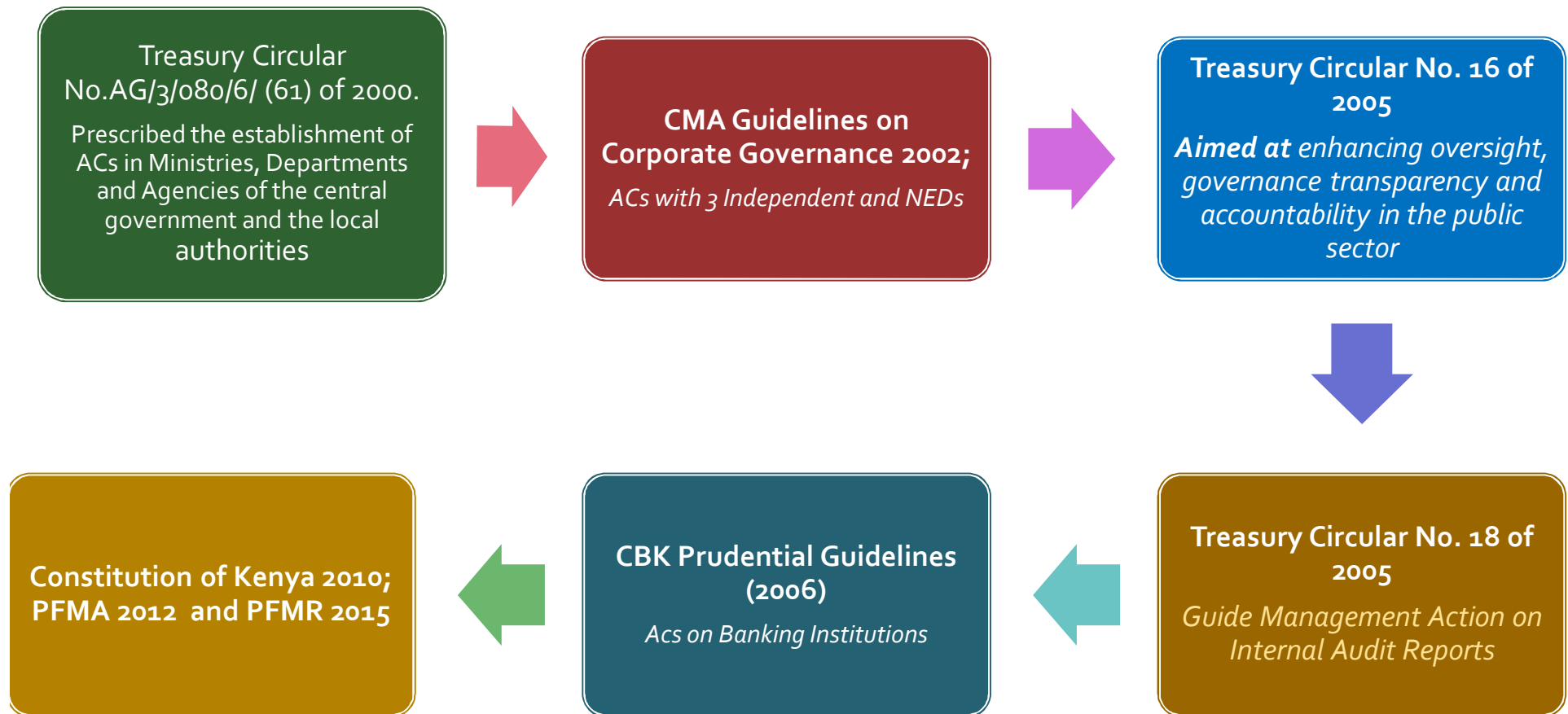
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ESTABLISHMENT OF AUDIT COMMITTEES IN KENYA



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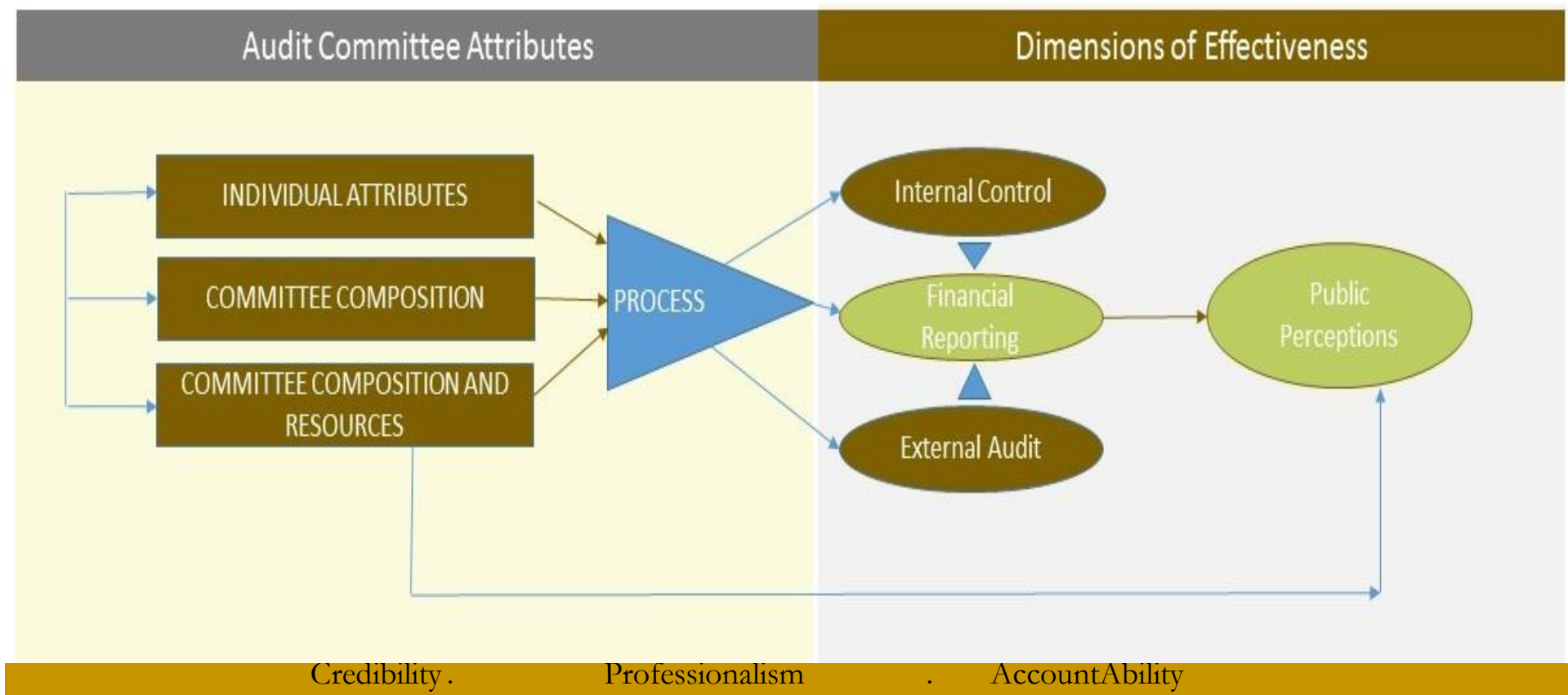
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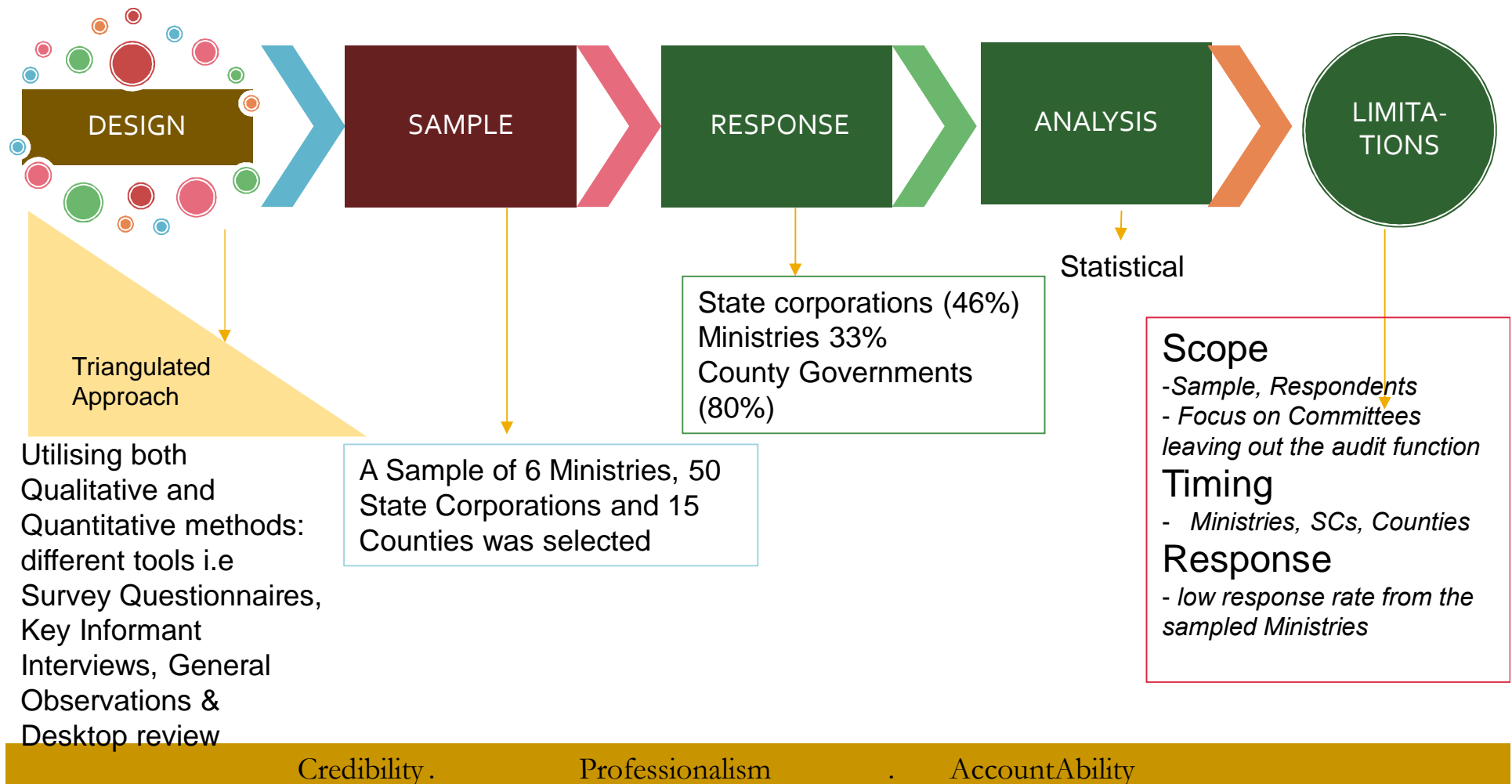
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ATTRIBUTES OF AN EFFECTIVE AUDIT COMMITTEE

- INDIVIDUAL – Appropriate Technical Skills and Experience, independence, demonstrated leadership and integrity
- COMMITTEE Attributes: Appropriate Skills mix, size, communication, periodic assessment

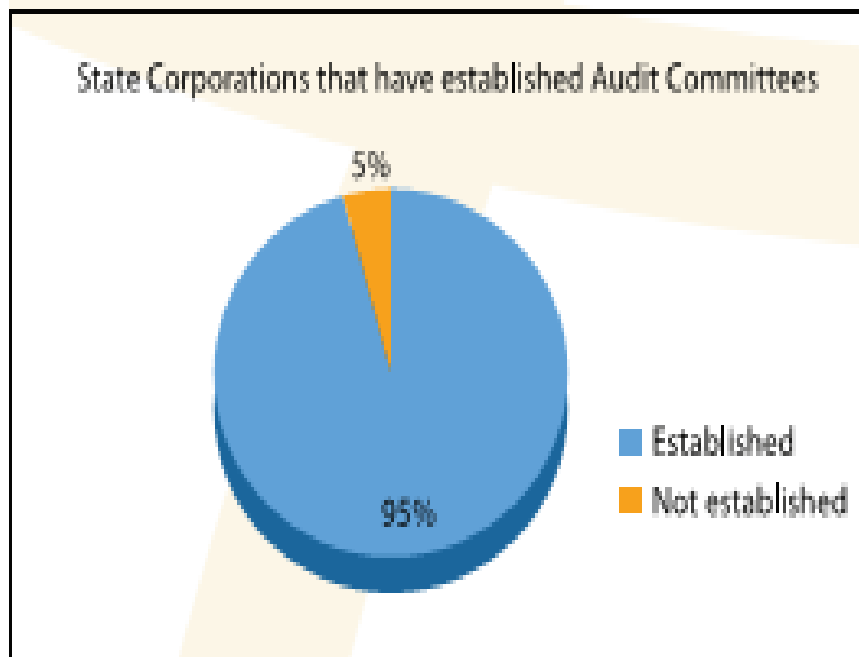


RESEARCH METHODOLOGY



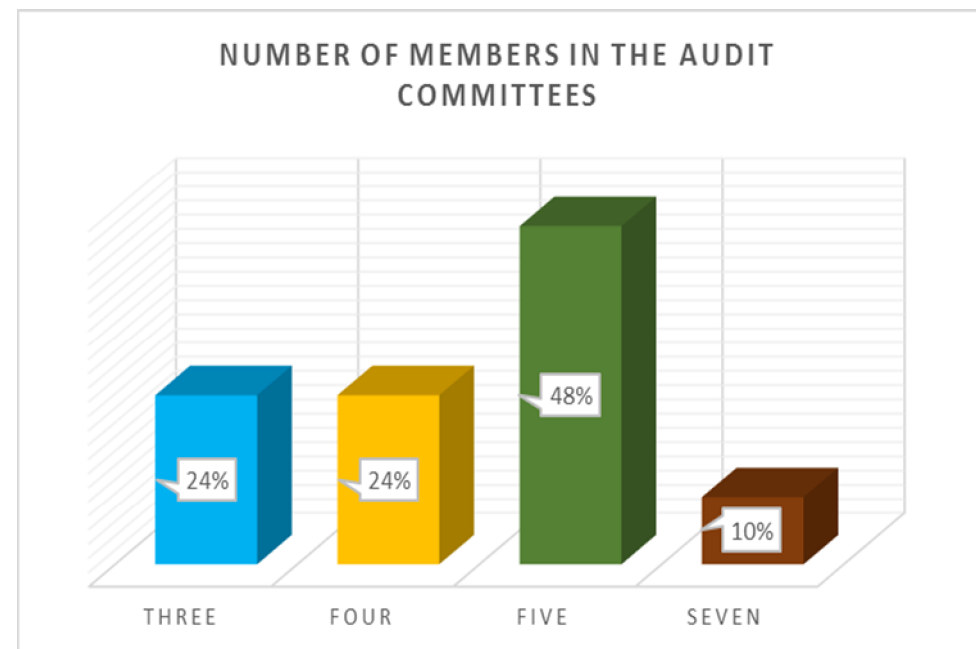
RESEARCH FINDINGS

a) Establishment



Complied with Treasury Circular -2005 and CMA 2002 guidelines (Commercial entities)

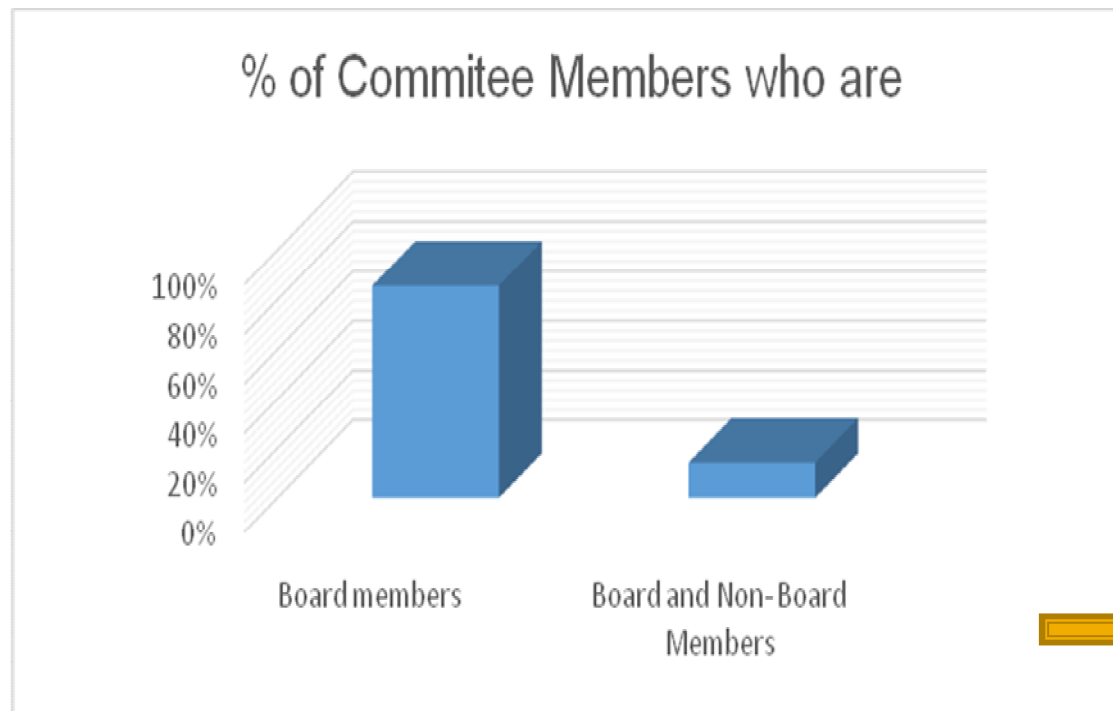
b) Membership



Membership of 3 decried quorum challenges

RESEARCH FINDINGS cont..

C) Composition



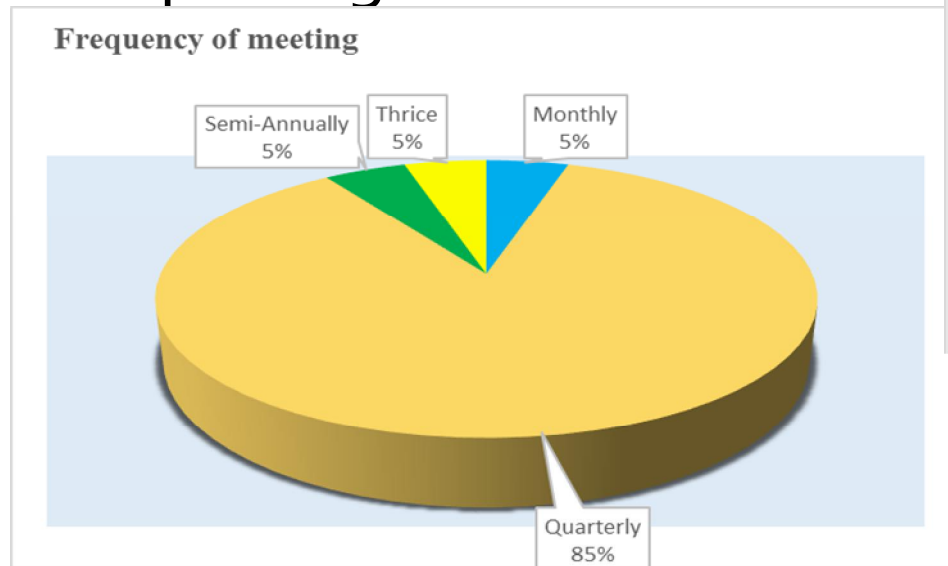
Global IIA recommends that the majority of the audit committee members should be independent of the organization in order to support the board in fulfilling its oversight responsibilities

d) Minimum Requirements

- Most entities could not ascertain the minimum qualifications needed unless expressly stated in their respective enabling statutes. Largely so due to the nature of appointments to the board
- In a number of entities, representatives from the Inspectorate of State Corporations (ISC) would be in-attendance in every committee sitting in an advisory capacity.

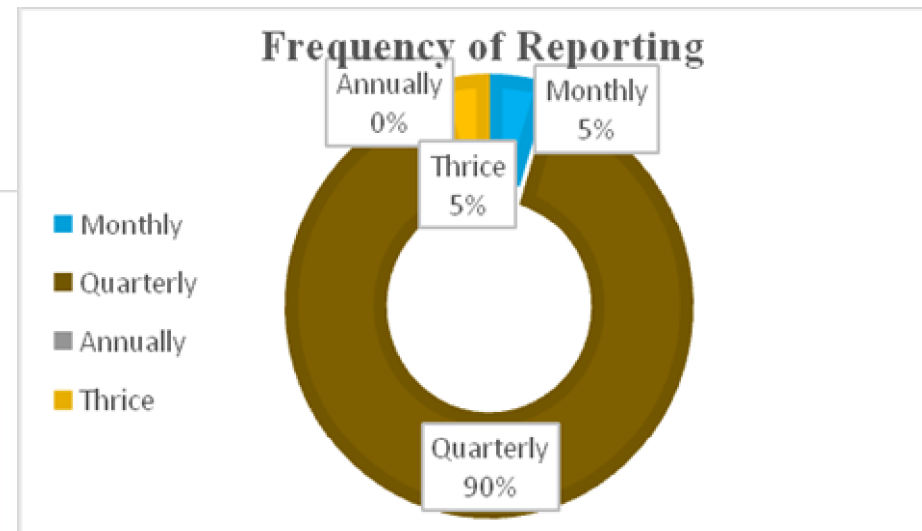
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e) Frequency of Meeting & Reporting

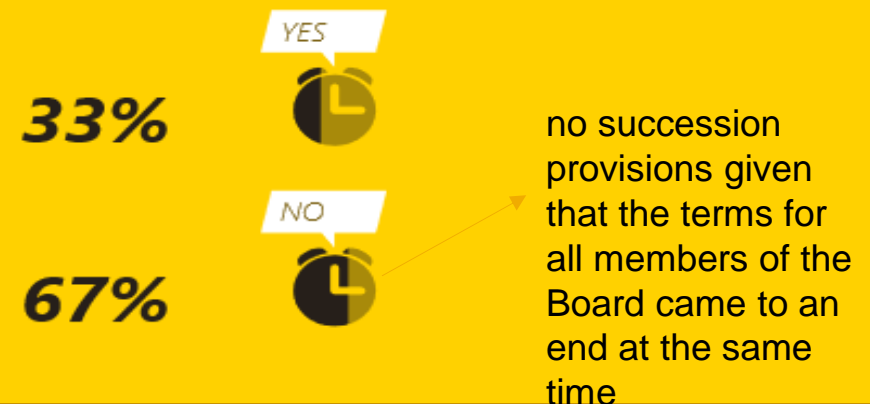


Meeting with the Chief Executive

ACs might find it useful and necessary to hold separate private meetings with both the internal and external auditors without the presence of executive management at least once a year



f) Succession Planning



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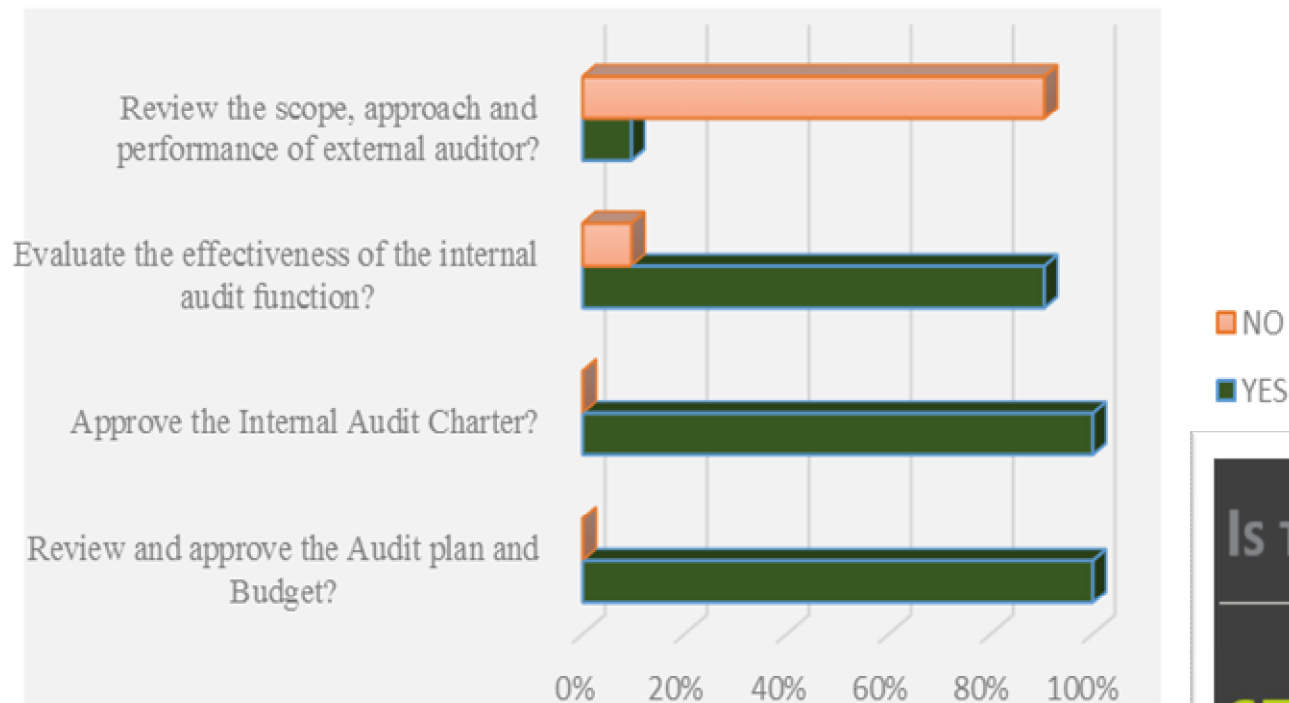
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g) Audit Committee Functions Vs Resourcing

Audit Committee Functions



It was observed that the Office of the Auditor General neither reviewed nor relied on the work of the Internal Auditor

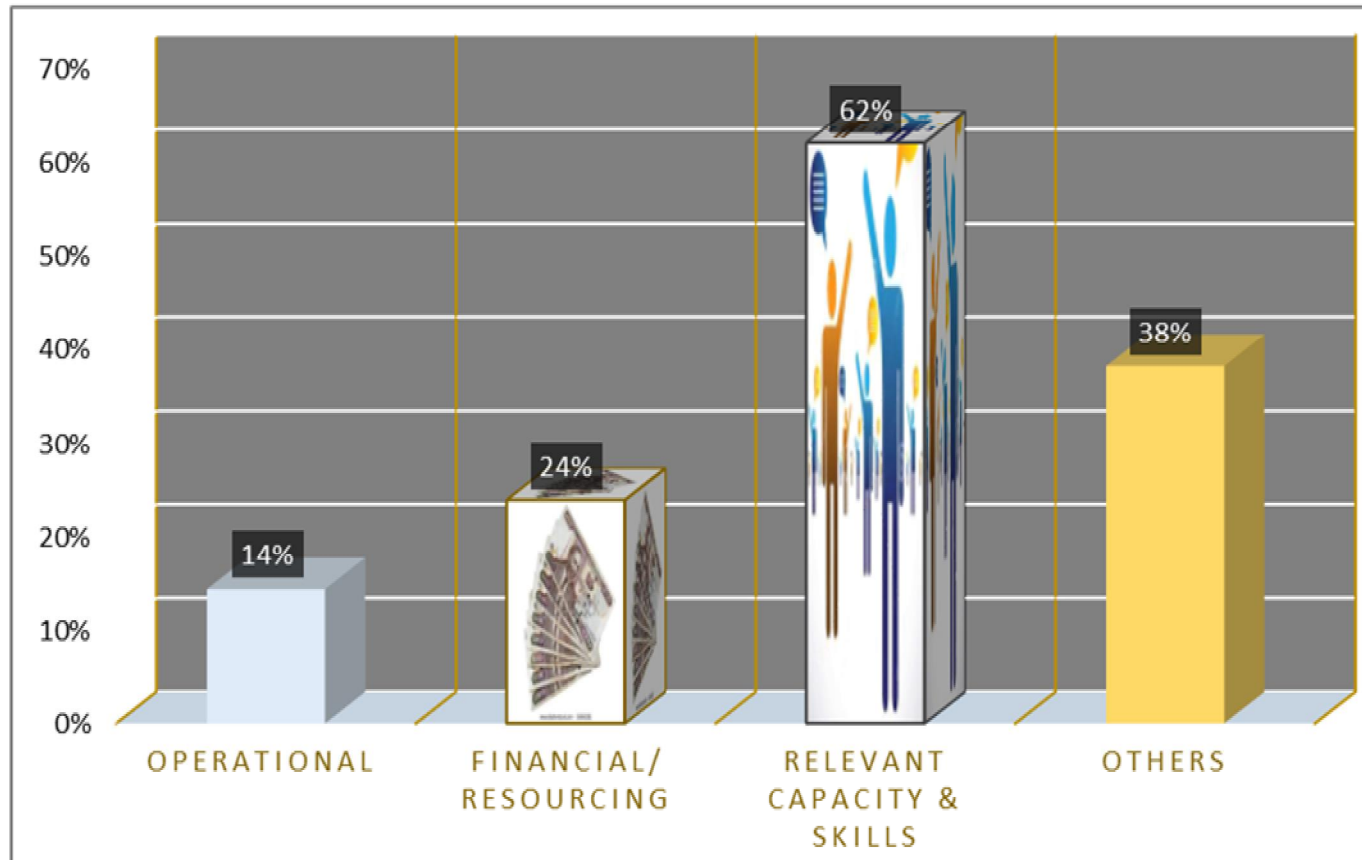
IS THE RESOURCING SUFFICIENT?

67% 
YES

33% 
NO

CHALLENGES FACING ACs IN SCs

Challenges Facing Audit Committees in the Public Sector



Related to capacity and skills, the respondents bemoaned absence of appropriate skills mix in the committees as well as lack of opportunity for continuous trainings for skill enhancement.

Other challenges identified include;
limited financing, lack of succession planning,
committee independence due to political patronage

quorum challenges,

ESTABLISHMENT OF MINISTERIAL ACs

Key reforms were carried out in year 2013 where there was a reduction of the Government Ministries from forty seven (47) Ministries to 18

The study observed that;

The Ministerial Audit Committee Comprised of seven (7) members all drawn from the senior employees of the Ministry.

Nomination to sit in the audit committee was based on seniority in the Ministry with the minimum rank being that of a Director or Heads of Department.

Operation challenges remained dominant due to the merging of Ministries. As such, the Min. ACs committees lacked a clear reporting structure. Moreover, unavailability of members to form quorum due to their day to day operations as heads of departments was reported

ESTABLISHMENT OF AUDIT COMMITTEES AT THE COUNTY LEVEL

Prior to the establishment of the County Governments in Kenya, the defunct Local Government Authorities were also required through the Treasury Circular No. 16/2005 to establish and strengthen Audit Committees in order to enhance oversight, governance, accountability and transparency in the public sector.

Respondents from the counties indicated that they had not constituted Audit Committees due to lack of a guiding framework.

Notwithstanding, Nairobi City County reported that it had established and operationalized an Audit Committee on the basis of the draft Public Finance Management Regulations 2014

STRUCTURAL RECOMMENDATIONS

Appointments

- National Treasury through PSASB should fast-track on issuance of guidelines on establishment, composition and minimum qualifications for members of Audit Committees in the public sector.
- Considerations should be made to qualification, experience, and skills mix of the entire committee and by extension the board.
- The appointment to be done competitively and or selection from professional bodies – to enhance independence.

Composition

- We recommend compliance with clause 3.4 (2) (b) of the Mwongozo Code which stipulates that *"the Board should ensure that at least one member of the committee has relevant qualifications and expertise in audit, financial management or accounting with experience and knowledge in risk management and is a member of a professional body in good standing"*
- Appropriate mix of skills and expertise to be informed by the nature and the mandate of the respective entity
- Minimum of five members to the Audit committee. This will help mitigate quorum challenges and offer a wide spectrum of skills for decision making

RECOMMENDATIONS CONT..

■ Mandate

- Audit function should be underpinned by an approved Audit Charter
- Should monitor internal audit coverage to ensure that all key risk areas are considered
- Appointment and assessment of performance of the head of internal audit should be driven by the ACs; in appraising IA, we recommend a three tier appraisal by the management, the Committee and audit staff peers

■ Succession

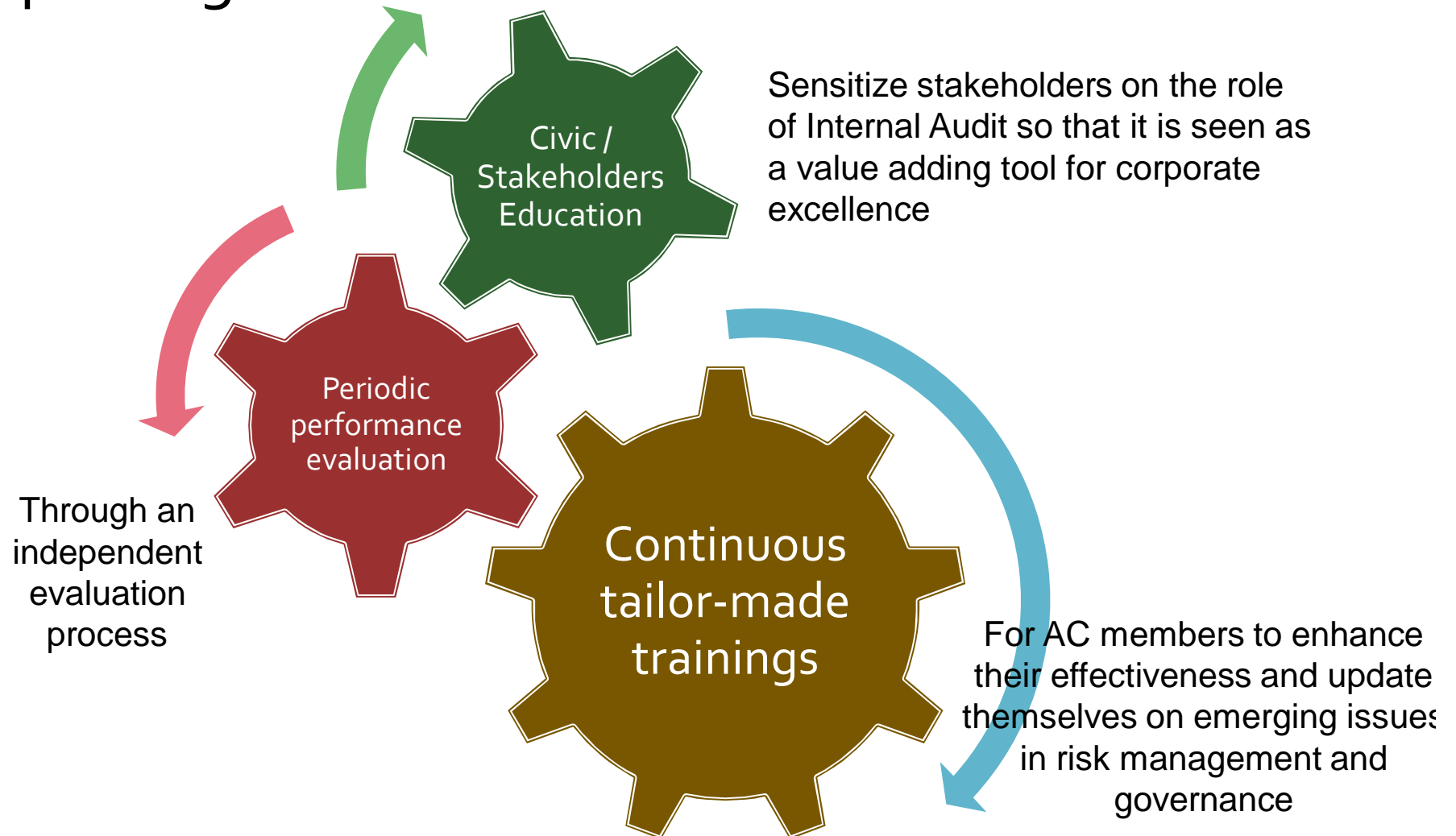
- Institutionalization of guidelines on succession with clear definition of transition processes so that the work of the committee is not affected – Provide staggered terms for members of Acs.

■ Funding the Audit Function

- The budget of audit function should be distinct from the executive budget. This shall contribute to the independence of the function.

Recommendations...

■ Improving Performance



AC MANDATE & RELATION WITH INTERNAL & EXTERNAL AUDITORS

■ Internal Auditor

- The drivers of the role must continuously seek knowledge on emerging risks and risk factors.
- The office should be adequately supported by the entire organs of the entity.
- For a start, the holder of the office should be hired at a level of senior management to develop the clout to relate and effectively deal with risk owners within the organization who in most cases are senior managers

■ External Auditor

- The External Auditor should hold periodic discussions with the Internal Auditor on the efficiency and effectiveness of systems of internal controls. The External Auditor may then assess the reliability of the work of the Internal Auditor to place reliance on them in his final audit work

THE END

Thank You!

