



ICPAK NOTES ON ONGOING ALLEGATIONS IN THE HEALTH MINISTRY ON THE LOSS OF KSHS.5.2 BILLION

3rd November 2016

There has been hue and cry over a leaked Internal Audit Report from the Ministry of Health indicating that Kshs. 5.2 billion may have been lost through payments to suppliers in the Financial Year 2015/16.

Internal Audit Process

1. It is important for the public to understand an ideal public audit process to be able to determine whether any irregularities were committed; and if any funds were lost.
2. Kenya's internal audit process adheres to the International Professional Practice Framework (IPPF) for Internal Auditing Standards as adopted and issued by the Public Sector Accounting Standards Board (PSASB). The PSASB is a statutory body created by an Act of Parliament (PFM Act 2012) The process is defined as follows:

Table 1: Sample Internal Audit process

No.	Phase	Description
1.	Planning	Auditor prepares work plan for the audit process
2.	Execution	<ul style="list-style-type: none">▪ Letter of understanding sent to the auditee▪ Entrance meeting with the auditee- to understand the objectives, scope and approach of the audit▪ Fieldwork▪ Audit queries are raised and feedback sought▪ Exit meeting with the Auditee
3.	Reporting	<ul style="list-style-type: none">▪ A management letter is issued to the accounting officer and response sought▪ A draft/interim report is issued to the auditee and response/clarifications sought▪ Final report is issued
4.	Feedback and implementation	Follow-up by management on implementation of Audit recommendations

It is incumbent upon the parties to an audit, specifically internal audit process, to engage effectively for the achievement of the broader objective, which is stronger internal system of control and risk management.

Historically, internal audit has been viewed from adversarial viewpoint and hence end up compromising the objectivity of internal audit role. This has to a greater extent, resulted in audit reports that do not capture the actual state of affairs for the simple reason that the auditor and the auditee failed to communicate well.

For any audit and the case in point, the Ministry of Health to serve the purpose for which it is set, each party must observe the professional etiquette by playing its part promptly and in a conclusive manner. By this, we will achieve an objective assessment of the strength of internal controls.

As a matter of procedure, the reports of internal audit are made for management. Where management is unable to respond adequately to the issues raised by the Internal Audit Report, then the outstanding issues are submitted to the Audit Committee of the Board for further discussion and eventually to the Board; or, the Accounting Officer in the case of Ministries where there are no boards. The report under discussion as severally highlighted in the media is alleged to have been leaked and this is an indication that the report did not go through the whole governance process hence in our view we consider it as a whistle blowing effort.

In view of the above, the matter in question has now been taken up by the Accounting Officer. The Public Audit Act and indeed the Constitution mandates the Office of the Auditor General to conduct a special audit either on invitation or on its own volition.

Further Specialized Audit

3. During the audit by the Office of the Auditor General, the auditors can consider using the internal audit report which can largely inform them on areas of further audits. The Public Audit Act is very clear on this and the Auditor General's report is submitted directly to Parliament. This therefore forms the basis of PAC-National Assembly seizing the matter in a professional manner for deliberation and further direction. If Parliament considers this as a weighty matter that requires urgent attention, the Constitution empowers National Assembly to request the Auditor General to carry out a special audit and report back to it within a specified time frame
4. Moreover, we have noted the actions already taken by the Cabinet Secretary for Health. The CS noted that he will be inviting a private audit firm of international repute to conduct further independent evaluation of the Interim Audit Report. We are of the view that this is misplaced focus. The object of the independent audit ought to be to ascertain the veracity of the issues raised not an evaluation of the interim audit report. We must think of a broader response whose aim should be to seal any loopholes and weaknesses in the accountability systems that the internal audit inquiry may have identified to avoid recurrence.

Schedule 4 of the Constitution

5. It is also noted that most of the functions that were being funded which are the subject matter of the allegations, are listed under Schedule Four (4) of the

Constitution as fully devolved. This is in respect to the principle of subsidiarity; and adherence to Schedule 4 of the Constitution of Kenya that delineates the functions of the National Government from those of the County Governments.

In light of the above, the Institute recommends that:

6. Public Sector and more specifically accounting officers, must appreciate the role of internal audit as a principal partner through whom, stronger systems of internal checks can be established. We must nurture healthy working relations with internal audit function and seek an understanding that the role of internal audit is to point out potential risk exposures. Consequently, both parties must at all times agree on expectations to which they must remain focused as a matter of principle.
7. The Government should expedite the completion of a Whistleblower Protection Policy and enabling legislation to protect all Whistleblowers in Kenya who are keen on transparency, accountability and prudent utilization of public resources.
8. Accountability institutions such as EACC, Office of the Auditor General and other State Agencies should expedite the ongoing audits and investigations to identify the facts on this matter.
9. That, if by the closure of all investigations, persons are found culpable of violating the Constitution and Public Finance Management Act 2012, and guilty of mismanaging public resources, appropriate action should be taken.
10. The Institute reiterates that any accountant found culpable in an effort to subvert the laid down systems of accountability shall be subjected to the full force of law to which he/she has subscribed to as a member of the professional body of accountants.

Signed

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