

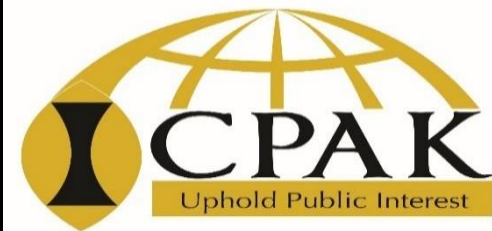
Coast Annual Summit

Internal Audit and Audit Committee – Core Provisions of the PFM Act 2012 and PFM Regulations 2015

CPA Andrew Rori

**CityBlue Creekside Hotel, Mombasa
14th – 16th August, 2019**

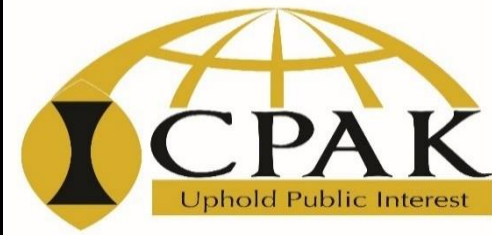
Session Objectives



By the end of the session the participants should be able to:

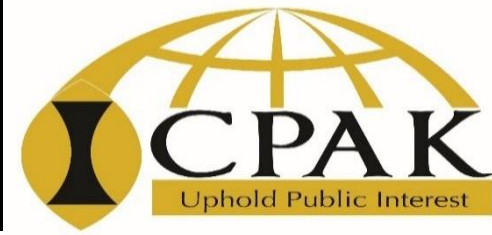
- ✓ Discuss the Programme Based Budgeting (PBB) Process;
- ✓ Discuss the Logical Framework of Programme Based Budgeting;
- ✓ Prepare a programme based budget;
- ✓ Identify key performance indicators for measuring programme performance.

Session Content



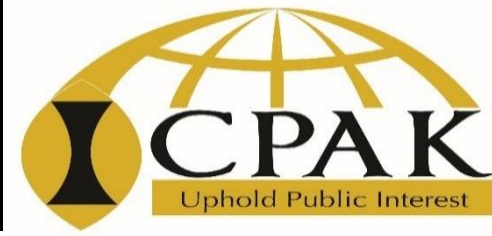
- Role and Responsibilities of Audit committees in the Public Sector
 - Strategic Role & Responsibilities of Audit Committees
 - Linkages with: internal audit, external audit, main board and management

Session Outline



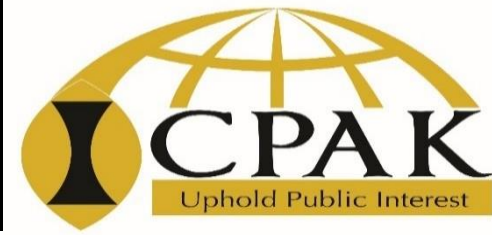
- Introduction
- Effectiveness of Audit Committee
- Mandates, Roles, duties and Responsibilities of Audit Committee
- Membership, Appointment and Replacement
- Audit Committee - internal arrangements

Evolution of internal Audit and Audit Committees



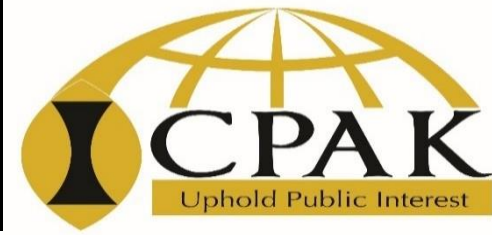
- Kenya's internal audit system was abolished in 1962 and this gave the office of the Controller and Auditor General the “domineering” prominence.
- The system was re-introduced in 1984 after it became apparent that its absence contributed to laxity in the management of public resources.
- The Internal Audit was heavily involved in vouching payments.
- In 2000, a joint report of IMF/World Bank highlighted the weaknesses of Kenya's internal audit function. As a result, the Government launched a concerted effort to modernize internal audit function oversight in general.

Evolution of internal Audit and Audit Committees



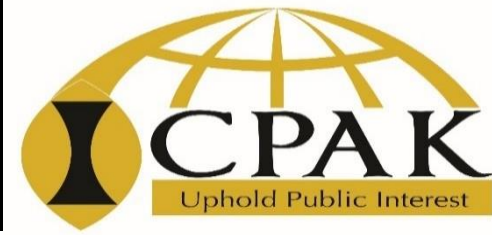
- Treasury circular No. AG3/086/6/ (61) of 8th August 2000 represented the first initiative towards establishment of Ministerial audit committees.
- The performance of audit committees in some ministries was not effective due to lack of guidelines on their independence and objectivity.
- In 2005 the Treasury through circular No.16/2005 for the establishment and operationalization of Audit Committees in the public institutions.

Evolution of internal Audit and Audit Committees



- PFM Act 2012 imposes significant responsibilities on accounting officers and governing bodies, including the duty to manage the entity efficiently, effectively and economically and to establish and maintain appropriate systems of internal control and risk management (section 66).
- Section 73(5) of the PFM Act, 2012 provides that each accounting officer of a department must, and each governing body shall establish an audit committee for the entity

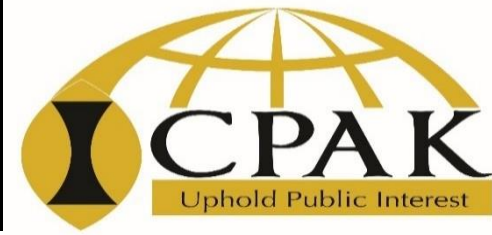
Public Sector Audit Committees



Audit Committees - increased legislative basis:

- Prescribed by PFM Act 2012
- Consider Chapter 1 Section 1.7 Mwongozo Code (State Corporations) on the Governance Principles, and the establishment of Board Committees
- 20 March 2015 -PFM Regulation - covered membership and broad functions
- June, 2016 Guidelines of Audit Committees covered detailed functions and responsibilities of Audit Committees;
- Supported by section 33 of the Public Audit Act 2015

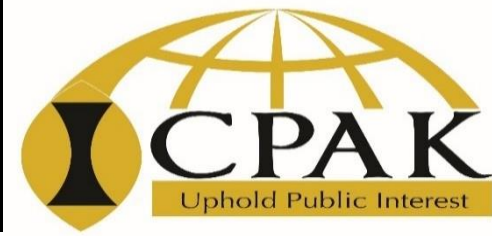
Evolution of internal Audit and Audit Committees



Membership – very prescriptive

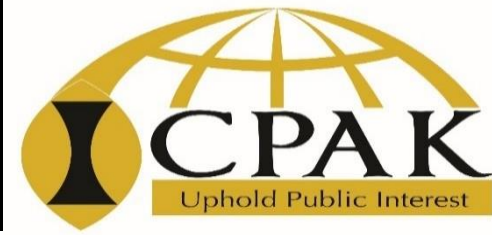
- No. of persons
- Post 20 March 2015-majority of members “independent”
- Not CFO, CEO or head of the accountable authority

PFM Regulations 2015 – Part Xiii



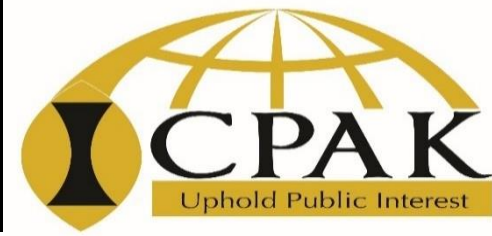
- Mandate of internal auditors.
- Compliance with professional standards and code of ethics.
- Independence of the internal auditor.
- The role of Accounting Officer in risk management
- Risk based audit assessment strategic plan.
- Audit Committees

Audit Committee Guidelines



- The guidelines apply to departments and governing bodies within the public sector.
- The function of an Audit Committee is to support the Executive Management, Accounting Officers, Boards, and Board Chairs by monitoring and reviewing the risk, control and governance processes that have been established in the entity pursuant to Board policies

Objectives of Audit Committee



Assurance

- Obtain assurance from management
- Assurance from internal control and risk management processes are operating effectively and reliably

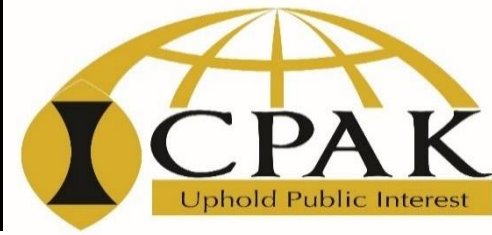
Reviews

- Provide independent review of an entity's reporting function to ensure the integrity of financial reports
- Internal control systems and risk management processes

Monitoring

- Monitors effectiveness of entity's performance management system

Objectives of Audit Committee



Oversight

- Provide oversight of entity's Internal Audit activity
- Provide oversight of the implementation of accepted audit recommendations

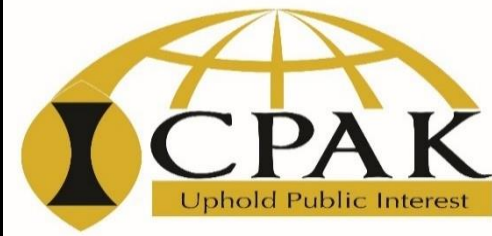
Liaison

- Facilitate communication between management and external auditors

Compliance

- Ensures that entity effectively monitors compliance with legislative and regulatory requirements
- Promotes culture committed to lawful and ethical behavior

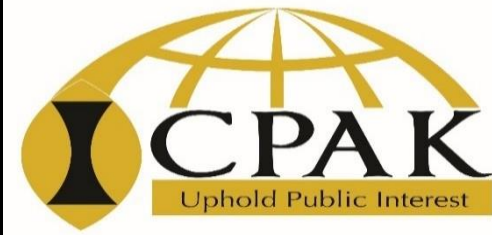
What is the Audit Committee's Role in Governance?



The Audit Committee should provide oversight, to ensuring that the organization has a strong and effective processes relating to;

- Financial Disclosure /Reporting,
- Risk Management,
- Internal Control environment,
- Independence of Internal Auditors,
- Compliance with Performance Management and Performance Reporting ,
- Ethics & Whistle Blowing
- Evaluate Internal Audit Function

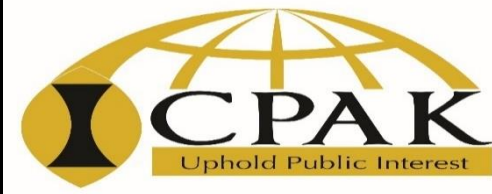
Audit Committee functions- PFM Regulation



Major Functions-

- Financial reporting
- Performance reporting
- System of risk oversight and management- *Risk Management Policy*
- System of internal control
- Oversight of Internal Audit

Role of the Audit Committee



1. Financial Reporting

2. Risk Management and Internal Control

3. Oversight Over Internal Audit

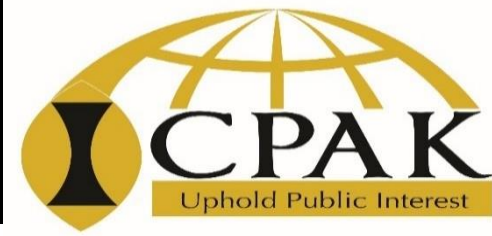
4. Oversight over External Audit

5. Regulatory, Compliance and Ethical Matters

6. Maintaining and Measuring Effectiveness

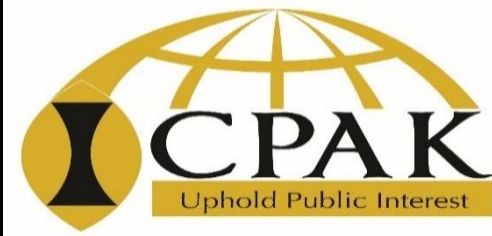
7. Communication and Reporting

1. FINANCIAL REPORTING



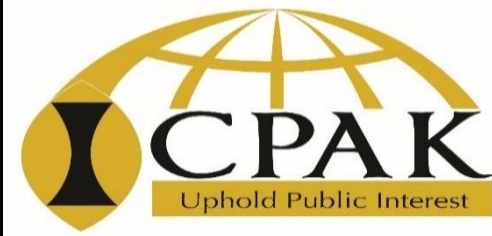
- ☐ Audit committees typically review Financial Statement quarterly and annually in most organizations.
- ☐ Ensuring that financial statements are understandable, transparent, and reliable.
- ☐ Audit committee members should know the right questions to ask to build their financial acumen.
- ☐ The Committee may institute a special investigation using an expert as deemed necessary.

2. RISK MANAGEMENT AND INTERNAL CONTROL



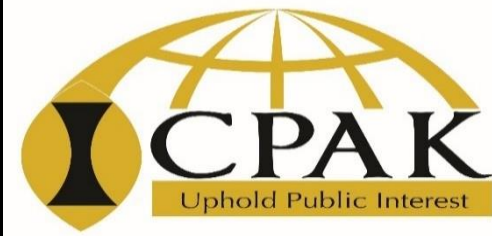
- Ensuring the risk management process is comprehensive and ongoing, rather than partial and periodic.
- Helping achieve an organization wide commitment to strong and effective internal controls, emanating from the tone at the top.
- Enterprise risk management (ERM) is a structured and coordinated entity-wide governance approach to identify, quantify, respond to, and monitor the

3. OVERSIGHT OVER INTERNAL AUDIT



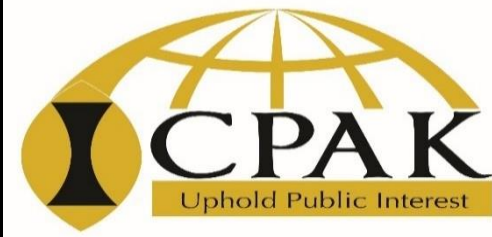
- Ensuring the Internal Auditors' access to the audit committee, encouraging communication beyond scheduled committee meetings.
- Reviewing internal audit plans, reports, and significant findings.

4. OVERSIGHT OVER EXTERNAL AUDIT



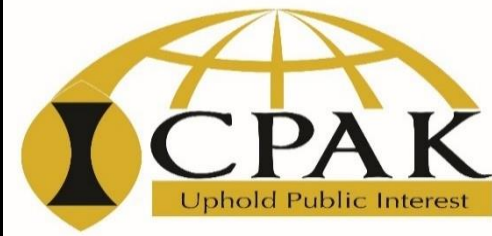
- Audit committees also ensure that External Auditors are independent as they issue an opinion on the accuracy of the entity's annual financial statements
- Establishing a direct reporting relationship with the external auditors.
- Changing an External Auditor typically also requires Audit Committee approval.

5. REGULATORY, COMPLIANCE AND ETHICAL MATTERS



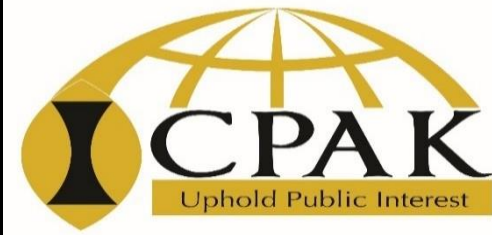
- Reviewing corporate policies relating to compliance with laws and regulations, ethics, conflicts of interest, and the investigation of misconduct and fraud.
- Reviewing current and pending corporate governance related litigation or regulatory proceedings to which the organization is a party.

6. MAINTAINING AND MEASURING EFFECTIVENESS



- Audit committees need to be independent and must review management decisions with healthy skepticism. This process necessarily includes a close analysis of the way entities assess and manage risk.
- A process for assessing and reporting on not only financial controls, but also fraud prevention and detection program should be established.

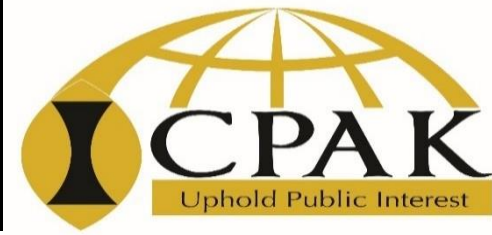
7. COMMUNICATION AND REPORTING



- Continually communicating with Senior Management regarding status, progress, and new developments, as well as problematic areas.
- The Audit Committee should balance their role as advisor and counselor to Management with their fiduciary duty to monitor and oversee management is, to say the least, challenging for most audit committees.
- They must communicate openly and often with management, carefully review information received, and challenge management as appropriate.

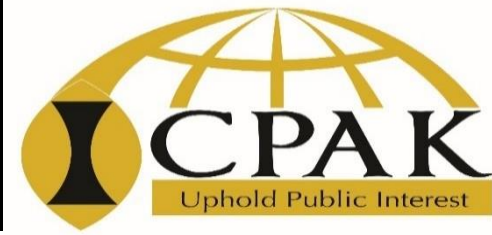
Audit Committees – Internal Arrangements

Role of Chairman of Audit Committee



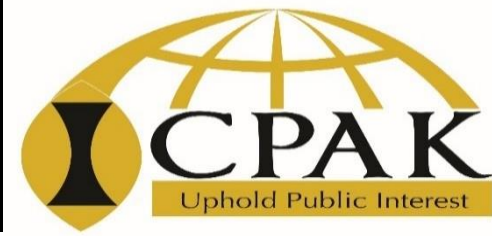
- The Chair person committee plays a key role in the performance of the committee.
- Effectiveness and true independence of the audit committee hinges on the chair's effectiveness.
- The chair should be a proactive leader with confidence and integrity.
- A highly respectable and experienced person, who possess strong interpersonal skills and time available to develop and closely monitor the committee agenda.
- A person with excellent working knowledge of an audit committee's functions and risk management frameworks.

Role of Secretary of Audit Committee



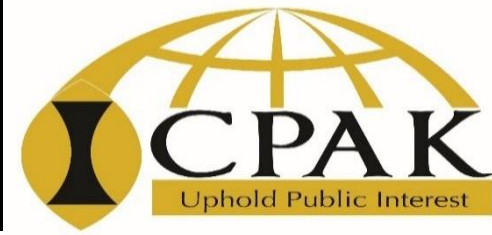
- The Head of Internal Audit activity is the secretary of the committee.
- The secretary drafts the agenda for the meeting and agrees with the Chair person of the Committee.
- Facilitate the distribution of materials to the audit committee members.
- Maintains records for the audit committee's meetings and activities including minutes and review reports.

Meetings of Audit Committee



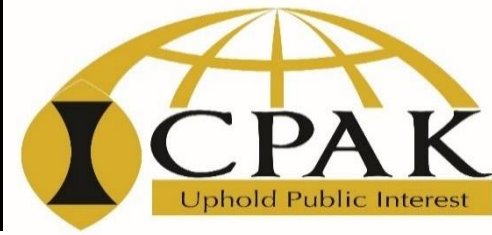
- The committee should determine its own agenda.
- Meetings should be held on a timely and regular basis and their proceedings, recommendations and discussions recorded.
- The meeting be at least quarterly but a special committee meeting could be convened where necessary.
- Most significant risks and threats should be emphasized while setting the agenda.
- A quorum shall consist of at least three (3) members of the committee, one of whom shall be an independent external member.
- No proxies in the meeting.
- Members should declare interest in matters being discussed and dissenting members shall be taken and appropriately recorded.

Meetings of Audit Committee



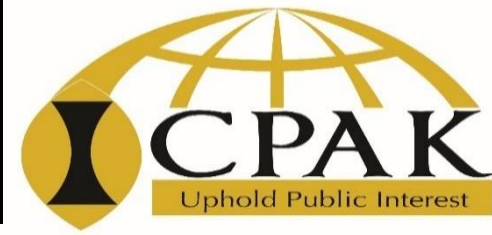
- Minutes should cover each agenda of the meeting.
- Minutes should be prepared and distributed to members within 7 working days after the conclusion of the meeting.
- Minutes should be confirmed as true record of the meeting at the next meeting and signed by the Chair and Secretary to the Committee.
- Copies of the minutes should be shared with management and external auditor.

Audit Committees Information Base



- The PFM Act, 2012
- The PFM Regulations 2015
- Strategic Plan for the Entity
- The Service Charter
- Performance Contract
- Budget
- Procurement Plan
- Risk policy framework and risk profile
- Internal Audit Strategic Plan
- Internal Audit Charter
- Internal Audit Budget
- Internal Risk Based Annual Work Plan
- Audit Committee Charter
- Any other relevant legislations, guidelines or documents

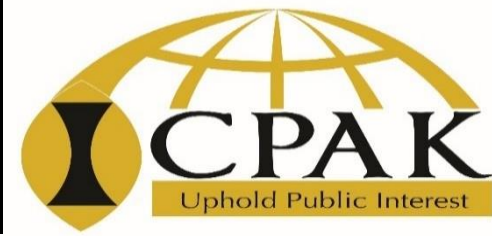
Use of work of internal auditor



❑ Public Audit Act 2015 - Section 33

1. The final report by an internal auditor which has been deliberated on and adopted by an audit committee of a State Organ or public entity, may be copied to the Auditor-General.
2. The Auditor-General shall have unhindered access to all internal audit reports of a State Organ or any public entity, under subsection (1) above, which is subject to audit by the Auditor-General as provided for under Article 229 (4) of the Constitution.

Conclusion



“You Make Mistakes. Mistakes Don’t Make You ”

Thank You!!