



AUDIT COMMITTEES IN THE PUBLIC SECTOR

Presentation by:

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Session Objectives



- Evolution of Public Sector Audit
- Composition of Audit Committees
- Requirements for Audit Committees
- Audit Committee Functions
- Characteristics of weak A.C
- Characteristics of Effective A.C
- Challenges of AC in the Public Service.

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).
- PFM Act, 2012 section 73(5) Every national government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the regulations

Evolution of internal Audit and Audit Committees



- PFM Regulations for both National and County Governments.
- Gazette Notice No.2690 & 2691 of April 2016 which contains Audit Committee Guidelines for both National and County Governments.
- Consider Chapter 1 Section 1.7 Mwongozo Code (State Corporations) on the Governance Principles, and the establishment of Board Committees

IS MANAGEMENT PASSING THE TEST?



Audit Committees Composition



- The board and/or the accounting officer should establish an audit committee of at least three and not more than five.
- The board should satisfy itself that at least one member of the audit 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.

Audit Committees Composition-Cont''



- The membership to audit committee should be diverse through an appropriate mix of skills and expertise to be informed by the nature and the mandate of the respective entity
- The Committee members must be able to dedicate sufficient time to the performance of Audit Committee work.
- The committee can co-opt persons with specialized skills on a need basis where such specialized skills are not available within the committee

Audit Committees Composition-Cont”



- Audit Committee members shall be persons of integrity and meet the requirements of Chapter Six of the Constitution.
- Members of audit committees shall be appointed, for a term of three years and shall be eligible for re-appointment for a further term of three years.
- Have a good understanding of the objective, principles and functions of the entity to which they are to be appointed.

Composition of Audit Committees



County Governments	<p>County Assembly</p> <ul style="list-style-type: none">• The County Assembly shall competitively source for 3 members of its Audit Committee from suitably qualified persons, one of whom shall be the chair.• The Audit Committee shall report to the County Assembly through the County Assembly Clerk.• The county speaker shall nominate one senior officer to sit in the Audit Committee. <p>County Executive</p> <ul style="list-style-type: none">• The County Executive shall competitively source for 4 members of its Audit Committee from suitably qualified persons, one of whom shall be the chair.• The County Governor shall nominate one senior officer to sit in the audit committee• The Audit Committee shall report to the Governor
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Composition of Audit Committees-MDAs



- Appointment and Composition of Members of Audit Committees in Various Public Sector Entities is as per the appointment and composition matrix as outlined in the Treasury Audit Committee Guidelines-Gazette Notice 2691
- It includes Ministries and Departments, Parliament, Judiciary, all public Schools,

VACANCY OF OFFICE



A person shall cease to be a member of an audit committee if—

- That person is convicted of a criminal offence and sentenced to a term of imprisonment of not less than six months; or
- That person is absent from three consecutive regular meetings of the committees without leave of absence; or
- That person resigns, in writing, from the audit committee;

VACANCY OF OFFICE- Cont'



- That persons' term of office expires;
- That person ceases to be member by virtue of withdrawal of his or her nomination to the audit committee by the nominating institution;
- That person becomes an employee or officer of the concerned entity; or
- That person is discovered to have a conflict of interest as prescribed as at the time of his appointment and failed to disclose it; or
- The audit committee is disbanded.

AUDIT COMMITTEE FUNCTIONS



- Support the accounting officers with regard to their responsibilities for issues of risk, control and governance and associated assurance-Main Function
- Provide an independent review of an entity's reporting functions to ensure the integrity of financial reports
- Monitor the effectiveness of the entity's performance management and performance information - Strategic Plans, Budgets

AUDIT COMMITTEE FUNCTIONS - Cont'



- Provide effective liaison and facilitate communication between management and external audit
- Provide oversight of the implementation of accepted audit recommendations-Both Internal and External
- The AC should approve the appointment and/or termination of appointment of the head of internal audit. -The performance assessment of the head of Internal Audit should be driven by the AC and should not be left at the discretion of the management.

AUDIT COMMITTEE FUNCTIONS - Cont'



The audit committee should monitor and review the effectiveness of the entity's internal audit function:-

- Internal audit charter
- Internal Audit Strategic plan
- Risk based annual work plan
- Internal audit reports
- Positioning, Staffing and facilitation of internal audit function;

AUDIT COMMITTEE FUNCTIONS - Cont'



- As part of the on-going monitoring process, the AC should review the **management letter** (or equivalent). The AC should review and monitor management's responsiveness to the external auditor's findings and recommendations.
- Ensure the entity effectively monitors compliance with legislative and regulatory requirements and promotes a culture committed to lawful and ethical behavior.

REFLECTION!!!!!!!!!!!!!!!!!!!!!!



Characteristics of Weak A.C



- Rubber stamp Audit Committees
- A.C with conflicts of interest
- A.C with confusion of roles
- Idle A.C with no value addition
- Mistrust and suspicion
- Lack of Commitment
- Fear and despondency
- Sabotage and undercuts
- Lack of Collective Responsibility

Characteristics of Effective AC



- They know their Role and Mandate
- Demand accountability from Management
- Ensure all the all Audit issues both Internal and External are closed out as per their Recommendations
- They ask the 'Right & Difficult' Questions
- Induction of new members and Continuous Capacity Building
- Persons of integrity with no Conflict of Interest

Challenges Facing AC in Public Service



- Political patronage
- Lack of understanding of their Role and Mandate.
- Lack of appropriate mix and Skills
- Lack of Commitment and quorum
- Conflict of Interest
- Sanctions Mechanisms in the public Service

WAY FORWARD



- Cowardice asks the question - **is it safe?**
- Expediency asks the question - **is it politic?**
- Vanity asks the question - **is it popular?**
- But conscience asks the question - **is it right?**
- And there comes a time when one must take a position that is neither safe, nor politic, nor popular; but one must take it because **it is RIGHT."**

Conclusion



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

Thank You!!