

# Audit committees in the public sector: Composition and Mandate

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# ICPAK survey report on effectiveness of ACs in Kenya's public sector



## ACKNOWLEDGMENT

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# Background



**Treasury Circular  
No. AG/3/080/6/ (61) of 2000.**  
Prescribed the establishment of ACs  
in Ministries, Departments and  
Agencies of the central government  
and the local authorities



**CMA Guidelines on  
Corporate Governance  
2002;**  
*ACs with 3 Independent and  
NEDs*



**Treasury Circular No. 16  
of 2005**  
*Aimed at enhancing  
oversight, governance  
transparency and  
accountability in the public  
sector*



**\* Constitution of Kenya  
2010; PFMA 2012 and  
PFMR 2015; PFMR 2016**



**CBK Prudential  
Guidelines (2006)**  
*ACs on Banking Institutions*



**Treasury Circular No. 18  
of 2005**  
Guide Management Action  
on Internal Audit Reports

# Background....*Treasury circulars*



- ❑ Treasury Circular No AG3/086/6/ (61) of 8th August 2000 represented the first initiative towards establishment of Ministerial audit committees. However, the performance of audit committees in some ministries was not effective due to lack of clear guidelines on their independence and objectivity.
- ❑ Treasury Circular No. 16 of 2005 issued with the aim address the above concerns.
- ❑ Treasury Circular No. 18/ 2005: issued to guide the management action on Internal Audit reports.

# Background.... *Capital Markets Authority (CMA) Regulations*



- ❑ In 2002, CMA issued guidelines on corporate governance practices for publicly listed companies.
- ❑ One of the guidelines required the board to establish an AC with at least three independent and Non-Executive Directors.
- ❑ The Board was required to disclose in its annual report whether or not it had an AC and the mandate of such committee.

# Background....*Promulgation of the Constitution 2010*



Marked a significant change in the governance structure and management of public resources in Kenya. Article 10(2) on national values and principles of governance stipulates core principles such as good governance, integrity, transparency and accountability. Moreover, Article 201 of the Constitution provides the Principles of Public Finance that include openness, accountability and prudent use of public resources. Article 232 further provides for personal integrity, values and principles of public service that ensures efficiency, effectiveness and economic use of resources in the public sector.

# Background....the Public Finance Management Act, 2012



- ❑ The PFM Act was enacted to embed the constitutional principles on accountability and public finance management in the public sector.
- ❑ PFM Act stipulates the manner in which internal auditing at both national and county level shall be conducted and the core areas to be covered.
- ❑ Further, Sec. 73 & 155 of the Act requires all national and county governments respectively to establish Audit Committees whose composition and functions shall be prescribed by the regulations (PFM regulations).

# PFM Regulations, 2015: PART XIII

## Internal Audit and Audit Committees



### **Audit Committees**

- 174—Establishment of audit committees.
- 175—Duties of audit committees.
- 176—Composition of audit committees.
- 177—Terms of appointment.
- 178—Vacancy of office.

### **Functions and responsibilities of Audit Committees**

- 179—Meetings of the audit committee.
- 180—Code of conduct.
- 181—Remuneration and compensation.
- 182—Capacity building for audit committees.

SPECIAL ISSUE  
Kenya Gazette Supplement No. 37  
(Legislative Supplement No. 17)  
20th March 2015

LEGAL NOTICE NO. 34  
THIS PUBLIC FINANCE MANAGEMENT ACT  
(No. 18 of 2012)  
ARRANGEMENT OF REGULATIONS

Regulation

PART I—Preliminary

1—Citation  
2—Interpretation  
3—Application of the Regulations  
4—Object and purpose of the Regulations  
5—Officers to be concerned with Regulations  
6—Openness and accountability  
7—Cabinet Secretary to publish process and procedures for public participation  
8—Monetary unit, accounting and reporting  
9—Financial management system and controls  
10—Accounting responsibility not assumed by audit  
11—Responsibility for tendering by financial officers  
12—Application of access regulations  
13—Signing blank or blank accountability documents  
14—Restricted use of green ink  
15—Restricted use of brown ink  
16—Use of indelible ink

PART II—CORPORATE MANAGEMENT

17—Corporate governance  
18—Establishment of Public Finance Management Standing Committee  
19—Role and responsibilities of Standing Committee  
20—Order and Responsibilities of the Accountant General  
21—Presidential Warrants  
22—National Treasury Warrants  
23—Responsibilities of Accounting Officers  
24—Delegation by the Accounting Officer  
25—Designation of Authority to incur Expenditure Holder (AEH)



# Main functions of the Audit Committees (AC)



175. The main function of the audit committee shall be to —

- (a) support the Accounting Officers with regard to their responsibilities for issues of risk, control and governance and associated assurance but the responsibility over the management of risk, control and governance processes remains with the management of the concerned entity; and
- (b) follow up on the implementation of the recommendations of internal and external auditors.

# Audit Committee Terms of appointment & Code of Conduct



177. (1) 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.

(2) Despite the provision of paragraph (1), after expiry of every term at least one third of the committee shall retire and not be eligible for re-appointment.

(3) The roles and responsibilities of the audit committee shall be laid out in the guidelines issued by the Public Sector Accounting Standards Board.

180. Any code of conduct of public officers shall also apply to members of the audit committee in relations to their functions, powers and duties as members of the committee.

Code of conduct.

# Mandate of the AC



- ☐ Performance assessment of the head of internal audit.
- ☐ Ensure action is taken on issues raised in the internal & external audit reports after management response.
- ☐ Facilitate adequate disposal of recommendations made by PAC/PIC by following up.
- ☐ Communicating with the IA and EA focusing on:
  - (i) The changing business environment;
  - (ii) Changing financial reporting requirement;
  - (iii) Audit findings;
  - (iv) Proposed audit scope and audit coverage and approaches with respect to complex, high risks, and judgment areas;
  - (v) Management response to specific audit issues.

# Role of the AC

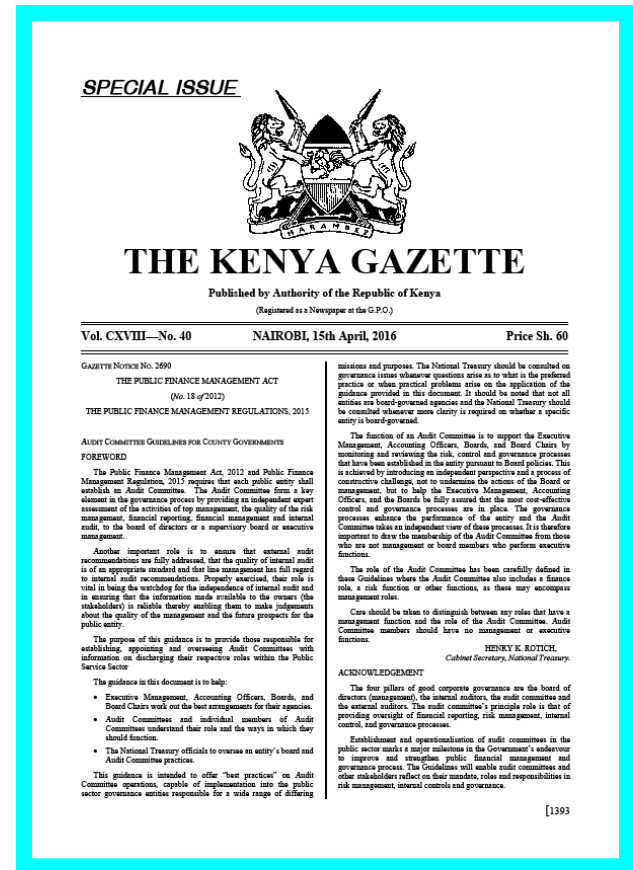


- ☐ Evaluating the adequacy of risk management processes.
- ☐ Evaluating the adequacy of the control environment.
- ☐ Independent review of FS to ensure the integrity and transparency of the financial reporting process.
- ☐ Monitor the effectiveness of the performance management framework and performance reporting requirements.
- ☐ Evaluating the quality of the internal audit function.
- ☐ Engaging with external audit and assessing the adequacy of management response to issues identified by audit.
- ☐ Reviewing the effectiveness of compliance with relevant legislative and regulatory requirements and promotes a culture committed to lawful and ethical behaviour.

# Responsibilities of the AC

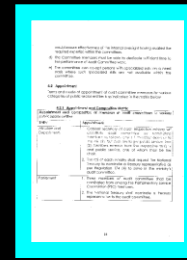


- ❑ Financial reporting
- ❑ Narrative Reporting
- ❑ Whistle blowing
- ❑ Internal controls and risk management systems
- ❑ The internal audit process
- ❑ Annual audit cycle
- ❑ Independence, including the provision of non-audit services



# Composition of the AC

## Appointment and composition matrix



- ☐ Board and/or accounting officer should establish an audit committee of at least three (Small E) and five (Large E).
- ☐ At least one member should have relevant qualifications and expertise in audit, financial management, or accounting and is a member of a professional body in good standing.
- ☐ Membership should be diverse through an appropriate mix of skills and expertise to be informed by the nature and the mandate of the respective entity.
- ☐ Members must be able to dedicate sufficient time to the performance of Audit Committee work.
- ☐ AC can co-opt persons with specialized skills on a need basis where such are not available within the committee

# Inter-link between AC characteristics & various dimensions of effectiveness



## Audit Committee Attributes

INDIVIDUAL ATTRIBUTES

COMMITTEE COMPOSITION

COMMITTEE COMPOSITION AND RESOURCES

PROCESS

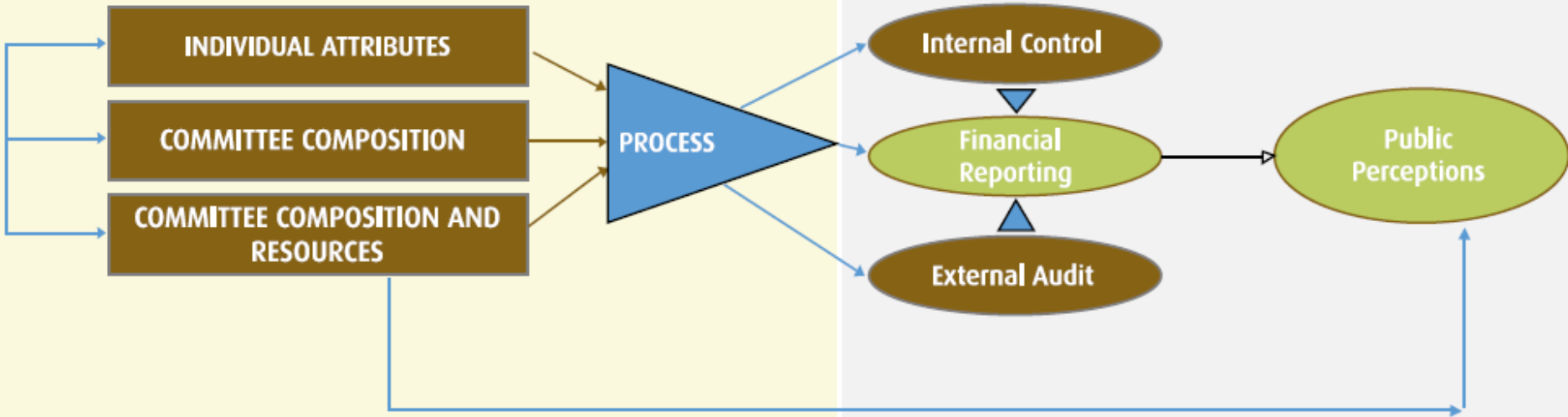
## Dimensions of Effectiveness

Internal Control

Financial Reporting

External Audit

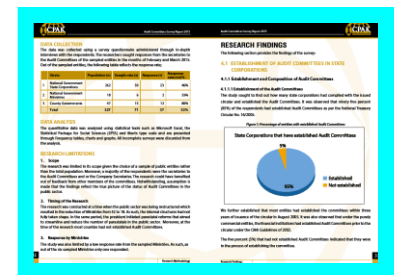
Public Perceptions



# ICPAK survey report on effectiveness of ACs in Kenya's public sector



- ❑ It sought to assess among other objectives, the uptake and performance of ACs as stipulated in the National Treasury circular No. 16/2005 which by the time of the survey, had been in existence for a decade.
- ❑ It also, took note of developments in the area of Internal Audit in order to advise further implementation of ACs in the public sector.
- ❑ It benchmarked the practice in Kenya with International best practices and makes recommendations to enhance the performance of ACs in the country.





# Details available online



- ❑ <https://www.oagkenya.go.ke/>
- ❑ <http://www.internalaudit.go.ke/>
- ❑ <http://www.internalaudit.go.ke/organogram/>
- ❑ <http://www.treasury.go.ke/>

## Notable achievements by Internal Auditors

- ❑ <https://www.businessdailyafrica.com/economy/Directorate-of-Criminal-Investigations/3946234-4704290-hnp4n0z/index.html>
- ❑ <https://www.businessdailyafrica.com/economy/Auditor-says-report-on-Afya-House-scandal-is-authentic/3946234-3453588-2yce87/index.html>

# Expand Your Service Offerings & Scale Your Business



- ☐ Consider the needs of existing clients.
- ☐ Expand according to your strengths.
- ☐ Expand according to business alignment.
- ☐ Expand to become a one-stop-shop.

If you *Believe*  
in yourself  
*Anything*  
is possible

# Interactive Session

