



# Relooking the role of Internal Audit and Audit Committees in Management of Higher Education

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# Session Objectives



- Evolution of Public Sector Audit
- Internal Auditing Function
- 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 8<sup>th</sup> 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



- Treasury circular No. 3/2009 - MOG/IAG/033(75) of 23<sup>rd</sup> February, 2009 emphasized on development and implementation of institutional risk management policy framework (IRMPPF) in the public sector
- 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?



# Internal Auditing Function



- Internal Audit is a **legal requirement** for public sector entities
- PFMA 2012 defines IA as:
  - **Independent, objective assurance and consulting** activity designed to;
    - **add value**
    - **improve an organization's operations**
    - **assists an organizations accomplish objectives** through evaluation and improvement of the effectiveness of risk management, control, and governance processes

# Regulatory Framework



## The Constitution, 2010

- No specific arrangements/requirements for internal audit: Article 10, Chapter 6, Articles, 73, 201, 232.
- Spirit of the Constitution espouses need for;
  - **transparency** and **accountability**
  - **leadership** and **integrity**
  - **openness** and **prudent use of resources**
  - accurate information
  - efficient, effective and economic use of public resources
  - accountability for administrative act

# The Constitution - 2010



- Article 226 - An Act of Parliament shall provide for;
  - keeping of financial records
  - **auditing of accounts**
  - **measures for securing efficient and transparent fiscal management**
- Internal audit is therefore implied as a best practice

# Public Finance Management Act



- The PFMA, 2012 operationalizes Chapter 12 of the Constitution on Public Finance
- **PFMA Sec 73**
  - entities to put in place appropriate arrangements for **conducting internal audit**
  - entities to ensure internal audits are conducted in accordance with international best practices
  - entities to establish **audit committees**
- **PFMA Regulations, 2015:** The composition and functions of audit committees are prescribed by the PFM Regulations and the guidelines issued by the PSASB

# Public Finance Management Regulations - 2015



- **Mandate of internal auditors:**
  - review and evaluate activities and processes including;
    - budgetary performance
    - financial management
    - transparency and accountability mechanisms
    - processes
  - give reasonable assurance through the audit committee on the state of risk management, control and governance
  - review the effectiveness of financial and non-financial performance management systems

# Public Finance Management Regulations - 2015



## Independence of the internal auditor

- Head of Internal Audit Unit has;
  - operational independence through the reporting structure by reporting;
    - i) **administratively** to the Accounting Officer
    - ii) **functionally** to the Audit Committee
  - unrestricted, direct and prompt access to;
    - all records
    - all officials or personnel holding any contractual status
    - all the premises and properties of the entity



# Public Finance Management Regulations - 2015



## Independence of the Internal Auditor

- The IA shall;
  - ✓ respect the confidential nature of information
  - ✓ use such information with discretion
  - ✓ be **free from influence** by any element in the organization in matters of;
    - audit selection
    - procedures
    - timing
    - scope
    - frequency
    - report content
- The IA **shall not** have direct operational responsibility or authority over any of the activities they review

# 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



## **PFM Regulations (NG)174: Establishment of ACs**

- A requirement for each public entity
  - National Treasury may approve the sharing of one audit committee by two or more entities
  - Joint appointment of the Chairperson and Members of the joint AC
- Minimum 3 members maximum of 5 members
- Head of Internal Audit is the Secretary for the AC
- Accounting Officer to ensure AC is adequately funded and supported
- Accounting Officer is not a Member of the AC but can attend meetings on invitation by the Chairperson of the AC
- AC should approve the appointment and/or termination of the head of IA

# Audit Committees Composition



- The Chairperson of an audit committee shall;
  - be independent of the entity
  - be knowledgeable of the organization
  - have the requisite business and leadership skills
  - not be a political office holder
  
- Majority of members of the Audit Committee;
  - shall not be past or present employees of the entity
  - shall not have served as employees or agents of an organization which has carried out business with the concerned entity in the last two years

# 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



**National Government Entities (Executive Agencies, Research Institutions, Public Universities, Public Tertiary Education and training Institutions, National Referral Health Facilities Boards and Commissions (Financed through the exchequer), Fund Management Corporations, any other Entity Established to perform any other Public Function), etc.) - Schedule IV**

- 1. The respective Boards will nominate at least 3 of their Board members who, as far as possible do not have executive roles in the Board, to serve in the Audit Committees; the board shall appoint a chairperson among the 3 members.**
- 2. The Treasury representative shall be a member of the Audit Committee.**
- 3. In case of any entity in this category that does not have a sitting Board accordingly its enabling legislation, the entity shall competitively source for at least 3 members of the entity's Audit Committee, depending on the size of the entity.**

**In addition, the National Treasury shall nominate a treasury representative to the audit committee;**

**Or request the National Treasury to recommend the sharing of an already existing Audit Committee as per the provisions of Regulation 174(2) of the PFM Regulations.**

# 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!!**

THE END



# Comments & Q/A Session

