



REPUBLIC OF KENYA

EXECUTIVE OFFICE OF THE PRESIDENT

State Corporations Advisory Committee

ACCOUNTABILITY AND INTERNAL CONTROLS IN STATE CORPORATIONS



Highlights

Overview

- Guiding principles
- Accountability
- Internal Controls

Roles of the BOD

Roles of the Auditor General .

Conclusion





Guiding Principles

The Board has the responsibility of ensuring

- That the Organization has adequate systems and processes of **accountability**.
- That the Organization has effective **internal controls** systems
- That procurement processes are cost effective and deliver value for money.
- Timely preparation of accurate financial statements



Accountability

Public accountability pertains to the obligations of persons or entities **entrusted with public resources** to be answerable for the fiscal, managerial and program responsibilities that have been conferred on them, and to report to those that have conferred these responsibilities (INTOSAI)

Constitutional provisions(Accountability).

- The national values and principles of governance(Article 10 (1))
- Leadership and Integrity (Chapter six)
- Principles of public finance (Article 201)
- The values and principles of public service (Article 232 (1))



Accountability Cont'd

Specific Institutional Legal provisions, ownership and oversight, governance framework (Mwongozo), performance and obligations to national development goals.

Transformation in public entities governance, leadership and management to spur growth, employment creation and economic development .



Accountability cont'd

Accountability system requires public entities and individuals to accept assigned responsibility, account for their activities, and report the results as per laws and regulations.





Roles of the Board of Directors Accountability

Ensure timely preparation of books of accounts by management

State in the annual report Board's responsibility for preparing the reports and the financial statements

State that the organization is a going-concern with supporting assumption or any foreseen threat to the going-concern



Roles of the Board of Directors in Accountability Cont'd

Ensure timeous submission of the **financial statements and performance report** to the Auditor General for audit as stipulated by law.

Documents



Submission



30 Sept.



Internal Controls



Entails processes, policies, activities and procedures designed to provide management with reasonable assurance that the entity achieves its objectives and goals including

Adheres to laws, regulations, and management directives;

Promotes orderly, economical, efficient, and effective operations and achieves planned outcomes;



Internal controls cont'd



Safeguards resources against fraud, waste, abuse, and mismanagement;

Provides quality products and services consistent with the organization's mission; and

Develops and maintains reliable financial and management information through timely reporting.



Control environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability in the use of resources

Other components: Risk assessment, Control activities, Monitoring, Information and communication, Use of ICT(COSO)

Roles of the Board of Directors Internal Controls



Maintenance of an effective and efficient system of internal controls

Set out Board responsibility for internal controls in the Board Charter

Ensure effective delegation of responsibility to the management in designing, implementing and monitoring of internal control

Control environment/tone at top.



Roles of the Board of Directors Internal Controls Cont'd



Ensure there is a strong internal audit function and a vibrant **Board Audit committee** duly constituted with respective audit charters.

Assess and ensure implementation of the internal audit(quarterly), external audit (annual) and the audit committee (periodical) reports/recommendations on the effectiveness for the improvement internal control systems.

Roles of the Board of Directors Internal Controls Cont'd



Establish a procurement function and policies that promotes sustainability, high ethical standards and best practices.

Ensure compliance to laws and regulations(*intra vs ultra vires*)

Ensure cost effectiveness and value for money in the procurement of goods and services

Ensure the organization leverage on the capabilities of ICT in its organization.



Mandate of the Auditor-General

The Office of the Auditor-General is established as an Independent Office under Article 248(3) of the Constitution of the Republic of Kenya.

The Auditor-General is appointed in accordance with Article 229 of the Constitution.



Role of the Auditor-General

The statutory duties and responsibilities of the Auditor-General are given in Article 229(4) (5) (6) and (7) of the Constitution and Public Audit Act 2003(2015).

OAG is mandated under this legislation to audit and report on all public funded entities relating to the Republic of Kenya

The Office **promotes accountability** in the public sector .



Role of the Auditor-General Cont'd

The mandate is executed under three pillars as follows:





Types of Audits

Regulatory/Financial Audit: Certification of accounts to assure fiscal responsibility. The end product is annual audit report presented to parliament and relevant county assemblies.

Continuous/Systems and control audit: Assess the adequacy of corporate governance and the control environment to assure on managerial accountability.



Types of Audit Cont'd

Value for money/Performance audit :Assess aspects of programs performance beyond financial reporting. It assures on service delivery to Kenyans. It evaluate the efficiency ,economy and effectiveness in the utilization of public resources in the implementation of programs such as health, clean and safe water, education, infrastructure, housing etc

Forensic/Investigative audit: To collect evidence that is admissible in a court of law where fraud has been alleged



Roles of the Auditor General Cont'd

The scope of the audit of National and County Governments includes Ministries, **State Corporations and Agencies**, Funds and Development Partners' funded Projects.

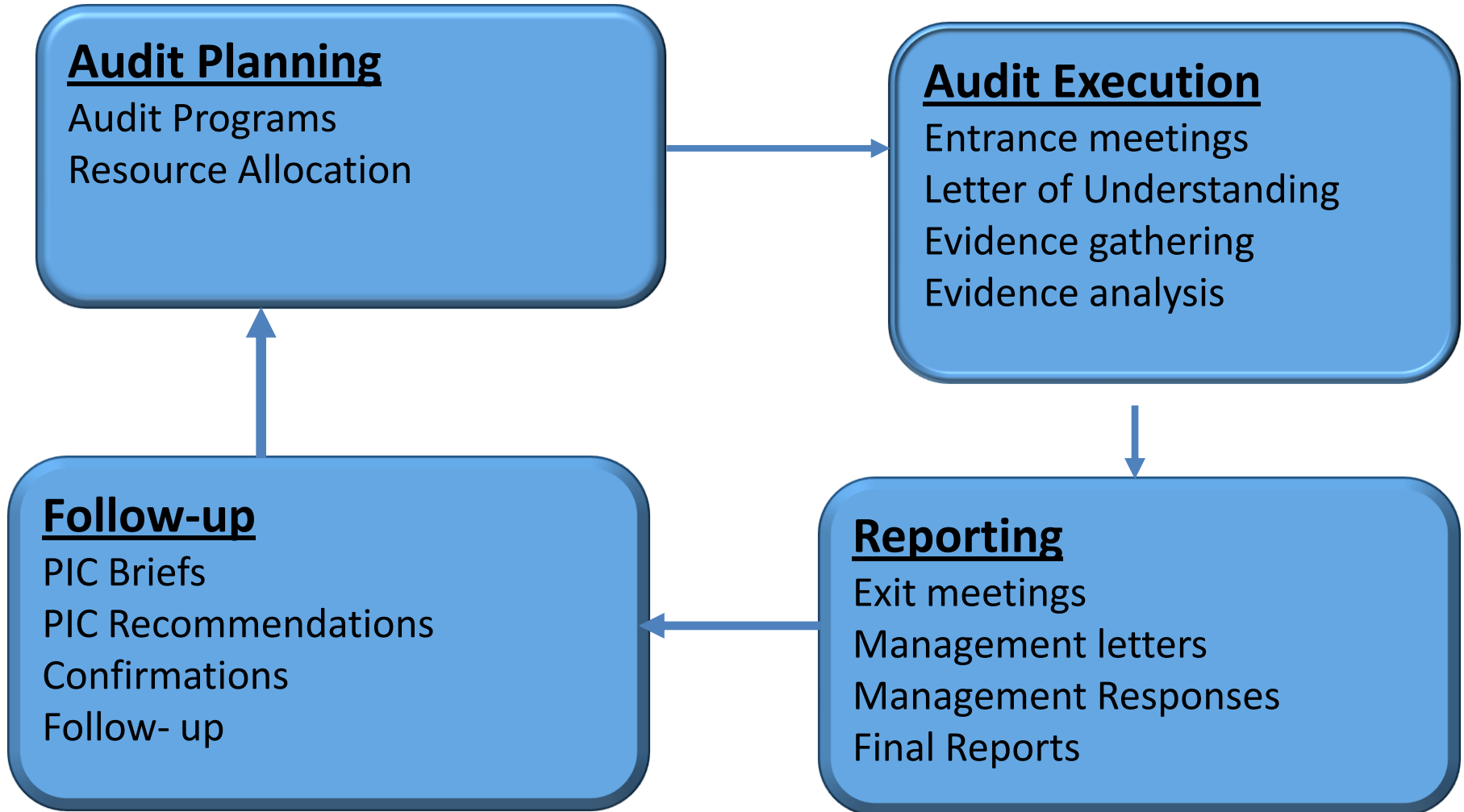
Carry out audit in accordance with International Standards on Auditing/ISSAI

The audit is carried out to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Opinions can be Unqualified, Qualified/accept for , Adverse/significant obstns or Disclaimer



The Audit Cycle





Reasons for Qualification/audit issues

Unsupported exp. and Stalled projects

Irregular contractual obligations and Human Resource practices

Assets management such as:

Un-updated registers, untitled lands, encroachment, nugatory expenses or unauthorized Board expenses

Non surrender of imprests

Excess expenditure, provisions and contingencies



Challenges

Late submission of financial statements in some cases

Submission of erroneous accounts

Lack of adequate board participation in the audit process

During analysis of the audit reports, some of the stakeholders may distort the original audit information.

OAG is working on a strategy to alleviate this distortion through institutionalization of a Communication Strategy.



Conclusion

Adoption of best practices to improve risk management, control and governance processes is not a choice but a necessity.

Adherence to the applicable legal, governance and internal control frameworks will result in effective and efficient **High performing entities** that deliver value to Kenyans in a transparent and accountable manner.





PLENARY

Questions ????????????

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