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**THE ROLE OF AUDIT COMMITTEES ON PUBLIC FINANCIAL MANAGEMENT
IN KENYA GOVERNMENT MINISTRIES**

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*The role of audit
committees on public*



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DECLARATION

I declare that this research project is my original work and has not been submitted to any other University for assessment or award of a degree.

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DEDICATION

I dedicate this work to the Government of Kenya and specifically the Parliamentary Service Commission to enable them make informed decisions concerning Audit Committees as part of Public Financial Management Reforms.

ACKNOWLEDGEMENT

I give thanks, glory and honour to God for allowing me the wisdom, knowledge and understanding to complete this course.

My sincere gratitude goes to my supervisor Rev. J. M. Theuri who has guided me through the project to its final end.

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ABSTRACT

This study sought to establish the role audit committees have played in the PFM in Kenya, focusing on the government ministries. With limited institutional support and an outdated focus on pre-audit activities, Kenya's internal audit function was neither efficient nor effective. However, formal legal recognition of the role of internal audit as part of an effective public financial management system changes in working methods and an evolving relationship with implementing agencies have enabled a revamped internal audit function to drive improvements in efficiency and controls in many key ministries. Internal audit reforms are now a core component of the government's wider PFM Reforms Strategy. As part of these reforms, and in a bid to enhance corporate governance in the public sector, the government of Kenya introduced Audit committees in the year 2000. The audit committees were meant to improve the level of fiscal probity in the government ministries in Kenya. However, the Audit committees remained inactive till 2005 when most of them started operating as required. Since then, little research has been done to establish whether or not the Audit Committees have managed to improve transparency in public financial management. A study was carried out to establish the role of Audit Committees on the public financial management among government ministries in Kenya. The study sought to achieve two objectives: Establish the extent to which Audit committees in government ministries are functional and the role they play on public financial management among government ministries in Kenya. The study was a descriptive design. The population of the study comprised all the members of audit committees in the 44 ministries. Stratified and simple random sampling was used in coming up with the desired sample size for the study. The 44 government ministries were treated as separate strata from where one member of the Audit Committee was randomly selected to participate in the study. Both primary and secondary data was collected for the study. A questionnaire was used to collect primary data from the 44 respondents who were picked through simple random sampling from the target population of 220. Data was analyzed by use of frequencies, percentages and regression analysis. The study found that audit committees enhance transparency in ministries, they ensure observation of government policy, they lead to reduction in corruption, they ensure proper use of resources and they enable ministries achieve performance targets. Thus the study concluded that audit committees play a crucial role in public financial management.

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DEFINITION OF TERMS

According to the Institute of Internal Auditors Research Foundation (IIA) (2004):

Audit Committee – refers to the governance body which is charged with oversight of the organization's audit and control functions

Board – is an organization's governing body

Charter – is a formal written document that defines an organization's purpose, authority and responsibility

Corporate governance - the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with all its stakeholders

Governance – the combination of processes and structures implemented by the board in order to inform, direct, manage and monitor the activities of the organization towards the achievement of its objectives

Public – the community or the people in a country

LIST OF ABBREVIATIONS

BRC	Blue Ribbon Committee
CMA	Capital Markets Authority
CPA	Certified Public Accountants
IAA	Institute of Internal Auditors
ICPAK	Institute of Certified Public Accountants
PFMR	Public Financial Management Reforms
TOR	Terms of Reference

CHAPTER ONE

INTRODUCTION

1.1: Background of the study

CPA Journal (2005). An effective audit committee can increase the integrity and efficiency of the audit process as well as the system of internal controls and financial reporting. The audit committee is an integral element of public accountability and governance. It plays a key role with respect to the integrity of the entity's financial information, its internal controls, legal and ethical conduct of management and employees. Asamba (2007), the audit committee is considered to be a key self-regulatory governance mechanism with significant oversight responsibilities over financial reporting, internal control and audit activities. According to the Institute of Public Administration of Ireland (2011), the common purpose of an audit committee in both the public and private sectors is to review an organization's corporate governance regime including its internal control environment and risk management; and monitor the work of internal audit. The concept of an audit committee originated in the private sector amongst public limited and large private companies where it is a subcommittee of the board with powers assigned to it by the board. As a result of this structure an audit committee reports directly to the board and can hold the CEO accountable on behalf of the board for matters within the remit of the committee. This is a similar situation in Irish state bodies that have a board structure where an audit committee operates as a subcommittee of the board with powers delegated to it. This suggests that an audit committee may be influential in these circumstances as it may have the power to bring about change in a company/state body.

McKee (1979) asserts that the first known American audit committee was appointed in 1870 by

the shareholders of the East Tennessee and Western North Carolina Railroad. The author further suggests that the audit committee was made up of selected shareholders who reported to the Board of Directors and was business practice of the day rather than a unique situation. Burke et al (2001) have indicated that there seems to be no discussion about audit committees in the accounting and legal literature of the early twentieth century. They however mention Prudential Insurance Company of America which has had an audit committee of directors for more than seventy-five years. According to Boockholdt (1983), the history of U.S. audit dates back to the 19th century and predates the development of external auditing and the mid-nineteenth century Companies Acts in the United Kingdom.

Boockholdt (1983) indicates that the American audit experience came about through the use of audit committees, especially shareholder audit committees. Such audit committees served not only as “external” auditors certifying the account balances; they also served internal audit functions assessing internal control. The author further mentions the use of an audit committee made up of three shareholders and one director being used to investigate shareholder concerns about management’s presentation of financial accounts at the Philadelphia and Reading Railroad in 1845. He further mentions the use of audit committees at the Hartford and New Haven Railway in 1846, the Western Railroad in 1851, the Boston and Worcester Railroad in 1855, the Western Air Line Railroad in 1856 and the New York and New Haven Railroad in 1862

Boockholdt (1983) argues that in 2006, the central government in the Netherlands imposed a legal obligation on Dutch municipalities requiring them to establish audit committees. At that time some mostly larger municipalities had such a committee set up on a voluntary basis. According to central government, these committees were supposed to investigate the efficiency

and effectiveness of local government organizations in terms of its financial policies. Asamba (2007) points out that audit committees were established in Kenyan Government ministries in August 2000 as part of PFMR Strategy through Treasury Circular No. AG/3/080/6 of 8th August, 2000.

Concerns were then raised regarding the adequacy of the guidelines contained in the said circular, particularly on appointment and composition of the membership which hindered the ministerial audit committees from being effective due to lack of independence and objectivity. Through another circular No. 16/2005, further guidelines were given in respect to the status, mandate, duties and responsibilities and membership of audit committees. Subsequently, it was recommended that Audit Committees be established not just in government ministries but also in state corporations and local authorities. PFMR aims to strengthen public financial management systems in a bid to enhance transparency, accountability and responsiveness to public expenditure policy priorities. The ultimate vision of the Programme is not only to improve provision of essential public services but also to ensure economic growth, poverty reduction and good governance to the people of Kenya.

Asamba (2007) further argues that before the introduction of Audit committees in government ministries in Kenya, there lacked accountability in public finance and administration. Government ministries were less accountable to the activities they performed and the utilization of public resources. Corruption was also one of the issues that prevailed in public institutions. In a bid to facilitate disclosure and transparency, and fight corruption, the Government realized that it is prudent to form audit committees. Corruption is a symptom of poor governance and is a two way transaction and is often triggered by lack of transparency, accountability, checks and

balances and integrity. It leads to poverty, undermines development, increases cost of doing business and erodes confidence and credibility of a Government. GOK (2005), the Kenyan government acknowledges that over the years, there has been poor performance in public sector especially in the management of public resources which has hindered the realization of sustainable economic growth.

1.1.1 : Government ministries in Kenya

According to Asamba (2007) a ministry is perceived to be the basic functional unit of government that puts government policies into action. According to the previous constitutional dispensation, the head of a ministry was appointed from among the members of parliament. The new constitutional dispensation however gives room for appointment of non-members of parliament, who are professionals to head the ministries. In Kenya, the government ministries play a very significant role in the provision of services to the citizens. The exchequer channels a lot of funds through the 44 government ministries for various projects that are meant to enhance service delivery to the taxpayers. The ministries therefore have a responsibility to ensure that the funds channeled through them are utilized for the purpose they are intended for. For this to happen, it calls for transparency and high level fiscal probity among the accounting officers of the various ministries in Kenya (CBK, 2010). Currently, the permanent secretaries in each of the ministries serve as the accounting officers who must ensure that all funds provided by the government have been duly accounted for as well as utilized in the required manner. There however cases where various ministries have been involved in financial scandals that have seen the government lose money to questionable deals. Audit committees were therefore introduced to curb this trend by improving accountability in the management of public finance in the ministries (CBK, 2010).

1.1.2 : Role of Audit Committees

Resource Guide (2005) explains that the roles and responsibilities of an audit committee can be as broad or deep as the governing body wishes. With this mandate, audit committees are finding a new power to take on additional oversight roles. Today, typical audit committee responsibilities include: Approving the overall audit scope; Helping to ensure that the audit is conducted in an efficient and cost-effective manner; Overseeing the organization's financial statements and internal controls; Recommending to the governing body the approval of the organization's financial statements; Recommending the appointment of the external auditor and the appropriate fee and directing special investigations for the governing body. Resource Guide (2005) concludes that the roles will vary from entity to entity depending on the complexity and size as well as the requirements of the governing body. However, the one common responsibility for all audit committees, among all their potential roles, is risk management oversight.

The Capital Markets Act(Cap 485A) guidelines on corporate governance Audit committee members shall be vigilant, informed and effective overseers of the financial reporting process and the organization's internal controls, review and make recommendations on management's programs established to monitor compliance with the code of conduct, consider the appointment of the external auditor, the audit fee and any questions on resignation or dismissal of the external auditor, discuss with the external auditor the scope of audit before it commences, review management's evaluation of factors to do with the independence of the external auditor, assist the external auditor to preserve its independence, review the financial statements of the company, determine the remit of the internal audit function in respect to the audit scope, recommendations of audit reports, assessment and appraisal of performance of audit staff, independence of internal audit function, appointment and termination of senior internal audit

staff among others.

Treasury Circular 16/2005 stipulates the role of audit committees as: to review compliance with laws and regulations, set agenda for meetings, review compliance with Ministry policies and procedures, increase communication with external auditors, require internal auditors to report directly to the Audit Committee, set internal audit function budget, work plan and compensation and proactively meet with the Internal Audit Department and interview persons for senior internal audit positions. Audit committees are now entrenched in The Public Finance Management Act, 2012. Accordingly, each national government and county government shall be required to establish an audit committee whose composition shall be prescribed by the regulations that are yet to be published. Audit Committees core role is to strengthen independence, integrity and effectiveness of audit function. It mediates audit relationship with the management and ensures that audit reports are aired and recommendations are addressed.

1.1.3 : Structure of Audit Committees

Nashwa George (2005) having an audit committee does not relieve governing bodies of responsibility for the matters considered by the committee. An audit committee should have a charter that states its mission, objectives, authority, organization, and methodology. In addition, the charter should establish voting requirements, the liability of members, and their method of appointment. Audit committees should have three to six members, with some or all of the following qualities: Good communication skills and the ability to work with others; knowledge of the needs, interests, and concerns of the constituency; accounting and auditing expertise and experience; and a willingness to ask hard questions and deal with controversial matters.

In the Kenyan Public Sector, (Ministry of Finance,2006), the structure of audit committee does

not separate the implementation and the oversight responsibility from day to day management. For example, within the ministry, the officer who chairs the Tender committee finds himself again the chairman of the ministerial audit committee. Ideally, public sector audit committees should be independent both in fact and appearance and must have processes in place to ensure such independence.(Asamba 2007).

Treasury Circular 16/2005, the audit committee is appointed by the respective accounting officers and comprises at least five members who include: The chairperson, who shall be a serving public officer either within or outside the line ministry but not below job group 'R' or equivalent, three members appointed from the heads of departments but not directly involved in the processing of financial transactions of the department, and one member to represent the permanent secretary/Treasury. The head of internal audit unit shall provide the audit committee with a secretariat while the heads of finance, accounting, procurement, internal audit shall form part of the technical team to guide the committee but shall have no voting power. The heads of internal and external audit units or their appointed representatives have unrestricted and confidential access to the chair of the audit committee at all times. The report/minutes of the audit committee following their meetings are made available to the Accounting Officer clearly indicating its findings, conclusions and recommended plan of action.

1.1.4 : Public Financial Management

There is increasing recognition that improving economic governance and fostering fiscal responsibility in emerging economies requires strengthening transparency and accountability in the management of public finances. Promoting greater external oversight of public finances necessarily entails enhancing the systems of checks and balances governing the use and management of public funds. There is indeed heightened awareness of the weaknesses of the

mechanisms of fiscal control and financial integrity and the consequent need to enhance the institutions of 'horizontal accountability' (O'Donnell 2003). As a result, the management of public finance is the subject of renewed scrutiny. In particular, information asymmetries are indeed major impediments to the effective oversight of budget performance. The generation, management and use of governmental financial information is strategic, which puts a further onus on those institutions tasked with guaranteeing its reliability and credibility

National parliaments and audit agencies are key institutions of budget oversight and fiscal control. They occupy a critical juncture in the institutional architecture of public finance management, combining both vertical and horizontal accountability functions. Mitigating the risks associated with excessive executive discretion in economic policy necessarily requires reinforcing the countervailing mechanisms of oversight and accountability (McGee, 2002). Consequently, the role of parliaments and the contribution of external audit agencies are being reassessed, placing the reform of governmental financial management in the broader context of the political economy of executive-legislative budget relations. However, these key institutions of economic governance and fiscal integrity have often been overlooked in the reform of the budgetary processes and the modernization of financial management systems that many emerging economies have embarked upon in the past two decades. This is starting to change, as policymakers increasingly acknowledge their contribution to fiscal responsibility and financial accountability (McGee, 2002).

Transparent and prudent local financial management has come to be recognized as critical to the integrity of the local public sector and for gaining and retaining the trust of local residents. Such integrity and trust are sometimes lacking in some local governments in developing countries,

especially in the Africa region. The emphasis is now on ensuring that limited funds available are spent on improving service delivery and achieving government objectives. This is sometimes referred to as improving the “quality” of public expenditures, i.e. that funds will lead to the planned improvements in services to the population. The new approach recognizes the importance of strengthening not only the technical processes of planning, budgeting, accounting, and audit, but also on establishing the necessary legal and institutional framework for encouraging effective use of limited resources (MEFMI, 2008).

In Kenya, the public finance provisions in the new Constitution were significantly influenced by the need to correct past executive excesses and abuses. Chapter 12 of the new Constitution begins in Article 201 with guiding principles and a framework for public finance, which if strictly adhered to can alter policy formulation and the management of public resources for the better (Kirira, 2011). Among the key principles are requirements that there should be: Openness, accountability and public participation; Promotion of equity, meaning that the tax burden is shared fairly at both national and county levels; Public expenditure that promotes equitable development and addresses marginalized areas and groups; Equitable sharing of debt benefits and burden between current and future generations; Prudent and responsible use of public resources and Responsible financial management with clear fiscal reporting (Kirira, 2011).

1.2: Statement of the Research problem

Effective public finance management, including the management of aid flows, is crucial to countries making progress in reducing poverty. Weaknesses in public financial management often reflect underlying interests and incentives, and the reform and strengthening of public financial management requires high-level political leadership and support as well as technical

skills. For all these reasons, public financial management is likely to remain at the centre of dialogue between aid agencies and partner country governments. At the same time, donors have both a developmental and a fiduciary interest in the quality of their partners' public financial management (OECD, 2006). Audit committees play a very important role in public financial management in most countries. Each government ministry in Kenya has a functioning Audit Committee in place to assist in streamlining public finance management.

Most early studies concerning audit committees investigated the reasons for their existence, given that audit committees were initially set up voluntarily. Pincus et al. (1989) identified six characteristics to be associated with voluntary audit committee formation – lower percentage managerial ownership of the company's stock, higher leverage, larger firm size, a greater proportion of outside directors to total directors, Big-8 auditors, and participation in the US National Market System. Bradbury (1990) found voluntary audit committees are unrelated to incentives to reduce agency cost, but found a relation between voluntary formation and directors' incentives, suggesting that audit committees may be created primarily for appearances. In another study illustrating this “symbolic” reason for forming audit committees, Menon and Williams (1994); Johnathan and Sue (2010) found many of the firms they studied that had established voluntary audit committees did not appear to rely on them. Some audit committees did not meet at all or met only once during the year studied

It has also been mentioned by Asamba (2007) that Audit committees were established in Kenyan Government ministries in August 2000. However up to 2005 most audit committees were not fully functional. Concerns were raised regarding the adequacy of the guidelines particularly on the appointment and composition, authority, membership and resources which hindered the

committees to run effectively. By October 2006, the government issued a circular to operationalize audit committees in the public service aimed at enhancing the oversight role of governance, accountability and transparency.

It is clear that since the operationalization of the audit committees, hardly a decade has gone by. It is true therefore to conclude that the audit committees have been officially functional for about five years in the government ministries in Kenya. There are few researchers who have attempted to study this area of audit committees for example Asamba 2007, who studied the factors influencing performance of audit committees in Kenya government ministries. However in the global perspective, a number of studies have been conducted focusing on audit committees in public sector. Examples include: Deloitte (2005); HM Treasury (2007); MacCarthaigh, M. (2007) just to mention but a few. It is therefore paramount to conduct a study to establish the role of the audit committees in public financial management in Kenyan government ministries. The study assisted in establishing whether the audit committees are meeting the objectives that led to their establishment.

1.3 Objectives of the study

The main objective of the study was to establish the role of Audit Committees on public financial management reforms in Kenya government ministries.

1.3.1 : Specific objectives

- i. To establish how compliance with regulations has impacted on the public financial management.
- ii. To determine how communication with external auditors has facilitated public financial

management.

iii. To establish how modernized audit approaches like risk based auditing impacts on public financial management

iv. To find out how implementation of audit reports facilitates public financial management.

1.4 : Research questions

This research sought to answer the following questions:

- i. What is the effect of compliance with regulations on public financial management in government ministries?
- ii. How does communication with external auditor's impact on the public financial management in government ministries?
- iii. How does risk based auditing influence public financial management?
- iv. What role does internal audit reports play in the public financial management?

1.5 : Significance of the Study

The findings of this study will be of benefit to the government ministries in Kenya. They will be able to understand the role Audit committees play in enhancing performance in the public sector.

The ministries will also be able to understand the benefit of having functional Audit Committees in place.

Potential researchers will be able to get a source of reference as they conduct a study in this or a related topic. They will also benefit from the suggested areas for further study since they can conduct further research on the same.

Members of Audit committees will also be able to understand the various challenges facing them

and how to overcome. They will also be able to understand the significance of their work in enhancing the performance of government ministries.

1.6 : Limitations of the study

Some of the questionnaires given were not returned and others not fully completed. This limited the researcher, as it was not possible to fill in the missing information without understanding the mind of the non-respondents. In addition, the ministry rigid policies and regulations posed a limitation as the respondents were not free enough to give information. The researcher overcame the limitation by using an introductory letter that stated she is a student at the University and this helped to introduce her to the management of the ministry.

CHAPTER TWO

LITERATURE REVIEW

2.1 : Corporate Governance in the public sector

Nashwa (2005) recent corporate scandals and legislation like the Sarbanes-Oxley Act have spurred the public to focus on the importance of governance. Governance is not limited to business entities, it is important to public sector as well. While unethical behavior in corporate sector impacts the shareholders of a company, unethical behavior in public sector impacts all taxpayers and citizens. CPA Journal (2005) events in the public sector and failures in the quality of government audits led the U.S Government Accountability Office (GAO) to recommend that public sector considers the benefit of using Audit Committees. In 2003, the GAO revised auditing standards to require that auditors communicate certain information to the audit committee. It required that each government entity must designate an audit committee or an equivalent body to fulfill the role of financial oversight.

2.2 : Theoretical Literature

CPA Journal (2005) indicates that the audit committee is an integral element of public accountability and governance. It plays a key role with respect to the integrity of the entity's financial information, its system of internal controls, and the legal and ethical conduct of management and employees. An audit committee's responsibility will vary depending upon the entity's complexity, size, and requirements. Typical audit committee responsibilities include approving the overall audit scope, recommending the appointment of the external auditor, overseeing the entity's financial statement and internal controls, helping to ensure that the audit is conducted in a cost-effective manner, and risk management oversight.

The CPA journal (August 2005) argues that audit committees are an increasingly an important component of effective accountability and governance. The mention that an audit committee must have three important qualities in order to fulfill its duties: independence, communication, and accountability. Public sector audit committees should be independent both in fact and in appearance, and have processes in place to ensure such independence. Communication between a governing body and its finance officers can be difficult at times. For example, external financial reporting follows standard principles; however, budgets and expressions of policy are unique to the circumstances of the organization and its jurisdiction. Communication may be complicated when a governing body approves a budget but not the financial statements. The GAO has indicated that audit committees can provide assistance if they have the necessary technical skills in accounting and auditing and are able to communicate with finance officers and auditors on complex issues. An audit committee must be independent to contribute to the integrity of the financial reporting process. An independent audit committee can help reinforce a culture with zero tolerance for fraud.

2.2.1 : Audit committees in the global environment

According to Johnathan and Sue (2010), audit committees are meant to improve organizational governance, regardless of whether the organization is in the private or the public sector. They argue that the audit committee being a subcommittee of the governing body, should aim to provide assurance on financial and compliance issues through increased scrutiny, accountability, and the efficient use of resources. An audit committee may also serve an advisory function aimed at performance improvement within the organization.

According to Collier and Zaman (2005), evidence has shown a significant rise and harmonization

in the use of audit committees internationally, including the European Commission's requirement that all public-interest entities in the European Union have an audit committee. Likewise, in the USA, the Sarbanes-Oxley Act (2002) was enacted, which requires, among other things, that companies use audit committees and disclose the composition of their audit committees in their annual reports (Johnathan and Sue ,2010).

Deloitte (2005) indicates that there are many reasons that may necessitate the formation of audit committees. Events in the public sector over the years have also provided clear provocation for the use of audit committees by governments. As a result of the fiscal crisis in the mid- to late 1970s, New York City was required to establish an independent audit committee. Failures in the quality of government audits caused the U.S.General Accounting Office (GAO) to recommend that entities "consider the benefit of using audit committees both to help plan and to oversee the entities" audit procurement process. Further, the Government Finance Officers Association (GFOA) in its publications, Governmental Accounting, Auditing, and Financial Reporting and An Elected Official's Guide to Auditing, encouraged government use of audit committees to ensure the integrity of the audit process.

IPA (2011) argues that in Ireland, it has been noted that the SGs consider their audit committees as having a major role in supporting and overseeing their internal audit units. These units by their nature have a high degree of independence within a government department in that they report to the SGs on their work but are not subject to direct supervision by them. The SGs' rely on their audit committees to support their internal audits in terms of giving advice and guidance and also to oversee the units through their involvement with the development and delivery of the annual audit plan, the quality of their work and the implementation of the internal audit reports received

by the audit committees. The SGs see their committees as a mechanism to provide an early warning to them of issues emerging or existing in their departments so action may be taken on them. Also the committees have an impact by assisting the relevant departments with the oversight of the expenditure of monies from the European Commission.

IPA (2011), audit committees, and in particular their chairs, are a resource as they can provide advice and assist. As outlined earlier the SGs attach a great deal of importance to the selection of the members for their committees. The SGs support their committees to take an active and visible role in their departments by inviting officials to attend committee meetings as required. This occurs in the majority of departments and the purpose of this attendance by officials can be either to provide briefings on their areas of responsibility to the committee members or to account for their implementation of recommendations arising from internal audit reports affecting their areas. Arising from this the SGs regard the committees as making an impact through their influence on governance, programmes and processes within their departments.

McCarthy (2010) offers 10 principles to help guide audit committees in their oversight of the financial-reporting process. The first is being proactive in focusing the agenda on what's important and it involves ensuring that the audit committee's agenda appropriately addresses the issues that require the audit committee's attention can be a major challenge. Transparency is another important principle. Among the audit committee, management and internal and external auditors, transparency is paramount. It is also important for the Audit committee to question the continuing validity of key assumptions that underlie critical accounting judgments and estimates. The other principals include: Assessing the audit committee's role in the oversight of risk management; Setting clear expectations for external and internal auditors; Making sure the

entire finance organization has what they need to succeed, and be sensitive to the strains on these organizations; ensuring effectiveness of compliance and antifraud programs; helping link change and risk management, and monitor critical alignments and taking a hard look at the audit committee's effectiveness, including its composition and leadership.

2.2.2 : Public financial management in the global environment

A review of the literature on Public financial management shows that there is no universally agreed definition of Public financial management. According to the Organization for Economic Cooperation and Development (OECD 2006), Public financial management, as it is generally understood, includes all components of a country's budget process both upstream (including strategic planning, medium-term expenditure framework, annual budgeting) and downstream (including revenue management, procurement, control, accounting, reporting, monitoring and evaluation, audit and oversight). An alternative definition describes Public financial management as the taxing, spending and debt management of government, which influences resource allocation and income distribution. The spending portion covers the budget cycle, including budget preparation, internal controls, accounting, internal and external audit, procurement, and monitoring and reporting arrangements (Rosen, 2002). Witt and Müller (2006) include oversight and control as well as intergovernmental fiscal relations.

Public financial management thus, underlies all government activity. It encompasses the mobilization of revenue; the allocation of these funds to various activities; expenditure; and accounting for spent funds. Ensuring sound management of public finances and efficacious oversight of the budget performance process are key dimensions of good governance, which, according to the standard WB definition, captures 'the manner in which power is exercised in the

management of a country's economic and social resources for development' (World Bank 1992). Sound Public financial management supports aggregate control, prioritization, accountability and efficiency in the management of public resources and delivery of services, which are critical to the achievement of public policy objectives such as long-term economic success and the Millennium Development Goals. Activities range from the preparation and fulfillment of the budget cycle, budget oversight and control, taxing and debt management and procurement, to resource allocation and income distribution, and are increasingly seen as a set of inter-related sub-systems (and organizational and political cultures), rather than a stand-alone activity (Pretorius and Pretorius, 2008). According to the Macroeconomic and Financial Management Institute of Eastern Africa (2008), public financial management is a cycle that has 6 Steps and emphasizes the fact that Step 1 in the process should be informed by the results of Step 6, and that each step should follow on from the previous step.

The first step includes a review of macroeconomic and sectoral policies and programmes. This involves the Ministry of Finance and line ministries reviewing existing policies to assess whether they are still appropriate given the experience of implementing these policies in the previous year and the results of the evaluations in the final step in the cycle. The second step involves an update of the macroeconomic and fiscal frameworks by the Ministry of Finance. The macroeconomic projections are updated to assess the likely availability of funds (both domestic and donor) over the forthcoming budget period (usually 3 years under a Medium Term Expenditure Framework and decisions are made about how to allocate these resources among ministries' spending programmes based on government priorities (Macroeconomic and Financial Management Institute of Eastern Africa, 2008). This is a major part of the medium term expenditure framework process. The third step is preparation of ministry budget for both revenue

and expenditure. The fourth step includes the authority by ministry of finance to line ministries to spend the funds. The fifth step is the provision of reports on revenue and expenditures while the last step consists of preparation of financial year reports for submission to parliament.

Ehtisham, Maria, and Raju (2005) point out that in order to realize good governance of public resources and meet the requirement of providing accurate and timely information to policy makers, the legislature and the broader public, there is increasing emphasis in having good budgeting laws that should comply with the principles of comprehensiveness, unity, and internal consistency. The principle of comprehensiveness requires that the budget cover all government agencies and institutions undertaking government operations, so that the budget presents a consolidated and complete view of these operations and is voted on, as a whole, by the body vested with national legislative authority. The principle of unity requires that the budget includes all revenues and expenditures of all government agencies undertaking government operations. This principle is important to ensure that the budget is an effective instrument to impose a constraint on total and sectoral government expenditure, and promote higher efficiency in the allocation of resources. The principle of internal consistency between different components of the budget requires, in particular, that current expenditure needed for the maintenance and operation of past investments be fully reflected in the budget.

2.2.3 : Internal Audit Function

The government financial management Act sets out the legal mandate of internal audit.

According to the Financial Management Anchor (2008), Kenya's internal audit function was abolished in 1962. Over the next few years, it became apparent that lack of the internal audit function contributed greatly in laxity in management of public resources. In compliance with relevant laws, regulations, procedures and internal controls, the system was re-introduced in

1984. Formal legal recognition of the role of internal audit as part of an effective PFM system changes in working relationship with implementing agencies have enabled a revamped internal audit function to drive improvements in efficiency and controls in many key ministries. In 2000, following up on an IMF/World Bank report that highlighted the weaknesses of Kenya's internal audit function, the government launched a concerted effort to modernize oversight in general. Initially, technical and financial support for the change process was originally provided by the World Bank, the Institute of Internal Auditors and GTZ. However, internal audit department assumed responsibility for taking the process forward. Since then, internal audit reforms are now a core component of the government's wider 2006 PFM Reform Strategy.

2.3 : Empirical Literature

In order to measure the effectiveness of audit committees various international parties have given best practice guidelines. Jonathan and Sue have cited the Cadbury Committee (1992), the Blue Ribbon Committee (BRC) (1999), the Australian National Audit Office (2005), and all the Big-4 accounting firms. IOD (1996, 2007) shows that within New Zealand the Institute of Directors issued a best practice statement pertaining to audit committees in 1996; this was updated in 2007 when the IOD issued a best practice guide for directors which includes a section on audit committees.

In Kenya these best practice guidelines are given by the National audit office and to some extent the Institute of Certified public accountants has got a guide on best practices expected of auditors. Jonathan and Sue (2010) have mentioned an oversight responsibility in four main primary areas for audit committees: External financial reporting – reviewing and discussing the external financial reports with management (ensuring compliance with standards and that they

are adequate for stakeholder needs). Internal controls – considering their adequacy, reviewing management’s reports on fraud and the effectiveness of internal controls. Risk management – reviewing the principal risks faced by the organization and the effectiveness of the risk management system. Internal and external audits – evaluating the internal audit plan, and confirming/reviewing the external auditor’s appointment, work programme, and fees.

According to a study carried out by Sandra and Henk (2007) it was established that audit committees in Groningen and Leeuwarden had not made any significant change in local and national government operations. They further argue that they did not find a direct effect of these audit committees but believe that performance auditing could influence the quality of democratic processes in a more indirect way. In New Zealand for instance, Peart (2008) indicates that the importance of strong governance and internal controls within public sector entities such as District Health Boards was effected recently when the largest fraud in New Zealand public sector history occurred at the Otago District Health Board in 2008. The fraud is said to have taken place when over a six year period a former chief information officer at the District Health Board and an outside accomplice invoiced for non-existent maintenance and computer program updates, amounting to NZ\$16.9 million. Hartley (2008) argue that the fraud, which went unnoticed by the Board’s audit committee and its internal and external auditors, led to the conviction of the Chief information officer and his accomplice, and the sacking of the chairman of the board. Schofield (2008).conclude that as a consequence, of the fraud New Zealand’s Minister of Health called for urgent confirmation that systems have subsequently been put in place at District Health Boards throughout the country to prevent such a fraud from reoccurring.

Waweru et al. (2008) conducted a study on Audit Committees and Corporate Governance in a

Developing Country with a specific focus to Kenya. The study focused on how audit committees operate in a developing country such as Kenya and how these practices compare with those of western economies and other emerging economies; how audit committees relate to management, internal audit, and external auditor; and the major achievements and challenges facing audit committees in Kenya. The findings indicate that there is much similarity to studies in major economies. However, skills shortage and dominant shareholder or government may have affected the operations of audit committees. It is important to note that all the audit committees reported cordial relationships with the management, internal audit and the external auditors, and were perceived to have improved the quality of financial reporting.

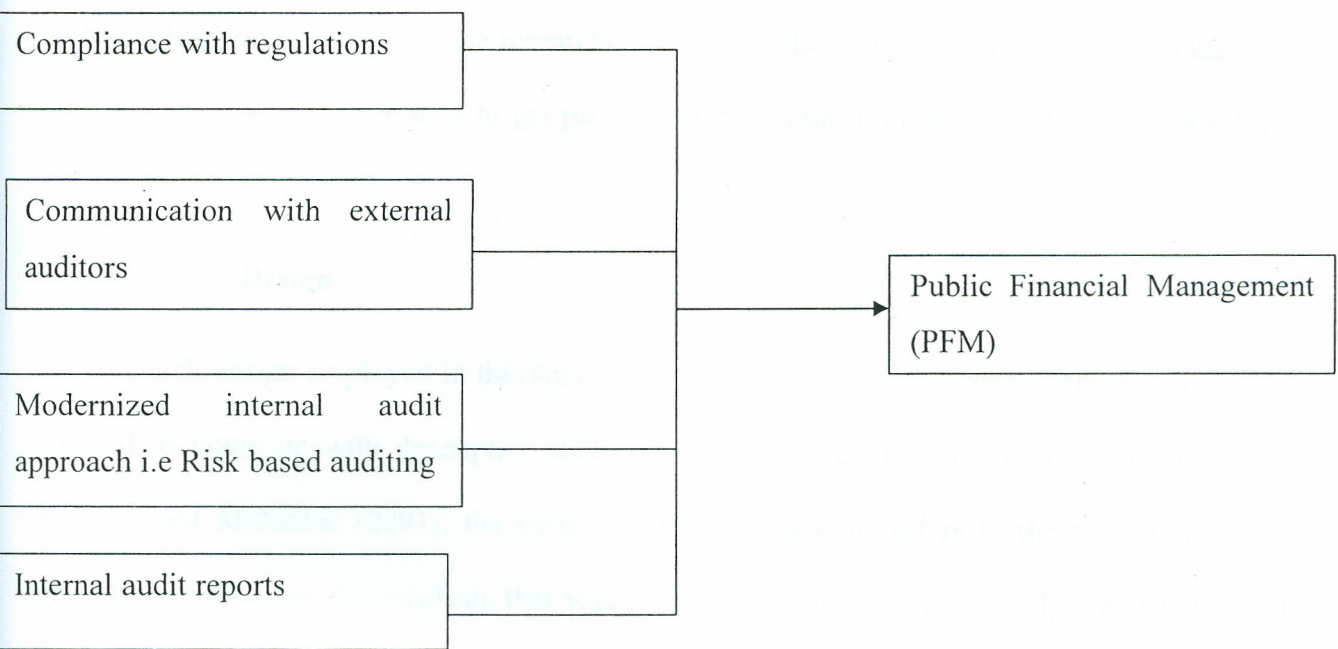
Samaha (2010) also carried out a study on whether board independence and audit committees motivate disclosure on different corporate governance information categories in the annual reports in developing countries. The study focused on ownership structure and exercise of control rights, financial transparency and information, auditing, corporate responsibility and compliance, and board and management structure and process) of the 30 most actively traded companies on the Egyptian stock exchange. The findings concluded that there was no significance in establishing audit committees in the active share trading Egyptian firms, since there is no significant association between the existence of these committees and the different corporate governance disclosure categories.

2.4 : Conceptual framework

Figure 2.1: Conceptual Framework

Independent Variables

Dependent Variable



(Source: Author)

Efficient and effective public financial management in government ministries depends on the internal audit function and consequently the role played by Audit committees. These roles include: Reviewing compliance with laws and regulations and policies, improving communication with external auditors, overseeing operations of the internal audit function, acting as a link between management and internal audit to ensure that internal audit reports are implemented.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1: Introduction

This chapter discusses the methodologies that were used in gathering the data, analyzing the data and reporting the results. Here the researcher aims at explaining the methods and tools that was used to collect and analyze data to get proper and maximum information related to the subject under study.

3.2 : Research Design

The research design employed in this study was descriptive research design. This kind of design enabled us come up with descriptive statistics which assisted in data analysis. According to Knupfer and McLellan (2001), the term "descriptive research" refers to the type of research question, design, and data analysis that was applied to a given topic. Descriptive statistics tell what is, while inferential statistics try to determine cause and effect. Descriptive research involves gathering data that describe events and, then organizes, tabulates, depicts, and describes the data collection. Descriptive statistics are very important in reducing the data to manageable form and can either be in form of studies that describe events and studies aimed at discovering inferences or causal relationship. In this study we were interested in discovering the effects of audit committees from inferences made.

3.3 : Target population

The population of interest in this study included all the Audit committee members in all the 44 government ministries. Each Audit committee has 5 members and this provided a total of 220 members from all the ministries. Therefore the target population for this study was 220 Audit

committee members.

3.4 : Sample Design and Size

According to Mugenda and Mugenda (2003) at least 10% of the target population is enough for a sample size. The study took 20% of the target population as the sample size. The study involved 44 members of Audit committees one from each ministry chosen through simple random sampling technique. From each ministry, a member of the audit committee was randomly selected to participate in this study.

3.5 : Data collection procedure

The researcher collected primary data from the said respondents through a structured questionnaire consisting of both closed-ended and open-ended questions. The questionnaire was divided into two parts: Part A focused on the ministry profile and bio data of the respondents and Part B sought data on the five specific objectives of the study. Secondary data on performance of government ministries was also collected.

3.5.1 : Instrument Validity and Reliability

Validity refers to how exactly a scientific investigation is carried out and how accurate the instruments and methods are, according to the purpose of the study. The questionnaire was validated using the content validity, which is a process of logical analysis that involves careful and critical examination of items in the questionnaire. Secretaries to the audit committees at the Treasury and the National Assembly were given the questionnaire for review and their input was used to improve the instrument where necessary. Reliability implied that a measuring instrument should be able to give reliable and stable results. If it is reliable other researchers should be able

to come to the same results if they use the same method. To determine the reliability, a pre-test was done.

3.6 : Data Analysis and Interpretation

The data obtained from the above study was analyzed using descriptive statistics (percentages, frequencies, and means). Percentages and frequencies were used to establish the effect of audit committees on government ministries in Kenya. In order to obtain the percentages, frequencies and means, the edited questionnaires was coded, labeled and then entered into the statistical packages for social-sciences (SPSS) in order to generate the values for interpretation. A regression analysis of the various functions of audit committees was done against public finance management. Public finance management in each ministry was measured using the rating of the government on the annual ranking of government ministries in terms of performance. The government considers public finance management among other things in ranking the ministries.

CHAPTER FOUR:

DATA ANALYSIS AND INTERPRETATION

4.1 : Introduction

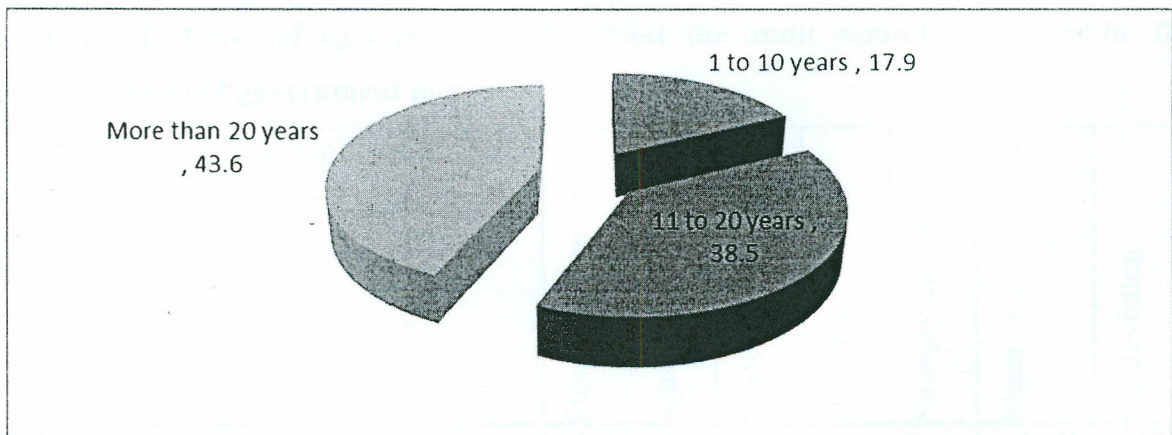
This chapter presents analysis and findings of the research to establish the role of Audit Committees on public financial management in Kenya government ministries.

4.2: Responses Rate

From the study population target of 44 respondents, 39 respondents filled and returned their questionnaires, constituting 88.6% response rate. Data analysis was done through Statistical Package for Social Scientists (SPSS). Frequencies and percentages were used to display the results which were presented in tables, charts and graphs.

4.3 : General Information

Figure 4.2: Duration the ministry has been in existence



(Source: Author)

The study sought to determine the period of time the ministry has been in existence and therefore requested the respondent to indicate the duration their ministry had been in existence, from the findings the study found that 43.6% of the respondent indicated that their ministry had been in existence for more than 20 years, 38.5% of the respondent indicated that their ministry had been in existence for 11 to 20 years whereas 17.9% indicated that their ministry has been in existence for 1 to 10 years, this is an indication that most of the ministry had been in existence for more than 10 years.

The study sought to determine whether the ministry had an audit committee, and thus requested the respondent to indicate whether their ministry had an audit committee. From the findings the study revealed that all the ministries had an audit committee, as indicated by 100% of the respondent who indicated yes. The study also requested the respondent to indicate the number of members in the audit committee, from the finding the study found that the number of audit committee ranged between 4 to 8 members.

4.4 : Review of Compliance with Regulations

Table 4.1: Level of agreement on the effect the audit committee on public financial management of government ministries

Effects of compliance with regulations	Strongly agree	Agree	Moderate	Disagree	Strongly disagree	Mean	Std deviation
They enhance transparency in ministries	23	15	3	0	0	1.5122	.63726
They ensure proper use of resources	10	18	12	1	0	1.8976	.80015
They lead to reduction in corruption	13	21	6	1	0	1.8854	4.91414
They enable ministries achieve	10	19	12	0	0	1.9488	.73997

performance targets								
They ensure observation of government policy	24	14	3	0	0	1.5178	.63726	

(Source: Author)

From the findings on the respondent level of agreement on the effect the audit committee on public financial management of government ministries, the study found that majority of the respondent agreed that they enhance transparency in ministries as shown by mean of 1.5122, they ensure observation of government policy as shown by mean of 1.5178, they lead to reduction in corruption as shown by mean 1.8854, they ensure proper use of resources as shown by mean of 1.8976 and they enable ministries achieve performance targets as shown by mean of 1.9488. This is an indication that the audit committees have an effect on public financial management of government ministries.

4.5 : Improved Communication with External Auditors

Table 4.2: Extent to which improved communication with external auditors affect public financial management of government ministries

Effect of communication with external auditors	Very large extent	Large extent	Moderate extent	Small extent	Very small extent	Mean	Std Deviation
Ensure ministries are using resources as directed	11	18	10	0	0	1.9744	.63726
Curtails misappropriation of public funds	13	21	5	0	0	1.7949	.80015
Ensure efficient management of public finance	14	16	9	0	0	1.8718	.91414

Enhance proper reporting of transactions in ministries	16	12	11	0	0	1.8718	.73997
Promotes accountability in government ministries	15	16	8	0	0	1.8205	.63726

(Source: Author)

From the finding on the extent to which improved communication with external auditors affect public financial management of government ministries, the study found that majority of the respondent rated the following to great extent, curtails misappropriation of public funds as shown by mean 1.7949, promotes accountability in government ministries as shown by 1.8205, enhance proper reporting of transactions in ministries and ensure efficient management of public finance as shown 1.8718 in each case and ensure ministries are using resources as directed as shown by mean 1.9744 , this a clear indication that there was improved communication with external auditors affect public financial management of government ministries to great extent as results of audit committees.

4.6 : Improved Internal Audit Approach – risk based auditing

Table 4.3: Extent to which improved internal audit approach affects public financial management of government ministries

Effect of improved internal audit approach	Very large extent	Large extent	Moderate extent	Small extent	Very small extent	Mean	Std Deviation
Reduces operational cost of ministries	13	21	5	0	0	1.7949	.58257
Promotes efficiency in delivery of services to the public	15	18	5	1	0	1.7949	.64976
Promotes cost effectiveness in use of resources	13	14	9	3	0	2.0513	.58369

Exposes areas of weaknesses for improvement	17	12	10	0	0	1.8205	.70010
Recommends on best accounting practices in public sector	18	12	9	0	0	1.7692	.84401

(Source: Author)

From the extent to which improved internal audit approach affects public financial management of government ministries, the study revealed that the following were rated to great extent , recommends on best accounting practices in public sector as shown by mean 1.7692, promotes efficiency in delivery of services to the public and reduces operational cost of ministries as shown by mean 1.7949 in each case , exposes areas of weaknesses for improvement as shown by mean of 1.8205 and promotes cost effectiveness in use of resources as shown by mean of 2.0513. This clearly shows that improved internal audit approach as results of audit committee affects public financial management of government ministries.

4.7 : Implementation of Audit Reports

Table 4.4: Effect of implementation of audit reports on public financial management of government ministries

Implementation of Audit Reports	Strongly agree	Agree	Moderate	Disagree	Strongly disagree	Mean	Std deviation
Establishes and seals loopholes for misappropriation of funds	19	15	5	0	0	1.6410	.90863
Exposes malpractices in ministries	13	21	5	0	0	1.7949	.77617
Streamlines operations in government ministries	15	16	8	0	0	1.8205	1.25523
Promotes accountability and transparency	16	12	11	0	0	1.8718	1.18733

Promotes fiscal probity in government ministries	18	15	6	0	0	1.6923	.90863
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(Source: Author)

On the effect of implementation of audit reports on public financial management of government ministries, the study found that respondent agreed that establishes and seals loopholes for misappropriation of funds as shown by mean of 1.6410, promotes fiscal probity in government ministries as shown by mean 1.6923, exposes malpractices in ministries as shown by mean 1.7949, streamlines operations in government ministries as shown by mean 1.8205 and promotes accountability and transparency as shown by mean 1.8718, this is an indication that implementation of audit reports affects the public financial management of government ministries.

4.8 : Regression Analysis

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.859a	.738	.726	.07833

(Source: Author)

From the findings in the above table the value of adjusted R squared (co-efficient of determination) was 0.726. This shows that 72.6% changes in public financial management could be accounted to changes in compliance with regulations; communication with external auditors, modernized internal audit approach, risk based auditing and internal audit reports. The study also established that there is strong positive relationship between public financial management and compliance with regulations, communication with external auditors, modernized internal audit approach and internal audit reports as shown by correlation coefficient of 0.859.

Table 4.6: Anova

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	0.264	2	.132	3.619	.050 ^b
	Residual	8.094	38	.213		
	Total	8.358	40			

From the ANOVA statics in table above, the processed data, which is the population parameters, had a significance level of 5% which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. It also indicates that the model was statistically significant.

Table 4.7: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.454	.155		2.939	.010
	Compliance with regulations	.560	.148	.554	3.794	.001
	Communication with external auditors	.295	.140	.308	2.109	.042
	Modernized internal audit approach	.011	.133	.013	.085	.033
	Internal audit reports	.091	.150	.091	.605	.049

The established regression equation was

$$Y = 0.454 + 0.560 X_1 + 0.295 X_2 + 0.011 X_3 + 0.091X_4$$

From the above regression equation it was revealed that holding compliance with regulations, communication with external auditors, modernized internal audit approach i.e risk based auditing and internal audit reports to a constant zero retention of public finance management would be at 0.454 , a unit increase in compliance with regulation would lead to increase in the public

finance management by a factors of 0.560, unit increase in communication with external auditors would lead to increase in public finance management by factors of 0.295, a unit increase in modernized internal audit approach would lead to increase in public finance management by a factor of 0.011 and unit increase in internal audit reports would lead to increase in public finance management by a factors of 0.091. This clearly shows that there positive relationship between public finance management and compliance with regulations, communication with external. The study also found that all the significance (p-value) were less than 0.05 an indication that all the variable were statistically significant.

CHAPTER FIVE:

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1: Introduction

From the analysis of the data collected, the following discussions, conclusions and recommendations were made. The responses were based on the objectives of the study. The researcher had intended to establish how compliance with regulations has impacted on the public financial management, to determine how communication with external auditors has facilitated public financial management, to establish how modernized audit approaches like risk based auditing impacts on public financial management and to find out how implementation of audit reports facilitates public financial management.

5.2 : Summary

On the effect the audit committee on public financial management of government ministries, the study found that they enhance transparency in ministries, they ensure observation of government policy, they lead to reduction in corruption, they ensure proper use of resources and they enable ministries achieve performance targets . This is an indication that the audit committees have an effect on public financial management of government ministries.

From the finding on the extent to which improved communication with external auditors affect public financial management of government ministries, the study found that they curtails misappropriation of public funds, promotes accountability in government ministries, they enhance proper reporting of transactions in ministries and ensure efficient management of public finance and ensure ministries are using resources as directed, this a clearly shows that there was improved communication with external auditors affect public financial management of government ministries to great extent as results of audit committees.

From the extent to which improved internal audit approach affects public financial management of government ministries, the study revealed that they recommends on best accounting practices in public sector, it promotes efficiency in delivery of services to the public, they reduces operational cost of ministries, exposes areas of weaknesses for improvement and promotes cost effectiveness in use of resources. This clearly shows that improved internal audit approach as results of audit committee affects public financial management of government ministries.

From the findings on the effect of implementation of audit reports on public financial management of government ministries, the study found that it establishes and seals loopholes for misappropriation of funds, promotes fiscal probity in government ministries, exposes malpractices in ministries, streamlines operations in government ministries and promotes accountability and transparency, this is an indication that implementation of audit reports affects the public financial management of government ministries.

The study found that the value of adjusted R squared (co-efficient of determination) was 0.726 an indication that there was variation of 72.6% on the public financial management is due to changes in compliance with regulations, communication with external auditors, modernized internal audit approach i.e risk based auditing and internal audit reports at 95% confidence interval . This is an indication that 72.6% changes in public financial management could be accounted to changes in compliance with regulations; communication with external auditors, modernized internal audit approach i.e risk based auditing and internal audit reports. The study also established that there is strong postive relationship between public financial management and compliance with regulations, communication with external auditors, modernized internal audit approach i.e risk based auditing and internal audit reports as shown by correlation coefficient of 0.859. From the regression analysis the study found that there positive relationship

between public finance management and compliance with regulations, communication with external. The study also found that all the significance (p-value) were less than 0.05 an indication that all the variables were statistically significant.

5.3 : Conclusion

The study found that audit committees enhance transparency in ministries, they ensure observation of government policy, they lead to reduction in corruption, they ensure proper use of resources and they enable ministries achieve performance targets. Thus the study concludes that audit committees in the ministry enhance compliance which affects public financial management of government ministries.

The study revealed that improved communication with external auditors affects public financial management of government ministries, as it was found that they curtails misappropriation of public funds, promotes accountability in government ministries, they enhance proper reporting of transactions in ministries and ensure efficient management of public finance and ensure ministries are using resources as directed.

The study found that improved internal audit approach affects public financial management of government ministries, since they recommends on best accounting practices in public sector, it promotes efficiency in delivery of services to the public, they reduces operational cost of ministries, exposes areas of weaknesses for improvement and promotes cost effectiveness in use of resources.

The study also found that implementation of audit reports has effect on public financial management of government ministries, as it was revealed that it establishes and seals loopholes for misappropriation of funds, promotes fiscal probity in government ministries, exposes

malpractices in ministries, streamlines operations in government ministries and promotes accountability and transparency.

5.4 : Recommendations

From the finding the study recommends that there is need to strengthen audit committees in the ministries as it was found that audit committees enhance compliance with regulations which positively impacts on the public financial management.

Audit committees also ensure improved communication with external auditors which has facilitated public financial management.

There is need to for the audit committee within the ministries to advocate the use of modernized audit approaches, as it was found that modernized audit approaches like risk based auditing impacts positively on public financial management.

There is need for the audit committee to have regular audit reports as this will facilitate public financial management, the study found that audit reports facilitates public financial management.

5.5 : Suggested Areas of Further Research

The study sought to determine the role of Audit Committees on public financial management in Kenya government ministries. The study recommends an in-depth study to be done on the challenges facing the implementation of Audit Committees in the government ministries.

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CHAPTER OF INTRODUCTION

The purpose of this study is to evaluate student perceptions of the effectiveness of audit committees in a developing country. As part of the research, a questionnaire was distributed to students of a university in Kenya and several interviews were conducted with members of the audit committees of public limited companies. The study was selected to help in the understanding of the role of audit committees in a developing country. The information generated from this study will be used to help in the academic research and to help in the development of the audit committees in Kenya. The study will also provide a basis for further research in this area.

APPENDICES

Appendix I: Letter of Introduction

Lilian Gakii Marete
P. O. Box 41842-00100
NAIROBI
1st October, 2012

Dear Respondent,

RE: LETTER OF INTRODUCTION

I am a postgraduate student pursuing a degree of Master of Business Administration (Finance) at Kenyatta University. As part of the requirement for the award of the degree, a student is required to carry out and submit a research project. I am currently conducting a survey on **the Role of Audit Committees on Public Financial Management in Government Ministries**.

You have been selected to take part in the survey together with respondents from other government ministries. The information provided will be treated with utmost confidence and shall be used for the academic research purpose only. Should you require the findings of this research, I will not hesitate to provide. I appreciate your participation.

Yours faithfully

Lilian Gakii Marete

MBA Student

Copy to:

Rev.J. M. Theuri

Lecturer, Department of Accounting and Finance

Kenyatta University

Appendix II: Research questionnaire

Introduction

This questionnaire has been designed to collect data on the role of Audit Committees on public financial management of government ministries in Kenya. The study is meant for academic purposes only. Information will be treated with a high degree of confidentiality.

Section A: Demographic data

1. Name of ministry
2. Duration the ministry has been in existence
 - a) 1-10 years
 - b) 11-20 years
 - c) More than 20 years
3. Does the ministry have an audit committee?
 - a) Yes
 - b) No
4. How many members are there in the audit committee?.....

Section B

I) Review of Compliance with Regulations

Please indicate the extent to which you agree with the following statements concerning the effect the audit committee has had on public financial management of government ministries, through review of compliance regulations.

Use the scale of : 1= Strongly agree 2= Agree 3= Not certain 4= Disagree 5= Strongly disagree

	Effects of compliance with regulations	1	2	3	4	5
1	They enhance transparency in ministries					
2	They ensure proper use of resources					
3	They lead to reduction in corruption					

4	They enable ministries achieve performance targets					
5	They ensure observation of government policy					

II) Improved Communication with External Auditors

Kindly indicate on a scale of 1-5 the extent to which improved communication with external auditors affect public financial management of government ministries.

Where: 1= To a very large extent 2= Large extent 3= Moderate extent 4= Small extent 5= Very small extent.

	Effect of communication with external auditors	1	2	3	4	5
1	Ensure ministries are using resources as directed					
2	Curtails misappropriation of public funds					
3	Ensure efficient management of public finance					
4	Enhance proper reporting of transactions in ministries					
5	Promotes accountability in government ministries					

III) Improved Internal Audit Approach – risk based auditing

Kindly indicate on a scale of 1-5 the extent to which improved internal audit approach affects public financial management of government ministries.

Where: 1= To a very large extent 2= Large extent 3= Moderate extent 4= Small extent 5= Very small extent.

	Effect of improved internal audit approach	1	2	3	4	5
1	Reduces operational cost of ministries					
2	Promotes efficiency in delivery of services to the public					
3	Promotes cost effectiveness in use of resources					
4	Exposes areas of weaknesses for improvement					
5	Recommends on best accounting practices in public sector					

IV) Implementation of Audit Reports

Please indicate the extent to which you agree with the following statements concerning the effect of implementation of audit reports on public financial management of government ministries.

Use the scale of : 1= Strongly agree 2= Agree 3= Not certain 4= Disagree 5= Strongly disagree

	Implementation of Audit Reports					
1	Establishes and seals loopholes for misappropriation of funds					
2	Exposes malpractices in ministries					
3	Streamlines operations in government ministries					
4	Promotes accountability and transparency					
5	Promotes fiscal probity in government ministries					

Appendix III: List of Kenya Government Ministries as at November, 2012

1. Office Of the President
2. Office of the Prime Minister
3. Office of the Vice-President
4. Exchequer and Audit Department
5. Ministry of Agriculture
6. Ministry of Co-operatives Development
7. Ministry of Defence
8. Ministry of Development of Northern Kenya and other Arid Lands
9. Ministry of East African Community
10. Ministry of Education
11. Ministry of Energy
12. Ministry of Environment and Mineral Resources
13. Ministry of Finance
14. Ministry of Fisheries Development
15. Ministry of Foreign Affairs
16. Ministry of forestry and Wildlife
17. Ministry of Gender and Children Affairs
18. Ministry of Higher Education, Science technology
19. Ministry of Home Affairs
20. Ministry of Housing
21. Ministry of Immigration
22. Ministry of Industrialization

23. Ministry of Information and communication
24. Ministry of Internal Security
25. Ministry of Justice, National Cohesion and Constitutional Affairs
26. Ministry of Labour
27. Ministry of Lands
28. Ministry of Livestock Development
29. Ministry of Local Government
30. Ministry of Medical Services
31. Ministry of Nairobi Metropolitan Development
32. Ministry of National Heritage
33. Ministry of Planning
34. Ministry of Public Health and Sanitation
35. Ministry of Public Works
36. Ministry of Regional Development Authorities
37. Ministry of Roads
38. Ministry of Special Programmes
39. Ministry of State, Public Service
40. Ministry of Tourism
41. Ministry of Trade
42. Ministry of Transport
43. Ministry of Water and Irrigation
44. Ministry of Youth and Sports