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Integration of Internal Audit in the Public Debt Puzzle

Background

There is a puzzle concerning the public debt and how it is affecting livelihood in Kenya. Borrowing more to finance the budget will benefit the economy but it will also increase the debt burden. The President and the current government regime have expressed interest in lowering the Public debt going forward suggesting that the Economy would do better with a lower debt.

The debate seems to dwell on the amount of public debt leading to the implementation of a debt ceiling. The debt ceiling is expected to limit the debt the government can accumulate. The advantages of implementing a debt ceiling are clear, it means that debt can be managed to agreed levels. Also, it provides a safeguard against rogue regimes that might abuse authority to accumulate enormously unmanageable debt. Currently, the debt ceiling is set at Ksh.10 Trillion.

The shortcomings of the debt ceiling have started manifesting. According to a 2023 Public Finance Management Regulation Amendment report, with the current borrowing window, it will be difficult to finance the 2023/24 budget. Clearly, a debt ceiling is therefore an unsustainable approach to dealing with public debt.

Mismanagement of public funds has come out as a significant problem. Little of lack of accountability and transparency has resulted in the many corruption cases that have come to light, especially in the county governments' procuring. Following this observation, this article suggests that the integration of Internal Audit in the Public debt conversations could have a significant positive impact.

Internal Audit to enhance the Internal Controls in Public Finance Management

Of paramount importance is that there is a working Internal Control system in all fields handling public finance. The internal audit is a function that assesses if the controls are effective. Internal audit checks whether the controls are working well the way they are intended.

Internal control comprises the measures and procedures put in place to ensure operations efficiency.

Internal auditing is defined as follows;

An internal audit is an independent, objective assurance designed to add value and improve operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

In Public finance management, internal controls could range from policies governing specific

processes in procurement to automated processes and tools for example transaction verifications.

Incorporating independent internal audits as part of internal controls in public finance management at county governments and all state corporations could among other advantages result in:

Improved transparency and accountability, and significantly reduce corruption through the following ways;

- Enhanced integrity of records such as accounting records, procurement contracts, transactions, and overall financial statements.
- Improved financial disclosures in terms of reliability and credibility which could positively affect budgeting and resource allocation.
- Overall, state corporations and county governments could benefit enormously from internal audits by ensuring that their internal controls meet all regulatory compliance.