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# CORRUPTION RISKS & PREVENTION STRATEGIES IN FINACIAL MANAGEMENT

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# Corruption is ruthless



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- The US Attorney General while reacting to the Enron case said:  
*‘When financial transactions are fraudulent and balance sheets are falsified, the invisible hand that guides our market is replaced by a greased palm. Inform, it is corrupted. Trust is abused and the state of the market dissolves into a state of nature, where the ruthless and the corrupt profit at the expense of the truthful and law abiding’*



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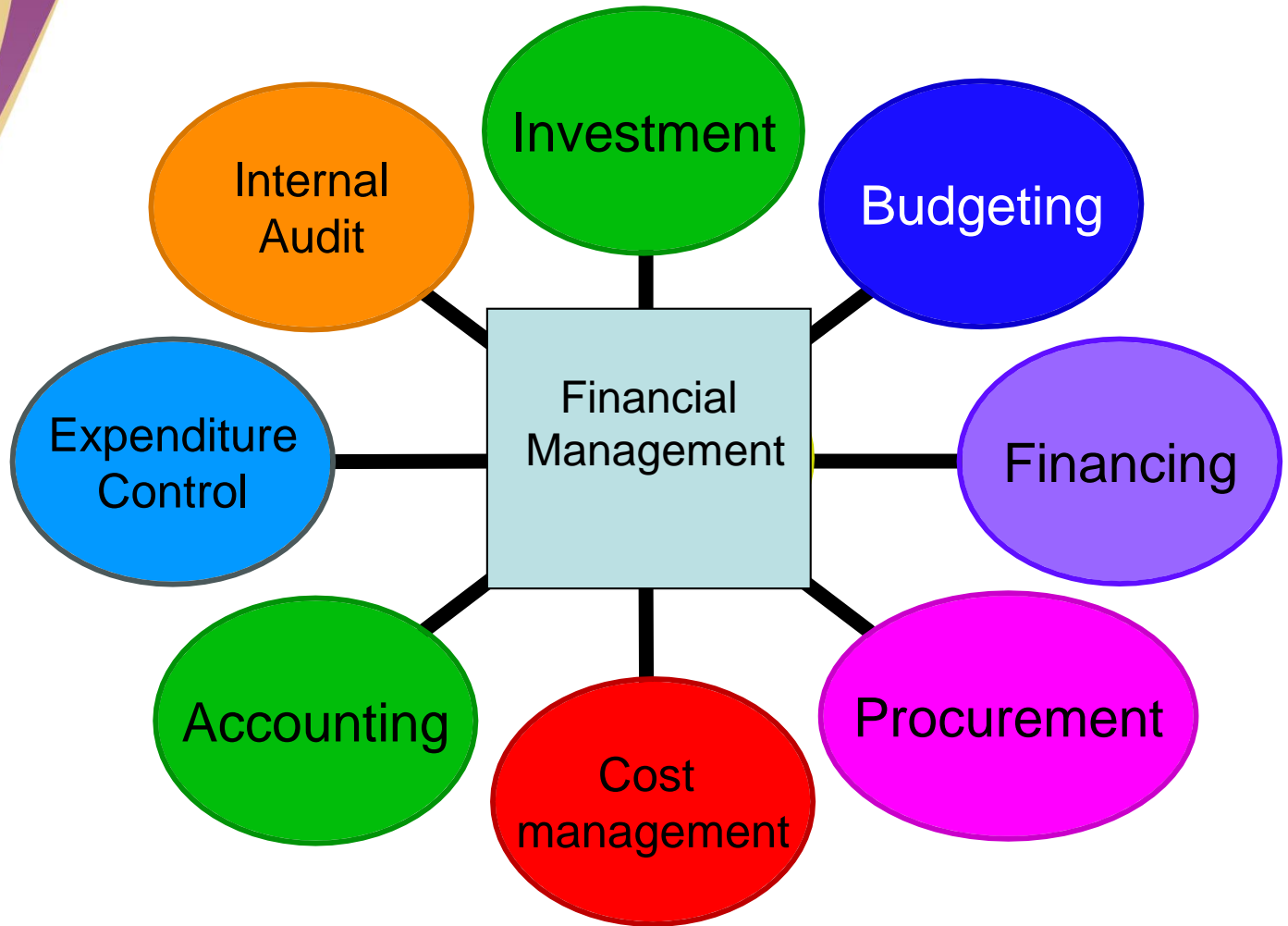
# Definition

- Financial management (FM) is the **process** of planning, controlling and making decisions regarding acquisition, safeguarding & use of **monetary resources** of an organization.

# Components Of the Financial Management Function



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# Specific accounting challenges in government



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- Huge payments made without raising vouchers
- Variances between final accounts statements and source records
- Unexplained complete omission of entries and inaccurate accounts

# Specific accounting challenges in government cont.



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- Incomplete keying in of a semi-computerized accounting system
- Incorrect end of period adjustments and opening of accounts
- Under-collection & surrender of Appropriation in Aid



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## Specific accounting challenges in government cont.

- Lack of administrative action in recovery of imprest
- Irregular expenditures and payment for un-received goods and services
- Expenditure on stalled and abandoned projects/vehicles/equipment

# Specific accounting challenges in government cont.



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- Huge differences between grants sent and grants received from Ministries to parastatals
- Inappropriate authorization processes



# Manifestations of Corruption in Finance



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- Fraudulent transactions
- Bribes & Kickbacks
- Extortion
- Creative accounting
- Blatant theft of funds
- Investment of surplus funds
- Favouritism- Nepotism, tribalism
- Abuse of office

# Corruption Prone Areas in Finance



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- Procurement of goods & services
- Payroll management
- Revenue and Debtors
- Payments and Creditors management



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# Corruption Prone Areas in Finance

- Fictitious overtime claims
- Donor funded projects
- Devolved funds such as
  - CDF, FPE, LATIF, HIV-AIDS, Bursary
- ‘Quiet ministries’/  
departments/projects



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# Corruption Prone Areas in Finance

- Imprests – non-surrender, extensions, false accounting, fictitious imprests
- Investment services
- Stores- fixed assets and consumable
- Overtime claims

# Characteristics of corrupt financial systems



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Experience from system examinations conducted in public institutions by KACC show some common features of financial systems of organizations with high corruption cases.

These include;

# Characteristics of corrupt financial systems

- Subjective top management teams
- Poor financial planning (budgeting) processes
- Unqualified and incompetent finance staff
- Ineffective HR disciplinary mechanisms



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# Characteristics of corrupt financial systems



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- Poor book keeping & accounting systems
- Absence of relevant governance instruments
- Disregard of governance instruments
- Weak internal controls
- Weak internal audit function
- Collusion with external auditors

# Addressing Corruption Loopholes: The Role of Managers



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- Managers have a role to ensure officers deliver. In cases where there is rampant corruption, there is likely to be weak management
- To address the loopholes, managers should therefore do the following:



# Addressing the loopholes



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- Objective top management teams
- Proper budgeting and budgetary control
- Proper and up to date book keeping and accounting
- Strengthen internal control systems
- Formulate, implement and enforce financial policies and procedure manuals

# Addressing Corruption loopholes



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- Practice sound and equitable human resource practices including
  - **Enhance discipline**
  - **Strengthen probability of detection – stringent and fair supervision**
  - **Regular staff rotation**
  - **Create a disadvantage for the corrupt -up to 60% staff need to be watched, else they steal.**
  - **Appreciate and reward hard work, honesty and integrity**



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# Addressing the Corruption loopholes: Role of managers

- Permit proper oversight
  - ✓ Strengthen the internal audit function
  - ✓ Ensure audit committees work
  - ✓ Allow meaningful external audit
- Organizational culture
- Be a role model



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# Budgeting

- A budget is a **plan** expressed in monetary terms
- **Budgetary control** - using budgets as a tool to achieve efficiency and effectiveness
- A faulty budgeting process gives room for corrupt practices. Common budget flaws include
  - Lack of Budgets- leads to uncontrolled expenditure
  - None/poor Prioritization of projects
  - Non Compliance to budgets
  - Unjustifiable supplementary budgets



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# Accounting functions

- Accounting involves **collecting, processing** and **reporting** of financial information to facilitate decision making
- Poor accounting systems are highly susceptible to corruption.
- It impairs detection of corrupt activities as well as hampering investigations of suspected corruption.
- Manual systems or stand alone computer systems are more prone to abuse.

# Internal Control Systems



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- These are procedures and processes, financial or otherwise, put in place by management to
  - safeguard assets
  - ensure efficiency and effectiveness of financial & accounting systems
- Are crucial for preventing and detecting errors, fraud and other corrupt practices

# Types Of Internal Controls



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- Physical controls –e.g. Barriers and armed Personnel e.g.
- Segregation of duties
- Authorization and approval processes
- Accounting and arithmetical controls
- Personnel controls e.g. at recruitment, transfers, rotation etc.
- Internal checks –e. g in document processing
- Proper use of ICT systems



# Financial Policies and Procedures



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These are generally decisions/directions of routine nature documented, approved, implemented and enforced by management to;

- ensure uniformity, continuity and consistency in financial matters and decisions
- facilitate reference, planning and training

They are usually contained in a Financial Policies and Procedures Manual

They should be;

- Comprehensive , clear &
- Effectively communicated
- regularly monitored reviewed and revised



# The Role of Internal Audit



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- Reviewing **financial and operational systems** and reporting any weaknesses
- Performing **value for money** audits-  
Efficiency audits
- Conducting internal financial  
**investigations**
- Advising management generally on  
**financial risk** and **governance** issues

# Challenges facing Internal Audit



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- Lack of functional **independence**
  - Internal audit should report to an independent **audit committee** functionally and to the CEO administratively
  - Treasury **Circular No.16 of 2005** details regulations for the formation and operation of audit committees in the public service
- Lack of professionalism –ethics and integrity
- Limited scope of duties
- Lack of management support

# Conclusion

- Sound financial management is key to preventing corruption in any organization.
- All managers have an important role to play in ensuring efficiency and sealing corruption loopholes inherent in public financial management systems.



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# Quotations

- He who is of the opinion that money will do everything may well be suspected of doing everything for money.

**Benjamin Franklin**

- Wealth, like happiness, is never attained when sought after directly. It comes as a by-product of providing a useful service.

**Henry Ford**