



UPHOLDING ETHICS AS A PREREQUISITE FOR SOUND PUBLIC FINANCIAL MANAGEMENT PRACTICES

A PRESENTATION BY

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Fostering economic development through innovative Public Financial Management practices

Introduction



The **importance of ethical behavior** has long **been recognized** even before advent of modern societies where the place of public financial management is to be found.



Ethical behavior simply means behavior that is appropriate and based on morals. And when one has to make a choice, they choose what is good and right.

Introduction



Integrity is also often, and rightly, referred to in the same breath as ethics – integrity being ‘to do what is right and just’ in given circumstances.

To entrench ethical behavior, societies have developed codes of conduct that set the bounds of our freedoms to act in relation to our fellow men.

One need not look farther than provisions in the Bible or the Quran or the Hindu Gita or the Buddhist Tripitaka to find the origins of canons that guide ethical behaviors today.



It is against this background that I would like to present on
*“Upholding Ethics as a Pre-requisite for Sound Public
Financial Management Practices”*.



Financial management as part of Public Service Management



View **public financial management as part** and parcel of the **total system of managing the public service system**

Be cognizant of the objectives of the whole system.

For financial management to be sound, it must support and lead to achievement of the objectives of the Public Service Management system.

Financial management as part of Public Service Management cont.



The public service management system exists **to provide public services efficiently, effectively and in a timely manner.**

The services should be of the **right quality** and should be provided in a manner that is **non-discriminatory**, that is, the system should promote equitable access to services for all citizens.

The public service management system should **facilitate accountability for the SMART objectives** that are set by leaders of the day.



Financial management as part of Public Service Management cont.



Public Financial Management is part of the means to deliver public service.

Through the public service management system, we identify peoples' needs and plan how those needs are to be met;

Mobilize resources (be it taxes, grants or other means), budget and incur expenditures, monitor, report, account and evaluate expenditures and activities.



Ethics, good governance and prosperity



Governments the world over have incorporated ethical behavior as a tenet of the characteristics of government and the societies they govern.

This is no surprise as the absence of ethical conduct and integrity jeopardizes the authority of the state by unleashing the dark forces of lawlessness and ‘the failed state’.

By viewing financial management as being part of the public service management system, the importance of ethics in this area of public service management is obvious.

Ethics, good governance and prosperity cont.



Studies -where ethics and integrity in public service are weak, corruption, unethical conduct, inefficiency, poor services and general poverty of the citizenry abound.

There has been established a strong correlation between public service management systems founded on strong ethical standards and prosperity of nations.

The emergence of the so-called East Asian Tigers is a case in point.

Ethics, good governance and prosperity cont.



In the more prosperous nations is to be found low societal tolerance for unethical conduct and its rewards, and effective systems for enforcing expected ethical conduct in public service.

On the other hand, and as history has shown, when citizens have been fed up with the negative effects of weak public management systems, they resort to extreme measures to reclaim their rights.

Ethics, good governance and prosperity cont.



In the thick of day to day activities, it is easy for operators of different aspects of the public service management system to lose sight of their responsibility for the effectiveness of the whole system.

For its critical part, Public Financial Management stands out for special mention.

If you follow the money, more often than not, you get to the root cause of the issues.

Since ethical behavior and integrity are essential to a good overall public service management system, the same is true for Public Financial Management.

Domestication of Ethics in Kenya's Governance



For many years, **Kenya has struggled** with how to counter the effects of unethical behaviors and lack integrity in the management of public affairs.

The need for a specific law governing this area was recognized as far back as 1956 when the Prevention of Corruption Ordinance was enacted.

But it is in the last decade or so that we have seen a **flurry of activity on the legislative front** with the passing of the Anti-Corruption and Economic Crimes Act, 2003; Public Officer Ethics Act, 2003;

Domestication of Ethics in Kenya's Governance cont.



Signing up to the African Union Convention on Preventing and Combating Corruption, 2003 and United Nations Convention Against Corruption, 2003; and

The Constitution of Kenya, 2010 providing a strong anchor for the fight against corruption.

Most recently the Proceeds of Crime and Money Laundering Act 2015 was passed.





Domestication of Ethics in Kenya's Governance cont.

Enactment of the laws has been accompanied by **establishment of institutions** with specific mandates to combat unethical behaviors and corruption.

The entities include EACC, ARA, FRC, and Special Magistrates Courts.



Domestication of Ethics in Kenya's Governance cont.



As our society has evolved and citizens become more demanding, the heavy investment in the legislative agenda around ethics is testimony to the fact that ethical conduct is recognized as underpinning sound public service management practices, including financial management.

And current consensus is that, save for tightening of provisions at the margins, **we have sufficient laws** for purposes of regulating ethics and integrity in Kenya.





This part of the paper has dwelt on the Kenyan experience but a cursory review of other jurisdictions around Africa shows that many countries have undergone similar experiences.



Ethics and Soundness of Public Financial Management Systems and Practices



The **soundness** or efficacy of a public financial management system **can be judged based on information generated by and about the system.**

In other words, an efficient system is a necessary but not sufficient condition for the system to satisfy the test of soundness.

Client experiences with and feedback about the system are important.

Ethics and Soundness of Public Financial Management Systems and Practices cont.



Ethical conduct is required of operators of public financial management systems, for as they say – ‘Garbage in garbage out’.

The integrity of systems operations and outputs depends on the caliber of individuals charged with the operations of those systems.



Ethics and Soundness of Public Financial Management Systems and Practices cont.



As a matter of fact, **corruption** which is a common way in which unethical practices are expressed, **happens under the watch of senior officers in public service.**

When corruption involves loss of public funds we, the Accountants, are in part responsible.

Either we did not operate water-tight systems of planning, budgeting and internal control or as often happens, we are compromised.



Ethics and Soundness of Public Financial Management Systems and Practices cont.



An often **overlooked aspect** to sound public financial management is the **role of the public**.

In jurisdictions where anti-corruption regimes have delivered good results, the citizenry is engaged and readily provides information about suspicious transactions or unethical conduct.

In such jurisdictions, **whistleblowers are valued** and the law protects them.

Ethics and Soundness of Public Financial Management Systems and Practices cont.



When rejection of corrupt and unethical practices is part of culture then red flags will be routinely raised leading to appropriate action by the authorities.

Conversely, when corruption and unethical practices are tolerated or even applauded, it is impossible to tackle the vices.



EACC strategies to support emergence of an ethical society in Kenya



The law mandates the EACC to combat and prevent corruption and economic crimes through law enforcement and preventive measures.

It is doing this by following a strategy focused on areas where the risks of corruption and unethical conduct are is high.

It is doing this using its own resources and those of other institutions of Government and rest of society.

EACC strategies to support emergence of an ethical society in Kenya



Specific elements of the strategy are as follows:

- (1) Supporting demands for accountability of senior officers in government on their fiduciary responsibilities.

EACC will work with the leaders of all arms of government to ensure that this is effective.

Accountants have a role to provide timely information about malpractices in this respect.

EACC strategies to support emergence of an ethical society in Kenya



(2) Supporting institutions ranked as high corruption risk to implement turnaround activities. Accountants will be expected to support implementation of strong systems of internal control.

(3) Conducting robust investigations into malpractices.

(4) Collaborating with others to more effectively and efficiently recover corruptly acquired assets. (5) Implementing comprehensive programs of public education and advocacy against the vice.

Conclusion



An ethical environment comprises the rules that support it and peoples' behaviors borne out of the choices they make.

Rules are easy to develop and enact but behaviors are that much more difficult to cultivate, leave alone sustain.

As leaders in public financial management, we have a duty to contribute to the shaping of behaviors by leading by example, championing development of strong systems of internal check and finally being advocates of a culture of accountability across the full spectrum of public sector management.

Conclusion



Accountants should also lead in recruiting other segments of society to join in demanding accountability and rejecting those who benefit from unethical conduct.

As custodians of the money we are best placed to generate the information that will support the cause of accountability, thus making our work easier.





THEN WE, AS PART OF THE PUBLIC FINANCE MANAGEMENT SYSTEM, SHALL BE UPHOLDING ETHICS AND BEING SEEN TO BE.





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