



Auditing the Local and County Governments: A Case for Outsourcing



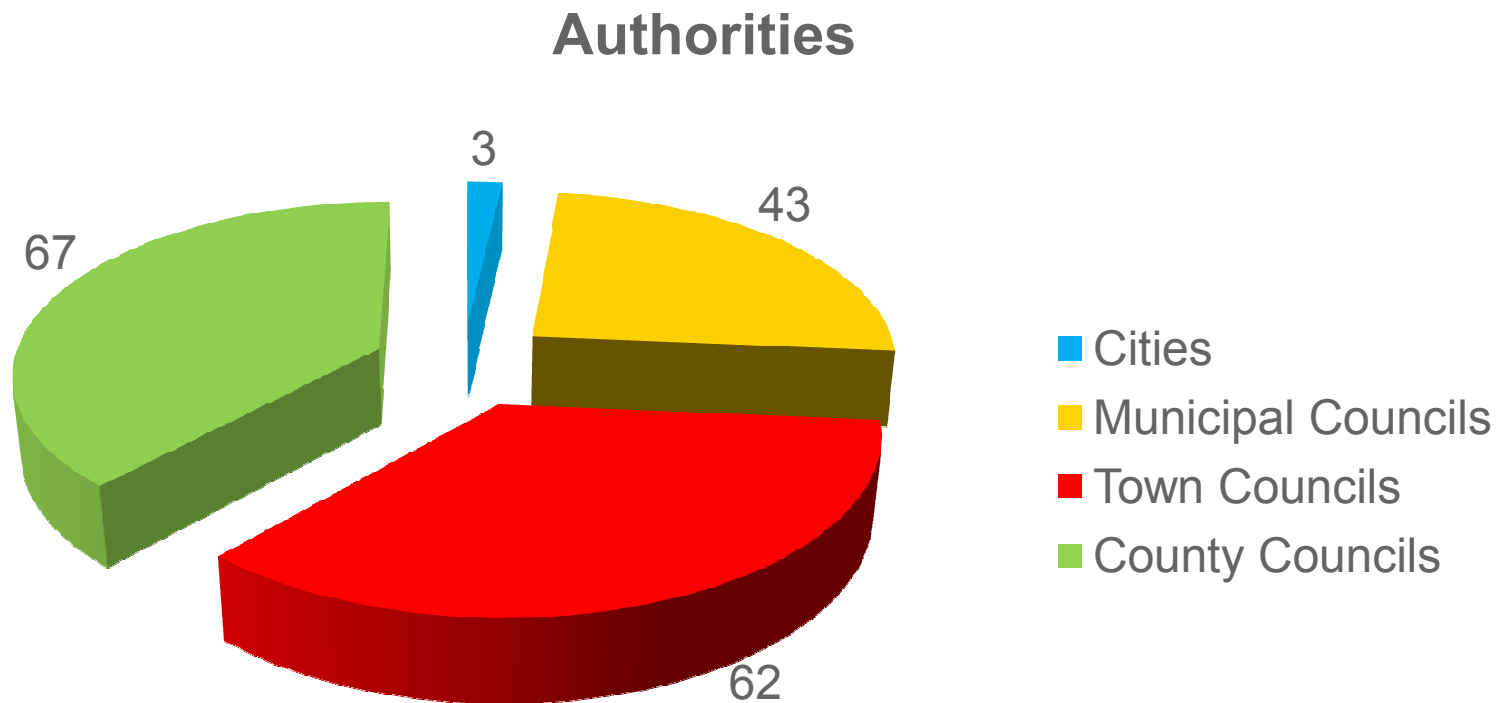
Presentation Content

- ▶ Auditing the Local and County Governments – The current situation
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- ▶ Auditing the Local and County Governments – A case for outsourcing



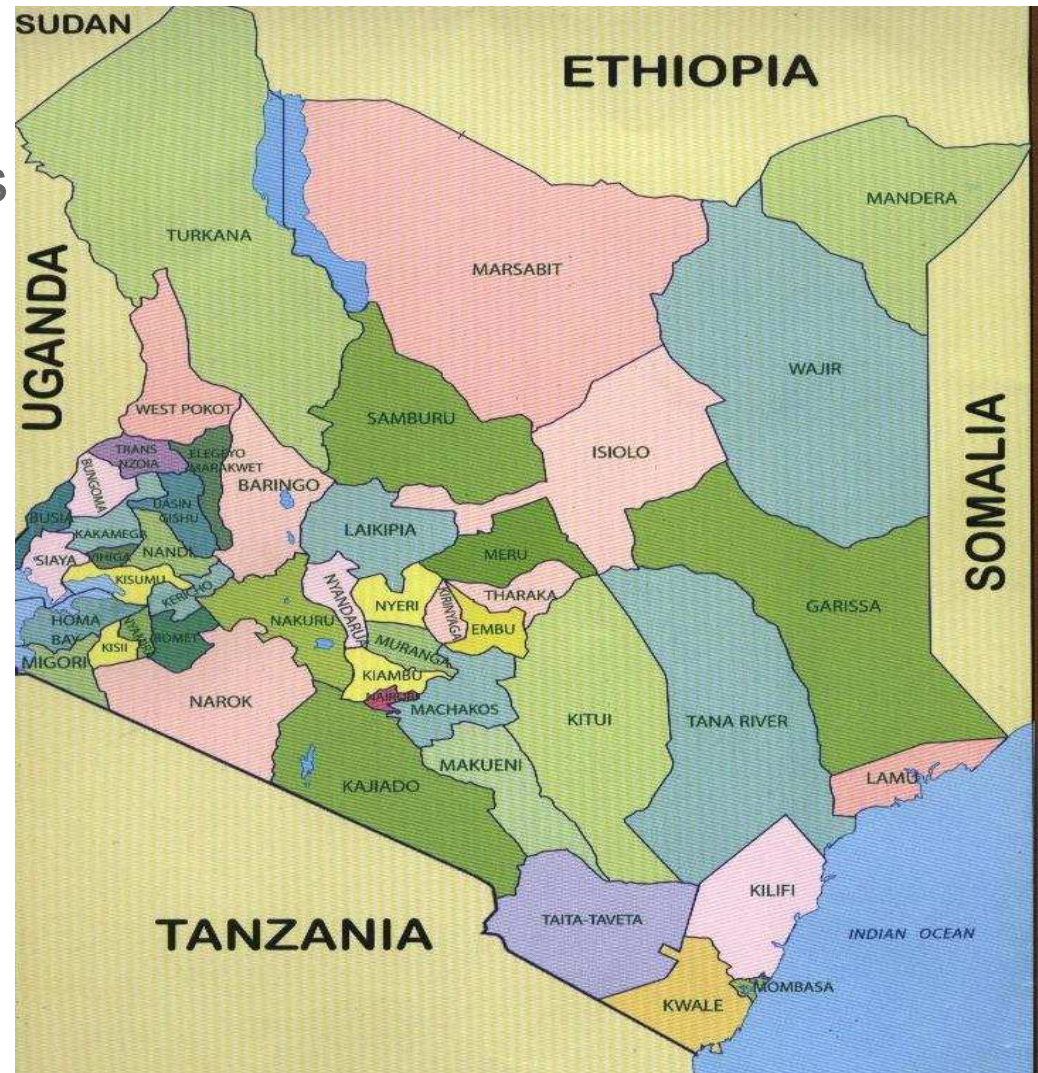
Auditing the Local and County Governments – The current situation

- ▶ The Local Government Today – 175 authorities as follows:-



Auditing the Local and County Governments – The current situation (cont'd)

- ▶ The Local Government Tomorrow – 47 counties under them will be; cities, municipal and town councils:-



Auditing the Local and County Governments – The current situation (cont'd)

▶ Reporting Framework:-

- ▶ Public Audit Act, 2003, Section 22(1) : Local authority shall submit its accounts within six months after financial year to which the accounts relate.
- ▶ Public Audit Act, 2003, Section 24(4) : Audited report should be submitted to the minister for finance within 11 months after the end of the financial year.
- ▶ Prior to the Public Audit Act 2003, the exchequer and Audit Act (Cap 412 laws of Kenya) did not require Audited accounts of local authorities to be submitted to parliament and this led to laxity of the councils and parent ministry in submission of the accounts to the Auditor General. This led to backlog of audit reports. This however changed with the enactment of the public Audit Act 2003.
- ▶ The Local Government (Amendment) Bill, 2009 Part XVII (Accounts and Audits) - stipulates the financial preparation and audits of local authorities.

Auditing the Local and County Governments – The current situation (cont'd)

- ▶ Current challenges of financial reporting:-
 - ▶ Manual/unreliable information systems/data bases – difficult to ascertain completeness of revenue (e.g parking revenue)
 - ▶ Lack of capacity to handle the financial complexities (inadequate staffing, inadequate skills)...inability to attract the best talents/skills in financial management
 - ▶ Frequent staff transfers of key accounting officers e.g. Clerks, treasurers etc
 - ▶ Economic viability/"going concern" of some local authorities in doubt
 - ▶ Political interference of the process – procurement/staffing etc
 - ▶ Weak governance structures for financial controls and reporting
 - ▶ Inappropriate "historical culture" for financial reporting



Which way out?



Auditing the Local and County Governments – What needs to be done

- ▶ What needs to be done to put local authorities at par with other institutions in terms of financial reporting?

....a new beginning!



Auditing the Local and County Governments

– What needs to be done (cont'd)

▶ Remedial actions:-

- ▶ Transition considerations are important aspects: inventory of assets, revenue sources...
- ▶ Financial management transformation (right information systems/ERPs to automate the manual processes and integrate various functions)....**a top priority!**
- ▶ Engage the right skills in adequate numbers
- ▶ Staff performance contracting and reward systems
- ▶ Staff transfers to be restricted to a reasonable period
- ▶ A culture of rewarding good performance and punishing non-performance
- ▶ Right tone from the top!..change the rules of the game!
- ▶ Governance structures including the internal audit to be revamped

Auditing the Local and County Governments

– What needs to be done (cont'd)

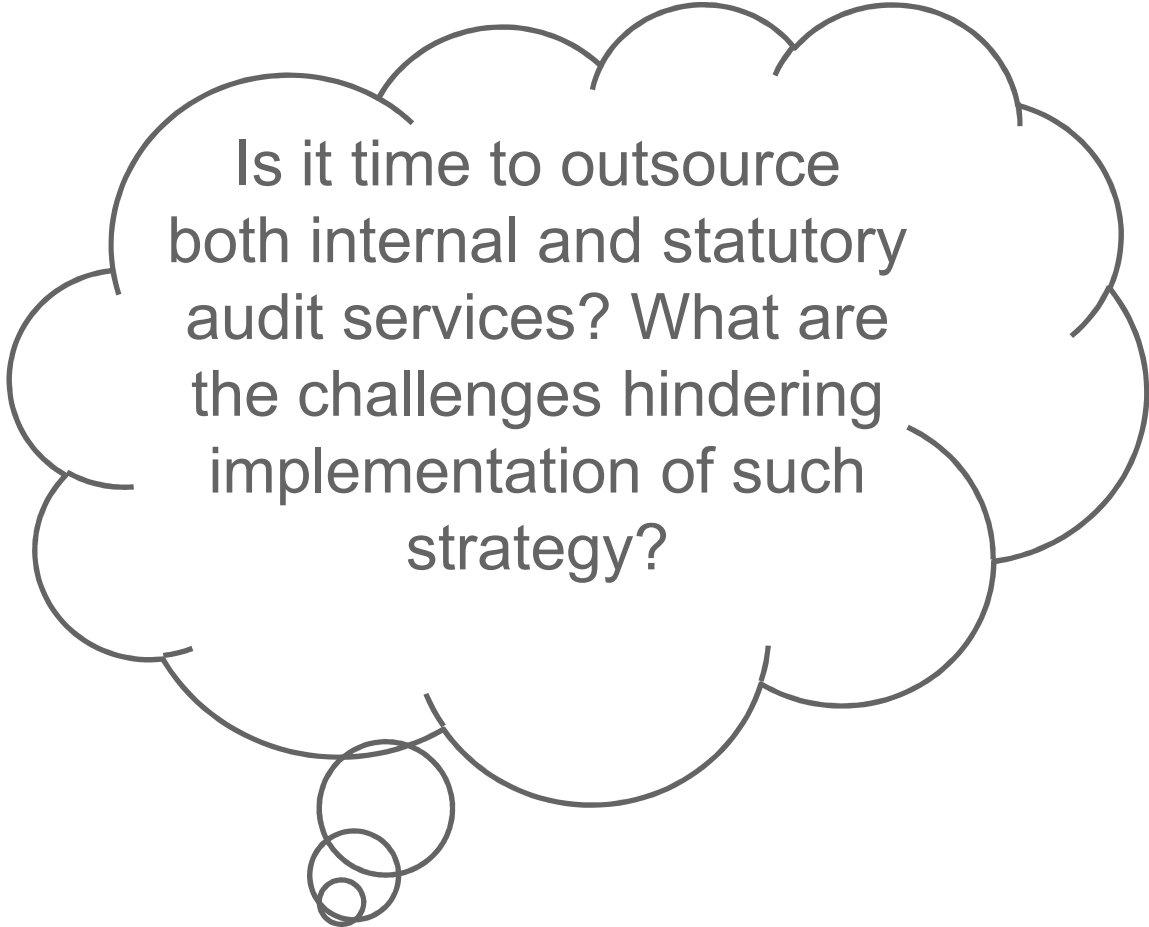
▶ Remedial actions:-

- ▶ Internal auditors should not be involved in pre-audits as there is loss of objectivity.
- ▶ External audit rotation from the current 7 years to 3 -5 years to inculcate rigour and vibrancy in the process
- ▶ Outsource/co-source both in the immediate and mid-term to transform the financial management and reporting as a remedy to current capacity constraints.
- ▶ Increased public scrutiny and financial regulatory reviews



Is it time for outsourcing?

Auditing the Local and County Governments – A case for outsourcing



Is it time to outsource both internal and statutory audit services? What are the challenges hindering implementation of such strategy?

Auditing the Local and County Governments

– A case for outsourcing (cont'd)

- ▶ Current audit effort:-
 - ▶ The Kenya National Audit Office (KENAO) currently has about 300 staff allocated to serve local authorities and plans are underway to increase the number to about 621 staff.
 - ▶ Nairobi City Council (NCC) has 62 internal auditors to serve its various facilities such as health, education, parking bays, land rates & rent, licences etc.
 - ▶ After enactment of Public Audit Act 2003, KENAO has gradually improved audit of local authorities. The office audits all local authorities except Nairobi City Council and Kisumu Municipal Council which are outsourced.

Auditing the Local and County Governments

– A case for outsourcing (cont'd)

▶ Outsourcing:-

- ▶ Process of contracting an existing business function or process of an organization to an independent organization, and ceasing to perform that function or process internally.
- ▶ 100% outsourcing – third party assumes the role of testing, compliance, review and reporting.
- ▶ Co-sourcing – the audit function is managed by a third party while working with the internal function (capacity enhancement)
- ▶ Applies to both internal and external functions

Auditing the Local and County Governments

– A case for outsourcing (cont'd)

- ▶ Why outsourcing:-
 - ▶ Effective audit functions (both internal and external) require a diversity of skills that many organisations find difficult to source and retain.
 - ▶ Maintaining world class internal and external audit resources requires significant investment in recruiting, training and professionally developing audit personnel.
 - ▶ In addition, there is the additional cost of the latest methodology, technology and management's time and resources.

Auditing the Local and County Governments

– A case for outsourcing (cont'd)

▶ Benefits of outsourcing:-

- ▶ Overcome skills/competence constraints – access latest methodologies and up-to-date knowledge
- ▶ Enable the organization to focus on its core activities
- ▶ Improve financial reporting and governance process
- ▶ Build world class institutions
- ▶ Enhance efficiency and effectiveness in financial management
- ▶ ...value addition e.g. performance audit, value for money audits, objective approach..

Questions & Comments



The information in these slides is intended as a guide only and not a comprehensive summary of auditing issues relating to local and county government. While all reasonable care has been taken in the preparation of these slides, Ernst & Young accepts no responsibility for any errors they may contain.