



ICPAK IPSAS WORKSHOP

Getting Ready for Audit

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- **Mandate of the OAG**
- **Assurance Strategy**
- **Operating Structure**
- **Getting Ready for the Audit**
 - **OAG**
 - **Entities**
- **Audit Issues**
- **Reporting**



Auditors at work

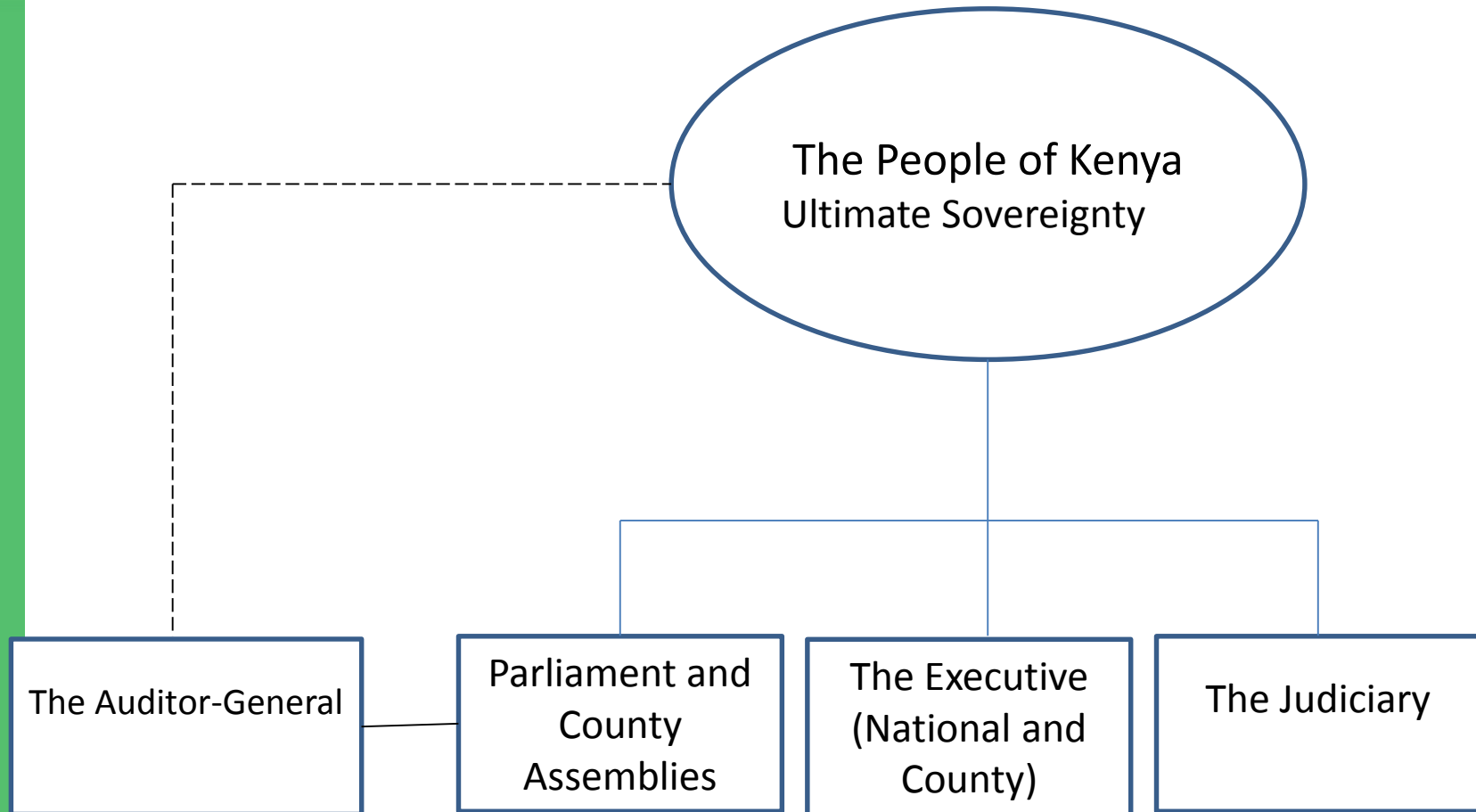


Constitutional Checks and Balances



- The Constitution of Kenya provides checks and balances in the country's governance structure by clearly allocating and separating the powers of the three arms of government;
 - parliament and the legislative assemblies in the county governments are responsible for allocating resources
 - the national executive and the executive structures in county governments are responsible for managing those resources, and
 - the judiciary and independent tribunals are responsible for ensuring legality in all actions

Office of the Auditor-General

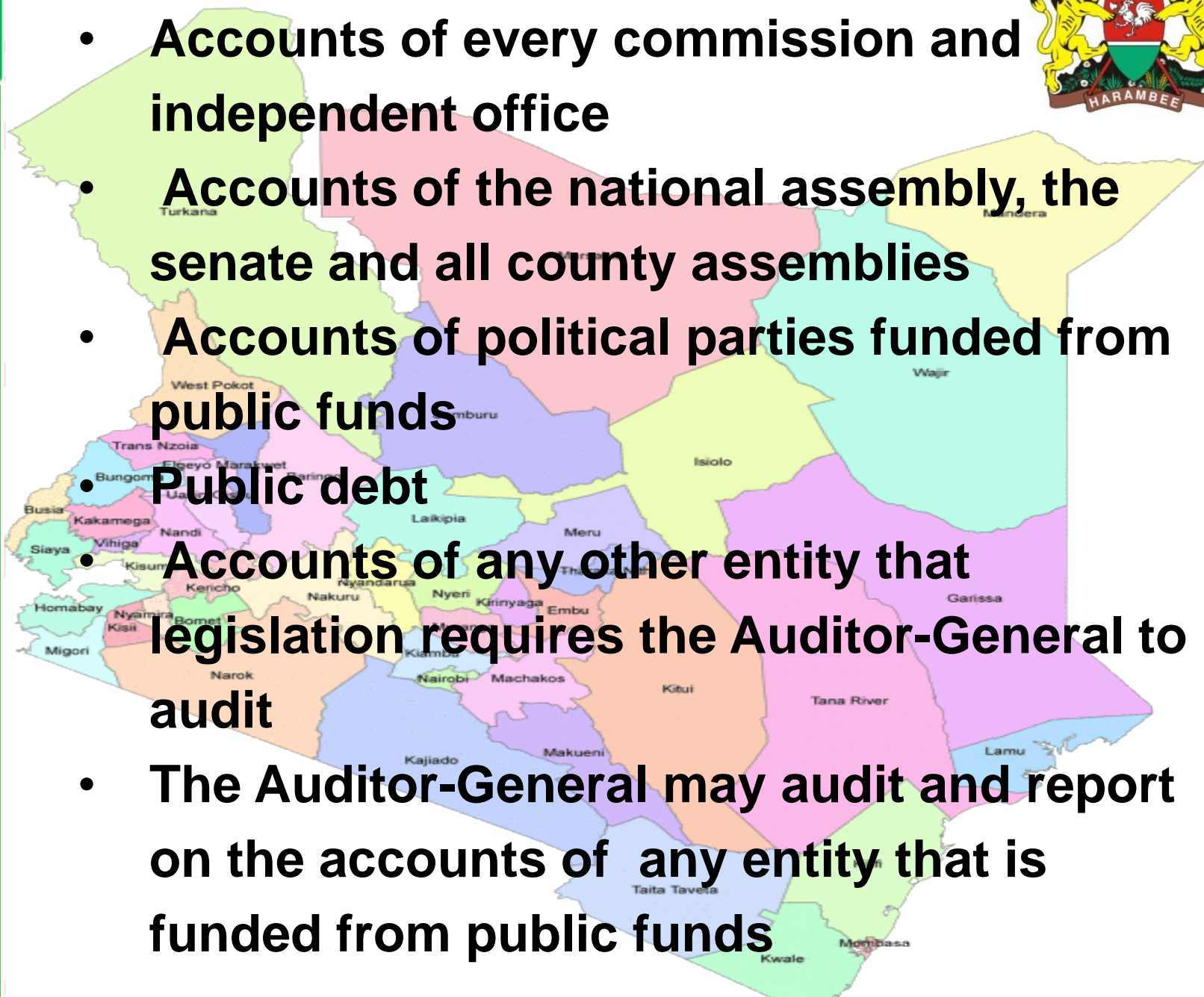




- The Office of the Auditor-General is established by Article 229 of the Constitution
- Article 248(3) declares the Office of the Auditor-General an Independent Office
- Article 249(a) declares the Office as **subject to** the Constitution and the law
- Article 249(b) declares it as **not** subject to direction or control by any person or authority



- **Accounts of every commission and independent office**
- **Accounts of the national assembly, the senate and all county assemblies**
- **Accounts of political parties funded from public funds**
- **Public debt**
- **Accounts of any other entity that legislation requires the Auditor-General to audit**
- **The Auditor-General may audit and report on the accounts of any entity that is funded from public funds**





- The statutory duties and responsibilities of the Auditor-General are given in Article 229(4) (5) (6) and (7) of the Constitution
- Public Audit Act, 2015- OAG is mandated to audit and report on all public money/funds relating to the Republic of Kenya
- Auditor-General is therefore tasked with the responsibility to independently audit all the governance organs making the Office the ***Oversight Organ*** and hence the **Supreme Audit Institution(SAI)** of Kenya



- Article 229(6) of the Constitution further tasks the Auditor-General to ensure that public resources are used **effectively** and **lawfully**
- Requires the Auditor-General to not only look at the fiscal and managerial accountability aspects, but also to confirm whether or not the programmes implemented lead to results and outcomes that positively transform the lives of our people and implementation complies with the law



- Article 229(4) -Within six months after the end of each financial year, the Auditor-General shall audit and report with respect to that financial year on all the accounts(financial audits)
- Public Financial Management Act, 2012 section 81(4) and section 164(4) - financial statements to be submitted within three months after the end of the financial year
- Performance, risk assessments/test of controls, IS audits and investigations and forensic audits -throughout the year

Timelines



- PFMA - Section 80(4) and section 163(4) on consolidated financial statements-to be submitted within 4 months
- Auditor-General to submit the audit reports to Parliament by 31 December of each year
- Other kinds of reports to be submitted as soon as finalized (practically possible)
- Earlier submission of financial statements is encouraged due to short timeline for audit



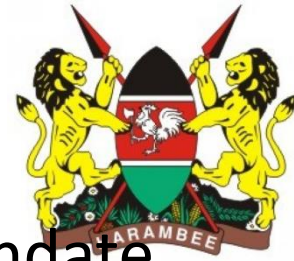
Assurance Strategy

In order to meet the mandate and the expectations of the citizens and to provide assurance on the management of public resources both at the national and county levels, the OAG carries out audits based on three key pillars.

1. Certification of Accounts- to assure on fiscal accountability (financial audit)
2. Continuous audit presence- to give assurance on managerial accountability (compliance audit)
3. Service Delivery to the Kenyans (performance audit)



Certification of Accounts



- This Pillar directly responds to the core mandate of certifying accounts at national and county levels in line with the constitutional provisions
- Certification audit entails expressing an opinion as to whether or not the financial statements are prepared in all material respects in accordance with the applicable financial reporting framework and/or statutory requirements
- In financial auditing, the auditor assesses the accuracy and fairness of an organization's financial statements (*true and fair view*)

Continuous audit presence



- This pillar ensures that the OAG is proactive, preventive and deterrent to fraud, waste and abuse of public resources
- In compliance auditing, the auditor checks whether government revenue and spending have been authorized and used for approved purposes and conform to all pertinent laws and regulations
- Continuous audit looks at governance and ethical issues in the public sector, as these are key national values in our Constitution

Delivery to Kenyans/ Performance Audit



- The Bill of Rights (Chapter 4 of the Constitution) has conferred fundamental rights and freedoms to Kenyans which has enhanced expectations
- Rights include; health, clean and safe water, quality food, sanitation, clean and healthy environment, education, housing and social security
- Rights will only be met through development and implementation of programmes

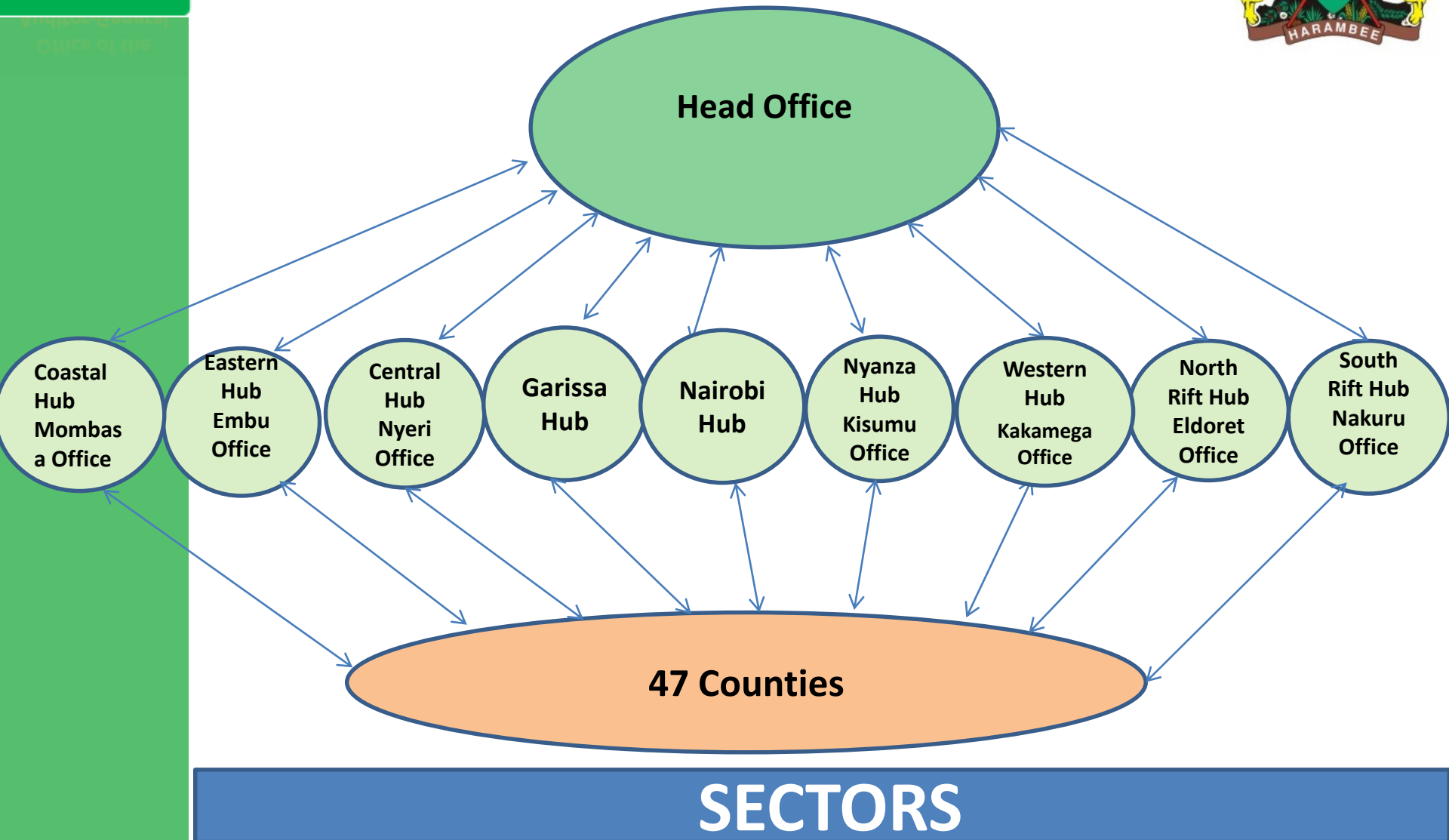


- The OAG has an important role to play in promoting service delivery to Kenyans through performance audits of the programmes
- Performance or value-for-money auditing determines whether taxpayers have received value for their taxes
- PA reports on non-compliance with established systems, laws, regulations, procedures and practices that may hinder delivery of timely and quality services
- Assessment of whether the programmes lead to results, outputs and outcomes that positively transform the lives of Kenyans - extends to reviewing the effectiveness of government programs in achieving their objectives
- We audit the 3Es; economy, efficiency and effectiveness as well as the emerging Es; environment and equity

Organizational Structure



Strategic Planning
Office of the Auditor General



Scope and Performance of the Audit



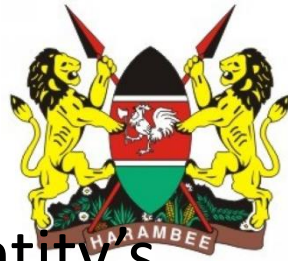
- The scope of the audit of National Government includes Ministries, Government Departments, Agencies, Funds and Development Partners' funded Projects.
- Covers all sectors of the economy
- Audit carried in accordance with International Standards on Auditing.
- Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Getting Ready for the Audit



- This entails what entities need to do and to prepare in order to produce statements and supporting documentation which are capable of withstanding audit scrutiny
- It also looks at what the auditor needs to prepare and to communicate in advance to the auditee to ensure a smooth and speedy audit process

Overview : Auditor



- In planning the approach to auditing an entity's Financial Statements, the external auditors will initially be concerned about the following:
 - the entity has acceptable financial and other reliable information systems in place,
 - the entity's finance team have sufficient knowledge and understanding of IPSAS and other regulations and their applicability to the entity's Financial Statements; and
 - the entity has arrangements in place to produce reliable Financial Statements, along with adequate supporting working papers, to an acceptable timetable

Overview : Auditor



- The auditors will adopt a risk-based focus when auditing the financial statements(Risk Based Audit Methodology-RAM), identifying where risks of financial mis-statement could arise and how the entity has managed that risk.
- Auditors will need to gain a thorough understanding of the organization's activities, its governance structure and the entity's attitude to risk assessment and management
- Will include a review of systems of internal control and information flows within the entity
- After identifying the key risks, auditors will test controls, transactions and balances, and review other client documentation as appropriate, in order to gain **sufficient, appropriate** evidence on which to form an opinion on the accounts

Getting Ready for Audit: Auditor

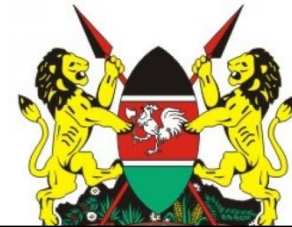


- Planning
 - Strategic-Organization wide
 - Operational- Annual Overall Operational Plan
 - Informed by the Departmental Operational Plans and Divisional Plans
 - Client- audit project plans
 - Pre-assignment activities
 - Strategic audit planning
 - Detailed audit planning

AUDIT CALENDAR

Month	January February	March	April to July	August To November	Nov - 31 Dec
Audit Phase	Annual overall audit plan	Pre - Assignment Activities	Strategic Audit Planning	Detailed Planning and Fieldwork	Conclusion & Reporting
Objectives	<ul style="list-style-type: none">• Risk Profiling of Clients• Resource Mobilization	<ul style="list-style-type: none">• Scoping of Audit• Resource Allocation	<ul style="list-style-type: none">• Understanding the client• Control evaluation	<ul style="list-style-type: none">• Control Evaluation• Evidence Collection correctness of FS	<ul style="list-style-type: none">• Communication of audit findings to Mgt, CA, Senate, Public, Devt Partners, Nat. Govt

Audit Process



Annual Overall Audit Planning

- Identify activity plans for regularity audits;
- Perform Risk assessment for prioritizing audits;
- Identify audit coverage;
- Determine ways of addressing backlogs
- Assessment of constraints

Annual overall audit plan
Risk matrix
Audit Calendar

Pre-Assignment Activities

- Assess ethical and resource requirements
- Determine the terms of the engagement

Time and Cost Budget
Code of Ethics Declaration and Conclusion
Competency Matrix
Team Agreement
Audit Letter of Understanding
Quality Control Questionnaire for Pre-Assignment activities

Audit Process

Strategic Audit Planning

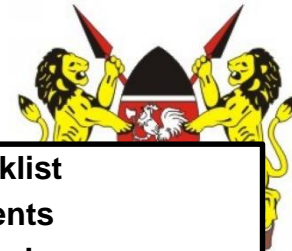
- Gain understanding of the auditee
- Identify and evaluate risks on a financial statement level
- Develop an overall audit strategy

Regulatory Framework
Overall Materiality
Prior year's audit matters
Lead Schedule
Budget Checklist
Preliminary analytical review
Review of internal audit checklist
Audit committee checklist
Fraud checklist
Internal control checklist (manual and IT)
Going concern/Sustainability of services checklist
Using the work of another audit
Using the work of an expert
Risk of material misstatement on a financial statement level
Overall audit strategy
Team discussion document
Quality Control questionnaire for strategic planning

Detailed Planning and Fieldwork

- Understand the entity
- Identify and assess risks for the audit component
- Determine an appropriate response to assessed risks
- Identify nature and extent of audit tests
- Perform and document audit procedures

System description for audit components
Reliance on key controls for components
Audit procedures to be performed
Sampling
Evidence tracking sheet
Lead schedule on component level
Tests of control
Substantive audit procedures performance
Substantive analytical procedures
Audit query
Audit summary memorandum
Quality control questionnaire for detailed planning and fieldwork



Audit Summary

Perform overall audit procedures
Aggregate and conclude on audit results

Disclosure checklist
Subsequent events
Final analytical review
Quality control questionnaire for audit summary

Concluding and reporting

Compile management letter
Communicate with auditee
Compile audit opinion

Minutes of Entry and Exit Meetings
Management letter
Verification of management responses
Matters for attention during subsequent year's audit
Code of ethics compliance
Audit differences
Opinion matrix
Representations by audit management
Management representation letter
Exception Capturing (National and County Governments)
Audit report
Quality control questionnaire for concluding and reporting



No	Activity (Pre-engagement Activities and Strategic Planning)	Responsibility	Target date	Minimum Quality Requirements
1.	Pre-engagement Activities	Audit Team	January	Terms of Engagement agreed
2.	Entrance Meeting Systems	Audit Manager/ Client Management	February	Letter of Understanding Discussed
3.	Strategic Engagement	Audit Manager/ Client Management	February – June	Interim Management Letter
4.	Exit Meeting Strategic Engagement	Audit Manager/ Client Management	June	Interim Management Letter

No	Activity (Detailed Planning and Fieldwork)	Responsibility	Target date	Minimum Quality Requirements
5.	Completion of Draft Financial Statements	Management	30 Septembe r	Auditable Financial Statements
6.	Submission of Financial Statements and Supporting schedules to the Auditors	Management	30 Septembe r	Auditable Financial Statements
7.	Entrance Meeting	Management/ Audit Team	14 October	Overall Audit Strategy
8.	Fieldwork	Auditors/ Management	30 October	Verified F/S



No	Activity (Audit Summary)	Responsibility	Target date	Minimum Quality Requirements
9.	Exit Meeting	Client Management/ Audit Team	30 October	Audit Findings
10.	Issue Management Letter	Audit Manager	5 November	Management letter
11.	Submit written response	Accounting Officer	15 November (10 Days from Date of Management letter)	Management Response received and Acted upon



No	Activity (Audit Conclusion and Reporting)	Responsibility	Target date	Minimum Quality Requirements
12.	Issue Draft Report	Audit Manager	30 November	Draft Report Issued
13.	Issue management representation letter	Accounting Officer	5 December	Management representation received
14	Issue response to Draft Report	Accounting Officer	10 December	Response Received
15.	Issue approved audit opinion to audited entity.	Auditor-General	31 December	Signed Audit Report by AG

Getting Ready for Audit: Overview for Entities



- Preparation for audit should commence from the budgeting phase and should be throughout the operating period
- Entities are expected to cooperate fully with the auditor, **attend all scheduled meetings(entry and exit)** and any unscheduled ones, respond to queries, management letters and draft reports
- Entities are also required to follow up on recommendations from the auditor and Parliament

Getting Ready for Audit: Entities



- **Production of Financial Statements**
 - Entities will be required to prepare annual Financial Statements which give a fair presentation of the financial position, financial performance and cashflows
 - It is prudent for the finance team to get prior assurance that finances and financial systems are in good order and that the statements are supported and validated by comprehensive reviews before being presented for audit
 - It is the responsibility of the entities to establish accounting policies that meet the requirements of applicable IPSAS and other regulatory requirements
 - Involve all key stakeholders including the internal audit function in the financial statement processing-they can give the FS an initial assessment

Getting Ready for Audit: Entities



- There are a number of steps that an entity can take to ensure that an external audit runs smoothly and minimize the risk of a disclaimer or qualified audit opinion.
- They include:
 - Understanding the auditor's objectives
 - Maintaining audit trails
 - Having supporting information and schedules ready
 - Being aware of common audit issues and taking steps to avoid their occurrence.
- Addressing these issues will improve an entity's governance, including the robustness of financial information for management and the effectiveness of internal control systems

Getting Ready for Audit: Entities



Understanding the auditor's objectives

- Objectives are expressed in the **letter of understanding**
- Generally audit objectives (assertions) address:
 - Account balances at the period end
 - Presentation and disclosure
 - Classes of transactions and events for the period

Getting Ready for Audit: Entities



Audit Trail

- An audit trail consists of a positive set of links for each transaction or balance from source to account, and back.
 - *‘The ability to track from the financial statements back through the prime accounting records to the underlying transactions and events (and back again) so that management and the auditor may substantiate the individual account figures’.*
- A proper audit trail:
 - ensures that all, and only, proper transactions and balances are included in the accounts
 - supports the transactions and balances reported

Getting Ready for Audit: Entities



Supporting Schedules

- Maintaining supporting schedules to explain how judgements and estimates have been reached provides evidence for the assumptions used to compile the accounts
- This eases the audit burden, and allows consistent application year on year
- Such files should be made available to the auditors as part of the audit process
- The types of supporting schedules required will vary depending on a number of factors, including the account area, complexity of the entity, level of risk in the account area

Getting Ready for Audit: Entities



Supporting Schedules

- In general, supporting schedules should provide the auditor with a high level understanding of:
 - What type of transactions make up the account area figure (e.g. income streams, source of provisions)
 - Where the account area figures have been taken from (e.g. sales ledger references, manual journal entries)
 - Any reconciling items between the account area figure and the General Ledger; and
 - Any areas of significant judgement and/or estimates

Getting Ready for Audit: Entities



Audit File: Best Practice

- The purpose of preparing **the audit file** is to prepare adequately for the audit in order to satisfy the most robust audit procedures.
- The objective is to:
 - Highlight any audit issues before the auditors do;
 - Respond adequately to audit queries; and
 - Prepare in advance standard information asked for by auditors
- This goes a long way in giving the auditors confidence in your accounting records and reducing the issues identified during the audit.

Getting Ready for Audit: Entities



- **Other considerations**
 - Management and coordination of the audit process
 - Assign a liaison person
 - Provide ample working space and any required tools for the auditors
 - Provide all the required documents while the auditors are still on site-do not give the impression of manufacturing the same during the audit
 - Ensure continuous access to all systems including IT systems

Communication During Audits



- Letter of understanding
- **Entry meeting**
- **Audit queries**
- Briefing meeting
- Draft Management Letter
- **Exit Meeting**
- Final Management letter
- **Management Response to ML**
- Verification of Management Response
- Draft Audit Report
- **Management Response to DAR**
- Verification of Management Response to DAR
- Audit Report
- PAC/PIC/Senate PAIC/CGs PAIC hearings and reports

Audit Issues



- Unaccounted for revenue
- Spending of revenue at source
- Unsupported expenditure
- Non surrender of imprests (long overdue)
- Irregular procurement practices

Audit Issues



- Irregular HR practices
- Unauthorized expenditure
- Poor management of assets:
 - Lack of asset registers
 - Non disclosure of assets
 - Lack of ownership documents
 - Disposal of assets
 - Failure to take due care/diligence e.g. Insurance
 - Poor valuation model

Audit Issues



- Long outstanding reconciling items in bank reconciliation statements
- Excess expenditure
- Misallocation of expenditure items
- Lack of adequate disclosures
- None compliance with the laws and regulations

Audit Issues



- Discrepancies between the financial statements and the respective ledgers and the trial balance
- Differences between prior year closing audited balances and opening balances for current year
- Unsupported balances in the financial statements
- Failure to prepare financial statements in accordance to International Public Sector Accounting Standards/IFRS and Treasury instructions
- **Opinion Matrix**-guides the overall audit opinion on the financial statements

Reporting



- OAG reports to Parliament or the relevant County Assembly
- Reports for ministries are discussed by the Public Accounts Committee (PAC)
- Reports for State Corporations/Parastatals are deliberated by the Public Investment Committee(PIC), copied to boards and shareholders
- Reports for counties are deliberated by the Public Accounts and Investment Committees(PAIC) of the respective County Assembly
- County reports are copied to the Senate and deliberated by the Senate PAIC

Reporting



- The Office of the Auditor-General attends the committee hearings to provide technical support both at the county assemblies level and parliament
- The committee hearings are done in open to facilitate public participation
- Timeline is three months – to debate and consider the Auditor-General's reports and take appropriate action, Article 229(8)
- By reporting to Parliament - the peoples' representative, OAG is accountable to the people of Kenya
- OAG is a core element of parliamentary oversight

GENERAL OUTLOOK



- Public accountability pertains to the obligations of persons or entities **entrusted with public resources** to be answerable for the fiscal, managerial and program responsibilities that have been conferred on them, and to report to those that have conferred these responsibilities

INTOSAI



Way Forward

- Accounting officers should adhere to timelines for submission of accounts and ensure the accounts submitted are accurate
- Accounting officers should adhere to guidelines for accountability and provide the required documentation for audit review by OAG staff when the staff are still at your premises



Conclusion

- The primary role of the OAG is to give assurance to the citizens through Parliament and the County Assemblies
- There is need to respond to the call for strong and all round accountability in the use of public resources
- There is also greater need to assess the impact the use of resources has on the lives of citizens,



Thank you