



Auditing County Governments and Assemblies; Lessons from Office of the Auditor - General

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Enhancing Accountability



Outline

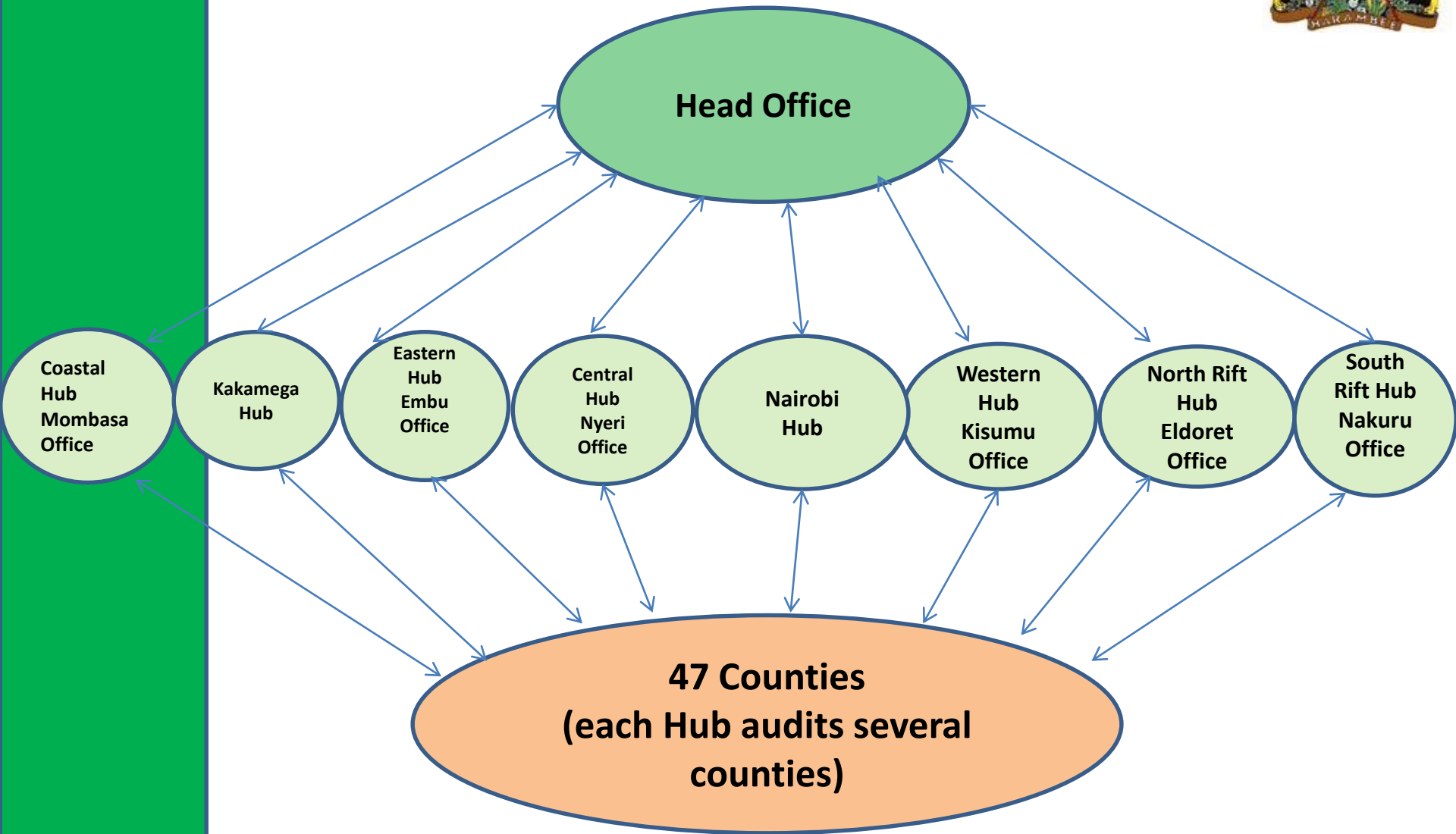
- Regulatory Framework for Oversight
- Audit Process at the Counties
- Types of Audits
- Challenges and Gaps
- Recommendations
- Conclusion

Mandate for OAG



- The Constitution
 - Article 229: establishes the Office of the Auditor-General with the overall mandate to audit all entities funded from public funds
 - Art. 229(6): Mandates the Auditor-General to confirm whether or not public money has been applied lawfully and in an effective way
- Laws and Regulations
 - Public Financial Management Act, 2012 and PFM Regulations 2015
 - Public Audit Act, 2015
- Government Circulars and Directives:
 - National Treasury
 - Public Sector Accounting Standards Board(PSASB)
- International Standards of auditing
- Corporate Governance-best/leading practices

OAG Organizational Structure for County Audit



Audit Process at the Counties



- The audit process is guided by;
 - the Public Audit Act , 2015 Part IV- s31-s32
 - International standards on auditing
 - OAG internal operations guidelines
- The audit process is the same both at national level and county level
- International Auditing Standards(IAS) and International Auditing Standards for Supreme Audit Institutions(ISSAIs) require **continuous communication** between the auditors and the client during the entire audit process

Audit Process at the Counties



Audit Process at the Counties



- **Preliminary step/Feedback: PAA, 2015 sec 31:** within three months after County Assembly has debated the Auditor General's report and made recommendations, the county government **shall submit a report on action taken** on recommendations and findings
- The feedback from the previous audit informs the subsequent audit
- **Submission of Financial Statements for Audit** - on or before 30 September each year

Audit Process at the Counties



1. **Letter of understanding** - explains the nature and scope of audit
2. **Inception meeting** - inaugural meeting between the audit staff and client staff at the beginning of audit to discuss scope to discuss the scope, audit strategy and requirements. *It is important for counties to have high level representation.*
3. **Fieldwork - audit queries and responses-** to maintain regular contact with client on observations during audit

Audit Process at the Counties cont...



4. **Exit meeting** - meeting between audit staff and accounting officer to discuss observations and flag out outstanding issues
5. **Management letter** - issued to the accounting officer and includes all unresolved issues. Provides a timeline for response.
6. **Draft audit report** – issued for comments before final report. Provides a timeline for response and an opportunity to the accounting officer to resolve outstanding issues

Audit Process at the Counties cont...

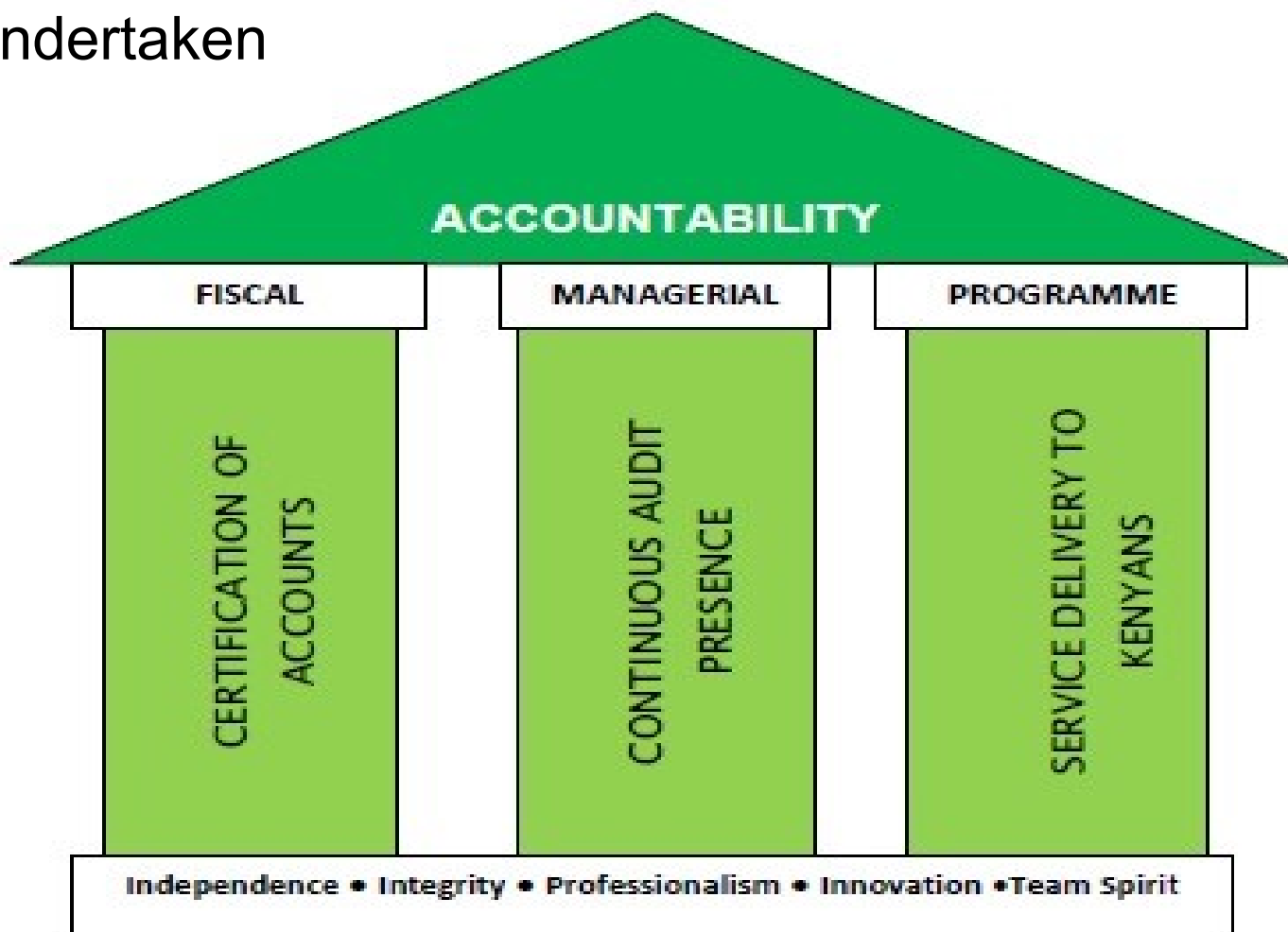


5. **Final audit report** – quality review - provides overall opinion on the financial statements and other aspects
6. **Reporting** - to County Assembly & to the Senate
5. **Public hearings** - reports discussed by relevant Standing Committees (PAIC)
6. **Reporting by County Assembly Committee** - recommendations for implementation and follow-up

OAG Assurance Framework



- The PAA, 2015 and the OAG assurance framework informs the type of audits undertaken



Types of Audit



Public Audit Act , 2015 Part IV OAG Assurance Framework inform the types of audit

1. **Annual Financial Audits** (certification audits)
2. **Periodic/continuous audits** - proactive, preventive and designed to confirm whether or not public money has been applied lawfully and in an effective way
3. **Performance audits** - examines the economy, efficiency and effectiveness with which public money has been expended
4. **Forensic audits** - to establish fraud, corruption or other financial improprieties
5. **Procurement audits** - examination of public procurement and asset disposal processes of a county to confirm legality and effectiveness of the procurements

2014/2015 Financial Year County Audits



No of Counties	Opinion	
None	Unqualified(CLEAN)	Clean report - underlying documentation agreed with the financial statements
6 (13%)	Qualified	Found some problems but they were not pervasive (not widespread or persistent)
17 (36%)	Adverse	Reviewed the County's documentation, but problems found were pervasive and would require considerable changes to rectify
24(51%)	Disclaimer	Unable to fully review the County's documentation due to unavailability of substantial amount of information

Cross-cutting Findings



- Most of the financial management issues underlying the opinions were similar across counties only varying in pervasiveness/intensity
- Issues raised are classified under;
 1. Budget and planning
 2. Procurement
 3. Payment/execution
 4. Human resources
 5. Reporting

Cross-cutting Findings



1. Budget And Planning Issues

- Unrealistic Budgets leading to weak budget execution
- Overstated and unrealistic budget estimates for revenue
- Material unexplained variances between budgeted and actual revenues and expenditure

2. Procurement

- Non-compliance with the Public Procurement and Asset Disposal Act, 2015
- Non availability of Procurement Plans
- Irregular award of contracts
- Weak Contract Management
- Value for Money concerns
- Stalled projects

Cross-cutting Findings



3. Payment/Execution

- Unsupported and Unauthorized Expenditure
- Weak Internal Controls
- Poor Cash Management
- Pending bills
- Banking of County funds into Personal Accounts
- Weak Fund Management with no guiding policy frameworks
- Weak Assets Management and Controls and issues around assets of the defunct local authorities and current acquisitions
- Spending revenue at source

Cross-cutting Findings



4. Human Resource Issues

- Lack of Staff establishment
- Payroll irregularities
- Irregular payment of allowances
- Non remission of statutory deductions

5. Reporting

- Errors in Financial Statements
- Falsification of records
- Non Compliance with the Public Sector Accounting Standards (IPSA)
- Material unexplained variances between Financial Statement figures and their support ledgers and schedules

Weaknesses Identified in the Counties



- Findings/conclusions may be attributed to;
 - lack of proper policies and plans including monitoring
 - lack of capacity
 - Inaccurate or incomplete information
 - lack of enforcement
 - ethical misconduct including fraudulent activities
 - lack of cooperation with auditors
 - insufficient responses to audit queries and management letters
 - delays in responding to draft audit reports



Challenges Faced by OAG

Challenges/ Weaknesses faced by OAG;

- Funding (requirements KES 8B versus KES 5B allocation)
- Logistics(motor vehicles, office space, computers, software)
- Human resources(numbers, training, expertise)
- Legal timelines for audit (quite tight)



Way Forward

- Timely submission of financial statements- where possible before end of September
- Quality financial statements (auditable)
- Advance preparation for audit by counties (audit files with requisite supporting schedules/documentation)
- Verifiable audit evidence
- Implementation of recommendations issued Auditor-General, County Assembly's and Senate reports
- High level involvement of County Leadership during audit (entry and exit)

Way Forward



- County Leadership to follow-up on implementation (status reports on all key matters)
- Cooperation with the auditors for speedier audits
- Capacity building at the counties to ensure staff are conversant with the requirements of Public Finance Management Act, 2012 and PFMA Regulations, 2015 and Public Procurement and Asset Disposal Act (PPAD), 2015 and all laws, regulations and guidelines applicable to devolution
- Proper vetting of staff during recruitment to ensure-right people with the right values are recruited at the counties

Conclusion



- The County Governments and the Auditor-General are partners in ensuring delivery of services with accountability of public resources
- To enable easy access to auditors and efficient management of the audit process at the counties, we have re-structured into nine hubs
- We are also acquiring land at the counties and constructing offices to bring services even closer
- We adopted risk-based audit methodology (RAM)
- We have automated our audit management system for timely execution and reporting(TeamMate)

Conclusion



- We expect timely response to issues raised during audit and effective follow-up on recommendations
- We request for support from the county leadership in executing our mandate
- Cooperation will reduce qualifications of financial statements and adverse or disclaimer of opinions



Thank You