



Public Sector Audit – Accounting for Government Expenditure and Value for Money

Presentation by:

CPA Sylvester Kiini
Deputy Auditor General
Office of the Auditor-General, Kenya



Quote



**Accountability breeds
response-ability.**

Stephen Covey





Agenda



- ☐ Accountability Framework
- ☐ Mandate of the Auditor General
- ☐ Public Sector Auditing
- ☐ Audit opinions 2015-2016
- ☐ Cross cutting audit issues
- ☐ Government Budgeting cycle
- ☐ Government Expenditure cycle
- ☐ Value for Money Audits
- ☐ Conclusion





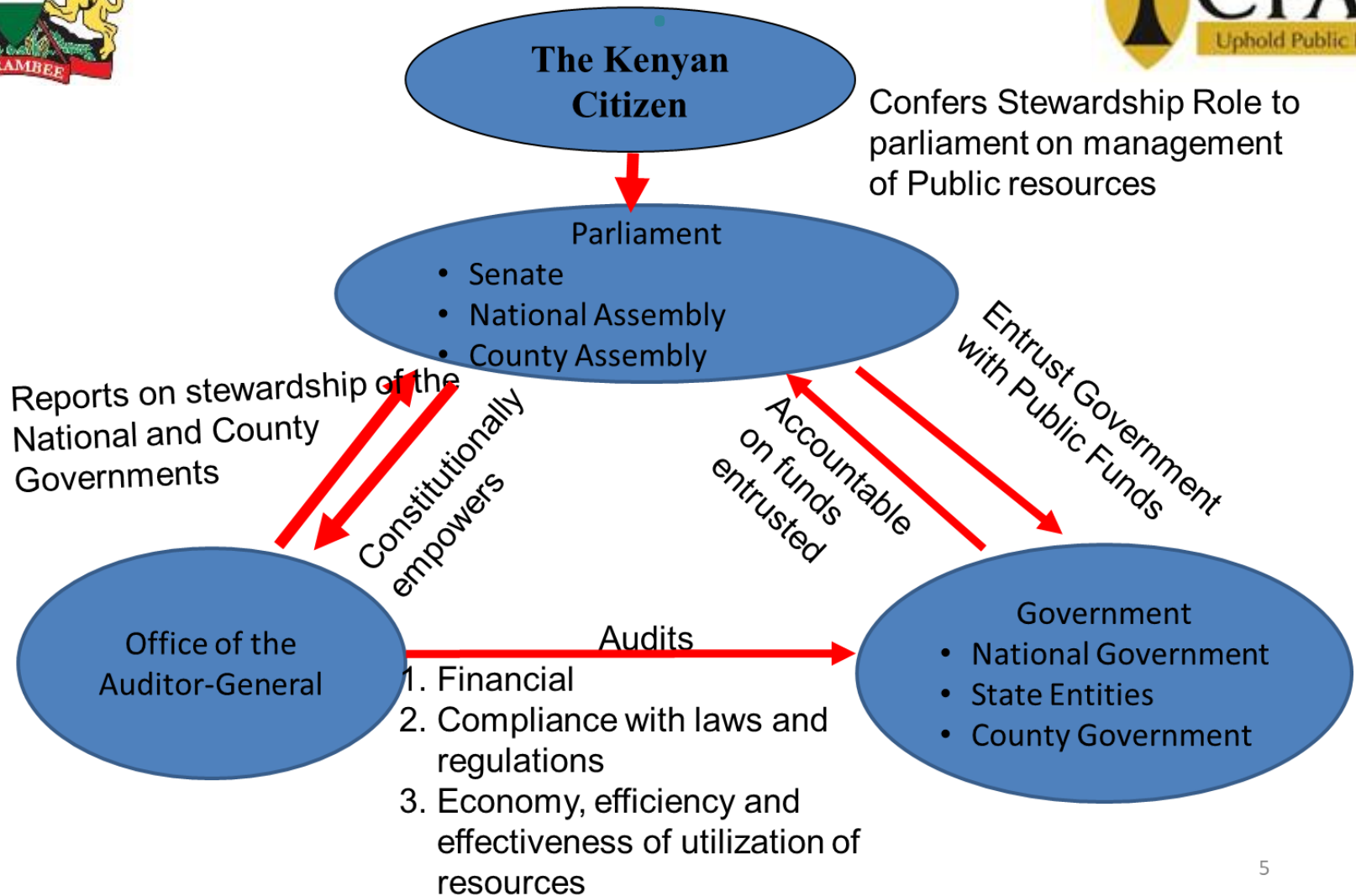
Accountability Framework



- Constitution of Kenya, 2010 (CoK,2010) is the bedrock Accountability in Public Sector
 - **Article 10 -National Values and Principles of Governance** to include but not limited to; patriotism, national unity, rule of law, democracy, participation of people, **good governance**, the principle of **accountability**, transparency, integrity and **sustainable development**
 - **Article 73-Principles of Leadership & Integrity-** accountability to the public for decisions and actions;
 - **Article 201-Principles of Public Finance** that include **openness**, **accountability** and **prudent use of public resources**.
 - **Article 232 - Values and Principles of Public Service** –that ensures efficiency, effectiveness and economic use of resources in the public sector & **high standards of professional ethics**.



The Accountability Framework







Mandate of the Office of The Auditor-General



The Office of the Auditor-General is established as an Independent Office under Article 248(3) of the Constitution of the Republic of Kenya.

Article 229 of the Constitution gives the Auditor-General the mandate to audit the accounts of:

1. National and County Governments
2. All Funds and Authorities of the NG and CG
3. All Courts
4. Every Commission and Independent Office
5. National Assembly, Senate and County Assemblies
6. Political Parties funded from public funds
7. Public Debt; and
8. Any other entity that legislation requires the Auditor-General to audit.
9. The Auditor-General may audit and report on the accounts of any entity that is funded from public funds.



Expanded Mandate



- Article 229(6) of the COK, 2010 further expands the mandate of the Auditor-General ;
“.....an audit report **shall** confirm whether or not public money has been applied **lawfully** and in an **effective way**”
- This introduces a new concept of auditing, requiring the Auditor-General not only to 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.



Public Sector Auditing



- At the heart of the *accountability cycle* is an important component of *an independent, effective and credible Supreme Audit Institution (SAI)* to scrutinise the stewardship and use of public resources.
- Public sector auditing, as championed by the Office of Auditor General, is an important factor in making a difference to the lives of citizens.



Public Sector Auditing cont'd



Public sector auditing contributes to good governance by:

- Provision of independent, objective and reliable information/conclusions/opinions;
- Enhancing accountability and transparency, promoting continuous improvement of public entities;
- Reinforcing the effectiveness and efficiency in the use of public funds;
- Creating incentives for change by providing recommendations for improvement.



Audit opinions 2015-2016 National Government



Opinion given	No. of FS	%age
Unqualified	30	27%
Qualified	51	47%
Adverse	13	12%
Disclaimer	15	14%
Total	109	100%

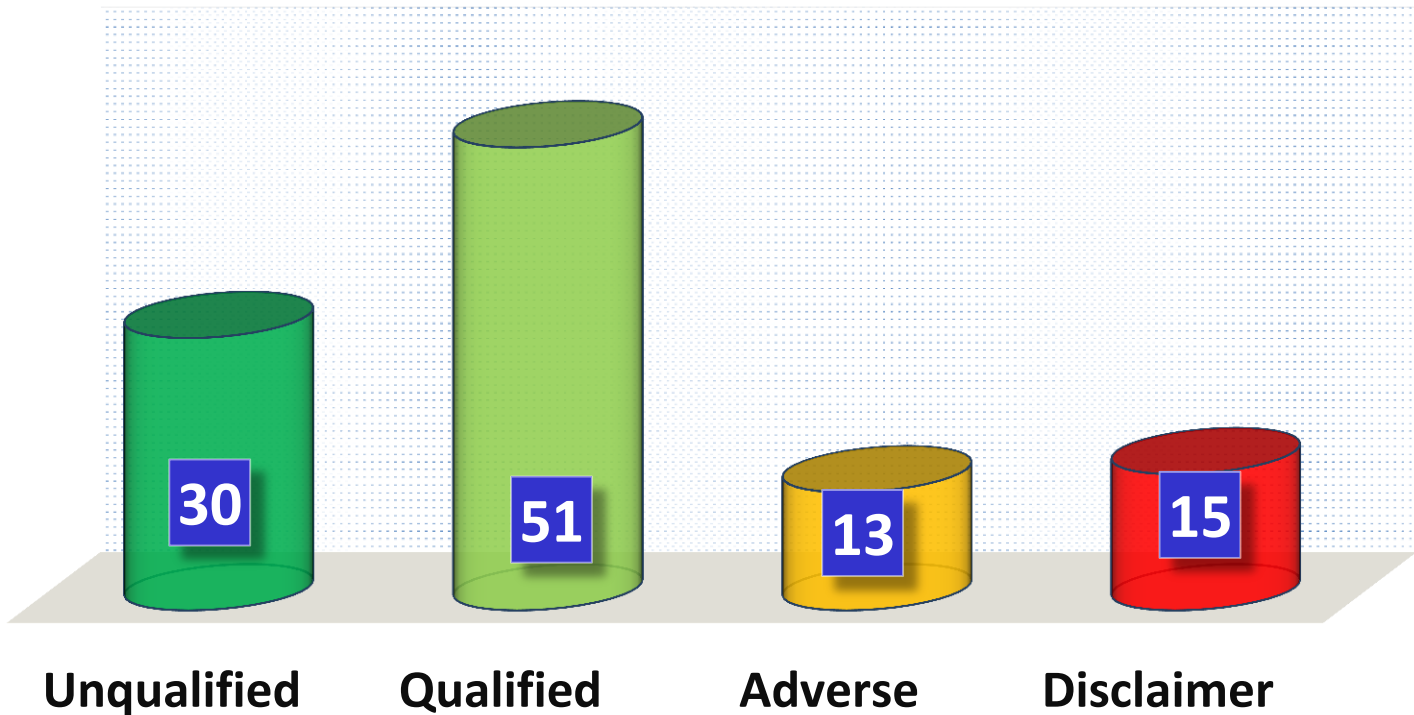


Audit opinions 2015-2016

National Government



AUDIT OPINION ON NATIONAL GVT FINANCIAL STATEMENTS: 2015/16





Audit opinions 2015-2016

County Governments



Audit opinions on County FS: 2015/2016

Category	Unqualified		Qualified		Adverse		Disclaimer		Total
	No.	%age	No.	%age	No.	%age	No.	%age	
County Assembly	0	0%	15	32%	17	36%	15	32%	47
County Executive	0	0%	12	26%	13	28%	22	47%	47

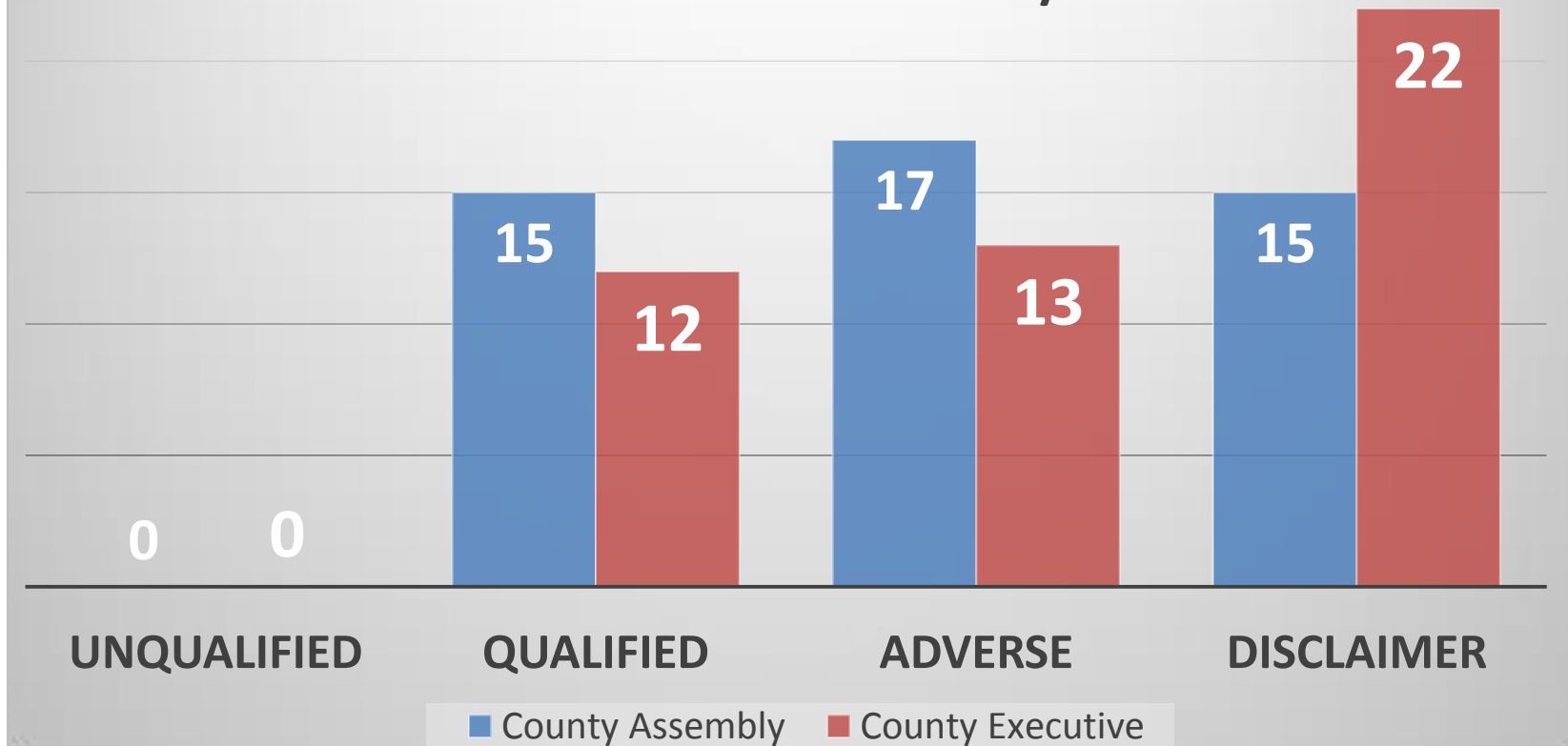


Audit opinions 2015-2016

County Governments



Audit Opinions Expressed on County Financial Statements : 2015/16





Cross cutting audit issues National Government



- Revenue collected but not remitted to the Exchequer
- Growth in public debt – The debt has grown by about 126% in the past 5 years to stand at about 3.385 T.
- Presentation of Financial Statements – non adherence to the IPSAS reporting framework prescribed by National Treasury.
- Accounting for Cash and Cash equivalents – Some entities failed to perform bank Reconciliations



Cross cutting audit issues National Government



Other issues include:

- Pending Bills
- Unsupported Balances
- Poor Management of imprests
- Irregular procurement
- Stalled Projects



Cross cutting audit issues County Government



1. Comparative figures/opening balances for Assets and liabilities –In most cases these could not be ascertained as the defunct local authorities did not keep proper records for assets and liabilities
2. Cash and cash equivalents
 - Some counties maintain many illegal bank accounts
 - Overdrawing of cash was noted in some cases
 - Bank reconciliations not being performed periodically



Cross cutting audit issues County Government



3. Foreign Travels – Expenditure in some cases not being properly accounted for. Unplanned foreign travels and benchmarking tours
4. Delays in projects implementations leading to under absorption of budgets
5. Stalled projects
6. Under collection of Revenue - Were the targets unrealistic? Is there revenue leakage? Is the system of revenue collection inadequate?



Cross cutting audit issues County Government



6. Revenue collected but not remitted to county revenue fund accounts
7. Myriad irregular procurement including construction works, purchase of hospital equipment, etc
8. Unsupported expenditure
9. Pending bills
10. Failure to account for imprests



Quote



Nothing is easier than spending the public money. It does not appear to belong to anybody. The temptation is overwhelming to bestow it on somebody.

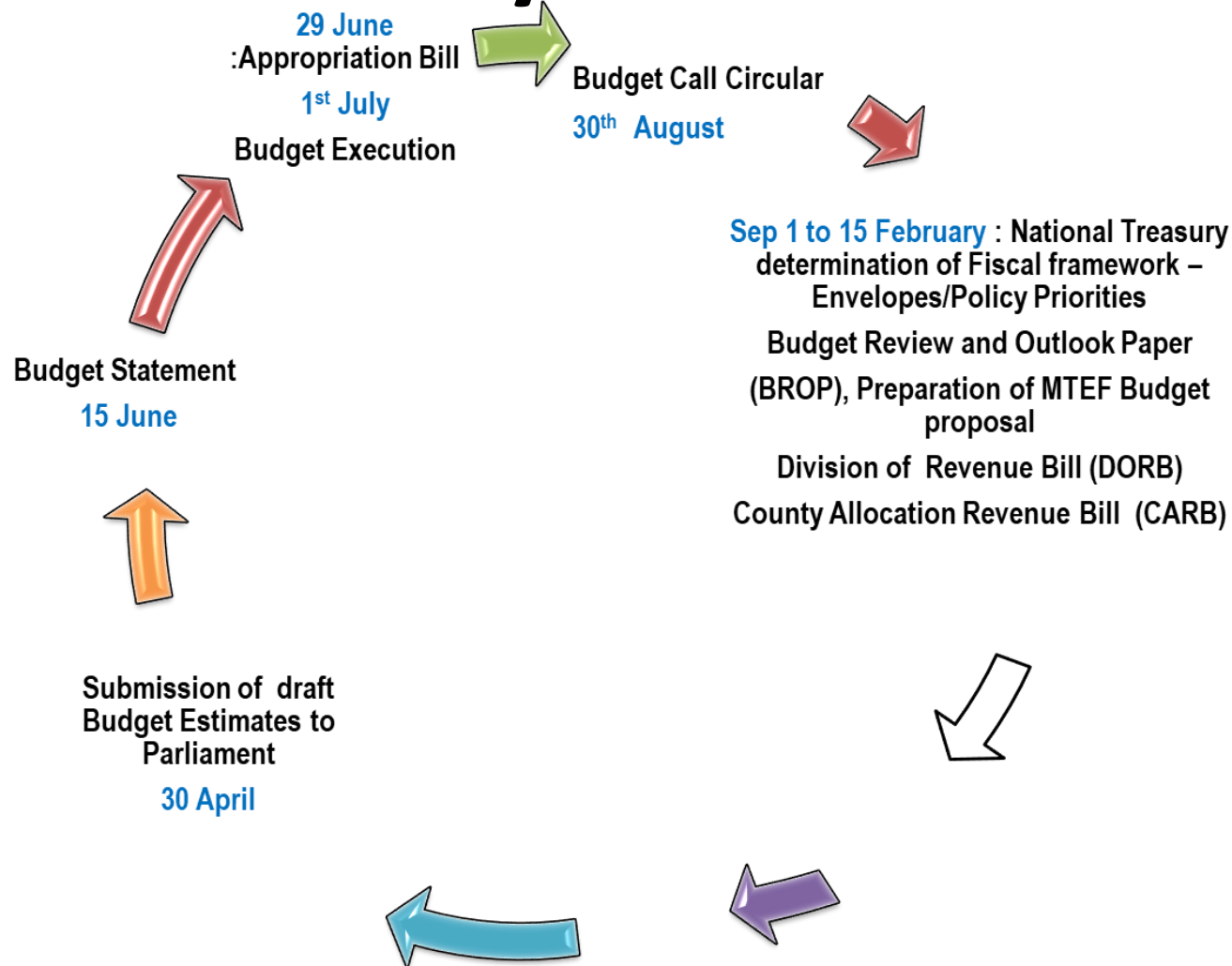
-Calvin Coolidge

PFM is all about public money





Government budgeting cycle





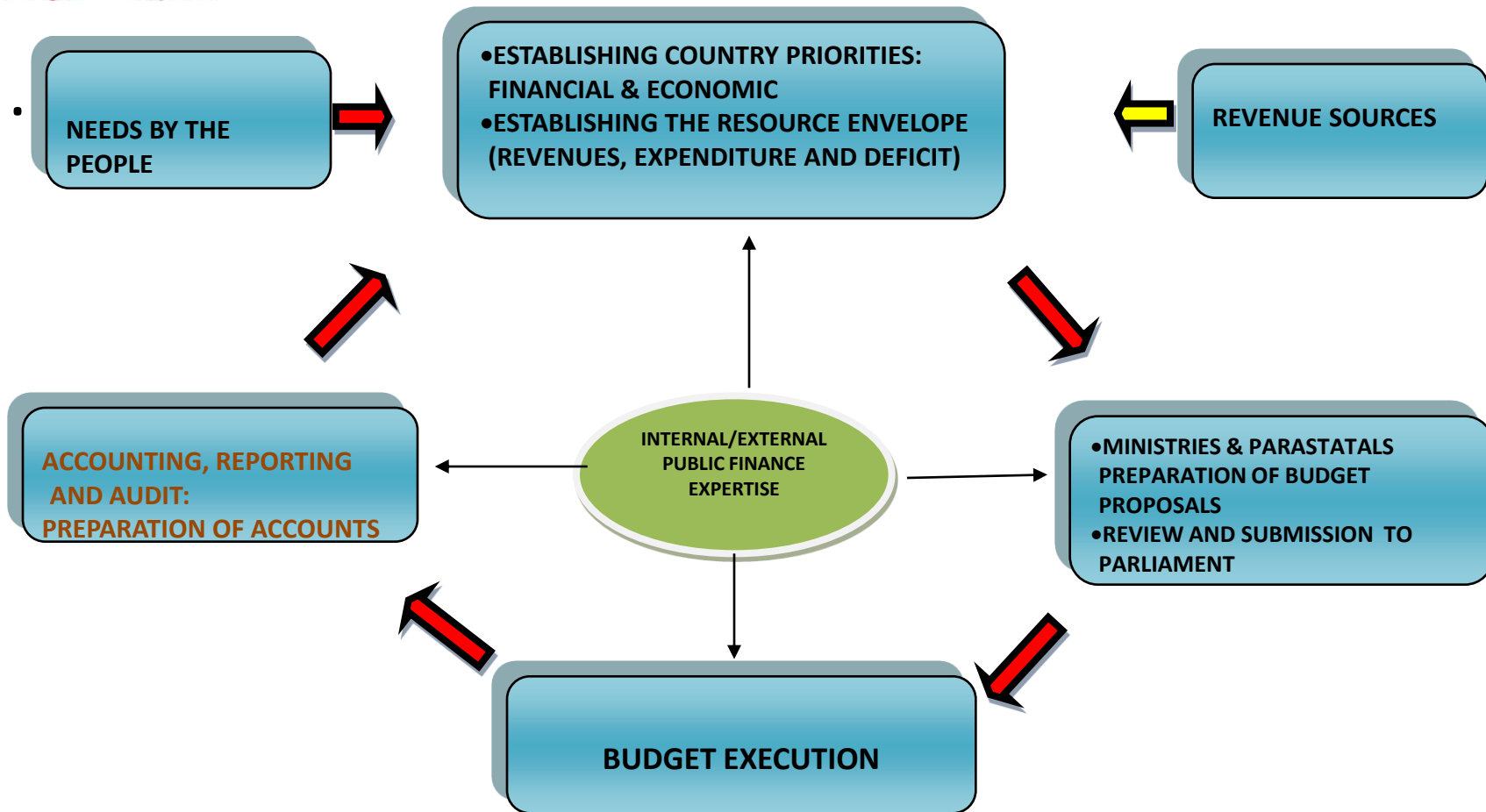
Budget as a Control Tool



- In public **sector**, the budget is the core control tool of governance;
 - ✓ It underpins the accounting systems and records;
and
 - ✓ Informs the audit process.
- Budget is thus a core control tool for our audits going forward.



Government expenditure cycle





VALUE FOR MONEY



Peter Drucker Quotes

*“Efficiency is doing things right;
effectiveness is doing the right things”*

*“What gets measured,
gets managed”*





VALUE FOR MONEY AUDITS ON PUBLIC EXPENDITURE



- Value for Money Audits also referred to as Performance audits are audits that assess government ministries, departments, agencies or government programmes use of public resources with regards to;
 - Efficiency
 - Effectiveness
 - Economy
 - Equity





VALUE FOR MONEY AUDITS



The audit looks for opportunities to improve service delivery through:

- Promoting prudent use of public funds
- Changing or improving systems
- Finding out reasons why objectives have not been met and recommend ways of ensuring that they are met



VALUE FOR MONEY AUDITS CONT'D



OAG has carried out VFM audits on:

- Kenyatta National Hospital
- Administration of Estates and Trusts by State Law Office
- Integrated Urban Surveillance Cameras
- Kenya Slum Upgrading System
- Upgrading of schools to National Status



VALUE FOR MONEY AUDITS CONT'D



OAG has recruited specialists in different fields to ensure quality while undertaking complex audits.

- Engineers
- Statisticians
- Environmentalists
- Lawyers



VALUE FOR MONEY AUDIT PROCESS



Starts with public outcry or request from Parliament:

- Planning phase
- Examination phase
- Reporting phase
- Follow up phase



REPORTING AND FOLLOW-UP



- The reports are to be submitted to the relevant Sectorial Committees in Parliament and the relevant County Assemblies
- Auditors examination of corrective action taken by audited entity.
 - Confirm adoption of recommendations of Parliamentary Committee
 - To check improvement in service delivery



CHALLENGES WE FACE ON VALUE FOR MONEY AUDITS



- Value for money audit reports are issued but not discussed in Parliament
 - Currently about 30 completed reports have been submitted to Parliament
 - Recommendations of Sectorial Committees not considered
 - Consequently audited entities are not obliged to implement recommendations
 - Little improvement in service delivery



CHALLENGES 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)
- Auditee degree of preparedness (capacity, cooperation)
- Accounting Framework – (Cash accounting is wanting)
- Implementation of OAG report findings (prosecution , surcharge etc)



WAY FORWARD



- Improved Funding from exchequer
- OAG to be allowed to charge audit fees to all clients (i.e. AGSA do not depend on the exchequer)
- All public entities to adopt accrual basis of Accounting Framework (ie Rwanda)
- Work more closely with other watch dog institutions, Parliament watch dog committees & ICPAK
- Head of accounting unit in national & county Govt to be accountants in good standing.



CONCLUSION



- OAG has implemented Budget as control tool approach for all its audits going forward.
- Automation of the audit process – Teammate
- Automation of data collection (read only) from IFMIS- Audit Vault
- Additional competent and skilled workforce
- Value for money audit reports need rigorous follow up by Parliament

Quote



If you are working on
something exciting
that you really care
about, you don't
have to be pushed.
The vision pulls you.

Steve Jobs

Colossians 3:23-24



Whatever you do, work at it with all your heart,
as working for the Lord, not for human masters,
since you know that you will receive an
inheritance from the Lord as a reward. It is the
Lord Christ you are serving.

New International Version (NIV)

Interactive Session



*Thank
you*

