

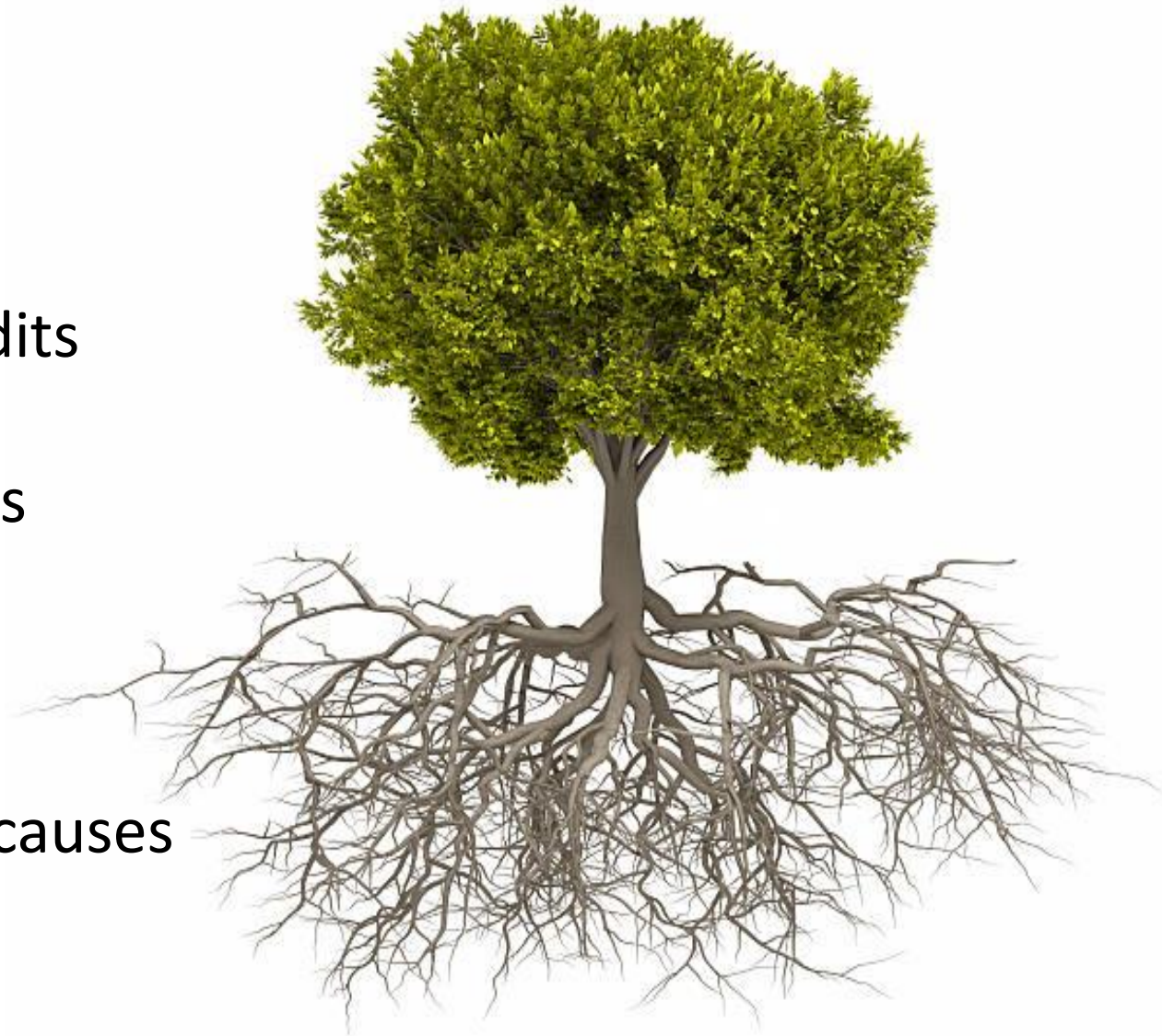
# **Financial Reporting and Management Conference for County Governments**

A Critical Evaluation of the Implementation of Audit  
Recommendations by County Governments

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Office of the Auditor-General

# Outline

- Framework for External Audit
- OAG Structure for County Audits
- Analysis of cross-cutting issues
- Emerging Audit Methodology
- Moving from excuses to root causes



# Framework for External Audit

## ◆ Constitution of Kenya

- ✓ Chapter 12- Public Finance - Article 229
- ✓ Chapter 15- Commissions and Independent Offices

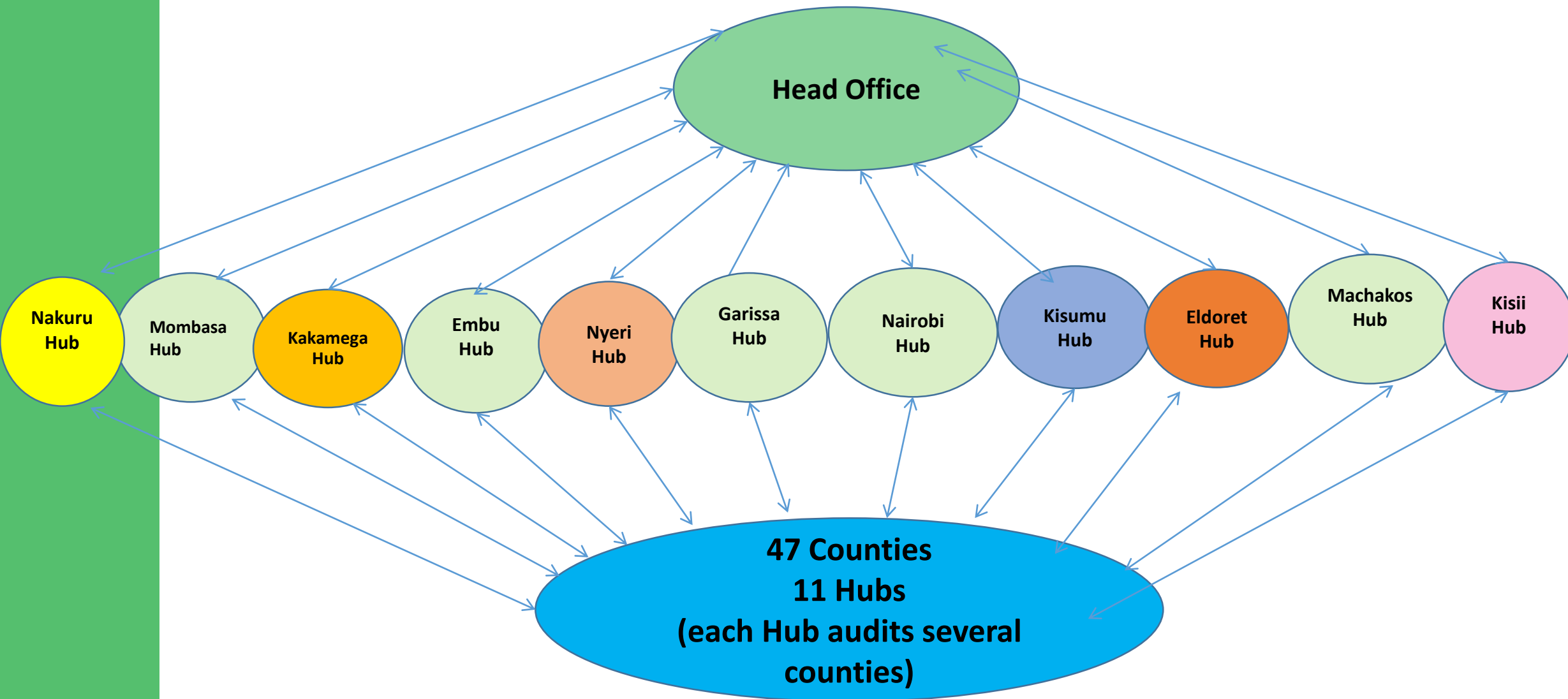
## ◆ Act of Parliament

- ✓ Public Audit Act, 2015 - Section 4
- ✓ Public Finance Management Act, 2012

# Criteria for External Audit

- The Constitution
  - Art. 229(6): Mandates the Auditor-General to **confirm** whether or not public money has been applied **lawfully** and in an **effectively**
- Laws and Regulations
- Government Circulars and Directives (National and County)
- Professional Standards(PSASB, IPSAS, IFRS, ISSAIs)
- Governance - best/leading practices

# OAG - Structure for County Audit



# Types of Audit

1. Annual Financial Audits
  2. Compliance audits
  3. Performance audits
  4. Forensic audits
  5. Procurement audits
  6. Special audits
- Some audit engagements overlap

# Audit Process



# Notable Audit Observations



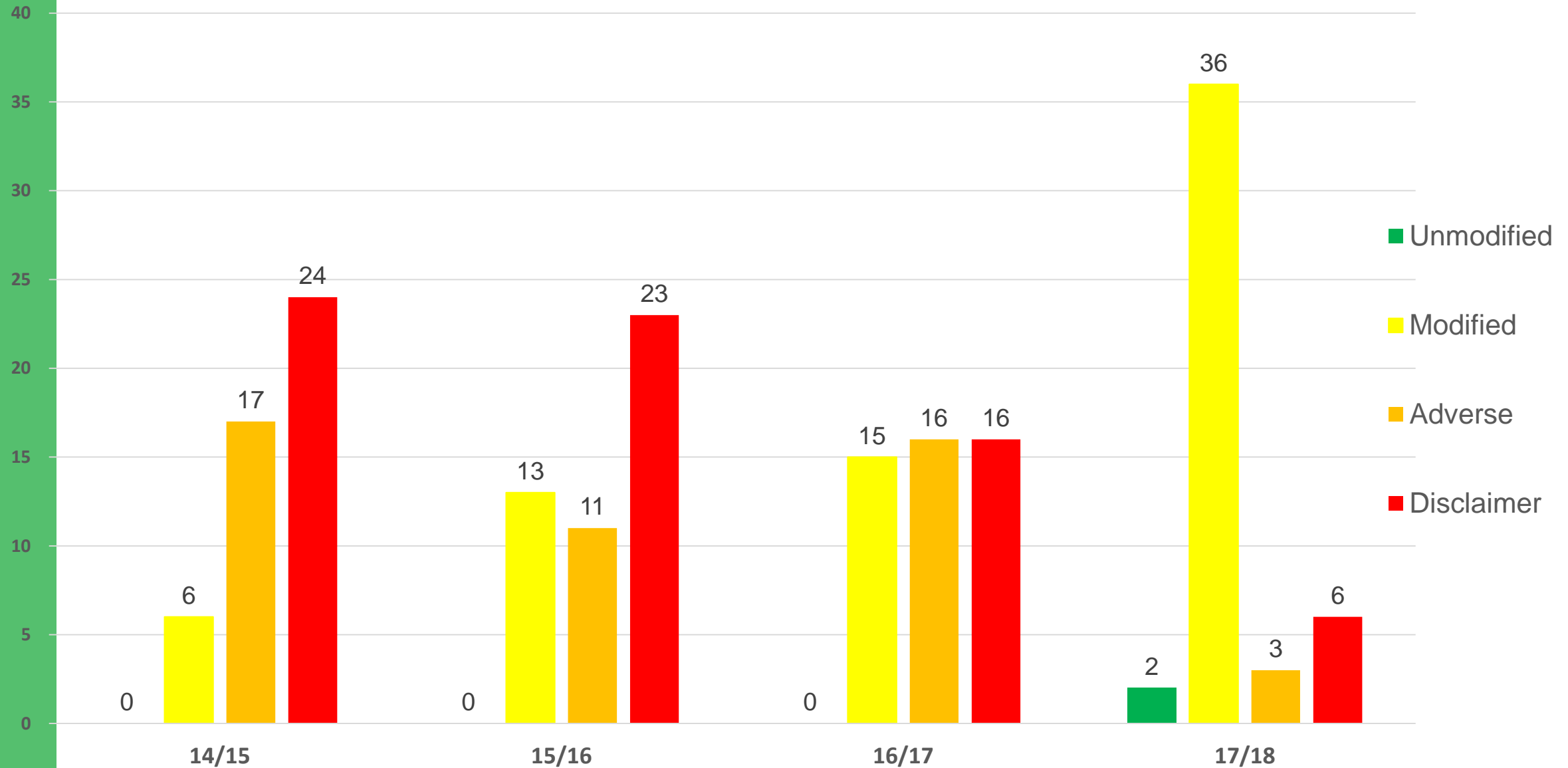
# Audit Opinions

OPINION	
<b>Unmodified</b>	Underlying documentation agree with the financial statements - clean report
<b>Modified</b>	Some problems but they are not pervasive (not widespread or persistent)
<b>Adverse</b>	Reviewed the County's documentation. Problems found were pervasive and would require considerable changes to rectify
<b>Disclaimer</b>	Unable to fully review the County's documentation due to unavailability of substantial amount of information

# Summary of Audit Opinions

OPINION	COUNTY EXECUTIVE				COUNTY ASSEMBLY		
Financial Year	14/15	15/16	16/17	17/18	15/16	16/17	17/18
Unmodified	0	0	0	2	0	0	1
Qualified	6	13	15	36	15	23	31
Adverse	17	11	16	3	17	18	12
Disclaimer	24	23	16	6	15	6	3

# Trends in Audit Opinions for County Executives



# Audit Opinions Per Year – County Executives

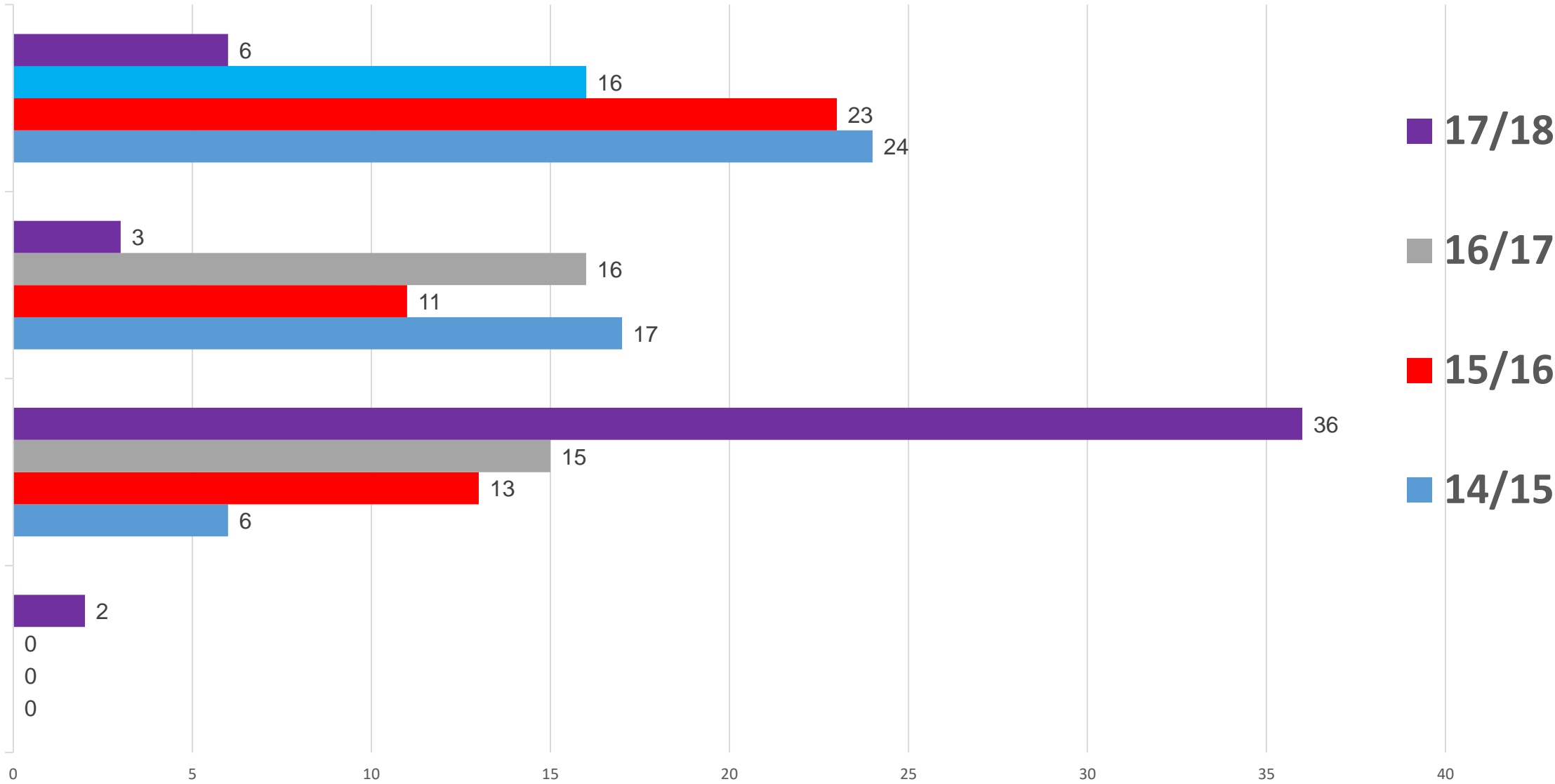


Disclaimer

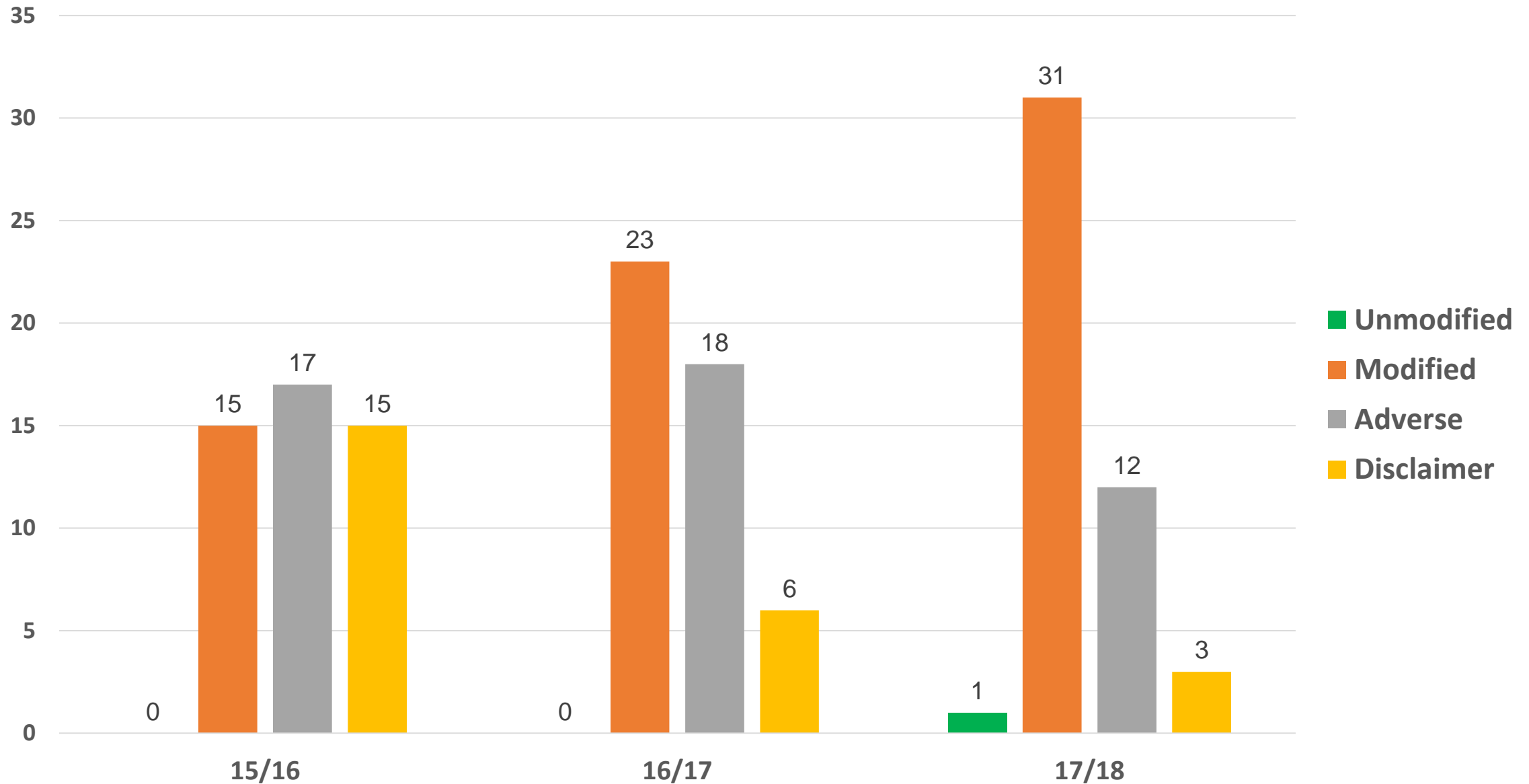
Adverse

Modified

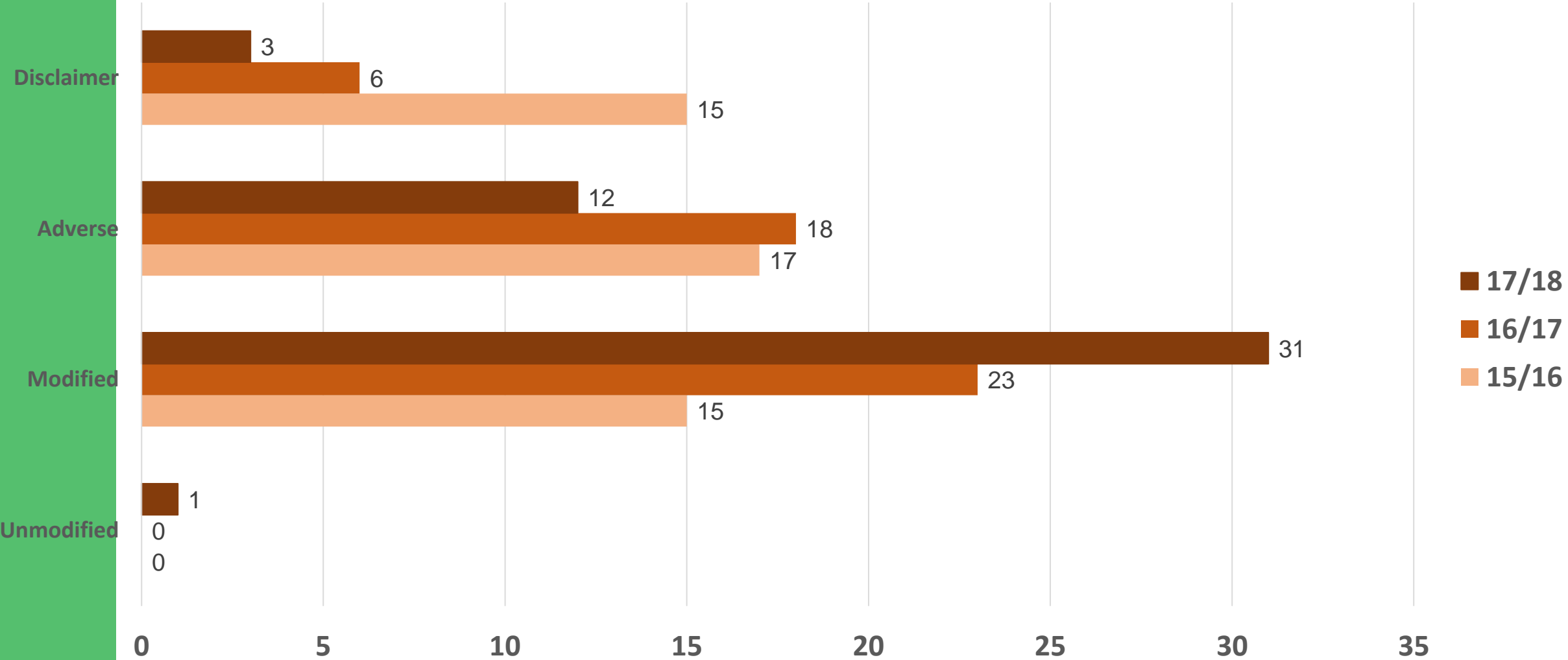
Unmodified



# Trends in County Assemblies



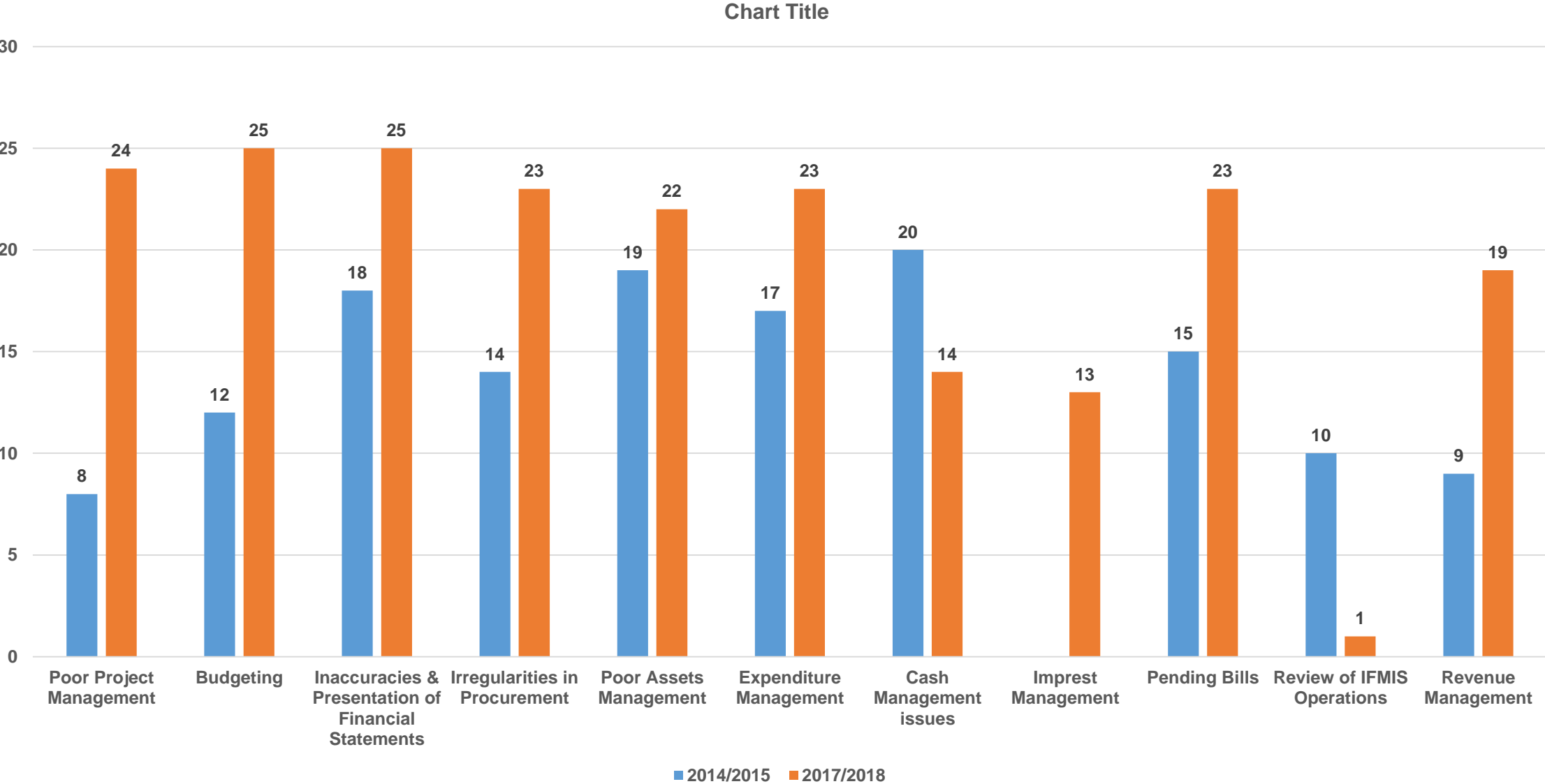
# Opinions per year – County Assemblies



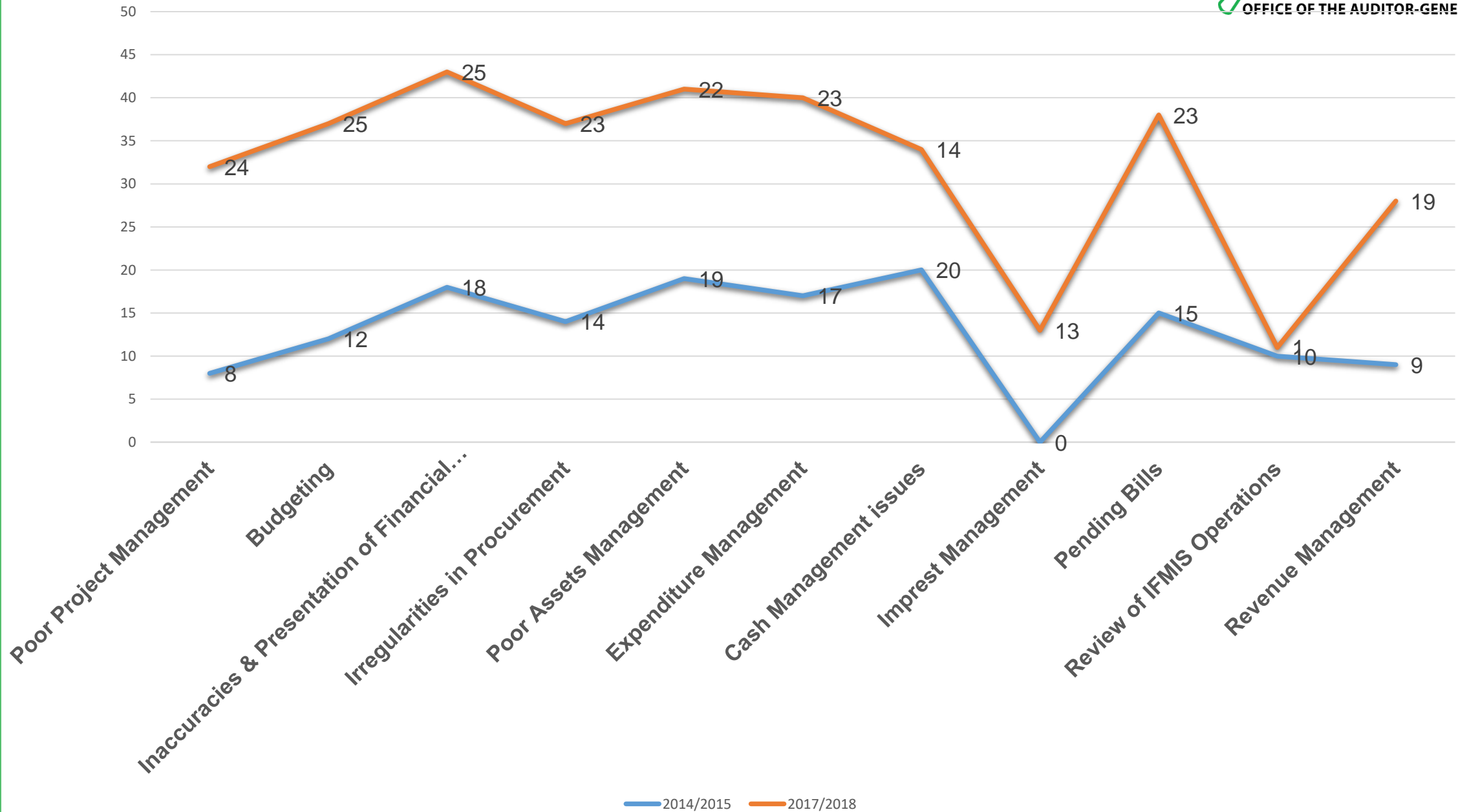
# Implementing Recommendations – Makueni CE, Nyandarua CE & Kericho CA

<b>County Executive</b>	<b>14/15</b>	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>
Nyandarua County Executive	Adverse	Qualified	Qualified	Unqualified
Makueni County Executive	Adverse	Qualified	Qualified	Unqualified
Kericho County Assembly		Qualified	Qualified	Unqualified

# Systemic Issues- Thematic Areas



# Systemic Issues- Thematic Areas



# Implementing Recommendations – Case of Makueni

County	Summary of Key audit findings			
	2014/2015	2015/2016	2016/2017	2017/2018
Makueni	<ol style="list-style-type: none"> <li>1) Cash management issues</li> <li>2) Inaccuracies in financial statements</li> <li>3) Asset management issues</li> <li>4) Irregularities in procurement of goods and services</li> <li>5) Poor Project Management (Constructions)</li> <li>6) Unsupported Expenditure</li> <li>7) Poor imprest management and usage</li> <li>8) Human resource irregularities</li> </ol>	<ol style="list-style-type: none"> <li>1) Cash management issues</li> <li>2) Fraud</li> <li>3) Revenue Management</li> <li>4) Pending Bills</li> <li>5) Asset Management Issues</li> <li>6) Irregularities in procurements</li> <li>7) Poor project management (Constructions)</li> </ol>	<ol style="list-style-type: none"> <li>1) Cash management issues</li> <li>2) Irregularities in procurement</li> <li>3) Poor project management (Constructions)</li> <li>4) Pending Bills</li> <li>5) Asset Management Issues</li> </ol> <p><b>Other issues</b></p> <ul style="list-style-type: none"> <li>• Budgetary controls</li> <li>• Planning and projects execution</li> <li>• HR governance issues</li> </ul>	<p>No issues leading to modification of audit report.</p> <p>However, value for money &amp; compliance issues included:</p> <ul style="list-style-type: none"> <li>• Poor project management</li> <li>• Budgetary controls issues</li> <li>• Internal control weaknesses</li> </ul>

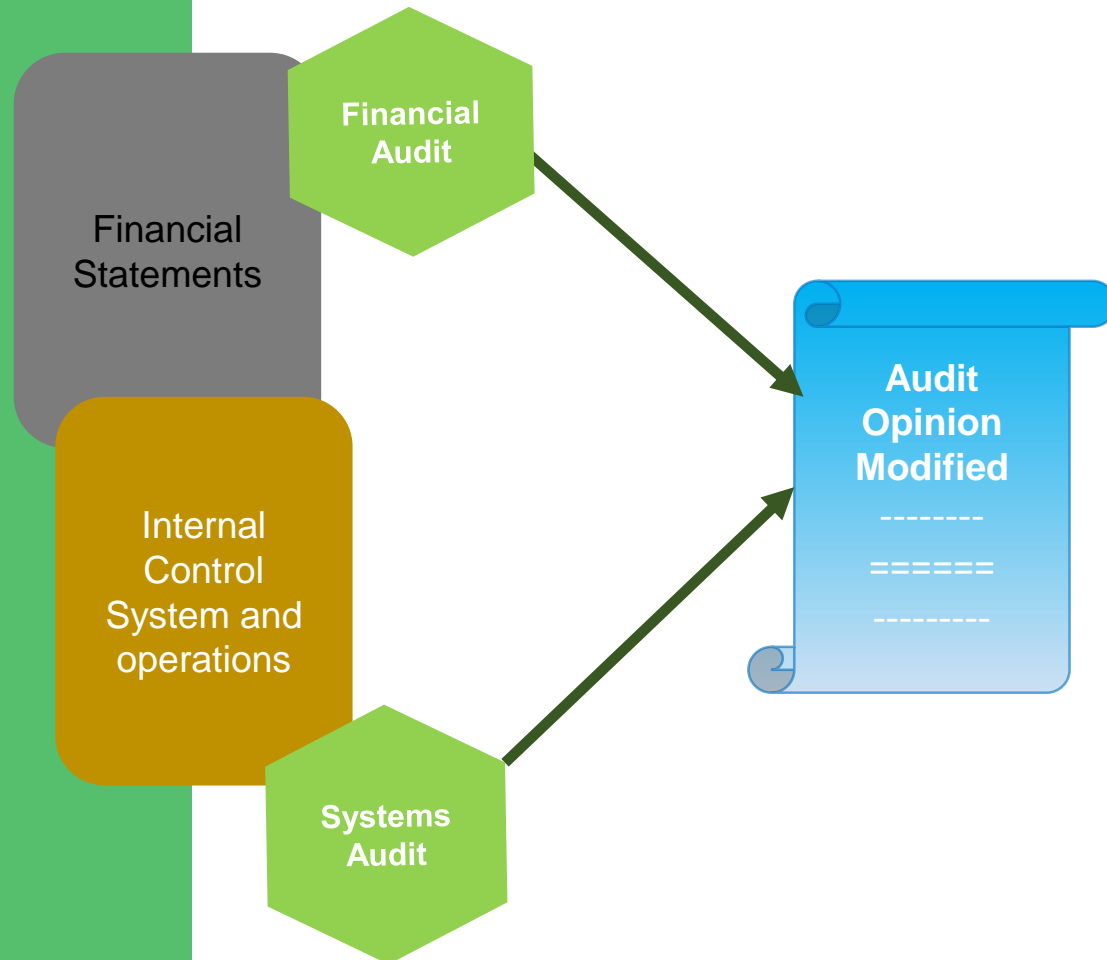
# Reporting Format

## Why the change?

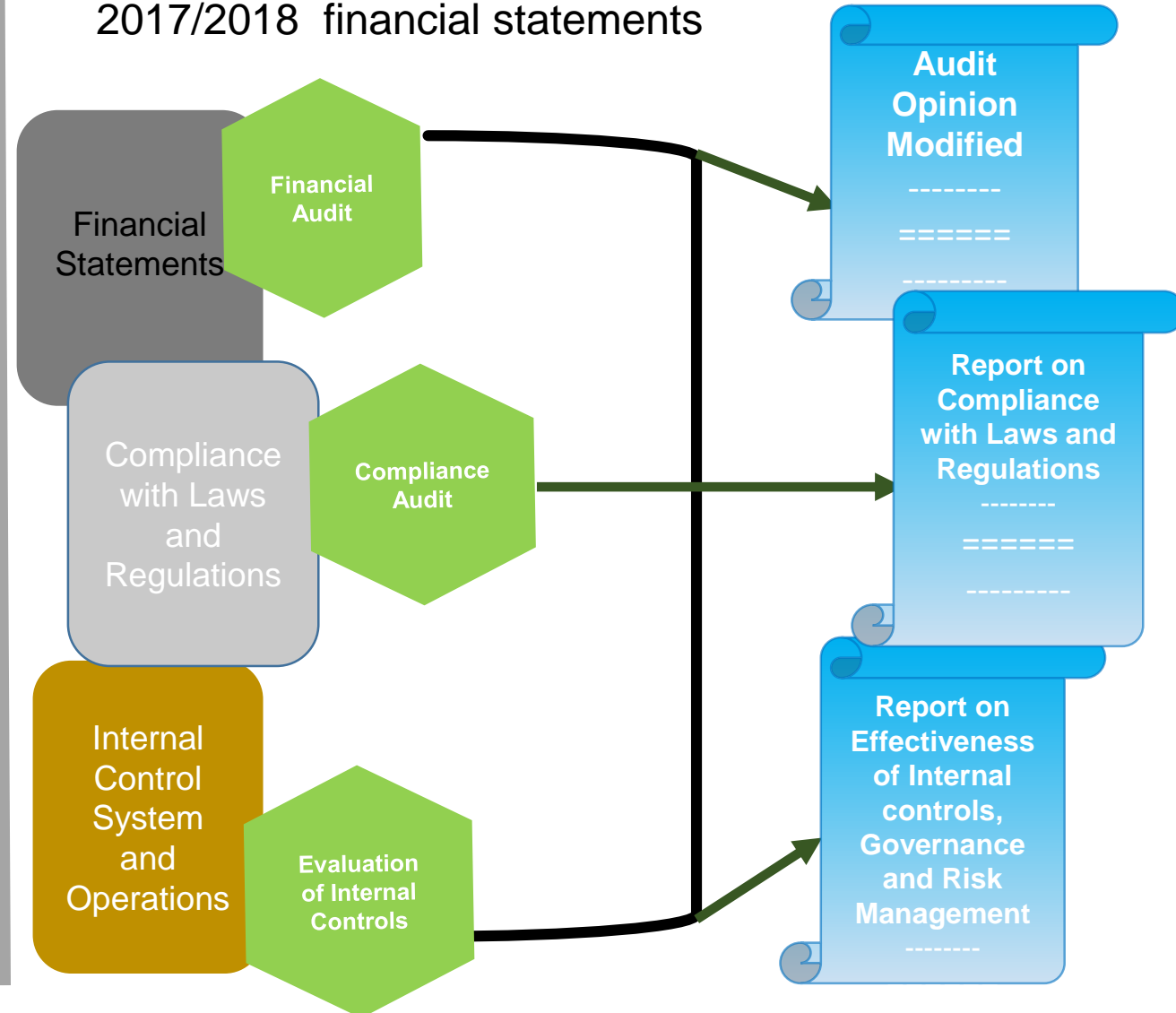
- Adoption of new auditing standards
  - ISSAI 4000 on compliance auditing: allows public sector auditor to go beyond compliance with laws and regulations affecting financial statements (ISSAI 1250/ISA 250) e.g. procurement, human resource management, budget compliance
- Changes in legislative requirements for audit reporting
  - Article 229(6) of the Constitution – reporting on **lawfulness** and **effectiveness** in use of public money
  - Section 7(1)(a) of the Public Audit Act, 2015 – assurance on the effectiveness of internal controls, risk management and overall governance at national and county governments
  - Audit of compliance further amplified by Section 7 1(b-d) of the Public Audit Act, 2015

# Emerging audit methodology

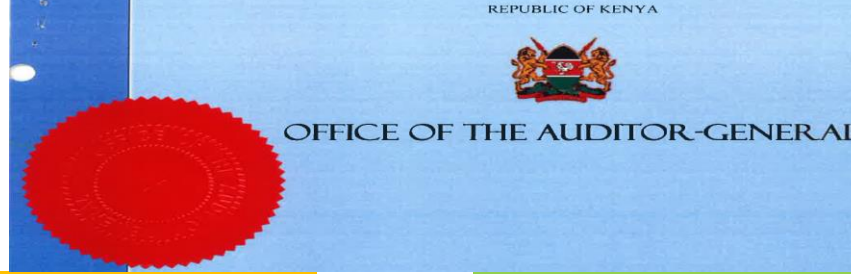
- Previous methodology



- Change in methodology effective during audit of 2017/2018 financial statements



# Report Format



## **1. Title**

## **2. Report on the financial statements**

- Opinion
- Basis for opinion
- Emphasis of matter
- Key audit matters
- Other matter

## **3. Report on compliance issues**

- Conclusion of effectiveness and lawfulness of use of public monies
- Basis for conclusion

## **4. Report on internal controls**

- Conclusion
- Basis for conclusion

## **5. Management responsibilities**

## **6. Auditor-General's responsibility**

## **7. Report on other legal and regulatory requirements** (where applicable)

## **9. Signature of the AG, Place and Date**

# Report Format

- **Step 1. Classification of audit findings**
  - Financial
  - Compliance
  - Internal Control
  
- **Step 2 Opinions/ Conclusions**
- Financial Statements – Opinion
  - Unmodified
    - Emphasis of matter
    - Key audit matters
    - Other matters
  - Modified
  - Adverse
  - Disclaimer

# Critical Qualifying Issues

- Presentation and Disclosures of Financial Statements- PSASB- latest guidelines and templates
- Comparative figures – not what was audited
- Unsupported changes in financial statements: numerous drafts - qualified based on the first draft
- Supporting/underlying schedules not speaking to the financial statements
- Receipts and Expenditures- different from IFMIs Reports( indicator of working outside IFMIs
- Fraud/theft

# Report Format

- **Compliance Issues**

An issue can be of compliance nature if it;

- has an effect of violation of a law or a regulation
- is an irregularity-contravenes
- has an indication that there may be doubt in getting value for money

- **Governance and Internal Control issues**

This relates to report on weaknesses in internal controls – report on material deviations and weaknesses

- management override
- proper approvals and authorizations
- lack of HR policy
- lack of risk management policy
- lack of disaster recovery plan
- lack of establishment of Audit Committee
- stores record keeping

# Expected....Qualifying Issues

- With the change in the reporting format, there is a likelihood that there are fewer disclaimers and adverse opinions
- However, if counties adopt IPSAS Accrual, there is a likelihood that there will be more disclaimers and adverse opinions due to:
  - Asset management issues
  - Pending bills/long outstanding creditors provisioning
  - Revenue arrears/debtors and provisioning
- Not addressing issues pertaining to compliance and internal controls may impact on the financial statements

# ACCOUNTABILITY CONTINUUM

WHERE DO YOU STAND?



## VICTIM

- Blame Others
- Personal Excuses
- Wait.  
Hope It Gets Better

## ACCOUNTABLE

- Acknowledge Reality
- "Own It"
- Find Solutions

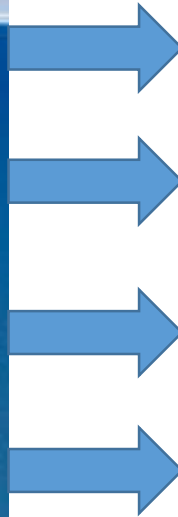
"WHEN YOU BLAME OTHERS, YOU GIVE UP  
YOUR POWER TO CHANGE."

- DR. ROBERT ANTHONY

# Excuses/Challenges

- Audit observations/conclusions may be attributed to;
  - lack of proper planning
  - lack of effective monitoring/evaluation
  - lack of capacity
  - poor record keeping
  - inaccurate or incomplete information
  - lack of enforcement
  - ethical misconduct including fraudulent activities
  - lack of cooperation with auditors
  - delays in responding to MLs and draft audit reports
  - insufficient responses to audit queries and management letters

# Moving from excuses to root causes



**Improving Public Finance Management**

# Awareness of systemic issues

- Addressing prior year audit issues and seek to resolve them to avoid recurrence
- Awareness requires understanding the root cause other than the symptoms
- Seek to treat the cause
- Document all resolutions
- Communicate effectively

# Recommendations

- Advance preparation for audit by counties
- Timely submission of financial statements
- Cooperation with the auditors for speedier audits
- High level involvement of County Leadership during audit (entry and exit) - attention to ML
- Implementation of Auditor-General's and County Assembly's reports
- Continuous **relevant** capacity building at the counties
- Proper vetting of staff during recruitment
- Emphasis on adherence to internal controls at all levels

# Conclusion

- **Partnership:** County Governments and the Auditor-General are partners in ensuring delivery of services and accountability in the use of public resources
- **Responses:** timely, accurate and verifiable responses to issues raised during audit
- **Follow-up:** effective follow-up on implementation of recommendations
- **Support:** request for support from the county leadership in executing our mandate
- **Cooperation:** will reduce qualifications of financial statements and adverse or disclaimer of opinions

