



ANNUAL CONFERENCE FOR EDUCATION/TRAINING INSTITUTIONS

A Review of the Audit Issues Raised by the Auditor General for Education/Training Institutions

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What is Office of the Auditor-General?



Article 229 (1) of Constitution of Kenya 2010. There shall be an Auditor-General who shall be **nominated** by the President and, with the **approval** of the National Assembly, **appointed** by the President.

Sec 4. (1) of Public Audit Act 2015. There is established an office to be known as the Office of the Auditor-General which shall be a body corporate. Sec 5 gives qualifications for AG

What is Office of the Auditor-General?



- ❑ Originally the Office was referred to as the **Exchequer & Audit Department**- mandate from the Exchequer and Audit Act Cap 412 which provided for the audit of the Central Government by the Controller and Auditor General.
- ❑ The Public Audit Act 2003 which became effective on 9 January, 2004 established a

What is Office of the Auditor-General?



more independent Office of the Controller and Auditor-General and renamed it **KENAO**.

- ❑ Constitution of Kenya 2010 established an independent office of the AG and later Public Audit Act 2015 was enacted and it renamed the office to the Office of the Auditor-General

What is Office of the Auditor-General?



Vision

To be the lead agency in promoting good governance and accountability in the management of public resources

Mission

To provide assurance to stakeholders on the use of public resources through quality and timely audit reports.

Our Core Values

Independence, Integrity, Professionalism, Innovation and Team Spirit

Mandate of the OAG



229 (4) Within six months after the end of each financial year, the Auditor-General shall audit and report on:-

- ☐ The accounts of the national and county governments;
- ☐ The accounts of all courts;
- ☐ The accounts of every commission and independent office;

Mandate of the OAG



- ☐ The accounts of the National Assembly, the Senate and the county assemblies;
- ☐ The accounts of political parties funded from public funds;
- ☐ The public debt; and
- ☐ The accounts of any other entity that legislation requires the Auditor-General to audit.

Mandate of the OAG



229 (5) The Auditor-General may audit and report on the accounts of any entity that is funded from public funds.

229 (6) An audit report shall confirm whether or not public money has been applied **lawfully** and in an **effective** way.

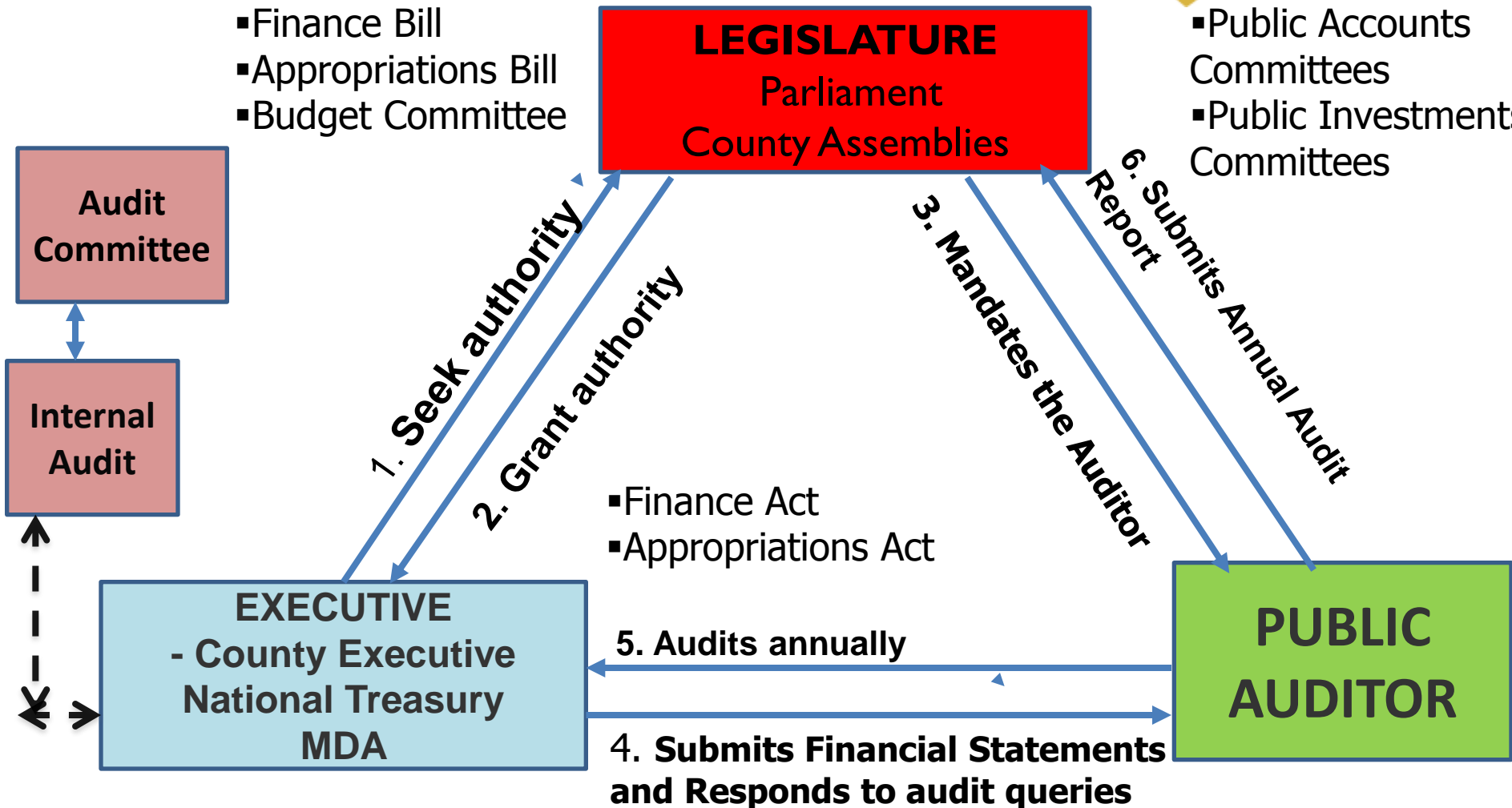
Audit reports shall be submitted to Parliament or the relevant county assemblies.

Accountability Triangle



- Finance Bill
- Appropriations Bill
- Budget Committee

- Public Accounts Committees
- Public Investments Committees



OAG Assurance Framework



The OAG assurance framework has four pillars;

- ❑ Certification of accounts-the core mandate is certifying accounts at national and county levels and expressing an opinion.
- ❑ Continuous audit presence- ensures that the office is proactive, preventive and deterrent to fraud & corruption, wastage and abuse of public resources

OAG Assurance Framework



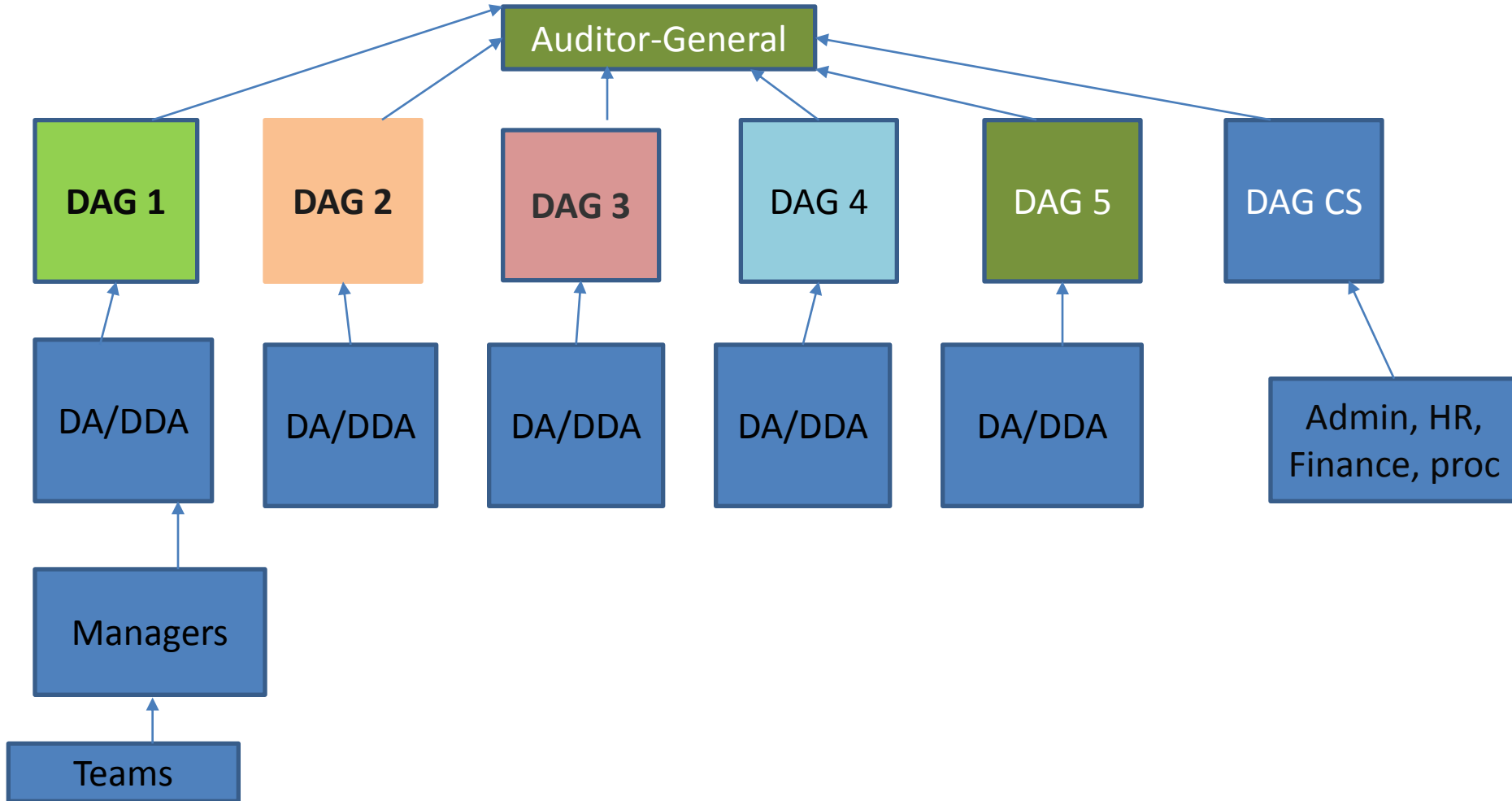
- ❑ Performance audit on service delivery to Kenyans-audit work to respond directly to the bill of rights and social rights of Kenyans that will be met through implementation of programmes by Govt.
- ❑ Social accountability-aimed at ensuring public involvement in the audit process,(Article 10 (2) a)- to enable prudent monitoring of public resources and ensure transparency and accountability

OAG Assurance Framework



OAG's Assurance Framework

OAG – Structure of the Office



OAG – Structure of the Office



- ❑ The Office has twelve regional offices-Hubs
- ❑ It also has officers stationed in all Ministries headquarters in Nairobi and officers who have been allocated audit of state corporations are stationed at the office headquarters at Anniversary towers.

OAG – Structure of the Office



- ❑ The total number of clients for the office in 2017/2018 stood at 1,222. These clients include; State Departments, Commissions, State corporations, Universities, County Assemblies and County executives, CDF, Donor funded projects, Training institutions.
- ❑ These clients are distributed equally between the 5 deputy Auditor-Generals.

Types of Audits



Section 34 of the PAA 2015;

- ☐ Annual financial audits
- ☐ Compliance audits
- ☐ Performance audits
- ☐ Forensic audits
- ☐ Procurement audits
- ☐ Special audits
- ☐ IT systems audits

Criteria for Audits



Performance of audits is guided by various laws and regulations. Among the applicable laws and regulations in the Education sector are;

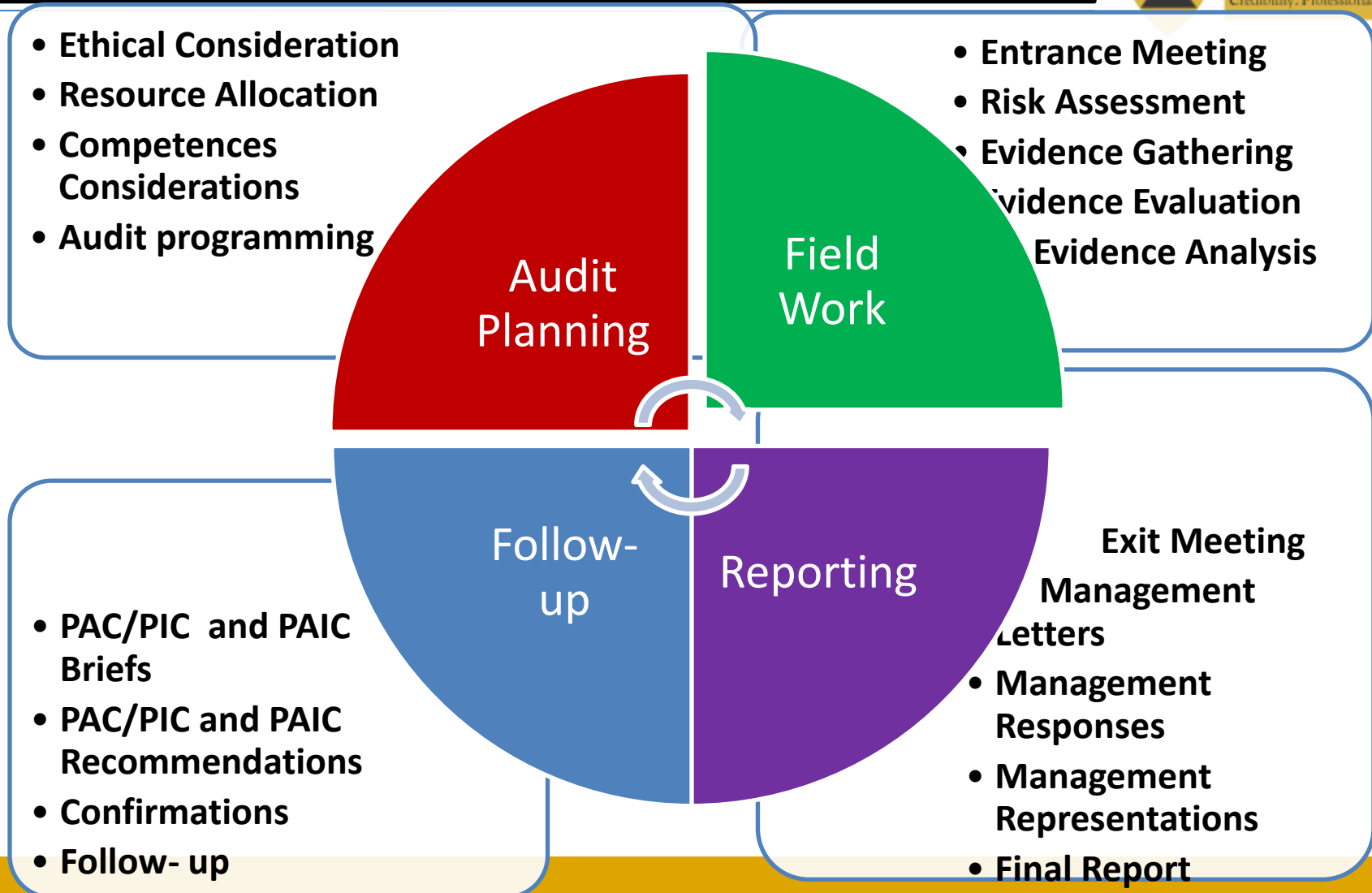
- ☐ Constitution of Kenya 2010
- ☐ Public Audit Act 2015
- ☐ Public Finance Management Act 2012
- ☐ Public Procurement and Asset Disposal Act 2015
- ☐ Relevant circulars; Treasury, MOE, SRC, AG, SCAC

Criteria for Audits



- ☐ Universities Act 2012
- ☐ Basic Education Act 2013
- ☐ Tivet Act 2013
- ☐ Accounting standards, Mwongozo code
- ☐ Others- Legal notices, Credit agreements, policies

Audit Process



OAG Activities

- Ethical Consideration-conflicts of Interest
- Resource Allocation for the team
- Competences Considerations for the team
- Risk Assessment by audit
- Audit programming-designing of audit programmes for the from the criteria for each auditable component
- Budget analysis and AMS scheduling

Audit Planning



Client

- Provision of Budgets
- Provision of the organization's manuals, plans
- Preparation and submission of Financial statements

Field Work



- Entrance Meeting-To be attended by management of the institution and audit team. Minutes to be signed by both parties.
- Letter of understanding-Outlines the scope, purpose, responsibilities of both parties and key dates for the audit
- Evidence gathering-various techniques applied by the auditor;- examination, verification, recalculations, confirmations, vouching.

Field Work



- Evidence Evaluation-subjecting the evidence against the criteria identified for the audit.
- Evidence Analysis- Documenting observations and findings into conclusions

Reporting



- ❑ Exit Meeting-held between management and audit team to discuss unresolved issues at the end of the fieldwork.
- ❑ Management Letters-Formal communication to management of unresolved issues.
- ❑ Management Responses-Management to issue formal responses to ML with evidence and within the period indicated in the ML

Reporting



- ❑ Management Representations-Management to give an undertaking of responsibility of the financial statement.
- ❑ Draft Audit Report-Formal communication to management of the expected final report. Management to respond within five days.
- ❑ Final Audit Report-Issued, signed and transmitted by Auditor-General on the audited entity. Constitutional deadline is by 31 December.

Follow Up

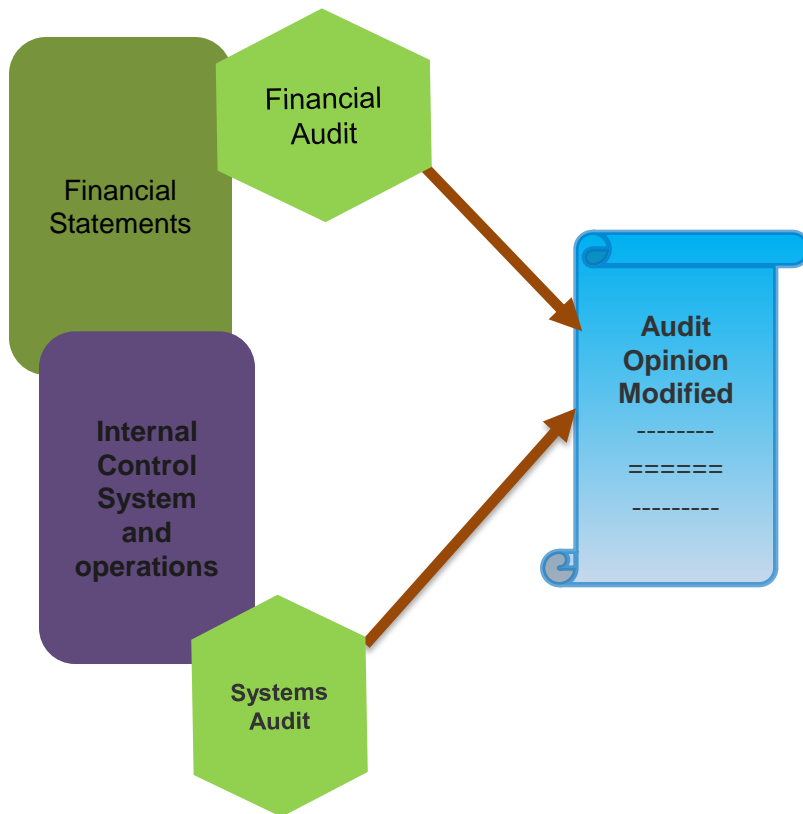


- ❑ PAC/PIC and PAIC Briefs-Accounting officers are summoned to Parliamentary committees to give explanations on the audit issues raised.
- ❑ PAC/PIC and PAIC Recommendations-After hearings committees table their report in the house for debate and adoption. Report has recommendations
- ❑ Confirmations and follow up-Sec 53 of The PAA 2015, auditor to confirm if recommendations of parliament have been acted upon by the accounting officers and report to Parliament.

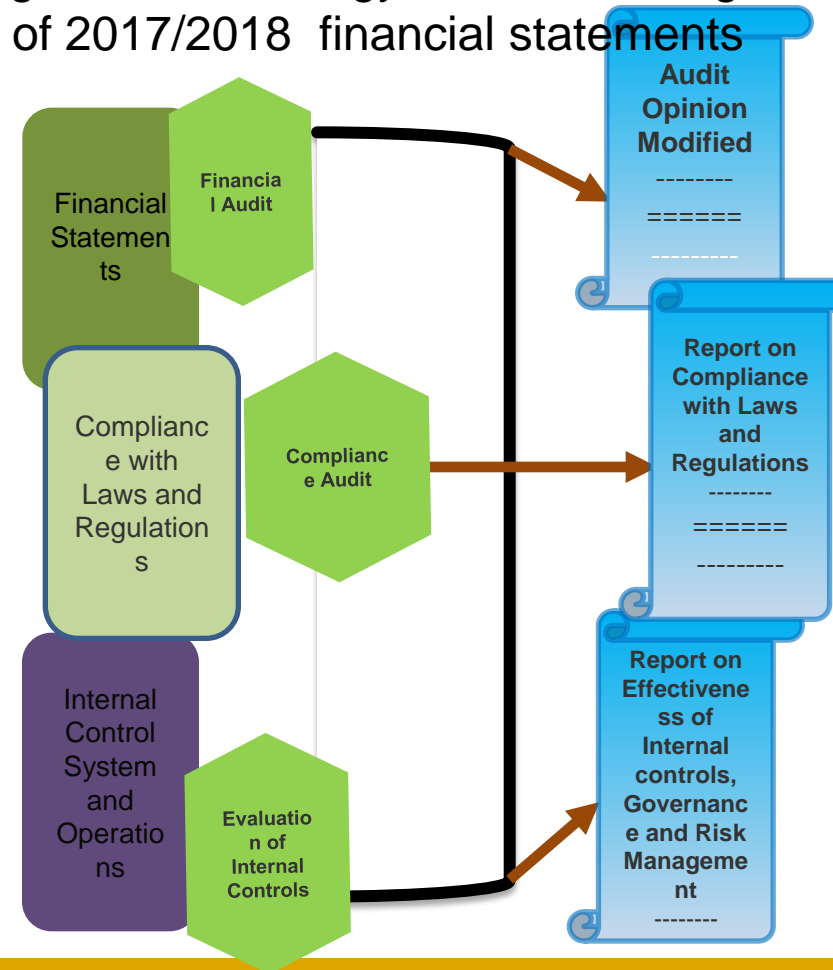
Structure of the Audit report



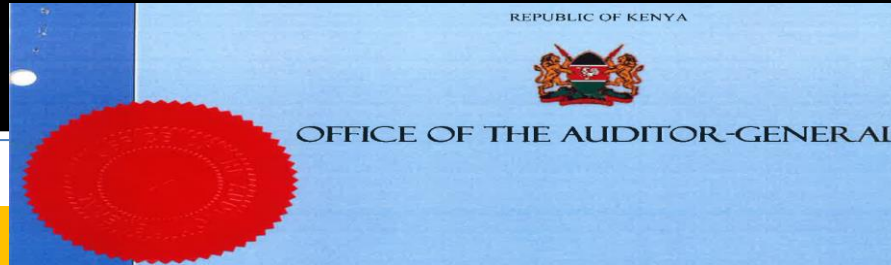
- Previous methodology



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



Structure of the Audit Report



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

Audit Opinion



Audit Opinion	
1. Unmodified/Unqualified the financial statements present fairly, in all material respects'	A 'clean' opinion –the opinion everyone wants to see May contain emphasis of matters or other matters
2. Modified/Qualified Opinion 2.1 'Except for' - the financial statements present fairly, in all material respects	There are specific material misstatements, such as an incorrect accounting policy, debtors which are not recoverable, an undisclosed fraud or insider loan.

Audit Opinion



Audit Opinion	
2.2 Adverse Opinion The Financial Statements are not fairly stated	There are so many fundamental misstatements in the accounts such that they are completely wrong and misleading
3. Disclaimer of Opinion 'I am not able to express an opinion	There are so many missing documents or explanations that the auditor does not get enough information to form an opinion

Audit Opinion



Emphasis of Matter

Any matter(s) appropriately presented or disclosed in the financial statements and in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, are of most significance in the audit of the financial statements of the current year.

Audit Opinion



Other Matter

Matter(s) other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Sample Audit Issues



- ❑ Broadly the audit issues can be categorized into four categories
- 1. Budgetary matters
- 2. Policy matters
- 3. Financial statements matters
- 4. Compliance matters
- 5. Internal control matters

Budgetary Matters



These relate to issues of budget preparation, approval and execution

- ☐ Unapproved budgets
- ☐ Virements and Reallocations
- ☐ Unreasonable and unrealistic budget estimates

Policy Matters



Reservations on policy documents that guide operations and governance in the entity;

- ☐ Expired plans-strategic plans
- ☐ No Audit Committees constituted
- ☐ No manuals and policy documents to guide operations.
- ☐ Inconsistent application of policies and having policies that are not consistent with the accounting framework adopted by institution.

Financial Statements Matters



These issues relate to the financial statements and contribute towards determining the audit opinion.;

- ☐ Inaccuracies in recording, valuations and recognitions
- ☐ Misstatements of balances
- ☐ Unsupported balances-No analysis that is verifiable
- ☐ Going Concern issues
- ☐ Long outstanding debtors and creditors.
- ☐ Unsupported revenues

Compliance Issues



These are non compliance with laws, rules, regulations, circulars that govern the entity's operations.

- ☐ Irregular procurement methods
- ☐ Lack of procurement plans
- ☐ Variation of contracts
- ☐ Poor project management-stalled projects
- ☐ Payment of ineligible allowances

Compliance Issues Contd..



- ☐ Payment of sitting allowances beyond approved rates
- ☐ Nugatory expenditure
- ☐ Unsupported expenditures
- ☐ Non-compliance with National coordination and integrity act 2008.
- ☐ Irregular hiring of staff, irregular promotions
- ☐ Excessive deductions beyond a third rule

Internal Controls



These are issues result from weak internal control or where there are no controls for an activity

- ☐ No reconciliations of balances-cashbooks, debtors, creditors
- ☐ Lack of segregation of duties
- ☐ Overriding of controls-over expenditures
- ☐ Failure to adhere to authorizations limits
- ☐ Unauthorized/unapproved expenditure

Internal Controls



- ☐ Unreconciled revenues with student records
- ☐ Lack of coordination of departments
- ☐ Risk management and governance issues-No internal audit unit and no evidence of audit committee having discussed any audit issues raised by the internal audit

Audit Issues



- Issue may seem minor but may have repercussions on final report



Recommendations of Audit Issues



- ☐ Reconciliation of balances-bank balance, debtors
- ☐ Reconciliations with parent ministry
- ☐ Review of their policies and plans
- ☐ Increased supervision to ensure compliance with organization policies and rules.
- ☐ Establishment of monitoring teams for projects
- ☐ Surcharge for irregular expenses
- ☐ Operationalization of audit committees

Recommendations cont..d



- ☐ Formulation and implementation of risk management framework
- ☐ Recovery of overpayments and irregular payments
- ☐ Compliance with regulations
- ☐ Enforcement of contract terms with contractors
- ☐ Automation of processes
- ☐ Write-offs of old balances/debts that are not recoverable

The Internal Audit and the Audit Committee



- ❑ Sec 73(1) and Sec 155 (1)- Public entities shall ensure they have appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board
- ❑ The roles of internal audit are
 - a) Review the governance mechanisms of the entity and mechanisms for transparency and accountability with regard to the finances and assets of the entity;

Internal Audit and the Audit Committee



b) Conducting risk-based audits aimed at strengthening internal controls

❑ Sec 33.(1) of the PFM Act 2012-the final report by an internal auditor which has been deliberated on and adopted by an audit committee, may be copied to the Auditor-General. (2) The Auditor-General shall have unhindered access to all internal audit reports of a public entity

Challenges of the office



- ❑ Lack of manpower for proper oversight
- ❑ Technical capacity-some clients maybe highly automated and specialized, audit tools to analyze data
- ❑ Inadequate resources for physical monitoring countrywide and continuous presence

Way forward



- ☐ Outsourcing of audits
- ☐ Leverage on Technology
- ☐ Appropriate Legal Reforms
- ☐ Establish, strengthen the internal audit, audit committee and let it be independent
- ☐ Improve governance structures
- ☐ Embrace Collaboration -ICPAK, Treasury, OAG, parent ministry, parliament and build capacity

Way forward cont...d



- ☐ Effective Communication
- ☐ Engage Stakeholders to enable us address their expectations within our respective mandates as education institutions and as OAG
- ☐ Post review of audit issues by the client

Interactive Session

