

Financial Accountability in the Public Sector

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Quote

“Accountability is the hallmark of any meaningful human achievement”

Sam Silverstein

Agenda

Accountability Framework

Auditor General's mandate

OAG Accountability Pillars

Types of Audits & Audit Process

Audit Opinion Trends

Strengthening Financial Accountability

Challenges, Way Forward & Conclusion



Mandate of 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.

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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

“.....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.

Expanded Mandate Continued..

PAC 2015 7(1)(a)..In addition to the functions and responsibilities of the AG as set out in Article 229 of the Constitution, the AG shall ...give assurance on the effectiveness of internal controls, risk management and overall governance at the national and county government.

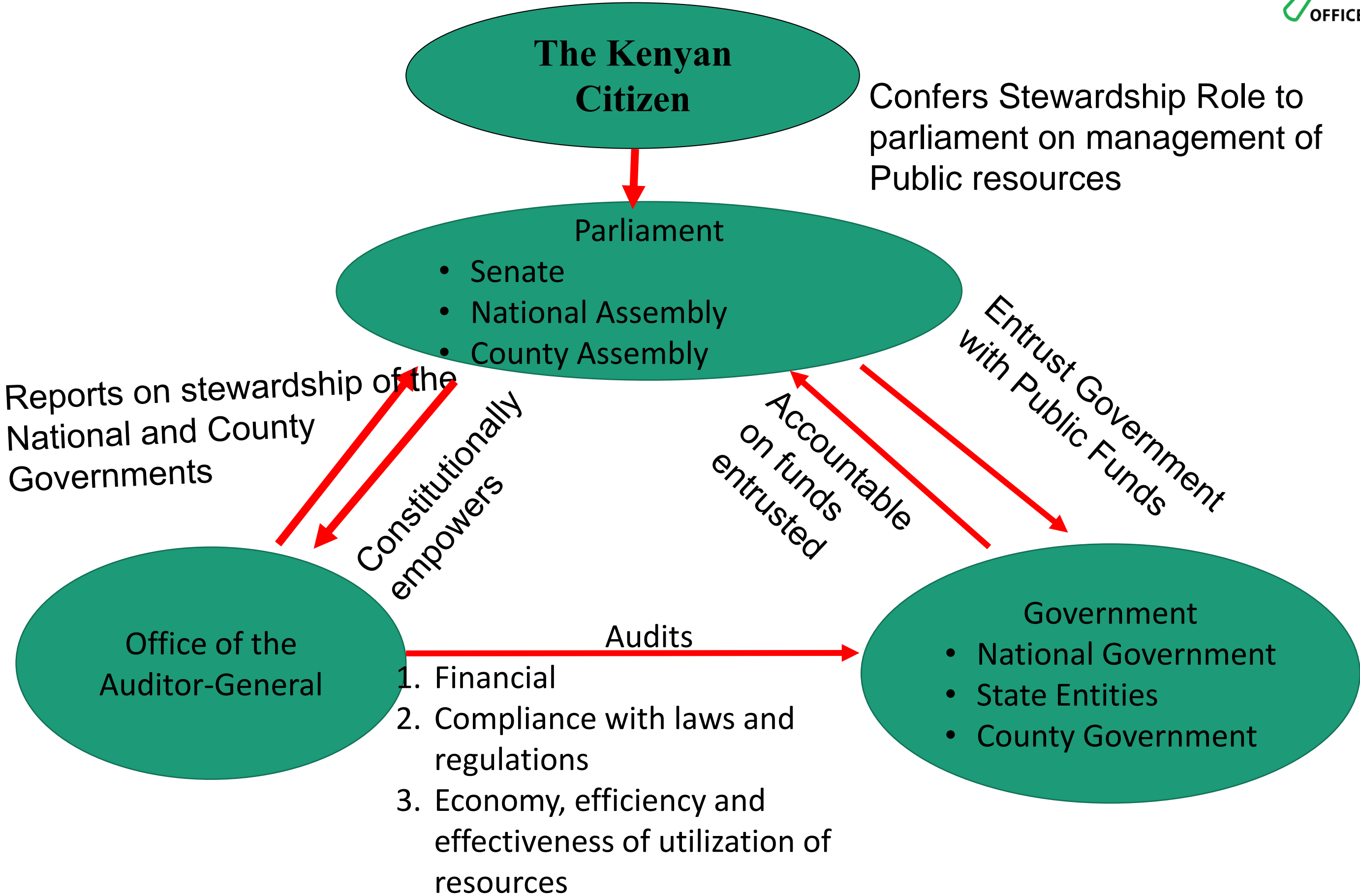


Accountability Framework

The Constitution of Kenya, 2010 (CoK,2010) is the bedrock of 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**.

Accountability Framework



OAG Pillars of Accountability



- Independence
- Credibility
- Relevance
- Accountability

Types of Audit



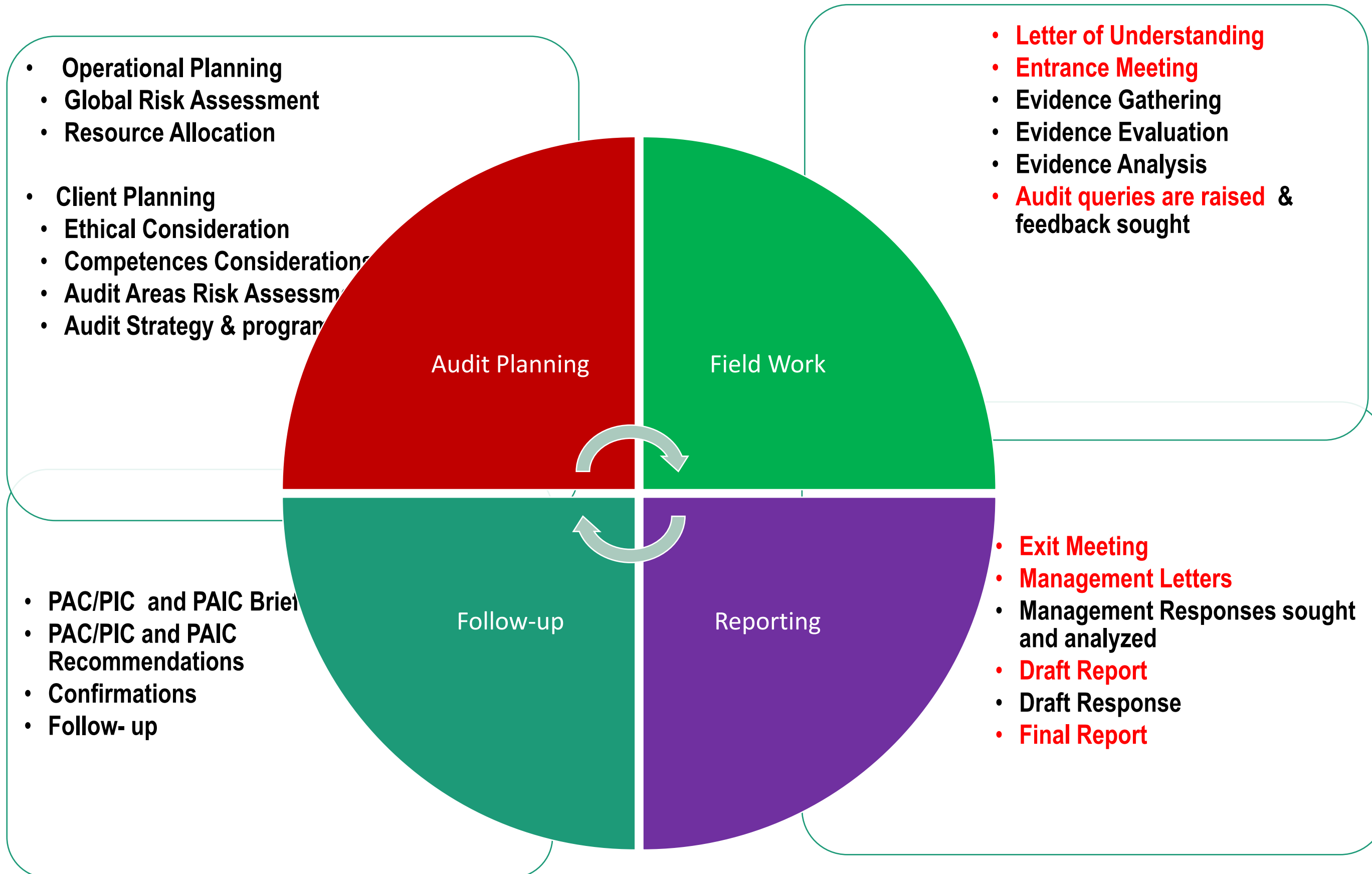
- Financial Audit
- Compliance Audit
- Forensic Audit
- Public Debt Audit
- Environmental Audit
- Information System (IS) Audit
- Procurement Audit

Types of Audit Cont..

■ Emerging Audits

- Audit of Illicit Financial Flows (IFFs)
- Audit of country's preparedness in implementing the UN's Sustainable Development Goals (SDGs)
- Citizen Accountability Audits (CAA) - Pilot programme with World Bank on citizen engagement in accountability.

Audit Process



Audit Opinion Trends - National Government

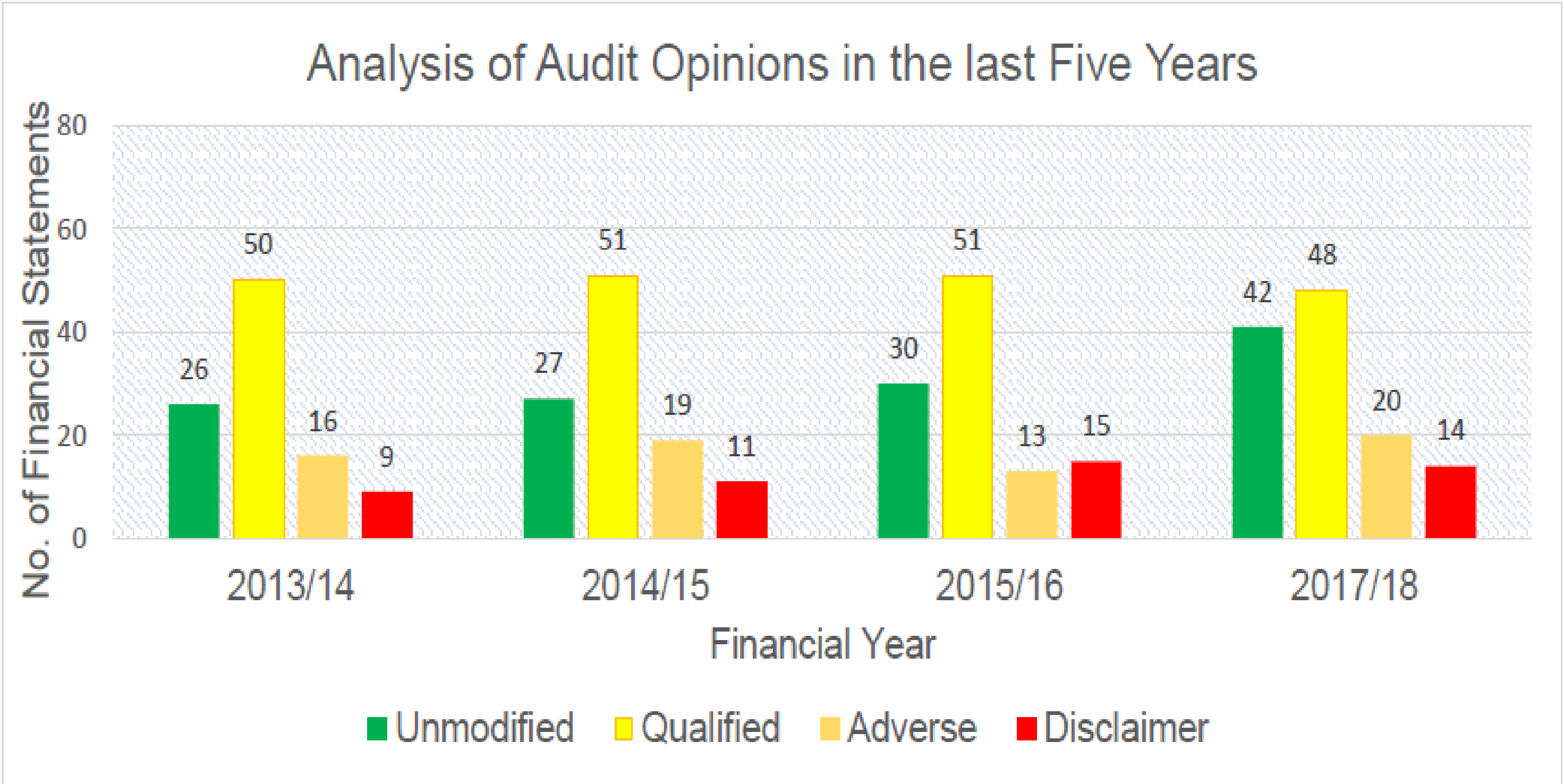
The tabulation below indicates the type of audit opinions expressed on the financial statements in the last five years:

Table 13: Audit Opinions on Financial Statements in the Last Five Years

Audit Opinion	2013/14		2014/15		2015/16		2016/17		2017/18	
	No. of FS	%age	No. of FS	%age	No. of FS	%age	No. of FS	%age	No. of FS	%age
Unmodified	26	26%	27	25%	30	27%	46	36%	42	34%
Qualified	50	50%	51	47%	51	47%	59	46%	48	39%
Adverse	16	16%	19	18%	13	12%	13	10%	20	16%
Disclaimer	9	9%	11	10%	15	14%	11	8%	14	11%
Total	101	100%	108	100%	109	100%	129	100%	124	100%

Audit Opinion Trends - National Government

The graph below depicts the analysis of audit opinions



Audit Opinion Trends - County Executives

AUDIT OPINIONS: COUNTY EXECUTIVES					
	2013/14	2014/15	2015/16	2016/17	2017/18
Unmodified	0	0	0	0	2
Modified	2	6	13	22	36
Adverse	6	16	12	12	4
Disclaimer	39	25	22	13	5
Total	47	47	47	47	47

Audit Opinion Trends - County Executives



Key

Unmodified	Modified	Adverse	Disclaimer

Strengthening Financial Accountability in the Public Sector

- **Avoidance of Pending Bills by National & County Governments**

Pending Bills have continued to bog both National and County Governments.

Failure to clear pending bills in the year they fall affects the budgetary allocation for the year in which they are settled.

- **Ballooning Public Debt**

The Kenya Government Public Debt as at the end of the Financial Year 30 June 2020 stood at 2/3 of GDP. This is a worrying trend as it implies a considerable % of revenue raised will go towards servicing the debt.

- **Strengthen Accountability Institutions**

- **Reap on the Lessons Learned from the Covid-19 Pandemic**

Strengthening Financial Accountability in the Public Sector Cont..

- Progressively change the Government Financial Reporting Framework from IPSAS Cash to Accrual.

The accrual accounting will enable the Government to have a more accurate information on its assets and liabilities and provide a more accurate picture of its financial position.

- Strengthen Controls on the Integrated Financial Management System
IFMIS is the de facto Financial Management System of the Government.

- Timely Action on Auditor-General's Reports

Year in year out the Auditor-General churns out audit reports. The management of respective entities should be made to swiftly act on these recommendations.

Strengthening Financial Accountability in the Public Sector Cont...

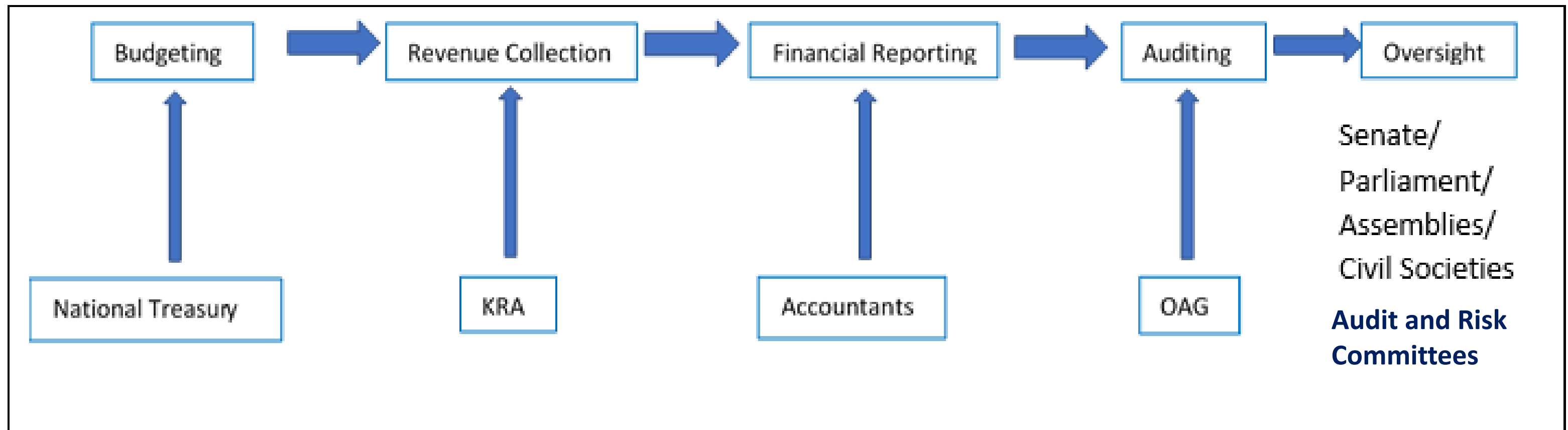
To enhance transparency and accountability and to ensure that core procurement principles are not traded for expediency during the Covid-19 pandemic, the government should -:

- Place all contract information in the public domain including Procurement plans, procurement tender opportunities, and contract awards.
- Closely monitor COVID-19 response expenditures since they present the inherent risk of misuse of funds due to their emergency nature.
- Strengthen public oversight institutions

Strengthening Financial Accountability

Key Players

Accountability Chain :



Strengthening Financial Accountability

Key Players Cont..



- **Budgeting:** - Rationalize the budget to reduce budget deficit, review capital intensive projects, Finance bill geared towards incentives for business recovery.
- **Kenya Revenue Authority:** Apply efficient and effective tax collection method and able to publish periodical reports for public to monitor.
- **Accountants:** Prudent application of resources for effective of key delivery services to the public.
- **Auditors:** Plan and design effective audit procedures that will timely respond and report on identified risks as per interests of the public on effectiveness on use of resources.
- **Parliament:** Put in place robust oversight system on management of public resources. Publicize recommendations of PAC/PIC.
- **Audit & Risk Committees:** Provide oversight of the financial reporting process, the audit process, the organizations system of internal controls and compliance with relevant laws and regulations.

Challenges facing the Auditor-General's Office



- Economic crunch leading to shrinking budgets
- Difficulties in remote testing of internal controls
- Scope limitation due to Covid-19 restrictions
- Limitations in conducting inventory observations
- Managing the performance of remote workers
- Clients using manual systems/ less automated
- Human resources (numbers, training, expertise)
- Very tight legal timelines to complete audits
- Auditee degree of preparedness and co-operation

Re-Positioning OAG for Effectiveness Cont..



- Utilization of robust ICT infrastructure
- Updating staff on necessary ICT skills
- Live connection to client's systems
- Creation of a data science audit unit
- Adoption of various technology tools
- Hybrid of physical and remote working

Way Forward - Strengthening Financial Accountability



- Strengthening accountability institutions
- Leveraging Communication & Information Technology (ICT)
- Benchmarking financial accountability with other countries
- Strengthen controls on the IFMIS and other Systems
- Management of pending bills and the wage bill
- Reap on Lessons from the COVID 19 Pandemic
- Partnering with CPA Firms, ICPAK and the Citizens.

Way Forward - Strengthening Financial Accountability Cont..

- Enhancing budgetary resource allocation to audit services. This will guarantee adequate staffing and continuous oversight.
- Devolving audit functions to counties for continuous audit and monitoring
- Embracing IT audits in the public sector which is moving away from manual records for efficiency and effectiveness in service delivery.
- Regular training of audit staff (accountants and auditors) to cope with changing technological environment.
- Use of multi-disciplinary approach in audit to ensure adequate coverage of technical areas to improve quality and timeliness of audit reports.

Way Forward - Strengthening Financial Accountability Cont..

Accountable utilization of public resources will be the heartbeat of a cohesive, fair and prosperous nation.

The Office of the Auditor-General will continue to play a strategic role in promoting accountability and good governance.

Conclusion



Being accountable simply means being responsible for decisions made, actions taken and assignments Completed.

“Accountability begins with me and you”

*Thank
you!*