



Audit and Compliance

By

Office of the Auditor-General

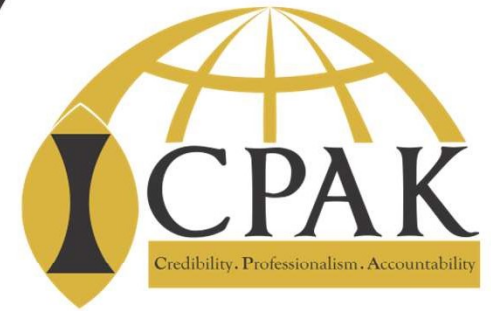
CPA Samuel N. Waweru, CFE

Deputy Director of Audit

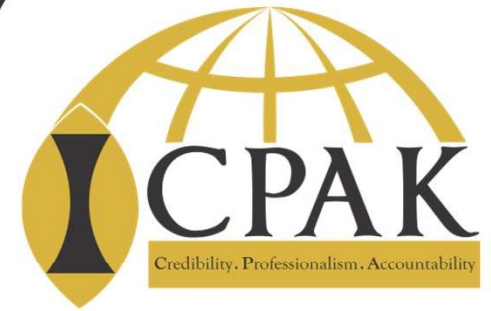
Research, Methods and Professional Practices

Office of the Auditor-General

CONTENT



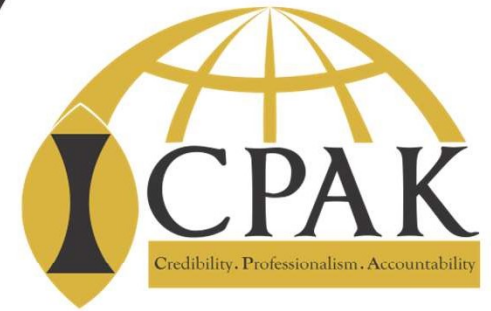
- OAG Mandate
- OAG Audit Process – The Combined Approach
- Audit file preparation
- Audit committee effectiveness
- Interpretation of the Report of the Auditor-General
- Audience Engagement



OAG Mandate

Vision: A world class Professional Accountancy Institute.

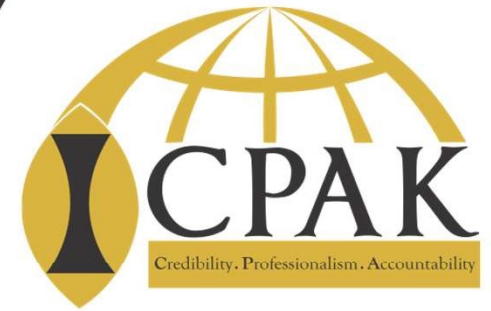
Mandate of the Office of the Auditor-General



Article 229 (4-8) of the Constitution Stipulates the Auditor-General's mandate

Vision: A world class Professional Accountancy Institute.

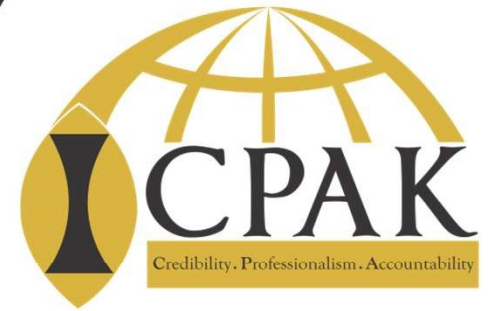
Expanded Mandate (Public Audit Act, 2015)



- Section 36 Performance Audit
- Section 37 Forensic Audit
- Section 38 Procurement Audit

Vision: A world class Professional Accountancy Institute.

OAG mandate



Provides for the audit financial statements

Follow the financial audit methodology to give an opinion on the financial statements.
Consider compliance with legislative provisions which directly and materially affect the financial statements in line with ISSAI 2250

Option 1. Issue a financial audit report

Provides for OAG to audit financial statements and generic mandate for the SAI to audit compliance with authorities or requires the audit of specific Act(s)

Follow both Financial and compliance audit methodologies based on Financial and Compliance audit ISSAIs

Option 2. Issue a combined report for financial audit and compliance audit. The conclusion/opinion on the aspect of compliance should be clearly separate from the opinion on the true and fair view of the financial statements.

Requires the OAG to audit and report on compliance with specific legislation

Follow a compliance audit methodology based on ISSAI 4000

Option 3. Issue a separate compliance audit report.

Vision: A world class Professional Accountancy Institute.

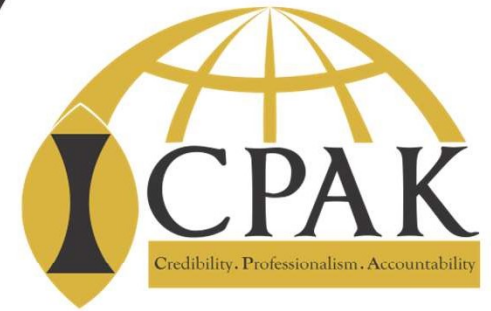
Who we are

Supreme Audit Institution (SAI)

SAI Kenya/ Office of the Auditor-General

African Organisation of English-speaking
Supreme Audit Institutions (AFROSAI-E)

International Organisation of Supreme
Audit Institution (INTOSAI)



Models of SAIs

The court of accounts/Napoleonic

model



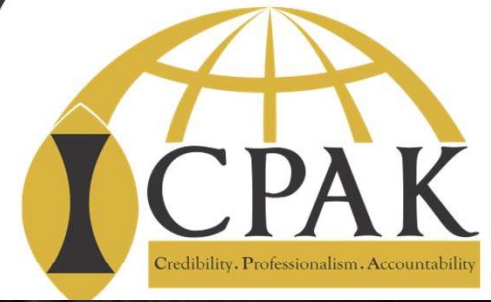
Vision: A world class Professional Accountancy Institute.

Westminster/Parliamentary model

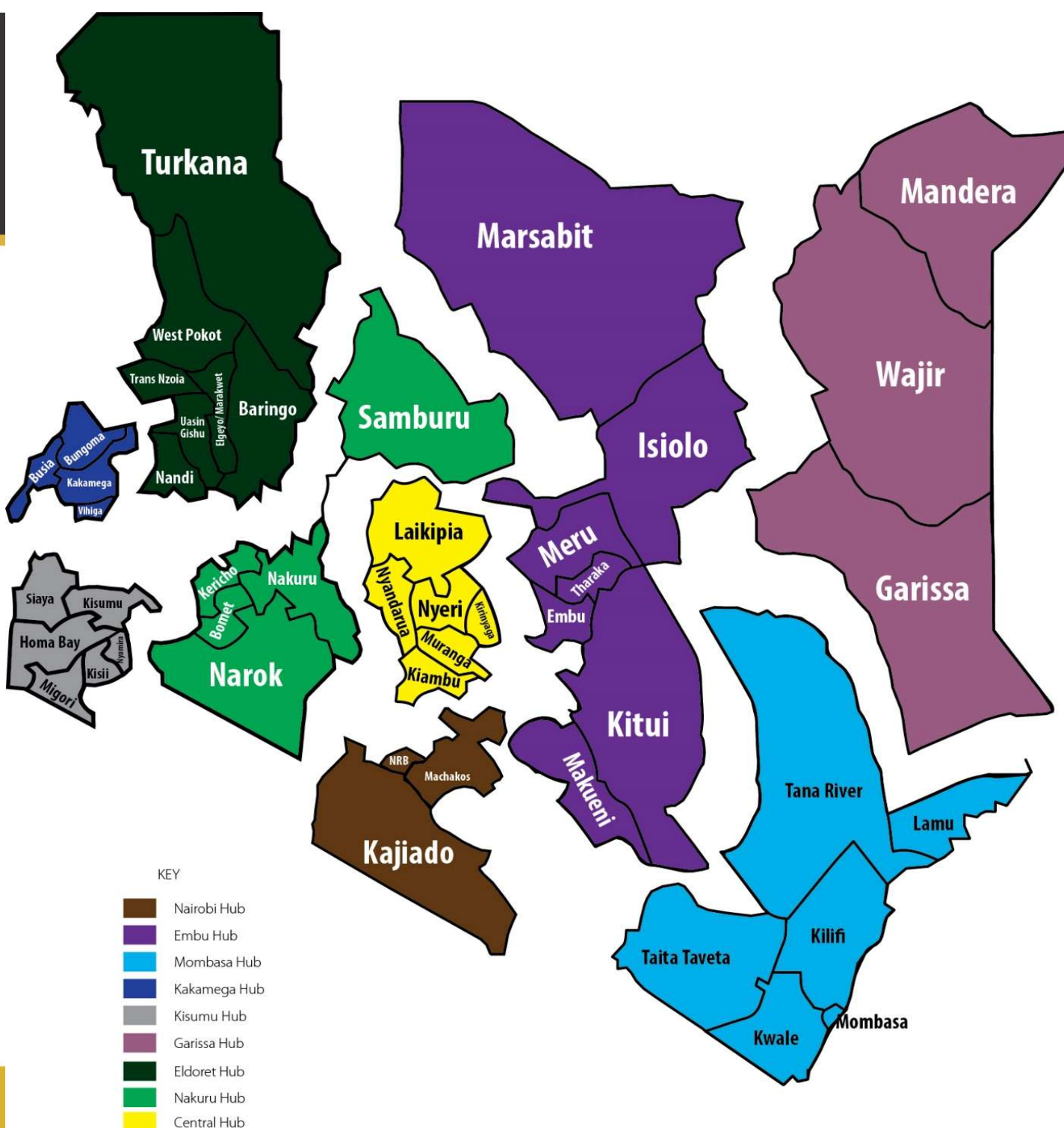


Vision: A world class Professional Accountancy Institute.

The Board/Collegiate Model



Vision: A world class Professional Accountancy Institute.



- Nairobi Hub
- Nyeri Hub
- Nakuru Hub
- Eldoret Hub
- Kakamega Hub
- Kisumu Hub
- Embu Hub
- Mombasa Hub
- Garissa Hub
- Kisii Hub
- Machakos Hub

TYPES OF AUDIT



Financial Audit

focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework.

Compliance Audit

focuses on whether a particular subject matter is in compliance with authorities identified as criteria.

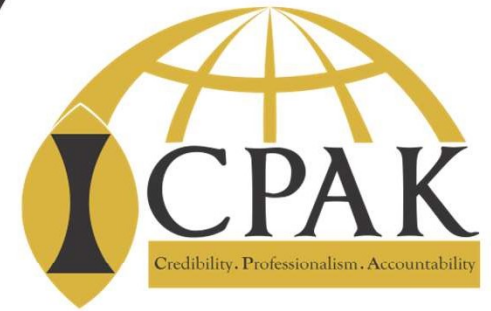
Performance Audit

focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement.

IT Audit

Forensic Audit

Procurement
Audit
Special Audits



OAG Audit Process

Vision: A world class Professional Accountancy Institute.

Phases of the Financial and Compliance Audit Methodology



1. Prerequisites
2. Pre-assignment
3. Understanding the entity
4. Budget as a control tool
5. Materiality
6. Risk assessment and response
7. Performing and audit and evaluation of misstatements
8. Audit summary
9. Reporting
10. Follow-up

FINANCIAL AUDIT

COMPLIANCE AUDIT

PREREQUISITES

Global Risk Assessment
Team Effort
Project Scheduling
Annual Overall Audit Plan
Evaluating the FRF
Identifying The Subject Matter(s)

PRE-ASSIGNMENT ACTIVITIES

PA 1. Budget versus Actual
PA 2. Competency Matrix
PA 3. Code of Ethics Declaration
PA 4. Code of ethics Conclusion
PA 5. Team agreement
PA 6. Letter of Understanding
PA 7. Minutes of entry meeting
PA 8. Quality control questionnaire

Vision: A world class Professional Accountancy Institute.

FINANCIAL AUDIT

COMPLIANCE AUDIT

UNDERSTANDING THE ENTITY

- UE 1. General information & operational environment
- UE 2. Governance structures
- UE 3. Legal framework of the entity
- UE 4. Fraud considerations
- UE 5. The entity's other internal controls
- UE 6. Other considerations as litigations and claims, related parties, service entities, **going concern**, **risks from prior years audit reports/ML/PAC Reports**
- UE 7 Understanding of the Subject Matter

BUDGET AS A CONTROL TOOL

- BT 1. Budget Process
- BT 2. Budget Analytical review
- BT 3. Overall Lead schedule

MATERIALITY

Planning Materiality
Performance Materiality
Specific Materiality
Clearly Trivial

MATERIALITY

materiality for the subject
matter(s)

FINANCIAL AUDIT

RISK ASSESSMENT

- RA1. Risk assessment on a financial statement level
- RA 2. Risk register at assertion level
- RA 3. Assigned team discussion document
- RA 5. Quality control questionnaire

COMPLIANCE AUDIT

RISK ASSESSMENT

- RA 4. Risk assessment for each subject matter

Combined audit strategy

PERFORMING THE AUDIT

- PF 1. Lead schedule
- PF 2. Risk assessment and response for components
- PF3 a. Test of controls and some substantive tests
- PF3 b. Management Letter(Continuation Audit Issues)
- PF 4. Substantive analytical procedures
- PF 5. Substantive tests of detail – 100% testing
- PF 6. Substantive tests of detail – Sample testing
- PF 7. Using the work of an expert
- PF 8. Evidence tracking sheet
- PA 11. Quality control questionnaire

PERFORMING THE AUDIT

- PFA1 Performing Compliance Audit Procedures
- PFA2: Evaluating compliance audit evidence and concluding on the Subject Matter

FINANCIAL AUDIT

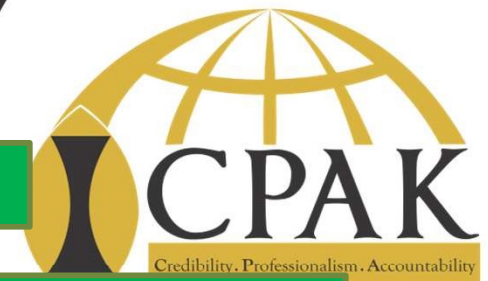
REPORTING

- AR 1. Minutes of exit meeting
- AR 2. Draft management letter (with compliance findings)
- AR 3. Verification of management responses
- AR 4. Final management letter (with compliance findings)
- AR 5. Matters for the attention during next year's audit
- AR 6. Opinion matrix
- AR 7. Exception capturing template National Govt
- AR 7. Exception capturing template County Govt
- AR 8. Representation by audit management
- AR 9. Management representation letter
- AR.10. Audit Report -Combined
- AR 11. Quality control questionnaire

COMPLIANCE AUDIT

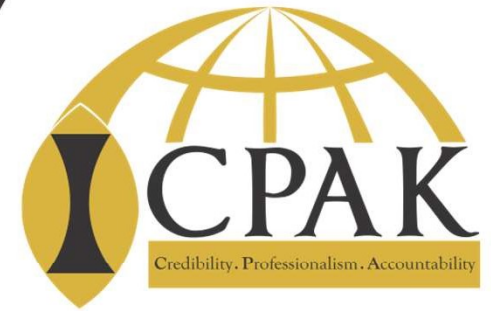
REPORTING

Compliance Audit Findings to be included in the auditor's report and used to conclude on whether public money has/has not be used in a lawful way.



Vision: A world class Professional Accountancy Institute.

REPORTING



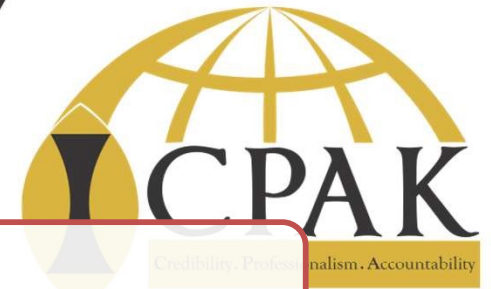
FINANCIAL AUDIT

COMPLIANCE AUDIT

COMBINED AUDIT REPORT

Vision: A world class Professional Accountancy Institute.

Legal Compliance



The Constitution

- Constitutional Requirements
- Specific Articles that touch on the Subject Matter

The Legislature

- Procurement Laws
- Financial Management Laws
- National Government Laws

The Executive

- Presidential Directives
- Circulars
- Guidelines

The Entity

- Policies
- Manuals
- Requirements by Financiers

Standards & Framework

- IPSAS
- IFRS
- COSO

Compliance Criteria

Vision: A world class Professional Accountancy Institute.

Evaluating Value For Money

Objectives

Other Influences

Public Participation

Processes
(Budget Execution)

Public Participation Results

Resources
(Budget)

Inputs
(Work Plan)

Outputs

Outcomes

Economy
Spending Less

Efficiency
Spending well

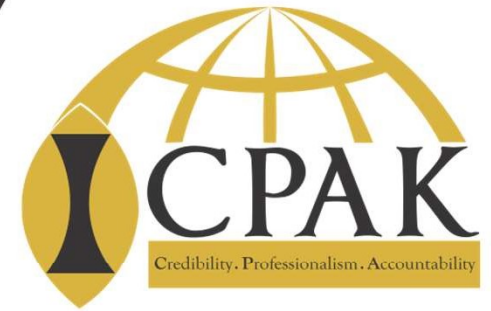
Effectiveness
Spending wisely

**Intended and
Unintended**

Cost Effectiveness

Optimal use of resources to achieve the intended outcomes

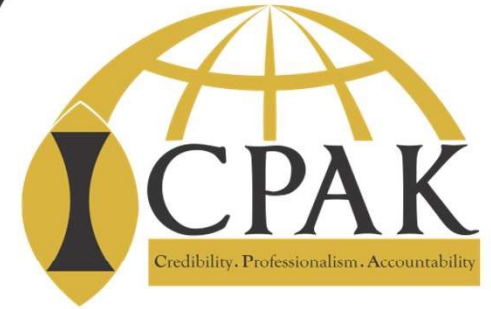
Vision



Preparing for Audit

Vision: A world class Professional Accountancy Institute.

Preparing For an Audit



1. Implement Good Practices Year Round: -

- If you put good processes in place, you can save time and money.
- internal Controls

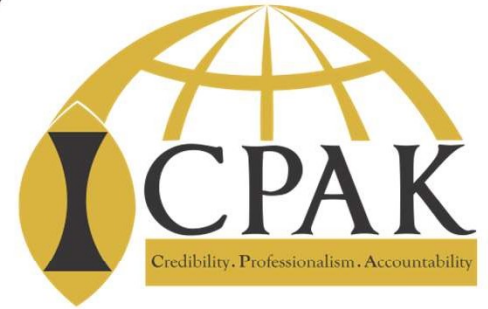
2. Review Your Own Financial Information: -

- Use the Internal Auditor.
- The financials should make sense to management. (Audit Committee)

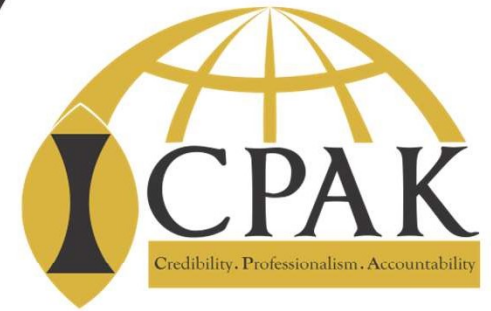
3. Get Your Paperwork Together (*This is called the Audit File*) : -

- Your auditor will request a *list of documents and schedules*.
- You or your accountant should be able to generate or gather this documentation.

Preparing For an Audit



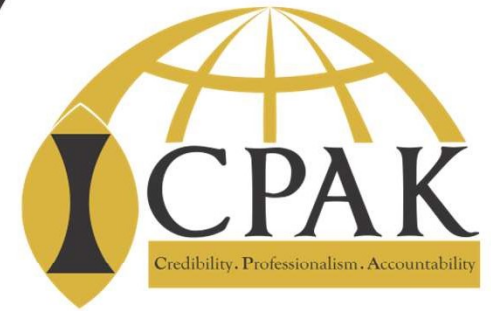
1. General ledger
2. Trial balance
3. Accounting Policies and Procedures manual.
4. Organization charts and systems documentation
5. Memos detailing flow of transactions within the entity
6. Security agreements, and lease agreements.
7. Minutes of meetings of the TCWG and any other oversight committees.
8. Fiscal year budget,
9. Reconciliation and schedules supporting all asset, liability, and equity accounts.



The Audit Committee Effectiveness

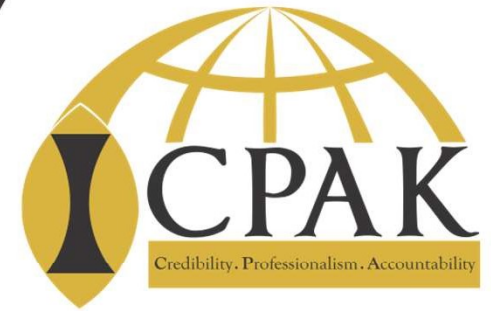
Vision: A world class Professional Accountancy Institute.

Establishment of the Audit Committee



- **Public Finance Management Act, 2012 and Public Finance Management Regulations, 2015 for both National and County Governments**
- Sect 73(5) and 155 (5) Every public entity shall establish an audit committee whose composition and functions shall be prescribed by the regulations
- Regulation 167 -171 of the PFMR(CG) Every public entity shall establish an audit committee whose composition and functions shall be prescribed by the regulations

Functions of the Audit Committee



Regulation 168 stipulates the Functions of the Audit Committee

- a) Support Accounting Officers with regard to their responsibilities for issues of risk, control and governance and associated assurance
- b) Follow up on the implementation of the recommendations of the auditors
- c) Evaluating the adequacy of the control
- d) Performing an independent review of the financial statements.
- e) Monitoring the effectiveness of an entity's performance.
- f) Evaluating the quality of the internal audit function.
- g) Engaging with external audit and assessing the adequacy of management response to issues.
- h) Reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements.

Vision: A world class Professional Accountancy Institute.

Focus of the Audit Committees



Financial Reporting

- Disclosure requirements
- Appropriateness of Accounting policies

Risk management and Internal Control

- understand key risk areas
- Effectiveness of controls
- Fraud risk

Audit Committee: Areas of Focus

External Audit

- Scope of work
- Independence requirements
- Audit findings and implementation of recommendations
- Review performance of the auditor

Internal Audit

- Charter, authority and resources
 - Scope of work
- Internal audit effectiveness
- Responses to internal audit recommendations

Maintaining and measuring effectiveness

- Training needs
- Financial literacy
- Annual performance

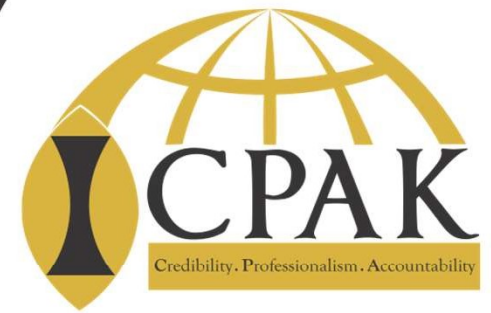
Communication and reporting

- Relations with management
 - Updates and recommendations to the full board
- Reports to the board and shareholders

Regulatory , compliance & ethical matters

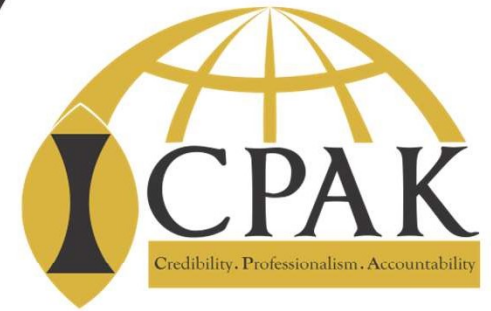
- Compliance with the laws
- Code of conduct/ethics
 - whistleblowing

AUDIT COMMITTEE EFFECTIVENESS



IFAC have identified 5 ways to enhance effectiveness of audit:

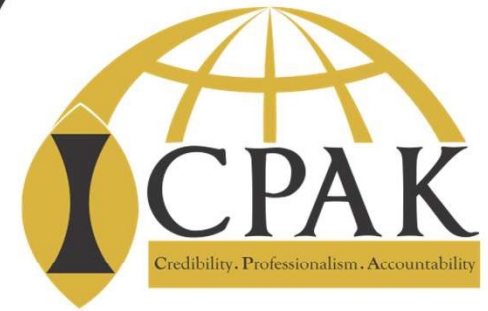
- 1. Audit Committee Transparency**
- 2. Effective Communication**
- 3. Committee Composition – Including Appropriate Skills, Competencies and Expertise**
- 4. How it gets its Work Done – Efficient and Effective Ways of Working**
- 5. Strength of the Finance Function**



Interpretation of the Auditor-General's Report

Vision: A world class Professional Accountancy Institute.

OAG 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 and effectiveness
 - Conclusion – confirmation of lawfulness and effectiveness
 - Basis for conclusion
4. Report on effectiveness of internal controls
 - Conclusion
 - Basis for conclusion
5. Report on other legal and regulatory requirements (where applicable)
6. Management responsibilities
7. Auditor-General's responsibility
8. Signature

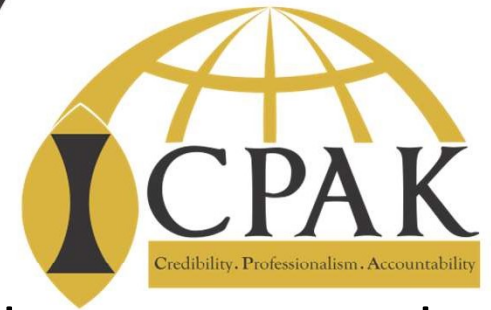
Vision: A world class Professional Accountancy Institute.

OAG Report Format

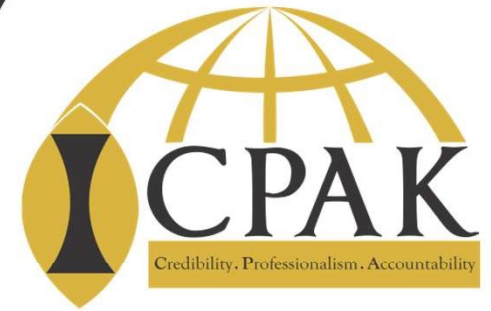


1. Report on the financial statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
2. Report on Lawfulness and Effectiveness in use of public resources which considers compliance with applicable laws and regulations, and effectiveness in the use of public resources in the operations of the entity.
3. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations.

OAG Report Format



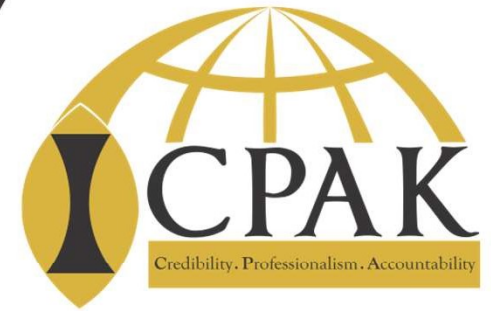
1. The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by
 - i. Article 229 of the Constitution,
 - ii. the Public Finance Management Act, 2012 and
 - iii. the Public Audit Act, 2015.
2. The three parts of the report, when read together constitute the report of the Auditor-General.
3. An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.



Audience Engagement

Vision: A world class Professional Accountancy Institute.

Audience Engagement



OAG Engages its audiences through training and discussion of audit report:

- 1. Parliament (Senate, National and County Assemblies)
Committees (PAC, PIC, CPAIC, SPAIC)**
- 2. The Media**
- 3. The Civil Society**
- 4. ICPAK**
- 5. Corporate Social Responsibility**

Vision: A world class Professional Accountancy Institute.



CPA Samuel N. Waweru, CFE

- **Samuel is a Deputy Director of Audit in Charge of Research, Methods and Professional Practices at the Office of the Auditor-General.**
- **He is a Member of the Institute of Certified Public Accountants of Kenya (ICPAK) and the Association of Certified Fraud Examiners (ACFE).**
- **He has over 20 years experience in Financial, Compliance and Information Systems Audit.**
- **He is a certified Quality Assurance Reviewer with the African Organisation of English Speaking Supreme Audit Institutions (Afrosai-e) with over 8 years experience in QA reviews.**
- **He is a Trainer for OAG Kenya, Afrosai-e and INTOSAI Development Initiative (IDI) and with experience in training on diverse field in Africa.**
- **He can be reached on 0722241082 or Samuel.Waweru@oagkenya.go.ke**