

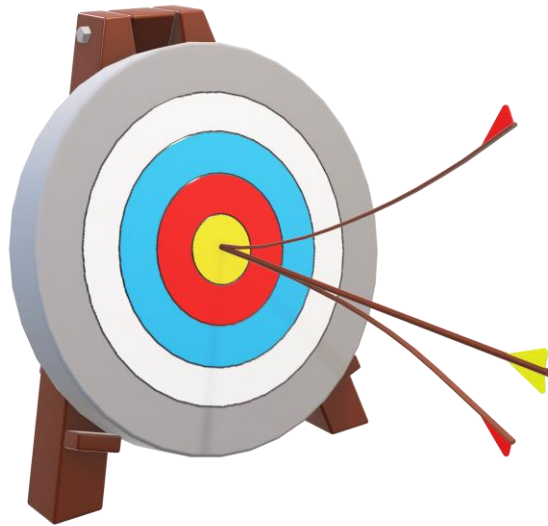
# The Role of the Board in Understanding and Contributing to Improvement of Audit Opinions



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**ICPAK 2nd Annual Board Training Forum**

# Outline

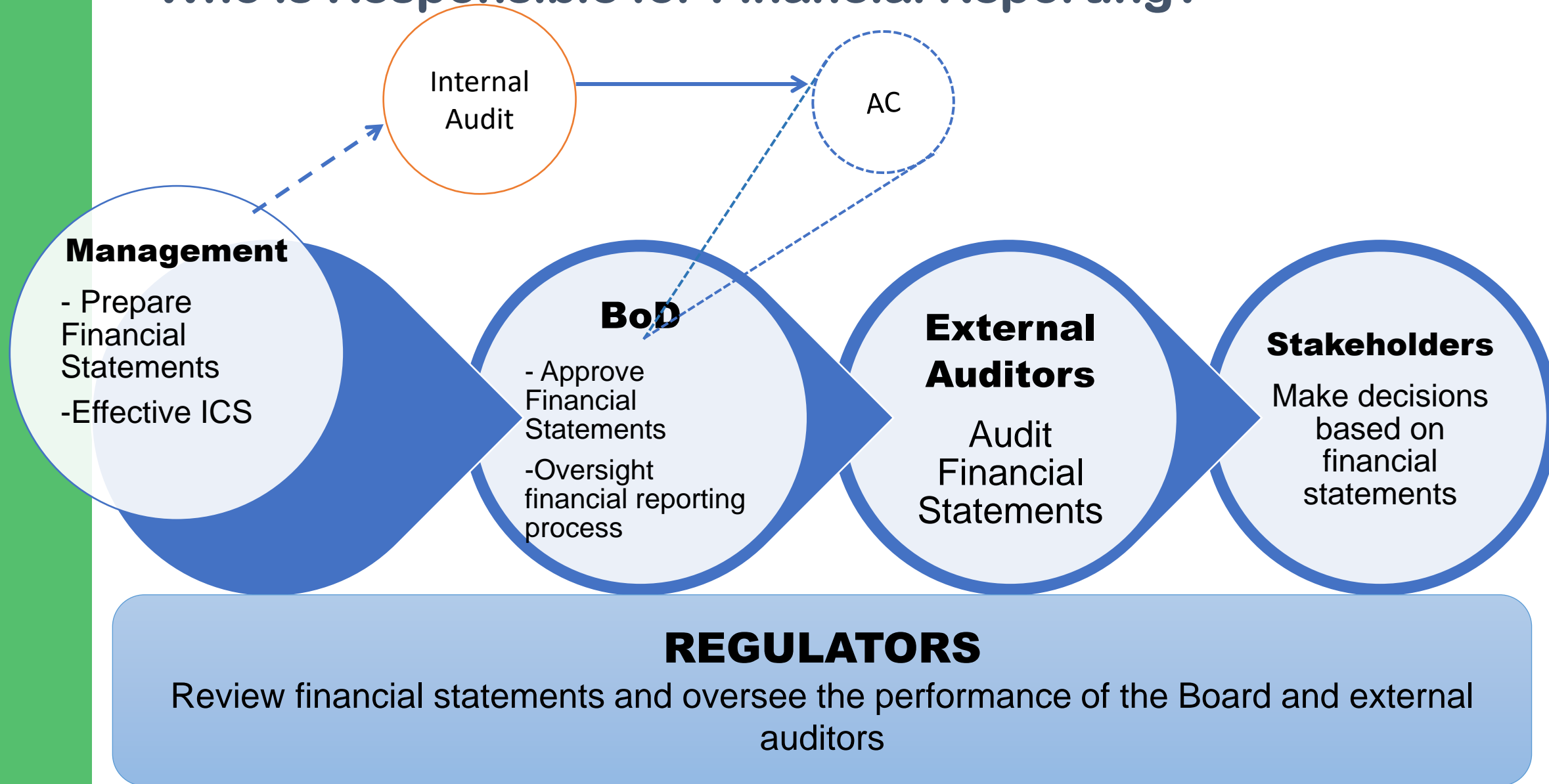


# Mandate of the Office of the Auditor-General

- The Office of the Auditor-General is established as an Independent Office under the Constitution of the Republic of Kenya.
- Operationalized by the Public Audit Act, 2015
- The Constitution and the Public Audit Act, 2015 mandates the Auditor-General to;
  - Audit the accounts of all public entities and
  - Confirm whether public funds have been used in a lawful and effective manner
  - Conduct investigations on own initiative or complaint by a member of the public
  - Conciliation, mediation and negotiation

Ultimately, our mandate is to influence the development of our nation and the delivery of quality and sustainable services to the people

# Who is Responsible for Financial Reporting?



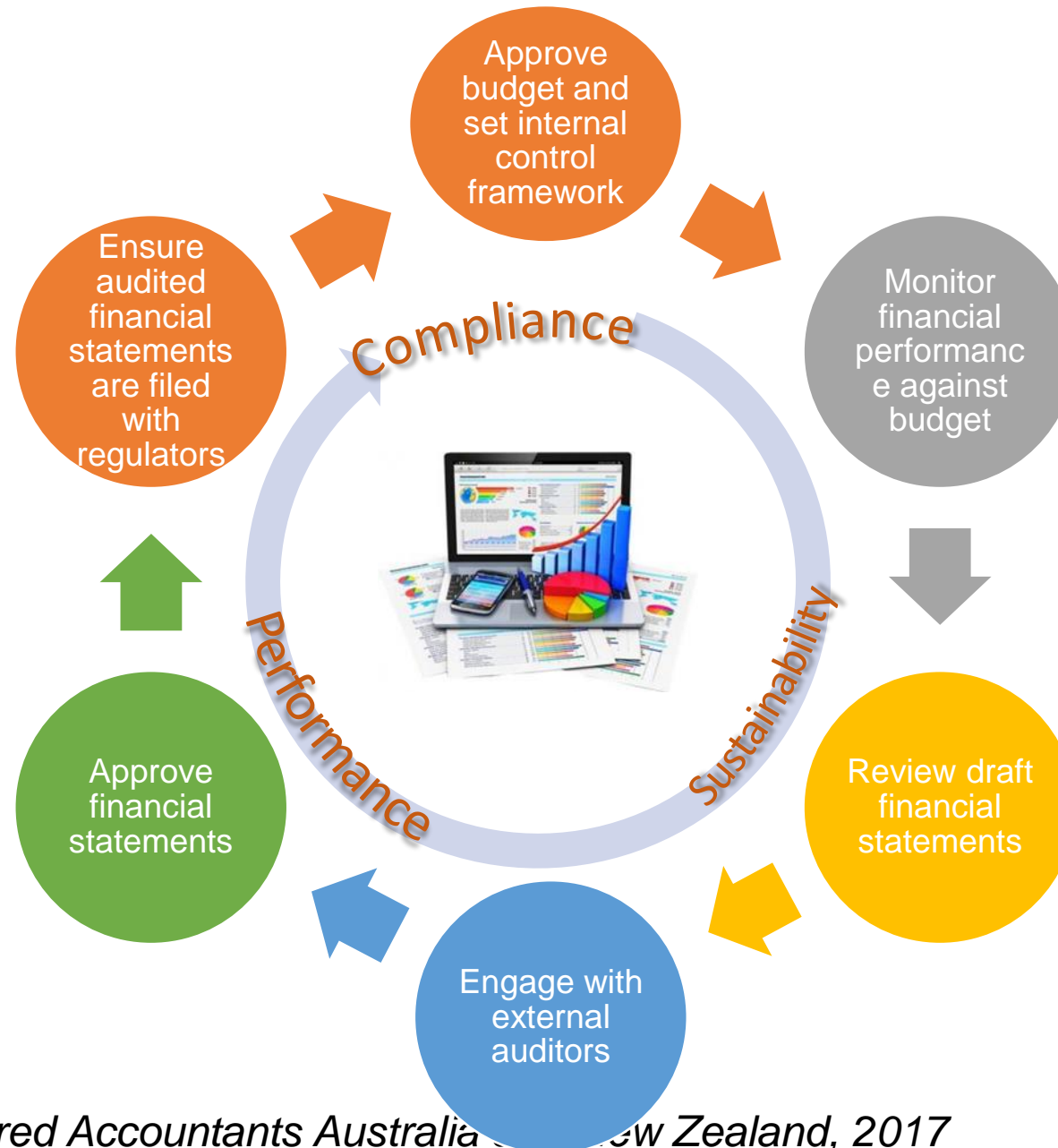
## Financial Reporting Responsibility

- The Board has ultimate responsibility for overseeing the organization's financial affairs
- This requirement is even anchored in law
- Companies Act
  - Sec 145 – Duty of care
  - Sec 635 and 653 – Responsibility for preparing financial statement and directors report
  - Sec 652 – Approval of financial statement
  - Sec 717/ 721 – Appointment of auditors
- Mwongozo Governance Principles
  - Timely preparation of accurate financial statements
  - Establishment of effective processes and systems of risk management and internal controls
  - Cost effective procurement that delivers value for money

# Board Financial Oversight

- All directors in the Board are collectively responsible for meeting their obligations in relation to annual financial reporting.
- Three critical roles of the Board
  1. Establishing and ensuring the organization's compliance with proper financial systems and controls;
  2. Regularly evaluating the organization's financial health; and
  3. Ensuring that the organization is on a financially sustainable path.
- This requires the Board to have access to complete and accurate information about the financial position of the company and the underlying value drivers to enable them steer the company in the best long-term interests of shareowners
- Therefore, every Board Member is required to understand the financial information being presented and the processes behind the preparation of such information

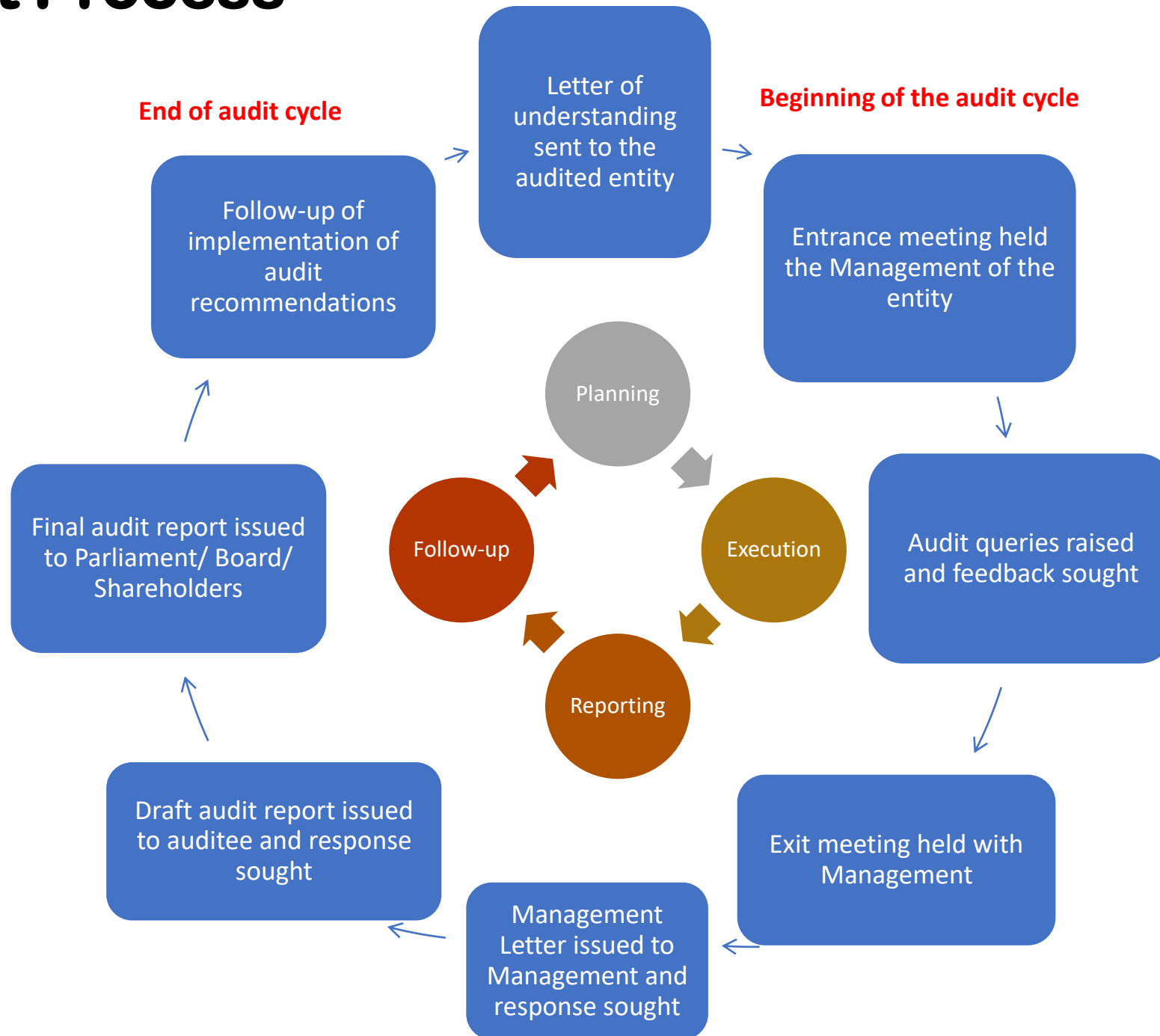
# Board Financial Oversight Responsibilities



# The Board and the Audit Process

- The Board has a primary responsibility for the provision of information to investors and other users of the financial statements provided, to enable them make informed decisions.
- The information provided must be;
  - ✓ relevant
  - ✓ useful
  - ✓ comparable
  - ✓ consistent
  - ✓ meaningful
- This is mainly achieved through provision of audited financial information
- Annual audits demonstrate transparency in corporate financial reporting

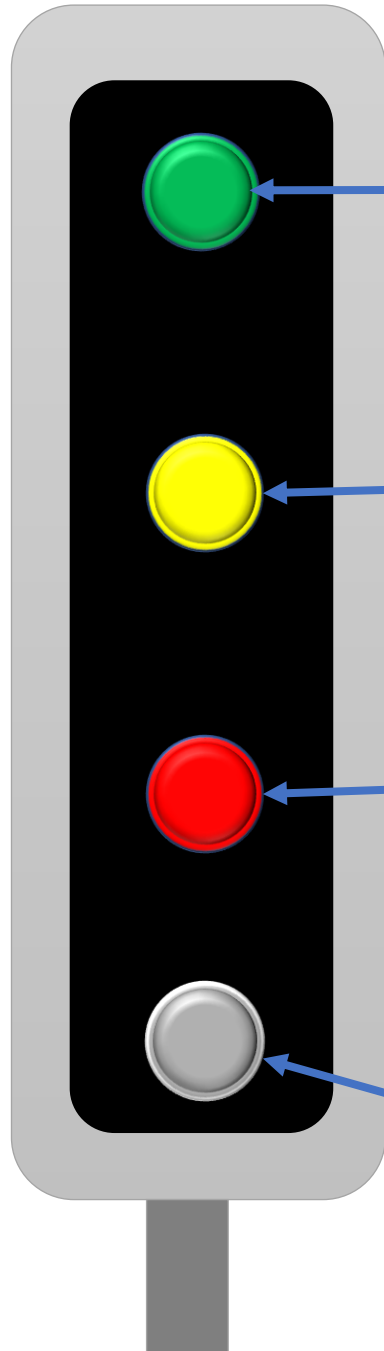
# Audit Process



# Audit Opinions

- Audit opinion/report is the ultimate product of the audit process
- Auditors use opinions/ reports to alert the public as to the transparency, reliability and accountability of entities
- An audit opinion is a reflection of the integrity of the audit report and projects an image of the company/ organization
- Public sector audit goes beyond the audit opinion;
  - Conclusion on lawfulness and effectiveness in use of public resources
  - Conclusion on effectiveness of internal controls, risk management and governance
  - Value for money

# Types of Audit Opinions



## Unmodified/Unqualified Opinion

- A clean report
- Auditor “ I am satisfied with the company’s financial reporting”
- Board “What we expect to receive”

## Modified/Qualified Opinion

- Negative opinion about a company’s financial status
- Auditor “ I am not confident about a specific process or transaction” e.g application of accounting principles and policies

## Adverse Opinion

- Red flag, gross misstatements and potential for fraud
- Auditor “company’s records haven’t been prepared according to accounting standards, principles, policies and practices

## Disclaimer of Opinion

- Auditor “I cannot provide any opinion at all related to the financial statements”
- Why? Management limited auditors ability to conduct a thorough audit or they couldn’t get satisfactory explanations for their questions

# How Board Involvement can Lead to Improved Audit Opinions

- ✓ Approving the annual budget and monitoring adherence to the budget
- ✓ Regular financial reporting review processes at each Board meeting
- ✓ Ensuring compliance with laws, regulations, policies and procedures
- ✓ Regular meetings with the auditors (internal/external) (Audit Committee) - **before, during and after audit**
- ✓ Strengthening the internal control system
- ✓ **Enhancing independence of the internal audit function**
- ✓ Assessing and managing financial risks

# How Board Involvement can Lead to Improved Opinions?

- Reviewing and approving the financial statements to determine;
  - whether the financial statements are prepared using the appropriate financial reporting framework
- Reviewing the appropriateness of accounting policies and judgements used by Management in preparing financial statements
- Monitoring, tracking and follow-up of implementation of external auditor's recommendations – through Internal Audit

# Conclusion

- Directors are instrumental in how well an entity fulfils its financial reporting obligations
- Directors are primarily and collectively responsible for the quality of the financial report
- Directors are not expected to be accounting experts, but they are required to understand;
  - the financial information being presented
  - the process behind the preparation of such information
- Sufficient and current knowledge of financial management and reporting requirements is key for high level review
- Acquire the knowledge or procure the knowledge

*Thank  
you*

