

AUDIT AUTOMATION



ANNUAL CORPORATE REPORT 2017-2018



Accountability and effective management of public resources.



To audit and report on the management of public resources for improved service delivery to the Kenyan people



INTEGRITY: We are committed to honesty, reliability, and trustworthiness in our professional and personal conduct.

OBJECTIVITY: Our professional judgment is fair and is not swayed by personal bias, conflict of interest or undue influence by others.

PROFESSIONAL COMPETENCY: Our work is based on appropriate professional knowledge, skills, experience, up-to-date techniques and leading practices.

INNOVATION: We strive to continually improve on our delivery of services by being open to new ideas that are responsive to a rapidly changing operating environment.

TEAM SPIRIT: We have a strong sense of mutual commitment which creates the synergy needed to achieve our goal.



MOTTO: ENHANCING ACCOUNTABILITY



MANDATE: The Office of the Auditor-General (OAG) is an independent Office established under Article 229 of the Constitution of Kenya. The Office is charged with the primary oversight role of ensuring accountability within the three arms of Government (the Legislature, the Judiciary and the Executive) as well as the Constitutional Commissions and Independent Office and any entity that is funded from public funds.

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ACRONYMS AND ABBREVIATIONS

AMS	-	Audit Management Software
AfDB	-	African Development Bank
AFROSAI-E	-	African Organisation of English-speaking Supreme Audit Institutions
AOP	-	Annual Operational Plan
CAM	-	Compliance Audit Manual
CDF	-	Constituency Development Fund
CoB	-	Controller of Budget
CPAK	-	Certified Public Accountant of Kenya
CS	-	Corporate Services
DAG	-	Deputy Auditor General
FAO	-	Food and Agriculture Organisation
FAM	-	Financial Audit Manual
FCA	-	Fellow Member of the Institute of Chartered Accountants of England & Wales
FCCA	-	Fellow Member of the Institute of Certified Public Accountants of Kenya
F!CAM	-	Financial and Compliance Audit Manual
ICPAK	-	Institute of Certified Public Accountants of Kenya
IDI	-	INTOSAI Development Initiative
IFFs	-	Illicit Financial Flows
INTOSAI	-	International Organisation of Supreme Audit Institutions
INTOSAI-GOV	-	International Organisation of Supreme Audit Institutions Governance
ISSAI	-	International Standards of Supreme Audit Institutions
MDAs	-	State Ministries, Departments and Agencies
NAC	-	National Audit Chamber of Republic of South Sudan
OAG	-	Office of the Auditor-General
PAC	-	Public Accounts Committee
PIC	-	Public Investment Committee
PFM Act	-	Public Finance Management Act
RAM	-	Regularity Audit Manual
SA	-	Specialised Audit
SAI	-	Supreme Audit Institution
SNAO	-	Swedish National Audit Office
GIZ	-	Deutsche Gesellschaft für Internationale Zusammenarbeit

FOREWORD

The Annual Corporate Report for 2017/2018 financial year, provides highlights on the programmes and activities the Office has engaged in during the period.

During the period, the Office of the Auditor-General rolled out an Audit Management System called TeamMate, to automate its audit activities.

TeamMate is a software that is able to manage an audit process right from planning, execution and reporting. It is a venture that will greatly transform the way the Office conducts audit in terms of ensuring uniformity, quality and timely audit reporting.

The Office trained all its auditors ahead of the roll-out and the tool is now being used in our audit work. We therefore hope to make significant progress as far as reporting timeline is concerned.

The Office has also been recognised at the regional level, following the Award of the Best Performance Audit Report Prize to the Office.

The report examined ***The Provision of Mental Healthcare Services in Kenya*** and stood out amongst other

entries from other Supreme Audit Institutions (SAIs) from the African region.

The Prize was awarded on 7th May, 2018, during the 15th Annual Governing Board Meeting of African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E), in Rwanda. This is the second time SAI Kenya has won the Prize. In 2012 the Office also won the Prize on a performance audit that looked at ***Specialised Healthcare Delivery at Kenyatta National Hospital: Waiting-time for Cancer, Renal and Heart Patients.***

The Prize was awarded on 7th May, 2018, during the 15th Annual Governing Board Meeting of African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E), in Rwanda. This is the second time SAI Kenya has won the Prize.

In terms of devolving our work, we continually make progress to ensure our presence in the counties. To this end, apart from the construction of

Garissa regional office, the Office (during this period) initiated the construction of Offices in Eldoret and Kakamega to cater for the audit needs in North Rift and western parts of the country. There are also plans to build our landmark headquarters at a one and half acre plot we own in Upper Hill area of Nairobi.

As you go through this report, you will notice that we have achieved quite a lot this year in enhancing the capacity of staff, improving staff welfare, providing tools and equipment for audit work, engaging with other stakeholders and participating in relevant international and regional events.

Our staff continue to give exemplary output, working passionately and professionally in fulfilment of the Office's mandate.



FCPA EDWARD OUKO, CBS

AUDITOR-GENERAL

OVERVIEW

ACHIEVEMENTS



Won Performance Audit Award
for African Region



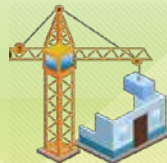
Conducted 19
Specialised Audits



Made Significant Progress in construction of
Kakamega Regional Office



Improved
Staff Welfare



Initiated construction of
Regional Office in Eldoret



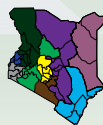
Professional Development
of members of staff



Positioned the Office
at the global stage



Recruited 288
members of staff



Continued with devolution of audit
function to the counties



Gave Professional and Technical Support
to Supreme Audit Institutions across the world

CHALLENGES

265
Staff Deficit



Funding challenges for
conducting timely audits

THE EXECUTIVE





Name:	EDWARD OUKO
Title:	Auditor-General
Qualification:	B.Com (Finance & Accounting) Fellow Member of Certified Public Accountants of Kenya (FCPA) Certified Public Accountant of Kenya (CPA-K) Fellow Member of the Institute of Chartered Accountants of England and Wales (FCA)
Current Engagements:	President Technical Committee on Knowledge Sharing & Management/ AFROSAI-E Vice President AFROSAI General Assembly
Experience:	Auditor-General African Development Bank Audit Committee Member- A number of UN Agencies Deloitte & Touché



Name: Agnes Mita
Title: Deputy Auditor-General, Corporate Services
Qualification: MSc. Auditing Management
 B.Com (Accounting)
Experience: More than 30 years in public sector auditing



Name: Alex Rugera
Title: Deputy Auditor-General, Financial Audits
Qualification: B.Com (Accounting)
 CPA-K
Experience: Senior Audit Manager, Deloitte & Touché
 Audit Finance, Taxation and Consultancy



Name: David Gichana
Title: Deputy Auditor-General, Financial Audits
Qualification: MBA (Finance)
 BSc (Accounting)
 CPA-K
Experience: More than 25 years in public sector auditing



Name: Fredrick Odhiambo

Title: Ag. Deputy Auditor-General,
Specialised Audits

Qualification: MBA
BSc
CPA-K
Certified Fraud Examiner (CFE-US)
Certified Financial Service Auditor
(CFSa-US)

Experience: Senior Audit Manager in other
Supreme Audit institutions in the
British Overseas Territories
Deloitte & Touché
LLP, KPMG East Africa

Name: David Njoka

Title: Ag. Deputy Auditor-General,
Financial Audits

Qualification: MBA (Strategic Management)
BSc (Business Administration)
CPA-K

Experience: More than 28 years in public sector
auditing





Name: Sylvester Kiini
Title: Deputy Auditor-General, Financial Audits
Qualification: MBA (Strategic Management)
BSc (Accounting)
CPA-K
Experience: Vast experience in Public sector auditing

Name: William Agunda
Title: Ag. Deputy Auditor-General, Financial Audits
Qualification: BSc (Accounting)
CPA-K
Experience: More than 30 years in public sector auditing



CHAPTER 1: WHO WE ARE

The Office of the Auditor-General (OAG) is an Independent Office established under Article 229 of the Constitution of Kenya. The Auditor-General is mandated to audit and report in respect to each financial year on the accounts of:

The National and County governments;
The National Assembly;
The Senate and the County assemblies;
All Courts;
Every Commission and Independent Office established by the Constitution;
Political parties funded from public funds;
The public debt and;
Any entity that is funded from public funds.

In addition, Article 229(6) of the Constitution requires the Auditor-General to confirm whether public money has been applied lawfully and in an effective way.

This is a broad responsibility that requires the Auditor-General to go beyond accounts certification and compliance to perform work that addresses the economy, efficiency and effectiveness with which public resources have been applied and utilised including their impact on the lives of citizens.



How we conduct audits

Beginning of the
Auditing Cycle

1
Letter of
understanding sent
to the audited entity

2
Entrance meeting
with Management
of the auditee

3
Audit queries are
raised and feedback
sought

4
Exit
meeting is
held

5
A management
letter is issued to
the auditee and
response sought

6
A draft audit report
is issued to auditee
and response
sought

7
Final audit
report is
issued

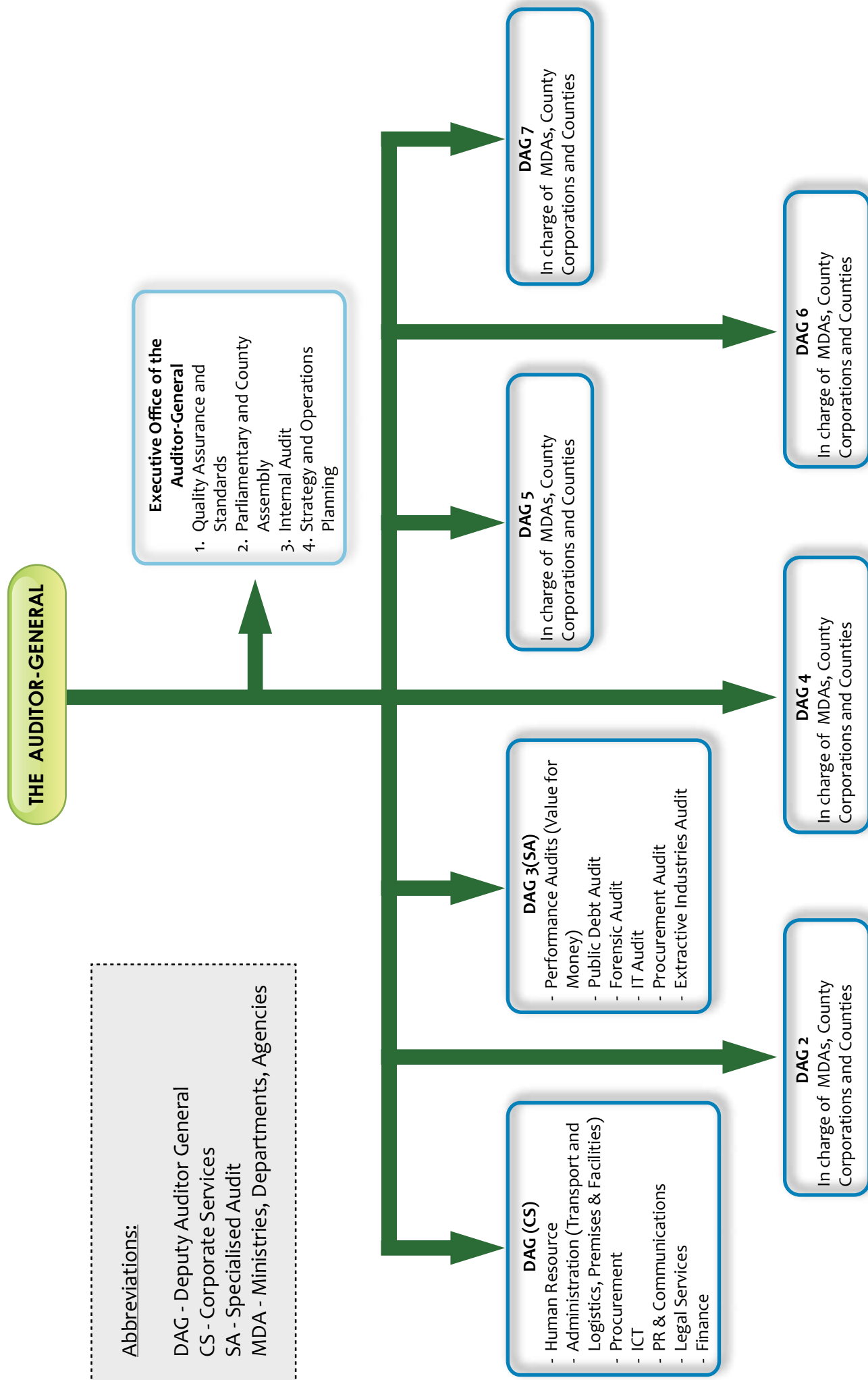
8
Reporting

9
Public
Hearing

End of the
Auditing Cycle

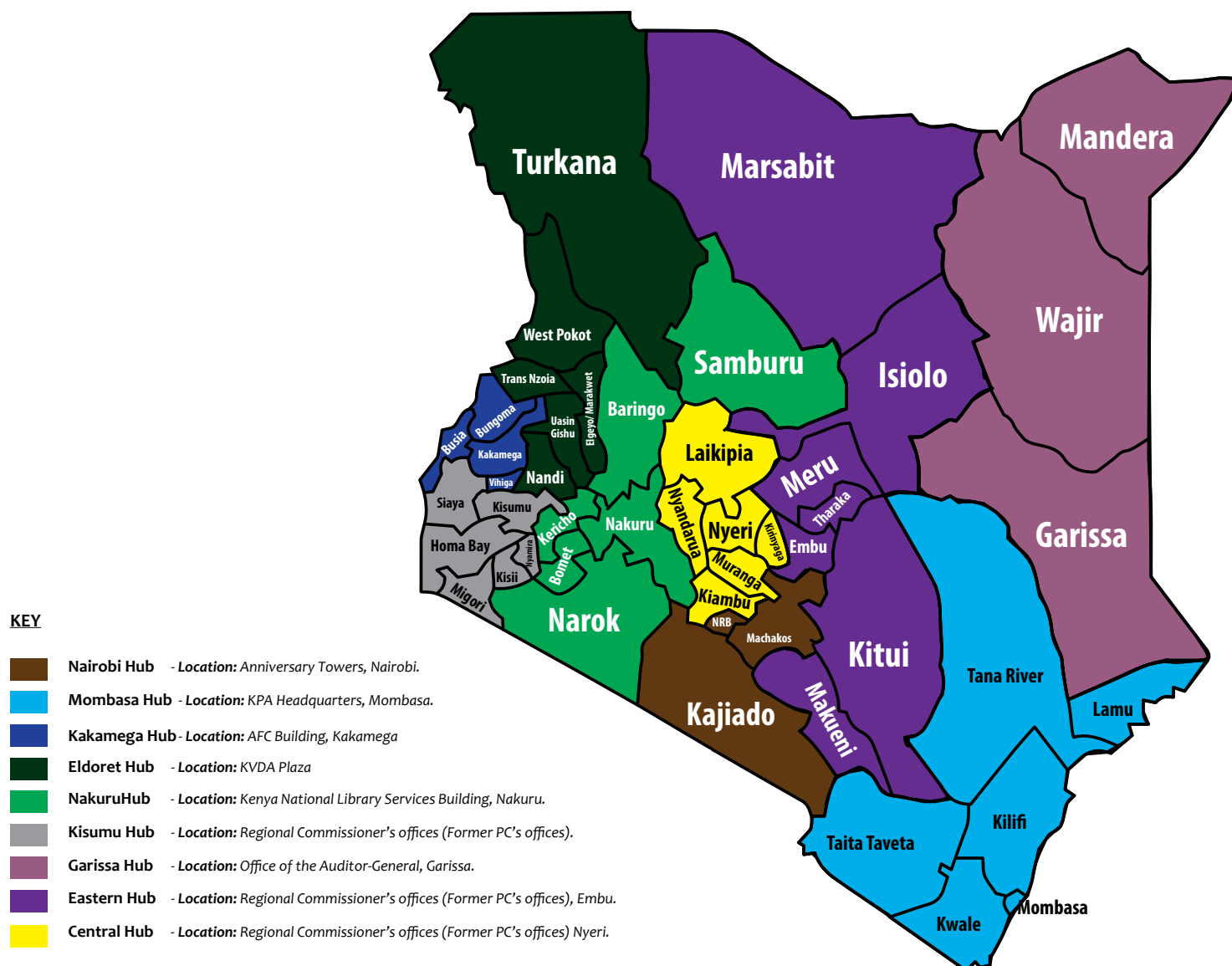
The
Audit Cycle

Organogram



COUNTY PRESENCE

OAG has nine Regional Offices (Hubs) which are very vital in the implementation of the Office's mandate. Through the establishment of our regional offices some positive aspects are accomplished i.e. getting continuous audit process to the ground, understanding of the audit dynamics of a client and establishing a strong rapport with our stakeholders. The Hub offices are as follow:



TYPES OF AUDIT

The Office carries out work that is of value addition in line with changing stakeholder requirements. To respond to this, we carry out the following types of audit:



Certification Audits

Certification Audits are carried out to provide assurance

on fiscal accountability. This audit also confirms compliance to laws and standards governing the accounting profession.



Continuous Audits

This refers to auditing on a consistent and continuous basis to provide assurance on managerial accountability. It involves the evaluation of management controls

and the operationalisation of board policies.



Performance Audits

Performance audits are conducted to show that resources have been acquired economically and utilised efficiently and effectively in order for the National and County entities to provide adequate services to the

citizens. Performance audit involves an in-depth analysis of specific issues relating to the audited entity's processes or functions. It includes assessment of how resources are utilised in relation to: economy, efficiency, effectiveness and equity.



Environmental Audits

These are audits dedicated to programmes, activities, systems and laws which have an impact on the environment. It involves an assessment of compliance with environmental laws, regulations, conventions and issues to do with sustainability (managing the environment well for the present and future generations). The aim is to determine whether the audited entities take environmental issues into consideration when performing their duties.



IT Audits

These are audits carried out to give assurance on the integrity of the IT systems and the information produced therein. IT audit involves the process of collecting and evaluating evidence to determine whether a computer system safeguards assets, maintains data integrity, allows organisational goals to be achieved effectively and uses resources efficiently.

Forensic Audits

Forensic Audits are conducted with the objective of detecting fraud, corruption or other financial improprieties. Such audits entail a

detailed scientific examination of records with a view of establishing facts of the matter, with the court process in mind. The evidence gathered must be sufficient to pass the rigorous court process. These reports assist the court to come up with fair and realistic judgements backed up by proof of material presented. It is very vital to note that not all forensic findings end up in court.

STAKEHOLDER ENGAGEMENT

The increased publication of our audit reports on the use of public funds that has dominated the media, highlights the public's amplified demand for transparency and prudence in the overall expenditure of public funds.

It is with this mind-set that the Office has designed various stakeholder engagement strategies tailored towards achieving the overall goal of educating stakeholders on the office's role and mandate, having continuous engagement and promoting accountability in the public sector.

Our Stakeholders include;



Media

The media play an integral part in keeping the public informed as they set the agenda and hold sway over the public's opinion. Whatever the media says can also bring about a paradigm shift in areas that may not have been highlighted in the past. With the public outreach at an all-time high, thanks to the increased

use of social media platforms, the media helps maintain the momentum /interest created in the utilization of taxpayer's resources.

The Office continuously engages with the media through various media workshops, for the improved understanding and simplification of reports for public consumption. The Office has also developed a media handbook to guide journalists on reporting audit findings.



The General Public

The Office strives to achieve its three pillars (certification of accounts, continuous audits and service delivery) to all, in line with its Constitutional mandate. The need for the taxpayers to ensure that they get value for money can be further enhanced by having the citizens involved in the management of public funds through public participation, thereby effectively tracing the shilling from where it hits the ground.



Parliament

Our audit reports are tabled in Parliament where they are deliberated upon by the various committees such as the Public Accounts Committee (PAC) and the Public Investments Committee (PIC). The Office strives to provide timely reports and expects Parliament to deliberate on them as well as ensure the recommendations are enforced by the audited entities. Through

these Committees, they can exert pressure on audited entities to ensure accountability of public resources. As Parliamentarians more often than not, change every five years, the need for proper engagement with them to better understand and interrogate the reports is of uttermost importance.

The Presidency



We continue to meet the Presidency's needs by updating it

on our performance, through the Annual Corporate Report. The Office also takes up audit of special projects as may be requested by the Presidency.

Audited Entities



These are the clients that the Office engages with as they are

the main users of the country's public resources. As outlined in the audit process, the auditors have a back and forth communication with the audited entities from the entry meeting right to the final audit report. The Office has approximately 1,177 audited entities. Constant engagement helps them to appreciate the role that the Office plays in terms of carrying out regularity/ financial, forensic audits of their accounts.

OAG staff



The organisation's overall image and reputation is carried by the staff themselves.

The Office ensures staff receive extensive training and capacity building such as the ongoing training on Teammate version 12 software, on a continuous basis aimed at developing their skills and building staff unity.

Civil Society Organisations (CSOs)



The Civil Society Organisations (CSOs) are usually vibrant and advocate for the rights of the people. For the Office, they can potentially play an integral role in lobbying and advocacy.

This can be through their demand for transparency and accountability in the management of public resources.

The Office has initiated strategies of working with like-

minded Civil Society Organisations for the benefit of the citizens.

Donors/Cooperating partners

These partners are largely focused on compliance with standards for uniform reporting as well as



capacity-building of staff for effective audits.

The Office always ensures that these needs are met through sustained

training and capacity-building Workshops.

The Office also meets membership obligations through regular payments to parent organisations that we subscribe to for professionalism of the auditing function.



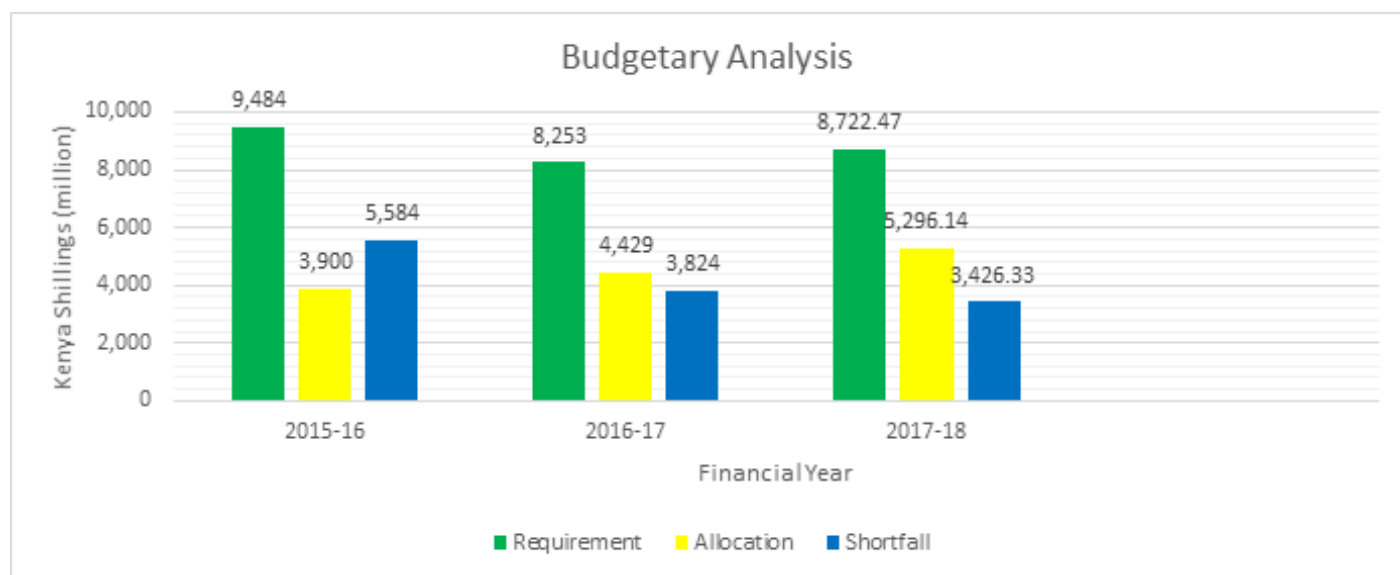
CHAPTER 2: OUR PRODUCTS

The products of the Auditor-General's work are audit reports which are submitted to Parliament or the relevant County Assemblies within three months after the

end of the financial year. In the execution of its mandate, the Office has however, experienced financial challenges, thus affecting timely compilation of audit reports.

The table below summarises the Office's budgetary requirement against the allocated resources:

Budgetary Allocation									
	2015-16			2016-17			2017-18		
Budget	Requirement Kshs. (Million)	Allocation Kshs. (Million)	Shortfall Kshs. (Million)	Requirement Kshs. (Million)	Allocation Kshs. (Million)	Shortfall Kshs. (Million)	Requirement Kshs. (Million)	Allocation Kshs. (Million)	Shortfall Kshs. (Million)
Recurrent	5,984	3,785	2,239	6,143	4,253	1,890	7,222.47	5,193.30	2,029.17
Development	3,500	155	3,345	2,110	176	1,934	1,500.00	102.84	1,297.16
Total	9,484	3,900	5,584	8,253	4,429	3,824	8,722.47	5,296.14	3,426.33



Budget Analysis

The financial challenges notwithstanding, the Office continues to effectively use the available resources to fulfil its mandate. The Office has, consequently, developed an Annual Operational Plan (AOP) to drive the audit function.

ANNUAL OPERATIONAL PLAN

This is a planning tool for audit purposes. It profiles the clients, identifies the resources required for timely and successful execution of an audit, using a risk-based audit approach. The audit plan uses a “drill-down” approach which focuses on “tracing the shilling to the ground”, by ensuring that final projects where the funds will be spent are audited.

The Annual Operational Plan (AOP) reflects the OAG’s adherence to International Standards of

Supreme Audit Institutions (ISSAIs) and International Organisation of Supreme Audit Institutions Governance (INTOSAI GOV) framework regarding audit planning, quality control, auditor’s response to risk assessment and entity risk management.

AUDIT

Article 229(4) of the Constitution of Kenya outlines the various accounts which the Auditor-General is expected to audit and report on. Furthermore, Article 229(6) stipulates that the Auditor-General should confirm whether public

money has been applied lawfully and in an effective manner. This means that apart from certification audits, the Auditor-General should also focus on performance audits.

CERTIFICATION AUDITS

The main constitutional mandate of the Auditor-General is to certify accounts of public entities. These funds include public debt, recurrent expenditure, development expenditure and consolidated funds. The tables below show certification audits for 2015/16 and 2016/17:

Table 1: Certification audits for 2015/2016 and 2016/2017

ENTITY	FINANCIAL YEAR	NO. OF STATEMENTS
CDF	2015/2016	290
Central Government	2015/2016	110
County Government	2015/2016	47
County Assembly Financial Statements	2015/2016	47
County Funds (Car loans, Mortgages, etc.)	2015/2016	35
State Corporations	2015/2016	251
Donor Funded Projects	2015/2016	160
Water Companies and Boards	2015/2016	80
Political Parties	2015/2016	3
ENTITY	FINANCIAL YEAR	NO. OF STATEMENTS
CDF	2016/2017	290
Central Government	2016/2017	109
County Government	2016/2017	47
County Assemblies	2016/2017	47
County Funds (Car loans, Mortgages, etc.)	2016/2017	55
State Corporations	2016/2017	246
Donor Funded Projects	2016/2017	164
Water Companies and Boards	2016/2017	83
Political Parties	2016/2017	5

The reason for the change in numbers of the statements for the financial year 2015/16 and 2016/17 is that there were additional new clients under County Funds and Donor funded projects.

SPECIALISED AUDITS

Apart from financial audits, the Office also carries out specialised audits, which focus on lawful and effective use of public resources, and the detection of fraud. They include performance audits that address concerns on value for money, environmental audits, IT audits and forensic audit.

Performance Audit Award

The department continues to play a critical role in ensuring that the public gets value for money in the utilisation of public resources. The good work of the department saw performance audit awarded the Best Prize, 2017 in Africa. ***The Provision of Mental Healthcare Services in Kenya*** report was voted the Best by a team of independent jury from Supreme Audit Institutions (SAIs) of the United Kingdom, Netherlands, Norway and Sweden.

This is the second time SAI Kenya has won the Prize. In 2012 the Office also won the Prize on a Performance audit that looked at ***Specialised Healthcare Delivery at Kenyatta National Hospital: Waiting-time for Cancer, Renal and Heart Patients.***

The award, sponsored by the Swedish National Audit Office (SNAO) recognizes the SAIs' efforts to produce performance audit reports that are of high quality, timely and professional. The aim

of the prize is to benchmark good practices in performance audits and to highlight efforts made by performance auditors.

Number of Special Audits carried out in 2017/2018

During the Financial year 2017/2018, the Office finalised 19 Special Audits as indicated below:

Procurement Audits

- ↳ Management of Claims/ Benefits – NHIF;
- ↳ NHIF - Tender for provision of Group Cover and Last Expense for Civil Servants, National Police and Kenya Prison Service;
- ↳ Water Dams/ Pans within Ministry of Water and Irrigation (MOWI);

Forensic Audit

- ↳ African Institute for Capacity Development (AICAD);
- ↳ Ministry of Agriculture, Livestock and Fisheries (CBK/ KPCU);

Performance Audit

- ↳ Management of the Green School Project;
- ↳ Implementation and Monitoring of Provisions on Local Content in Petroleum Extraction and Production in Kenya;
- ↳ Management of Cash Transfer Programme for Older Persons;

- ↳ Operationalization of Constituency Industrial Development Centres;
- ↳ Implementation of Efficient Lighting Project by KPLC;
- ↳ Management of Technical Institutions by the Ministry of Education;
- ↳ Provision of Financial and Business Support to Women by Women Enterprise Fund;
- ↳ Occupational Safety of Workers in Workplaces Kenya;
- ↳ Provision of Sewerage Services in Nairobi City by Athi Water Services Board;
- ↳ Provision of Sewerage Services in Kisumu City by Lake Victoria South Water Services Board;
- ↳ Provision of Mental Healthcare Services in Kenya;
- ↳ National School Upgrading Programme;
- ↳ Effectiveness Measures put in place by KWS in protecting Wildlife;

IT Audit

- ↳ IEBC- Examination of Eight ICT Related Contracts.



QUALITY ASSURANCE



The Office offers technical support to the audit function. This support is in terms of training staff on new audit methodologies, developing auditing manuals and ensuring that audit reports are of the required quality and meet the appropriate audit standards such as the ISSAIs.

Financial Audit Manual (FAM) & Compliance Audit Manual (CAM)

Since 2012, the Office of the Auditor- General (OAG) has used the Regularity Audit Manual (RAM) which contained the audit methodology that guided auditors while carrying out audits. RAM was a combination of both financial and compliance audits.

However, after a series of quality assurance reviews that were done for various Supreme Audit Institutions (SAIs) across the English-speaking African region from 2012 to 2016; the African Organization of English-speaking Supreme Audit Institutions (AFROSAI-E) realised that RAM was very bulky, the working papers were too detailed and lacked objectives and specific guidance on how they should be completed.

AFROSAI-E, with input from several SAI representatives decided to split RAM so as to have separate audit manuals i.e. Financial Audit Manual (FAM) and Compliance Audit Manual (CAM). FAM is based on ISSAI 200- *Fundamental Principles of Financial Auditing* and CAM ISSAI 400- *Fundamental Principles of Compliance Auditing*.

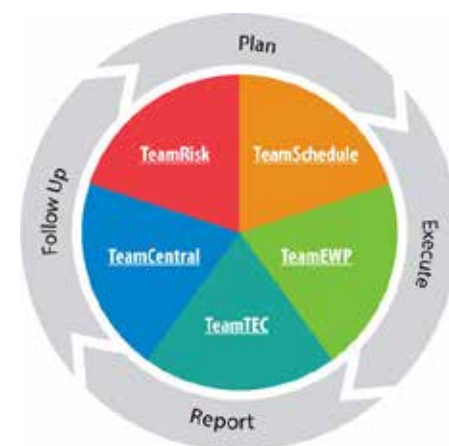
Various countries in the AFROSAI-E region including Kenya, were involved in the process of developing FAM. CAM was developed by AFROSAI-E with assistance from the Norwegian Audit Office. The draft Manuals were given to SAIs to conduct pilot audits with the aim of identifying gaps and giving input to AFROSAI-E for incorporation in the final process. During the AFROSAI-E Technical Update of November 2017, the finalized manuals were given to the SAIs for customization and roll-out.

There was a customization workshop held in South Africa in April 2018 where SAIs were taken through the customization process of the manuals. As OAG Kenya rolled out Teammate in September 2017, the *Understanding the Entity* phase of FAM was uploaded and used to test out FAM in the audits of 2016-17 financial statements. This presented the auditors with a chance to get a feel of the manual and give input during customization of the same. OAG Kenya has opted for a combined approach in the audits where the two manuals have been combined and given rise to a new manual - F!CAM. Although the approach is combined, the working

papers are distinct and compliance audit will be done during continuous audits. The findings from the two audits will culminate in a combined Auditor's Report as per OAG mandate in Article 229 of the Kenyan Constitution.

The FAM will address Article 229 (4) - financial audit, while CAM will address Article 229(6) - lawfulness and effectiveness in use of public funds. CAM, as a stand-alone compliance audit methodology is currently being used by the Procurement Audit Unit and will be used on any other audits that will require a stand-alone compliance audit report. The two customized manuals – FAM and CAM - and the working papers have been uploaded to TeamMate ready for use in 2017/18 audits.

Audit Automation



The Office has now embraced full automation of the auditing process following the formal launch and roll out of the TeamMate Version 12 software Audit Management System (AMS) on 7th November 2017. The AMS is a suite and has all the requisite modules that help

auditors manage the entire audit value chain; commencing with planning, execution, reporting and follow-up. TeamMate Version 12 is an upgrade of the earlier version 8 and is server-based unlike the former that was individual laptop based.

As a result of its centralized server approach, version 12 breaks the 'auditor silo' and information is readily accessible to all the team members in a project and throughout its life cycle.

The reviewers can therefore provide insightful guidance to the Team members on a timely and efficient file unlike the physical file on version 8 which were dependent on the submission of a file.



Benefits of TeamMate

1. Reviewing audits is a continuous process, value is imparted on the audit effectively and efficiently;
2. Monitoring staff performance on the assigned work is now real time;
3. Flexibility in working, one needs not be physically present in the Office to undertake their responsibilities.

SUPPORTING PARLIAMENT AND COUNTY ASSEMBLIES PLAY OVERSIGHT ROLE

In order to ensure accountability within the public sector, our audit reports are presented to the peoples' representatives, that is, Parliament and County Assemblies.

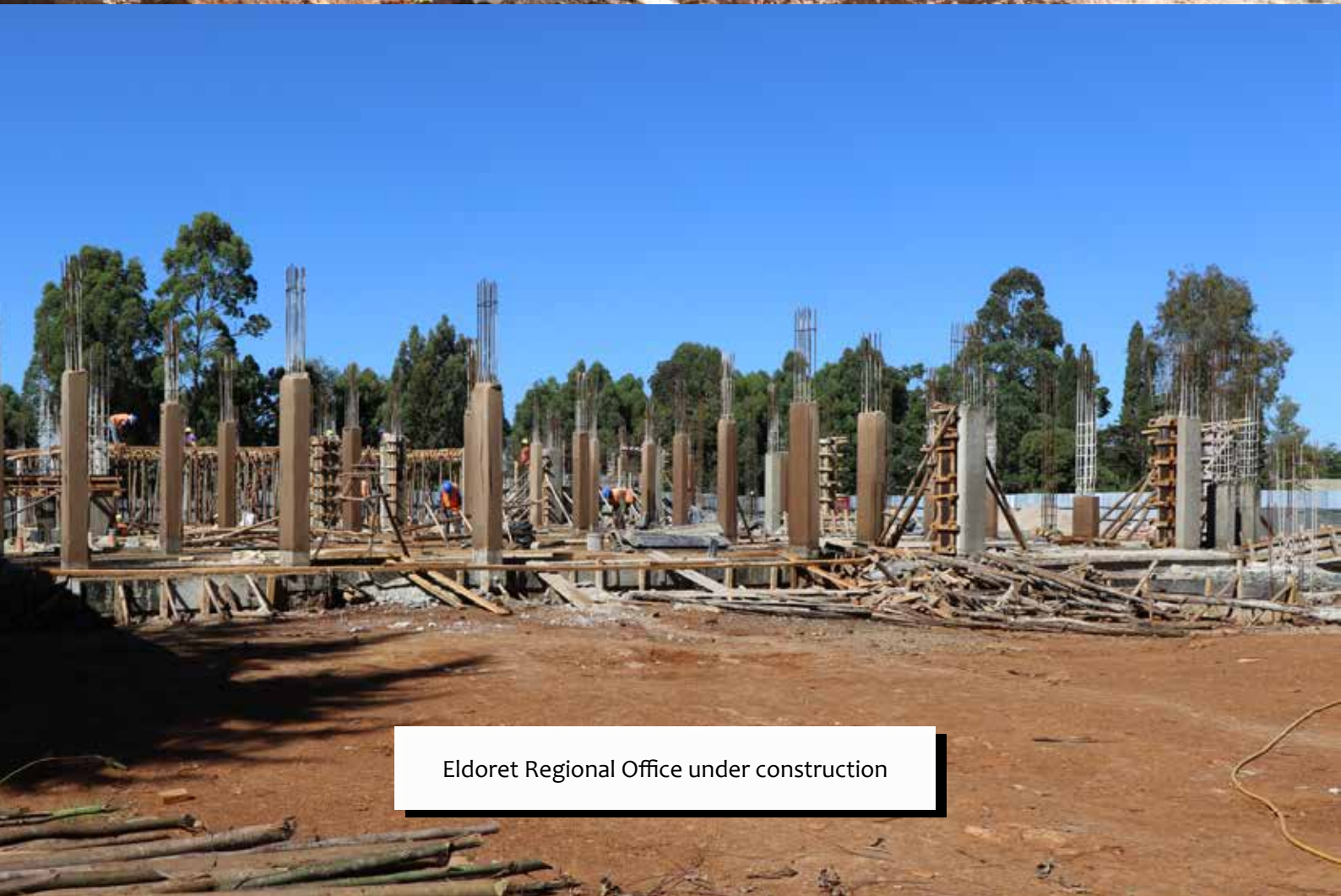
It is important that members of these legislative bodies are provided with the necessary support through capacity building and liaison, to effectively discharge their mandate. During the year, the Office conducted a capacity-building workshop for Members of Parliament, to enhance their ability in understanding audit reports and for improved scrutiny during hearings.



A County Assembly in session



The ongoing construction of Kakamega Regional Office



Eldoret Regional Office under construction

CHAPTER 3: CORPORATE SERVICES

The Corporate Services Department provides non-audit professional support towards the achievement of OAG's core mandate. These services are domiciled in various divisions such as Human Resources, Administration, Procurement, Information Communication Technology (ICT), Legal Affairs and Public Relations & Communications.

PEOPLE



The Office implements and oversees training and staff development programmes to ensure employees are equipped with the necessary competencies and skills in their various capacities and deployments.

In this undertaking, the Office exposed employees to various career development programmes i.e in Budget as a Control Tool in Audit, Use of TeamMate software in audit, Procurement Audits, Report Writing, amongst others.

People represent the most



flexible resource available to an organisation. Currently the Office has a total of 1,566 employees, as at June 2018, who are deployed equitably in all the sectors.

Deploying people in the right numbers, with the right skills and attitude in the right place is fundamental to organisational success. In this regard, the Office has collapsed the silos in the organisation and replaced them with an organisation structure that will expose all staff in equal measure to all auditable entities prescribed in the Constitution.

Status of staff at OAG: 2017/18

Staff	Total
Number of staff recruited	288
Number of staff that have resigned	4
Number of staff that have retired	23
Number of staff that have passed away	7

Provision of Medical Insurance to staff

The Office realises the need to keep a healthy and fit workforce, and of sound mental state, who are capable of tackling their duties effectively. In this regard, the Office has put in place a comprehensive medical scheme covering both

out and in-patient services for



staff and their legal dependents subject to the prevailing annual entitlements per family.

FINANCING OAG OPERATIONS

Amid financial challenges, the Office has ensured that the scarce financial resources are efficiently utilised by ensuring strict adherence to internal controls, processes and procedures as well as the Public Finance Management Act (PFM Act), 2012, Public Procurement and Assets Disposal Act, 2015, and ensuring that other relevant regulations and guidelines are duly followed.

The new constitutional dispensation with two levels of government and the expanded mandate of the Office of the Auditor-General has meant that the Auditor-General has to audit the National Government and 47 County Governments. The financial resources required to enable us undertake effective audits and meet the constitutional deadline are huge.

The Office also desires to establish Offices at the Counties in-order to execute efficient audits and enhance independence. A huge development budget is required to execute these capital projects.

SUPPLY CHAIN MANAGEMENT



Over the years, OAG has continued to ensure that all procurement is done within the tenets of the procurement law.

Following the recruitment of procurement professionals, the Office has registered marked improvements in promoting good governance and accountability within the internal systems.

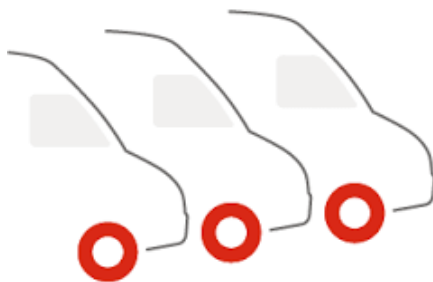
One of the key milestone during the year has been the ability of the Office to utilise about 92% of the funds assigned in the Procurement Plan.

TRANSPORT AND LOGISTICS



The Office provides support services in terms of staff transport and logistics coordination. The Office manages a fleet of 105 vehicles as at the end of June 2018. The vehicles and staff (drivers) are spread across

all the nine regional offices.



In the period 2017-2018, OAG increased its fleet distribution in which more focus was in the regional offices. This approach was adopted since the regional offices have low fleet allocation, higher challenges in fleet servicing and repairs and the need for all-terrain tough fleet allocation for long distance and rugged terrain travel. The approach has greatly improved effective fleet availability in the regions. The average effective fleet availability as at June 2018 was 89% and 78% for the regional offices and Head Office-Nairobi, respectively.

In this period, in an effort by the Office to modernise its fleet, the Office disposed a total of 23 vehicles which had been recommended by the Chief Mechanical and Transport Engineer (CMTE) for boarding. The Transport Section continues to adopt new approaches and strategies in managing the emerging challenges in the provision of transport service and logistics support in the Office of the Auditor-General.

PROVISION OF OFFICE SPACE

The Public Audit Act 2015, Section 4(3) requires the Auditor-General

to ensure reasonable access to all parts of the republic. This means



that OAG must strive to devolve its audit presence to cover both national and county level while ensuring continuous audit presence at the grass roots.

In an effort to follow the shilling where it hits the ground, OAG has embarked on critical projects that will facilitate its auditors in their work.

The key projects are:-

- I. The Office of the Auditor-General has constructed a two-storey building for Garissa regional office which became operational on 15th December 2017.
- II. Construction of a regional office in Kakamega which began in June 2017. The building is expected to be complete by end of 2018.
- III. OAG acquired one-acre plot from the Kenya Railways for construction of its Eldoret regional offices. The works began on 30th April 2018 and it's expected to be completed in May 2019.

RISK MANAGEMENT



The Office continuously reviewed the systematic identification of all risk exposures consisting of financial, operational, compliance and emerging information technology related risks, and the strategies which are in place to mitigate the impact of the crystallization of these risks on the achievements of the set strategic objectives.

The Office has incorporated a robust system to ensure that risks are adequately identified and effectively mitigated to ensure the integrity of financial and operational information, safeguarding of assets and compliance with laws and other internal and external requirements.

The Office has adequate internal control system in place to ensure that its mandate is delivered effectively and efficiently. Adequate resources have also been deployed to the key areas of the operation to ensure seamless delivery of services.

The Office reviewed the adequacy of the governance structure to deliver on the mandate of the Office in a transparent and accountable manner. The directorate also determined whether the existing organisational structure is aligned

to the strategic objectives which supports the achievement of the mandate.

SUSTAINING THE TECHNOLOGY PUSH

As a continuation of the ICT Modernisation programme, the Office continued investing heavily on ICT with a special emphasis on updating or upgrading our security, communications and networking technologies. The office implemented the following systems: -

1. New Firewall and Network Admission Control system
2. Upgraded our Core Switch
3. Upgraded our internet and WAN
4. System Center Configuration Manager
5. MS Azure Cloud Services
6. NetApp Storage Upgrade

New Firewall and Network Admission Control System

Due to the continued threats to

our environment, we invested in a new, fully integrated firewall that focuses on threats and has a unified management capability. This firewall uniquely provides advanced threat protection before, during, and after attacks.

As a complement to the firewall, we also invested in a Network Admission control system device that allows us analyze systems attempting to access the network and prevents vulnerable computers from joining the network.

Core Switch Upgrade

During the year, most of our networking equipment reached what in the technology field is referred to as “end of Life” (the period when the Manufacturer of the Equipment stops providing support for the Equipment). Due to a lack of adequate allocation of funds, the Office was unable to replace all our old or aging equipment. We therefore took a phased approach in the replacement of our ICT networking equipment and started with our core Infrastructure, namely the Core Switch and Core Router.



Upgraded our internet and WAN Bandwidth

During the year, we increased our Internet speeds by 50% at the Headquarters and by 100-500% in some of our regional offices. It is projected that by the end of this exercise, we would have upgraded all our sites both in Nairobi and regional offices with these new speeds.

Microsoft System Centre Configuration Manager

The Office also rolled out Microsoft System Centre Configuration Manager. With this system, we are able to centrally manage our datacentre, user devices, and infrastructure. This system has allowed us to manage secure and scalable software deployment, compliance settings management and provide a comprehensive asset management for servers, desktops, laptops, and mobile devices.

MS Azure Cloud Services

We invested in Azure Cloud Services that allows us have an alternate site, to host and run OAG applications.

NetApp Storage Upgrade

We also doubled our storage capacity to allow for more to be stored in our systems.

However, we were not able to invest and renew licenses of some of our critical systems due to a reduction of funds by the National Treasury. This also affected our modernisation programme and the most affected was the replacement of our most basic work tool, laptops. In the

period under review, 50% of these laptops had been used by staff for more than 5 years (the industry standard is 3 years).

LEGAL ADVISORY SERVICES



During the period, Legal Services offered technical support to all departments in the enforcement of the laws, full management of legal matters relating to Contracts, Agreements, Legal Notices and Gazette Notices. We also offered general legal advice upon request by OAG and its stakeholders.

The Office is also proactive in prevention of breaches of the law by training officers on the need to respect the law, to ensure probity and propriety by sensitizing officers on the need to conduct themselves in accordance with high professional standards of behaviour and in a manner that does not bring the Office into disrepute.

Staff in the legal unit have attended several trainings to improve their functionality in the Office and to keep them abreast on recent developments in law and other issues affecting the areas of compliance auditing.

An additional member of staff was deployed to the unit to increase efficiency and reduce workload.

COMMUNICATION PROGRAMMES

The Office of the Auditor General has attained a solid reputation and positive image through an effective execution of its communication strategy. OAG has reduced the communication gap with key stakeholders, ultimately leading to an enhanced reputation.

The Office has devised interactive and creative ways of engaging employees knowing that they are the biggest asset for an organization. As a result, employees continue to renew their commitment and rally behind OAG mission.

During the year, we successfully adopted a new logo which reinforced our new identity following the enactment of the 2010 Constitution.

Planned communication activities played a major role in the roll-out of Teammate (audit software), ensuring it got the buy-in of staff, and flawless launch. Staff were actively engaged in various communication programmes before, during and after the launch. Information was shared in good time. We prepared various user and instructional materials to ensure maximum uptake.

In promoting the impact of audit reports to the citizens, the Office continues to build the capacity of journalists for better understanding and accurate reporting of audit findings. OAG in collaboration with GIZ, has been able to maintain goodwill with journalists by offering

training on the audit process; exposing them to audit jargons for better understanding of audit findings, for the benefit of the citizens by extension. During this period 77 journalists were trained on how to interpret our reports and give reliable information in regards to the findings. More journalists need to be trained on a continuous basis, but funding has been a challenge.

The Office also continues to publish an internal Magazine, **“OAG Perspectives”** and **“Supreme Auditor”**, targeted at external stakeholders. It also publishes the **Annual Corporate Report**. These, together with improved presence of the Office on social media platforms,

are avenues through which the Office endeavours to address stakeholder’s needs.

One of the 3 strategic pillars that enable the Office achieve its mandate in ensuring accountability of public resources is service delivery to all kenyan.

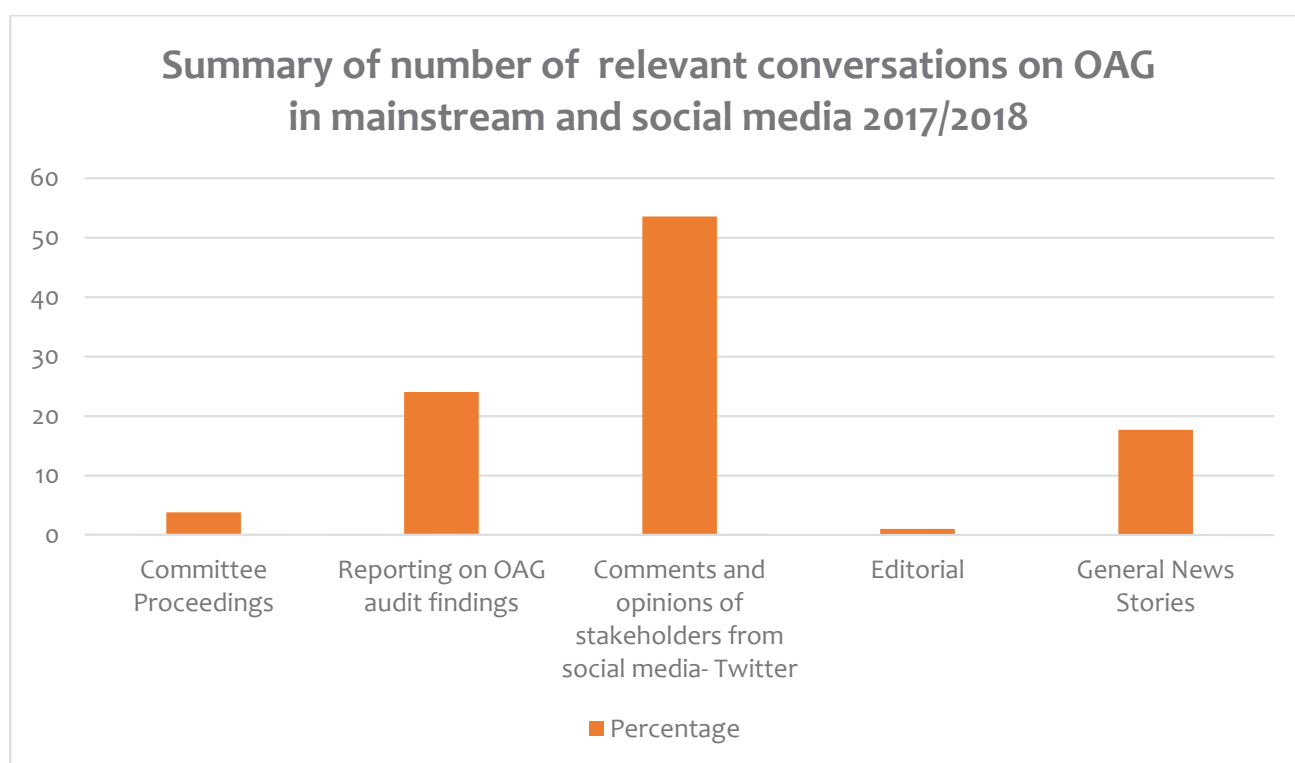
The Office strives to enhance its overall visibility to the general public and uses mainstream and social media responses to gauge its impact.

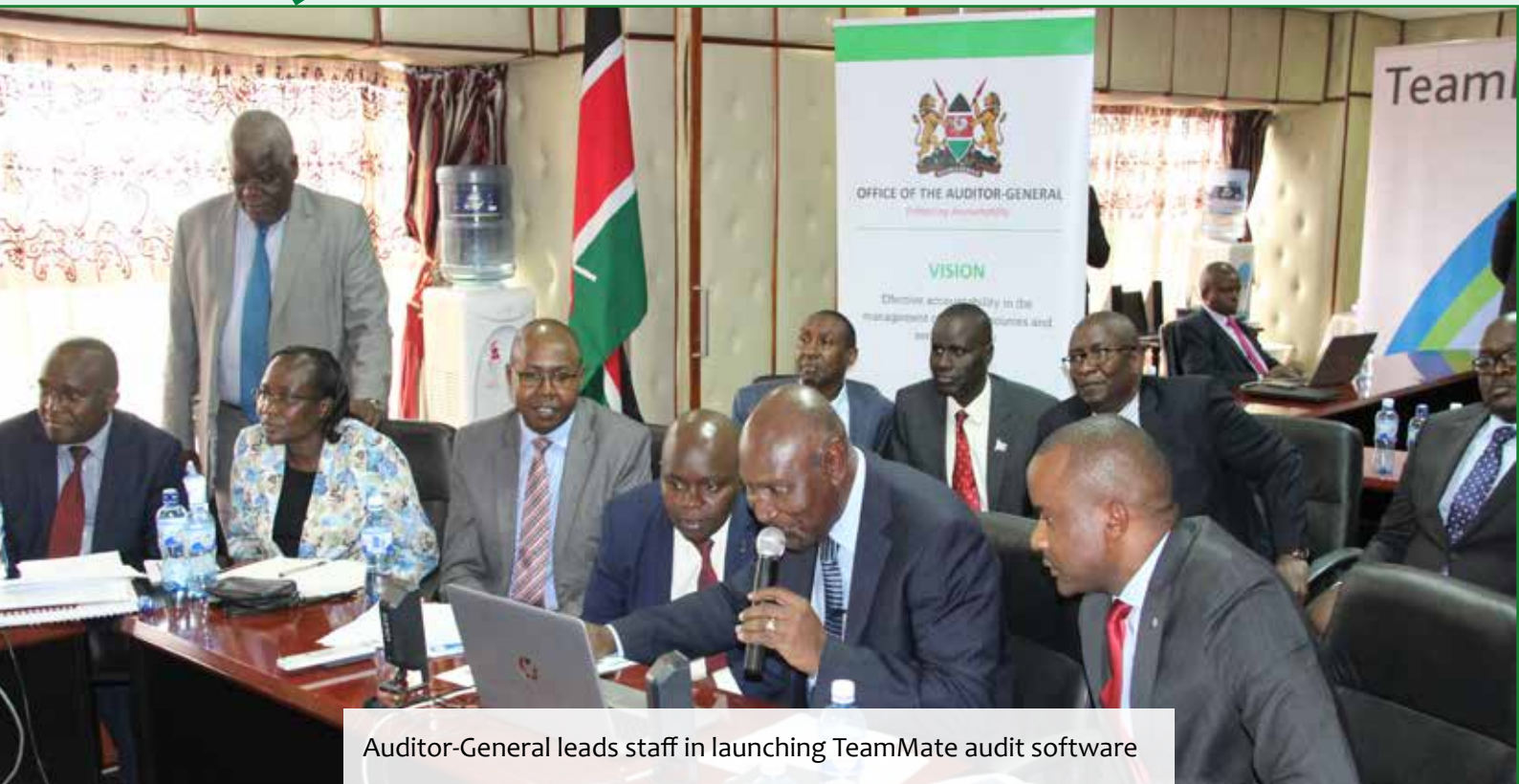
Illustrated below is the summary highlighting the frequency at which the Office makes its mark in the Media’s agenda.

Media Conversations Touching On The Office of The Auditor-General’s Mandate For July 2017 – June 2018

Table: Summary of number of relevant conversations on OAG in mainstream and social media 2017/2018

Source of conversation	Frequency	Percentage
Committee proceedings	166	4
Reporting on OAG audit findings	1057	24
Comments and opinions of stakeholders from social media	2355	54
Editorial	44	1
General news stories - The Standard, Daily Nation, The Star, Kenya Updates, Kenya Today, Kenya News, People Daily.	776	18
Total	4,398	100





Auditor-General leads staff in launching TeamMate audit software

CHAPTER 4: INTERNATIONAL ENGAGEMENTS

LEADERSHIP AT AFROSAI

The Office is honoured to serve in various capacities at the global arena. The Auditor-General, for instance, serves as the President of the AFROSAI's Technical Committee of Knowledge Sharing Management and as the Vice –President of the Office of AFROSAI General Assembly. In his capacity, he is coordinating a Cooperative Audit on Illicit Financial Flows (IFFs) with a focus on corruption which is being carried out by 12 African Supreme Audit Institutions (SAIs); five from Francophone and seven from the Anglophone countries.

The objective of the audit is to establish the extent to which African countries have domesticated and implemented two international treaties; The African Union Convention on Preventing and

Combating Corruption (AUCPCC) and the United Nations Convention Against Corruption (UNCAC).

During the period under review, the Office also signed a Memorandum of Understanding with the National Audit Chamber (NAC) of the Republic of South Sudan for provision of technical support. The objective of this project is to maintain and reinforce key audit related capacities for the NAC of South Sudan and improve their Public Financial Management Administration and Accounting Systems. The arrangement will also enable the SAI South Sudan to meet its targets as set out in its strategic plan for 2017-2022. The project receives financial support from the INTOSAI Development Initiative (IDI).

Under the Kenya Petroleum

Technical Assistance Programme (KEPTAP) a project of the World Bank, the Office has been a beneficiary of various capacity building/training programmes conducted with a view to equip various actors with the requisite knowledge in the Petroleum value chain. The extractive industries sector is an emerging and complex field whose emergence led to the establishment of a unit that specializes in energy audits.

RESOURCE PERSONS

The Office continues to provide support to other SAIs, as part of the contribution to the membership of INTOSAI and AFROSAI-E. The capacity-building support are mainly in the subject areas of Leadership and Management, Auditing, Communications and Stakeholder Engagement and Human Resource.



In our contributions to INTOSAI, AFROSAI and in our daily operations we also work closely with various development partners with interest in Public Finance Management and use of public resources. These include The World Bank, GIZ, Swedish International Development Agency, and Danish International Development Agency, Swedish National Audit Office (SNAO), amongst others.

CHAPTER 5:

Article 226 (4) of the Constitution of Kenya provides for the accounts of Office of the Auditor-General to be audited and reported on by a professionally qualified accountant appointed by the National Assembly.

The National Assembly is yet to appoint an auditor, but attached is the unaudited financial statement for the Office for 2017/18.



FINANCIAL STATEMENTS



OFFICE OF THE AUDITOR GENERAL
Reports and Financial Statements
For the year ended June 30, 2018

V. STATEMENT OF RECEIPTS AND PAYMENTS

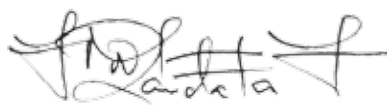
	Note	2017-2018	2016-2017
		Kshs	Kshs
RECEIPTS			
Transfers from National Treasury	4	4,578,446,059	4,170,600,000
Transfers from Other Government Entities	5	-	-
Proceeds from Sale of Assets	8	-	-
Other Revenues	11	186,360,165	203,784,340
TOTAL REVENUES		4,764,806,224	4,374,384,340
PAYMENTS			
Compensation of Employees	12	3,003,867,555	2,522,698,802
Use of goods and services	13	1,170,259,234	1,235,041,256
Subsidies	14	-	-
Transfers to Other Government Units	15	-	-
Other grants and transfers	16	1,028,919	1,088,073
Social Security Benefits	17	1,222,400	9,170,600
Acquisition of Assets	18	540,128,045	578,530,715
Finance Costs, including Loan Interest	19	-	-
Other Expenses	21	-	-
TOTAL PAYMENTS		4,716,506,153	4,346,529,446
SURPLUS/DEFICIT		48,300,071	27,854,894

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 26th Sep 2018 and signed by:



DAG Corporate Services

Agnes Mita



Ag. Director Finance

Dr. CPA Nebert Mandala

ICPAK Number: 4366

OFFICE OF THE AUDITOR GENERAL
Reports and Financial Statements
For the year ended June 30, 2018

VI. STATEMENT OF ASSETS AND LIABILITIES


	Note	2017-2018	2016-2017
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	22A	29,742,106	108,326,240
Cash Balances	22B	3,988,896	4,973,716
Total Cash And Cash Equivalents		33,731,002	113,299,956
Accounts Receivables - Outstanding Imprest and Clearance Accounts	23	69,732,890	15,506,084
TOTAL FINANCIAL ASSETS		103,463,892	128,806,040
LESS: FINANCIAL LIABILITIES			
Accounts Payables - Deposits	24	38,024,066	107,767,813
NET FINANCIAL ASSETS		65,439,826	21,038,227
REPRESENTED BY			
Fund balance b/fwd	25	17,139,755	- 49,088,967
Prior year adjustments	26	-	42,272,300
Surplus/Deficit for the year		48,300,071	27,854,894
NET FINANCIAL POSSITION		65,439,826	21,038,227

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 26th Sep 2018 and signed by:



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OFFICE OF THE AUDITOR GENERAL
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VII. STATEMENT OF CASH FLOWS

	Note	2017-2018	2016-2017
CASH FLOW FROM OPERATING ACTIVITIES		Kshs	Kshs
Receipts for operating income			
Transfers from National Treasury	4	4,578,446,059	4,170,600,000
Other Revenues	11	186,360,165	203,784,340
		4,764,806,224	4,374,384,340
Payments for operating expenses			
Compensation of Employees	12	3,003,867,555	2,522,698,802
Use of goods and services	13	1,170,259,234	1,235,041,256
Other grants and transfers	16	1,028,919	1,088,073
Social Security Benefits	17	1,222,400	9,170,600
Finance Costs, including Loan Interest	19	-	-
		4,176,378,108	3,767,998,731
Adjusted for:			
Changes in receivables		-	-
		54,226,806	13,992,887
Changes in payables		-	-
		69,743,747	5,417,287
Adjustments during the year	26	-	42,272,300
		3,898,472	
Net cashflow from operating activities		460,559,091	629,247,735
CASHFLOW FROM INVESTING ACTIVITIES			
Proceeds from Sale of Assets	8	-	-
Acquisition of Assets	18	(540,128,045)	(578,530,715)
Net cash flows from Investing Activities		(540,128,045)	(578,530,715)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Domestic Borrowings	6	-	-
Proceeds from Foreign Borrowings	7	-	-
Repayment of principal on Domestic and Foreign borrowing	20	-	-
Net cash flow from financing activities		-	-
NET INCREASE IN CASH AND CASH EQUIVALENT		79,568,954	50,717,020
Cash and cash equivalent at BEGINNING of the year		113,299,956	62,582,936
Cash and cash equivalent at END of the year		33,731,002	113,299,956

OFFICE OF THE AUDITOR GENERAL
Reports and Financial Statements
For the year ended June 30, 2018

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 25th Sep 2018 and signed by:



DAG Corporate Services
Agnes Mita



Ag. Director Finance
Dr. CPA Nebert Mandala
ICPAK Number: 4366

OFFICE OF THE AUDITOR GENERAL
Reports and Financial Statements
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VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

Revenue/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation Difference to Final Budget
	a	b	c=a+b	d	e=c-d	f=d/c %
RECEIPTS						
Exchequer releases			5,091,104,126	4,578,446,059	512,658,067	90%
Other Receipts –AIA	0	0	205,000,000	186,360,165	18,639,835	91%
Total Receipts	0	0	5,296,104,126	4,764,806,224	531,297,902	90%
Payments						
Compensation of Employees	0	0	3,243,498,542	3,003,867,555	239,630,987	93%
Use of goods and services	0	0	1,424,172,350	1,170,259,234	253,913,116	82%
Other grants and transfers	0	0	2,000,000	1,028,919	971,081	51%
Social Security Benefits	0	0	1,222,400	1,222,400	0	100%
Acquisition of Assets			625,210,834	540,128,045	85,082,789	86%
Grand Total	0	0	5,296,104,126	4,716,506,153	579,597,973	89%
Surplus/Deficit	0	0	0	48,300,070	(48,300,070)	

(a) Commentary on significant underutilization (below 90% of utilization) and any overutilization (above 100%)

- Use of goods, Other grants and Acquisition of Assets absorption rates were 82%, 51% and 86% respectively occasioned by the fact that the last exchequer request of Kshs 200 Million in June 2018 was not honoured.*
- The changes between original and final budget were as a result of reductions in the final budget amounts by the National Treasury through Supplementary Budgets.*

OFFICE OF THE AUDITOR GENERAL
Reports and Financial Statements
For the year ended June 30, 2018

The entity financial statements were approved on 26th Sep 2018 and signed by:



DAG Corporate Services

Agnes Mita



Ag. Director Finance

Dr. CPA Nebert Mandala

ICPAK Number: 4366

CONTACTS

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Office of the Auditor-General Kenya



Office of the Auditor-General Kenya