



# Supreme Auditor

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Issue 02



**Measuring the impact of Audit  
Recommendations**

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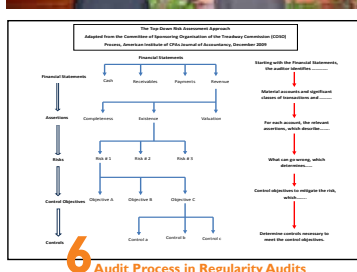
## Editor's note

Our esteemed readers and stakeholders, the Office of the Auditor-General welcomes you to the second edition of *Supreme Auditor*. In this Issue we capture the election of the Auditor-General Mr Edward Ouko to two very key positions in the African Organisation of Supreme Audit Institutions (AFROSAI). He was elected Vice President of the Office of AFROSAI General Assembly and President of one of the two critical Technical Committees of the AFROSAI on Knowledge Sharing and Management for a period of six years.

Also in this Issue, Deputy Auditor-General David Gichana takes us through how to measure the impact of audit recommendations on the lives of the citizens, as Office of the Auditor-General leverages on ICT to focus on continuous auditing of public resources. Acting Director of ICT Justus Ongera gives more insights on this.

The verification of Assets and Liabilities in the counties is a critical exercise that will ensure the net worth of the devolved units is known. The progress of this exercise is extensively covered here. Accountability of public resources requires concerted efforts and our guest writers from the Civil Society share the role of Non-State Actors in public resource accountability. These and other stories form the content of this edition.

Enjoy your copy.  
Peter Opiyo



# Foreword by the Auditor-General



**T**he Office of the Auditor-General continues to carry out its mandate with vigour in its resolve to enhance accountability in the public sector. Article 229 of the Constitution of Kenya bestows on the Office an expanded mandate in terms of the number of entities to be audited. The Charter also introduces another aspect of confirming whether public resources have been applied effectively and lawfully.

This introduces a new concept of auditing, requiring the Auditor-General not only to look at the fiscal and managerial accountability aspects of auditing, but to also confirm that the programmes implemented lead to results and outcomes that positively transform the lives of our people

My Office therefore, has the responsibility of giving assurance to *Wanjiku* that her resources have been used effectively and lawfully.

In order to deliver on our mandate, the Office has developed an Audit Operation Plan (AOP) using Risk-Based Audit approach. The plan employs 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. To start this off, we shall first focus on the Education and Health, as they are core-spending sectors.

The AOP has also effectively matched the annual audit work viz-a-viz the time, personnel and financial resources required to effectively carry OAG audit activities.

The AOP matches the Office of the Auditor-General's functions 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.

As we carry out our mandate the Office is employing the following three strategic pillars:

## **a) Certification of Accounts to assure fiscal responsibility**

Certification audit responds to the core mandate of certifying accounts at national and county levels and expressing an opinion as to whether they are prepared in accordance with the applicable financial reporting framework and/or statutory requirements.

The end product of this exercise are annual audit reports on each entity that are presented to Parliament and the relevant County Assemblies.

## **b) Continuous audit presence to assure on managerial accountability**

Continuous audit ensures that the Office is proactive, preventive and deterrent to fraud & corruption, wastage and abuse of public resources. This requires the auditor to constantly be on the ground to continuously assess the risks brought about by the evolving environment so as to perform “real time” transactions testing and data analysis that enable timely recommendations; respond instantly to issues of national, county governments and any public concerns that require immediate audit or investigation; optimize use of audit resources while increasing audit activity and improve financial systems and business processes for effective risk management, control and governance.

## **c) Performance audit to assure on service delivery to Kenyans**

This is audit work responding directly to the Bill of Rights and social rights of Kenyans that will be met through development and implementation of programmes such as health, clean and safe water, education, housing and social security.

We respond to the economy, efficiency

and effectiveness with which the resources are utilised to deliver services to the public. This Office assesses whether the programmes implemented lead to results, outputs and outcomes that positively transform the lives of citizens.

The products of this audit are performance audit reports which are issued at the end of the audit exercise.

The Office is increasingly being recognized regionally and globally, and this was evident during the 13<sup>th</sup> General Assembly of African Organisation of Supreme Audit Institutions (AFROSAI) held in Sharm El Sheik, in the Arab Republic of Egypt in October 2014. During the meeting the Auditor-General was elected Vice President of the AFROSAI General Assembly and Chairman of one of the two critical Technical Committees of the AFROSAI on Knowledge Sharing and Management for a period of six years.

The AFROSAI General Assembly is the Supreme Organ of the Organisation which brings together Auditor-Generals from 53 countries in Africa including all language Sub-Linguistic Groups from the Anglophone, Francophone and the Arab speaking, and is held after every 3 years.

No doubt therefore, that the elections put on the shoulder of SAI Kenya the heavy burden of putting in place watertight measures for effective oversight of public resources.

It therefore behoves all of us to work towards better management and accountability of resources. The media, civil society and the citizens are expected to play a critical role in demanding for accountability. My Office is willing to partner with like-minded groups as well as individuals to ensure the public gets value for money.

We are also leveraging on ICT to conduct continuous and timely audits. Consequently, the Office is investing in ICT infrastructure and audit tools, training staff members, equipping them with the necessary tools and equipment, to conduct smart audit.

A handwritten signature in blue ink, appearing to read 'E. Ouko'.

**Edward R.O. Ouko, CBS**  
Auditor-General



# New Deputy Auditors-General appointed

By Philip Owidi



Mr. David Gichana

Mr Sylvester Kiini and Mr David Gichana have been appointed Deputy Auditors-General (DAGs) as the Office of the Auditor-General strives to enhance its capacity in service delivery.

The two were appointed by the Auditor-General, Edward Ouko after a thorough interview process conducted by the Kenya National Audit Commission. They emerged successful from a group of six candidates.

Before their appointments the two served as Directors of Audit. Mr Kiini had served as Director since 2008 while Mr Gichana was a Director from 2010.

Mr Kiini holds MBA in Strategic Management and a Bachelor's Degree in Commerce (Accounting Option) while Mr Gichana has MBA in Finance and a Bachelor of Science (International Business Administration-Accounting Option) degree.

They are practicing accountants, meaning they are members of the Institute of Certified Public Accountants of Kenya (ICPAK). Mr Gichana is also a member of Kenya Institute Management and a regional financial trainer. Both Mr Kiini and Mr Gichana spearheaded the development of the Office's Operation Plan.

The two now join the top management of the Office which has Mr Ouko as the Chair. Other Deputy Auditors-General are Agnes Mita, Alex Rugera, John Kagondy and Humphrey Wanyama. The Office now has six DAGs.

Following the appointments made in October, 2014, Mr Kiini will oversee the auditing function of Ministries of Education, Science and Technology,



Mr. Sylvester Kiini

Health, Communication and Information Technology, and Lands, Housing and Urban Development. Mr Kiini will also be in charge of audit functions of the entities under Mombasa and Eldoret Hubs.

Mr Gichana's docket includes Social Protection, Culture and Recreation, General Economic and Commercial Affairs, Governance, Justice, Law and Order and Environmental Protection, Water and Natural Resources. He will also oversee audit functions in Kakamega, Embu and Garissa Hubs.

Other DAGs also handle various dockets as the Office strengthens its oversight role as mandated by the Constitution. Ms Mita is in charge of Corporate Services, looking at the day-to-day operations of the entire Office while Mr Rugera is in charge of the auditing function in the National Treasury and Transport and Infrastructure Sectors. He also oversees audit functions of entities in Eldoret and Nakuru Hubs.

Mr Wanyama is in charge of Public Administration, National Security and Ministry of Interior and Coordination of National Government as well as Agriculture, Livestock and Fisheries. Mr Wanyama is also in charge of Nairobi and Kisumu Hubs.

Mr Kagondy is in charge of Specialised Audit and Energy and Petroleum sectors.

The Office of the Auditor-General continuously strives to enhance its Human Resource capacity for efficient and effective service delivery to Kenyans, to promote accountability in the management of public resources.

## Composition of the Audit Commission

Auditor-General, who is the chairman of the Commission;

The Chairman of the Public Accounts Committee of the National Assembly;

A practicing member of the Institute of Certified Public Accountants of Kenya (ICPAK);

The Chairman of the Public Service Commission;

The Attorney-General;

The Chairman of the Public Investments Committee of the National Assembly.

-Owidi is the Director-HR, at the Office of the Auditor-General



Auditor-General Edward Ouko (centre) with his Deputies, from left, David Gichana, Alex Rugera, Agnes Mita, Humphrey Wanyama, John Kagondy and Sylvester Kiini, chat on the sidelines of Policies Review Workshop at Safaripark Hotel, Nairobi.

# Auditing the Constitution

By Edith Lubanga

The socio-economic audit of the Constitution has commenced following the gazetting of a team that will examine the suitability and cost-effectiveness of the Supreme law that was promulgated on August 27, 2010.

A working group headed by the Auditor-General, Edward Ouko, has been established under the Office of the Auditor General, to work and report to Parliament on the findings of the process.

The working group is made up of professionals with a wide range of expertise in Public Finance, Auditing, Economics, Youth and Gender Affairs, Law, Institutional development, Public Administration, Management, Governance and Public sector management.

The group is tasked with assessing the impact of the implementation of the Constitution to the Nation's economy and in particular its public finances, making a rapid assessment of the impact of the implementation of the Constitution on Public institutions and evaluating the social impact resulting from the implementation of the Constitution.

Also in the in-tray of the team is making recommendations to the National Assembly on potential measures that could better enhance prudent management of the country's public resources, investigating, determining and advising on any matter related to relevant, consequential or incidental to the foregoing and consulting as necessary with the National Assembly through the Budget and Appropriations Committee.

## Team gazetted

The group was gazetted in the Kenya Gazette Vol. CXVI-No. 98 under Gazette Notice no. 5618 on August 15, 2014 and was given a timeline of seven months to complete its work.

Members of the team are Lady Justice Linnet Ndolo, Dr Abdirizak Nunow, Susan Mang'eni, Mwarapayo Wa-Mwachai, Dr Elizabeth Owiti, Erastus Wamugo, Dr Julius Kipng'etich and Philip Kinisu as the Technical Advisor to the Working Group. The joint secretaries are Milcah Ondiek and Wanjiku Wakogi.

The group will report and regularly consult the National Assembly through

the Budget and Appropriations Committee.

The formation of the team was approved by the National Assembly in February 2014 and it is expected to assess the impact of the implementation of the Constitution to the nation's economy, particularly its effect on public finances.

## Constitutional journey

Kenya's constitutional journey started in 1960 at the Lancaster House where a delegation from Kenya met with Ian Mcleod but no agreement was reached between the parties and an interim Constitution was issued.

The Lancaster conference in 1963 finalised the independence Constitution. More changes took place between 1964 to 1968 which strengthened the Office of the President and abolished and / or weakened other important public institutions like the Senate and other Commissions.

In 1982 section 2A was incorporated in the Constitution to make Kenya a *de jure* state (one party state) in 1991. In 1997 an Inter-Party Parliamentary Group agreed to make a few reforms in the Constitution to ease the mounting demand for Constitutional reforms.

The Constitution of Kenya Review Act was later on enacted to provide for the review of the Constitution. The Act established the Constitution of Kenya Review Commission (under section 3) which spearheaded the process for a new Constitution.

The Commission went all over the country gathering the views of Kenyans and came up with the Bomas draft which Proposed transferring most of the powers of the Office of the President to the Prime Minister. In addition, there would have been checks on executive appointments. Fearing the loss of power, senior government figures watered down the Bomas draft to what became the Wako draft. The draft was rejected by Kenyans in a referendum due to the sweeping powers it vested in the Head of State.

## Renewed quest

After 2007/2008 post-election violence

the quest for a new Constitution was renewed under Agenda 4 of the National Accord which led to the formation of the Committee of Experts under the Constitution of Kenya Review Act, 2008. The Committee was tasked with compiling the former drafts and the views of Kenya and come up with a harmonised draft Constitution. The draft was finalised and published in May, 2010 and a modified version was accepted by Kenyans in the 4<sup>th</sup> August, 2010 referendum. It is now four years since the Constitution came into force and several Acts of Parliament have been enacted to facilitate its implementation.

The Constitution brought changes in the system of government with the introduction of a bicameral parliament, devolution, an extensive Bill of Rights all of which aimed at improving governance, accountability, transparency in government entities and improving the livelihood of Kenyans.

The National Assembly by its Resolution dated 15<sup>th</sup> February, 2014, decided that a socio-economic audit of the Constitution to be carried out. The National Assembly decided that undertaking such a socio-economic audit is timely due to the expansion of institutions and services and the impact of the Constitution during this transition period.

## Terms of Reference for the working group

- To assess the impact of the implementation of the Constitution to the Nation's economy and in particular its public finances;
- To make a rapid assessment of the impact of the implementation of the Constitution on Public institutions;
- To evaluate the social impact resulting from the implementation of the Constitution;
- To make recommendations to the National Assembly on potential measures that could better enhance prudent management of the country's public resources;
- To investigate, determine and advise on any matter related to relevant, consequential or incidental to the foregoing;
- To consult as necessary with the National Assembly through the Budget and Appropriations Committee.



# Accountants undergo training on new financial guidelines

By Purity Wachira



*Accountants from State corporations at the opening of training on new financial guidelines at Kenya School of Government, Nairobi.*

Accountants working for State Corporations have undergone training on new accounting systems to be used in preparation of financial reports.

In a workshop presided over by Auditor-General Edward Ouko, the participants went through a five-day intensive training at the Kenya School of Government, Nairobi.

Mr Ouko said the implementation of the new standards and guidelines will make auditing of financial accounts easier and make State agencies more accountable.

“The Office of the Auditor-General is taking keen interest in this training as it contributes towards our mandate of ensuring effective and lawful use of public resources,” said the Auditor-General.

Accountant General, Bernard Ndungu said the training is part of technical programme that was rolled out to

ensure smooth implementation of the new guidelines and standards.

“The legal framework is in place. It is time to implement it before the Auditor-General comes in to do his job,” said Mr Ndungu.

The training was in conformity with the new financial requirements as outlined in the Public Finance Management Act, 2012. The Act, under section 192 establishes the Public Sector Accounting Standards Board (PSASB) that is charged with setting frameworks and promoting the use of International Standards for Auditing by public entities.

## Board's approval

The Board approved the adoption of International Financial Reporting

Standards (IFRS), the International Public Sector Accounting Standards and the International Professional Practice Framework for Internal Auditing Standards by all state organs and public sectors entities. It is these guidelines that the Accountants were trained on.

The Board in consultation with the National Treasury developed the reporting template to be used in preparation of financial statements by public sector entities.

The template is in accordance with the prescribed standards and will enhance the quality, presentation, content and disclosures of financial information thus reducing the qualified audit opinions by the Auditor-General.

According to 2012/2013 Audit Report there were 144 qualified opinions of the 228 audited statements, a situation Mr

Ouko noted was not very good as far as effective use of public resources are concerned.

“This is not very good news for us as custodians of public resources, and it is our hope that this training will go a long way in addressing the situation,” said the Auditor-General.

Mr Ouko outlined the expectations of his Office saying timely submission of financial records will enable the

Office of the Auditor-General meet the constitutional deadline set for submission of audit report.

Accuracy of financial statements, he noted, was a key aspect in accounting and expressed optimism that after the training his Office will be supplied with accurate financial statements fully, together with supporting schedules as appropriate.

He also called on the CEOs of state

corporations to avail themselves during entry and exit meetings so that the auditors get the goodwill and are able to effectively undertake their work.

“Audit work is a collaborative effort both from the auditors and auditees. For mutual understanding and good working relationship it is only fair that before the auditors start their work, they are able to engage with the top management of the state corporation, and vice versa when their job is done,” said the AG.

## Kenya's Auditor-General elected Vice-President of AFROSAI General Assembly

By Leonard Milgo



*Auditor-General Edward Ouko with President of the Accountability State Authority of the Arab Republic of Egypt, Counselor Hesham Genena, after his election as Vice-Chairman of AFROSAI General Assembly in October, 2014 at Sharm El Sheikh, Egypt.*

**D**elegates of the African Organisation of Supreme Audit Institutions (AFROSAI) elected Auditor-General Mr Edward Ouko the Vice- President of the Office of AFROSAI General Assembly.

Mr Ouko was also elected the President of one of the two critical Technical Committees of the AFROSAI on Knowledge Sharing and Management for a period of six years.

The elections were conducted during the

13<sup>th</sup> General Assembly of AFROSAI, held in Sharm El Sheikh, in the Arab Republic of Egypt from October 24 – 30, 2014.

In his acceptance speech Mr Ouko thanked the delegates for the honour and the trust they have bestowed in Supreme Audit Institution of Kenya (SAI Kenya) and said he accepted the roles with great humility and promised to serve the Organisation diligently

During the meeting, the host and President of the Accountability State

Authority of the Arab Republic of Egypt, Counselor Hesham Genena was elected as the President of the Office of AFROSAI General Assembly for the same period. The Controle superieur de l'Etat of Cameroon, Mr. Henri Eyebe Ayissi was also confirmed as the Secretary General of the Office of AFROSAI.

At the October 2014 meeting, the African Union Commission was also incorporated into AFROSAI as an Associate Member with an observer status.

## AFROSAI founded in 1976

AFROSAI was founded in 1976 following a resolution by International Organisation of Supreme Audit Institutions (INTOSAI) to call for fruitful and vital cooperation for exchange of ideas and documentation in each of the five continents.

The AFROSAI General Assembly was endorsed as the Supreme Organ of the Organisation which brings together Auditor-General from 53 countries in Africa including all language Sub-

Linguistic Groups from the Anglophone, Francophone and the Arab speaking, and is held after every 3 years.

The General Assembly has powers to give strategic direction to the organisation governing the functioning of organs of African states and also formulate principles that inspire greater public financial control in African states.

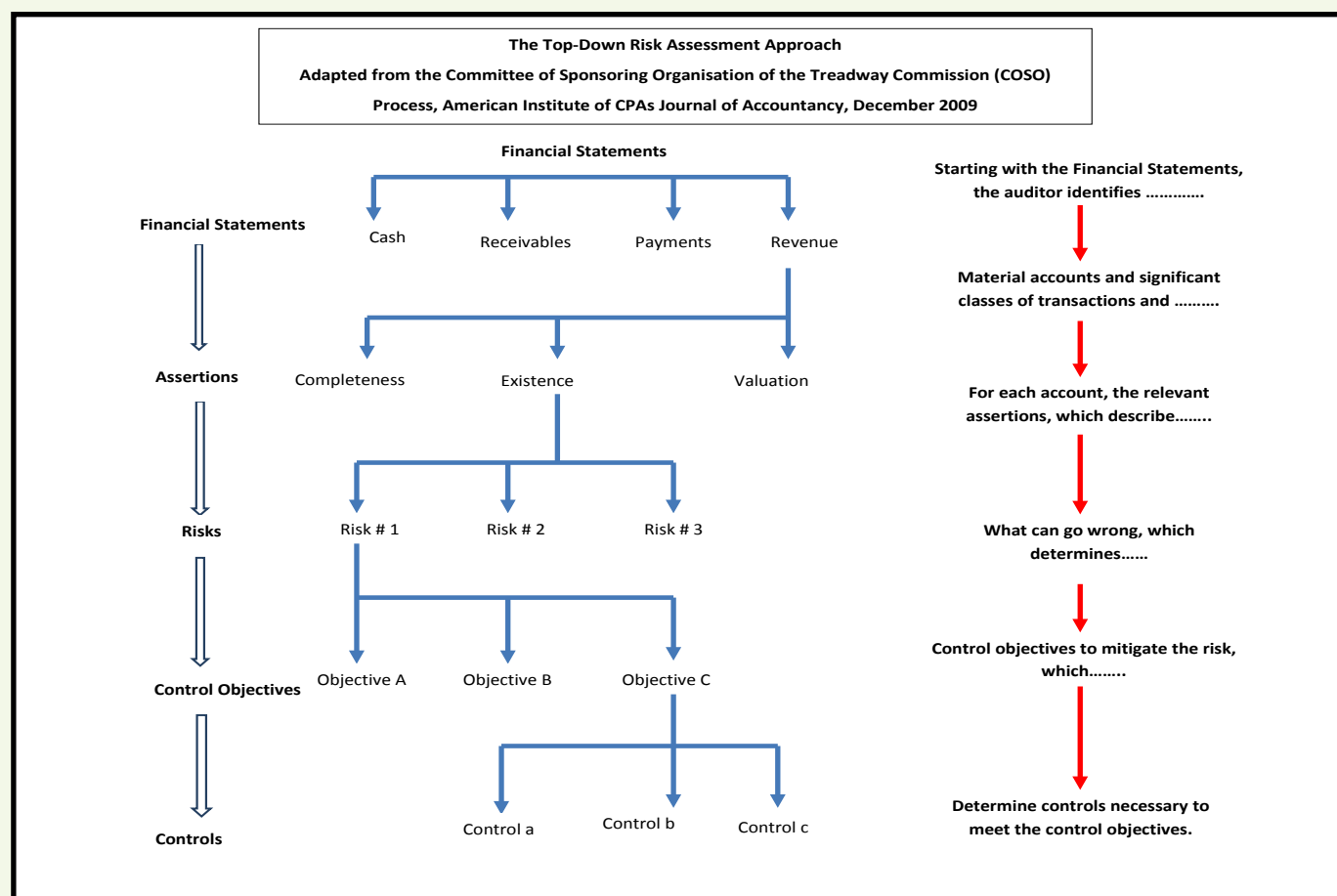
The General Assembly is sanctioned by a Board of Governors. The Board of Governors is formed to fulfill the executive roles of AFROSAI and is

composed of the President, Vice-President, Secretary General and nine other members as duly elected.

Topical themes that were covered during this year's General Assembly that also cut across the continent were audit of Regulatory Authorities, Local Authorities and Public-Private Partnerships. The 2014 General Assembly was well attended with over 130 regional, international delegates and various multilateral and bilateral partners as observers.

# Audit Process in Regularity Audits

By Jesse Mutua



**S**upreme Audit Institutions (SAIs) in public sector audit are engaged in regularity audits.

Regularity audits are assurance/attestation engagements that require the auditor to express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with an identified/applicable financial reporting framework and/or statutory requirements.

Additionally, the auditor may have other

reporting responsibilities, for example, relating to reporting instances of non-compliance with authorities including budget and accountability, and/or reporting on the effectiveness of internal controls.

In carrying out a regularity audit, the audit has to obtain sufficient appropriate audit evidence in order to support the opinion on the financial statements.

The conduct of regularity audits is guided by the International Standards

of Supreme Audit Institutions (ISSAIs) which require the auditor to use a risk-based audit methodology or approach.

Obtaining sufficient appropriate evidence requires the auditor to go through the following audit phases/ audit process:

## 1. Annual overall audit planning

The annual overall audit plan deals with aspects relating to the core processes leading to the production of the audit reports.



The output of the process includes:

- The list of audits to be performed during the year (audit coverage with priority on high risk clients).
- The assignment of audits to the different audit units, considering available resources and the need to rotate audits.
- Identification of audits to be performed in-house or outsourced.
- 'Small audits' which are allowed to apply the audit methodology for small entities.
- Larger and high risk audits which need pre-issuance reviews.
- Distribution of budgets to the audit units.
- Timing of audits and the audit calendar for the year.
- Actions to clear any audit backlogs.
- Initiatives and considerations for other plans included in the Office operational plan.
- Thematic or focus areas for audits in the current year including environmental, procurement, forensic or investigative
- Special audits, including those based on Parliamentary requests

## 2. Pre-assignment activities

After assigning audit clients to the different audit units, the auditors start planning on individual audit assignments. Before embarking on the assignment, the audit team will have to assess ethical requirements as required by the International Federation of Accountants (IFAC); resource requirements in terms of time and personnel; and determine the terms of the engagement for the audit assignment. In the public sector, the audits are statutory and therefore there is an "understanding" with the client on the conduct of the audit.

## 3. Strategic audit planning

An auditor can obtain sufficient appropriate audit evidence through two main ways:

- a. Risks assessment, and;

- b. Performing other audit procedures

The risk assessment espoused by the ISSAIs is the Top-Down Risk Assessment. It involves identifying material financial statement risks within accounts or disclosures; determining which entity-level controls would address these risks with sufficient precision and transaction-level controls that would address these risks in the absence of precise entity-level controls.

Strategic audit planning entails performing risk assessment at the entity-level. It involves the auditor familiarising him/herself with the client's business and organisation and the principal features of the client's accounting system and internal control procedures in order to determine the risk of financial statements being materially misstated.

This entails understanding the legal and regulatory framework; evaluating the budget process, entity-level controls such as internal audit and audit committee, control environment, IT General Controls and risk management process. The auditor also evaluates sustainability of services by the client and evaluates whether fraud can occur.

Based on the results of strategic audit planning, the auditor determines and records the overall audit strategy to be adopted. The strategy sets the scope, timing and direction of the audit, and guides the development of the detailed audit plan.

## 4. Detailed planning and fieldwork

Detailed planning entails assessing risk of misstatement of financial  
***The risk assessment espoused by the ISSAIs is the Top-Down Risk Assessment. It involves identifying material financial statement risks within accounts or disclosures; determining which entity-level controls would address these risks with sufficient precision and transaction-level controls that would address these risks in the absence of precise entity-level controls.***

statements at Transaction Controls Level. It also includes the documentation of the nature, timing and extent of audit procedures to be performed. The purpose of the detailed audit planning is to reduce the risk of material misstatement to an acceptable level.

Detailed planning includes testing the controls that process transactions to determine whether they are adequately designed, implemented and were operating effectively throughout the year.

This provides assurance as to whether material misstatements may occur during processing and disclosure of transactions. It also helps the auditor determine the need and extent (response) for other audit procedures. Instances of non-compliance are identified.

During fieldwork, the auditor performs and documents audit procedures identified in the detailed plan. Since regularity audits are reasonable assurance engagements, the auditor tests on a sample basis, transactions as have been recorded to ensure that they are properly recorded in the correct amounts, correct accounts, correct financial year and have been properly presented and disclosed in the financial statements. The decision on the items to test is influenced by the risk assessment process.

## 5. Audit Summary

The audit opinion is based on assessing compliance with an applicable financial reporting framework. During this phase, the auditor performs audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, are in accordance with the applicable financial reporting framework. The auditor also aggregates and concludes on the audit results from detailed planning and fieldwork.

## 6. Audit conclusions and reporting

Conclusion and reporting is the final stage of the audit process. The auditor is expected to report on the financial statements, and

communicate the findings as required by ISSAIs.

Mainly, the auditor communicates to users including Legislature and the public, management, those charged with governance, oversight bodies, funding agencies and or parties outside the entity. This is achieved through audit reports.

Only unresolved issues in the management letter or resolved findings where there is a statutory reporting responsibility are included in the audit report.

The conclusion from one audit phase is the beginning of the next phase

### Audit review and quality control

Audit review is both a quality and an internal control system that ensures use of more than one level of judgement and experience on the audit work carried out and conclusions reached.

The aim is to ensure that high quality audit work is performed throughout the audit process, supports for the audit opinion expressed and meets the requirements of both the International Standards of Supreme Audit Institutions.

Quality Control entails the review of work performed by auditors throughout the audit to provide reasonable assurance that:

- (a) The audit complies with professional standards and applicable legal and regulatory requirements; and
- (b) The auditor's report issued is appropriate in the circumstances.

Quality control is the responsibility of every auditor involved in the audit assignment.

# Measuring the impact of Audit recommendations

By David Gichana



*An Auditor inspects projects at a dispensary in Kajiado*

Office of the Auditor-General seeks to enhance public confidence in government institutions by identifying information about the extent to which government programmes are effective and efficient.

Regardless of whether the audited entities themselves implement good governance practices and meet high standards of accountability, OAG strives to evaluate and assess the performance of its own audit activities.

Ultimately, one of the most difficult—yet most compelling—aspects of performance is the outcome. For the OAG, one key outcome is the financial impact whether increased revenue collection and/or cost savings) achieved by implementing audit recommendations.

International Standards of Supreme Audit Institutions (ISSAI) 3000: Standards and Guidelines for Performance Auditing issued by International Organisation of Supreme Audit Institution's (INTOSAI) Standards and Practical Experience

states that following up on the impact of audit recommendations is important to making audit reports more effective and evaluating SAI performance.

In March 2007, at the 19th UN/INTOSAI Symposium on Government Audit, few Supreme Audit Institutions (SAIs) were able to show that they were using Forms to measure the impact of their own activities. Most of them confessed that the financial impact of audit work is difficult to quantify.

### Hallmarks in Measurement of Financial Impact of Audit Reports

The most commonly used efficiency measures directly related to audit reports are actual versus budgeted hours, percent of time spent in administrative tasks, percent of audit recommendations adopted, and the number of audit engagements completed.

However, the ultimate goal for a SAI performance measurement system is to measure the financial impact of its work. This is extremely important to the SAI's ability to be relevant to government agencies and other stakeholders.

Obviously, there is no unique framework to measure the financial impact of audits and audit recommendations. However, some common practices may be helpful in conducting such measurements.

### **Principle 1: Establish a follow-up system**

This is a valuable starting point in the measurement process if financial impact of audit reports involves establishing and maintaining a follow-up system to monitor the disposition of audited entities' responses to recommendations. To effectively monitor this impact, the SAI should establish the time frame within which the auditee will have completed implementing the recommendations, evaluate the audited entity's actions in response to the recommendations, and determine the number of recommendations that were completely implemented.

This follow-up system is currently not well supported legally and this has given leeway to public entities not to implement most audit recommendations.

### **Principle 2: Determine cause and effect**

Determine the cause-and-effect relationship between the recommendation and the corrective action. This step requires some prudence because the complexity of some corrective actions may mean that the SAI's contribution to them can vary between 0 and 100 percent. The SAI can take 100 percent credit for the impact of a recommendation that is very specific and prescriptive and that the auditee implemented exactly as stated.

An indirect causal link may also be identified when, for example, the entire audit report and not a specific recommendation, contributes to an improvement that results in a financial impact. In this case, the ratio attribution may vary between 5 and 50 percent.

In some cases, the ratio attribution may reach only 5 percent—for example, when part of the audit activities had a minor role in the corrective action. In any case, it is very important that the SAI develop its own criteria for attributing ratios for the extent to which the SAI's work contributed to a financial impact in an audited activity. Further, the SAI should regularly evaluate the strength of the relationship that has been attributed and determine whether there are any repeated impacts. To ensure this proper evaluation, a team must be designated to study the adequacy of the causal link.

### **Principle 3: Identify the fiscal year involved**

Financial impacts must have been realised within, or before, the fiscal year in which they are reported, and the auditee must be able to demonstrate the cost savings, additional revenues, or other financial impacts. In all cases, the SAI should not take credit for any future impact, even if achieved, as a result of the continuation of the new controls.

### **Principle 4: Agree upon the financial impact**

In accordance with ISSAI 400: Reporting Standards in Government Auditing (paragraph 24), facts and recommendations are generally agreed upon with the audited entity to ensure that they are complete, accurate, and fairly presented in the audit report. In the same way, the audited entity must also agree upon financial impact. Senior management of the audited entity should agree on the impact, and either internal or external auditors should also evaluate the impact. In this way, achievement against the impact target will be built only on demonstrable savings, will be rigorously tested, and will be subject to careful scrutiny.

### **Identify the net savings or additional revenue**

Financial impact as a component of quantitative impact should be determined as net savings or net additional revenue generated. Therefore, the cost of implementing the recommendations will be covered by the amount saved. The SAI should consider the following factors: the degree of effort and cost needed to correct the reported condition; the impact that may result should the corrective action fail, and the time period involved.

SAIs using this approach will need to spend time and effort, create a good recording system (IT system), and secure the cooperation of auditees.

### **Financial impact measurement tool**

While discussions and interviews with the auditee are often important in the measurement process, it is also crucial to prepare a tool that includes all the principles for measuring financial impact and documents the extent of the impact. The SAI should take into

account important questions, such as the following, when developing this tool:

- Does the tool ensure that the SAI provides sufficient evidence to demonstrate the financial impact?
- Did the SAI verify the financial impact?
- Did the SAI take into account the costs of implementing the recommendations when calculating the financial impact?
- Did the SAI take into account the costs of implementing the recommendations when calculating the financial impact?

### **Role of Stakeholders in the financial impact process**

A team should be created in each audit department to assess financial impact and develop an accurate database for any expected impacts. Such teams should also be responsible for monitoring progress toward measuring impact and reporting the results to senior SAI management.

Heads of individual departments or divisions within the SAI may approve any estimated financial impact that does not exceed a fixed amount. Impact estimates that exceed that amount may need to be approved by a more senior SAI manager.

### **Planning to measure financial impact**

Early coordination with audited entities before starting an audit engagement is crucial to:

- explain the reasons for implementing audit recommendations and the benefits of measuring their financial impact,
- identify the information and evidence available in the audited entity and assess its relevance to measuring the financial impact, and
- secure prior agreement on the methodology for calculating the financial impact.

It is also possible to educate some officials in the audited entities on these matters by periodically holding workshops that allow those officials to discuss their difficulties in implementing recommendations and to clarify the methodology used to measure their financial impact.



The financial impact process should be included in the audit approach, and auditors must assess the possibility/likelihood of achieving such impacts. During the preliminary phase of audit engagement, the audit team should evaluate which audit area would lead to the greatest potential financial impact.

This impact can only be accurately estimated through integrated and reliable information on the costs and performance of audited entities. Accordingly, to track the financial impact of audit recommendations, the SAI must identify that information early on and determine how to coordinate with the auditee for monitoring. The OAG Financial Audit Manual provides guidance to audit staff on which audit working papers to use in gathering the information.

### **Carrying out the measurement process**

The implementation of audit recommendations is a key factor in measuring financial impact. The following are some of the important steps in the measurement process:

- During the opening meeting with the auditees, the audit team should clarify the purpose of measuring financial impact and discuss the methodology and approach to the measurement process.
- The head of the audit department may propose additional audit engagements to measure and clarify the usefulness and timeliness of measuring financial impact.
- The SAI and the audited entity should agree on the time to be allocated for measuring financial impact.
- The use of some Computer Assisted Audit Techniques (CAATs) to analyse data and extract results may be very helpful in identifying and measuring more impacts.

Most SAIs are able to report examples of nonfinancial impact, such as improvements in governance, planning, objective setting, or resource allocation. They may even be able to describe anecdotally the wider economic benefits resulting from SAI work, such as improved productivity from patients returning to work more quickly from hospital. However, valid measurement of

the actual financial impact of audit results still requires additional efforts by either professional associations or SAIs.

### **OAG's experience in measuring financial impact of Audits**

In its regularity and performance audits, the OAG identifies areas where administrative improvements can be made and, in most cases, makes specific recommendations to assist entities improve their performance and to address risks to the delivery of outcomes. Once an entity has agreed to implement a recommendation, timely implementation in line with the intended outcome of the recommendation is important in achieving the full benefit of the recommendation.

Entities' implementation of audit recommendations would generally involve having a clear process for assigning responsibilities, and systematically monitoring progress achieved, so that reporting on implementation can provide sufficient assurance to entity management that recommendations have been satisfactorily implemented. Generally, responsibility for implementing recommendations should rest with the relevant business or program management area, with the entity's audit committee having a review role in relation to an entity's progress in implementing recommendations.

Following increasing interest from Parliament, OAG has commenced a rolling program of audits focusing on the implementation of its audit

recommendations.

Entity management agrees on how best to address audit recommendations, including allowing a reasonable timeframe for implementation which may be modified over time, due to changing priorities or circumstances. As part of their responsibilities in relation to risk management, audit committees will generally review the steps that entity management has taken to address risks identified in both regularity and performance audits, and to receive regular reports on the status of the implementation of recommendations made in the audits.

While it may not be practical for audit committees to undertake detailed assessments of the implementation of all recommendations, there are benefits in requiring senior management to sign-off that recommendations have been implemented. The sign-off by senior management has not been forthcoming in majority of entities.

Currently, the audit reports recommendations are verified in parliamentary hearings and the National Treasury is mandated to oversee the implementation and report back through Treasury Memorandum. The system of enforcing the implementation of audit recommendations where multiple agencies are involved has challenges. This is an area that the OAG is targeting for inclusion in the reviewed Public Audit Act.



*An Auditor inspecting Meroroni Water Treatment Plant in Nakuru*

# Improving accessibility of Audit Reports

By Anne Rose Kairu

Plans are underway to ensure that all audit reports prepared by the Office of the Auditor-General are accessible to every Kenyan.

Consequently, the Office is working on ways of availing versions that cater for the linguistic and physical needs of the Kenyan population.

The reports have traditionally been availed only in English language and in printed form, catering for only those who understand the English language and are visually sound.

An initiative to translate the reports into Swahili language and also into Braille has therefore commenced to cater for a wider audience.

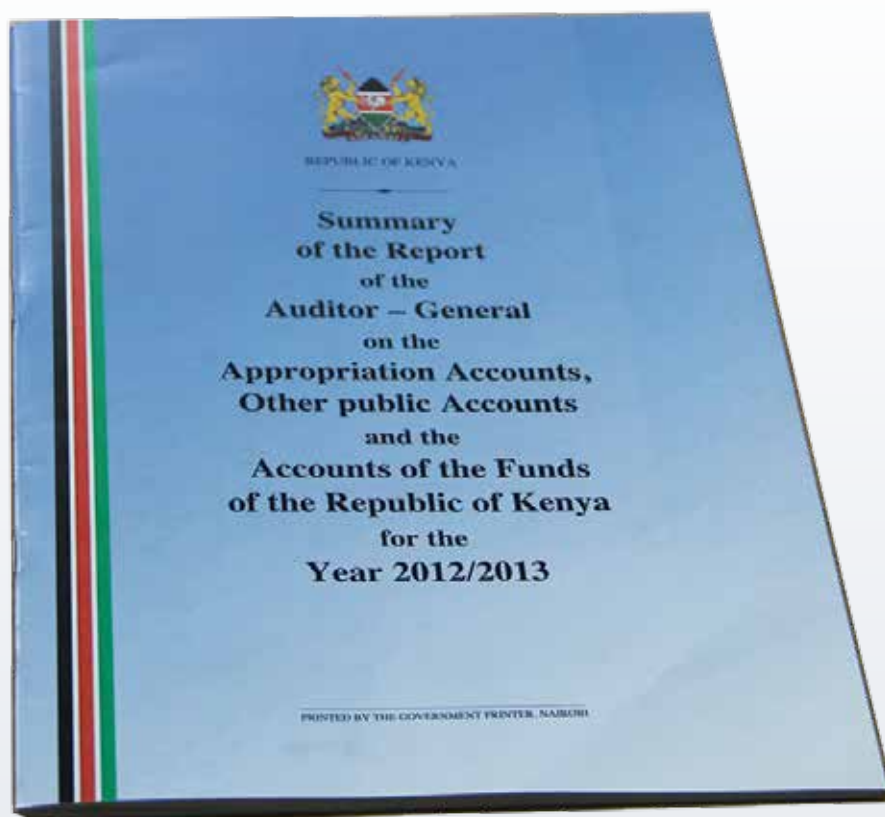
The Auditor-General, Mr Edward Ouko, acknowledged the need to have the reports in versions that cater for all Kenyans.

“We should ensure that our audit reports are reader-friendly to enable all readers understand them better as well as ensure they are translated to Kiswahili and Braille to ensure that all Kenyans are catered for as they seek to participate in Public Financial Management,” said the Auditor-General.

The importance of translating these documents cannot be over-emphasised. Swahili is spoken widely among Kenyans and was elevated to an official language alongside English, in the new Constitution.

It is also the common language spoken within the East African Community, and with the establishment of Commissions such as the East African Kiswahili Commission, formed to promote development and usage of the language for regional unity and acknowledging that the language is widespread and taught in various institutions of higher learning; its outreach will transcend millions in terms of readership.

Braille on the other hand, will enable the Office achieve one of its core pillars touching on service delivery to all Kenyans. Braille will be available for use by the blind and the visually impaired who have had problems in the past accessing information.



The Constitution of Kenya, promulgated in August 2010 also puts more emphasis on access to information by every Kenyan. Chapter 2 Article 7(3), (a), (b) of the Charter states that:

**“the State shall promote and protect the diversity of language of the people of Kenya; and promote the development and use of indigenous languages, Kenyan sign language, Braille and other communication formats and technologies accessible to persons with disabilities”.**

While Chapter 4 Article 54 (1)(d-e), states that,

**“a person with any disability is entitled to use sign language, Braille or other appropriate means of communication and to access materials and devices to overcome constraints arising from the person’s disability.”**

**“We should ensure that our audit reports are reader-friendly to enable all readers understand them better as well as ensure they are translated to Kiswahili and Braille to ensure that all Kenyans are catered for as they seek to participate in Public Financial Management.”**





# PICTORIAL



*Nicholas Mureithi, a Communications Officer at Office of the Auditor-General, interviews a member of the public on perception of the Office, in Mombasa.*



*Accountants from state corporations pose for a photo with Auditor-General, Edward Ouko(fifth from right) and National Treasury Accountant General, Bernard Ndung'u ( on Mr Ouko's right), during training on new financial guidelines at Kenya School of Government.*



*Parliamentary Liaison Director, Francis Kiguongo (2nd left) with other members of Accountability Kenya, at a function in Kisumu*



*Representatives from Supreme Audit Institutions across the world, at the International Organisation of Supreme Audit Institutions-Working Group on Environmental Auditing (INTOSAI-WGEA) meeting in Philippines.*



*Auditor-General Edward Ouko meets with Director General of United Nations Office in Nairobi (UNON) Sable-Work Zewde during the 20th Anniversary of UN Office of Internal Oversight Services, at Gigiri, Nairobi.*



# PICTORIAL



*Deputy Auditor General, Humphrey Wanyama (left) with National Treasury Accountant General, Bernard Ndung'u chat after opening an auditing workshop, at Kenya School of Government.*



*Auditors conducting inspection*



*A journalist makes a point during the Media Awareness Workshop organised by OAG to enhance understanding of the audit process*



*Muguchia Muchiri (seated) and Samson Abuogi, staff at OAG scrutinise a document.*



# Good governance key in public service

By Collins Ochieng



*Members of Nairobi County Assembly in a session. Leaders play a key role in ensuring good governance*

**E**ffective governance can make a real difference to the performance of public sector entities and to the outcomes sought by government and citizens. This is a compelling reason for the Office of the Auditor-General to annually review and refine their approaches to governance. Reflecting the public sector environment, governance arrangements need to position entities to achieve the best results for the government and Kenyans, consistent with legislative and policy requirements.

At OAG we believe that Capacity and resource requirements are critical for ensuring the needs of the organisation are met. Achieving effective governance depends on developing and maintaining appropriate and accepted governance structures and frameworks; it also depends heavily on the application of appropriate governance choices and a commitment to making them work.

The Office of the Auditor-General has ensured that effective performance is achieved through a clear process of assigning responsibility, monitoring progress against timeline, reporting follow-up and escalation and closure

of each audit assignment headed by a team leader, who review the work team members before passing to managers for further review .

## **Reduction of biases**

Good governance ensure that decision biases such as self-interest bias, pattern-recognition bias, social harmony bias and action-oriented bias are reduced through mapping out the risks, uncertainties, and unknowns and analysis of a variety of outcomes including best-case, worst-case, most-likely-case, least-likely-case .

By nature, the operations of OAG attract the interest of a wide range of stakeholders and one key function of OAG governance is to identify and engage with stakeholders through sharing appropriate information, consultation and engagement mechanisms.

The Office of the Auditor-General achieved this by establishing Communications department which acts as a link between stakeholders and management.

This ensures that the stakeholders are made aware of audit reports, programmes and services. In Addition the Office has an editorial committee with vast experience and competence ranging from financial audit, information technology, communication and human resource

Effective governance promotes the use of technologies and an innovative culture; the reason why the Office has acquired Audit tools to support in efficiency and effectiveness of audit work by automating manual audit activities. These audit tools include Computer-Assisted Audit tools and Techniques (CAATS). CAATs are used to extract analyse and review logic of processed data. In addition the office has a unit dealing with ICT software applications.

Good governance plays an important role in the advancement of sustainable development. It promotes accountability, transparency, efficiency and rule of law. Besides, it allows for sound and efficient management of human resources for equitable and sustainable development.

# Building relations with the media for effective reporting

By Nicholas Mureithi



*Journalists from mainstream media outlets pose with OAG staff and trainers during a Media Awareness Workshop*

**T**he significance of carrying out audit of public resources is to assure the public that their funds are used lawfully and effectively, and that all assets are safeguarded properly.

Audit of public resources also goes a long way in enhancing accountability through oversight provided by parliament to assure the public their money is properly used.

The media plays a critical role in informing the public about the audit findings and their role in seeking accountability of these resources.

## **Mutual relations**

It is therefore crucial for Supreme Audit Institutions (SAIs) to build mutually beneficial relations with the media. The Office of the Auditor-General identifies the critical role that the media plays in the flow of information to the public.

Engagement with the Fourth Estate is of the essence since they do offer a pivotal service in the dissemination of relevant information in a timely and accurate manner. It is also critical that the media be informed with clarity of the roles, mission, vision and clear mandate of the Office of the Auditor-General.

The Office of the Auditor-General, Kenya therefore constantly engages with the media to ensure a five-pillar theme is met:

- To ensure that we maintain a comprehensive and updated database with all local media houses in Kenya, and that we constantly interact with them;
- To ensure that the media in Kenya comprehends well the audit process and the reporting structure;
- To ensure that all audit reports that have already been tabled and discussed in the National Assembly

and County Assemblies are made available to the media for dissemination to the public and other relevant stakeholders;

- To ensure that all financial information and audit findings made available to the media for dissemination is correct, accurate and a true reflection of the position of the Auditor-General in reference to the accounts in question;
- To facilitate the Media in depicting the positive and appropriate corporate image of the Office of the Auditor-General and to avoid unnecessary negative publicity.

## **Media awareness workshop**

In an effort to improve this critical engagement with the media, the Office of the Auditor-General has initiated a programme of frequent interaction with the fourth estate.



To this end, the Office held its first media awareness workshop at the Lukenya Getaway Resort, Machakos County. At the workshop 20 journalists from mainstream media houses, drawn from print and electronic media, were taken through the mandate and operations of the Office to improve their understanding of the OAG's role for effective reporting.

Facilitators were drawn from Swedish National Audit Office (SNAO), Auditor-General of South Africa's Office, University of Nairobi and Office of the Auditor-General, Kenya.

### Topics discussed

Some of the key topics discussed at the workshop were: Audit Process, Quality Assurance and Quality Control, Auditee Involvement, Mining stories from audit reports, Salient points in the Public Audit Act and the Scope of the Office of the Auditor-General. They were also taken through operations of the Auditor-General of South Africa (AGSA) and Swedish National Audit Office (SNAO) for comparative studies and expanded understanding of operations of Supreme Audit Institutions.

The journalists also shared their experiences and concerns with their interaction with audit reports. The need to simplify the audit reports came up and to this end the Office of the Auditor-General has already started preparing a summarised version of the national government audit report for easier reading and understanding.

The effect of the workshop is being felt going by the number of stories the journalists have mined from the 2012/2013 audit report.

# Non-State Actors' role in Public Finance Management

By Jackline Kagume and Jason Lakin

**G**ood Public Finance Management implies active public participation and input throughout the entire budget process.

Public participation in public finance is now a constitutional requirement in Kenya, providing a unique opportunity for Non-State Actors (NSAs) to engage more regularly and effectively in all four stages of the budget process (formulation, approval, implementation and audit), and with other Public Finance Management stakeholders, including the Controller of Budget, national and county assemblies, national and county treasuries, and the Office of the Auditor-General.

NSAs are already active in the formulation stage, beginning with planning and carrying through to the setting of sector priorities. One of the principal functions of civil society at this stage is to ensure that citizen priorities are reflected in plans and budget proposals. After formulation, budgets are subjected to review and amendment by the legislature.

At this stage, civil society must continue to defend the interests of citizens, but can also engage in useful research to support the legislature. For example, NSAs can conduct a comparative analysis of previous budgets and actual spending, and share their views with Parliament to inform final allocations.

The budget implementation stage involves collection of revenue and spending the monies as per the allocations made in the budget. NSAs can review budget implementation reports and provide their analysis to the legislature. They can also supplement these reports with their own analysis from the ground on how well or poorly budget implementation is happening.

This brings us to the final stage in the process: audit. The aim of the audit process is to confirm whether public money has been applied lawfully and in an effective way. In Kenya, audit of public accounts at both national and county levels is a function assigned to the Office of the Auditor-General by the Constitution. After the audits are complete, they are tabled in the Assemblies at both levels of government for further action.

The Constitution requires the Auditor-General to regularly publish and publicise his reports. Given the very technical nature of these reports, Civil Society Organisations (CSOs) can play an intermediary role by reviewing and simplifying the reports. This can increase their profile in the media, among the public and in Parliament itself. In some countries, such as Tanzania, NSAs have produced simplified versions of audit reports to encourage wider use of audit findings. NSAs can also work directly with the Office of the Auditor-General to jointly produce simpler versions of

the official reports, or to develop online portals where audit information is easily accessible to the public.

CSOs can also provide a platform to link the Auditor-General with the public. This can be done through organised consultative forums where the public interacts with the Auditor-General to discuss audit findings and potential remedies. Auditors in some counties have also begun to work more closely with the public in different ways, such as opening hotlines to accept public suggestions for whom or what to audit, and conducting joint audits with members of the public.

South Korea's Auditor-General conducts some of its audits on the basis of public recommendations. The auditor in the US uses a hotline to accept suggestions for what to audit. And in Philippines, joint audits of rural infrastructure projects have been conducted. In all of these cases, NSAs can help to set up systems and ensure that the public is actually able to use them to engage with the audit office.

NSAs also have a role to play in ensuring the proper use of audit findings by Parliament and County Assemblies. This may involve building the capacity of the Public Accounts Committees (PACs) to review and use audit reports in partnership with other parliamentary training institutions.



*A member of the public asks a question during a public forum on the role of Non-State Actors in promoting accountability in the public sector.*

It may also involve keeping audit findings on the public agenda so that parliamentarians feel that they must respond to them in order to satisfy their constituents. To this end, NSAs have a role to play in determining which audit findings are most important to act on. This may also necessitate work to simplify and highlight findings from the PAC reports for public and media consumption.

These are just some of the many opportunities for greater engagement between NSAs and the Office of the Auditor-General that can be explored under the new constitutional dispensation.

**Jackline works for Parliamentary Initiatives Network (PIN) while Jason works for International Budget Partnership (IBP Kenya)**

***NSAs also have a role to play in ensuring the proper use of audit findings by Parliament and County Assemblies. This may involve building the capacity of the Public Accounts Committees (PACs) to review and use audit reports in partnership with other parliamentary training institutions.***





Leonard Lari, an auditor (right) inspects a CDF-funded Kamogo Administration Police Officers' houses in Marakwet East. With him is Joseph Chebii, a CDF Committee Official.



## OFFICE OF THE AUDITOR-GENERAL

Promoting Accountability in the Public Sector

### TO ALL OUR CLIENTS

#### PAYMENT OF AUDIT FEES

Kindly note that all cheques for any payments should be payable to:

#### AUDITOR-GENERAL

Payments by electronic transfers should be transmitted using the following details:

BANK	CENTRAL BANK OF KENYA
A/C NO	1000181327
BANK CODE	09000
BRANCH	HAILE SELASSIE AVENUE
A/C NAME	AUDITOR-GENERAL



# Assets verification team reviewing reports on the Counties

By Anne Rose Kairu



*Verification of Assets and Liabilities Joint Technical Team Chair Nancy Gathungu speaks during one of the workshops*

**A** team formed to carry out the verification of assets and liabilities is reviewing the reports of the pilot study conducted in 12 counties.

The main objective of the pilot study, carried out by a joint technical team, was to test aspects of the nation-wide verification of public assets and liabilities and to allow comprehensive planning and necessary adjustments before rolling out the actual exercise.

The counties covered in the pilot study were Machakos, Garissa, Mombasa, Tana River, Taita Taveta, Isiolo, Narok, Bungoma, Siaya, Bomet, West Pokot and Nyeri.

A team of officers from the Office of the Auditor-General, Transition Authority, Ministry of Devolution and Planning, National Land Commission and Commission on Revenue Allocation conducted the exercise together with relevant county officials.

## Findings of the study

The findings of the study indicated that there are many parcels of land that belong to the defunct local authorities without title deeds, as such transfer of these parcels of lands to the Counties would be an intricate affair, unless the title deeds are processed before the transfer.

The study also established there are many plots owned by defunct local authorities that have not been surveyed and are not fenced, exposing these plots to encroachment and court battles over ownership.

On houses and buildings, it was established that there are cases where the occupants of the defunct local authorities' residential houses are different from the ones registered by the County. There is therefore, a possibility of subletting these units. It was also found out that there are cases of residential houses allocated to individuals yet the rent is being paid to the County, as such there is need to determine the rightful owner of these housing units.

Further, the pilot study found out that some of the motor vehicles that belonged to the defunct local authorities could not be physically verified, while some of the log books were registered under different names other than the defunct local authorities including individuals and organisations.

According to the findings of the study, most defunct local authorities did not support their liabilities with appropriate documentations like ledgers, original contract agreement documents, invoices, delivery notes, demand notes, goods received notes and certificates of acceptance of goods and services. The team found out that in some cases, amounts submitted to Transition Authority differed with information on the ground.

The Team noted that the preliminary findings are cross-cutting issues in all the Counties and that further interrogation is required in the second phase of work plan. The services of forensic auditors, surveyors and cartographers could be enlisted during the interrogation.

Based on the preliminary findings, the challenges experienced during the exer-

cise and the data collected will help the County teams develop a comprehensive inventory of all the assets and liabilities of the former local authorities and give specific attention to identified key areas.

The information generated from the pilot study will be used by the County teams to guide them in developing terms of reference and as a guide to recommend areas requiring expert work and policy decisions.

## Training

The pilot study was followed by a three-day training for officers. The training was conducted in October, 2014 at the Kenya Institute of Curriculum Development and was attended by representatives from Office of the Auditor-General, Transition Authority, Ministry of Devolution and Planning, and representatives of county teams from all the 47 Counties.

The training exercise is in line with the Inter-governmental Budget and Economic Commission's (IBEC) requirement that the determination and identification of assets be conducted by the representatives on the ground with the Joint Technical Team (JTT) at hand to train them on how to carry out the exercise for uniformity.

The Joint Technical Team (JTT) is chaired by Ms. Nancy Gathungu, from the Office of the Auditor General (OAG) while Ms. Cynthia Olotch from the Transition Authority (TA) is the Deputy Chair. Members are Patrick Ngicuru from Ministry of Devolution and Planning, Andrew Adera (TA), Emily Simiyu (Commission on Revenue Authority), Bernard Nzau (National Land Commission), Benedict Mutinda (National Treasury), Mark Gachanja (OAG), Michael Kangethe (OAG), Samuel Waweru (OAG), David Kamanza (OAG), Gregory Kiteme (TA) and Christian Mahinda (OAG).

The Transition Authority together with the Office of the Auditor General, after signing of the Memorandum of Understanding which marked the beginning of the assets and liabilities valuation, hope to have an Integrated National and County Governments Assets Register in place by the end of the set term.

## TA's mandate

The Transition Authority was established in 2012 under Transition to Devolved Government Act (TDGA) to facilitate and coordinate transition to devolved system of government.

Its mandate include; Preparation and validation of an inventory for all the existing assets and liabilities of government, public entities and local authorities, Audit assets and liabilities of the government, to establish the assets, debts and liabilities of the government, Audit assets and liabilities of local authorities, to establish the asset, debts and liabilities of each Local Authority; audit local authority infrastructure in the counties, to establish the number and functionality of plant and equipment in Local Authorities; Provide mechanisms for the transfer of assets which may include vetting the transfer of assets during the transitional period.

The Joint Technical Team is tasked with implementing the MOU. Counted as part of its achievements, the team has already formed a work plan; conducted a pilot study in 12 counties where they have gathered data, analyzed it and will chart the way forward from there.

They are working with documents submitted to them by the 175 former Local Authorities with the sole purpose of confirming the assets on the ground before handing them over to the governors.

This is in line with the mandate of the Transition Authority and Office of the Auditor General after signing of the MOU which marked the beginning of the assets and liabilities valuation.

The Auditor-General, Mr Edward Ouko and the Transition Authority Chairman, Mr. Kinuthia Wamwangi, signed the Memorandum of Understanding (MoU) on January 15, 2014, paving the way for the

two Offices to work together in the auditing of the 47 Counties' assets, debts and liabilities.

## Specific objectives of the pilot study

- To capture missing information in the inventory of assets and liabilities in the identified counties;
- to obtain clarity on the terms of reference for use by the County Teams that will be formed to carry out the exercise of preparing and verifying the inventory of assets and liabilities in each county;
- ensure the counties which have not yet submitted their handing over reports complete this exercise;
- to identify the aspects of the exercise that may need to be warehoused or interrogated further to enable TA have a comprehensive inventory of all government assets and liabilities.

# Accountability Kenya gets down to work

By Francis Kiguongo

**A**ccountability Kenya's (AK) ship has gathered steam after its launch in March 2014. AK has now conducted elections of office bearers to steer it as far as management of public resources is concerned.

The elections conducted on October 9, 2014 saw the National Assembly's Public Accounts Committee Chairman Ababu Namwamba elected as AK Chairman. Mr Omar Ahmed is the Vice Chairman while Kipyego Kitur is the Secretary General. Fred Riaga from Institute of Certified Public Accountants of Kenya (ICPAK) was elected Treasurer.

Topping the agenda of the AK was handling the disharmony existing between the Senate and the County Assemblies. There has been some overlap between the County Assemblies Public Investment and Accounts Committees and a similar Committee of the Senate in their oversight roles.

It has been noted that in some cases the Senate discussed Counties audit reports way ahead of the Counties involved thereby complicating effective oversight.

Consequently, AK organised a forum for all the County Assemblies' Public Investments and Accounts Committees from all the 47 devolved units to

come and engage with other oversight agencies so as to have a clear picture and separation of roles in terms of Senate and County Assemblies' mandate.

## Improving accountability

The forum, which took place at Kenya School of Monetary Studies in November 2014, was attended by more than 300 members of the County Assemblies' Public Investments and Accounts Committees.

During the meeting various speakers made presentations on how to improve accountability in counties, resource mobilization, role of watchdog committees whose roles include; examining accounts, ensuring transparency and accountability of resources, giving partisan recommendations in time to restore public confidence and sticking to factual evidence given in reports on audits and not resorting to hearsay based on media reports.

Mr Namwamba in his speech expressed joy in the strides that Accountability Kenya has made stating that it was growing as a focal point for accountability and transparency in Kenya. AK brings together the National Assembly, Judiciary, Controller of Budget, Office of the Auditor-General, Director of Public

Prosecutions, Ethics and Anti-Corruption Commission, the Police and ICPAK.

He told members that their role, apart from legislation, was to ensure accountability of the affairs of their respective Counties, emphasizing that they are representatives of the people and they bear the responsibility of oversight to ensure every penny allocated is used for its purpose.

Mr Namwamba further urged them to protect the Counties against misuse of resources and wastage and to also share experiences on how to strengthen each other.

## Members of AK Executive Committee

Ababu Namwamba- Chairman

Omar Ahmed- Vice Chairman

Kipyego Kitur- Secretary General

Fred Riaga- Treasurer

Francis Kiguongo- Member

Alice Chae- Member

Rose Maitai- Member

Charles Rasugu- Member



# Delegates converge in Manilla to review progress in Environmental Audit

By Joseph Gitaka



*Joseph Gitaka, from environmental audit, makes a presentation during the International Organisation of Supreme Audit Institutions-Working Group on Environmental Audit (INTOSAI-WGEA) meeting in Manilla, Philippines.*

**M**ore than 100 delegates from 50 countries converged in Manilla, Philippines for the 16<sup>th</sup> Working Group on Environmental Audit (WGEA) from September 29 to October 2, 2014 to review progress made.

The delegates from six regional Supreme Audit Institutions (SAIs), reported the progress of WGEA projects related to research studies, audit guidance and trainings to all members of the Supreme Audit Institutions (SAIs), providing a forum for sharing knowledge and experiences on current environmental auditing issues among the WGEA members.

WGEA aims to improve the use of audit mandate and audit instruments in the field of environmental protection policies, by both members of the WGEA and non-member SAIs. The six regional SAIs represented were Pacific Association of Supreme Audit Institutions (PASAI), African Organisation of Supreme Audit Institutions (AFROSAI), Arab Organisation of Supreme Audit Institutions (ARABOSAI),

Asian Organisation of Supreme Audit Institutions (ASOSAI), European Organisation of Supreme Audit Institution (EUROSAI) and Organisation of Latin American and Caribbean Supreme Audit Institutions (OLACEFS).

The session brought together members who shared their individual experiences in combating environmental issues such as reducing carbon dioxide (CO<sub>2</sub>) and other greenhouse gas emissions by the developed countries and water pollution among others. Wealthy ideas were exchanged on the best practice to manage waste.

## Management of waste

Relevant standards on management of waste were reviewed so as to address current issues in environment in the world. Areas of interest discussed at the meeting included; opportunities for auditors in the implementation of environmental rule of law as a mechanism for enhancing accountability on the path towards sustainable development, Environmental Performance Audit: Recommendations with a Domino Effect,

Citizen Engagement in Environmental Auditing and Market Based Instruments (MBIs) for Environmental Protection, amongst others.

In his speech, the Chair of the INTOSAI-WGEA from the Republic of Indonesia, Dr. Ali Masykur Musa stressed on the need to tackle global problems such as issues of climate change, forest degradation and deforestation, increasing sea water infiltration, water pollution, and air pollution and looked forward to the creation of productive values and ideas towards improving environmental quality worldwide.

The Office of the Auditor-General Kenya was represented at the meeting by Mr. John Kagondou (DAG-Specialised Audit) and two members of staff from Environmental Audit, Mr. Joseph Gitaka and Ms. Dianah Mugo. Kenya was among four countries in the world nominated to make presentations during the occasion.

Kenya's presentation was on measures to combat Illegal, Unregulated and Unreported (IUU) fishing and post-harvest losses in Lake Victoria.

# ICT Transformation in the Office of the Auditor-General

By Justus Ongera



ICT staff during a training session.

The Office of the Auditor-General launched major ICT projects in the financial year 2012-2013 with an aim of enhancing efficiency in OAG operations and services by leveraging operations on ICT. The ICT projects completed during this period are listed in the following table:

Project	Overall goal in OAG Strategy
1. SharePoint Intranet implementation	Goal 5 and 4
2. Implementation of Microsoft SQL server 2013	Goal 5 and 4
3. Lync Server for unified communications	Goal 5 and 4
4. Upgrade of our Mail Server	Goal 5 and 4
5. Implementation of Microsoft Project Server	Goal 5 and 4
6. Active Directory (AD) implementation	Goal 5 and 4
7. SLA and maintenance Agreement for ICT Equipment Maintenance	Goal 5 and 4
8. Data Centre Systems Upgrade	Goal 5 and 4
9. Supply of Cyberoam Firewall	Goal 5 and 4
10. Supply of Seventeen 2KVA UPS	Goal 5 and 4
11. Supply of Laptops (250)	Goal 5 and 4
12. Supply of Help Desk Software	Goal 5 and 4
13. Internet Bandwidth Upgrade 2Mbps to 10 Mbps	Goal 5 and 4
14. Supply, installation and commissioning of Oracle Audit Vault and Oracle Business Intelligence Enterprise system	Goal 5 and 4 And pillar 2 Continuous Audit Presence (OAG Strategic plan 2012 -2015)

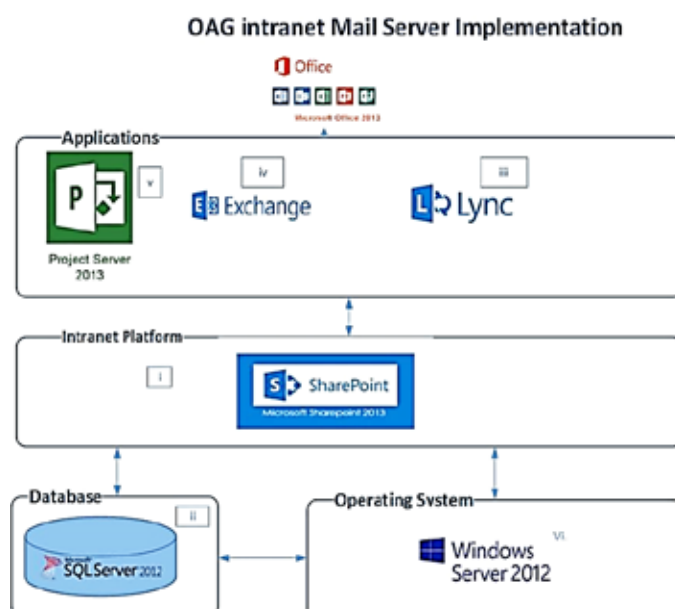
All these Projects enabled ICT upgrade its capacities in both our compute power and storage in our Data Centre and also improved our communication capabilities with the upgrade of our internet bandwidth. All these projects were implemented with the aim of improving work environment for members of staff and have better delivery channels with a clear vision for the future and in line with Goal 4 & 5 of our strategic plan.

Our driving force in ICT has been that IT landscape is evolving and technology is moving at an incredible pace, we therefore have to keep pace with these changes. On ICT infrastructure,

we are making sure that we are running 24/7 while at the same time managing increasing complexities. It should also be noted that ICT needs are quickly surpassing the IT capacity to support them and infrastructure complexity have been rising over the past years.

Some of the highlights of the completed projects are as follow:

## Intranet implementation



The Intranet implementation that the Office of the Auditor-General implemented is a combination of 6 interrelated projects as summarized in Figure 1:-

“Our driving force in ICT has been that IT landscape is evolving and technology is moving at an incredible pace, we therefore have to keep pace with these changes.”



#### i. **SharePoint server 2013**

The implementation of SharePoint was to provide a solution and capabilities to Members of staff perform the following key business tasks:

- ☐ Share Audit Information Securely and improve Efficiencies
- ☐ Organize work information and work teams
- ☐ Discover any new information being worked on and has been introduced into the system
- ☐ Build Virtual teams and reduce time taken to Audit and document findings
- ☐ Manage OAG data in our systems

This implementation was also aimed at providing OAG staff with specific solutions that guide them to desired behaviors by creating solutions that provide alternative options for sharing and collaborating during work cycles.

#### ii. **Microsoft SQL server 2013**

This was OAG's first enterprise-wide database implementation and was primarily done to support the SharePoint server implementation and was to form the base of MS-Access services that allow us to create workflows and online forms to be used on the intranet.

#### iii. **Microsoft Lync Server 2013**

The implementation of Lync Server 2013 was to enable the Office have an Enterprise-ready Unified communications platform to support real-time communications. This installation included the following solutions:-

- voice and video calls (Video Conferencing and Telephony)
- Lync Meetings (Web Meetings)
- persistent presence,
- instant messaging, and persistent chat

The benefits we anticipate to be accrued by this implementation are:-

- to enable us improve mobile productivity
- to enable communication in real time with colleagues, clients and Auditors in the field from virtually anywhere
- to enable us have new ways of collaboration with voice & video using a single unified client
- to share ideas and keep teams in sync
- to reduce costs related to video conferencing, telephony and travel
- to accelerate adoption of online services
- to reduce IT operations costs
- to enable a path to unified communications.

#### iv. **Mail Server Upgrade (Microsoft Exchange 2013)**

The Office also implemented the new Exchange server 2013 to replace our old open source Exim mail server which persistently gave us problems in maintenance and administration. This

implementation has allowed us rollout over 1,000 staff mail boxes to be used in communication.

#### v. **Microsoft Project Server 2013**

The Office also implemented project server 2013 that has allowed the Office to have an on premise solution for Project Portfolio Management (PPM) and everyday work planning. This tool will allow team members, project participants, and senior management prioritize project portfolio and deliver value from virtually anywhere on our network. With this implementation we took all audits as projects and it is anticipated this tool will allow members of staff perform part of their Audit management online.

#### vi. **Active Directory (AD) implementation using Windows 2012 Server Data Centre**

With the increasing number of applications and systems, and the increased number of users, we implemented an directory system that manages users identity centrally that provides a central place to store and manage information about users and their privileges. This system has enable us integrate with Microsoft® Online Services and adapt to new organizational security policies and compliance tracking.

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*When we look at our ICT infrastructure, we are making sure that we are running 24/7 while at the same time managing increasing complexities.*

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The Design and Implementation of Active Directory has enabled ICT division:

- Establish a unified directory architecture.
- Implement Active Directory domain controllers and a replication architecture that meets the service continuity needs of the Office of the Auditor-General.
- Migrate to a unified Active Directory on the Windows Server 2012 operating system together with the management and operational procedures required to help keep the directory highly secure and available.
- Integrate with other Microsoft's systems and security implementations.

#### **SLA and maintenance Agreement**

The Office also entered into an agreement with a leading ICT provider to provide ICT maintenance services to the office. This outsourced service concentrated on preventative maintenance and repairs of Office ICT equipment. We have managed to have ICT equipment maintained on quarterly basis and will review the same at the end of the year.

#### **Data Centre Systems Upgrade**

During the year we were able to upgrade our systems in our data Centre which included improvements to:-

- **Storage** ( We Upgraded from our storage from 7 Terabytes to 12 Terabytes)
- **Storage Management** (Upgraded from Data OnTap 7.1 to 8 on our NetApp Storage Box)
- **Power** (We installed a New 10 KVA UPS)

- **Monitoring** (Installed a New Data Center Monitoring Tool)
- **Compute Power** (Installed 3 New servers that are Hosting the SharePoint, SQL and Mail Servers)

Apart from the above we implemented a new server management policy in which all our servers implemented in the Data Centre will be on Virtualized Environments either on Microsoft Hyper-V or any other VMS.

#### Cyberoam Firewall

During the year we also implemented Cyberoam Firewall systems. Cyberoam is a Layer 8 Human Identity-based firewall appliance enables us implement work-profile based policies and a single interface for policy creation across all features, providing ease of management and high security with flexibility. With this implementation we are able to provide:-

- A Network security solution (Next-Generation Firewall and UTM appliances),
- A Centralized security management system (Cyberoam Central Console appliances),
- A centralized visibility system across our (Cyberoam iView of all our IT Network Node)

We implemented this Cyberoam network security appliances that included the following components over a single platform:

- Firewall –VPN (SSL VPN & IPsec),
- Gateway Anti-Virus,
- Anti-Spyware & Anti-Spam,
- Intrusion Prevention System (IPS),
- Content & Application Filtering,
- Web Application Firewall,
- Application Visibility & Control,

This means that we are now able to secure, to an extent, our network from outside intrusion.

#### Supply of Seventeen 2KVA UPS

We also purchased 17 UPSs which were installed on our network cabinets located on 17 sites across the country.

#### Supply of Laptops (250)

During the year the Office purchased an additional 250 laptops to increase the number of laptops to 332. This brought the ratio of laptops to users in the OAG Office to 1:3. The target that the Office wants to achieve is 1:1 by the end of 2015.

#### Help Desk Software

During the year we also implemented our helpdesk software (Manage Engine) which has provided a Solution that delivers a comprehensive platform to manage our end users and provide efficient support to users. The following Help Desk solutions are now available with this new implementation

Incident Management	Problem Management	Change Management
Service Catalog	Asset Management	Purchase Management
Contract Management	Remote Control Management	Multiple Account Management
Reporting & Dashboards	Telephony Integration	Self-Service Portal
Knowledge Base	Social Media Integration	CRM Integration
API Integration		

#### Internet Bandwidth Upgrade 2Mbps to 10 Mbps

With Increased ICT it was inevitable that we upgrade our bandwidth from 2 Mbps to 10 Mbps to the HQ and to 1 Mbps to each of our other Hubs and teams. It should be noted that with demands coming from users we have not been able to reach our optimum capacity. We will therefore be reviewing this in the next few months especially when we roll out the intranet to all or sites countrywide.

#### Audit Vault and Oracle Business Intelligence Enterprise system

During the year we also embarked on one of our most ambitious project that was to allow us to connect to Audit data on Clients systems and the first system that we targeted was IFMIS which provides Government Financial records. The Audit Vault and Oracle Business Intelligence systems was to:-

- Provide a secure and scalable solution for consolidating audit data generated by:
  - ✓ Oracle,
  - ✓ Microsoft SQL Server,
  - ✓ IBM DB2 and
  - ✓ Sybase ASE.
- Provide a system to automate the audit consolidation process, turning audit data into an important security and compliance resource.
- Enable ICT set up a server that will collect information on behalf of the Auditor by Creating the Alert and an information dissemination system to the Auditor.

#### Other Systems and projects

##### i. Yammer Implementation

During the year we also extended our Social Media presence by implementing yammer. Currently we have slightly over 350 users and our aim is that by the end of this financial year we will reach 500 users and if funds, allow we will be able to upgrade our Yammer implementation by integration it to SharePoint.

##### ii. Change Of ICT Structure

During the year Management also Split ICT to 3 units namely ICT Software Applications, ICT networks and Communications and ICT Operations. This was aimed at streamlining our operations and aligning them to Industry best practice.





# Office of the Auditor-General

*Promoting Accountability in the Public Sector*

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 the other independent Office (Controller of Budget).

Under 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, all funds and authorities of the national and county governments, every Commission and Independent Office established by the Con-

stitution, the Senate, the National Assembly and the county Assemblies, political parties funded from public funds, the public debt and the accounts of any entity that legislation requires, and any entity that is funded from public funds.

In addition, Article 229 (6) of the Constitution of Kenya requires the Auditor-General to confirm whether public money has been applied lawfully and in an effective way. Currently, the Office has a client portfolio of 1,446 with 1,316 financial statements detailing their mandates, assets, liabilities, revenues, expenditure, risk levels and under what pillars they are audited.

## Our Core values

The foundation of the OAG's operations is anchored on four key values which also guide the Office in its interaction with stakeholders. The values are:

### Independence

As the Supreme Audit Institution in Kenya, the Auditor-General and his staff are independent and not subject to direction, control or influence by any person or authority.

### Integrity

We adhere to practices and behaviour that are impeccable and above reproach in the conduct of our affairs. We undertake and report all assignments on the basis of factual, objective, impartial and honest evidence without bias.

### Professionalism

We subscribe to the highest professional standards, adopt leading practices and uphold ethical behaviour in the conduct and supervision of audits. We strive to work economically, effectively and efficiently as individuals and teams.

### Innovation

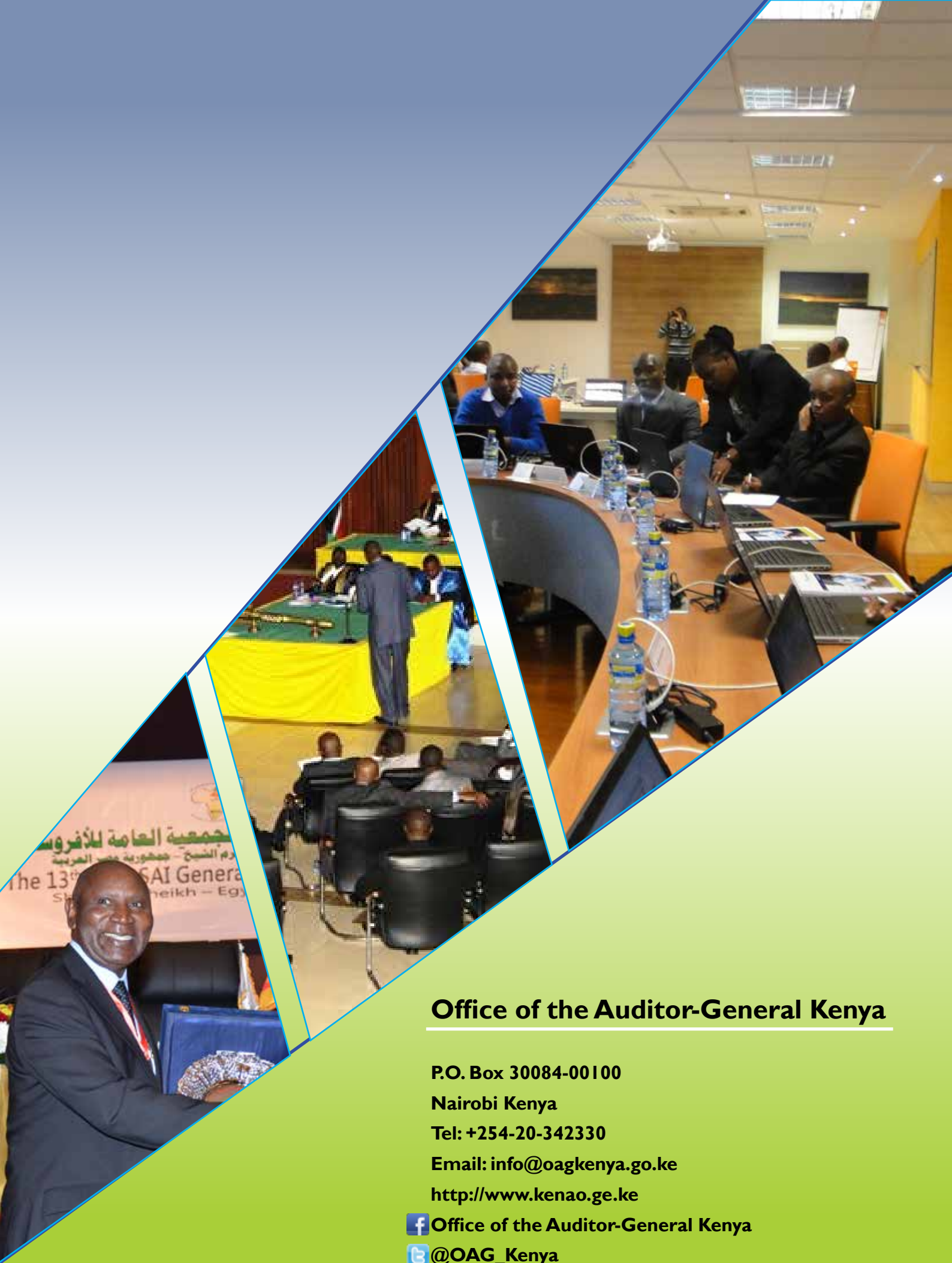
We will endeavour to continuously improve our practices and processes in order to fulfill our mandate more effectively. We value the talents of our employees and their diversity. All employees are encouraged to be innovative in their work.

### 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.



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