

Supreme Auditor



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Embracing Smart Audit

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Editor's Note

In this edition we focus on the transformation the Office of the Auditor-General has undergone since it was created as an Independent Office under the 2010 Constitution. The transformation revolves around restructuring of the audit function to focus on smart audit as well as devolving services to the grassroots.



Amid this transformation, the Office prides itself as one of the highly-regarded institutions in auditing, which is why it was honoured to audit the General Auditing Commission of Liberia. The details of this assignment is captured by one of the auditors who was in the team to the West-African country. Additionally, the Working Group on Socio-Economic Audit of the Constitution, chaired by the Auditor-General, concluded its work and handed over its report to Budget and Appropriations Committee of the National Assembly. The details are captured in this publication.

The edition also highlights the contents of the Public Audit Act, which was enacted in December 2015. The Act outlines the operations of the Office, in line with the Constitution. Also captured in this Magazine are the deliberations at the International Organisation of Supreme Audit Institutions-Working Group on Audit of Extractive Industries (INTOSAI-WGEI), which the Office hosted in Mombasa. Alongside, an industry expert, Dana Wilkins, gives her views on Supreme Audit Institutions (SAIs) and resource governance.

The Office is also strengthening its Stakeholder engagement strategy and has been conducting a number of Media Workshops to enhance understanding of audit process, for more effective and accurate reporting. Find details of this and many more articles in this edition.

Enjoy your copy!!!

Peter Opiyo



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Value Of Audit

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Mandate of Offices that guard public spending

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We are restructuring our audit function and **reaching the citizens at the grassroots**

It has been five years since the establishment of the Office of the Auditor-General under the 2010 Constitution. Since then the Office has re-structured its Operational Plan to align itself with the Constitution and more importantly respond to the public needs.

The Constitution envisages 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.

This requires that we adopt strategies that will respond to these expectations. Within this five-year period the Office has set its target on conducting smart audits to ensure that transactions are captured real-time, away from the traditional pathological audit where auditors have to wait for the closure of financial year to commence their work. While this is still practised, smart audit will complement the operations and also save on time of auditing books of accounts.

The Office has therefore adopted an auditing software, Audit Vault, which is able to track transactions on Integrated Financial Management Information Systems (IFMIS) platform, the financial transaction superhighway for government transactions, in real time.

This new development, as compared to the past, will significantly reduce the time taken to collect Audit planning information to the Auditor by at least 3 months after the end of the financial year.

In terms of spreading our services to the ground, the Office is operating nine regional offices, known as Hubs, to coordinate its operations at the county level. Each Hub is headed by a Director or an Acting Director, who oversees the functions in a number of counties within their jurisdictions. The Hubs cover a cluster of counties, at an average of five counties for each regional Office.

The nine Hubs are Nairobi, Nakuru,

Mombasa, Kisumu, Nyeri, Embu, Eldoret, Kakamega and Garissa.

But the Office is not stopping at the establishment of the nine Hubs, instead it is going further to create county offices to bring the services closer to the citizens.

In this regard, in September 2016, the Office opened its first County Office in Bungoma town in western Kenya. With a staff of 15, the Office will provide audit services to county governments of Bungoma and Busia as well as public entities within these two counties.

We have also recorded remarkable strides in helping the public understand our reports to enable them have a grasp of how their taxes have been spent.

In terms of spreading our services to the ground, the Office is operating nine regional offices, known as Hubs, to coordinate its operations at the county level.

As the shareholders of this country, the public has every right to get a report on how their company, Kenya, has performed. This feedback can only be effective if our reports are easy to understand. To this end we have been simplifying our audit reports and coming up with summarised versions for easy read and understanding.

The media and civil society play a critical role in this aspect and our engagements with them have been valuable. Given the influence of the media, we have targeted a pool of journalists, who interact with our reports, for capacity-building workshops to enhance their reporting



skills on audit findings.

The result so far has been encouraging and we will endeavour to carry on with these Workshops. A media handbook has also been developed to assist journalists who may not have the opportunity to attend these workshops, to effectively decipher the contents of audit reports during their work.

The Civil Society's reach is also of significance and we have offered technical support in the development of 'A Guide to Understanding National and County Audit Reports,' which was spearheaded by the Parliamentary Initiatives Network (PIN).

This Guide has been launched and is targeted at individuals and organisations. This will help them understand the language and key issues that are captured in audit reports.

It is our belief that these measures will make the audit reports resonate with **Wanjiku** (citizens) hence creating increased interest that will enable the people make informed decisions in leadership, based on effective management of public resources ■

FCPA Edward R.O. Ouko, CBS

AUDITOR-GENERAL OF KENYA

Transformation: Embracing Smart Audit

The project is responding to delivering timely and quality reports enabling the Office to deliver on its core mandate.

By Dr. Domenic Kamenyi

August 2016 marked five years after the establishment of the Office of the Auditor-General as an independent Office in the 2010 Kenyan Constitution.

Since then the Office has been transforming itself into an institution that effectively responds to the needs of the public and stakeholders.

The transformation is marked by streamlining the operations of the Office to respond to the ever changing and growing needs of the public.

One of these changes is on conducting smart audit. The Office is now implementing an Audit Management System (AMS) that will enable delivery of quality and timely audit reports. This is geared towards doing smart audit through leveraging on ICT.

This responds to the Office's Strategic Plan 2015 – 2018, goal 1: To ensure the Quality and Timeliness of Audit Reports is enhanced by leveraging on ICT in order to improve timeliness in audit and at the same time implement uniform audit methodology that improves quality of reports.

To achieve this goal, the Office has come up with two objectives:-

1. To leverage on ICT and use of Computer Assisted Audit Techniques (CAATs);
2. to enhance Information Systems audit capacity and systems for efficient and effective audit.

To respond to objective 1, one of the measures that the Office is putting in place is procuring and deploying to all Hubs (regional offices) an Audit Management System. This undertaking is in its advanced stages.

Consequently, the Office has put in place a Special Project Team on IT Audit Function to coordinate this transformation. The team, which reports to the Auditor-General, is headed by the Director of IT Audit. Its principal role will be to coordinate the implementation of AMS.

Other Team members are drawn from different functional areas including Planning, Quality Assurance, Audit, Finance and ICT. The Special Project Team was inaugurated by Deputy Auditor General (Corporate Services), on 15th April 2016.

Since then the Special Project Team has developed the Project Charter



Since then the Office has been transforming itself into an institution that effectively responds to the needs of the public and stakeholders. The transformation is marked by streamlining the operations of the Office to respond to the ever changing and growing needs of the public.

that outlines how the implementation of AMS will be carried out. Moreover, the team has developed several drafts implementation documents including the AMS Deployment, Training and Communication Strategies and Plans.

AMS Components

An Audit Management System has the following Components:-

1. Audit Documentation and Reporting, popularly known as Electronic Working Paper (EWP)
2. Audit Planning
3. Audit Risk assessment
4. Audit Time and Expense Capture
5. Audit Tracking and monitoring

The Office of the Auditor-General intends

to implement all the five modules of an AMS. To respond to this, the Special Project Team, with guidance from UNES ICT Change Advisor, is currently carrying out Business Process Review of the following OAG Audit Processes:-

1. Annual Operational Planning and Monitoring
2. Preparation of Audit Plans Procedures
3. Audit Risk Assessment Procedures
4. Audit Expense Management Procedures
5. Audit Staff Time Management Procedures
6. Certification Audit Execution Procedures
7. Quality Assurance Procedures
8. Audit Report Preparation Procedures

In so doing, the implementation of the five modules will be properly achieved.

The success of this AMS Special Project will be pegged on the cooperation of everybody in the Office of the Auditor-General. The project is responding to delivering timely and quality reports enabling the Office to deliver on its core mandate.

The Auditor-General is the Project Sponsor and the Deputy Auditor-Generals are the Project Champions. The Directors with their Managers and Teams are the Project implementer.

Smart audit is one of the strategies the Office has put in place to respond to the fiscal and managerial accountability aspects of auditing, as required by the Constitution ■

Devolving **the Audit function**

The creation of 47 mini-governments at the counties has necessitated a shift in operations at the Office of the Auditor-General.

All the 47 County Governments are financed from the public coffers calling for an effective and timely audits of their accounts. Other than relying on its staff from Nairobi to go down to the grassroots to audit these funds, the Office has created regional Offices (Hubs) to handle audit functions in the counties.

Each Hub is headed by a Director or an Acting Director, who oversees the functions in a number of counties within their jurisdictions. The Hubs are nine and cover a cluster of counties, at an average of five counties for each regional Office.

The nine Hubs are Nairobi, Nakuru, Mombasa, Kisumu, Nyeri, Embu, Eldoret, Kakamega and Garissa.

But the Office is not stopping at the establishment of the nine Hubs, instead it is going further to create county offices to bring the services closer to the citizens.

In this regard, in September 2016, the Office opened its first County Office in Bungoma town in western Kenya. With a staff of 15, the Office will provide audit services to county governments

“We hope by opening this County Office today we shall reduce the number of days and time wasted travelling long distances to audit these counties and therefore be able to meet the audit timelines as required by the Constitution”, Ms Mita said.

of Bungoma and Busia as well as public entities within these two counties.

The Bungoma Office is situated at Immigration building in Bungoma town.

Decentralising audit services

While opening the Office, Deputy Auditor-General (Corporate Services), Ms Agnes Mita said the move will decentralise the provision of audit services thus reducing

distance covered during audit work, and also enhance efficiency and timeliness in delivery of audit reports.

“We hope by opening this County Office today we shall reduce the number of days and time wasted travelling long distances to audit these counties, and therefore be able to meet the audit timelines as required by the Constitution”, Ms Mita said.

The Deputy Auditor-General said the plan is also intended to fulfill constitutional requirement on the role and mandate of the Auditor-General.

“We are re-orienting the Office to respond to the expanded constitutional mandate to ensure service delivery to **Wanjiku** (citizens),” Ms Mita said.

She said that though the expansion plan comes with financial and human resource challenges, the Office will strive to look for resources to overcome these challenges.

“As an Office, we fully understand that this will require additional resources in-terms of human resource and finances to equip the new offices. Despite these challenges, we are determined to take accountability to the ground and ensure this country’s resources are safeguarded and used to benefit **Wanjiku**,” she said ■



Kakamega Hub Acting Director, George Otieno (left) takes Deputy Auditor-General (Corporate Services), Agnes Mita (far right) on a tour of the Kakamega Office.

Featuring Embu Hub Office

The Office has a client portfolio of 122 spread across the region. This number comprises 36 Constituency Development Funds, 51 districts and 13 water companies. Others are seven county Executives, seven County Assemblies, four donor-funded projects and four universities.

By Anne Rose Kairu

Embu Office is one of the nine regional offices (Hubs) that carry out audit function in a number of counties within the eastern region of the country. It is located in Embu town, at the former Eastern Provincial Commissioner's Building.

The Office has a client portfolio of 122 spread across the region. This number comprises 36 Constituency Development Funds, 51 districts and 13 water companies. Others are seven county Executives, seven County Assemblies, four donor-funded projects and four universities.

Acting Director, Ms Tabitha Waweru, who heads Embu Hub, says these clients are served by 28 audit staff. These officers cover Kitui, Marsabit, Isiolo, Meru, Tharaka Nithi, Embu and Makueni counties.

The devolution of the audit function has created a lot of public interest in public finance management and Ms Waweru says her office continually receives concerns from members of the public asking for intervention in projects they feel have been mismanaged.

"When you see people giving you information and writing letters to go investigate something, that is a sign of confidence in our Office," Ms Waweru says.

Public interest

Given this increased interest in the audit function, she says the Office is toying with an idea of having public forums where the people can identify projects that they feel were not well-managed, before they engage the counties for auditing.

"Before we go to audit a county we should have a forum with residents of that county so that they can give their views to us. So this is an issue we have been debating on how to get the people. You know the people have more information than us. If it was a project that has stalled or abandoned you can get this from the residents, so our job will be to go to the records, check and confirm," she says.

The Chairman of Public Accounts and Investments Committee (PAIC) at Embu County Assembly, Mr Peter Ngari concurs saying the public is keen on following up recommendations of the Committee reports on audit findings.

This development means the Members of the County Assemblies must conduct timely and effective interrogation of audit reports. This calls for technical support from the auditors. Mr Ngari says the Office of the Auditor-General has been of much help in this regard, willingly enhancing the capacity of members in interrogating the audit reports.

"We have had trainings conducted by the Office of the Auditor-General which are very helpful. These trainings help the Committee to effectively interrogate audit reports, and even if we have members who are not well-conversant with these things, through these trainings they become sharper," Mr Ngari said.

Technical assistance

Apart from capacity-building workshops, Ms Waweru points out that auditors are available for technical assistance to the Public Accounts and Investments Committee (PAIC) members, any time.

"Audit Managers normally go to the Assemblies to discuss the reports, they sit down with the Committees and take them through the reports before they start interrogating clients on the audit findings," she says.

One major concern among some audited entities is late submission of relevant documents for auditing. In some instances documents are not submitted at all, a situation Mr Ngari attributes to impunity, disorganisation and ignorance.

This, Ms Waweru says interferes with the auditing cycle leading to late submission of audit reports. The PAIC Chairman says this is a major concern and has proposed that punitive action should be taken against such entities.

"We have witnessed delays in submission of documents for auditing because some clients are disorganised. It is a concern and we have recommended some punitive action in our reports," Mr Ngari says.

The law requires audited clients to avail all documents for auditing and the auditors are required to audit and report to Parliament and County Assemblies by 31st of December, six months after the end of the financial year. On the other hand all public institutions must avail their financial statements for auditing by 30th of September.

Apart from the late submission of documents, Ms Waweru points out that the expansive nature of the region, compounded by poor access to projects in the villages pose challenges to the auditors, thus affecting timeliness in delivery of reports.

Insecurity in some counties also affects audit work. She says at one point she had to withdraw a team of auditors from the Isiolo and Meru Counties due to insecurity arising out of border dispute between the two counties ■

OAG Regional Offices (Hubs)

Embu- Embu, Meru, Kitui, Isiolo, Makueni, Tharaka Nithi, Marsabit.

Nyeri- Nyeri, Nyandarua, Muranga, Laikipia, Kirinyaga, Kiambu

Kisumu- Kisumu, Siaya, Homabay, Kisii, Nyamira, Migori

Nairobi- Nairobi, Kajiado, Machakos

Garissa- Garissa, Wajir, Mandera

Kakamega- Kakamega, Busia, Vihiga, Bungoma

Mombasa- Mombasa, Kwale, Tana River, Kilifi, Taita Taveta, Lamu

Eldoret- Uasin Gishu, Elgeyo Marakwet, West Pokot, Turkana, Samburu

Nakuru- Nakuru, Baringo, Kericho, Nandi, Narok, Bomet



Chairman, Public Accounts and Investments Committee, Embu County Assembly, Peter Ngari



Tabitha Waweru, Acting Director-Embu Hub

Using Oracle Audit Vault to monitor real-time transactions

"This new development, as compared to the past, will significantly reduce the time taken to collect Audit planning information".

By Justus Ongera

The Office of the Auditor-General has acquired an audit software and Business Intelligence tool to carry out real time audit on transactions taking place within the government and other public entities.

The tool (Audit Vault) is able to track transactions on Integrated Financial Management Information Systems (IFMIS) platform, the financial transaction superhighway for government transactions, in real time.

This new development, as compared to the past, will significantly reduce the time taken to collect Audit planning information.

Already the Office has released financial information to at least 5 regional Offices (Hubs) and two sectors. The information relates to trial balance, the vote book, General ledger, Appropriations Accounts and payments from IFMIS.

The ICT department is in the process of finalising the design of Dashboards for audit managers and team leaders to enable them run these reports in real time without any assistance from ICT.

Audit Vault

Oracle Audit Vault is a system that provides a first line of defence for databases that consolidates or combines audit data from databases, operating systems, and directories. It also monitors unauthorised activities like deletions, insertions before they reach the database. This data can be collected in real time. The Vault enables audit data collection, monitoring of suspicious activities and reporting on any security violations.

Audit Vault provides a holistic approach to database protection, threat management, forensics and auditing. By collecting and consolidating audit data, firewall traffic and logs generated by databases, operating systems, directories and more; it gives Auditors and IT security staff the ability to monitor, discover and audit information generated by the systems we target.

Need for the Audit Vault

IFMIS is like "a highway" from point A to B where all "vehicles" must pass to reach point B. But on this highway there are some vehicles that will divert before reaching point B. So other than waiting at point B to count the vehicles that reached, and running the risk of not knowing how many vehicles were diverted, there is need to have "Closed Circuit Television" (CCTV) Cameras along the highway to

capture the movement of each vehicle.

Public funds are therefore the vehicles on the highway. The CCTV Camera, in this case, is the Audit Vault which can be used to monitor, capture and detect illegal transactions (diverted vehicles) within this financial highway in real time.

Capabilities of the Audit Vault

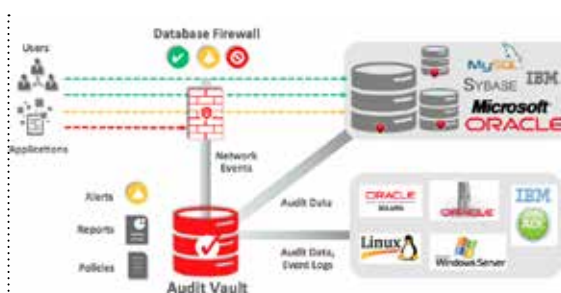
Audit vault with the support of Oracle Business intelligence can be able to

- Monitor database activity over the network, in our case IFMIS;
- View all IFMIS database activity based on information collected from the IFMIS database logs, securely stored in a centralised, enterprise-scale repository which cannot be deleted;
- Provide centralised data security auditing across IFMIS;
- Provide custom reports and powerful Business Intelligence tools that will allow the Auditor-General to go as deep as necessary for forensic analysis or e-discovery purposes of all IFMIS information.

Audit Vault provides a centralised, consolidated and secure storage of audit and log data. This can make quick and easy work of compliance reports and other functions that support auditors or investigators during assessment and forensic follow-up.

This new development, as compared to the past, will significantly reduce the time taken to collect Audit planning information to the Auditor by at least 3 months after the end of the financial year.

In addition to consolidating audit data from multiple platforms, Audit Collection Plug-ins can be used to collect data from application tables and files and then send that data to the Audit Vault Server. This will provide the Office of the Auditor-General with the capability to collect, consolidate, and manage event logs across many platforms, databases, file



systems and directories.

Over the years, the Office of the Auditor-General (OAG) has used manual audit processes that are tedious and time consuming, which means that few, if any, reviews of the audit data will be very thorough.

The Audit vault can also give us the ability to view any data in the IFMIS database such as privileges and stored procedures, which enables auditors to track the use of, and changes to, procedures by applications as well as their users.

The Stored Procedure Audit Reports in Audit Vault also provides the listing of how the stored procedures have been modified, when stored procedures are created or deleted, and other related activity.

It can also help the auditors find evidence of policy violations, such as the misuse or inappropriate access of confidential data by an insider.

The implementation process has now entered a critical phase where the Office has connected to the production environment of IFMIS and has carried out tests for a number of months.

The full implementation of Oracle Audit Vault and Oracle Business Intelligence System will provide OAG with Government-wide monitoring of audit and log data from IFMIS database engines, underlying operating systems and even other systems.

It will give the Office the ability to monitor IFMIS systems in a single console (monitoring window) that will help break down the information silos that leave IT environments vulnerable.

Overall, the Audit Vault provides efficiencies for OAG looking for a way to quickly detect what actions are occurring in IFMIS databases—what actions should not be allowed—and streamline their protection and audit capabilities.

This will assure the public that their resources are used lawfully and effectively for the people of Kenya ■

Team completes **audit of the Constitution**

"Kenya has more representatives (number of MPs and MCAs) compared with countries with similar population and size of economy. The number of MPs alone is above the global average," the team noted in its report.

By Martin Kilungu

The Working Group on Socio-Economic Audit of the Constitution wound up its work with the presentation of the final report to the Budget and Appropriations Committee (BAC) of the National Assembly.

Under the Chairmanship of the Auditor-General, Edward Ouko, the team handed over the report to BAC Chairman, Mutava Musyimi at main Chamber of Parliament Buildings in October 2016. Reduction of the number of Members of Parliament (MPs) and Members of County Assemblies (MCAs) was one of the key recommendations of the team.

In its report the team said Kenya has more representatives compared to other jurisdictions of similar population and size of economy.

"Kenya has more representatives (number of MPs and MCAs) compared with countries with similar population and size of economy. The number of MPs alone is above the global average," the team noted in its report.

The team, which was established by the National Assembly in February 2014, also noted that following the advent of devolution, duplication of some roles and resources have been evident at the national and county levels. It therefore recommended that the duplication of efforts and resources should be eliminated.

Also recommended was the need to enact legislation to establish a formal working relationship between the Senate and County governments and development of a National Policy on devolution to guide the implementation process.

Costing analysis of devolved functions

The report further recommended that there is need to conduct a costing analysis of devolved functions to guide the amount of funds allotted to Counties and that personnel offering specialised services who are concentrated in Nairobi should be deployed to Counties to improve service delivery.

These recommendations, amongst others, were arrived at after a two-phased process that involved stakeholder engagement and field surveys.

Phase one of the audit involved a desktop review of the Terms of Reference (TORs) as given by the National Assembly as well as the review of the 1963 Independence Constitution, the 2010 Constitution, Constitution of Kenya Review Commission (CKRC) reports, Laws enacted from



Members of the Working Group on Socio-economic Audit of the Constitution pose for a photo and (Inset) sign the final Report.



Independence to date, and other relevant documents.

It also involved high level engagement of the key stakeholders especially those who were involved in the Constitution making process, various levels of leadership including the Executive, National Assembly, and Senate, the Judiciary, Constitutional Commissions and Independent Offices. Also among those consulted were prominent legal experts and other institutions.

At the end of this phase, an Interim report was produced and presented to Parliament through the Budget and Appropriations Committee in May 2015. Some of the recommendations have since been implemented while others lead to various initiatives including efforts to enact laws and even attempts to amend the Constitution.

The second phase involved presenting the interim report and its recommendations to various stakeholders as part of verification and citizen engagement in order to refine them accordingly. Among the stakeholders engaged at this level were various committees of the National Assembly, the County Speakers Forum, Council of Governors, Majority and Minority leaders of various Counties,

and select County Executives in charge of devolved functions in all Counties.

This phase also involved engaging 'Wanjiku' through a country-wide perception survey. This was done through questionnaires administered to a randomly selected 2,980 respondents across the country. This exercise was supported by the Kenya National Bureau of Statistics ■

The TORs of the Working Group

- 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;
- Evaluating the social impact resulting from the implementation of the Constitution;
- Making recommendations to the National Assembly on potential measures that could enhance prudent management of the country's public resources;
- Investigate, determine and advise on any matter related to, relevant, consequential or incidental to the foregoing; and
- Consult as necessary with the National Assembly through the Budget and Appropriations Committee.

Delegates discuss Audit of **Extractive Industries**

"Lack of a policy in the audit of extractive industries poses a challenge for auditors to access the needed oil and gas information for audit, to enable them come up with good and implementable audit recommendations which can improve services to citizens."

By Peter Opiyo

Auditors from 36 countries converged in Mombasa, Kenya to deliberate on issues emerging out of auditing of oil, gas and minerals.

The 3rd Annual Meeting of the International Organisation for Supreme Audit Institutions- Working Group on Audit of Extractive Industries (INTOSAI-WGEI) took place from August 24 to 26, 2016.

The event brought together about 80 delegates from INTOSAI-WGEI member countries, stakeholders and experts from different organisations.

Representing the Kenyan government, the Principal Secretary, Ministry of Mining, Dr Ibrahim Mohamed said the government has embarked on transforming laws, in the mining, sector to ensure transparency and accountability in management of resources.

"We have, as a Country, embarked on an unprecedented and rigorous process to transform our legal, policy, regulatory and institutional frameworks to ensure transparency and accountability in our mining sector. Towards this end, and in compliance with our Constitution, we have embarked on a proactive engagement and involvement of our public and various stakeholders in our reform agenda," Dr Mohamed said.

Mr John Muwanga, the Auditor-General of Uganda and Chairman of INTOSAI-

WGEI underscored the role of Supreme Audit Institutions in ensuring that the management of oil, gas and minerals benefit the citizens.

"Our mandate as Auditors-General is to see that the governance structures that oversee the utilization of these public resources (i.e. Oil, Gas & Minerals) are sound and transparent, and provide the requisite assurance to citizens that value for money was attained. We want to ensure

*Other topics covered were:
Small scale (artisan) mining for sustainable growth: Opportunities and Challenges, the Policies and legal framework in Extractive Industry to ensure sustainable growth, amongst others.*

that a country's citizens much needed relief from poverty can be realised, rather than being a source of rising problems, which have ended in hostility, conflict and aggression— thus creating a scenario which is often referred to as the "resource curse", Mr Muwanga told the delegates.

Audit of extractive industries (oil, gas and minerals) is a new field and has faced its fair of challenges, leading to the establishment of a Working Group within INTOSAI to address these shortfalls.

UN Sustainable Development Goals

While giving his remarks, the Auditor-General of Kenya, Mr Edward Ouko said proper management of extractive industries will lead to attainment of UN Sustainable Development Goals and asked all stakeholders to join hands and make this a reality.

"The attainment of these goals lies with every institution, with the ultimate goal of transforming lives of the citizens. It is a role that cannot be left to the UN and INTOSAI alone, every institution must be in this train as we are all leading to one destination. It is my hope therefore, that the galaxy of experts at this Conference will put their thoughts together to come up with a roadmap that leads to this common destination," Mr Ouko said.

He further called for capacity-building programmes to empower auditors to effectively undertake their work, given the complexity and technical nature of the extractive industries. Mr Ouko also said a policy needs to be put in place to make auditing of oil, gas and minerals, easier.

"Lack of a policy in the audit of extractive industries poses a challenge for auditors to access the needed oil and gas information for audit, to enable them come up with good and implementable audit recommendations which can improve services to citizens," Mr Ouko said.

The meeting witnessed presentations of various papers by experts in the extractive industries. Among the topics handled were: *A world with oil, gas and minerals price volatility and its impact on sustainable growth and the role of SAIs and Sustainable growth best practices: Sovereign fund and Diversification."*

Other topics covered were: *Small scale (artisan) mining for sustainable growth: Opportunities and Challenges, the Policies and legal framework in Extractive Industry to ensure sustainable growth, amongst others.*

This was the third Conference since the Working Group on Audit of Extractive Industries was established by INTOSAI in 2013. The first meeting was held in Norway while Uganda hosted the second meeting in 2015 ■



Auditor-General, Edward Ouko addressing delegates at the 3rd Annual Meeting of International Organisation of Supreme Audit Institutions-Working Group on Audit of Extractive Industries (INTOSAI-WGEI), in Mombasa. Seated from left are Principal Secretary, Ministry of Mining, Dr Ibrahim Mohamed, Auditors-General, John Muwanga (Uganda) and Steven Wondu (South Sudan).

Supreme Audit Institutions: **The Guardians of Resource Governance**

By Dana Wilkins

They go by different names but share the same higher principles. Most people don't know they exist but there they are, built into every national government, working tirelessly to ensure public resources are collected and spent as they were meant to be. They are Supreme Audit Institutions (SAIs), and they are the guardians of public financial management and natural resource governance.

In August, 2016, I had the honour of participating in the Third Annual Meeting of the International Organisation of Supreme Audit Institutions-Working Group on the Audit of Extractive Industries (INTOSAI-WGEI) in Mombasa, Kenya. The meeting was attended by SAI officials from all over the world, committed to strengthening their role in natural resource governance.

Our discussions covered many of the most pressing issues of the moment (commodity price volatility, economic diversification, artisanal mining, public-private partnerships...) and examined the implications for SAIs' work.

SAIs' effectiveness

The session I led focused on the factors that help or hinder SAI effectiveness in resource revenue oversight. This included things like legal authority, independence, capacity, leadership, and external relationships and support.

In the group discussion, one Auditor-General stressed how common it is for constitutionally mandated access rights to be ignored by auditees, particularly around sensitive information. Another official lamented excessive bureaucracy that delayed audit reports to the point of uselessness.

Others flagged parliamentary

indifference as a major challenge, and the danger of having one auditee responsible for releasing operating funds and a second auditee responsible for approving new hires.

One intervention in particular really struck me: the political will of leadership is everything. A SAI can have all the advantages of in-depth technical expertise, sufficient resources, a comprehensive legal mandate, and a strong Auditor-General ready to speak out on restricted access and damning findings. But if the head of government doesn't acknowledge and support the critical role of the SAI, impact will likely be limited. This makes it critical that resource governance advocates understand the basics of SAIs and pay attention to their work.

Starter guide

The following is a starter guide on SAIs and resource governance:

- SAIs produce highly-detailed audit reports on government accounts and operations, but typically rely on Parliament and law enforcement to follow up on their findings. In some countries, reports exposing serious mismanagement and inefficiencies are produced year after year with little action taken.
- SAIs conduct financial (accuracy of accounts), compliance (adherence to legislation and budgets), and performance (efficiency and effectiveness of government programs) audits.



A delegate contributes during the 3rd Annual General Meeting of the INTOSAI-WGEI in Mombasa, Kenya

Financial and compliance audits are the traditional focus of SAIs, but performance audits have become a popular way to scrutinize resource governance policies.

- SAIs can and do conduct audits along the entire decision chain, from auditing compliance with extractives legislation and contract allocation processes, to assessing State-Owned Enterprise (SOE) operations and environmental impacts.
- SAIs are sometimes systematically weakened and restricted by officials with interests in keeping resource management opaque. Such tactics include limiting access to documentation, cutting financial and human resources, and censoring reports.
- Certain conditions—strong leadership, a good relationship with Parliament, strategic public communications, and support from development partners and other SAIs—can help SAIs overcome these restrictions.

The Natural Resource Governance Institute (NRGI) is already working with SAIs in a few of our country programmes and through our engagement with the WGEI. They are also covered (albeit in a small way) in the forthcoming Resource Governance Index and the Natural Resource Charter benchmarking framework.

But the natural resource governance community can and should do more to support the guardian work of SAIs, and the Mombasa WGEI event was an important rallying point that I am happy to have been a part of ■

The writer is an Integrity Specialist at National Governance Resource Institute, USA



Delegates register at the INTOSAI-WGEI meeting

Environmental Audit and its benefits

By Daniel Mukuria

Every citizen is entitled to a clean environment as enshrined in the Kenyan Constitution. Article 42 of the Constitution states that "Every person has the right to a clean and healthy environment, which includes the right to have the environment protected for the benefit of present and future generations through legislative and other measures.

Further, Article 69 elaborates on those rights and obligations, and encourages public participation in the management, protection and conservation of the environment where citizens play a critical role in ensuring an ecologically sustainable development and use of natural resources.

Environmental Audit

Environmental audit entails "a periodic and objective evaluation of the performance of the organisation, management system and processes designed to protect the environment with the aim of facilitating organisational control of practices which may have impact on the environment or "a systematic examination of the interaction between any business operation and its surrounding.

This includes all emissions to air, land and water constraints; the effects on the neighbouring community, landscape and ecology; and the public's perception of the operating company in the local area'. Environmental audits therefore assess the effects of management decisions on the environment.

Benefits of Environmental Audits

An environmental audit will allow the Office of the Auditor-General report on whether an organisation is in compliance with legislation, address pressure from local communities, Community Based Organisations (CBOs) or the wider public and ensure a sustainable development.

The Office of the Auditor-General does not undertake environmental audits, but rather conduct performance audits with an environmental perspective. The environment that may be affected may be in the form of Air, Water, Soil or Biodiversity. Environmental audits are performance Audits and follow a similar format as Value for Money audits, which look at the 3 Es of (Efficiency, Economy and Effectiveness), where Environment is considered as the 4th E.

Once a topic is selected and approved by management, the audit team gathers data and information which is used to:

- Assess performance against a set of requirements or targets, or criteria;
- evaluate compliance with environmental legislation and

organisation policies; and

- Measure performance against the requirements of an environmental management system standard.

Reporting on Findings

After gathering necessary data and information, an audit report which contains the findings of the audit is compiled. The findings compare the condition as existing at the time of the audit and the criteria against which the measure of performance is based. The reporting format is as shown;

Criteria

This is the measurement against which the assessment is made. The source of the criteria could be from policies, laws, strategic plans, agreed performance or best practice.

Condition

The condition is what exists at the time of the audit. This could be the results or progress observed at the time of the audit against the criteria.

Cause

This is the most probable reason of not achieving the set objectives the organisation set to achieve in the first place. The cause could be due to internal or external environment. The external environment is usually beyond the control of the organisation, but there is a measure of control over internal environment. Performance audits do not usually advocate for extra resources, but seeks to confirm whether the available resources have been used efficiently.

Effect

This is the risk of not achieving the set criteria and which may also affect the attainment of set organisation objectives. For example, not taking into account mitigation measures identified during the Environmental Impact Assessment (EIA) stage during implementation of a project may lead to pollution of the environment.

Environmental Audits in the current Public Audit Act, 2015

Before the enactment of the Public Audit Act, 2015, environmental audit was a stand-alone section within Performance Audit department. However, after the enactment, the Act did not confer a direct mandate to the Office to conduct



Environmental Auditors at work in the field

environmental audits. Sec 36 of the Act gives the Auditor-General the mandate to conduct Performance Audits and report to Parliament on the effectiveness in the use of Public funds.

It is worth noting that the Office does not issue a certificate to proponents after an environmental audit, but rather reviews the effects of the environment arising from the activities of the organisations.

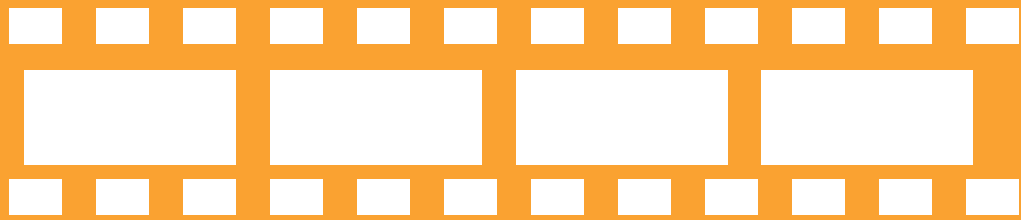
The Office of the Auditor-General gives assurance to the citizens that the tax resources at the disposal of the public servants are used economically, efficiently and effectively and with regard to the environment.

This will ensure that the development is sustainable for the current and future generations. Though not explicit in the Act, there is need to continue conducting Performance audits with an environmental perspective ■

The benefits of environmental audit

- Ensuring compliance with policies, laws, regulations and standards;
- enabling environmental problems and risks to be anticipated and responses planned;
- to demonstrate that an organisation is aware of its impact upon the environment through providing feedback;
- increased awareness amongst stakeholders; and
- more efficient resource use and financial savings.

Pictorial



Delegates at the African Organisation for English-speaking Supreme Audit Institutions (AFROSAI-E) during the closing ceremony of the 11th Technical Update in Durban, South Africa.



Performance Auditors pose for a photo during a Workshop in Nairobi



Delegates at the International Organisation of Supreme Audit Institutions- Working Group on Audit of Extractive Industries (INTOSAI-WGEI) visit Gede Ruins, Malindi.



Auditors during a project verification exercise, in Embu County.



Delegates in discussion during a break-away session at INTOSAI-WGEI Meeting



Auditors inspect a road in Embu County



Auditors and Officials from Kenya Airports Authority during project verification exercise at Wilson Airport, Nairobi



Staff at the Office of the Auditor-General during a team-building session



Deputy Auditor-General (Corporate Services) Agnes Mita (second left), receives a fleet of vehicles from Toyota Kenya official. With her are Director of Administration, Paul Muthuri (second right) and Transport Manager, Fred Makori.



Michael Mumo, of Editors' Guild, speaks during a Media Breakfast. On his right is Auditor-General, Edward Ouko and Deputy Auditor-General, David Gichana.



Journalists undertake an assignment during a Media Awareness Workshop organised by the Office of the Auditor-General in collaboration with German Development Cooperation, GIZ.



Members of the Working Group on Socio-economic audit of the Constitution and the Secretariat, pose for a group photo.

Performance Audit of Public Debt: **Mitigating future Debt crisis**

By Dennis Arogo

Article 214 (2) of the Kenyan Constitution defines Public Debt as all financial obligations attendant to loans raised or guaranteed and securities issued or guaranteed by the National Government.

These financial obligations can further be classified into four categories: Direct versus Contingent, and Explicit versus Implicit. Direct obligations are those that will arise in any event while contingent obligations are those that will arise if a particular event occurs. On the other hand, explicit obligations are specific ones defined by law or contract while implicit obligations are those that the government is not legally obliged to act on; they are not officially recognised until a failure occurs.

The efficiency and effectiveness with which the management of public debt is done is a matter of national importance given its level. Unsustainable national debt is today one of the most important economic and social issues.

The increase in public debt is still projected to continue with major capital projects especially in infrastructure and energy projects slated for implementation. However, it is worth noting that a huge public debt is an indication of higher debt servicing expenditure in the future. Since servicing of public debt is a first charge on the Consolidated Fund, the higher debt servicing will affect other critical expenditures.

Performance Audits as a Pre-emptive tool

The mandate of the Auditor – General to carry out performance audits on Public Debt is jointly drawn from Article 229 (4) (g) of the Constitution of Kenya and Section 36(1) of the Public Audit Act, 2015.

One of the greatest improvements to the Public Debt audit process is the usage of performance audits approach. This encourages a new pre-emptive discipline around lending and borrowing practices overall. This new approach has the potential to minimise future problems and, together with other initiatives, possibly avert future crises.

Accordingly, International Development Initiative (IDI), of the International Organisation of Supreme Audit Institutions (INTOSAI), is in the process of developing and rolling out an expanded public debt audit framework. Office of the Auditor-General-Kenya (OAG – K) having been one of the Supreme Audit Institutions (SAIs) to have participated in this process through the programme dubbed – Audit of Lending and Borrowing Frameworks. IDI supports the enhancement of audit



Delegates listen to Wessel Pretorius, the CEO of African Organisation for English-speaking Supreme Audit Institution (AFROSAI-E) during the 11th Technical Update in Durban, South Africa.

Since servicing of public debt is a first charge on the Consolidated Fund, the higher debt servicing will affect other critical expenditures.

capacities of INTOSAI members

Until recently, SAIs, including OAG –K, audited public debt. The major focus was on the stock of public debt to comply with the particular laws and regulations. The performance audit approach however, now extends to lending and borrowing practices, debt disbursements and sustainability issues under the following nine specific public debt audit topics:

Audit of Legal Framework of Public Debt Management

The performance Auditor can examine the existence of six critical elements that should be clearly and consistently defined in the legal framework of public debt management: Delegation by Parliament to the Executive, Authorization of the debt management offices, Borrowing purposes, Debt management goals and objectives, Debt management strategy and Debt reporting obligations.

Organizational and Institutional Arrangements in Public Debt

Management

Organisational arrangements should establish clear roles and responsibilities to ensure the effective execution of debt management activities, provide well defined coordinating mechanisms and establish a transparent and accountable system of checks and balances.

An organisational chart should be used to illustrate these relationships. The organisational arrangement should provide for the effective and efficient execution of front, middle and back office functions. The auditor should examine the organisational arrangements of public debt management to assess its efficiency and whether it creates adequate segregation of duties.

Determination of Public Borrowing Needs

Determining the net borrowing needs for a defined period is a critical and complex function that requires a significant amount of information and coordination among government agencies. Borrowing more than the actual requirement could put serious pressure on the government's fiscal position, while under borrowing could create an obstacle in implementing the government's developmental plans. The performance audits of the factors in this process can help government to improve its capacity to better estimate borrowing needs.

Net borrowing needs are determined by a sum of four factors: Debt that comes due

in the period, estimate of budget deficit in the period, estimate of contingencies that would be triggered in the period, and estimate of net financial assets that would be acquired in the period.

Audit of Public Debt Management Strategy

Choosing the right debt management strategy is akin to taking the correct direction to reach an important destination. If public debt management chooses a strategy that turns out to be too risky (e.g. borrow only in foreign currency denominated debt) or too costly (e.g. borrow only in the domestic debt market) in order to avoid any risk, the budget consequences are much larger than single debt transactions that are mispriced or badly timed.

The Auditor should examine whether the medium term debt management strategies are consistent with the country's debt goals or objectives. Specifically, the Auditor can assess to what extent debt goals are supported by debt management strategy.

Audit of Borrowing Activities

The national government can borrow money by issuing marketable debt securities – domestic or Eurobond, taking bank loans and selling non-marketable securities to individuals. In order to obtain the lowest cost of borrowing over time, the government must have well-trained staff in charge of each borrowing programme and coordinate them in a cost effective manner.

The Auditor needs to assess whether there's a coordinated, regular and predictable borrowing plan, the debt strategy is aligned with debt objectives, existence of well-defined procedures for

borrowing loans tied to specific capital projects and transparency in procedures for conducting auctions and syndications in domestic and external markets.

Audit of Public Debt Information Systems

Any public debt information system – manual or computerised – should support the recording, analytical and reporting functions. IT audit experts within OAG can generally be responsible for conducting appropriate tests of controls to ensure they are operating effectively.

The Auditor needs to remember that testing hardware and software applications is only one piece of evidence to determine effectiveness of a debt management system. It is also essential to assess whether senior debt management officials promote an environment of effective internal control.

Audit of Debt Servicing Activities

Servicing debt requires active participations of staff in five government entities, namely, the Public Debt Management Office, the creditors, National Treasury, the National Assembly and the Central Bank of Kenya. These entities perform two major activities, namely, budgeting and payment of debt service obligations.

A critical component of an effective debt service operation is a secure, up-to-date and complete debt database. This tool is essential to make risk analyses, such as the detection of large servicing payments in the near future, irrespective of the original maturity of the debt instruments.

In assessing the effectiveness, efficiency and economy of debt servicing activities, the Auditor can use flow

diagrams that visually represent the exchange of important documents and communications in debt operations.

Audit of Debt Reporting

Regular disclosure of audited public debt activities allows legislators, creditors, and other interested parties to have reliable information to assess compliance with debt legislation and determine if debt levels are sustainable.

When the audited debt figures are produced on a timely manner, there is a better chance of addressing potential problems before debt levels become unsustainable and avoid risky debt decisions that can intensify an economic, fiscal or financial crisis. The Auditor therefore, should aim at determining if government officials disclose relevant public debt information in a timely manner.

Loan Guarantees

The government can offer loan guarantees to private lenders, who then provide funds to the targeted sectors. Conducting performance audits of the risks to public debt of loan guarantees must take into account the diversity of guarantee programmes that may exist in a country.

The Auditor should first conduct a thorough investigation of the legal framework under which major loan guarantee programmes were established to determine if the laws comply with best legal practices.

He should then examine the existence and effectiveness of internal control components in guarantee programmes. Three critical components of internal control in loan guarantee programmes to be considered by the auditor are: Risk assessment, Budgeting risk and default risk mitigation.

Expansion into these new areas by OAG – K would signal a significant development in infusing a new discipline to public debt management. Under the performance audits recommended approach, public debt audits would change. The audit should not only address internal administrative issues and determine the measure of both the real and contingent obligations but also take into account the budgetary and fiscal environment, and the interrelations between the public debt, financial markets and creditors.

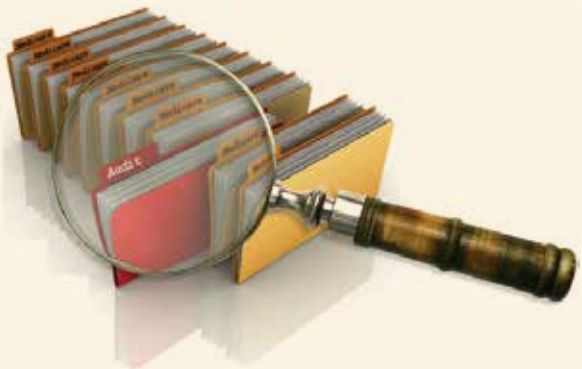
The audit scope is thus not limited to verifying the regularity of government operations, as often as the case but also takes into account whether funding of public expenditure from borrowing is sound and borrowing costs are kept at minimum over the long-term taking account of risk; and ensure equal sharing of the benefits and costs of public debt between the current and future generations. This approach will ensure that the examination is objective and robust ■



Delegates from Africa and representatives from Supreme Audit Institutions across the world, pose for a group photo at the 11th Technical Update in Durban, South Africa.

Highlights of the Public Audit Act, 2015

By Edith Lubanga



In 2015, Parliament enacted the Public Audit Act to align the Office of the Auditor-General with the Constitution of Kenya, 2010. The Act effectively repealed the Public Audit Act, 2003. The 2003 Act needed an overhaul to accommodate the scope of the mandate of the Auditor-General and to ensure independence of the Office.

The Act was assented into law on 18th December, 2015 and commenced operation on 7th January, 2016. Some of the highlights of the Act are:

Independence of the Auditor General

Section 10 of the Act states that the Auditor-General shall not be subject to direction or control by any person or authority in carrying out his or her functions under the Constitution or under the Act. It further states that the Auditor-General and his or her staff shall perform their functions impartially, without fear, favour or prejudice and shall exercise their powers independently.

Audit Advisory Board

The Act has also established the Audit Advisory Board, under Section 27, to replace the National Audit Commission in the repealed Act. The Board's principal function is to advise the Auditor-General on the exercise of his or her powers and the performance of his or her functions under the Constitution and the Act.

Performance Audit

Section 36 of the Act stipulates that the Auditor-General shall conduct performance audit to examine the economy, efficiency and effectiveness with which public money has been utilized.

It further outlines that the Auditor-General may undertake a comprehensive performance audit within six months after the completion of any National or County project to evaluate, whether the citizen has gotten value for money in the project and submit the report to Parliament or County Assembly for tabling and debate.

Forensic Audit

In Section 37, the law states that the

Auditor-General may, upon request by Parliament or on his volition, conduct forensic audits to establish fraud, corruption or other financial improprieties.

Procurement audits

This is contained in Section 38 of the Act. It states that the Auditor-General may examine the public procurement and asset disposal process of a state organ or a public entity with a view to confirm as to whether procurements were done lawfully and in an effective way.

Use of work of internal auditors

The Auditor-General shall have unhindered access to all internal audit reports of a State Organ or any public entity, which is subject to audit by the Auditor-General as provided for under Article 229 (4) of the Constitution.

Power to obtain information

Under Section 21, the Act gives the Auditor-General the power to obtain information. It states that the Auditor-General shall require a public body or any person employed by the public body to produce any official document in the body's or person's custody, care or control; and to provide the Auditor-General with information or an explanation about any official information, system or asset. The Act also allows the Auditor-General to obtain official information that he or she considers necessary to fulfil his or her functions, duties and powers from a person who is not a member, employee or office holder of the public body.

Power to examine bank accounts

The new Act, as outlined in Section 22, states that the Auditor-General may in the course of exercising his or her functions, duties or powers, track a transaction into the account of any person in any bank through an order of the courts, if the Auditor-General has reason to believe that the money belonging to a public body has been fraudulently or wrongfully paid into such person's account.

The bank shall produce any documents or provide requested information relating to the account in the bank's custody or control. The Auditor-General shall ensure that any information obtained is not used for any other purpose other than that legally intended and the Auditor-General shall keep in safe custody all the documents and information so obtained.

Special Audit

When special audits are conducted in the course of annual audit of accounts of state organs, the Auditor-General shall submit a report to Parliament or any relevant county assembly. The recipients are then

expected to, within seven days of receipt, to publicise the report on their official website or any other public space, and shall publish a notice in the Kenya Gazette notifying the public of the availability of the report.

After the lapse of the seven days publication period, the Office of the Auditor-General, shall within 14 days upload the report on its official website or any other public notice.

Final Audit Reports of a State Organ or National Entity

Section 50 states that the final audit report of the Auditor-General shall be submitted to Parliament or the relevant county assembly, with copies to the Cabinet Secretary responsible for finance and the relevant County Executive Committee member for finance, as the case may be, and the accounting officer of the entity that is subject of the audit. It caps a three-month timeline, under which Parliament or the relevant county assembly shall debate and consider the report and take appropriate action.

The recipients of the report are required to publicise the report within seven days of receipt, after which the Office of the Auditor-General shall, within 14 days, publicise the report on its official website and any other public notice.

Implementation of reports by an accounting officer

Under Section 53, the Act compels the relevant accounting officers and state organs to implement Parliament's recommendations arising out of audit reports. The recommendations must be implemented within three months after Parliament has considered and made recommendations on audit reports. Any entity that is unable to do so is required to explain to Parliament, in writing, the reasons of non-compliance.

The thinking behind this provision is to ensure that audit recommendations are taken seriously and implemented by state organs and failure to do so will make the accounting officer to be held in contempt of Parliament or County Assembly and upon determination by Parliament or relevant County Assembly, the institutions may recommend administrative sanctions such as removal of the Accounting Officer, reduction in rank among others.

Powers to report to the Police

Section 64 states that where the Auditor-General establishes that any person, supplier or company has been involved in fraud or corrupt practice, the Auditor-General shall report to the police, Ethics and Anti-Corruption Commission or the Public Procurement Oversight Authority for their action ■

Enhancing understanding of Journalists on Audit issues for better reporting

By Nicholas Mureithi

The Office of the Auditor-General, in collaboration with Gesellschaft für Internationale Zusammenarbeit (GIZ) embarked on a Programme aimed at enhancing the capacity of journalists to effectively and accurately report on audit findings.

The programme entailed pulling together journalists from different regions and taking them through interactive Workshops, where they engaged with auditors and media consultants on the audit process and how to mine stories from the audit reports.

Journalists from Nairobi, Coast and Nyanza regions, have so far been trained. The Nairobi-based journalists were joined by their colleagues from Garissa, Isiolo, Moyale and Wajir, for a two-day Workshop in Naivasha on 4th and 5th, February 2016.

Members of the fourth Estate from the coastal region, converged in Mombasa on the 3rd and 4th of March 2016, while those from Nyanza were engaged on the 7th and 8th of April 2016.

The Naivasha Workshop, held at Naivasha County Club, was officially opened by Auditor-General, Mr Edward Ouko, who lauded the journalists for their keen interest in audit reports and called on them to critically understand the audit process, to enable them report more accurately and objectively. He said the Office is working on ensuring that the audit reports communicate to the public.

"Our reports should have impact on the ground and we are working to ensure that the audit reports resonate with the people on the ground," Mr Ouko said.



Top and below: Journalists participate at a Media Awareness Workshop in Naivasha.

Media's role

GIZ's Katrin Reinhart underscored the role of the media in disseminating audit findings and encouraged the media to ensure there is sustained reporting on audit reports.

"Audit reports will only have value if they reach the public and this call for sustained reporting from the media," Reinhart said.

The programme entailed pulling together journalists from different regions and taking them through interactive Workshops, where they engaged with auditors and media consultants on the audit process and how to mine stories from the audit reports.



The core objective of the Workshops is to enlighten the journalists on the audit process, for effective and accurate reporting. The Sessions also resulted into the development of a media handbook to aid journalists on effective reporting on audit findings.

Auditors from the Office of the Auditor-General (OAG) took the journalists through the audit process, while media trainers handled the journalism aspect of the Workshops.

The training, which has so far benefited 70 journalists, drawn from mainstream media houses, targets Newspaper, Television and Radio journalists.

The model of the Workshops is to take the journalists through the mandate of the Office of the Auditor-General, audit process, types of audits and audit reports, on the first day and practical writing sessions on the second day. OAG will continue to conduct more Workshops ■

Knowledge Sharing Committee meets

"Knowledge sharing is fairly new. We need to be innovative and think outside the box on how we will deliver. We want to have an impact as AFROSAI within the INTOSAI system."

By **Annastasia Kamaa**

The Auditor-General, Mr Edward Ouko, chaired a meeting between the African Organisation of Supreme Audit Institutions (AFROSAI) General Secretariat and the Knowledge Sharing Committee in March 2016.

The aim of the meeting was to discuss the set-up of the Knowledge Sharing Committee and how this Secretariat will work in tandem with the AFROSAI General secretariat.

Their mandate is to create an operational framework where they will share knowledge, issues of common interest, promote technical, operational and consultation services between member Supreme Audit Institutions (SAIs).

They will also look into ways in which they can share technical products, share some services by consulting each other so that other SAIs can benefit from the knowledge sharing and access information from AFROSAI.

The Knowledge Sharing Committee was inaugurated at the AFROSAI meeting in Egypt where the Auditor-General was elected Chairman and its first planning meeting was held in Cameroon, in 2015 where a number of SAIs came together to deliberate on the work of the Committee.

It was initially called Capacity Building and Knowledge Sharing but was split up. The strategic plan of the AFROSAI (2015-2020) has 3 strategic priorities namely; - Capacity Building, Knowledge Management and Sharing, and Model International Organisation.

The Auditor-General said that Africa is lagging behind and has a good

opportunity to give a good experience of Knowledge Sharing to other SAIs.

"We would like to be an important, respected and valued player in the context of INTOSAI knowledge sharing," Mr Ouko said ■



Members of the Knowledge Sharing Committee

Value of **Audit**

By Collins Ochieng



Auditors at a workshop. Inset: Auditors peruse files at work

Audits play an important role in stimulating improvements in the administration and management of public sector entities as well as providing independent assurance to the public on the administration of programmes and funds.

In Kenya the Office of the Auditor-General (OAG) plays an important role in supporting the quality of financial reporting. The Reports of the Auditor-General cover selected audit observations that are typically more significant in terms of monetary value, frequency of occurrence and impact on accounting.

Minor lapses are also reported if they

point to significant or systemic weaknesses in internal controls which, if not addressed, could lead to serious consequences. Audit quality is influenced by the communicative value of the Auditor-General's reports, which is why the Office of the Auditor-General has put in place a fully functional Communications division to ensure this happens.

OAG uncovered a number of instances that indicated laxity in the following areas of procurement i.e Public sector entities typically raise contract variations. Public sector entities are expected to carry out reasonableness checks on the prices of goods and services and obtain approval before awarding the contract variations.

This is to ensure that the Government Procurement principles of value for money and, open and fair competition are adhered



to. Other key areas also highlighted by the Auditor-General's report is lack of documentation on decisions. Primary responsibility for implementing agreed audit recommendations generally lies with senior managers in the business area of the entity that was subject to the audit.

Successful implementation of audit recommendations requires strong senior management oversight and implementation planning to set clear responsibilities and time-frames for addressing the required action. Implementation planning should involve key stakeholders, including the internal audit function ■

Audit quality is influenced by the communicative value of the Auditor-General's reports, which is why the Office of the Auditor-General has put in place a fully functional Communications division to ensure this happens.

Partnerships in **Financial Accountability**



Auditor-General, Edward Ouko, addresses International Conference of internal auditors, in Nairobi.

The Office of the Auditor-General, Kenya has partnered with United Kingdom-based agency Department for International Development (DFID) in the area of Financial Accountability.

Officials from UK Financial Accountability & Anti-Corruption Partnership recently paid Auditor-General, Mr Edward Ouko, a courtesy call, in his Office at Anniversary Towers, University Way. The purpose of the meeting was to chart-out possible strategies aimed at enhancing performance in areas of financial management and accountability.

The Auditor-General expressed optimism in the partnership. Mr. Ouko said, "this partnership will go a long way in improving accountability in the management of public resources".

DFID is currently undertaking a review to assess potential demand and interest from selected partners in developing countries to support new partnerships and links between their institutions and counterpart agencies in the UK, focusing mainly in the area of financial accountability

The partnership is also considered extremely crucial in obtaining the Kenyan perspective as well as seeking ways of keeping a check on aspects of public spending. Other possible areas to be explored through the partnership include

high level professional contacts and exchange of experience, attachments of partner country staff to the UK institution and vice versa; capacity building as well as mentoring and training.

The Office of the Auditor-General is currently working closely with other International bodies like the Gesellschaft für Internationale Zusammenarbeit (GIZ) from Germany and Swedish National Audit Office (SNAO), in areas of enhancing accountability. OAG also invites potential partners in areas of ICT capacity, Audit Methodology and Citizen outreach ■

The Auditor-General expressed optimism in the partnership. Mr. Ouko said, "this partnership will go a long way in improving accountability in the management of public resources".



Auditors inspecting a water project

Auditing Supreme Audit Institution of Liberia

By Jesse Mutua

The Office of the Auditor-General of Kenya (OAG) was honoured to conduct an audit of the Audit Office of Liberia.

A team of ten (10) officers from Kenya, led by a Deputy Auditor-General, was dispatched to General Auditing Commission (GAC) in Monrovia, in early 2016, to scrutinise the books of accounts and systems for the period 2009 to 2015.

The process came as a result of a request by the country's Legislature for GAC to allow for external audits of its activities in order to identify numerous challenges and pitfalls in its system.

The GAC was created by an Act of Parliament to audit all government institutions to promote transparency and accountability. However, the Act does not allow the GAC to audit itself.

Following the request, the Auditor-General of Liberia Yusador S. Gaye contacted the Supreme Audit Institution

of Kenya, requesting that it conducts the audit. OAG Kenya is highly regarded among its peers and also has vast experience in auditing and fraud. These were some of the factors that informed the selection of the Office to undertake the exercise.

Kenyan auditors spent two and a half months looking at the books of accounts and compiled a report that was categorised into two phases (2009- 2013 and 2014- 2015).

The Report was handed over to the National Legislature of Liberia, by Auditor-General of Kenya, Mr Edward Ouko.

According to the Report there were some challenges in the GAC accounting system, which Mr Ouko noted were being addressed by the current Auditor-General of Liberia, Yusador Gaye, and called for the Legislature's support in implementation of the audit recommendations.

Mr Ouko also stressed on the importance of independence of GAC, saying that the Legislature must ensure its independence, by avoiding interference and ensuring that it has adequate staff to independently execute its mandate.

Independence of Supreme Audit Institutions (SAIs) is a recurrent subject in several forums. The UN, for instance, has been rooting for strong and independent SAIs. During the 69th Session of the

"Supreme Audit Institutions (SAIs) can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence,"

UN General Assembly, in November 2014, the meeting adopted a resolution on "Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening Supreme Audit Institutions".

The General Assembly noted that efficient, accountable and transparent public administration has a key role to play in the implementation of the internationally agreed development goals, including the Millennium Development Goals (MDGs).

It thus underscored the importance of independence of SAIs for effective, efficient and objective execution of their mandates.

"Supreme Audit Institutions (SAIs) can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence," the Assembly noted ■



A team of auditors from Kenya and Liberia during the presentation of the Audit Report of General Auditing Commission of Liberia, to the country's Parliament.

Mandate of Offices that oversee Public Spending

By Ellyne Sigei Tetyo

The Constitution of Kenya provided for two independent offices namely the Controller of Budget and the Office of the Auditor-General whose objectives are to protect the sovereignty of the people and promote constitutionalism.

Before the 2010 Constitution the Office of the Auditor-General was under one unit and was then known as the Kenya National Audit Office (KENAO) with the Chief Accounting Officer going by the title the Controller and Auditor General.

The in-charge was tasked with carrying out duties which included examining, inquiring into and auditing the accounts of all accounting officers and receivers of revenue, and of all pawns entrusted with the collection, receipt, custody, issue or payment of public moneys, or with the receipt, custody, issue, sale, transfer or delivery of any stamps, securities, stores or other Government property.

After much deliberation and widespread consultation on the uphill task of the Controller and Auditor General being both the approving authority of budgetary allocations as well as conducting an audit of the same; the Office was split in two to ensure that the control functions such as disbursing funds and accounting for the same funds to the government were not under one office.

The two offices, the Office of the Auditor General (OAG) and the Controller of Budget (CoB), are independent and not subject to any direction or control by any person or authority although they do receive funding from the government.

These independent offices are created under Articles 228 and 229 of the Constitution.

Budget Control vs. Accountability

After devolution there was need to not only monitor all the 47 counties activities but finance them as well. County governments are mandated with the task of providing their detailed budgets for the financial year to the Controller of Budget for approval.

In accordance to the Public Finance Management Act, 2012 Article 204, 206 and 207 require all county governments to seek approval from the CoB for any withdrawal of money from the Consolidated Fund. The Central Bank will then disburse funds to the counties using the approval together with written instructions from the National Treasury on the same.

Every county has its own ceiling of fund allocation. The Commission on Revenue Allocation (CRA) sets the criteria for allocation based on population, poverty index, land area and fiscal responsibility.

As for the National government, the CoB presents the National Reports on the budget performance of Government Ministries, Departments and Agencies (MDAs). The overall objective of the reports is to give an account on how the public funds released to (MDAs) have been utilised.

It also highlights the challenges that face budget implementation during

the reporting period and make recommendations to address these challenges. The Budget Implementation and Review Reports (BIRR) are prepared in line with Article 228(6) of the Constitution, which requires the Controller of Budget to report to each House of Parliament on the implementation of the budgets of the National and county governments every four months.

The role of the Controller of Budget is to oversee the implementation of the budgets of the National and County governments by authorising withdrawal from public funds, ensuring that, they improve transparency and accountability in the budget implementation process and that there is equitable allocation of available resources.

COB also gives advice to Parliament on financial matters. Any suspension of funds cannot be lifted before the Controller of Budget gives a report to Parliament. The Controller of Budget usually gives a report to Parliament after every four months.

The Auditor General's task on the other hand, is to carry out an audit on expenditure by all entities funded by the public including COB. It is mandated by law to ensure that the money disbursed to these entities has been applied for the intended purpose and that the expenditures conform to the law.

Within six months after the end of each financial year, the Auditor-General shall audit and report, in respect of that financial year and give Parliament the audit reports on the same ■



Controller of Budget, Agnes Odhiambo delivers a speech at the 5th Annual Congress of the Constitutional Commissions and Independent Offices.



Office of the Auditor-General

Enhancing Accountability

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 Constitution, 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.

Vision

Effective accountability in the management of public resources and service delivery.

Mission

Audit and report to stakeholders on the fairness, effectiveness and lawfulness in the management of public resources for the benefit of the Kenyan People.

Our Core Values

The foundation of the OAG's operations is anchored on five 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

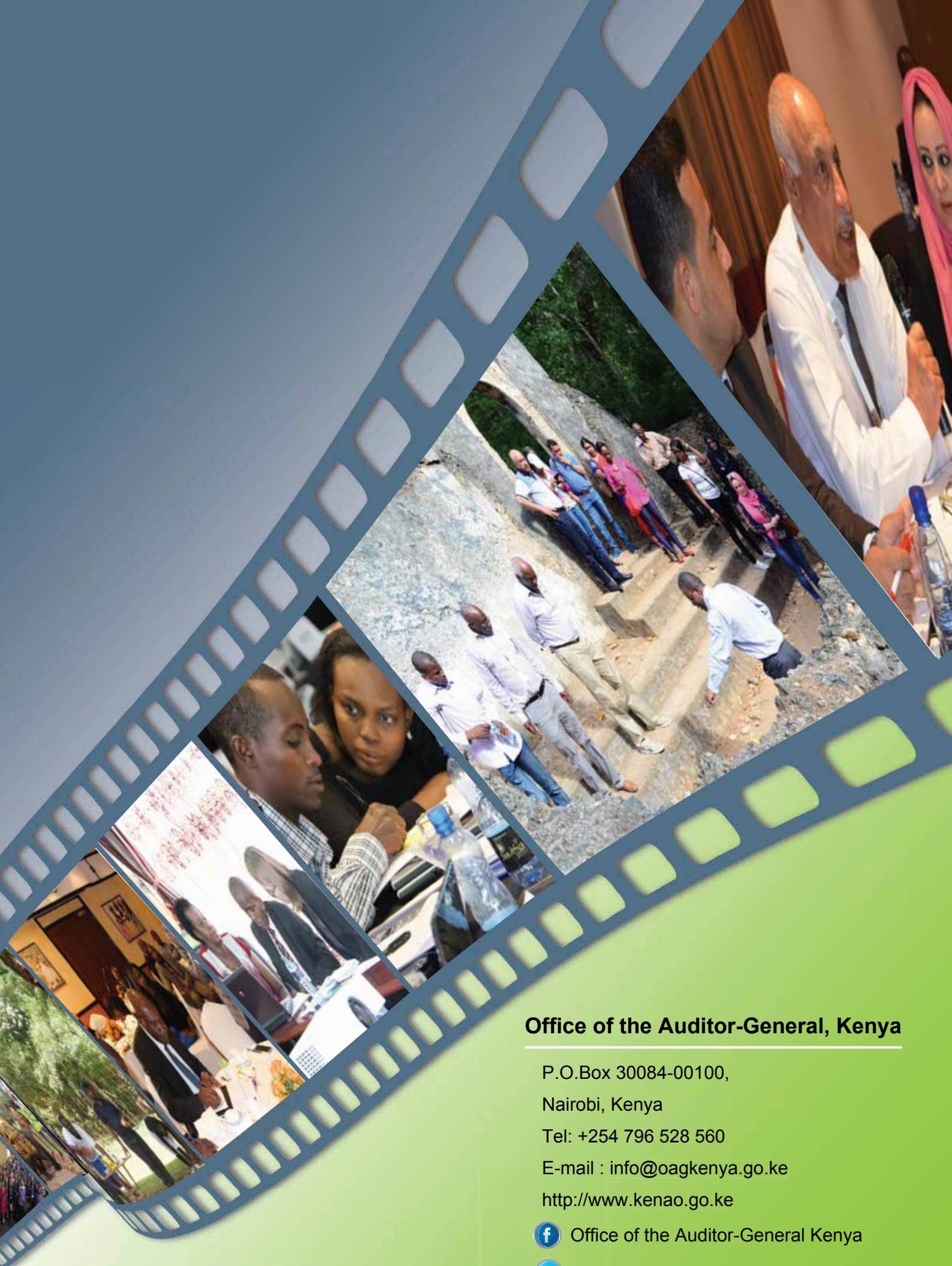
We subscribe to the highest professional standards, adopt leading practices and uphold ethical behaviour in the conduct and supervision of audits. We strive to work economically, effectively and efficiently as individuals and teams.

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.

Team Spirit

We work together in teams and offer equal opportunities to all.



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