

Supreme Auditor



Jan 2017 - June 2017

A Publication of the Office of the Auditor-General, Kenya

Issue 06



Looking
beyond figures

Contents

Forensic Audit: Looking beyond the figures	2
Forensic auditors undergo training in Ireland	4
Auditors-General discuss auditing and governance at Nairobi meeting	5
SAI's must assess the professional conviction of their staff	7
Drawing the line between external and internal auditors	9
Pictorial	10
Curbing illicit financial flows	13
Exploring the way forward on participatory audits	15
Liaising with Parliament for technical assistance	16
Establishing regional offices	18
Media Handbook: Aiding journalists in reporting audit findings	19
Continuous training of performance auditors for effective audits	20

Editor's Note

This Edition's main focus is forensic audit, where auditors look beyond the figures to gather evidence that can be used in a court of law, to establish fraud, corruption or any other form of financial impropriety.

Also captured in this Publication are deliberations at the 14th African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E) Governing Board Meeting. Delegates at the meeting discussed auditing and governance around the theme: *Being a credible voice for beneficial change*.

A raft of other issues are also covered in this publication, including drawing the line between external and internal auditors, to address the confusion that normally surrounds these two categories of auditors. Also covered is the launch of a Media Handbook to aid journalists in accurate reporting of audit matters, and by extension help citizens easily understand the audit reports, for greater impact of the audit findings.

I thank everyone who contributed to the production of this publication, and I hope you will enjoy reading the sixth edition of Supreme Auditor.

Peter Opiyo



Publisher:

Office of the Auditor-General,
Kenya

Editorial Advisor:

Dr. Wilfred Marube

Editor:

Peter Opiyo

Assistant Editor:

Faith Pino



Contributors

Francis Gichure
Joseph Nabwana
Jared Nyasani
Edith Lubanga
Peter Opiyo
Fernandes Barasa (FCPA)
David Cheronu
Samuel Waweru
Martin Kilungu
Raphael Ikame
Anne Rose Kairu
George Odhiambo
Annastasia Kamau
Nicholas Mureithi

Graphics Designer

Nelson Oneal Otemba

Photography:

Office of the Auditor-General



Disclaimer:

Opinions expressed by contributors are not necessarily those of the Office of the Auditor-General, Kenya

Copyright©2017 Office of the Auditor-General, Kenya

P.O. Box 30084-00100.

Tel: +254-796 528 560

Email: info@oagkenya.go.ke

www.oagkenya.go.ke

16

Liaising with Parliament for technical assistance

19

Media Handbook: Aiding journalists in reporting audit findings

Foreword

Innovations in consuming and interrogating audit reports important for effective oversight by key stakeholders

In a span of five years since the enactment of the Constitution, 2010, the Office of the Auditor-General (OAG) has innovatively executed its expanded mandate with success despite the financial and human resource limitations.

This has seen OAG release timely reports that resonate well with the expectations of stakeholders at County, National and International levels. In essence, this means that the Office of the Auditor-General has executed its mandate in the second phase of accountability cycle, the first being public entities submitting their financial statements for audit.

The Office has sought and embarked on new ways of auditing in smart manner through use of technology. This involves re-engineering the reporting of the audit content in a language and form that make sense to majority of the citizens who do not have the technical capacity to consume the audit reports in their original forms.

The Office may do its part well, but as I have previously stated; the audit reports are not an end in themselves. These reports serve as an input and entry point for other processes for stakeholders charged with the responsibility of oversight; and those with mission to protect and interrogate the use of public resources.

At the third phase of accountability, the most active primary consumers of the Auditor-General's reports who include Parliament, County Assemblies, Civil society, Media and other oversight agencies should come up with innovating ways of using OAG audit reports for the benefit of the citizens of Kenya.

In this regard, I wish to urge Parliament and County Assemblies to take time to reflect and take stock of their oversight success for the last five years, in deliberating the Auditor-General's reports. I believe there has been some measure of success, but more could be done.

As I had earlier stated, an innovative approach to the oversight role will see more value addition to the citizens' lives through more accountability. Therefore, I wish to laud the National Assembly for establishing



a committee to deal with the Auditor-General's reports on special funds by Government including the Constituency Development. I hope this will lead to swift and in- depth interrogation of audit reports,

The audit reports are not an end in themselves. These reports serve as an input and entry point for other processes for stakeholders charged with the responsibility of oversight; and those with mission to protect and interrogate the use of public resources.

and by so doing enhance the level of service delivery of these public organs.

In order to achieve the desired levels of oversight, I expect other key stakeholders to come up with innovations that make it easier for them to respond to the changing environment in accountability and oversight .

This would not only provide the adequate time, resources and expertise required to interrogate the reports of the Auditor-General , but would also send out a loud message and demand that public institutions should focus on accountability and service delivery for the benefit of tax payers■

FCPA Edward R.O. Ouko, CBS

Auditor-General, Kenya

Forensic Audit: Looking beyond the figures

By Francis Gichure and Joseph Nabwana

The Public Audit Act, 2015 mandates the Auditor-General to conduct Forensic Audits to establish fraud, corruption and other financial impropriety.

A forensic audit is an in-depth examination and evaluation of a firm's or individual's financial information for use as evidence in court. Forensic audits are done with the assumption that they will end up as evidence in litigation. A Forensic auditor therefore, should not only focus on the figures, but also look beyond those figures and confirm the motive behind them.

Reactive and proactive audits

Forensic audit can either be reactive or proactive: Reactive audits are conducted when there is a reported allegation from various sources such as previous audits, media, public, amongst others. These types of forensic audits can be carried out in order to prosecute a party for fraud, embezzlement or other financial claims. It could also include situations that do not involve fraud or embezzlement.

Proactive audits on the other hand, are conducted where allegation have not been reported, but where OAG considers that there could be high risk of fraudulent activities in a given area. These types of audits are similar to systems audits but

can however, escalate to forensic audits in case the auditor stumbles on a 'red flag' that suggests elements of fraud.

How is forensic audit conducted?

Cases that call for forensic audits are brought to the attention of the Office through a variety of means and sources.

All these cases will be evaluated, regardless of the source. This is followed by a critical assessment of the information to determine whether it qualifies to recommend further investigation.

The forensic audit process follows a similar flow as a regular audit of financial statements. The steps can include planning, execution and

reporting. If the investigation was undertaken to discover the presence of fraud, evidence is presented to uncover or disprove the fraud and determine the amount of the damages suffered. The findings are thereafter presented to the concerned client — and possibly a court of law should the case go to that extent.

During the planning stage, the forensic auditing team establishes objectives, such as identifying if fraud has been committed, how long it has been going on, the parties involved, quantifying the financial loss and providing fraud prevention measures.

While gathering evidence, the team collects evidence in the proper manner in order for it to be used in a court case (Maintain proper chain of custody). High levels of precision, technical competence and experience are required during evidence gathering and a report produced for the client with the findings.





Typical approach to a forensic audit

There are usually five areas which the forensic auditor will address in his approach towards any case:

- Focus on the who, what, when, where and how of what happened - this is vital in order to understand the whole situation that is made more complex by the lack of full documentation or other evidence. Analysis and evaluation of what happened would assist in framing the issues for the forensic accountant and the management to consider when deciding on what steps to take.
- Consider all suspects - nobody is ruled out or is beyond suspicion.
- Be on the alert for forged documents - seemingly innocuous documents or transactions may hide potential frauds or lead to more incriminating evidence.
- Conduct extensive searches of client's documents and computer files for evidence of fraud - this is where the forensic auditor's team of forensic IT personnel would be indispensable in any investigation.
- Interview key employees - formally and informally.

Forensic audit represents an area of finance that combines detective skills and financial acuity. Auditors dig into

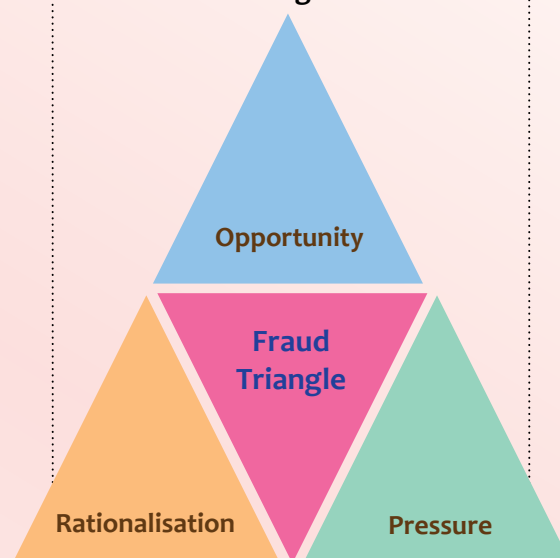
financial reports, locate financial transactions and figure out what really happened at various levels.

Why is it necessary to carry out forensic audit?

Many Finance officers view forensic accounting as a branch of accounting that is rarely used unless a serious crime has been committed. Basic use of forensic accounting skills can enable an organisation to take the proper first steps in the event of a suspected fraud.

You should also have a clear idea regarding the appropriate time to engage a forensic accounting specialist to preserve evidence for law enforcement. Fraud is a possibility in almost any company and a prudent executive will ensure that fundamental early planning is performed so that a pre-arranged sequence of events goes into effect when a possible fraudulent event has occurred.

Fraud: menace in governance



Fraud is defined as intentional deception, cheating or stealing and can be committed against users such as investors, creditors, customers or government entities

The fraud Triangle

- One leg represents perceived non-sharable financial need (pressure), while the second leg represents the perceived opportunity and the third leg represents rationalisation. The three elements must be present for fraud to occur.

There are three categories namely:

i) Corruption Fraud

Corruption is a form of dishonest or unethical conduct by a person entrusted with a position of authority, often to acquire personal benefit.

ii) Asset Misappropriation Fraud

Asset misappropriation fraud occurs when people who are entrusted to manage the assets of an organisation steal from it.

iii) Financial Statement Fraud (Also Known as cooking the books, creative accounting)

Financial statement fraud refers to deliberate misrepresentation, misstatement or omission of financial statement data for the purpose of misleading the reader and creating a false impression of an organisation's financial strength.

The importance of carrying out forensic audits therefore, cannot be over-emphasised. There is need for both private and public entities to incorporate a forensic audit unit to execute this critical task. ■

**-The writers are forensic auditors
at the Office of the Auditor-
General, Kenya**

Forensic auditors undergo training in Ireland

By Jared Nyasani and Edith Lubanga

There is increasing demand for on-job training of forensic auditors, and the Office of the Auditor-General, (Kenya) has partnered with Office of the Comptroller and Auditor-General, Ireland to conduct a series of training of auditors.

In November 2016, a second batch of 10 auditors visited Ireland for a Certificate Course in Forensic Investigation course. The six-day training was also attended by four auditors from the Office of the Comptroller and Auditor General, Ireland (CNAG), at the Chartered Accountants House, Dublin.

The objectives of the workshop was to help participants acquire knowledge and experience on how to conduct an investigation as well as the wide variety of investigative techniques available for auditors. The participants were also expected to acquire basic understanding of the relevant legal systems and the law of evidence, and acquire knowledge on report writing, communication and presentation skills.

The course was structured in a classroom model and was supported by comprehensive learning materials to guide, explain and test the learners understanding. It involved class presentations and interactive discussions, case studies, individual and group exercises. Participants were accorded opportunity to ask questions, and make comments

about the session topics and other related areas. At the end of the course participants were evaluated through a written test paper and a live interview with a suspected perpetrator.

The participants were tutored by highly experienced trainers and practitioners in the field of forensic investigations. They included Laura Mitchell (Forensic Investigations, KPMG), John Harkness (Forensic Technology, KPMG) and Felix McKenna (Retired Head of the National Economic Crime Bureau of Ireland).

During the training the participants were also taken through a practical demonstration on the use of IT forensic tools for extraction, analysis and preservation of evidence. The course provided a timely opportunity for learners to develop and enhance skills in forensic investigations as well as pass knowledge to colleagues at work.

Those who successfully completed all the sessions of the training and passed in both oral and written assessments, were presented with a Certificate in Forensic Investigations by the Chartered Accountants of Ireland Executive Education Limited.



Forensic Auditors in Ireland

Objectives of the Course

- To gain understanding of the issues of a forensic investigation type case and what needs to be proved
- To acquire knowledge and experience of how to conduct an investigation as well as the wide variety of investigative techniques
- To interact with computer based analytical tools which assist in the analysis and presentation of evidence
- To acquire basic understanding of the relevant legal system and the law of evidence
- To build research capabilities and experience
- To acquire analytical skills in order to interpret financial information and evidence
- To learn how to collect, organize data and manage large volumes of evidence
- To be able to work as an expert witness in court if necessary
- To learn on report writing, communication and presentation skills
- To be able to work as part of a team and where necessary, to lead.

Auditors-General discuss auditing and governance at Nairobi meeting

By Peter Opiyo

Auditors-General (AGs) from English-speaking countries in Africa converged in Nairobi in May to discuss how to drive forward the auditing and governance functions in Supreme Audit Institutions (SAIs).

The AGs, who constitute the Governing Board of African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E) discussed topics on good financial governance and leadership challenges, role of internal audit in good financial governance and relevance of audit reports to the media, amongst others.

Giving his welcoming remarks, the Auditor-General of Kenya, Mr Edward Ouko underscored the importance of independence for effective operations of SAIs, and challenged the SAIs to put more effort in the execution of their mandates to match the growing public expectations.

“Given the magnitude of public expectations, SAIs have a huge responsibility to execute their mandate effectively. In doing so, it is important to point out that independence of SAIs is a key contributing factor for effective and efficient oversight in management of public resources,” Mr Ouko told the 21 AGs present at the Nairobi meeting.

Chairperson of AFROSAI-E Mrs Lara Taylor-Pearce, who is also the AG of

Sierra Leone welcomed members to the 14th AFROSAI-E Governing Board Meeting and thanked every member and development partners for contributing to the success of the organisation.

Oversight role

Professor Emmanuel Nnadozie, Executive Secretary at the African Capacity Building Foundation said SAIs play the oversight role in ensuring public funds are used for the intended purpose and promote transparency and accountability in the public sector.

“These roles are important especially in ensuring optimal mobilisation and utilisation of resources – be it domestic resources from the private sector and citizens or from development partners. All parties require assurance that the resources being given to government by way of tax

will be put to intended productive use – this brings legitimacy of governments to collect tax,” Prof Nnadozie said.

He cited the 2015 Africa Capacity Report on Building capacity on domestic resource mobilisation; which found out that around 31 per cent of respondents from 45 Africa countries felt that the ability by governments to mobilise resources, is hindered by lack of confidence by tax payers and development partners in public finance systems as well as lack of transparency and accountability.

“In essence, SAIs are the ultimate guardians of the integrity of the public financial management (PFM) systems. SAIs play a confidence-building role as they audit the value for money of public spending,” the professor said.



Kenya's Auditor-General, Edward Ouko, makes a contribution during the 14th AFROSAI-E Governing Board Meeting in Nairobi



Chairperson of AFROSAI-E and Auditor-General of Sierra Leone, Lara Pearce Taylor, delivers a speech during the meeting

Independence of SAIs

He also stressed on the importance of independence of SAIs saying, “where these institutions are protected from political interference and can carry out their duties unimpeded, the beneficial impact on financial governance is notable”.

Managing Editor of Kenya’s People Daily Newspapers, Mr Maina Muiruri, while giving a presentation at the meeting, told the AGs to invest in strengthening their Communications departments for effective SAI-Media engagement.



Namibia's Auditor-General, Juneas Kandjeke, seeking to contribute at the meeting

“SAIs should invest in Communication departments staffed by experts who have a background in, or training in media. Such personnel understand what media want, how it should be packaged and interpreted for ease of communication,” Mr Muiruri told the delegates.

Auditors-General present at the meeting included those from Gambia, Nigeria, South Africa, Botswana, Cameroon, Eritrea, Ghana, Lesotho, South Sudan, Malawi, Mauritius, Namibia, Tanzania, Rwanda, Mozambique, Sierra Leone, Sudan, Zambia and Liberia, among others. The Theme of the deliberations was “Being a credible voice for beneficial change.”

The AFROSAI-E is a body of Supreme Audit Institutions (SAIs) comprising 26 English speaking African countries with its headquarters in Pretoria, South Africa. The 13th Annual General meeting was held last year in Nigeria.



Auditors-General during a side meeting at the 14th AFROSAI-E Governing Board Meeting



SAI's must assess the professional conviction of their staff

By FCPA Fernandes Barasa

The Institute of Certified Public Accountants of Kenya (ICPAK) is the statutory body of accountants with the mandate to develop and regulate the accountancy profession in Kenya. It is further mandated to advise on accountability in all sectors of the economy in Kenya, a mandate that we have performed through collaboration with the key institutions driving accountability, including the Supreme Audit Institution (SAI) – the Office of the Auditor General of the Republic of Kenya.

The Institute is a member of the International Federation of Accountants (IFAC), the global umbrella body for the accountancy profession and the Pan African Federation of Accountants. Under the two networks of institutions, we lend our voice on matters of governance both at the global and African levels respectively.

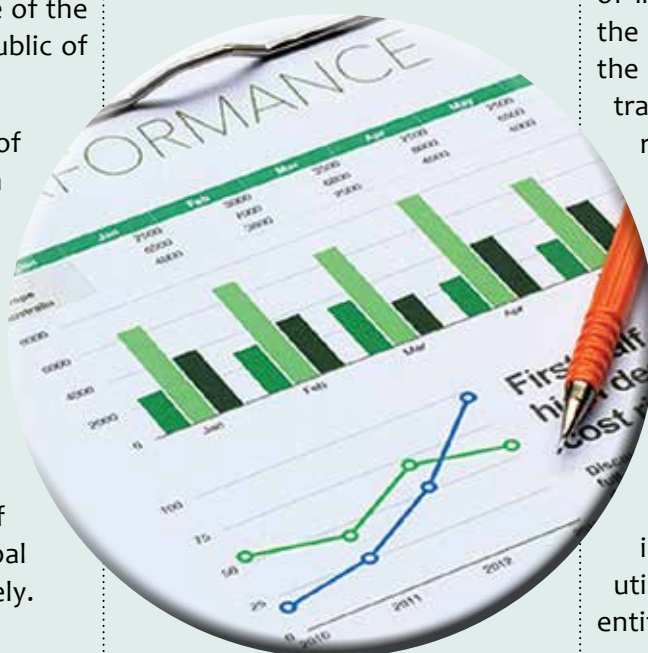
Under Article 229 of Kenya's Constitution, the OAG is an independent constitutional authority which is neither a part of the Legislature nor the Executive. Evidently, the founding fathers of our Constitution had envisaged a prominent role for public audit in our country's governance and accountability framework. I am happy to note that during this meeting, the participants will have the

opportunity to deliberate on the achievement of the SAIs both in Africa, Kenya included.

We just concluded the 4th Africa Congress of Accountants in Uganda last week (2nd – 5th May 2017) whose theme was **Accountancy and Accountability: Transforming Africa's Economies**. The Congress challenged Accountants to be at the forefront in the transformation of Africa economies with the view of improving the quality of life of the African people. The role that the SAI's play is critical to the transformation agenda and the realisation of the 'Africa we Want' through Agenda 2063.

Professionalism in the SAIs

The Accounting profession as a sub-set of public financial management, is core and thus critical in improving the quality of service delivery both for the public and private sector. It influences the allocation and utilisation of funds by different entities.





FCPA Barasa- Chairman ICPAK

Hence, strong financial accountability systems become indispensable for the success of governance in any institution seeking sustainability.

Therefore, the Institute holds the opinion that incorporating a professional Accountant and Auditor in the management and governance of public sector will avail a critical resource to oversee the prudent management of financial resources appropriated out of public funds, through strong financial controls. This has the impact of driving good governance for better service delivery more specifically, when we can demonstrate value for money for every public expenditure.

SAIs are significant players in enhancing accountability and good governance both at the national and international levels. Thus, the requirement for professionalism gains prominence within the operations of the SAIs.

First, one posits whether the SAIs are staffed with the appropriate number of technical staff to empower them to effectively review the systems and procedures of expending public sector accounting units, against the benchmarks created in law and the attendant technical reporting standards. In the same breath, the SAIs should put in place adequate

support systems to upscale the technical knowledge of the staff in tandem with the developments within the global environment.

Secondly, SAIs must assess the level of professional conviction of the staff of their staff in terms of professional behaviour. As overseers of the systems and processes, the question on the level of commitment to ethical behaviour by the staff is of paramount importance.

This will help them to avoid situations of conflict which would impair professional judgement and affect their image in the eye of the public.

Education System

I challenge members of AFROSAI-E to take a keen interest in the education curricula in their respective countries and collaborate where possible with the Professional Accountancy Institutes to ensure that the curricula meet current demands. The profession has established a platform on collaboration through the Pan African Federation of Accountants.

In Kenya, the Institute maintains a statutory mandate to advise on professional accountancy examination standards. To this end, the Institute in conjunction with the Accountancy Examinations' body – KASNEB, have taken deliberate steps to ensure comprehensive coverage of public sector reporting requirements in the professional examination curriculum so that qualifying accountants are adequately equipped to deal with the complexities in public-sector reporting environment.

We take cognizance of the unique nature of the public sector and to address this, we have given thought to an idea to introduce a post-CPA qualification in public sector financial management. It is projected that this shall be a

targeted qualification to address the various facets of public financial management, public audit being one of the most prominent modules.

Further, the Institute runs through its continuous professional development programmes, specific sessions on public sector audit. We remain hopeful that through these interventions, we will address the competency challenges facing the professionals in the sector.

The Institute and the SAI in Kenya have realised the benefit of collaboration and we have joined hands with the objective of driving accountability in Kenya. This was exemplified when the two institutions signed a Memorandum of Understanding (MOU) in November 2015. We have consequently engaged on pertinent issues that are of benefit to both institutions and the nation at large.

Key areas of engagement include; development of training programmes, sharing of resource persons, support on associate programmes for the young accountants. One milestone is the framework on outsourcing audit services to practicing members of ICPAK on both assurance and non-assurance services to support and supplement the work of SAI in Kenya. I urge other SAIs in Africa to emulate the same.

Building credible financial information is not a job for accountants alone, but an inclusive process involving all those involved in the financial reporting value chain and thus includes management, audit committees, boards, auditors, bankers, lawyers and analysts. Each must maintain a more active attitude to financial reporting■

This is an abridged version of a speech delivered during 14th Governing Board Meeting of AFROSAI-E by FCPA Barasa, the Chairman of ICPAK



Drawing the line between external and internal auditors

By David Cherono

Auditing entails unbiased collection, examination, analysis and documentation of evidence to identify and verify financial information, operational processes or the level of compliance with laws, regulations and other requirements.

There are two categories of audits in public sector: internal audit conducted by internal auditors (OAG). It's worth noting that ordinarily external auditors focus on the audit of financial statements with an aim of determining and giving an opinion on whether financial statements give "a true and fair view" and are prepared in accordance with legally and generally accepted accounting standards.

On the other hand, internal audit is an appraisal function established within an entity to evaluate and assist management to improve the effectiveness of risk management, control, and governance processes.

OAG is a Supreme Audit Institution (SAI) mandated by the Constitution and Public Audit Act, 2015, to carry out other aspects of audits, aside from just financial audits. Thus it also carries out performance audits, forensic audits and IT audits, amongst others.

Section 7 of Public Audit Act expects OAG to give assurance on the effectiveness of internal controls, risk management and the overall governance at national and county

government. This creates some aspect of similarities between OAG and internal audit in terms of scope of work and types of audits.

Office of the Auditor-General (External Auditor)

OAG draws its mandate from the Article 229 of Constitution of Kenya (2010) and delivers its audit works in accordance with the provisions of the Public Audit Act (2015). The overall goal is to promote accountability in the public sector. It therefore undertakes the following types of audits:



- **R e g u l a t o r y /** Financial Audit which entails certification of accounts to assure fiscal responsibility



- **C o n t i n u o u s /** Systems audit to assess the adequacy of corporate governance and the control environment to assure on managerial accountability.



- **V a l u e f o r m o n e y /** Performance audit to assess the overall aspects of public entities performance beyond financial reporting. It aims to establish and provide assurance on service delivery to Kenyans. Its purpose is to confirm whether or not public

money has been applied lawfully and in an effective way.



- **F o r e n s i c /** Investigative audit, this is where OAG may be requested by Parliament to conduct forensic audits to establish fraud, corruption or other financial improprieties where there are allegations.



- **O t h e r s p e c i a l i z e d** areas such as ICT audits and Environmental audits that evaluate entities adherence to best practices and standards.

OAG audits all the ministries, departments and agencies. It carries out its audit in accordance with the International Standards of Auditing as provided by International Organisation of Supreme Audit Institutions (INTOSAI) and report annually to Parliament and relevant county assembly.

Internal Audit

It is an element of internal control system and it is broader and comprehensive than financial audits. Internal audit exists to assist management in carrying out its responsibilities effectively, by providing analyses, appraisals, recommendations and advice on areas for improvement.

Cont'd pg 12 >>

Pictorial



Delegates from AFROSAI-E shop for curios at the Maasai market.

Delegates pose for a photo during planning meeting on illicit financial flows, in Nairobi.



Mr. Gideon Keter- Chairman of Kenya Parliamentary Journalists Association (KPJA), presents a copy of the media handbook to KPJA Liaison Officer, Kennedy Murithi, during its launch.



Professor Emmanuel Nnadozie of African Capacity Building Foundation, addresses delegates at the 14th AFROSAI-E Governing Board Meeting.



Manager-Audit, Mr. Raphael Ikame (right), from the Office of the Auditor-General-Kenya, delegates from the Federal Audit Office of Germany and members of the Parliamentary Accounts Committee, pose for a group photo after a forum in Germany.



Auditor-General, Edward Ouko (3rd left), Deputy Auditor-General, David Gichana (2nd left), the Commission on Audit (COA) Chairperson of the Philippines, Mr. Michel Aguinaldo (4th left) and delegates, hold discussions at the Knowledge Sharing workshop.



The Commission on Audit (COA) Chairperson of the Philippines, Mr. Michel Aguinaldo signing visitors' book when he paid a courtesy call on the Auditor-General, Kenya Edward Ouko.



Auditors from OAG at a County Parliamentary Accounts & Investments Committee (CPAIC) session for the Nakuru County Executive.



Deputy Auditor-General, Mr. David Gichana, presents a gift to one of the delegates at the closing of the Planning Workshop on Illicit Financial Flows, in Nairobi.



OAG team comprising of 10 auditors who attended a course on Forensic Investigation in Dublin, Ireland.



It is worth knowing that all the entity's systems, processes, operations, functions and activities are subject to the internal auditing.

Internal audit draws its mandate from Section 73 of Public Finance Act (2012). It outlines internal auditing work to include;

- Reviewing the governance mechanisms of the entity and mechanisms for transparency and accountability with regard to the finances and assets of

the entity.

- Conducts risk-based, value-for-money and systems audits aimed at strengthening internal control mechanisms.
- Verify the existence of assets and ensures that there are proper safeguards for their protection.
- Provides assurance that appropriate institutional policies and procedures and good business practices are followed.
- Evaluating the adequacy and reliability of information

“ External and Internal Audits are complementary in nature, serve as assurance functions, legally mandated to carry out their roles and execute their audits in accordance with respective professional standards and frameworks ”

available to management for making decisions with regard to the entity and its operations.

Internal auditors are regulated by the Institute of Internal Auditors of Kenya. They are expected to adhere to the provisions of code ethics and Standards for Internal Auditors as provided by International Professional Practicing framework developed and issued by the Global Institute of Internal Auditors.

In summary External and Internal Audits are complementary in nature, serve as assurance functions, legally mandated to carry out their roles and execute their audits in accordance with respective professional standards and frameworks.

The only key distinction is that, OAG reports to Parliament and County Assemblies, whereas Internal auditors report to audit committees of the entities. External auditors also enjoy independence since they are not employees of the entities they audit.





Curbing illicit financial flows

Auditors-General from Africa, sign MOU during the Planning Workshop on Illicit Financial Flows, in Nairobi.

By Samuel Njenga Waweru

Supreme Audit Institutions (SAI) are now closing in on illicit financial flows to curb huge wastage of money across borders.

Illicit financial flows (IFFs) are money illegally earned, transferred, or used that crosses borders. IFFs reduce domestic resources and tax revenue needed to fund poverty-reducing programmes and infrastructure in developing countries.

Statistics indicate that huge amounts of money is lost through Illicit Financial Flows with Kenya reported to have lost approximately US\$1.6 billion (about Ksh164.8 billion) by 2011.

On the regional front, Africa is estimated to have lost in excess of US\$ 1 trillion (about Ksh103 trillion), over the last 50 years in illicit financial flows. This sum is

roughly equivalent to all of the official development assistance received by Africa during the same timeframe. Currently, Africa is estimated to be losing more than US\$50 billion (about Ksh5.1 trillion) annually in IFFs.

Consequently SAIs in Africa under the aegis of African Organisation of Supreme Audit Institutions (AFROSAI), are now pulling up resources and technical expertise to handle the IFFs.

During its Governing Board Meeting, a forum of Auditors-General, in July 2016, at Windhoek, Namibia, AFROSAI resolved to address the topic of IFFs from Africa. Among the measures the Board embraced was a cooperative audit for AFROSAI member SAIs on Illicit Financial Flows with a focus on corruption.

It was agreed that participating SAIs would compose the audit teams. The focal point for the audit would be the Secretariat of the Knowledge Sharing Committee chaired by the Auditor-General of Kenya, Mr Edward Ouko, and hosted by the Office of the Auditor-General of Kenya.

Planning Workshop

Following the Windhoek meeting, a planning workshop was held in Nairobi, Kenya in March 2017 to draw a work plan and sign a Memorandum of Understanding in which a work plan for the audit was prepared and shared. The contracting SAIs signed a memorandum of understanding to undertake the audit.

Giving his opening remarks at the Nairobi Meeting, Mr Ouko pointed out that efforts to curb IFFs are usually hampered by inadequate



regulatory framework, limited funding and a shortage of technical and human capacity among others, but expressed optimism that they can be surmounted.

“I trust that with commitment, determination and pooling our resources together in this Cooperative Audit, our contribution as Supreme Audit Institutions towards the fight against illicit financial flows will go an extra mile in freeing our nations from the

monster of illicit financial flows and restore back what belongs to the citizenry,” Mr Ouko said.

IFFs are symptomatic of other issues that constrain poverty reduction and shared prosperity, such as vested interests and weak transparency and accountability. They typically originate from commercial tax evasion, trade mis-invoicing and abusive transfer pricing, criminal activities, including the drug trade, human trafficking,

illegal arms dealing, and smuggling of contraband, and corruption.

In the work plan, SAIs will tackle different themes. For audit concentration Kenya will look at Asset Declaration as a means of fighting corruption. The Audit of the Assets Declaration Regime will focus on national legal framework alignment to AU and UN Conventions, impact of assets declaration on the fight against corruption and illicit financial flows, and extent of the implementation of the Assets Declaration regime.

According to the Transparency International Corruption Perception Index (CPI) surveys, Kenya has continued to score dismally falling below the midpoint of the scale of (highly corrupt) to 100 (very clean). Indeed, of the 176 countries and territories that were ranked from 2012 to 2016, Kenya has only improved a paltry 1 point from a score of 27 to 26 as at 2016. This score puts Kenya at number 145 out of the 176 surveyed indicating endemic corruption■



Delegates at the Planning Workshop on Illicit Financial Flows, in Nairobi.

Exploring the way forward on participatory audits

By Martin Kilungu

The Office of the Auditor General (OAG), Kenya and the World Bank Group are in a joint collaboration to conduct participatory audits. The two institutions, together with the Commission on Audit (COA) of the Philippines, organised a knowledge sharing workshop in Nairobi, recently, to chart the way forward on this front.

The workshop themed South-South Knowledge Exchange Workshop, was aimed at equipping OAG Kenya and the participating Civil Society Organisations (CSOs), with the technical skills for conducting citizen participatory audit. The overall objective of the collaboration is to develop a citizen engagement framework that will enhance community participation during the audits.

The workshop also saw participants discuss common challenges in conducting social audits and how to overcome them by leveraging on ICT.

The Auditor-General, Edward Ouko pointed out that social audits in Kenya have come at an opportune time when Kenyan citizens need to hold their leaders accountable. He said that it was within the OAG's mandate to audit public institutions while involving citizens at the ground level; pointing out that Kenya should be a pioneer in citizen participatory audit in the region, and follow in the footsteps of India and Philippines who are

leaders in this domain.

Mr. Ouko called for the formulation of an effective social audit process whose findings will trickle down to the ordinary citizens in a simple format giving them the power to hold their leaders accountable.

Involving citizens

Speaking in the same forum, COA Chairperson Michel Aguinaldo said that involving citizens in social audits would ensure dealing with the direct beneficiaries of public resources, something that would make the audits efficient and effective while ensuring wider coverage and consequently promoting citizen ownership.

He noted that despite enormous and conspicuous advantages of participatory audits, they are faced with common challenges of resources and hence the need for innovative planning and resource mobilisation to ensure sustainability.

He pointed out that success in social audits will also require regular and continuous sensitisation to change people's perception and mindsets regarding

their role in promoting accountability.

In his presentation, Deputy Auditor-General, Mr. David Gichana took the participants through the legal mandates and functions of the Office of the Auditor-General Kenya, pointing out that OAG is supposed to be accountable to both the citizens and Parliament.

Mr Gichana said that a clear Citizen Engagement Framework (CEF) currently being developed by OAG will be crucial for the success of Kenya's Social Accountability Audit, clarifying that the process will only involve CSOs of good standing and who are not associated with any form of conflict of interest. The CSOs to be involved in this engagement must have existing ground networks and previous experience in similar exercises, be legally registered under the laws of Kenya and be ready to participate in the social audits on voluntary basis.



Deputy Auditor-General, David Gichana, makes a presentation on participatory audits.

Liaising with Parliament for technical assistance

The Office of the Auditor-General (OAG) set up the Parliamentary Liaison Office (PLO) meant to facilitate a close working relationship between Parliament and the Office. In this Question and Answer piece, **Mr. Raphael Ikame - Manager at PLO** gives an insight on how this works.

1. Who is a Parliamentary Officer (PLO)?

First of all, Liaison means communication or cooperation that facilitates a close working relationship between people or organisations. From this simple definition, the PLO is meant to facilitate a close working relationship between Parliament and the OAG. For this to happen, a Liaison Officer acts as a communication channel between the OAG and Parliament. Liaison Officers in addition offer technical assistance to Parliamentary Committees to which they are attached.

2. When was the Parliamentary Office (PLO) established?

From where I sit, it is not documented when the Liaison Office was established but I gather it has been there for as long as the functions of the Public Accounts Committee (PAC), Public Investment Committee (PIC) has been in place.

3. What exactly does your job entail?

The OAG's Parliamentary Liaison office is responsible for coordinating the office's participation at committee hearings.

This includes: -

- Coordinating the preparation for scheduled hearings;
- Arranging, if necessary, briefing meetings between committee members or committee staff

and the Auditor-General or other Office staff;

- Conducting post-hearing reviews to identify opportunities for improving how the Office communicates its messages and interactions with parliamentarians;
- Providing guidance on the preparation and content of opening statements for committee hearings.

4. In what ways does the Committee use the Auditor-General's report?

We place our skills at the service of Parliament as a whole by supporting in particular the PAC, PIC, other select committees from both Houses (National Assembly and Senate) and individual Members of Parliament (MPs); in their scrutiny of public spending

“ At Parliamentary Committee hearings, the witnesses for the OAG usually include, the Manager responsible for the audit, and his or her assistant as the case may be. The Liaison Officer is the spokesperson for the Office and is responsible for placing the audit in context for the committee and, where appropriate, indicating what the Office thinks the committee might do to help address the issues raised.

and service delivery.

Parliamentary Committee hearings are important opportunities for Parliament to use the Auditor-General's reports to improve government management and accountability which mainly focus on whether money appropriated by Parliament was spent as intended and in an appropriate way.

All of the Auditor-General's reports are, after being tabled in the House, referred to the relevant Committee of Parliament or County Assembly for review, which may be PAC in respect of OAG reports on the National Government ministries, PIC in respect of OAG reports on Government investments (parastatals) and Senate Public Investment and Accounts Committee in respect of OAG reports on County Governments. Depending on the subject matter and the entities included in the audit, the OAG is also invited to hearings.

5. How does the Office of the Auditor-General (OAG) partner with Parliamentarians?

At Parliamentary Committee hearings, the witnesses for the OAG usually include, the Manager responsible for the audit, and his or her assistant as the case may be. The Liaison Officer is the spokesperson for the Office and is responsible for placing the audit in context for the committee and, where appropriate, indicating what the Office thinks the committee

might do to help address the issues raised.

Liaison Officers also maintain contact and relations with members of Parliament or respective County Assemblies. PAC and equivalent committees play an important role in the relationship between Parliament and OAG.

These committees digest respective reports and recommends subsequent action. PAC and other relevant committees have a broad mandate that allows them to review current or past Government financial activity. PAC and corresponding committees are very prestigious committees to sit on and have the right to call all relevant officials to testify and obtain information and investigate widely.

6. You said you come up with reports. What is their purpose?

As is the practice, we currently do not come up with reports but mainly rely on the Auditor-General's report during the proceedings of the respective committees.

Briefs are however prepared. They are summarised questions that Managers in charge of the particular audit come up with, to guide the Chairman of the committee during various sittings. These briefs basically simplify and put the matters at hand in a perspective that the Chairperson would appreciate.

7. What are the some of the challenges faced by your office before and after Devolution?

As the Liaison Office executes the mandate, several challenges have been encountered and continue to be encountered which hinder the efficiency and effectiveness of the Liaison function and include but are not limited to: -

- There are no Liaison Office guidelines which would clarify the parameters, duties, and responsibilities of the Liaison Office and officers
- No adequate existing financial and institutional support whereby the office has only four officers, the Deputy Director being in charge, and three Managers, each one attached to National Assembly's Public Accounts Committee and Public Investments Committee and Senate's Public Investments and Accounts Committee.

Article 229 of the Constitution clearly highlights the roles and responsibilities that the Office has in regards to Parliament. It is therefore important to improve their working relationship and interactions to improve accountability and service delivery to all■



A County Assembly in session.

Establishing regional offices



By Anne Rose Kairu and George Odhiambo

In its quest to bring services closer to the people, the Office of the Auditor-General (OAG) continues to seek opportunities for establishing regional offices at the grassroots.

The Office has already acquired a piece of land for the construction of its Kakamega regional office. Once the works begin, it is expected that it will take approximately 52 weeks to complete the building, which will house Kakamega staff, currently operating from the Agricultural Finance Corporation building.

The County Government of Kakamega and the County Commissioner have both been instrumental in ensuring that due process is followed in the acquisition of the land. The Deputy Auditor-

General in charge of Corporate Services, Agnes Mita expressed her gratitude for their unwavering support in this venture and looked forward to the continued good working relationship with them.

Once completed, it will be the second regional office to be constructed by the Office, after the Garissa regional office, which is now ready for occupation.

On the other end of the spectrum, the Nakuru regional offices have now been occupied. OAG acquired new office space from the Kenya National Library Services (KNLS) Nakuru Branch building, on the 4th floor late last year (2016). The building is located along Moses Mudavadi road and renovation

works were completed in May 2017.

In 2016, OAG opened its first County Office in Bungoma town to cover audit functions in Bungoma and Busia counties. The intention of OAG is to have sufficient number of such offices for effective delivery of services.

There are nine regional offices, known as Hubs, headed by Directors or Acting Directors, who oversee audit functions in a number of counties within their jurisdiction. Each Hub covers an average of five counties. The Hubs are Nairobi, Nakuru, Mombasa, Kisumu, Nyeri, Embu, Eldoret, Kakamega and Garissa■



The Garissa Regional Office. The building is now ready for occupation

Media Handbook: Aiding journalists in reporting audit findings

By Annastasia Kamaa

A Media Handbook has been developed to assist journalists improve their reporting on audit outcomes.

The Office of the Auditor-General, with support from German Development Cooperation (GIZ), has published a *Media Handbook of Reporting Audit Findings* for use by journalists whenever they interact with audit reports.

At the launch of the Handbook, Deputy Auditor-General, David Gichana said the Handbook will aid journalists in interrogating audit reports, thus adding to the Office's efforts in making its reports easily understood.

"This Handbook will therefore be useful to reporters as a guide to effective interrogation of our reports, for more effective, accurate and sustained reporting on financial accountability," Mr Gichana said.

He said auditors spend a lot of time auditing and compiling reports, and that it would only be fair if these reports are easily understood by the citizens.

Katrin Reinhart, GIZ Good Governance Programme Advisor said that journalists have a critical role to play in enhancing good governance, noting that the Handbook will enable them interrogate audit findings for easier understanding by the citizens.

"This Handbook should serve as



Representatives from the Media, GIZ and Office of the Auditor-General, display copies of the Media Handbook.

a whetstone on which reporters can sharpen their pens to better dissect, interpret and write on financial accountability in a way that will contribute to better service delivery to the people of Kenya," Katrin said.

Inputs from journalists and auditors

The Handbook is a product of inputs from journalists, auditors and journalism scholars and covers essential aspects of auditing. The areas of focus were floated by journalists during Media Awareness Workshops in Naivasha, Mombasa and Kisumu.

Some of the contents include definitions of audit jargons, auditing ethics and standards, audit opinions and audit process.

Kenya Parliamentary Journalists Association Chairman, Gideon Keter lauded the initiative saying the Handbook will come in handy to parliamentary journalists given

that they frequently interact with the audit reports. The Constitution mandates the Auditor-General to present its reports to Parliament for tabling and discussion by MPs. Parliamentary journalists are therefore the first point of contact with audit reports once tabled in Parliament.

The development of the Handbook arose from the need for effective, accurate and sustained reporting of audit findings. Mr. Gichana said with better reporting of audit findings, the citizens will be properly informed to make decisions on governance matters.

"This will in essence, lead to empowerment of the public through dissemination of reliable financial information, in line with Article 35 of the Constitution and Access to Information Act, 2016. The result will be a better informed public and increased public participation in financial accountability," he said ■



Continuous training of performance auditors for effective audits

By Nicholas Mureithi

As the Office continues to develop and harness the working skills of auditors, the fundamental role played by performance auditors cannot be overlooked. It is based on this that performance auditors are periodically taken through a performance audit training programme that is aimed at adequately equipping them with the necessary skills to conduct effective audits.

This performance audit training programme is comprised of a Three-Module training course that began in January, 2016. It is a comprehensive course that is carefully structured and designed to sufficiently equip performance auditors with the prerequisite

knowledge necessary to carry out performance audits and produce high quality reports that resonate with the taxpayers.

The first module in the training programme was an e-learning course which was undertaken in the participating Supreme Audit Institutions (SAIs). The second module was hosted by SAI Tanzania in May 2016 and the third and final module was hosted by SAI Kenya.

In the Module 3 training, the facilitators laid emphasis on the importance of performance auditors in comprehending the significance of being thorough in their work to achieve enhanced service delivery. They emphasised

on the need to adequately plan for the audit exercise and clearly identify the risk areas.

Training had 30 participants

The training attracted 30 participants drawn from SAI Rwanda, Tanzania, Ghana, Sudan and Kenya, and the participants consequently produced 11 draft audit reports that are expected to be published by the respective Auditors-General and Heads of SAIs. The participants also performed extensive analysis on the audit design and overall description of performance-based activities as well as possible findings, conclusions and recommendations that arise from such audits.



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.



Office of the Auditor-General, Kenya

P.O.Box 30084-00100,

Nairobi, Kenya

Tel: +254 796 528 560

E-mail : info@oagkenya.go.ke

<http://www.oagkenya.go.ke>

 Office of the Auditor-General Kenya

 @OAG_Kenya