

Module 4 Session 2: Understanding County Audit Reports

KEY TAKEAWAYS

- ✓ AUDIT REPORTS ARE IMPORTANT FOR OVERSIGHT BY BOTH THE PUBLIC AND THE COUNTY ASSEMBLIES
- ✓ AUDIT REPORTS GIVE AN INDEPENDENT OPINION OF WHETHER THE COUNTY GOVERNMENT HAS SPENT FUNDS AS IN THE ENACTED BUDGET
- ✓ AUDIT REPORTS RAISE QUERIES RELATED TO FAILURES TO FOLLOW PROCEDURE, AND MAY INDICATE MISUSE OF FUNDS, BUT THEY ARE NOT CORRUPTION REPORTS

TASK 4.2 ■ READING AND UNDERSTANDING COUNTY AUDIT REPORTS

1 HOUR 15 MINUTES

TASK OBJECTIVES:

- ❖ ENHANCING UNDERSTANDING OF THE AUDIT PROCESS AND THE CONTENT OF AUDIT REPORTS
- ❖ USING COUNTY AUDIT REPORTS IN REPORTING, ADVOCACY AND OVERSIGHT

RESOURCES NEEDED

- ✓ Summary of the Report of the Auditor-General on Financial Statements for Ministries, Departments, Commissions, Funds and other Accounts of the National Government National Government for the Period 1 July 2013 to 30 June 2014: snippets
- ✓ Baringo county audit reports for the year 2013/14:
 1. The Report of the Auditor-General on the Financial Operations of the Baringo County Executive for the Period 1 July 2013 to 30 June 2014;
 2. The Report of the Auditor-General on the Financial Operations of Baringo County Assembly for the Period 1 July 2013 to 30 June 2014; and
 3. The Report of the Auditor-General on the Financial Statements of County Government of Baringo for the Period 1 July 2013 to 30 June 2014.

HOW TO RUN THIS TASK

This task has two parts:

Part one: Reading audit reports (30 minutes)

1. Begin by placing the audit stage in the budget cycle and explaining why this stage is important (Refer to Module 1 Session 1). Describe the materials we will be using: the national and county audit reports for 2013/14, which are the most recent available.
2. Ask the participants to refer to the table of contents in their Participant Manual (PM, p.122) from the national report (2013/14) and ask the participants whether they are familiar with the terms listed. Alternatively, you may ask the participants in groups of three to discuss the terms first.
3. In plenary ask each group to define at least one term. Ensure you clarify and explain briefly what the terms mean and which ones are audit queries.
4. Discuss other pertinent issues on audit reports such as the types of audits and audit queries in the Kenyan context.

Part two: understanding county audit reports (45minues)

1. Share with the participants the three Baringo audit reports. Ask the participants to read the relevant paragraphs/ pages highlighted in the table in their Participant Manuals
2. In groups of three, ask the participants to answer the three question in their Participant Manuals (Part two)
3. To save time, ensure participants looking at the specific audit queries highlighted in part one of this part of the session and are not preoccupied with reading the entire report
4. In plenary, discuss the answers from each group allowing at least one answer from each group.

Emphasize: The issues raised in most of the audit queries may require further information to be collected and in some cases investigative agencies to be called in to resolve them. Audit reports usually do not have adequate information to fully determine what happened or how it should be handled.

BACKGROUND INFORMATION

❖ Who is the Auditor General and what is his role in the budget process?

- The Office of the Auditor General (OAG) is a constitutional office mandated to confirm whether or not public money has been applied lawfully (following budgets and financial procedures for procurement and spending) and in an effective way (Art 239).
- The Public Audit Act 2015 (PAA, 2015) expounds on the role of the AG. This includes:
 - a. Giving an assurance on the effectiveness of internal control risk management and governance;
 - b. Satisfying himself that the county agencies have applied public money for its intended purposes;
 - c. Confirming that counties are taking reasonable precautions to safeguard revenue collection and asset and liabilities acquisition; and
 - d. Issuing audit reports

❖ What types of audit and audit queries are there and what county audit reports does the AG produce?

- There are different types of audits. The primary audit conducted by auditors around the world and in Kenya is a financial audit, which looks at whether an entity's financial information is accurate (free from errors) and presented in accordance with the applicable financial reporting and regulatory framework. This is the main focus of the OAG reports produced on an annual basis, including those we are looking at here. It should be clear that a financial audit does not on its own establish corruption in most cases, as it only shows that procedures were not followed, but not what ultimately happened to the funds. Because the Public Audit Act requires the OAG to look at effectiveness of spending as well, however, there is an indication that standard audits should go beyond financial audits. For the most part, however, the main annual audit remains a financial audit.
- However, the auditor is also encouraged and in some cases required to carry out other types of audits:
 - a. Performance audits: examine the economy, efficiency and effectiveness with which public money is spent. This applies to the overall county and specific county projects evaluating whether citizens have gotten value for their money.
 - b. Forensic audits: these establish fraud, corruption or other financial improprieties.

- c. Procurement audits: 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.
 - d. Compliance audits that look at the extent to which the relevant regulations and procedures have been followed. See ISSAI 400 (http://www.issai.org/media/12955/issai_400_e.pdf) for more details.
- Audit reports raise audit queries. These are questions asked by the auditor during his investigations that do not receive an adequate response from management, in this case the accounting officers in the various government ministries and departments. By “adequate responses”, we mean that where financial procedures appear not to have been followed, the management is able to produce documentation showing that the procedures were followed or qualified for an exception. Examples of audit queries include issues dealing with unsupported expenditure (inadequate paperwork to show that spending was in line with the law), procurement improprieties (where procurement regulations were not followed), excess expenditure (spending beyond what was authorized in the budget or by Parliament), pending bills (where payment that should have been made during the year was not made and is carried over to the next year), mismanagement of imprests (cash advances that were not accounted for), little to no value for money, failure to report ownership or inventory of assets and liabilities, mismanagement of revenue, poor debt management and illegal expenditure (no budget or law authorizing expenditure, or spending prohibited by law).
 - In 2013/14, the Auditor General released three categories of county reports. These reports are:
 - a. Reports of the Auditor General on the Financial Operations of the County Executives (County Executive reports)
 - b. Reports of Auditor General on the Financial Operations of the County Assemblies (County Assembly reports)
 - c. Report of the Auditor General on the Financial Statements of the County Governments (Financial Statements reports).

❖ **When should the AG produce these reports? What happens thereafter?**

- The AG is required to release audit reports six months after the end of each financial year (by December every year for the previous financial year). The 2013/2014 audit reports were late (as audit reports have been for years). Once released these reports are then tabled in the county assemblies (and National Assembly).
- Audit reports should be made public by the AG within 14 days after submitting to the county assembly (on the website and in other public spaces as per Section 32(3) PAA, 2015).
- These reports are then scrutinized by the county assembly’s Public Accounts Committee (PAC) inviting public officers to give explanations or information to clarify the audit queries raised. The PACs are required to complete this exercise within three months of receiving the reports (Section 50(2) PAA, 2015). (This has taken up to three years in some cases at national level).
- After the PAC process, relevant agencies/ individuals shall within 3 months after the assemblies’ recommendations take relevant steps to implement the recommendations or give an explanation to Parliament or County Assembly on why the report has not been acted upon (Section 53, PAA, 2015).

- If there are criminal matters arising then the police, the Director of Public Prosecution (DPP), the Ethics and Anti-Corruption Commission (EACC) and any other relevant bodies should take up the matter. The PACs are not meant to re-audit but rather determine which issues are still outstanding and ensure that appropriate action is taken to rectify them.

Note:

- **Once the PAC reports have been released it is important for the public, CSOs and journalists to investigate what issues have been resolved and how much remains unresolved from the original OAG report**
- **The AG is audited by an independent auditor appointed annually by Parliament**

TASK 4.2

(QUESTIONS AND ANSWERS)

Part one: Reviewing the table of contents of the 2013/14 national audit report

This section explains the table of contents. Note that 3.5 to 3.8 are audit queries.

3.	Summary of the Audit Results.....	12
3.1.	Accounting Framework.....	12
3.2.	Overall Audit Results.....	12
3.3.	Audit of Revenue Statements.....	14
3.4.	Audit of Expenditure Statements.....	16
3.5.	Unsupported Expenditure.....	18
3.6.	Excess Expenditure.....	18
3.7.	Pending Bills.....	19
3.8.	Management of Imprests.....	21
3.9.	Maintenance of Bank and Cash Accounts.....	22
3.10.	Statements of Assets.....	23
3.11.	Maintenance of Accounting Records.....	23
4.0.	Conclusion.....	24
Audit Opinions on the Financial Statements.....		25
1.	<i>Unqualified Certificate</i>.....	25
2.	<i>Qualified Certificate</i>.....	27
3.	<i>Adverse Certificate</i>.....	29
4.	<i>Disclaimer Certificate</i>.....	31

- **Unsupported expenditure:** This is spending that lacks adequate documentation, such as: approvals, authorizations, receipts & vouchers etc. Although it is often equated to “unaccounted for” spending, that is not always the case. In some cases, it is very clear what the spending went for, but it was not authorized properly. A transaction is also unsupported where there are goods and services that cannot be verified as received.
- **Excess expenditure:** This is overspending without authorization. In this case, spending is above the budget for a particular vote, but there is no supplementary budget or other authorization to exceed the spending limit in law. This should be differentiated from cases of illegal expenditure, where a law other than the Appropriation Act limits spending on particular items. For example, if members of the County Assembly approve an increase in their own salaries and allowances violating the ceilings stipulated by the Salary and Remuneration Commission. This is simply illegal expenditure (even if they do not exceed what was budgeted).
- **Pending Bills:** These are monies that have yet to be paid out to contractors/ suppliers for goods delivered or services rendered. The same could have been invoiced and supported by certain documentation. This is an audit query because it implies mandatory allocation of funds to offset the pending bills in the following financial year. Bills carried forward pose a challenge because they must be budgeted for in the subsequent year, yet spending agencies do not have authority to make their own budgets for future years. Only Parliament/ County Assemblies are legally mandated to approve appropriation of public funds. The government operates on an annual budget on a cash

basis and does not recognize multi-year commitments. So when an agency forces a rollover of spending to a new year, it is a violation of the law.

- **Management of imprests:** This becomes an audit query where imprests (cash advances when government officers travel to attend meetings that must be returned or accounted for with proper records) are unaccounted for, or where officers receive new imprests while they still have outstanding imprests. Government officials must return receipts and other appropriate documentation showing expenditure or else surrender unused imprests.

Audit opinions/statements on the financial statements:

- **Unqualified certificate:** A clean certificate. The auditor in this case is convinced that funds were managed properly and that there were no problems with the documentation.
- **Qualified Certificate:** A statement that would have been considered clean but for a few audit queries. The queries are not pervasive or systemic and the problems identified can be rectified easily.
- **Adverse Certificate:** There are pervasive (systematic) problems with the financial operations of government agencies. These problems require considerable changes to rectify. This kind of finding should be of particular concern to oversight bodies.
- **Disclaimer:** This was identified as occurring when there is shoddy record keeping and the auditor is unable to fully review the entity's documentation to form an opinion. This is a serious lapse in compliance and should be of major concern to oversight bodies.

Unfortunately, the relatively well-organized national audit report format is not fully followed in the county reports. This makes it difficult to track the most important findings or to group findings in categories as at national level.

Look at the snippet below on trends in national audit reports. What trends do you notice?

Audit Report Findings					
Expenditure	2009/10	2010/11	2011/12	2012/13	2013/14
Unsupported Expenditure	6,955,884,426	8,618,296,784	5,214,321,544	33,922,820,718	66,782,697,987
Unsurrendered Imprests	792,557,903	441,606,483	2,142,569,432	633,178,658	351,043,211
Pending Bills	16,640,966,826	8,105,844,001	4,476,921,844	43,634,365,991	16,638,164,142
Excess Vote	44,470,491	362,357,466	7,048,222,153	38,493,253	24,566,651,642
Excluded Expenditure	4,037,475,913	3,092,815,736			
Total Irregularities	28,471,355,558	20,620,920,470	18,882,034,973	78,228,860,620	108,338,556,982

Source: IBPK based on national OAG reports 2009/10-2013/14

The big increase is in unsupported expenditure. It is important to compare the current year's report to previous years' reports in order to appreciate the trend over time and identify the systemic problems with government entities.

Relating to snippet 'a' above what does snippet b below tell you?
 Snippet b (2013/14 National Audit Report, page 18)

3.5. Unsupported Expenditure

During 2013/2014, a number of Ministries, Departments, Commissions and Funds failed to avail documents in support of various expenditure totalling Kshs.66,782,697,987 appearing in the respective financial statements, as summarized below:-

	Ministry/ Department/ Commission/ Fund	Amount (Kshs)
1	Commission for the Implementation of the Constitution	9,200,000
2	Ministry of Agriculture, Livestock and Fisheries	1,289,737,385
3	Ministry of Defence	74,237,939
4	Witness Protection Agency	79,358,109
5	Ministry of Education, Science and Technology	12,826,647,906
6	Ministry of Energy and Petroleum	2,408,723,869
7	Ministry of Environment, Water and Natural Resources	15,900,000
8	Ministry of Foreign Affairs	1,456,170,114
9	Ministry of Health	22,500,344,808
10	Ministry of Industrialization and Enterprise Development	300,000,000
11	Ministry of Transport and Infrastructure	22,050,510,900
12	National Police Service Commission	59,846,608
13	Office of the Attorney General and Department of Justice	2,705,850,667
14	Teachers Service Commission	128,392,939
15	The Judiciary	463,366,769
16	Government Press Fund	271,742,000
17	National Humanitarian Fund	<u>142,667,974</u>
	Total	<u>66,782,697,987</u>

In absence of the records and documentation, the propriety of the expenditure of Kshs.66,782,697,987 could not be ascertained and therefore these public funds may not have been utilized lawfully and in an effective manner.

After determining the trend over the years of audit queries we should also find out which departments/ government agencies are worst affected. From the snippet, the Ministry of Health and Ministry of Transport and Infrastructure have the highest amount of unsupported expenditure. These might be a good place to start to review the details of the report.

Look at snippet below (from the Ministry of Health) what information do you find here?

Page 100:

Unsupported expenditure

Component in F/S	Total amount	Supported Balances	Un-supported Balances
	Kshs	Kshs	Kshs
Other Grants and transfers	24,053,720,579.05	23,154,328,367.05	899,392,212.00
Social security benefits	394,093,952.10	-	394,093,952.10
Acquisition of Assets:-			
Ngong (Radio-active waste processing facility)	257,364,938.00	180,069,361.00	77,315,577.00
Government Chemist	123,640,071.00	68,566,427.00	55,073,644.00
KNH	9,961,800.00	-	9,961,800.00
MOH HQS	21,366,536.00	-	21,366,536.00
Purchase of computers & Specialized equipment	514,260,279.00	-	514,260,279.00
Purchase of Motor Vehicles	43,999,491.00	8,999,491.00	35,000,000.00
Other Payments	2,672,776,865.25	1,405,904,665.30	1,468,872,199.95
		-	
Total			3,473,396,200.05

From the above we see that a considerable amount of unsupported expenditure is in ‘other payments’ and ‘other grants and transfers’ followed by purchase of computers and specialised equipment and social security benefits. It should be clear that more information would be needed to determine exactly what all of this means and who is responsible.

Emphasize: the PAC discusses and reviews audit reports and makes recommendations on the audit queries. Some of the issues are resolved at this stage. Other unresolved issues are subjected to further investigations by other bodies such as EACC and Police (and later prosecuted by the DPP).

Part Two: Reviewing your county’s audit reports

- (i) Consider item 1-8 from the three audit reports below. Participants should review in groups and make sure they understand what they mean, asking questions as necessary.
- (ii) Participants should then rank these audit queries from the most important to least important and explain their reasoning.

County Executive Report	County Assembly report	Financial Statement
1. Unsupported expenditure. Look at 2.0 & 3.0 on page 3 and 6.0.	5. Illegal expenditure. Look at 2.1 on page 5, 3.0 on page 6.	7. Pending Bills. Look at 6.0 on page 4.
2. Imprests. Have people look at 3.0 on page 9, 5.0.	6. Excess expenditure. Look at 2.2 & 2.3 on pages 5&6.	8. Procedures for Funds. Look at 3.0 on page 3.
3. Procedures for assets. Look at 4.3 on page 10.		
4. Procurement. Look at 7.1 on page 12, 11.1 & 11.2.		

Here are three things that may be considered.

- a. Queries that represent the highest amount of money;
- b. Queries where expenditure resulted in (little to no) value for money.
- c. Where a particular department attracts many queries this could suggest systemic problems of major importance. These departments are mentioned adversely in the reports as compared to other departments. Are there departments doing worse as compared with other departments? (For example health, /education and ICT and county assemblies). The following table classifies the information in the report and provides suggested answers but there are others that would be acceptable.

County Executive						
	Procurement Impropriety	Unsupported Expenditure	Imprest Mismanagement	Improper Payments	Failure to Report assets	Misallocation of Expenditure
1.1 Implementation of civil works projects by department of health (quotation method)	48,013,589					
2.0 Payment to institutions not supported by vouchers by county department of health		30,490,686				

3.0 Kazi Kwa Vijana (KKV) account		2,152,000				
4.0 Un-surrendered imprest			20,720,273			
5.0 Unsupported expenditure on devolution conference at Kwale			761,600.00			
6.0 Un-supported allowances and irregular payment of honoraria and meal		1,003,700		2,614,600		
7.0 fixed assets register					8,414,946	
9.0 misallocation						5,632,088
11.1 single sourcing of legal and hotel services	1,182,000					
11.2 Irregular procurement process local hotel and a church hospitality	701,350					
12.0 Irregular payment of pending bills of defunct local authorities				3,272,362		
Total	49,896,939	33,646,386	21,481,873	5,886,962	8,414,946	5,632,088
County Assembly						
	Unsupported Expenditure		Excess Expenditure	Illegal Expenditure (contrary to regulations)		
1.0 Motor vehicle running expenses-fuel, oils and lubricants	2,025,298.00					
2.1 Travelling and subsistence allowances for local travel	2,209,000.00			1,710,500.00		
2.2 Foreign travel expenses USA Uganda Colombia Singapore	16,196,971.00		785,451.00			

2.3 Payment of sitting allowances		501,800.00	207,203.00
3.0 Car loan scheme for members of county assembly			96,000,000.00
Total	20,431,269.00	1,287,251.00	97,917,703.00
County Financial Statements			
	Unsupported expenditure	Assets and Liabilities	Pending Bills
2.0 Unsupported Compensation of Employees Expenses	288,251,626		
3.0 Other Grants and Transfers bursary fund and car loans	126,000,000		
4.0 Unconfirmed Bank Balances		790,421,303	
5.1 Fixed Assets Register		619,566,491	
6.0 Pending Bills			1,009,725,621
Total	414,251,626	1,409,987,794	1,009,725,621

County Executive Report	County Assembly Report	Financial Statement
<p>Highest amount: procurement impropriety total of 49.897 million</p> <p>Value for money What real benefits accrued from the Kazi Kwa Vijana initiative? (Para 3.0)</p> <p>Department(s) Health department and county assembly have most audit queries</p>	<p>Highest amount Audit query with the highest amount attached to it is illegal expenditure with a total of 97.918 million (aggregate of Travelling and Subsistence Allowances for Local Travel: 1,710,500.00, Payment of Sitting Allowances: 207,203.00 and Car Loan Scheme for Members of County Assembly: 96,000,000.00)</p> <p>Department(s) Because this concerns the county assembly only, it is</p>	<p>Highest amount: Pending Bills at 1 billion (Para 6.0)</p> <p>Value for money: It is not likely to see this in a financial statement report</p> <p>Department(s) County assembly and Department of education have been adversely mentioned.</p>

not possible to do the comparison.

(iii) What opportunities for investigation/advocacy could be pursued in the items 1-8 above? And how?

County Executive Report	County Assembly Report	Financial Statement
The health department has the highest amount in audit queries (procurement problems, stalling and incomplete projects etc.) (Para 1.0).Where could the department be going wrong?	What benefit did the county accrue from the foreign travels to Colombia and Singapore?(Para 2.2)	How can funds be managed properly to ensure transparency?

Emphasize: the PAC discusses and reviews audit reports and makes recommendations on the audit queries. Some of the issues are resolved at this stage. Other unresolved issues are subjected to further investigations by other bodies such as EACC and Police (and later prosecuted by the DPP). In general, the reports do not provide sufficient detail to conclude anything about what exactly happened and who is responsible.

(iv) What are the implications for oversight?

One of the challenges with the system is that PAC reviews all reports, and in the case of the County Assembly, they are essentially policing themselves. This requires some thinking on the part of citizens and media about how to ensure that audit queries related to the assemblies are actually followed up.

FURTHER READING:

- i. IBP, “Guide to the Open Budget Questionnaire: An Explanation of the Questions and the Response Options,” September 2015 (Q 97-102)

<http://www.internationalbudget.org/wp-content/uploads/OBS2015-Questionnaire-and-Guidelines-English.pdf>

- ii. Public Audit Act, 2015

<http://kenyalaw.org/kl/fileadmin/pdfdownloads/Acts/PublicAuditAct34of2015.pdf>

- iii. Jason Lakin, “Media must understand that money that isn’t accounted for isn’t always looted,” July 25, 2015

<http://www.theeastafrikan.co.ke/OpEd/comment/Financial-reporting-on-counties-auditor-general-report/-/434750/2808286/-/d2se53z/-/index.html>

- iv. Jason Lakin, “Auditor General: Powers and performance,” Mar. 26, 2016

http://www.the-star.co.ke/news/2016/03/26/auditor-general-powers-and-performance_c1318619?page=0%2C1

- v. Jason Lakin, “Auditor General’s report: How to cut out the sound and fury that signifies nothing,” August 8, 2015.

<http://www.theeastafrican.co.ke/OpEd/comment/Circus-of-the-Auditor-General-reports-in-Kenya/-/434750/2824656/-/yc5vbdz/-/index.html>