

# Kenya: 10 Key Questions About Your County Audit Report

Mokeyra Nyagaka and John Kinuthia, International Budget Partnership Kenya | April 2019

## INTRODUCTION

Audits Reports are the final key budget documents that come at the tail end of the budget process in each county. Audit Reports give an independent evaluation on whether counties were prudent in their use of public resources and whether the public got value for the resources spent. In addition, the auditor looks into the internal financial controls in the counties and whether there are sufficient safeguards in place to protect public resources. The Auditor General (OAG) is required by law to produce Audit Reports within six months after the end of each financial year. This means that by the 31<sup>st</sup> of December each year the OAG will have produced the reports, the Auditor General submits Audit Reports to county assemblies and is required to publish these reports within 14 days of submitting the reports to the county assemblies. This guide provides some structured questions that will help the public, civil society organizations, and other agencies in Kenya read and understand county Audit Reports. It is part of a series of guides on how to read and understand different budget documents at the national and county level. In this guide we refer to Baringo County Audit Reports for the year 2013/14 to 2015/16 that can be found in the Office of the Auditor General (OAG) [website](#).<sup>1</sup>

## 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 public money has been applied lawfully (following budgets and financial procedures for procurement and spending) and in an effective way (Art. 229 of the constitution of Kenya).
- The Public Audit Act 2015 (PAA, 2015) expounds on the role of the OAG. 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;

---

<sup>1</sup> [http://www.oagkenya.go.ke/index.php/reports/cat\\_view/2-reports/11-county-governments/203-county-government-reports-2015-2016/204-baringo-county](http://www.oagkenya.go.ke/index.php/reports/cat_view/2-reports/11-county-governments/203-county-government-reports-2015-2016/204-baringo-county)

- 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?

- 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 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](http://www.issai.org/media/12955/issai_400_e.pdf)) for more details.
  - e) Special audits are conducted upon request or on the OAGs volition. This have been mostly in the National government. (e.g. by the public accounts committee in the National Assembly) for specific ministries agencies or departments (see special audit on KNH :) within government or investments (see special audit on IFMIS here) outside the cyclical audit stage of the budget process.<sup>2</sup> These audits may be carried out on the AG's volition, where he wants to bring and issue to the attention of the county and national assemblies (PAA 2015, S. 49).
- 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

---

<sup>2</sup> [http://www.oagkenya.go.ke/index.php/reports/doc\\_download/50-knh-report](http://www.oagkenya.go.ke/index.php/reports/doc_download/50-knh-report)

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).

## WHAT COUNTY AUDIT REPORTS DOES THE OAG PRODUCE?

- From 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 OAG PRODUCE THESE AUDIT REPORTS? WHAT HAPPENS THEREAFTER?

- The OAG is required to release Audit Reports six months after the end of each financial year (by December every year for the previous financial year). Once released these reports are then tabled in the county assemblies (and National Assembly). However, the OAG has not been able to meet this deadline since 2013/14. The latest reports covering FY 2017/18 were also published three months after the deadline.
- Audit Reports should be made public by the OAG 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 OAG is audited by an independent auditor appointed annually by Parliament

## KEY QUESTIONS TO ASK ABOUT YOUR COUNTY AUDIT REPORT

### 1. WHAT OPINION DID THE OAG GIVE LOOKING AT THE FINANCIAL STATEMENT OF THE COUNTY GOVERNMENT?

*The Auditor General forms his opinion after evaluating revenue and expenditure disclosures in the county's financial statements every year. There are four types of audit opinions. These are 1) unqualified/ clean opinion where the auditor is convinced that funds were managed properly and that there were no problems with the documentation; 2) qualified opinion where the auditor's opinion could have been considered clean but for a few audit queries. In this case queries are not pervasive or systemic and the problems identified can be rectified easily; 3) adverse opinion where there are pervasive (systematic) problems with the financial operations of a county government. Here problems require considerable changes to be rectified. An adverse opinion should be of concern to oversight bodies such as county assemblies and the public. 4) disclaimer opinion when there is shoddy financial reporting by counties and the auditor is unable to fully review the county government's documentation to form an opinion. A disclaimer opinion shows a serious lapse in compliance and should be of major concern to oversight bodies.*

In 2017, the Auditor General published two reports covering financial statements from Baringo county assembly and the county executive for the year 2015/16. The Auditor General gave a disclaimer of opinion to the county assembly and a qualified opinion to the county executive. The auditor indicates that he could not obtain sufficient appropriate audit evidence to form an audit opinion in the case of the county assembly. The county assembly had not prepared needed documentation such as the trial balance, receipts supporting travel allowances or disclosed vital information such as accounts payable (account of creditors/ pending bills). The audit opinion to the county executive was positive even though they were not given a clean report.

## 2. IS THERE A SUMMARY ON AUDIT QUERIES THAT EXPLAIN WHY THE AUDIT OPINION WAS GIVEN?

*Audit Reports raise audit queries. These are questions asked by the auditor during his investigations that do not receive an adequate response from responsible agency or accounting officers, 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 1) unsupported expenditure (inadequate paperwork to show that spending was in line with the law), 2) procurement improprieties (where procurement regulations were not followed), 3) excess expenditure (spending beyond what was authorized in the budget or by Parliament), 4) pending bills (where payment that should have been made during the year was not made and is carried over to the next year), 5) mismanagement of imprests (cash advances that were not accounted for), 6) little to no value for money, 7) failure to report ownership or inventory of assets and liabilities, 8) mismanagement of revenue, 9) poor debt management and 10) illegal expenditure (no budget or law authorizing expenditure, or spending prohibited by law). The Auditor General ought to give a summary of these queries in the county in order to identify persistent challenges and show how pervasive the challenges are.*

In the 2015/16 reports, the Auditor General raised queries relating to revenues, expenditures and debt/ pending bills. Paragraph 7.0 of the county assembly report indicates that the cumulative pending bills were Ksh 11.5 million. The auditor points out that this is contrary to the requirement by counties to establish effective financial controls. Supporting documents such as invoices, demand notices and certificates of works that should have accompanied the report on pending bills were also not provided. Therefore, there is no indication of the suppliers who the county owed money to and the amount owed to each of them. In addition, the auditor indicates that he could not confirm the propriety of pending bills of 185 million by the County executive (para 6.0 county executive report). The county also spent on non-devolved functions such as construction of laboratories in a secondary school. The question then is if the county is spending outside the non-devolved function what trade off did, they make on the functions they ought to spend on? (para 8.0 county executive report)

## 3. WHAT AUDIT QUERIES ARE RAISED REGARDING LOCAL REVENUES RAISED BY THE COUNTIES? HOW MUCH MONEY IS RELATED TO THESE QUERIES?

*Counties raise revenues over and above the equitable share and conditional grants that are transferred from the National Government. The constitution outlines the sources that counties can collect revenue from. The PFM Act and the County Finance Acts give more details on how the revenue should be raised in terms of processes and accountability measures. These policies are supposed to ensure that counties are able to raise their local revenue in*

*effective and efficient ways. However, as the Controller of Budget reports show, not all counties are able to reach their annual revenue targets. The Auditor's report can help us understand the root causes of poor local revenue collection. Some of the queries raised by the Auditor General include understatement, underreporting, 'uncollection' and weak revenue management control systems. Before a county adopts reforms on domestic resources mobilization, they ought to resolve some of the systemic problems in local revenue collection. This information can be found in the report of the OAG on county government/ county executive.*

The Auditor General indicates that in 2015/16, one of the reasons for giving a qualified opinion on the financial statements of Baringo county was that the county understated its' targets for the year. The county reported in their CBROP 2016 that the county had collected Ksh 279.7 million in local revenue (CBROP, 2016 pg. 21) which was 94 percent of the target of 300 million. The OAG also points out that even though it looks like the county performed well against target in that year that should not be the case. For example, going by the most current valuation roll the county ought to have collected Ksh 40.8 million in land rates and plot rent. The target of 29.5 million is an underestimation. The OAG argues that the county is not meeting its revenue collection potential. This issue was also apparent in collection by the Department of Public Health where the county had understated the revenue target by Ksh 15 million. In addition, the reported revenue in the counties statement of receipts and payments of Ksh 281.9 million was also above the balance in the statement of revenue of Ksh 279.4 million. The difference of Ksh 2.5 million was not explained. Another challenge is the lack of records by the department of physical planning that should give details on the number of applications for building plans.

#### **4. WHAT AUDIT QUERIES ARE RELATED TO EXPENDITURE BY THE COUNTY EXECUTIVE AND COUNTY ASSEMBLY?**

*Counties should report on the total approved and actual expenditure annually. The actual expenditure over the past years informs the budget estimates of the succeeding years helping the county government come up with realistic targets. The public is also able to get a sense of the counties' capacity to spend as they deliberate on the budget. Where the county has not been able to spend as per approved it is important to explain how this affected the priorities for the year. The OAG looks at the county financial statements to determine the accuracy in the reporting on the estimated and actual total expenditure.*

On page 4 the OAG's county assembly report shows that there were errors in reporting both the estimated and actual expenditure of the county. It also indicates that there was a variance of Ksh 95 million in the statements of appropriation. In addition, the estimated expenditure for the county was Ksh 5.997 billion but adding up the recurrent and development expenditure summed up to Ksh 5.901 billion. On actual total expenditure, there was a bigger variance of Ksh 468 million between what was in the counties' financial statements (Ksh 4.804 billion) and what was reported in IFMIS (4.37 billion). The CBROP, 2016, reported that the estimated total budget was Ksh

5.997 billion and the actual expenditure 4.808 billion. These figures are also different from what the OAG observed.

## 5. WHAT CHALLENGES ARE RAISED BY THE AUDITOR IN THE COUNTY'S RECURRENT EXPENDITURE?

*Recurrent expenditure forms the bigger proportion of the county governments' expenditure compared to development expenditure. Usually this is expenditure to compensation to employees, operation and maintenance and goods and services. Recurrent expenditure is capped at 70 percent of total expenditure in the section 107 2(b) PFM Act. Compensation to employees is capped at 35 percent of the total revenue as prescribed under regulations 25 (b) Public Finance Management (County Governments) Regulations, 2015. Counties need to account for this spending in their statements of receipts and payments and provide documentation to support their spending. Documentation may be in the form of payment vouchers, local purchase orders receipts and other related documentation.*

The OAG shows that the county had contravened the law by spending 44 percent of the its' total actual revenue (Ksh 4.86 million) in compensation of employees. The OAG also points out that spending on operation and maintenance by different department was not properly accounted for. For example, under the ministry of agriculture (para 4.2) there were no records maintained for fuel at the agricultural Training college

## 6. WHAT AUDIT QUERIES ARISE FROM COUNTY'S TOTAL DEVELOPMENT EXPENDITURE?

*The proportion of development expenditure in county government budgets should not be less than 30 percent of the total county expenditure according to the PFM Act. The OAG may highlight cases where legal provisions have been contravened. The audit report also raises queries in cases where suppliers have been contracted to undertake certain projects and have not been able to complete the projects or complete these projects well. In addition, the auditor highlights cases where purchased equipment have not been delivered. The county ought to explain instances of slow progress or why equipment has not been delivered and any other queries raised. Another query that is prominent in the case of development expenditure relates to the procurement process. This relates to non-adherence to procurement procedures as prescribed by law. The OAG reports provide information such as the suppliers contracted, the contract sum, the sum paid and the level of completion of development projects.*

In the report on the county executive the Auditor General indicates the county breached fiscal responsibility principles by spending less than 30 percent of the total expenditure on development as required by the PFM Act.

The report also gives details on the absorption of total expenditure as well as that of departments. The report also indicates that 41 percent of the development projects that were to be implemented in 2015/16 (para. 1.2)

Some of the queries raised from the report on the county assembly include delays on completion of works such as the expansion block at the county assembly which had been under construction for 2 years (para. 11.0) and a gate house which was 9 months past the stipulated completion date (para 12.0). the auditor was not given an explanation of the slow progress in both cases. The Auditor General identifies the suppliers contracted for the projects singled out.

## 7. WHAT AUDIT QUERIES RELATE TO SPECIFIC DEPARTMENTS?

*Over and above total revenues and total recurrent and development expenditure we need to take note of the queries attached to specific departments/ministries in counties. Collecting and spending units are audited to access the root causes behind audit queries. Sectoral challenges reflect the barriers to service delivery on the part of the government. In addition, there is need to take into consideration the amounts attached to the queries raised by the OAG and their proportion to the total actual revenue and expenditure.*

In the report for the FYs 2014/15 and 2015/16 the OAG provided information at a department level. The table below shows some of the audit queries raised in some departments from Baringo county in 2015/16:

| Department   | Query   | Query amount (in millions) | Total Actual expenditure |
|--|---|----------------------------|--------------------------|
| <b>Ministry of Health</b>  | Doubtful Expenditure  | Kshs. 1.5 million          | Kshs. 1531.8 million     |
| <b>Ministry of agriculture</b>                                       | Unaccounted for all Fuel  | Amount not specified       | Kshs. 206 million        |
|  | Value for money on Kabarnet dumpsite<br>(para 15) Irregular reallocation of funds (construction of a milk processing plant, fish ponds, construction of hay to AI etc.) |                            |                          |
| <b>Ministry of Tourism (Industrialization, Commerce and Tourism)</b> | Improper charge on public funds (no expenditure returns)  | Kshs. 5.8 million          | Kshs. 106.8 million      |
|  | Unbudgeted expenditure (construction of Marigat Eco toilet) para 3.0  | Kshs. 2.6 million          |                          |

For some audit queries such as outstanding imprest (of 5.6 million, para 5.0) and pending bills (of 184.7 million, para 6.0) the OAG doesn't point out the departments affected by the problem and how much the various departments contribute to the aggregate amounts.

## 8. WHAT TRENDS IN AUDIT OPINIONS EMERGE IN THE AUDIT REPORTS OVER THE YEARS?

*By February 2019, the OAG had published Audit Reports for three years. To understand the depth of the challenges faced by counties we need to look at past Audit Reports even as we analyze the current ones. We could look at the auditor's opinion in the past years for both county executive and county assemblies. Additionally, we need to find out whether the queries attached to different departments are a recurring challenge that need urgent attention by oversight bodies including the public.*

The OAG gave a qualified opinion to the county executive looking at the Baringo financial statement for the financial year 2015/16. This was an improvement from adverse auditor's opinion given for the year 2014/15

There are some queries that were highlighted in the past three years from the county executive reports.

| Query                            | 2013/14                       | 2014/15                           | 2015/16                                  |
|----------------------------------|-------------------------------|-----------------------------------|--|
| <b>Under collection of Rates</b> | Not identified                | Kshs. 61.5 million (para 1.0)     | Kshs. 21.5million (para 1.3)             |
| <b>Imprest</b>                   | Kshs. 20.7 million (para 4.0) | Not identified                    | Kshs. 5.67 million (para 5.0)            |
| <b>Pending bills</b>             | Kshs. 3.3 million (para12.0)  | Kshs. 174 million (paragraph 5.0) | Kshs 185 million (para 6.0) <sup>3</sup> |

The department of health has had the following queries in the three years

| Year           | Unsupported/ doubtful expenditure   | Delay on completion of projects   |
|----------------|---|---|
| <b>2013/14</b> | Kshs. 30 million not supported with LPOs, payment vouchers, invoices and goods receipt notes. | construction of mortuary at Kabarnet District Hospital<br>construction of theatre at Kabartonjo District Hospital |
| <b>2015/16</b> | Kshs. 1.497 million on purchase of electrical material  | Kshs. 207.5 million delays in 21 projects   |

<sup>3</sup> The paragraph has two figures with approximately Ksh. 225, 000.

## 9. WHAT ARE THE RECOMMENDATIONS GIVEN BY THE AUDITOR GENERAL TO SOLVE THE QUERIES RAISED IN THE REPORTS?

*The OAG gives recommendation on areas that the county assemblies should take action in order to close any loopholes, recover public resources or assets or to improve financial processes. These recommendations provide a good starting point for the public to follow up on the actions taken by the assemblies in relation to queries raised by the OAG.*

The example below shows a scenario where the OAG expressly recommends that a query should be solved by surcharging the responsible government officers if they do not provide evidence of expenditure. Such recommendations provide actionable points that the county assemblies and the public can use to monitor the implementation of issues raised in Audit Reports.

### **117. Outstanding Imprests**

The financial statements as at 30 June 2016 and as disclosed under Note 12 to the financial statement reflects outstanding imprests totalling Kshs.26,341,506 all of which were overdue. No justification has been provided for failure by the officers to surrender the imprests or otherwise, recover the outstanding amounts from their salaries.

## 10. DOES THE AUDIT REPORT RELATE TO OTHER COUNTY GOVERNMENT BUDGET DOCUMENTS ON EVALUATION?

*The 'audit and evaluation' stage is in the last stage of the budget process. In this stage, the county governments should provide their own evaluation on their performance and the OAG provides an independent evaluation of implementation of the budget for the same previous financial year. The county governments provide this evaluation in the County Budget Review and Outlook Papers (CBROPS) that are tabled in county assemblies by October every year. Just like the Audit Reports, CBROPs are tabled to assemblies to enable members of the county assemblies to play their oversight role effectively. Ideally Audit Reports should speak to information already provided in the CBROP. Moreover, information in the Audit Reports and CBROP must not be world apart as the CBROP is a depiction of the strength in the counties internal audit process. Queries raised should also addressed in subsequent years. Counties should work towards budget documents and reports that are a true and fair representation of the activities in the county that relate to revenue spending and allocation. The Audit Reports speak to issues that realter to the information provided for in implementation reports and in the counties review and outlook papers that come our quarterly and October every year respectively.*

For example, the Audit Reports will have details of county revenue that was collected in a particular year and this information is also available in the CBROP. Since the Audit Reports come later, they then provide a point of comparison with what the county government had provided as the revenue generated in the same year. However, the audit report will go further to explain any issues related to the audited revenue numbers which can be used to improve revenue collection in subsequent years.